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Salim Raza outlines key priority areas for achieving sustainable economic growth

Syed Salim Raza, Governor, State Bank of Pakistan has stressed the need of focusing on medium-term policy priorities, which he outlined as higher tax collection, resolving the issue of power shortages, keeping inflation under control and making investment in infrastructure, for achieving sustainable economic growth rate of over six percent.

Addressing the inaugural session of Punjab Investment Conference, organized by Punjab Board of Investment & Trade at a local hotel in Karachi today, Mr. Raza said that the country has come a long way from a near financial crisis during 2008 to stable foreign exchange and money markets. “We can now look at moving ahead to make the recovery of growth the main priority,” he added.

SBP Governor said the gross domestic product growth was very low last year; and this should increase to about 3.5% in the current fiscal year. Improving trends in both agriculture and manufacturing should take us to around 4.5% in 2011, he added. “But to achieve sustainable base rates of 6% plus, we need to concentrate on our medium term policy priorities,” he said and added that the critical ones are: making a reality of our goals for significantly higher tax collection, addressing power shortages, and then on establishing courses of action to encourage both the quantum and the structure of investment that would make high growth sustainable.

“In the immediate future, the power situation needs improvement, and stubborn inflation needs to be checked,” Mr. Raza stressed and said that some critical and immediately effective decisions taken by the Prime Minister and Chief Ministers concerning energy conservation, governance, load management and fresh generation should make a significant dent in the shortage in the near term.

Mr. Raza informed the participants that inflation has gone back to the level of 13%, from having dropped to under 9% last November but it is expected to drop moderately. In the course of the last year, inflation had been pushed up by increase in the prices of critical food items, wheat and sugar, and the ending of subsidies in the power sector, he said and added that future effect of these increases will be muted as the higher prices are already in the base. “We have forecast 12% for this year, and 11% for 2011,” he added.

Mr. Raza stressed that the country needs to spend 6% to 8% of GDP on infrastructure to sustain a 7% GDP growth rate. “We spend less than a third of that and therefore large scale private financing will be needed. Major public-private-partnership programs cannot really gain scale and momentum in the absence of a substantial financing institution", he added.

SBP Governor said that for long-term economic growth, the State Bank can assist growth and investment by taking measures to develop financial markets and its institutions and to ensure that they play a broad-based development role. He stressed that sound regulatory guidance must oversee the creation of much needed diversity in capital raising sources as our financial markets are yet to be fully developed. "We will do so with a bias to releasing capital flows across the economy without losing sight of the risks that unregistered and opaque financial instruments create," he added.

Referring to various initiatives taken by the State Bank in this regard, Mr. Raza informed the conference delegates that Pakistan probably has the most advanced rules for branchless banking in the world, and have provided banks refinance facilities for SME sector, and first loss sharing arrangements, which are supported by DFID, and the State Bank intends to make similar arrangements with USAid. "We believe mobile phone banking has a huge future, and have permitted, and encouraged banks to form associations with mobile operators to provide broad range of services on mobile phones," he added.

Mr. Raza said that the State Bank has drawn up a blueprint of the type of infrastructure financing institution the country needs, which was developed after review of the structure and track record of similar institutions in leading developing countries. "We have been in close discussions with multilateral organizations with regard to their participation in such an institution, both with technical assistance, and with financing," he said and added that results have been very encouraging and it is expected that we should have the institution working in the course of the next year.

He pointed out that Pakistan has one of the lowest mortgage financing levels among major emerging economies, less than 0.7% of GDP against 9% in India, 35% in Malaysia and over 100% in the UK and US. He informed delegates that with the assistance from IBRD, the IFC has developed a mortgage refinance model that will refinance banks in long term fixed rates.

Mr. Raza said that a model company to be set up has been presented to banks and the idea is that proposed Mortgage Refinance Facility will have a capital of Rs 6 billion, Rs 2.4 billion each from the Government and IFC and the remaining equity will be subscribed by commercial banks. "We hope we will be able to set up such a facility by the end of the year," he added.

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