

6th August, 2004

**SENATE STANDING COMMITTEE ON FINANCE, REVENUE
BRIEFED ON THE WORKING OF SBP AND COUNTRY'S ECONOMY**

A meeting of the Senate Standing Committee on Finance, Revenue, Economic Affairs and Statistics was held under the Chairmanship of Senator Ahmad Ali at the State Bank of Pakistan, Karachi today.

The Governor, State Bank of Pakistan, Dr. Ishrat Husain briefed the Standing Committee on the working of SBP and the State of Pakistan's Economy. He informed the Committee that the SBP has not incurred a loss of Rs.25 billion due to purchases of foreign exchange through open market. The fact is that in FY 03, the SBP did not purchase any foreign exchange through the open market and did not pay any difference over the inter-bank market rate, he said and added that the reduction in the profits of the State Bank in FY 03 is a reflection of the revaluation of SBP's foreign exchange assets and liabilities required under the international accounting standards which were adopted in the year 2001.

The Governor informed the Committee that in order to ensure safety and maximum return on its reserves, US\$ 3.2 billion had been earmarked for investment in global government and non-government bonds & treasuries through external fund managers and a sum of US\$ 2.8 billion had already been transferred to them for investment.

Dr. Ishrat Husain said the State Bank has pursued an accommodating monetary policy to provide a kick-start to the economy. It has transformed the banking system on sound and strong footing by ensuring stronger capital adequacy, improved corporate governance better risk management, the Governor added.

The Governor outlined the following future challenges facing the SBP:

- to maintain a stable exchange rate that provides adequate incentives to exporters, but at the same time keeps price level under control;
- to further broaden the access of banking loans to a large segment of population particularly among the middle, lower middle and poor classes;
- to attain 50 percent coverage of farming households in the country by institutional credit in the next 5 years;
- to increase the access of small and medium enterprises to bank credit and non bank finance;
- to raise minimum capital requirement and encourage mergers and consolidations among the banks to weed out weak institutions;
- make banking services and products within the reach of the middle class and expand the base from 2 million to at least 5 million borrowers in the next five years

Briefing the Standing Committee on State of Pakistan's Economy, the Governor said the focus has shifted from macro-economic stability to a steady acceleration in GDP growth in recent years. In fact, the 6 percent FY 04 growth is the strongest since FY 96, Dr. Ishrat Husain added.

The Governor said the fiscal deficit has been reduced from 3.7% of GDP in FY03 to 3.3% of GDP in FY04. He said the overall balance of payment is in surplus since FY01 largely due to the robust current account surpluses and relatively lower capital account deficits, helping reserve accumulation and maintain exchange rate stability. However, the lower surplus in FY04 is largely due to high growth in imports, higher prices of imported oil, termination of Saudi oil facility and lower external flows.

The Governor said the workers' remittances which rose sharply in FY03 to \$4.2 billion, moderated in FY04 to \$3.8 billion mainly due to the absence of reverse capital flight.

Dr. Ishrat Husain informed the Committee that Pakistan made cash payments of US\$ 19.8 billion in foreign exchange on account of external debt payments during the last four years despite the long term rescheduling of bilateral debt by Paris Club.

The Committee Members asked many questions on various aspects of the economy and the functioning of the State Bank of Pakistan. They expressed their satisfaction at the replies provided to them and hoped that the SBP would carry out its work independently and efficiently.

The Chairman of the Senate Standing Committee, Senator Ahmad Ali, summing up the discussion, appreciated the role of the SBP Governor in enhancing the capabilities of the State Bank by taking various measures to transform the banking system into an efficient, sound and market-based system. He described the briefing of the Governor frank and candid. He was of the view that such briefings should be held at regular intervals.

The Members of the Committee who attended the meeting included Senator Asif Jatoi, Senator Muhammad Akram, Senator Prof. Khurshid Ahmad, Senator Mohammad Ishaq Dar and Senator Dr. Safdar Ali Abbasi.
