

21st July, 2005

STATE BANK ISSUES ITS MONETARY POLICY STATEMENT

The State Bank of Pakistan issued its Monetary Policy Statement which was approved by the Central Board of Directors of SBP at its meeting held under the Chairmanship of the Governor, Dr. Ishrat Husain in Quetta today. The distinguishing feature of the Statement is a public announcement of the monetary policy stance to be followed by SBP during the next six months of the current fiscal year i.e. July–December 2005.

The Statement, after reviewing the monetary and external sector developments of the last six months and the macroeconomic outlook, has observed that the balance of risks indicates that domestic prices may continue to remain under pressure on account of high world oil prices, widening trade deficit and rising interest rates in the world financial markets during July-December 2005.

While continuing to observe movements of all key variables and taking timely corrective actions, the State Bank has reaffirmed its resolve that the key objective of the monetary policy would be to fight inflation and bring it down to a reasonable level during the next six months. **The monetary policy stance of a tightened monetary expansion would, therefore, continue until inflationary pressures are eased off, according to the Statement.**

The State Bank of Pakistan would also ensure stability in exchange rates. The extent of the interest rate changes will be determined by the magnitude, direction and speed of inflationary pressures. Nevertheless, the State Bank of Pakistan would also ensure that the credit expansion is targeted to support SME and agriculture sectors that generate most of the employment in the country, further capacity expansion of vital industries and BMR initiatives, the Statement added.

The text of the Monetary Policy Statement is enclosed.
