

Mr. Yaseen Anwar calls upon regional central bankers to go beyond text book approaches to tackle economic problems

The Governor, State Bank of Pakistan, Mr. Yaseen Anwar has called upon the regional central bankers to fully understand the nature of their economies and go beyond the text book approaches to tackle today's economic problems.

Inaugurating a three-day SAARCFINANCE Regional Seminar on 'Monetary Policy Frameworks in the SAARC Region' at the National Institute of Banking and Finance (NIBAF), Islamabad today, he stressed upon the participants to check the validity of basic assumptions while developing models for economic forecasts in view of the possibility of a breakdown in relationships between key variables in the backdrop of emerging economic realities. "We also need to keep a close watch on the pulse of the economy, considering it is a living and ever evolving organism," he added.

Mr. Anwar said that a comprehensive understanding of the economy is necessary in order to correctly calibrate monetary policy, which may then achieve the objectives of price stability and economic growth. Mr. Anwar said that sharing ideas and experiences at a regional forum will help central bankers better understand the nature of their economies. He urged them to explore the ways by which monetary policy frameworks may be improved through mutual and collaborative efforts.

SBP Governor said the targets set by central banks have an effect on the real economy and implications for price stability. However, central banks' policies are more effective when they are independent of fiscal influence, have market freedom and are time-consistent, he said, adding that the absence of these conditions may reduce the efficacy of their (central banks') policies. 'The complexities of today's world have created challenges for monetary policy and we must occasionally toss conventional prescriptions aside and seek customized solutions,' he added.

Sharing his understanding on working of different channels of monetary policy, Mr. Anwar disclosed that the real interest rate channel in Pakistan is found to be extremely weak during the times of frequent price changes and high inflation. Quoting a recent study of SBP's Research Department, he said that prices are revised roughly every quarter in the economy. 'Coupled with the fact that Pakistan's economy has experienced double-digit inflation during the last 4 years, prices are very quick to adjust to changes in monetary policy,' he said adding that a large part of inflation persistence in the country is due to sustained period of high inflation, which has allowed inflationary expectations to incubate.

Mr. Anwar pointed out that the lending channel appears to be quite robust and is the key channel through which monetary policy is transmitted to the real economy in Pakistan. Similarly, the role of exchange rate channel has also gained importance over time due to liberalization of the foreign exchange market in the country. SBP monitors the forex market very closely while considering the impact of changes in the exchange rate, he added. He observed that monetary policy may also influence inflation through expectations channel.

SBP Governor said the transition from understanding these channels to developing the proper mechanisms to impact our objectives may not be smooth. 'After all, we should concede that there are some things that we have absolutely no control over in the short-run,' he said, adding that policy making has become a difficult task in recent times.

He observed that the complexity and the uniqueness of our economy only emphasize the need to develop a thorough grass-root understanding of the economy, and a customized toolbox to deal with the multiple challenges along the way.

‘We have moved towards a better understanding of our economy and we’ve made some significant progress towards discovering the impact that our monetary policy has on the real economy,’ Mr. Anwar added.

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