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Impressive GDP growth vindicates economy is resilient: Dr Akhtar

Dr Shamshad Akhtar, Governor State Bank of Pakistan, said today that despite multiple shocks, the country's economy has managed to record economic growth of 5.8%, which is above the average growth trend of 5% observed between FY91 and FY08.

She stated this during her visit to Karachi Stock Exchange where she was invited by the KSE Management to address a meeting of the Board of Directors of the Karachi Stock Exchange (KSE), senior stock brokers and heads of commercial, investment banks. This was her first visit to KSE since assumption of office in 2006. The meeting facilitated a constructive dialogue on the current economic situation and the future prospects of the stock market.

Dr Akhtar said the stock market of the country showed a remarkable performance since 2000 in terms of market capitalization and growth of indices. The KSE registered more than 1000 percent increase in market capitalization and over 900 percent increase in the index since FY00. The index, which stood at 1,520 points, with total market capitalization of Rs. 394 billion ($6.5 billion) in FY00, grew by leaps and bounds in the last few years and reached the level of 15,676.34 points by April 18, FY08, with total market capitalization of Rs. 4,790.98 billion ($75 billion). "This growth surpasses the market performance of major economies in the region, as a result of which KSE-100 index was included in the MSCI Emerging Markets Index from June 2006," she added.

She said that Pakistan stands out in Asia for allowing foreigners to own 100% of any asset in any sector, and are not subjected to any ownership limits or discriminatory taxes on dividends in the secondary market. At current valuations, the stock market offers an attractive option to investors, both domestic and foreign.

In response to a question, she clarified that the central bank's Prudential Regulatory Framework is largely supportive of exposures to the stock market, and that within the existing regulations, banks have the aggregate capacity of an incremental amount of Rs. 40 billion to invest in the stock market, if they wish to do so. SBP has also extended the deadline for banks' total stock market exposure not to exceed 50% of their equity to 30th June, 2009.

However, she pointed out that stock markets should do more to mobilize resources for the industry by encouraging more and more corporate listings as the banking sector is still unduly burdened with meeting the bulk of the financing requirements of the economy. She also pointed out that equity market lacks depth, and continues to be small and narrow. There is also high price volatility and the trading is largely speculative. "Therefore, there is a need to increase market base and reduce speculation," she added.

Dr Akhtar said that listed commercial banks constitute around 26.5% of the KSE-100 index, and 31.6 percent of KSE-30, and are major drivers of growth in market volumes. Though the market capitalization of the commercial banks dropped in July 2008 as compared to its Dec 2007 levels, the performance of banking system remained healthy in CY08, she added.

“The banks are fundamentally strong and well poised to grow in the future,” she remarked and added that total assets and advances of banks continued to increase. “This overall growth in asset base was well supported by growth in deposits, which increased by Rs 204 billion to Rs 3,832 billion showing persistent confidence of the general public in the banking system. Capital Adequacy Ratio (CAR) as of March 31, 2008 under Basel II frame work is still very healthy at 13.1%. “The CAR is a key stability indicator that reflects on the solvency of the banking system, and in recent years it has continued a steady improvement,” she added. Dr Akhtar also briefed the participants on the main elements on SBP’s 10-year financial sector strategy.

Dispelling the impression that rising interest rates and tight liquidity conditions are responsible for the current downturn and retrenchment of foreign funds in the equity markets, Dr Akhtar said that SBP’s monetary tightening measures are the key for the containment of demand pressures in the economy. She further added that currently the banking system liquidity is close to Rs 200 billion.

Dr Akhtar said that global economic events, particularly rising international oil prices, have hit not only Pakistan but other regional countries as well. High international oil prices and domestic subsidies have resulted in large fiscal and external account deficits, she added. Efforts are underway to address and resolve these issues.

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