

21st July, 2004

STATE BANK ISSUES ITS MONETARY POLICY STATEMENT

The State Bank of Pakistan today issued its Monetary Policy Statement after the approval of its Central Board of Directors. The distinguishing feature of the statement is a public announcement of the monetary policy stance to be followed by SBP during the six months of the current fiscal year i.e. July – December 2004.

The Statement, after reviewing the monetary and external sector developments of last year and the macroeconomic outlook, has concluded that the balance of risks indicates that domestic prices may continue to increase and exchange rate may be under pressure in the coming six months. The lingering overhang from the last two years' monetary expansion has to be wrung out of the system thus lowering the inflation risk premium built into market expectations. Therefore, the State Bank will continue to exercise vigilance on the movement of key variables and make a smooth transition from an expansionary monetary policy stance to measured tightening to avert inflationary pressures and maintain stability in exchange rate. This measured response will have to ensure that the current growth and investment momentum in the country is not impaired in any significant manner, export competitiveness is maintained while inflation is kept under control. Raising interest rates rapidly or aggressively when the economic recovery is still incipient, a significant slack exists, and unemployment rates are rising, will entail real economic costs. The State Bank remains firmly committed to price stability and will use both the tools of monetary policy as well as prudential regulations to achieve this goal.

The text of the Monetary Policy Statement is enclosed.
