

Governor's Message



The State Bank of Pakistan continued to strive for a balance between price stability and growth while safeguarding the soundness of the financial system during FY10. I would like to highlight some of the key policy measures undertaken by SBP, summarized below:

- In response to a changing inflation outlook, SBP adjusted its stance on monetary policy. The decline in inflation during the initial months of FY10 and a relative improvement in the macroeconomic situation, allowed the central bank to ease its monetary policy stance. But as the growing fiscal deficit and unexpectedly low external receipts increased risks of a relapse into macroeconomic instability, and as inflationary pressures resurfaced in H2-FY10, SBP decided to pause the easing cycle and subsequently increased its policy rate in July and September 2010.
- With a view to improving communication with the market, SBP increased the frequency of its monetary policy statements from four to six times a year. The monetary policy framework itself experienced significant change when the SBP introduced an interest rate corridor in August 2009. This framework has anchored short-term interest rates and improved liquidity management in the money market.
- SBP launched an Electronic Bond Trading Platform in January 2010 for the development of fixed-income markets. This system, which primarily focused on government securities, also has the capacity to support trading of corporate debt instruments.
- The exchange rate continued to reflect market conditions, which helped narrow the external imbalance and improve macroeconomic stability. Foreign Exchange Reserves, which were at \$12.425 billion at the close of FY09, increased by \$4.325 billion to reach an all time high of \$16.750 billion at the close of FY10. SBP's decision to enhance banks' Foreign Exchange Exposure Limit also strengthened the market's capacity to handle larger volumes of foreign exchange transactions without additional volatility in the exchange rate.
- The banking sector in Pakistan has been able to withstand headwinds from weakening macroeconomic fundamentals since 2007. Although banks face increased credit risk, the overall sector is well placed to withstand modest shocks as they build their inventory of government securities. Furthermore, in response to emerging dynamics in the macro-financial environment, SBP has rationalized the minimum capital requirement and its implementation schedule, which will provide breathing space to the banking sector in this difficult macroeconomic environment.

I look forward to the continuous support of the SBP Central Board of Directors in discharging my statutory responsibilities in these challenging economic times. Backed by dedicated and competent staff, the SBP shall continuously strive towards excellence and maintain the utmost standards of prudence that it has come to be associated with.

Shahid H. Kardar

Governor, State Bank of Pakistan