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Pakistan not facing any risk in making IMF repayments: SBP Governor

The Governor, State Bank of Pakistan, Mr. Yaseen Anwar has said that Pakistan will not face any risk in making repayments to the International Monetary Fund (IMF). ‘We face no risk in being able to make next year's IMF payments from our adequate reserves,’ he said in a rebuttal to a story published in the Wall Street Journal (WSJ) on May 29, 2012.

In his letter, published in the WSJ today, he clarified that the decline in our projected reserves will be partially offset by an increase in remittances which will exceed \$13 billion this fiscal year, and additional foreign direct investment in the pipeline that includes U.S. company investments in the power sector.

He said that the entry of new foreign banks, increased small- and medium-size enterprise lending to increase employment, huge potential for the agriculture sector and the export potential for dairy products as the fourth largest milk producer in the world, and the development of capital markets to support housing finance are the positive developments in the country's economy.

He pointed out that Pakistan's current banking restructuring and our successful branchless banking strategy is bringing the "unbanked" into the banking sector to increase financial inclusion. The State Bank of Pakistan had stated that gross domestic product is expected to be closer to 4% this year than the 3% as reported by WSJ, he explained.

‘It would have been nice to see a more positive light on these factors which will, in my view, be a positive toward alleviating the manageable stresses going forward. I see the glass half full and am optimistic about the year ahead,’ the Governor's letter to WSJ said and added: ‘The article "Pakistan Bank Sees Financial Challenges" (World News, May 29) doesn't fully reflect the economic story I conveyed in my interview with the Journal.’

Separately, he said that despite economic challenges, Pakistan is not facing a situation which requires emergency external assistance. The fiscal deficit and the lack of external financing will continue to challenge Pakistan, especially the central bank, he said. ‘Let me assure you that Pakistan will not stumble into a situation that requires emergency external assistance,’ he added.

Dispelling the impression created by some foreign and local media reports regarding pressures on the country's foreign exchange reserves and exchange rate, the SBP Governor said: ‘It will be challenging, but manageable.’ He pointed out that like most other central banks, SBP only undertakes calibrated interventions to diffuse volatility as appropriate. In recent weeks, the movement in the exchange rate has been somewhat

sentiment driven compounded by lumping up of some scheduled payments, rather than any excessive demand & supply mismatches prevailing in the market. 'The State Bank is watching the situation closely and the recent exchange rate movements have been excessive with the market overreacting,' SBP Governor added.

He said that during the first ten months of FY 2011/12, remittances from overseas Pakistanis rose by 20.2% to \$ 10.88 billion, which helped the Balance of Payments (BoP) despite widening of the trade deficit.

Pakistan's fiscal challenges are well known and documented, he said, adding that this spillover to the rest of the economy is equally clear. He explained that at the start of the year (July 2011), external conditions appeared daunting due to rising oil prices and lack of external financing. Despite all odds, Pakistan has fared well in the first eleven months of the current FY with not only successfully paying back IMF obligations to the tune of \$ 1.2 billion and other Debt obligations equaling \$ 1.7 billion to date, yet SBP's Liquid Reserves are at stable levels of around \$ 11.5 billion, much better and contrary to most analysts' earlier assessment at the beginning of the fiscal year.

Despite domestic challenges, key emerging market countries (China and Turkey) have shown keen interest in opening bank branches in Pakistan, he said, adding that unlike European Union (EU), Pakistan's banking system has been very resilient, profitable and robust.

As stated to the Wall Street Journal and repeated, 'I see the glass half full and am optimistic about the year ahead as Pakistan's economy is projected to grow 4.3 percent in the next fiscal year (FY13),' the SBP Governor added.
