June 10, 2010

Yaseen Anwar urges Saarc policy makers to devise strategies to mitigate effects of global financial shocks

Mr. Yaseen Anwar, Acting Governor State Bank of Pakistan has stressed upon economic policy makers of member countries of the South Asian Association for Regional Cooperation (Saarc) to forge greater cooperation and devise solid strategies in their respective economies to mitigate negative effects of the recent global financial crisis and prepare for the future.

Speaking as the chief guest at a SAARC Finance seminar on "Global Financial Crisis – Implications and Policy Responses of Saarc Countries" held in Islamabad today, Mr. Anwar said: "We must prepare ourselves for these possibilities so that we minimize the negative effects these external forces have upon us as the world adjusts to a post crisis world where fears are heightened and confidence remains uncertain."

SBP Acting Governor said that Saarc countries must be resilient to these forces and adapt to conform to the new world trade flows so that they maximize the benefits available to them, and minimize the negative effects of economic forces outside their control.

Referring to policy responses taken by Pakistan in the wake of global financial crisis, Mr. Anwar said that like many other economies, Pakistan was also impacted by the collateral damage of the global financial turmoil. Although the macroeconomic imbalances continued to persist in Pakistan's economy over the last few years, the intensity aggravated with the emergence of financial crisis through the trade channels, he said and added as a consequence, the country witnessed a short-lived illiquidity strain; the value of the Pakistan rupee vis-à-vis foreign currencies declined rapidly, the domestic price inflation edged-up sharply, the foreign exchange reserves started declining, the premium on sovereign bonds went up in the international capital markets, and the country's external outlook further deteriorated, thereby shaking confidence of investors.

However, SBP Acting Governor pointed out that Pakistan's financial sector as a whole and the banking industry in particular, largely remained immune to any severe hit as experienced by many of the other leading emerging economies.

He said that to mitigate the impact of the financial crisis, the country pursued a multipronged policy and it took various internal measures to stabilize the economy, focusing mainly on macroeconomic imbalances and the associated economic vulnerabilities which were created in the past. “Particularly, the State Bank of Pakistan took proactive measures to stabilize the illiquidity posture in the banking sector which eventually emerged unscathed, despite fears of potential bank-runs that occurred in a number of European countries,” he added.

Mr. Anwar said that Pakistan also signed a macroeconomic stabilization program with IMF which not only helped stabilize exchange rate, but also supported the efforts made for improving the external outlook of the country. “These moves to stabilize the banking system against potential problems, also averted them, and maintained the confidence of depositors across the system,” he asserted. SBP Acting Governor said that as a consequence of this policy mix pursued in Pakistan during the global financial crisis, the macroeconomic fundamentals for FY10 showed signs of renewed economic activity.

Referring to South Asian region as a whole, Mr. Anwar pointed out that the crisis triggered a worldwide economic slowdown which resulted into deceleration in exports with the attendant effects, not only in export-oriented, value-added industries themselves, but also in industries across the entire value chain. “This impact manifests itself in the form of joblessness of the masses and lower growth in GDP,” he said.

He said that the crisis also had an overall and general impact on financial institutions and this was reflected in a slowdown in foreign direct investment throughout Asia's financial and capital markets. Following the world trend, this depressed domestic equity markets and more conservative lending strategies rationally resulted in widespread lending constraints, he added. However, he pointed out that the magnitude of crisis, in terms of its "fallout" on Asia, has varied since the SAARC member countries’ economies are different in size, and have varying direct and indirect exposure to the negative elements of the world and local crisis. Some countries in the region had relatively less exposure to the crisis being less dependent on external capital flows, while others remained vulnerable to the global economic slowdown through decelerations in export earnings, remittances, and external financing of infrastructure projects, he added.

Mr. Anwar expressed the hope that reflecting and sharing perspectives on both international and country-specific experiences will help us all to better understand the impacts of the crisis and identify what more needs to be done to mitigate its effects, and prepare for the future.

****