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SBP releases Governor's Annual Report 2023-24

The fiscal year 2024 witnessed improvements across key macroeconomic indicators after two challenging years, according to the Governor's Annual Report (GAR) for FY24 released by the State Bank of Pakistan (SBP) today. GAR is published under Section 39 (1) of the SBP 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 highlights that National CPI (NCPI) inflation decreased in FY24, particularly in the second half of the fiscal year, amid continued tight monetary policy stance, fiscal consolidation, and softer global commodity prices. The Report notes that these trends came alongside the easing of external account pressures, contributing to a build-up of foreign exchange reserves, which together with FX market reforms including in exchange companies instilled stability in the foreign exchange market. The year also witnessed a moderate agriculture-led GDP growth that was supported by a small but gradual recovery in large scale manufacturing against a sharp contraction in FY23.

The Report highlights that while early signs of improvement in macroeconomic conditions, especially the inflation outlook, were visible since the first quarter of FY24, the SBP remained cautious against a premature monetary easing. Instead, it kept the policy rate unchanged at 22 percent until nearly the end of FY24, to eliminate the risks of deep entrenchment of inflationary pressures. The Report notes that this stance was supplemented by the alignment of fiscal policy with the tight monetary policy stance, where the year saw the first primary surplus in 17 years that also contributed to a notable decline in public debt in terms of GDP.

The deceleration in inflation in H2-FY24 was also supported by exchange rate stability that stemmed from the narrowing of current account deficit to a 13-year low coupled with the US$ 3.0 billion Stand-By Agreement (SBA) with the International Monetary Fund (IMF) that contributed to improvements in overall macroeconomic environment since June 2023. In addition, the official inflows from multilateral and bilateral external creditors following the SBA, alongside the mobilization of deposits from friendly countries; and the government's decision to approach the IMF for an Extended Fund Facility program buoyed market sentiments and contributed to the stability in exchange rate. The economy also benefitted from the positive spillovers of a favorable global economic environment, especially lower commodity prices and marginally higher global GDP growth,

The Report noted that almost consistent decline in both headline and core inflation during the second half of the fiscal year, provided room to the monetary policy committee to reduce the policy rate by 150 basis points to 20.5 percent in June 2024. The reduction was the first in 33-months, marking the gradual softening of the tight monetary policy stance.

Regarding the SBP's objective of maintaining stability of the financial system, the GAR emphasizes the overall financial sector showed resilience amid falling but elevated inflationary pressures, and continued the provision of credit and financial services. The Report highlights that total banking sector deposits saw a notable growth on account of elevated interest rates and SBP's efforts towards financial inclusion and digitalization of payments. At the same time, the growth in banking sector's loan delinquencies remained contained despite the tight monetary policy stance, whereas banking sector's capital adequacy ratio, assets quality, and liquidity indicators also improved, enabling the financial sector to maintain overall financial soundness, the Report said.

The GAR FY24 also highlights several measures taken by the SBP as part of its tertiary objective to support the government's economic policies, complementing the Bank's efforts towards achieving price and financial stability. In particular, the Report points to the successful implementation of the National Financial Inclusion Strategy 2018-2023 and the development of its next version, aimed at further enhancing financial inclusion and digital financial services by 2028. In addition, the SBP is facilitating gender inclusion within the financial sector through its continued focus on Banking on Equality (BoE) policy, which is now tracked via a BoE Scorecard. To ensure better and informed policy making, the SBP is also developing a Financial Inclusion index, the Report stated. The Report notes that these measures are in addition to continued progress on the development of Islamic banking, which witnessed significant growth in terms of asset and deposits in FY24. During the year, the SBP adopted 12 additional Shariah standards to strengthen compliance framework and harmonize Shariah practices in domestic Islamic banking segment. These were in addition to a host of measures taken to further advance Islamic banking in line with the Federal Shariat Court's ruling on Riba.

From the perspective of financial sector's digitization, the Report highlights the launch of SBP's Raast 'Person-to-Merchant' service, which is set to accelerate the digitization of business transactions across Pakistan, by enabling payments via QR Codes, Raast Alias, IBAN and Request to Pay. In addition, the Report notes the key achievement of signing an MoU with Arab Monetary Fund (AMF) to integrate the Raast payment system with Buna, AMF's cross-border payment system.

The complete Report is available at:
https://www.sbp.org.pk/reports/annual/Gov-AR/pdf/2024/Gov-AR.pdf

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