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## **Mr. Yaseen Anwar outlines 10-point banking strategy for robust growth of financial system in Pakistan**

The Governor, State Bank of Pakistan (SBP), Mr. Yaseen Anwar has outlined the Central Bank's 10-point banking strategy for the growth of the financial system in the country. This strategy focuses on: (i) to implement a financial inclusion program for underserved economic sectors of the country; (ii) to strengthen consumer protection through legislation and codes of conduct; (iii) to strengthen competition and efficiency with greater transparency; (iv) to consolidate the banking sector's corporate governance and risk management practices; (v) to strength prudential regulations & supervision of banks; (vi) to introduce consolidated supervision frameworks that supervise financial groups and conglomerates; (vii) to develop a safety nets for small depositors, unviable institutions and unforeseen market crises; (viii) to strengthen the Bank's powers to maintain monetary and financial stability by updating the SBP Act regularly; (ix) to deepen the financial sector by developing debt markets, stock markets and NBFIs; and (x) to develop the financial infrastructure, including payment systems and credit information systems to facilitate transactions.

Speaking on the 'Role of Financial Institutions and Capital Markets in Pakistan's Economy' at PAF Air War College, Karachi today, he said: 'I want to emphasize that all these measures are focused at creating an efficient, competitive, and robust financial system that can provide the impetus for faster economic growth, while guarding the interests of all stakeholders involved. That, in a nutshell, is all we seek to do.'

The State Bank has a dual mandate: it must tackle the issue of maintaining price stability, while also keeping an eye on economic growth, he said, adding that we need to pay close attention to both monetary stability and fuller utilization of the country's resources.

He said the State Bank's constant monitoring of the banking sector's portfolio has meant that today our banks are profitable, extremely healthy and robust.

He emphasized that a smooth, well-oiled financial system can ensure that monetary policy signals are transmitted effectively into the economy.

Mr. Yaseen Anwar said the World Bank, and renowned publications, the Financial Times and The Economist, have recognized the State Bank's role in promoting innovative solutions, especially in microfinance, to get more people into the banking sector.

SBP Governor said the State Bank regulates the economy as a whole by using monetary policy instruments, which are transmitted through the financial sector. 'The potency of our monetary policy instruments depends on how many people are actively using formal channels of borrowing and lending,' he added.

He said the State Bank's monetary policy tools have become much more potent since the introduction of secondary markets that trade government securities, and the removal of distortions from within these markets.

Explaining as to how monetary policy works in Pakistan, Mr. Yaseen Anwar said that monetary policy tools target the interest rate. 'It's important to understand just how they do that. Different central banks use different tactics, but at the State Bank, we intervene primarily in the overnight interbank market. This

is the market where interest rates on loans that banks make to each other for a day. The central bank itself is a player in this market and steps in to either provide funds in times of need or drain money in times of excess. By doing that it manages the overnight rate to keep it within a certain band. The monetary policy rate that is announced in the press indicates the ceiling of this band. The overnight rate is linked to all other interest rates in the market. By changing the ceiling of the band, which the overnight rate fluctuates in, the central bank is able to influence interest rates,' he added.

The SBP Governor pointed out Pakistan has never undergone a bout of hyperinflation but the past few years have seen higher than average inflation, the effects of which every individual has felt.

Inflation has reduced markedly in the past few months, he said and added: 'It was because of this that the Bank decided to reduce its interest rate as well. The benchmark rate now stands at 9.5 percent. We also expect that average inflation for the year will remain below 9.5 percent. A part of the reduction in inflation may be attributed to State Bank's active monetary management policies'. He said the State Bank also ensures that the money market is never short of, or in excess of funds, and this means that monetary policy signals are transmitted efficiently.

He recalled: 'Our equity market has been a consistent feature in Asia's best performing stock markets. Since we established a secondary market that can buy and sell government debt, our financial markets have become a lot more agile and responsive to policy changes. That's actually been one of the most important outcomes of the financial sector's reformation'.

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