

# Governor's Message

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As the central bank of the country, State Bank of Pakistan (SBP) forms the nucleus of the financial system. The core functions performed by SBP include the maintenance of economic and financial stability, besides ensuring the soundness of the country's financial system. This, being a challenging task, requires SBP to always remain vigilant and endeavor to perform its functions in the best national interests – FY12 was no exception to that. In this regard, noteworthy policy measures undertaken during the year are summarized below:

- The focus of SBP's monetary policy during FY12 was the maintenance of an appropriate balance among the objectives of inflation control, promotion of private investment, stability of financial markets, and the maintenance of the country's foreign exchange reserves. Accordingly, there was a cumulative reduction of 200 basis points, to 12 per cent, by SBP in its policy rate during FY12.
- An important development during FY12 regarding the improvement in the formulation and implementation of monetary policy, took place in the form of amendments in SBP's Act legislated in March 2012. The restriction on government borrowings from the central bank is an important feature of these amendments. The fiscal authority not only has to ensure no further accumulation of the debt owed to SBP (keeping the quarterly flow of borrowings at zero) but also take steps to retire this debt over the course of next seven years. SBP will work with the fiscal authority to ensure that this is achieved as envisaged.
- Based on the significant role of communication in the effectiveness of monetary policy, dedicated efforts were made towards greater dissemination of the monetary policy stance, including regular meetings with market analysts. Moreover, significant progress has been made in developing a web page on monetary policy, which is expected to be placed on SBP's website during FY13.
- With the objective of moving forward on micro research and to facilitate a forward-looking view of monetary policy, SBP has constructed, in collaboration with the Institute of Business Administration, a consumer confidence index (CCI) using telephonic surveys. The survey observations will be published after the completion of the data validation process. It would be worthwhile to mention here that in order to carry out the survey and other surveys for micro research, a state of the art Centre for Survey Research (CSR) has been established at State Bank of Pakistan, Karachi.
- SBP's proactive approach to market regulation and management, facilitated the smooth functioning of the foreign exchange market, and supplemented the capacity building efforts undertaken for market participants. Although the Pak Rupee depreciated by 9.1 percent

against US\$ in the interbank market during FY12, the trend during the year has been gradual. This exchange rate trend reflects the underlying demand and supply conditions in the market.

- Keeping in view the objective of boosting bilateral trade and investment in local currencies, State Bank of Pakistan has developed a framework of executing bilateral currency swap arrangements (CSAs) with regional central banks using the countries' respective local currencies. In this regard, CSAs were signed by SBP with the Central Bank of the Republic of Turkey and People's Bank of China. Both CSAs have now become operational and necessary instructions have been issued by SBP to banks in this regard.
- A joint initiative called the Pakistan Remittance Initiative (PRI) was launched, in April 2009, by State Bank of Pakistan, Ministry of Finance, and Ministry of Overseas Pakistanis, with the following objectives: (a) facilitating and supporting the efficient flow of remittances, and (b) providing investment opportunities in Pakistan for overseas Pakistanis. The establishment of PRI has contributed positively towards enhancing the flow of remittances to Pakistan, which has shown a robust upward trend.
- Financial system oversight is one of the core functions of SBP. It helps reduce the vulnerability of the financial system and prevents crisis. SBP's financial oversight arms (on-site inspection and off-site supervision departments) ensure sound balance sheets for banks, development finance institution, and micro finance banks in the country. The commencement of business by Industrial & Commercial Bank of China in Pakistan during FY12 shows the confidence in the financial sector in Pakistan. Similarly, the grant of permission to open three new microfinance banks reflects SBP's commitment to help reduce poverty in the country.
- Apart from various measures to improve the effectiveness of the payment and settlement system, an important development during FY12 was the management of the Secretariat of SAARC Payment Council (SPC), which was assumed by SBP for a period of two years with effect from 1<sup>st</sup> March 2012. SPC is a forum of central banks and monetary authorities of SAARC countries, to collectively evolve and build high level strategies and road maps for the development of intra-regional payment systems.
- A number of initiatives were taken during FY12 for broadening access to the financial sector, including small & medium enterprises, housing finance, and infrastructure finance. SBP also continued to facilitate microfinance lending by having in place a supportive policy framework, and also played a proactive role in the development of microfinance through the implementation of government and donor funded programs. Moreover, a number of important measures/steps were taken during FY12 aimed at the promotion and expansion in the coverage of agriculture and rural finance in the country.
- In addition to providing a conducive regulatory environment, SBP and all relevant stakeholders have implemented innovative solutions for the development of microfinance and mobile banking markets. National and international media have recognized the State Bank of Pakistan as one of the global leaders in this innovative field.

I would like to express my gratitude to SBP's Central Board of Directors for their support and cooperation towards discharging my statutory responsibilities. I also extend my appreciation to the staff of SBP for their dedicated efforts to ensure the effective functioning of the State Bank of Pakistan.

**Yaseen Anwar**  
**Governor**  
**State Bank of Pakistan.**