

17th April, 2006

PRESIDENT'S VISIT TO STATE BANK OF PAKISTAN

President General Pervez Musharraf visited the State Bank head-quarters in Karachi this morning to seek a briefing from the Governor, Dr. Shamshad Akhtar. This was his first visit to the State Bank since the Governor took charge on January 2nd, 2006.

During his visit, the President shared his views with the SBP top management officials, on the strong economic performance of the country. While commenting on macroeconomic stability, he stressed that the gains to the economy will only be meaningful when they are translated into a better life for the common man. He said that sustained economic growth can alleviate poverty in the country through an enhanced access to the poor to microfinance, agriculture credit and SME finance.

Commenting on the high trade deficit, he talked about the enhanced prospects of increasing the country's export earnings to US \$ 18 billion in order to reduce the trade deficit. He indicated that the tax revenue collections are set to exceed the target of Rs 800 billion by the end of this fiscal year to reach Rs 850 billion, though he recognized that there is a need to further strengthen the tax to GDP ratio.

While giving her views on State Bank's future vision and strategy in the briefing to the President, Dr. Shamshad Akhtar mentioned that the State Bank of Pakistan is well on its way to implementing second-generation reforms both in the financial sector, and within SBP, in terms of strengthening governance standards and modernizing it in line with international best practices.

In her presentation, Dr. Shamshad Akhtar covered the areas of monetary policy, management of foreign exchange reserves, commercial banks' profitability, improved access to underserved markets to development finance, promotion of financial robustness and stability, development of electronic banking and information technology and the need to continue to strengthen governance issues within the central bank.

The Governor laid great emphasis on the fact that the State Bank, in its efforts to strike a balance between its dual objectives of controlling inflation and promoting economic growth, works in close alliance with the macroeconomic goals of the Government.

While highlighting the process of formulation and implementation of monetary policy, Dr. Akhtar pointed out that the tightening stance of recent months has largely been effective in bringing inflation down, and that the central bank will continue to monitor liquidity conditions in the market very closely in order to keep inflation in check. She also mentioned that the conduct of monetary policy tends to be quite complicated when the money supply grows at a pace faster than nominal GDP as this gives rise to inflationary pressures, and in doing so the contribution of government borrowing from the central bank has a major role to play, and needs to be checked.

When talking about Commercial Banks' profitability, the Governor pointed out that 80% of the banking sector now belongs to the private sector, and that commercial banks have had record profits during 2005, which emanates from improved management of the banking sector, though it

partly reflects gains from high interest rates. She said that the central bank is in regular consultations with the banking sector and is encouraging them to devise innovative liability products to encourage savings which would prevent people from dissaving, and hence reduce the savings-investment gap.

Dr. Shamshad Akhtar laid great stress on the need to serve the SME, Agriculture and Microfinance sectors, and said that even though the days of directed lending are over, the State Bank continues to encourage banks to serve the needy sectors, particularly due to their role in poverty alleviation. While pointing out the insufficient absorption of credit on a provincial level, she talked about the urgent need to minimise issues related to documentation of land title.

In conclusion, General Pervez Musharraf stated that he supports the Governor, State Bank of Pakistan on her strategic vision for the State Bank of Pakistan in continuing with the reforms agenda.

The meeting was attended by the Sindh Governor, Dr. Ishrat-ul Ibad Khan, Sindh Chief Minister, Dr. Arbab Ghulam Rahim and members of the top management of the State Bank.
