



## External Communications Department

---

ECD/M&PRD/PR/01/2023-119

December 29, 2023

### **SBP releases Governor's Annual Report 2022-23**

The fiscal year 2023 was extraordinarily challenging, with a host of external and domestic shocks, amplified by lingering structural weaknesses, contributing to persistently high inflation amid a contraction in economic activities, according to Governor's Annual Report (GAR) for fiscal year 2022-23 released by the State Bank of Pakistan (SBP) today. The year witnessed wide-ranging reverberating impact of the devastating monsoon floods, whereas elevated global commodity prices, less-than-envisioned fiscal consolidation, and the delay in 9<sup>th</sup> review of IMF's Extended Fund Facility (EFF) program added pressures on the external account.

The GAR 2022-23 is published Under Section 39 (1) of the State Bank of Pakistan Act, 1956 (as amended up to January 2022) that requires the Governor to submit annual report to the Majlis-e-Shoora (Parliament) regarding the Bank's objectives, conduct of monetary policy, the state of the economy and the financial system.

The Report notes that the average headline National Consumer Price Index inflation surged to 29.2 percent in FY23 around the upper bound of the SBP's revised inflation projection range of 27.0 – 29.0 percent for FY23. This was in line with multi-decade high inflation in most advanced and emerging economies that maintained an aggressive monetary policy stance, the Report added. While elevated global commodity prices contributed to high inflation outturns, the pressure on external account and ensuing exchange rate depreciation also contributed to inflationary pressures amid uncertainty over the completion of the 9<sup>th</sup> review of the IMF's EFF program, inadequate external inflows and continued scheduled debt repayments. This was in addition to the pass-through of costlier fuel and food prices; exchange rate depreciation; increases in energy prices and indirect taxes; high inflationary expectations and ensuing growth in wages.

The Report also notes that political uncertainty weighed on business and consumer sentiments, and thus on economic activity. Real GDP contracted by 0.2 percent, and budgetary targets for the government's fiscal and primary balances were missed by large margins amid less than planned tax revenues, and lower than budgeted reduction in subsidies. This was despite notable, albeit delayed, fiscal policy measures in the second half of the year, the GAR FY23 said.

The SBP responded to these challenges by maintaining a contractionary policy stance, raising the policy rate by a cumulative 825 basis points during FY23, in addition to the 675 basis points increase in FY22, the Report noted. The GAR FY23 also highlights a host of measures that the central bank took to contain domestic demand and imports in the wake of growing pressures on PKR and the general prices. The Report adds that while some of these measures were difficult given their implications on economic activity in the short term, they were necessary to meet external debt obligations as per schedule, and contain greater risks to macroeconomic stability over the medium term.

Regarding the SBP's objective of maintaining stability of the financial system, the Report emphasizes that the country's financial sector grew steadily and continued to meet the economy's needs of credit and financial services. Total assets of the banking sector grew by 17 percent in FY23. Within the banking sector, Islamic Banking Institutions (IBIs) performed well during the review period and outperformed their conventional counterparts on several fronts, such as financing and investments along with a double-digit growth in deposit mobilization, the Report said.

The GAR FY23 also enlists the measures taken by the SBP towards its tertiary objective of supporting the government's economic policies. In addition to fostering economic development and better



## External Communications Department

---

utilization of resources, the central bank's measures and initiatives towards its tertiary objectives also contribute to primary and secondary objective, given its foundational impact on monetary and financial systems in the medium to long term, the Report said. In particular, the Report highlights the SBP's continued focus on the implementation of the National Financial Inclusion Strategy, the Banking on Equality policy, to expand digital financial services and reduce gender disparities in financial inclusion. Additionally, the SBP is facilitating the digitization of financial services through digital banks and innovative financial products and systems with comprehensive guidelines on EMLs and cloud service providers, the Report said.

The Report acknowledges the central bank's responsibility of achieving and maintaining price stability while also emphasizing on the role of fiscal policy and effective administration for price and financial stability, particularly rationalization of government spending, increasing revenue collection, strengthening food and energy supply chains, and enhancing productivity. The GAR FY23 asserts that the central bank will continue to take decisions to prevent high inflation from becoming entrenched and keep inflation expectations anchored to achieve the medium term target of 5 – 7 percent by the end of FY25, with FY24 inflation moderating to 20 - 22 percent on account of the impact of contractionary monetary policy, improvements in domestic supplies, softer non-energy global commodity prices, and the high base effect. However, the Report added, that this outlook hinges on the absence of adverse shocks stemming from geo-political tensions and unforeseen climate events, and unfavorable movements in global commodity prices.

The complete Report is available at:

<https://www.sbp.org.pk/reports/annual/Gov-AR/pdf/2023/Dec/Gov-AR.pdf>

\*\*\*\*\*