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State Bank to introduce electronic bond trading platform early next year: Salim Raza

Syed Salim Raza, Governor State Bank of Pakistan has said that the central bank intends to introduce an electronic bond trading platform early next year. 'This will provide investors real-time information about market yields resulting in enhanced liquidity and better price discovery in the fixed-income market', he added.

Delivering a keynote address on "Developing the Next Generation Capital & Commodity Markets Ecosystem in Pakistan: Creating Value & Inclusive Growth in the Society" at the South Asian Federation of Exchanges (SAFE) Country Roundtable held at a local hotel in Karachi this morning, Mr. Raza said that in the initial stage only sovereign paper will be traded on the platform resulting in a liquid sovereign yield curve that would provide better representative benchmarks for issuance of corporate debt instruments.

'This platform will also help in shifting government debt from banks to other institutional investors thus freeing up funds for private sector credit hence facilitating the development of real economy,' he added.

Mr. Raza said that the State Bank during the last decade has been at the forefront of broadening not only the investment instruments and risk management tools but also supporting the broadening of the participants that have a need to use these to address their investment mandates.

SBP Governor said he believes that there is a room to accommodate more investor groups in the local currency Government Debt program and one such group might consist of investors currently accessing the National Savings Scheme (NSS). He said it would be more efficient for the Government and the investors, to rationalize the issuance process. "This would enable an improved pricing strategy, eliminating the need to give away embedded put options which are available to investors at free of cost," he said and added it will also provide higher liquidity to the investors for their holding by making the debt fungible among all investors, residents and non-residents, corporate and individuals.

Mr. Raza said that SBP feels that financial institutions have a significant role to play to by taking on the role of financial advisors to the public in general. "This would include selecting the appropriate mix of asset classes (equity, debt, commodity, real estate, etc.), setting liquidity/maturity targets, tax planning services and provide their services of financial intermediation to enable them to invest and rebalance their retirement/investment portfolios periodically," he added.

Mr. Raza stressed that the State Bank has played a role in supporting the price risk management activities by allowing the banks to provide financial intermediation in the currency & commodities hedging, interest rate risk management, etc. and would continue to do so as institutional activity evolves.

SBP Governor said that the government has now recognized that with globalization and the maturity of Pakistan's economy, allowing the prices of goods, especially ones that are politically sensitive like petroleum, to be set based on international prices. He said Pakistan has essentially been a commodity-based economy with 65% of its exports (rice and cotton based) and 45% of its imports driven by commodities like petroleum, edible oil, and chemicals. For the last few years, the global markets have experienced quite a significant degree of price volatility that has put the individuals and the business at a disadvantage in their ability to manage commodity price inflation, he added.

Mr. Raza said the key advantage of having institutions like National Commodities Exchange would be to provide price discovery and marking to market taking place in local time zone rather than having to hedge price risk in European, Asian or American time zone. "It is expected that technological innovation would be at the forefront of such development, introducing transparent electronic trading and mechanism to minimize the resultant settlement and price risk," he added.
