

PRESIDENT'S VISIT TO THE STATE BANK OF PAKISTAN

President, Pervez Musharraf visited the State Bank of Pakistan, Karachi today to seek a briefing on the State of Pakistan's Economy from SBP Governor, Dr Shamshad Akhtar. In her presentation, the SBP Governor covered the areas of economic growth, inflation, monetary policy, fiscal and external imbalances, exchange rate and macroeconomic stability.

She underscored that Pakistan like other countries is facing economic stress and challenging policy scenarios. International financial market turmoil, starting in the US, has now caused a global economic slowdown, which in turn is adversely impacting the growth prospects of most Asian and Emerging Market Countries including Pakistan.

She further said that the rising international fuel and commodity prices have considerably increased the pressures on balance of payments, fiscal accounts and inflation outlook. This is not only true for Pakistan but also for most of the emerging and developed economies. The Governor explained that high inflation is economically and socially costly. It adversely affects investment and growth, creates uncertainty, and erodes peoples' purchasing power, particularly of low income group. In this context, Governor highlighted that Pakistan as well as a number of developing and developed countries are pursuing tight monetary policy to contain inflation and to mitigate its adverse impacts for long term growth prospects.

Referring to the key policy actions for restoring macroeconomic stability and sustaining growth, the SBP Governor stressed that the monetary tightening is essential to reduce demand pressures, which is to be supplemented by fiscal tightening. Besides need for adherence to fiscal target for FY09, as enumerated in the budget, in coming years revenue deficit should be converted into a surplus, as laid down in the Fiscal Responsibility and Debt Limitation Act 2005. The Governor added that the key concerns of the SBP are high stress of the Government borrowings and drain on foreign exchange reserves due to confluence of domestic and international developments highlighted above.

Dr Akhtar complemented the Government for its decision to reduce the borrowings from SBP to net zero. She also valued the Government commitment to further work with SBP to reduce the existing stock of government borrowing from the central bank.

To finance the current account deficit, financing has to be secured through increase in domestic savings in order to reduce reliance on external financing, the Governor said. She also pointed out the importance of restoring investors' confidence with a view to encourage investment inflows and consistency and continuation of prudent policies.

President Musharraf discussed various issues related to food and oil price developments and appreciated the SBP's briefing. He also acknowledged the strengths of SBP as an institution, its policy advice and its continued support in overall economic development of the country.

The presentation ceremony was attended, among others, by Sindh Governor, Dr Ishratul Ibad and senior management of the State Bank of Pakistan.
