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Pakistan's economy has the ability to navigate through choppy waters: Yaseen Anwar

The Governor, State Bank of Pakistan (SBP), Mr. Yaseen Anwar today said that Pakistan's economy has the ability to navigate through choppy waters. 'I'm excited by the economic potential that this country holds, and I encourage you all to become a part of the country's future by becoming a part of the solution,' he said while delivering a speech at Pakistan Navy War College, Lahore.

He said that while our current economic situation is less than optimal, it is also very far from what may be described as an economic calamity. Mr. Anwar said that in 65 years, Pakistan has *never* gone through an episode of hyperinflation; Pakistan has *never* defaulted on its international and domestic debts; in fact, our economy has grown consistently, but not spectacularly, over the past six decades. 'This has been despite periods of international alienation and sanctions, three expensive wars, two hostile fronts, regular political upheaval, social unrest, sharp increases in the price of oil, and much, much more,' he added.

Mr. Anwar said the State Bank has always ensured that the financial system of the country remains safe and stable. The robustness of our financial system is a direct consequence of the reforms process and the State Bank's constant vigilance, he said, adding that there's a lot that can be improved in our financial system. He called for the development of efficient debt markets, even better regulatory and reporting practices, and the broadening of the financial sector's scope to include largely unbanked sectors of the economy, such as agriculture, small and medium enterprises, and housing. 'Despite this wish-list, the fact remains that our financial system is, by design, secure and does not pose any threat to the economy as a whole,' he added.

SBP Governor pointed out that the size of Pakistan's undocumented economy is, by some estimates, as large as the formal economy. The informal economy does not file taxes and, while it does absorb a significant chunk of the labour force, it also evades corporate and labour laws, he said, adding that although close informal relationships do make the economy more resilient, they do so at a cost to the overall economy, by eroding the ambit of the regulators. 'Ideally, we, at the State Bank, would like to see a smaller informal economy, while society retains the structure that has made it so resilient,' he observed.

He stressed the need for the greater integration of country's domestic market with global markets but observed it does not mean that we should not have proper controls and mechanisms in place to safeguard our own interests. 'Greater integration with financial markets will mean that capital will flow more quickly through our borders. It's definitely something that will boost the national economy, but, as most East Asian countries learned in the 90s, it can be a double-edged sword. Therefore, having some capital controls in place, which reduce the volatility of capital flows, is a necessary regulation in this day and age,' Mr. Anwar added.

More effective regulation is the need of the hour for our own economy, he said, adding that it's an essential part of what is needed today to get the economy on a track for steady and sustainable growth. He said the government's footprint in some sectors of the economy is very large, and quite negligible in other sectors. 'Such divergence is unhealthy. Effective regulation is sorely lacking in other sectors. The tax machinery can be tightened considerably. One of the country's most challenging problems today is the size of the fiscal deficit – and a large part of the solution lies in increasing our tax base by enacting regulation that encourages tax compliance, and punishes tax evasion,' Mr. Anwar added.

SBP Governor observed that the government will need to borrow less money from the central bank. Borrowing from the central bank is popularly known as printing money, he said, adding that if government borrowing from the central bank falls, inflation will follow suit. 'Therefore, better tax collection is a necessary condition for faster economic growth. And for that we need to have more effective tax regulation,' he added.

He said that average inflation for the current fiscal year will likely to remain in the 8.50-9.50 percent range. 'Interest rates are reviewed, and may be revised, every two months, which allows our policy responses to be nimble and respond quickly to any changes in the economic environment. The Bank also ensures that the money market is never short of funds, which means that monetary policy signals are transmitted efficiently,' SBP Governor added.

He told his audience that the roles of SBP the armed forces, are not very different from each other. 'We are both tasked with guarding national interests and we both seek to actively mitigate threats – both from within our boundaries, and from the outside world,' he added.
