

*Governor SBP, Mr. Tariq Bajwa addressed print and electronic media at an event at a private university in Lahore on February 18, 2019.*

*Daily Dawn in its story entitled, "Pakistan has come out of financial crisis: SBP governor" and editorial, "SBP governor's remarks" published on February 19 & February 20, 2019 respectively misquoted the Governor. Consequently, State Bank issued following clarification/rebuttal for publication in Dawn on February 21, 2019. The news item and the editorial published in Dawn are also reproduced here after SBP clarification/rebuttal:*

## **SBP Clarification/Rebuttal**

This is with reference to the story entitled 'Pakistan has come out of financial crisis: SBP governor' published on 19th February, 2019 and the editorial entitled 'SBP governor's remarks' published on 20<sup>th</sup> February, 2019 in your newspaper.

To put the record straight, the factual position is rather different from the insinuations attributed to Governor's interaction with the press. In fact, the conversation reported in the story and the editorial attributed to the Governor SBP are misleading. We strongly urge you to visit the recording to confirm the conversation (see the link at Local Link | Youtube).

More specifically, the news items contain two contentious assertions attributed to the press conference: (i) 'Governor of the State Bank of Pakistan Tariq Bajwa has said the country has come out of the financial crisis with the help of friendly countries and the economy has been set on the right path,' and (ii) a different editorial goes on to comment 'The State Bank Governor raised more than just a few eyebrows when he said at a private event that Pakistan's economy had come out of a financial crisis.' Both these assertions are unfactual and rebutted by SBP. The Governor Tariq Bajwa never used the term 'financial crisis' during the entire press conference.

Further, assuming these premises the editorial goes on to claim inconsistencies between SBPs monetary policy statements and its quarterly/annual reports, and the purported statements of the Governor at the press conference. You will appreciate that publishing a story and editorial without fully verifying the facts, particularly during the times in which important stabilization measures are working their way through the economy, weakens public confidence while unhinging expectations.

On the question of whether the Federal Government had crossed the limit set for SBP borrowing, the Governor had only clarified that the law i.e. Section 9C of the SBP Act does not set any limit on Government borrowing from the State Bank. He further explained that under the said law GOP was required to bring its SBP borrowing to zero at the end of each quarter and if it does not then the Finance Minister has to make a statement on the floor of the house. This was a clarification given on a specific question and in no way changes the SBP stance that borrowing from SBP is more inflationary than borrowing from commercial banks.

## **Following news item/editorial published in Dawn, Karachi:**

### **Pakistan has come out of financial crisis: SBP governor**

*Dawn – Feb 19 2019*

KARACHI: Governor of the State Bank of Pakistan Tariq Bajwa has said the country has come out of the financial crisis with the help of friendly countries and the economy has been set on the right path.

Speaking at a private university in Lahore on Monday, he said uncertainty in the economy had ended. The government, he said, was on the right path and it was capable of meeting all economic challenges.

The governor spoke about the current account deficit, which had hit the economy badly during the current financial year.

The current account deficit was the real cause of concern for the new government headed by Prime Minister Imran Khan. Mr Khan visited friendly countries like China, Saudi Arabia, the UAE, Malaysia and Turkey to seek investment and managed to get financial help to bridge the external deficit.

Mr Bajwa said a plan had been prepared to eliminate the current account deficit and the work in this regard was in progress. He said the deficit was the biggest hurdle for the country and the government was still negotiating with the International Monetary Fund for a package to minimise it.

He said the government had not crossed the limit for borrowing from the SBP. It had borrowed Rs3 trillion from the central bank and returned Rs2tr, he added.

Since the beginning of the new financial year, the government has been borrowing from the SBP for budgetary support, while it has retired loans taken from the scheduled banks. It has so far retired about \$2.9tr to the scheduled banks.

The policy shows the government wants to keep the scheduled banks liquid so the private sector could borrow more from the banking system.

According to a latest SBP report, the private sector borrowing has more than doubled from July 1 to Feb 8 to Rs571 billion from Rs264bn in the same period of the last financial year. The SBP governor said the cases involving Rs600bn were pending in banking courts. He said capacity building was being developed to deal with the huge number of pending cases and for their quick decisions.

He said the cases must be decided quickly so that the banks could use the money involved in litigation.

Mr Bajwa said the SBP had offered to bear expenses of training of judges to help the courts decide the pending cases urgently.

He said the policy to depreciate the rupee had been adopted to reduce the trade deficit, which was the main reason for high current account deficit.

### **SBP governor's remarks**

*Dawn/Editorial – Feb 20 2019*

THE State Bank Governor raised more than just a few eyebrows when he said at a private event that Pakistan's economy had come out of a financial crisis. To begin with, when exactly was the economy in the middle of a financial crisis? None of the monetary policy statements or the quarterly and annual reports released by the State Bank in the last six months gives any such indication. There were pressures all along, but a crisis can only be said to exist if large material disruptions to the workings of the financial market are seen. So the remarks beg another question: why is the State Bank governor going out of his way to clarify a question that never really existed?

The pressures on the economy through the growing current account deficit and the resultant depletion of reserves are indeed real; it is also true that the deficit has begun to shrink while the reserves have been buoyed by inflows from friendly countries. But the governor's remarks on these developments are out of sync with the message that official State Bank publications have been putting out all along, which is that reserves need to be built on more sustainable foundations, instead of one-off bilateral inflows. To use the language of January's monetary policy statement, "challenges to Pakistan's economy persist" despite the narrowing current account deficit. His remarks on the government's borrowing from the State Bank are also puzzling, given that in its official publications the central bank has pointed towards weak revenue collection saying "fiscal policy will have to be proactive and play a supportive role to generate conditions for stability and sustainable growth". For the State Bank governor today to claim that large-scale government borrowing from the State Bank does not present any major problem because an equal amount of debt has been retired from private banks flies in the face of what the Monetary Policy Committee said in January. After noting a sharp increase in government borrowing from the State Bank since July, and the net retirement of debt owed to private banks, the MPC said "[t]his financing will potentially have inflationary consequences in the future." It is fair to expect that the governor will do what he can to assuage the markets, but his remarks made at the private event seemed to be trying to assuage some other constituency instead.

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