

# **1 Maintaining Price Stability with Growth**

## **1.1 Overview**

After having a challenging year in terms of achieving price stability, FY10 was a year of recovery in growth and ease in inflationary pressures for the country. This coupled with improvements in external sector indicators and exchange rate stability helped SBP to ease its monetary policy stance during the year with a 150 basis points cut in the discount rate. The first cut came in August 2009 when the discount rate was reduced from 14 percent to 13 percent. Then in November 2009, it was further slashed by 50 basis points. However, in subsequent months of the fiscal year, SBP adopted a cautious approach by keeping the discount rate unchanged at 12½ percent keeping in view the resurgence in inflationary pressures and uncertainties in fiscal and quasi fiscal indicators.

For the efficiency of monetary policy formulation, SBP increased the frequency of releasing monetary policy statements to six times in a year. Four of these are only briefs on monetary policy decisions issued as press releases while two are detailed accounts of prevailing economic conditions and policy decisions announced in press conferences. Another step for strengthening the effectiveness of monetary policy was the introduction of interest rate corridor in August 2009 that helped in anchoring the short term interest rates and improving liquidity management in the money market.

To develop and strengthen bond market in the country, an Electronic Bond Trading Platform (EBND) was launched in January 2010 through Bloomberg. The key features of this platform are dissemination of real time information to investors, ability for price makers to trade on firm and anonymous orders, straight through processing interface with local settlement systems, etc.

During the year, SBP expanded its analytical and research activities to micro level information of the economy to improve its understanding of economic dynamics. A primary survey was launched to study the price setting behavior of economic agents. Contacts were established with different industrial and trading units to get firsthand knowledge of their activities and issues. And field trips were made to study economics of agriculture sub-sectors.

## **1.2 Monetary Policy Statement**

To enhance the efficacy of monetary policy, the central bank decided in September 2009 to increase the frequency of monetary policy decisions to six times in a fiscal year. Hence, it was decided that monetary policy decisions would be announced in the last week of July, September, November, January, March, and May. It was also decided that the January and July decisions would be accompanied by a detailed statement and press conference, whereas the rest of the monetary policy decisions would be announced through a press release only. Hence in FY10, SBP issued four brief monetary policy decisions and two monetary policy statements. The monetary policy stance went through several stages during the year, from easing in the first half, to maintaining status quo in the second half. Striking a balance between improvements in various macroeconomic indicators and ongoing economic challenges, SBP eased the policy discount rate by a cumulative 150 bps in FY10.

The first move towards easing the stance was in consideration of the improvements in macroeconomic indicators. And the central bank decided to lower the policy rate by 100 bps w.e.f. August 17, 2009, as detailed in the monetary policy statement for July-September 2009. At that point in time, CPI inflation showed a declining trend, government borrowing remained within the quarterly limits specified in the IMF SBA, and SBP's foreign exchange reserves exhibited a rising trend. The positive indicators, in turn, were reflected in a contraction in

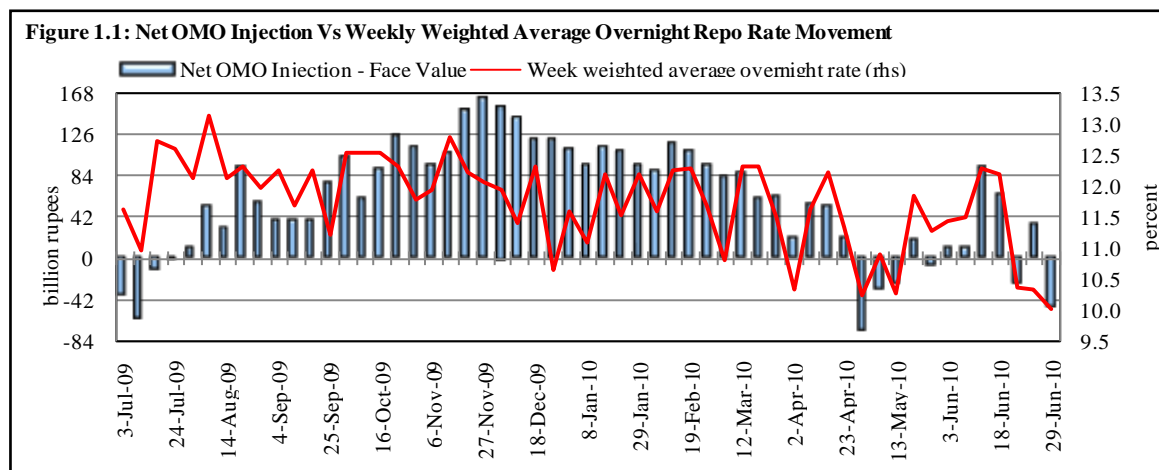
aggregate demand; much needed fiscal consolidation, and improved balance of payments position. However fiscal and real sector performance remained tenuous during the year. Lending to the private sector remained subdued and structural issues specifically electricity shortages diluted the optimism of a steady recovery. Sustainable recovery of the real sector of the economy was not possible without a revival of the business environment and availability of credit to the private sector. Structural weaknesses in the economy continued to pose a threat to inflation in the presence of uncertainty regarding outcome of ongoing fiscal consolidation and timing of official foreign inflows. This led to keeping the policy rate of the central bank unchanged in the MPS announced at the end of September 2009.

Although the cumulative flow of credit to the private sector showed retirement during the initial months of FY10, it witnessed significant improvements in the second quarter. This was in consonance with the growth in Large Scale Manufacturing (LSM). Throughout this period, the central bank strived to maintain monetary stability without jeopardizing real economic activity. In this perspective, SBP decided to lower the policy discount rate by 50 bps in November 2009. However, inflation outlook in January 2010 turned vulnerable due to delays in fiscal consolidation and re-emerging international commodity price pressures. After careful evaluation of associated uncertainties in the economy, policy rate was kept unchanged at 12.5 percent. In the subsequent months, inflation showed some persistence due to increases in electricity tariffs, adjustments in the prices of domestic petroleum products, and administered prices of commodities. In addition to this, uncertainties pertaining to fiscal and quasi-fiscal indicators (in terms of government meeting its tax mobilization targets), the central bank maintained the policy discount rate at this level in the MPS for March and May 2010.

### 1.3 Conduct of Monetary and Credit Policy

#### 1.3.1 Open Market Operations (OMOs)

The main thrust of liquidity management by SBP is to maintain stability in the short term interest rate environment, and to bring greater transparency in the implementation of monetary policy. To achieve these objectives, SBP introduced an Interest Rate Corridor for the money market overnight repo rates effective from August 17, 2009. The corridor is operated through standing overnight repo / reverse-repo facilities (i.e., floor & ceiling), setting a formal corridor for the money market overnight repo rates consistent with the monetary policy stance of State Bank of



Pakistan. As a result, volatility in the interbank overnight money market repo rate came down substantially during FY10.

SBP liquidity management mainly focused on the shorter end of the yield curve. OMOs remained the primary tool for monetary management. Liquidity situation mostly remained under stress during FY10 because of government's continued reliance on domestic banking sector for financing its budget deficit as there were less than expected inflows on account of foreign economic assistance as well as a shortfall in the revenue collection.

Consistent with monetary policy stance, the weighted average O/N rate inched up to 11.74 percent during FY10 compared with 10.75 percent in FY09. The increase in the rate was accompanied by a considerable reduction in the volatility of weighted average O/N rates, which is attributable primarily to the introduction of interest rate corridor. A quarterly break up of net OMO injections during FY10 is given in **Table 1.1**.

### 1.3.2 Interest Rate Corridor Activities

To manage their liquidity position, banks frequently approached SBP for standing O/N repo and reverse repo facilities during the year. Banks placed Rs 869.1 billion using repo (deposit) and availed Rs 807.3 billion using reverse repo (borrowing) during the year. Most of the placements took place during Q4-FY10 indicating easing of the market liquidity conditions, due to inflows from government on account of PEPCO, Pakistan Steel, PSO, FX, and other government accounts due to year-end payments by the government.

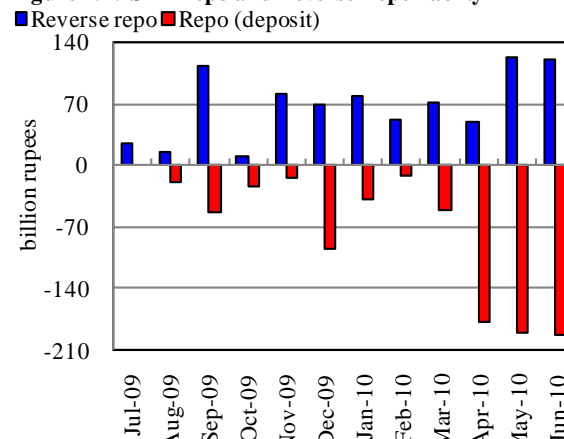
### 1.3.3 Statutory Liquidity Requirement (SLR) and Cash Reserve Requirement (CRR)

SLR and CRR requirements for banks remained unchanged during FY10 as SBP had to ensure sufficient availability of liquidity in the system for smooth sailing of the Financial Sector. Banks'

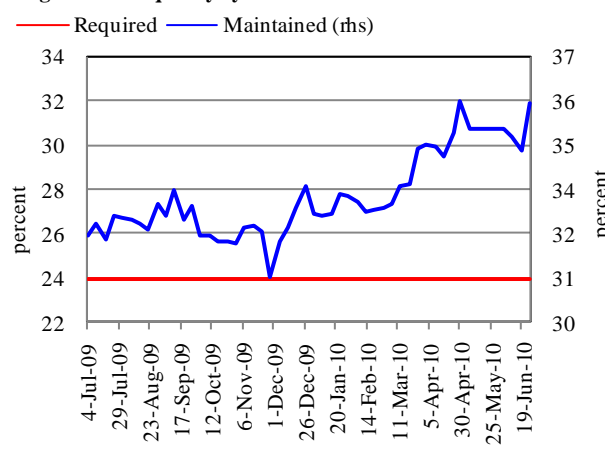
**Table 1.1: Open Market Operations**  
(billion PKR)

	Mop-up	Injection	Net Mop-up/Injection
<b>FY10</b>	<b>489.7</b>	<b>3621.0</b>	<b>(3131.3)</b>
Q1	153.6	506.9	(353.3)
Q2	14.3	1610.7	(1596.4)
Q3	93.8	1234.9	(1141.1)
Q4	228	268.5	(40.5)
<b>FY09</b>	<b>1367.7</b>	<b>1234</b>	<b>133.7</b>
Q1	436.1	254.6	181.5
Q2	384.3	237.9	146.4
Q3	392.3	60.0	332.3
Q4	155.0	681.5	(526.5)

**Figure 1.2: SBP Repo and Reverse Repo Facility**



**Figure 1.3: Liquidity by Banks under SLR and CRR**

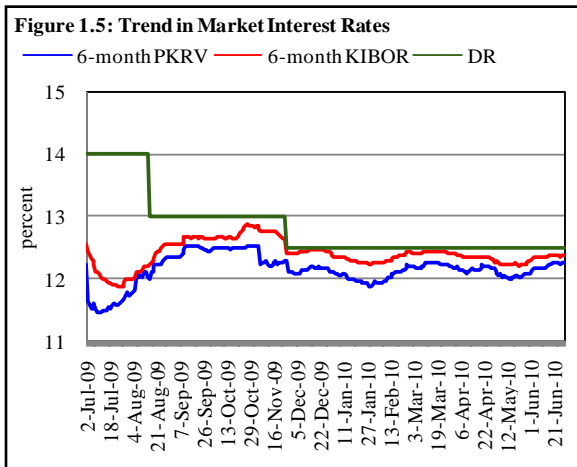
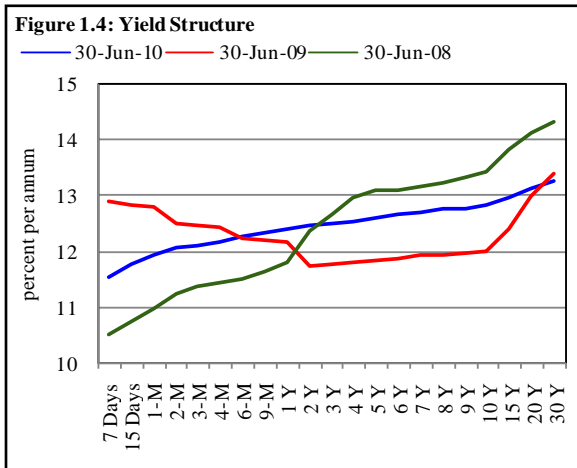


heavy investment in government securities – a safe haven – resulted in holding of excess reserves to the tune of Rs 773 billion (which is 36.0 percent of TDL against the total mandatory CRR and SLR ratio of 24.0 percent) at the end of FY10.

#### 1.4 Interest Rate Trends/Yield Curve

In its endeavor to tackle double-digit inflation, SBP continued to follow a tight monetary policy stance during FY10. A relatively higher discount rate helped bring down the inflation numbers, even reaching a low of 8.9 percent in October 2009. Encouraged by a declining inflation rate trend, SBP cut the discount rate by 100 bps and 50 bps in August 2009 and November 2009 respectively to facilitate the economic recovery process. However, with the rebound of inflation afterward, SBP followed a cautious approach and the policy rate was kept on hold to preserve the much needed economic recovery.

System's liquidity remained tight for most of the year, mainly due to government borrowings and relatively higher demand from private sector resulting in upward trend of key interest rates. Consequently the yield curve also shifted upward (See Figure 1.4). As a result of tight liquidity conditions, the benchmark 6-month KIBOR hovered around SBP reverse repo rate (ceiling). A similar trend was also seen in the 6-month PKRV yield (See Figure 1.5).



#### 1.5 Government Bonds Market

##### 1.5.1 Pakistan Investment Bonds

Government raised a net amount of Rs 64.31 billion through PIB auctions against the target of Rs 60 billion during FY10. This was done mainly by reopening the previous issues throughout the year. Investors seemed to be most interested in 10 year PIBs, as about 60 percent of the money was raised through this tenor. As a result of these borrowings, the outstanding balance of the PIBs has increased to Rs 505.29 billion at the end of FY10 compared to Rs 440.99 billion at the end of FY09.

##### 1.5.2 Market Treasury Bills

The government raised a net amount of Rs 467 billion (face value) through MTBs in FY10 compared to net Rs 304 billion in the same period last year. A total of 25 auctions were held by SBP during the year in which the primary dealers offered an accumulative amount of Rs 3.2 Trillion against the target amount of Rs 1.36 Trillion. In an effort to broaden the investor base, SBP allowed non-competitive bids in June 2009 - a process that allows individuals, small investors and non-banks to invest directly in MTBs. A total amount of Rs 20 billion (face value)

was raised through non-competitive bids during FY10. Mutual funds remained the most active non-bank investors in the MTBs capturing 63 percent share in total amount raised through non-competitive bids. SBP is also working in collaboration with NIFT to develop a web portal where

**Table 1.2: Snapshot of PIB Maturities & Issuance during FY10**

As on 27-May-2010

Tenors	Maturity	Face value Amount issued					Total	Wtd. Avg.		Percent share
		3-Sep-09	12-Nov-09	4-Feb-10	18-Mar-10	27-May-10	Issued	Variance	Issuance Yld	by Tenor
3-years	-	625.0	2,654.0	3,219.0	1,695.0	3,452.3	11,645.3	11,645.3	12.3	18.0
5-years	426.5	625.0	2,484.2	1,355.6	1,227.5	1,485.0	7,177.3	6,750.8	12.4	11.1
7-years	-	825.0	650.0	150.0	250.0	300.0	2,175.0	2,175.0	12.5	3.4
10-years	-	12,590.0	9,455.3	4,335.0	6,357.5	6,661.3	39,399.1	39,399.1	12.5	60.9
15-years	-	229.0	735.0	71.0	-	-	1,035.0	1,035.0	12.9	1.6
20-years	-	500.0	500.0	525.0	-	-	1,525.0	1,525.0	13.2	2.4
30-years	-	500.0	750.0	525.0	-	-	1,775.0	1,775.0	13.7	2.7
<b>Total</b>	<b>426.5</b>	<b>15,894.0</b>	<b>17,228.5</b>	<b>10,180.6</b>	<b>9,530.0</b>	<b>11,898.6</b>	<b>64,731.7</b>	<b>64,305.2</b>	<b>12.5</b>	<b>100.0</b>

**Table 1.3 Market Treasury Bills**

Quarter	Auctions held	Maturity	Announced auction targets	Amount offered (face value)	Amount accepted	
					(realized value)	(face value)
Q1	06	180,781	325,000	775,881	333,223	367,876
Q2	07	74,862	145,000	511,318	147,686	159,706
Q3	06	401,693	430,000	775,734	432,371	471,369
Q4	06	448,918	460,000	1,138,596	529,485	574,576
<b>FY10</b>	<b>25</b>	<b>1,106,254</b>	<b>1,360,000</b>	<b>3,201,527</b>	<b>1,442,765</b>	<b>1,573,526</b>

retail investors will be able to place non-competitive bids directly in each auction.

### 1.5.3 Government Ijara Sukuk

Issuance of GoP Ijarah Sukuk which had been a longstanding need of Islamic banking industry has also served as a new source of funds for GoP. During FY10 government conducted only one Sukuk auction of 3 year tenor amounting to Rs 15.32 billion (see Table 1.4). A total of four tranches of GoP Ijara Sukuk had been issued since its introduction in 2008 amounting to Rs 42.24 billion.

**Table 1.4: Detail of Ijara Sukuk**

million rupees

Auction settlement date	Maturity date	Amount accepted	Profit rate (6M-MTB+bps)
26-Sep-08	26-Sep-11	6,522.50	Wt Avg 6M-MTB + 45 bps
29-Dec-08	29-Dec-11	6,000.00	Wt Avg 6M-MTB + 75 bps
11-Mar-09	11-Mar-12	15,325.00	Wt Avg 6M-MTB + 0 bps
17-Sep-09	17-Sep-12	14,396.00	Wt Avg 6M-MTB - 5 bps
<b>Total</b>		<b>42,243.50</b>	

### 1.5.4 E-Bond: Electronic Bond Trading Platform

As a major step in the development of fixed income markets in Pakistan, an electronic fixed income trading platform provided by Bloomberg called EBND was launched on January 11, 2010. The platform is currently being used for trading of government securities only; however, it has the capacity to support trading of corporate debt instruments as well.

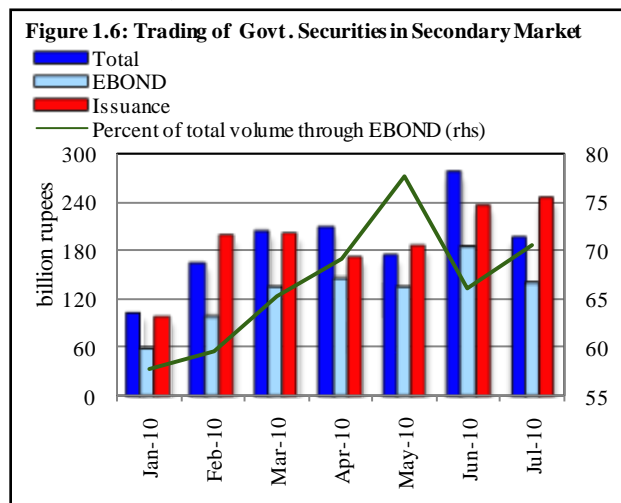
EBND which is already in use in 18 countries has the following key features:

- A central display provides the best live quotes by price makers of all outstanding issues.

- b. Dissemination of real time information to investors on transactions in fixed income market.
- c. Price takers can approach multiple price makers for firm quotes.
- d. Choice for price makers to enter and trade on firm, anonymous orders.
- e. Facilitate for users to customize their counterparty credit database.
- f. Option to manually input any bilateral deal which is not concluded on Bloomberg through a “Voice Trade Capture” feature.
- g. Although this is a front-end system, “straight through processing” interface is possible with local settlement systems and banks’ internal systems as it is based on FIX protocol.

The introduction of this platform is expected to provide not only a boost to fixed income market, it also has a lot for all market participants. The availability of real-time information about yields and turnover will help the issuer in determining demand for its paper and make better funding decisions. Moreover, the platform is likely to attract more investors to the market as the price discovery process becomes much easier resulting into enhanced liquidity and lower liquidity premium. This will also result in further development of liquid yield curves for various market segments. With the availability of a widened investor base, banks would be able to shift government debt from their books freeing up funds for private sector credit.

The fact that Bloomberg is offering its services in all major financial markets in the world is another advantage of the system as it will provide international investors with an additional window on Pakistan’s economy. Trading of government securities on EBND platform is gradually increasing (see **Figure 1.6**) and it is expected that the platform would become a preferred medium of market participants for all their trading activities.



### 1.6 Strengthening of Primary Dealer System

Major responsibilities of the Primary Dealers are to buy government securities through primary issuance, warehouse, and distribute these securities in the secondary market. As part of its efforts to strengthen the primary dealer system, SBP has beefed-up its efforts by revamping the PD rules and improving their performance through regular review/evaluation of performance in a consultative process.

The selection criteria, privileges, and the obligations of PDs are well defined; however to make the system even more effective there is a need to evaluate the performance of PDs on a regular basis. That is why the performance review process of PDs was revamped during FY10 to achieve the objective of market development.

For this purpose, Financial Markets Strategy & Conduct Department (FSCD) started evaluating PDs performance on quarterly basis instead of semi-annually. To bring further transparency in the review process, meetings were convened with each PD to discuss their quarterly performance which was helpful in identifying weak areas and appropriate actions were suggested for improvement. In the evaluation process, much importance was given to the secondary market activities, with a particular emphasis on the distribution of Government securities to non-bank investors.

Moreover, with the objective of appreciating performance, three best performing PDs in the primary and secondary markets of government papers were announced for FY10 on the basis of pre-defined criteria. In addition to the performance recognition, this will also serve as a motivational factor for other PDs to improve their performance.

Going forward, PD rules would be regularly reviewed to further align their performance with the objective of market development with particular emphasis on wider distribution of Government securities to non-bank investors. SBP also plans to announce a “TOP PD of the year” award in the coming year.

### **1.7 Development of Corporate Debt Market**

SBP has been working to develop the country’s corporate debt market in collaboration with various stakeholders. In this regard, feedback was solicited from the market participants regarding the existing regulatory framework and the factors hindering the growth of corporate debt market in Pakistan. A higher stamp duty levied on the issuance and transfer of corporate debt instruments by some of the provinces was identified as a major impediment in its growth. The issue was taken up with the Sindh government which helped in downward revision of the stamp duty in the province.

### **1.8 Strengthening the Effectiveness of Monetary Policy**

In August FY10, the central bank introduced an interest rate corridor structure for the overnight money market repo rate, which has helped in anchoring the short-term market rates. The corridor is formed by the SBP policy discount rate (renamed as SBP reverse repo rate) and the rate on a newly introduced deposit facility (named as SBP repo rate). The introduction of this framework is aimed to improve liquidity management and foster stability and transparency in money market operations. It is also aimed to improve transmission of monetary policy signals and strengthen its role in fostering price stability. Furthermore, formation of Monetary Policy Committee of the Central Board to include external members in addition to SBP representatives was also part of the efforts to improve monetary management. This was done to enhance transparency and credibility of monetary formulation process.

During FY10, SBP’s Monetary Policy Committee (MPC), chaired by the Governor SBP, met regularly to review macroeconomic developments, evaluate the need for policy changes, and approve monetary policy statements for onward approval from the Central Board of Directors. The information set provided to the MPC- the MPC Information Compendium- is now being placed on the SBP’s website, along with announcement of monetary policy decisions, from March 2010. The Information Compendium summarizes trends and developments of important macroeconomic variables using self explanatory tables and graphs. It also provides detailed projections of key macroeconomic variables.

## **1.9 Research Functions and Economic Analysis**

Monetary Policy and Research Cluster (MPRC) is playing an important role not only in monetary policy formulation, but also in providing key inputs for broader economic and financial policy formulation through its economic reports, research work, analytical and financial reviews, and data compilation and dissemination. The MPR cluster has two groups of departments (a) Monetary Policy and Research Group consisting of Monetary Policy Department, Research Department and Statistics and Data Warehouse Department, and (b) Policy Development Group consisting of Economic Analysis Department and Policy Research Department. The MPR cluster continued its capacity building and skills enhancement during the year through trainings, exposure visits, induction of professionals, access to quality journals, research bulletins, and databases, etc., as presented in detail below.

### **1.9.1 Macro Modeling and Forecasting**

With monetary policy increasingly adopting a forward-looking approach in the policy formulation process, the importance of forecasting crucial variables to provide a future macroeconomic outlook cannot be denied. To achieve this, concerted efforts have been made to enhance the forecasting capacity of SBP. In FY10, a new module on monetary aggregates has been added to the existing forecasting suites to strengthen the forecasting capacity of the department. Moreover, building upon the previous achievements, the already available suites related to inflation and external trade were further improved by introducing models capturing new techniques and frequency of data. In the inflation forecasting suite, quarterly models have been introduced and forecasting is being carried out at more disaggregated levels of Consumer Price Indices. In addition, the tracking of better forecasting model is also carried out by utilizing the ‘add factors’ (forecasting errors). In the external trade forecasting suite, along with econometric models, trend analysis of quantum and price is also being carried out at disaggregated levels. Forecasts from these models were updated every month.

In FY10, the macroeconomic framework was further refined and extended by adding more behavioral equations, linking domestic and external debt dynamics in the existing framework, and extending projections horizon up to two years from current practices of annual projections. Using the framework, now quarter-wise projections are also being prepared. To institutionalize the forecasting practices using this framework, preparation of a manual is also underway.

In addition to this, another step towards strengthening the long-term projection capacity was the development of a new macro econometric model. This model will be consistent with the projections obtained through medium term framework, which is already in use in the department. This model is expected to compensate for the weaknesses in the framework due to absence of behavioral relationships, while taking into account the restrictions imposed through inter and intra sector identities.

### **1.9.2 Developing a Model by Incorporating Informal Sector and Microeconomic Features**

A challenging project of developing a theory based macroeconomic model has been started that takes into account microeconomic features of the Pak economy as well as other important features such as Pakistan’s large informal sector. Some efforts are also underway to develop platforms that allow the State Bank to gain permanent access to key stakeholders (i.e., firms and households) in a cost-effective way so that feedback mechanisms and research capacity can be further strengthened.



The microeconomic features of the model are captured by numerous parameters some of which have been estimated using Pak data while the estimation of the remaining is in progress. Some parameters are directly inestimable and as a result large scale firm-based surveys are required. For this purpose, surveys on price and wage setting behavior of manufacturing service sector firms have been launched in collaboration with Bureau of Statistics, Punjab (completed) and Bureau of Statistics Sindh (currently under progress).

As a second phase of this project, groundwork to survey firms in the informal sector in Punjab and Sindh has been laid out using the same Bureaus. Alongside that, the study of formal and informal product and labor markets, exploration of the informal credit market in Pakistan is also in progress. Indeed, a pilot study in Okara was done by interviewing grain market Arhtiyas and the next step is to carry out a large scale survey of the informal credit market in collaboration with SBP BSC. All this field work is expected to result in building networks with firms helping SBP to improve its outreach and feedback on its policy front. To develop a similar network on the household side, a collaborative project with IBA is sought to construct a consumer-expectation index. This will help SBP develop a household-network as well as quantify the expectations-channel to help conduct forward-looking monetary policy. The groundwork for the development of this network has already been laid out. Furthermore, a pilot research on other contemporary issues such as the remittances behavior of Pakistani diasporas was carried out in collaboration with the exchange policy department and Ministry of Overseas Pakistanis. The pilot study was conducted in Dubai and Bahrain to document attributes of the remitters and remittances. This pilot is expected to be rolled by series of similar surveys in different foreign countries.

### **1.9.3 SAARCFINANCE Seminar**

The SAARCFINANCE Seminar on “Global Financial Crisis – Implications and Policy Responses of SAARC Countries” was organized by the State Bank of Pakistan at the National Institute of Banking & Finance (NIBAF), Islamabad during June 10-12, 2010. Besides domestic participants, delegates from all SAARC member countries (except Bhutan and Maldives) participated in the seminar. The delegates also presented their Country Papers, with a view to sharing their respective experiences and to generate a meaningful dialogue on the subject matter.

### **1.9.4 Zahid Husain Memorial Lecture**

Started in 1975, the State Bank of Pakistan has a tradition of organizing the prestigious series of Zahid Hussain Memorial lectures, in the memory of its first governor, where eminent economists are invited to deliver lectures on the topic of economic significance relevant to central banks. The latest lecture was held on September 14, 2009 wherein Professor Paul Levine of Surrey University, UK, delivered lecture on the issue of “Monetary Policy in Uncertain Environment: A Strategy for Robust Monetary Rules”.

### **1.9.5 Pakistan and World Economy Seminars**

Quarterly Seminars on Pakistan and World Economy were organized at the State Bank of Pakistan, Karachi, with a view of sharing the ideas and contemporary research work of renowned scholars with SBP officials. These Seminars carry universal invitation and a number of distinguished economists of the world have so far delivered lectures under this series. In the last fiscal year, Dr. Asad Zaman, Professor of Economics at International Islamic University, Islamabad, Mr. Christopher Spencer, Loughborough University, UK, and Mr. Farooq Pasha, Boston College, USA, shared their research work on different issues.

In addition to above, the State Bank of Pakistan called for papers on the topic of “Importance of Monetary and Fiscal Policies Coordination: Lessons from Recent Global Crisis”, which have been published in the Thematic Issue of SBP Research Bulletin, Volume No. 6, Number 1, 2010. The authors of the selected papers were invited to present their research papers under “Pakistan and World Economy Seminar” series.

#### **1.9.6 Activities under Collaborative Arrangements**

With a view to enhancing collaboration with reputable research institutes of the country, scholars from Pakistan Institute of Development Economics (PIDE), Islamabad, and Lahore School of Economics (LSE), were invited to share their research work on important topical issues taking place at the international/domestic economic front. In this regard, Dr. Idrees Khawaja, Consultant, PIDE, Islamabad, and Ms. Hamna Ahmed, LSE, Lahore, presented their research papers. Economists from the State Bank of Pakistan also presented their research in different universities and institutions.

#### **1.9.7 Dissemination of SBP Reports in Urdu**

Translation Division of the Research Department contributes to wider dissemination of SBP reports by translating MPR cluster reports into the national language. These include Monetary Policy Statements of July 2009 and January 2010, Monetary Policy Decisions with brief analysis (September 2009, November 2009, March 2010, and May 2010), Annual Report 2008-09, Volume I and II, Financial Stability Review 2008-09 and the three Quarterly Reports for FY 10. All these reports were released simultaneously with the English versions and are accessible at the SBP website. Abstracts/summaries of all Working Papers released in FY 10 or earlier were also translated by the division.

#### **1.9.8 SBP Working Paper Series**

The SBP Working Paper Series was started in September 2001 with the objectives of strengthening the capabilities of the State Bank of Pakistan in applied research, and stimulating specialized discussions on macroeconomic issues. The officers of the State Bank submit their research papers for the series. These are reviewed intensively by peer reviewers and are presented in a seminar before release on the SBP website. The Chief Economic Adviser Monetary Policy and Research Cluster, State Bank of Pakistan is Editor of the SBP Working Paper Series. During FY10, five working papers were released at the website of the Bank.

#### **1.9.9 SBP Research Bulletin**

State Bank of Pakistan Research Bulletin was launched in 2005 with the objective of publishing high-quality research in the area of macroeconomics with special emphasis on topics of monetary and exchange rate policies. The Bulletin has two issues in a year: one is regular issue having submissions selected through a blind-refereeing review process by a panel of internationally recognized economists, and the other is a special issue having articles invited on a particular economic theme. The journal has been indexed in the Journal of Economic Literature of the American Economic Association.

During FY10, the regular issue of the Bulletin had three research papers, one opinion, and one book review while the special issue consisted of four papers on the theme of “The Importance of Monetary and Fiscal Policies Coordination: Lessons from Recent Global Crisis”. All issues of the Bulletin are available on SBP website.

#### **1.9.10 SBP Annual/Quarterly Reports**

According to the SBP Act, the central bank is required to submit to the Parliament an appraisal of the state of the Pakistan's economy on quarterly basis. Thus, the SBP produces one annual and three quarterly reports. These are submitted to the Parliament as well as disseminated to the public through printed copies and SBP web. These reports have extensive coverage of the developments in the domestic economy including the impact of global developments that have significant bearing on domestic economic performance. Further, these publications review effects of policy measures undertaken by the central bank and the government and highlight challenges faced by the country. The documents also provide a tool to SBP to create a better understanding of cross-linkages of various policies and economic issues. The increased public awareness in turn leads to more effective policies.

#### **1.9.11 Inflation Monitor**

Since ensuring price stability is the key function of the central bank, SBP continuously observe and assess inflation trends. This function is formally translated into 'Inflation Monitor' which is a monthly publication since March 2005. This document provides an extensive review of price developments both locally and globally. Further, the report contains various statistical tables and graphs that help in better understanding the emerging trends in domestic inflation.

#### **1.9.12 Inflation Snapshot**

Inflation Snapshot provides basic statistics on prices released by FBS, and computed by SBP. This document is released on SBP website ([www.sbp.org.pk](http://www.sbp.org.pk)) with usually one day lag following the release of FBS data on prices. Different measures of core inflation are reported in this document. Inflation is also reported for various time frames: year-on-year, period averages (or year-to-date), annualized (12 month moving average) as well as month-on-month basis.

#### **1.9.13 Strengthening Macroeconomic Surveillance**

Effective policy formulation requires a good assessment of the economy. To improve macroeconomic surveillance, Economic Analysis Department has initiated a monthly Macroeconomic Surveillance Report, a monthly Energy Outlook, and a series of Issue Notes on topical economic issues. Moreover, a series of policy position papers has also been launched with the coordination of Policy Research Department. These reports are circulated internally.

#### **1.9.14 Statistics Produced by Statistics and Data Warehouse Department**

Timely availability of quality economic data is the pre-requisite for research and policy formulation. To keep stakeholders updated on latest developments in various segments of the economy, State Bank of Pakistan produces several reports and statistical publications. The Statistics and Data Warehouse Department compiles and publishes authenticated and reliable statistics on a wide range of economic variables for usage in various SBP reports and publications with different frequency (daily, weekly, monthly, biannual and annual). These publications are also placed on SBP website for easy access. The Statistics and Data Warehouse Department is a primary source of data on money and banking, Balance of Payments (BoP) statistics and International Investment of Pakistan (IIP). The statistics disseminated by the State Bank are compiled according to international compilation standards. For instance, Monetary Statistics are compiled according to Monetary and Financial Statistics Manual (MFSM 2000) of IMF, and Balance of Payments Statistics according to fifth edition of Balance of Payments Manual (BPM5). For dissemination of various statistics, SBP follows the General Data Dissemination System (GDDS) and Special Data Dissemination Standards (SDDS) which has increased the

credibility of our statistics in the international community. With the recent developments in the field of IT, most of the compilation processes have been automated through the Data Warehouse which has significantly enhanced the efficiency, quality and timeliness of the statistics produced by the SBP. The quality of statistics is regularly improved in light of the recommendations of the Reports on Observance of Standards and Codes (ROSC) of the international agencies. The department also carries out analysis for assessing performance of financial and non-financial sectors through annual financial statements of individual company/institution. The analysis is published in annual publications.

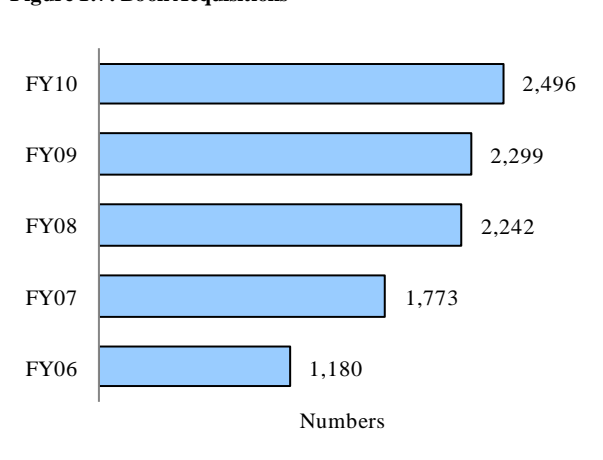
### 1.10 Library Services

FY10 proved a prolific year for the SBP Library. The library accomplished four development projects. All operational areas and services improved. A brief annual performance review of the SBP library is presented here.

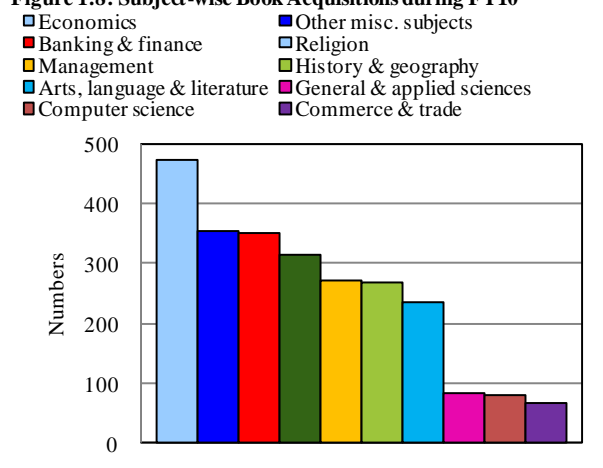
### Collection Development

The library continued to develop its collections in line with the budgetary provisions and the guidelines in its collection development policy to support research, information, and recreation needs of its patrons. Electronic resources were enriched with two new online databases, namely; Business Source Premier having 2,300 full-text journals and EconLit with Full-Text containing 500 full-text journals. The audiovisual resources were augmented with 19 new titles whereas printed collections were enhanced by 2,496 new books and 14 new journals. Figure 1.8 depicts our balanced collection development approach.

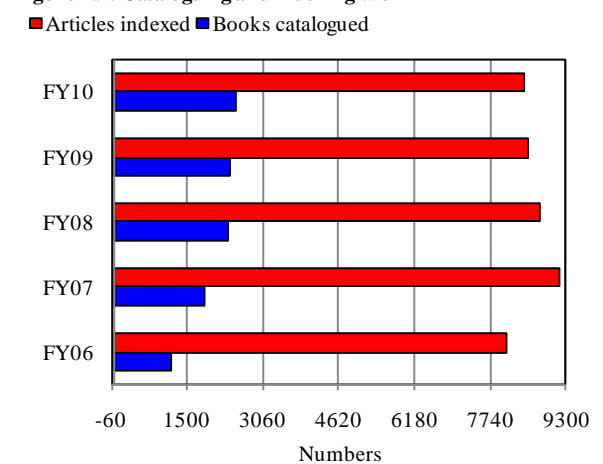
**Figure 1.7: Book Acquisitions**



**Figure 1.8: Subject-wise Book Acquisitions during FY10**



**Figure 1.9: Cataloguing and Indexing Work**



### Classification, Cataloguing and Indexing

All the items acquired during the year were properly classified, catalogued, indexed, and recorded in LIMS – the bibliographic management system used by the SBP Library. The updates were made available on

### Library's Online Portal.

#### Membership and Visitation

Library attracted 27,044 visitors during FY 10; slightly lower compared to the previous year's numbers of 30,239 visitors. On the other hand, membership increased considerably during FY 10. A total of 377 new members were registered during the year compared to 283 last year. Among the new members, 104 were SBP employees, 121 internees, and 152 friends' members.

### Reference Services

The library provided efficient support in literature searching and library usage to the patrons throughout the year. Besides providing on-site reference assistance to visitors within the library, countless telephone and email queries were attended positively. Over 243 requisitions of remote users for 1,057 articles were also entertained under library's online document delivery service during the year. Orientation tours for the new inductees, internees, and occasional visitors were facilitated throughout the year. To create awareness about the available library resources and promote its efficient utilization workshops were conducted across SBP. The members were also updated on the latest additions to the library collections through library bulletins, namely; Fresh Arrivals Bulletin (monthly) and Current Contents Bulletin (fortnightly). These bulletins were regularly posted on library website as well as on the electronic board and the members were informed through email broadcast.

Figure 1.10: Membership and Visitation Trend

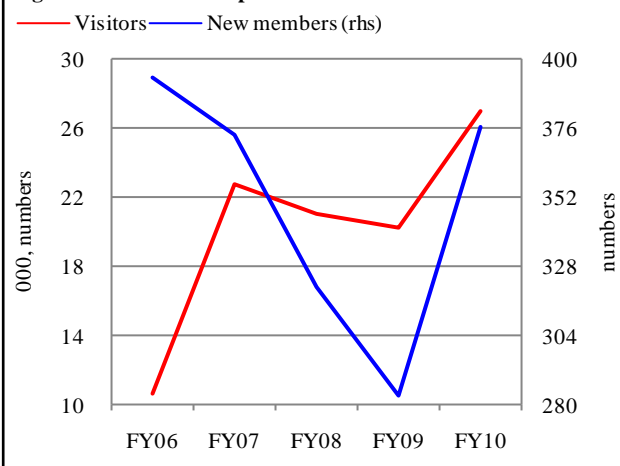


Figure 1.11: Books Loaned

■ FY06 ■ FY07 ■ FY08 ■ FY09 ■ FY10

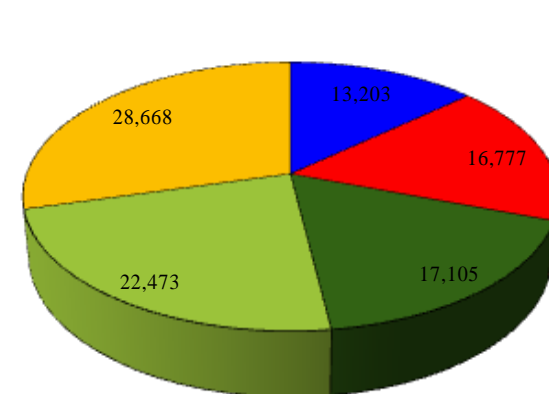
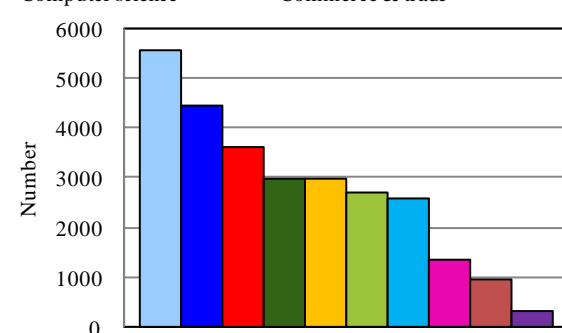


Figure 1.12: Subject-wise Book Loaned during FY10

■ Banking & finance ■ Economics  
 ■ Religion ■ Other misc subjects  
 ■ Arts, language & literature ■ History & geography  
 ■ Management ■ General & applied sciences  
 ■ Computer science ■ Commerce & trade



### **Lending Services**

The lending operations, i.e., issue/return, renewals, reminders, reservations, and fine collection, remained an integral part of library services. Library loaned 28,668 books to members during FY10; 22 percent higher than the previous year. Out of the total, 26,049 books were lent to the SBP employees while the rest 2,619 were loaned to the fellow members and internees. Members' demands were met through interlibrary loan in case of unavailability from own resources. Members were kept posted with the due date reminders and overdue notices. Book reservation/hold services were also remained available to the members throughout the year. The figure below shows subject -wise breakup of the total books loaned to members during the year.

### **Special Development Projects**

The library undertook five development projects during FY10. Four projects were completed within the set timeline while the fifth project titled "Digitization of Library Resources" was spilled over to the next year due to technical resource constraints. The completed projects are:

**Amplification of Library Website.** The project was to develop an independent library website with a novel design, revised contents, and added features to be more informative, attractive, interactive, and user friendly. The web OPAC of Library which was earlier placed only on the SBP network was made available to the external viewers also.

**Weeding out the Outdated and Mutilated Books.** The purpose of this project was to create space for new books and make the collection updated and meaningful. Around 2,080 books were donated to various SBP-BSC offices and some public libraries in the remote areas.

**User Satisfaction Survey.** A survey was carried out to gauge the effectiveness of library resources, services, and facilities in meeting the research and information needs of the Bank employees. It was the first survey of its kind conducted in the history of the SBP Library. Although, results of the survey were encouraging, it helped in identifying a number of areas that need further improvement. The survey results were placed on library website for sharing with library patrons.

**Enhancing Access to CDs/DVDs Collection.** The project was to enhance access to CDs/DVDs collection by placing these archives on the SBP data server, integration of these archives with Library System, and easing access of users to the data through web OPAC. The project was successfully completed and the users can now view their required CDs/DVDs contents on any terminal connected with the SBP network.

The library attained its goals committed in the annual business plan. The Library is committed to its mission of promoting knowledge and research through quality information resources, friendly services, and better learning facilities.