



State Bank of Pakistan

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Major General Khalid Zia

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Distinguished Participants of National Security and War Course
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Ladies and Gentlemen,

Assalam-o-Alaikum and good afternoon!

I warmly welcome you all to the State Bank of Pakistan. We are extremely delighted to host you here at the State Bank. This session offers an opportunity to get a glimpse of how Pakistan's central bank functions. I expect that most of you would be interested in knowing how SBP operates, and how it is contributing to the financial stability and overall well being of the people of this country. Let me begin by outlining the role of central banks in general first, and then I'll share with you some specific details pertaining to SBP's functions and performance.

A nation's central bank holds a unique position in the economy, delivering on multiple – and sometimes competing – objectives.



Unlike central banks of developed nations, SBP performs not only the traditional functions – regulation and supervision of the financial system, lender of the last resort, conduct of monetary policy, management of foreign exchange reserves, issuance and distribution of currency – but it also performs non-traditional development functions like broadening the access and usage of the financial system through promotion of microfinance, SME finance, Islamic banking, agricultural finance.

So the next question you might naturally ask is: how well has the central bank performed in its assigned role in recent times? You may answer that after what I am going to share with you. The yardstick to gauge this performance is, of course, the state of the economy. On that front, I'm happy to share that over the past three years, key macroeconomic indicators have shown significant improvement. Specifically, GDP growth increased to 4.7 percent in FY16, representing an 8-year high. The inflation is at decades' low level; current account deficit has narrowed down; exchange rate is stable; there is a marked improvement in fiscal accounts and credit off-take by the private sector is high.



Finally, FX reserves have increased to US\$ 24.2 billion as of 28th October 2016.

These improvements have been recorded on the back of an improved energy and security situation; low international oil prices; reduced interest rate; development funding from the World Bank, ADB and other partners; and structural reforms supported by the recently concluded IMF program. The last point, in fact, deserves special mention: it goes to the credit of both the SBP and the government that Pakistan has successfully completed an IMF program of this nature for the first time in the country's history. The milestone embodies our commitment and seriousness towards reform process.

A key reform instituted by SBP was the formulation of an independent Monetary Policy Committee (MPC) in FY16, making Pakistan the first major country in South Asia to do so. The MPC is composed of three external economists, three SBP Board members and three SBP executives, with myself as chairperson. It has been mandated to independently formulate monetary policy. The minutes of the MPC meetings are also publicly disclosed to ensure transparency and allow the public



and concerned stakeholders to better appreciate the MPC's decision-making process.

Other notable steps taken by SBP, which highlight its proactive approach, include the issuance of a number of regulations – like Guidelines of Business Conduct for Banks, Guidelines and Disclosures on Governance and Remuneration Practices – meant for improving market conduct and promoting healthy competition and accountability in the banking industry.

Meanwhile, in terms of broadening access to financial services, the implementation of the National Financial Inclusion Strategy (NFIS) championed by SBP continues with full vigor. During FY16, the introduction of Low Risk “Asaan Account” with simplified due diligence requirements brought 1.13 million more people in the banking system. In addition, branchless banking has been another key instrument for increasing financial inclusion with mobile wallet accounts, increasing by about one million to 14 million spread across the country.

The expansion of agriculture and SME finance has also been an important component of our financial inclusion strategy. As a



result, despite the negative growth in agricultural sector during FY16, agri financing continued its growth momentum and grew by 16 percent to Rs 599 billion. SBP has also introduced SME financing targets as the much-needed push for banks to build their capacity to serve this segment, and ultimately help increase the SME finance market share.

Finally, the interests of small depositors will also be safeguarded with the establishment of the Deposit Protection Corporation as a subsidiary of SBP. The corporation will compensate the depositors for losses incurred by them to the extent of protected deposits in the event of failure of a member institution.

Going forward, I can assure you that our recent gains have not lulled us into any false sense of complacency. We are well aware that the macroeconomic stability we have restored needs to be sustained, and that the reforms process is an ongoing endeavor. As Pakistan's economy gears up to transition to a higher growth trajectory, the central bank's main balancing act will be to accommodate growth while simultaneously taming inflation within the targets set for the year.



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In addition, our five-year Strategic Plan – the SBP Vision 2020 – will continue to drive our efforts to internally strengthen the bank’s organizational culture, by emphasizing six core values: *integrity, accountability, teamwork, courage, excellence, and results orientation*. In doing so, our aim is to retain SBP’s role model of best corporate practice in Pakistan, and also raise its profile among the ranks of central banks across the globe.

Thank you!