1 Enhancing Effectiveness of Monetary Policy

1.1 Monetary Policy Stance in FY20

The fiscal year 2019-20 was an eventful and challenging year from the monetary policy perspective. The first half of the year witnessed prudent policy actions to support stabilization in the economy and signs of revival in macroeconomic indicators. The second half was suddenly hit by a severe shock emanating from the COVID-19 pandemic, which required timely, forceful and innovative policy responses amid heightened uncertainty.

Under these scenarios, the discussion on the monetary policy stance in FY20 can be bifurcated into two distinct phases: a first phase of maintaining tight monetary policy that continued until March 2020 meeting of Monetary Policy Committee (MPC) and the second phase of swift monetary easing in the post COVID-19 period.

In its first meeting of FY20, the MPC increased the policy rate by 100 basis points to 13.25 percent in July 2019. This was in continuation of the tight monetary policy stance of the previous year when the policy rate was increased by a cumulative 575 basis points along with the implementation of market-determined exchange rate in May 2019 as part of stabilization policies. Such a stance was inevitable due to persistent inflationary pressures emanating from exchange rate depreciation, upward adjustment in utility tariffs, and rationalization of subsidies and taxes in the Federal budget FY20. In order to manage market expectations, the MPC for the first time provided forward-looking guidance in its statement and articulated that, "*the adjustment related to interest rates and the exchange rate from previously accumulated imbalances has taken place. Going forward the MPC will be ready to take action depending on economic developments and data outturns*."

The policy rate was kept unchanged at 13.25 percent in subsequent meetings of MPC held in September 2019, November 2019 and January 2020 as the inflation projections and actual average inflation for the year remained in the range of 11-12 percent. Moreover, the interbank foreign exchange market had also adjusted relatively well to the introduction of the market-determined exchange rate during the period.

The monetary and exchange rate policies along with fiscal consolidation started bearing fruit in the form of sustained improvement in the country's fiscal and external accounts, a revival in the real economy and positive business and consumer sentiment. Specifically, the current account deficit declined by 73.1 percent to USD 2.8 billion during the first nine months of the year (pre COVID-19 period); and the fiscal deficit was contained to 3.8 percent of GDP during the first three quarters compared to 5 percent during the same period last year. National CPI inflation averaged at 11.5 percent during Jul-Mar FY20, which was in line with the inflation forecast range for the year. Economic activities in export-oriented and import competing industries also witnessed gradual improvement.

However, the outbreak of COVID-19 and ensuing lockdown led to a dramatic change in the economic landscape. This shock was unique in modern economic history. First, it struck almost all countries

around the globe in a very short span of time. Second, lockdowns of varying degrees led to a collapse of demand as consumption was primarily restricted to necessities. Third, the supply side was also disrupted by lockdowns, transportation restrictions, and the closing of borders, which led to a sharp increase in unemployment and furloughs.

This unprecedented shock necessitated an unprecedented policy response – both by monetary and fiscal authorities. Being cognizant of unfolding impact of COVID-19 on Pakistan's Economy, SBP implemented extraordinary policy measures to safeguard businesses and households. The SBP policy response was designed in a way that provided immediate and targeted relief to severely affected sectors without compromising on financial stability. It was made possible by the increased credibility and policy buffers, particularly on the external side, that had been achieved in the first nine months of the fiscal year.

The key highlight of SBP policy reaction was a cumulative 625 basis point cut in the policy rate during a short span of time. The MPC held 5 meetings from mid-March to June 2020 and proactively reduced the policy rate from 13.25 percent to 7 percent. In fact, SBP undertook one of the fastest and largest policy rate cuts globally (**Figure 1.1 & 1.2**). The reduction in policy rate was also supported by a number of targeted and temporary interventions in the credit market through refinance schemes that provided much needed cash flow relief to households and businesses.

Figure 1.1: SBP reduced the policy rate more aggressively in the post Covid-19 outbreak, since Feb 1, 2020

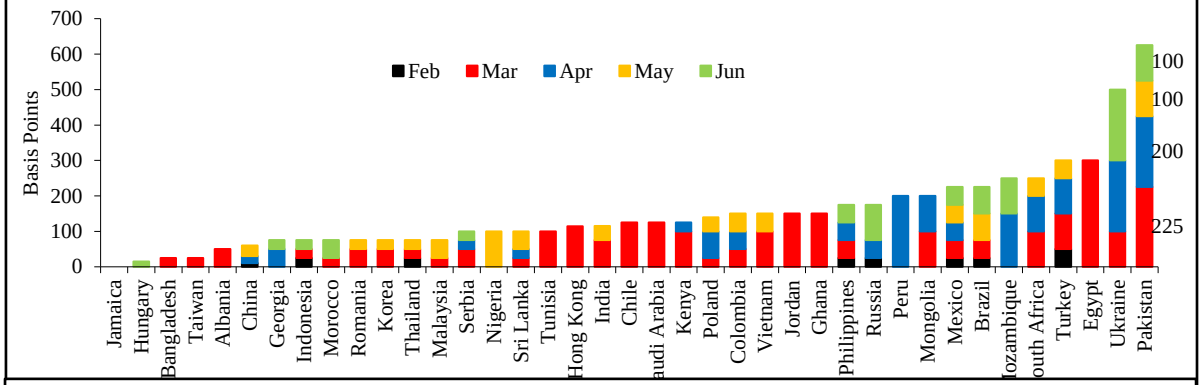
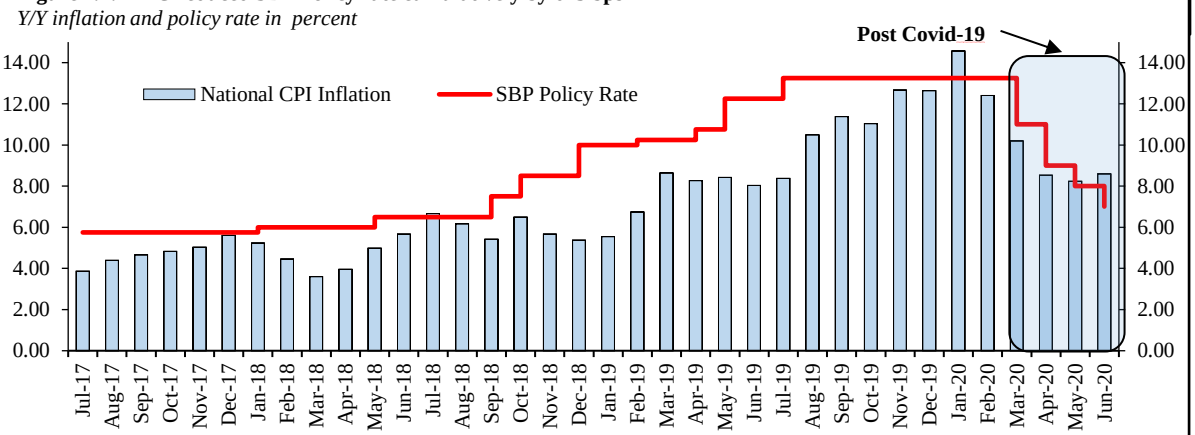


Figure 1.2: MPC reduced SBP Policy rate cumulatively by 625 bps

Y/Y inflation and policy rate in percent



Source: State Bank of Pakistan; and Pakistan Bureau of Statistics

1.1.1 Policy Coordination

An important component of macroeconomic policy formulation is coordination among different policymaking entities. Accordingly, SBP maintained close liaison with national and international institutions during FY20. It played an active role in negotiations between GoP and IMF for signing a 39-month Extended Fund Facility arrangement of USD 6 billion in July 2019. The first review under the program was successfully completed and staff level agreement was reached on Memorandum of Economic and Financial Policies for the second review. The policy interventions were aimed at further strengthening of macroeconomic stability and facilitating the implementation of much needed structural reforms.

While the second review was put on hold due to outbreak of COVID-19, the GoP requested for a loan under the IMF's Rapid Financing Instrument to fight the pandemic related economic uncertainty. The IMF Executive Board approved the disbursement of USD 1.386 billion. This, along with close coordination with the World Bank, Asian Development Bank and the Asian Infrastructure Investment Bank, paved the way for further disbursements during the last quarter of FY20.

Policy coordination among internal stakeholders also remained an important component of overall economic policy strategy. Monetary tightening pursued during the first three quarters of the year was in sync with the government efforts towards fiscal consolidation. Similarly, the government decision to announce a medium-term inflation target range of 5-7 percent in the Federal Budget FY20 was one of the key steps towards establishing price stability as a key objective of monetary policy. These steps were complemented by restriction on government borrowing from SBP, which is considered relatively more inflationary as compared to other sources of deficit financing. The Monetary and Fiscal Policies Coordination Board, among other forums, helped in aligning, discussing and debating the policy initiatives among the key internal stakeholders.

1.1.2 Measures For Effective Communication

Policy communication

Monetary policy effectiveness can only be ensured if it is accompanied by a well-articulated communication strategy. SBP has further improved its communication through the following approaches:

- **Restructuring the Monetary Policy Statement (MPS)**: An important instrument of policy communication is the MPS, which is issued after every meeting of the MPC. Instead of being just a statement of facts and policy announcement, the MPS since July 2019 was restructured in such a way that it anchors market expectations, educates the stakeholders about economic outcomes and generates debate on key issues.

- **Sessions with researchers, academia and print and electronic media persons:** SBP for the first time started full-length sessions with market researchers working outside SBP, after every regular monetary policy meeting to discuss the policy background and its implications. Moreover, senior SBP officials, including Governor, Deputy Governors and Executive Directors made frequent interactions with other stakeholders including print and electronic media, business

community, academia and students. These interactions have helped provide forward guidance regarding the monetary policy stance and anchored market expectations.

- **Dialogue with the business community:** SBP Governor, Deputy Governors and other senior officials also held regular meetings with representatives of the Chambers of Commerce, exporters, small scale and other businesses to discuss key macroeconomic developments, including inflation and economic activities. The objective of such interactions has been to foster investor's confidence, acquire feedback from stakeholders, and design policy interventions that better address challenges being faced by the private sector.

1.1.3 Strengthening Monetary Policy Formulation

Economic models

One of the key measures of the effectiveness of monetary policy is the forecasting ability of the central banks. Dynamic Stochastic General Equilibrium (DSGE) and Forecasting and Policy Analysis System (FPAS) models are the most effective tools to forecast the future paths of macroeconomic variables and for policy scenario analysis. To enhance the forecasting ability of models, the SBP staff has further extended DSGE and FPAS models during FY20, notably by adding new features relevant to Pakistan's economy.

The aggregate supply block of the FPAS model has been revised in the light of rebasing of Consumer Price Indices (CPI) and introduction of Urban and Rural indices. The revised models have also been operationalized to provide regular inputs to the Monetary Operation Committee (MOC) and Monetary Policy Committee (MPC) for policy formulation.

Besides, FPAS, SBP staff also continued to improve and update its other econometric models for understanding key economic linkages as well as its forecasting suites. These models also provide crucial input for monetary policy making.

Trends and developments

In order to facilitate the MPC in its policy deliberations, the SBP staff prepares an extensive analytical account of economic developments and presents this in every MPC meeting. This background material includes high quality and innovative research on emerging economic trends, a full macroeconomic framework and forecasts of key indicators. The idea is to present a 360-degree viewpoint to the members of MPC, covering all the relevant parts of the economy, including the real, external, monetary and fiscal sectors.

Perception surveys

Another important input for monetary policy formulation is the perception of different agents about the economic conditions. While perceptions of consumers, businesses and banking professionals continued to be collected by SBP, a new survey of professional forecasters was also added to the suite of SBP perception surveys during FY20.

SBP continued its survey activity despite the outbreak of COVID-19, and also added questions in all its surveys about the opinion of respondents on the impact of the pandemic on their living and business conditions.

Change in Monetary Policy Implementation Framework – Transition to Symmetric Interest Rate Corridor (IRC)

In May 25, 2015, SBP introduced a reformed Interest Rate Corridor (IRC) framework to signal the SBP's monetary policy stance and achieve monetary policy objectives. At that point, the policy rate was set asymmetrically 50 basis points below the SBP Reverse Repo (Ceiling) rate and 150 basis points above the SBP Repo (Floor) rate (with an IRC of 200 basis points).

In March 2020, SBP revised its IRC framework by adopting a symmetric IRC framework with the SBP policy rate set symmetrically between the Ceiling and the Floor rate i.e. Ceiling/Floor +/- 100 bps. This revision in the framework aligns the IRC framework with international best practices, as most emerging and developed economies (e.g. Australia, South Korea, Malaysia, Thailand, Turkey, etc.) have symmetric corridor frameworks in place.

Previously, since the ceiling rate was 50 bps above the policy rate and the floor rate was 150 bps below it, the ceiling rate was less penal compared with the floor rate for the banks thus, the disincentive of being short of funds on required reserves was lower than that of surplus funds. The symmetric IRC framework has addressed this issue and streamlined/equalized the disincentives/cost of accessing the Ceiling or the Floor facilities at penal rates by the banks in case of ineffective or inefficient reserve/cash flow management at their end. This should encourage banks to improve their liquidity management through the market and reduce their reliance on both the ceiling and the floor facilities.

End to Debt Monetization from the SBP

Previously, GoP used to borrow from the SBP as and when required. This borrowing from the SBP was highly inflationary, which diluted monetary policy implementation and made it difficult for the SBP to manage inflation expectations. Ending debt monetization would also incentivize the fiscal managers to improve debt management policies and practices, efficiently manage GoP funds and undertake the much need fiscal reforms.

Since July 2019, a mechanism has been put in place to ensure that there is no fresh credit from the SBP to GoP. This end of debt monetization by the GoP from the central bank has resulted in a number of benefits, including:

- **Enhanced fiscal discipline:** Encouraged fiscal discipline and stimulated the pace of fiscal reforms in Pakistan.

- **Improved cash flow forecasting and management:** Created incentives for fiscal and debt managers to strengthen debt management practices with improved cash flow forecasting and management of GoP funds.

- **Strengthened SBP's autonomy**: Helped in further institutionalizing monetary policy, in line with the government's priority on strengthening the country's institutions.

- **Improved SBP's ability** to anchor inflation expectation and manage inflation.

Market Based Exchange Rate Regime

Since May 2019, Pakistan has adopted a flexible, market-determined exchange rate regime. The interbank foreign exchange market adjusted well to the market-based exchange rate system. The adoption of a flexible, market-determined exchange rate regime is in line with international best practices. The flexible exchange rate, better reflecting fundamentals, served as a buffer against external shocks and, together with other policy measures, has contributed toward reducing the current account deficit significantly in FY20. The flexible exchange rate regime will further strengthen the functioning of the financial markets and contribute to a better allocation of resources in the economy.

As a result of stabilization measures taken by SBP during last couple of years and adoption of flexible exchange rate regime, SBP's FX reserves have maintained strong growth during FY20. SBP's FX Reserves increased from USD 7.3 billion at end-June 2019 to USD 12.1 billion as of end-June 2020 showing an increase of USD 4.8 billion.

1.2 Money and Debt Market

The following major initiatives were undertaken during FY20:

1.2.1 Introduction of Re-opening Auction and Abolishing Limit on Floating Rate PIBs for SLR

SBP, in coordination with Ministry of Finance, introduced a mechanism for re-opening auctions of existing issues of Floating Rate PIBs (FPIBs). Previously due to absence of re-openings, each issue of FPIBs would be a separate security which resulted in market fragmentation and low liquidity.
Further, SBP also abolished SLR eligibility limit on FPIBs. Earlier, FPIBs, to the extent of 15 percent and 5 percent of Total Liabilities (subject to SLR), could be counted towards SLR for banks and DFIs respectively. Issuance of FPIBs through re-opening auctions and abolishing limit on SLR eligibility of FPIBs improved market participation in the auction of FPIBs and secondary market liquidity.

1.2.2 Rationalization of PIBs Holding Limit

Holding limit for a given issue of PIBs (having maturity of more than one year) was earlier linked to lower of issued or target amount. In case lower than target amount is accepted by the Government, linkage of holding limit with issued amount was constraining banks' participation in the PIBs auctions. To address this issue, SBP revised the rules to link the holding limit to the higher of target amount or issued amount. In addition, SBP also abolished holding limit for Floating Rate PIBs. This would also help in improving market participation in auctions of long term papers.

1.2.3 Restricting Institutional Investors from Participating in NSS

Previously, institutions managing provident, pension, gratuity and superannuation funds were allowed to invest in National Saving Schemes (NSS) as well as marketable GoP securities (i.e. MTBs and PIBs). However, this resulted in following issues:

- Since NSS instruments offer all investors the option to sell the instrument at any time before maturity at a price which is not linked to the prevailing market yields (i.e. a free 'put' option), these financially savvy institutional investors could exploit arbitrage opportunities by shifting their investments between NSS and marketable securities (e.g. PIBs). This resulted in higher interest payments by the GoP.

- These institutional investors and savvy investors are wholesale and have massive potential to add significant liquidity and competition which would help in diversifying investor-base of GoP marketable securities, particularly longer-dated PIBs.

Accordingly, in June 2020, GoP, on recommendation of the SBP, restricted participation of institutional investors in the NSS. This measure would reduce cost of borrowing for the GoP, enhance liquidity in the tradable government securities market, reduce market fragmentation and allow GoP to introduce specialized saving products that are tailored to the saving needs of small investors.

1.2.4 Simplification of Tax Regime for Non-Resident Investors to Encourage Investment in Long-Term Debt Securities

In December 2019, the Federal Board of Revenue (FBR) issued notification for amendments in the Income Tax Ordinance 2001 to simplify tax regime for non-resident companies investing in debt instruments and government securities in Pakistan. This aims to deepen our capital markets, support availability of long term rupee financing sources, support competition in the local currency debt market and diversify the source of funding for the government.

1.2.5 Signing of International Agreements with Counterparties

SBP signed international agreements with certain counterparties for safeguarding its interests in international financial markets. On strengthening the SWIFT side, two important assessments were undertaken. Firstly, in order to detect SBP's SWIFT infrastructure security vulnerabilities and assess its ability to prevent unauthorized activities; 'SWIFT Infrastructure Security Review (SISR)' was completed. In parallel with SISR, that mainly focuses on technical side, robustness of business side was also testified through, "Operational Excellence Review". As mandated under Customer Security Program (CSP) of M/s. SWIFT Belgium, implementation of 19 mandatory and 10 advisory controls under 'Customer Security Control Framework (CSCF) Version 2019' was completed. Further, a comparative study covering domestic SWIFT business practices prevalent at five commercial banks was conducted by SBP with a view to facilitate commercial banks in Pakistan on implementation of guidelines set forth in CSCF of M/s SWIFT Belgium.

1.3 Foreign Exchange Reserve Management

FY20 was marked by two distinct halves. The macro backdrop of the first half comprised continued global expansion, controlled inflation, high employment and supportive central banks for most

advanced and developing economies. Although faced with greater uncertainty than in recent years, given Brexit negotiations running longer than expected and rising trade tensions between United States and China, the global economy continued to grow at a steady, albeit moderate pace. The first half ended with the reporting of the initial corona cases in China.

As COVID-19 cases rose exponentially in the second half, governments around the world began to implement necessary social distancing and lockdown policies. These policies had a significant economic impact as many businesses were forced into lockdown. Certain sectors such as retail, travel and tourism were hit particularly hard. The impact did not remain limited to the real sector, as uncertainty surrounding the full impact of lockdowns and rising risks to growth generated a risk-off sentiment, severely disrupting credit flows and resulting in a double shock to the system as both real and financial markets began freezing up. Given the scale of the fallout, policymakers swiftly implemented substantial broad-based as well as targeted fiscal, monetary and financial market measures to support affected sectors. The large amount of liquidity pumped into the system stabilized markets, but also elevated risks as central bank balance sheets have ballooned substantially from the already inflated levels from the previous response to the Global Financial Crisis. The road to global recovery is expected to be a gradual and policy rates are expected to remain lower for longer period as central banks remain ready to provide full monetary support to curtail the impact of the COVID-19 pandemic.

During FY20, SBP's FX reserves position improved significantly reaching USD 12.1 billion at year-end, an increase of approximately USD 4.8 billion over previous year levels. The increase was driven by improved trade balance, record high remittances, and foreign currency inflows from IFIs. Given the low yield environment in most of the traditional reserve management markets, the reserve mix was repositioned to take advantage of relative value within investment avenues while remaining under the allowable risk parameters. SBP maintains a positive view on the foreign exchange reserve outlook, given favorable oil prices, although tail risks emanating from COVID-19 persist. Going forward, the reserve management function will be enhanced by further developing in-house capacity for incorporating new markets and asset classes into the reserve mix, formulating and assessing any new risk diversification and yield enhancing investment policies under the broad investment guidelines of Safety, Liquidity and Optimal Return.

1.4 Remittances and other Initiatives

Remittances increased to a record high of USD 23.12 billion in FY20 compared to USD 21.74 billion during FY19 (an increase of 6.4 percent) despite the unprecedented COVID-19 pandemic during the last four months of FY20, affecting Pakistan and all remittance sending countries. The increase in remittances is mainly attributed to supportive Government policies, pro-active strategy of SBP and Pakistan Remittance Initiative (PRI) and positive response of Banks and Exchange Companies (ECs) to implement SBP/PRI strategy. A brief description of some major steps taken during FY20 to boost remittances through formal channels are as follows:

- Developing performance based incentive scheme for marketing of Home Remittances scheme by GoP and SBP during FY18, which has been extended with necessary revisions in FY20. This will

motivate larger players in the industry with a high base to increase their effort to channelize remittances to Pakistan.

- Launching massive public marketing campaign for home remittances to increase awareness of the general public about existing facilities of receiving remittances in Pakistan. The measures helped in building public's trust in regulated channels so that more and more people use formal channels for remittances.
- Implementing a flat rate of SAR 20/- for all transactions of USD 100/- and above (earlier it was USD 200) with effective from April 15, 2020 to support small remitters as reimbursement of TT Charges against Home Remittances, subject to the condition that the remitter and the beneficiary have not been charged any remittance fee or any other charges for execution of home remittance transaction.
- Allowing banks to effect Business to Customer (B2C) and Customer to Business (C2B) transactions through foreign correspondent entities under their existing/new home remittance agency arrangements to further facilitate overseas Pakistanis.
- Approving Pakistan Post Office (PPO) Disbursement Network from 240 locations to additional 500 locations. PPO has also started paying remittances routed by NBP from June 22, 2019 through its post offices after receiving sub-agent status.
- Working with the Ministry of Overseas Pakistanis and Human Resource Development (MOP&HRD), which amended the rules for intended emigrant workers by introducing a mandatory requirement of an active bank account of intended emigrant worker and at least one his/her family member.

1.4.1 Ease of Doing Business

In order to improve ease of doing business for the industry, SBP took a number of regulatory measures to facilitate cross border trade and investment. Key measures are:

- Enhancing advance payment limit from USD 10,000 to USD 25,000 for manufacturing & industrial concerns and commercial importers of raw material, spare part and machinery.
- Enhancing advance payment limit for imports against letter of credit (LC) from 50 percent to 100 percent of the value of LC for manufacturing concerns for import of plant, machinery, raw material and spare parts.
- Extending import on open account basis to commercial importers to facilitate small & medium manufacturing concerns, which were not in a position to import directly due to their small volume business requirements. Earlier this facility was confined to manufacturing and industrial concerns only for import of raw material and spare parts.
- Allowing exporters of sound track record and performance history, to make and dispatch shipping documents directly to the importer. This will keep the exporters competitive and enable them to meet the requirements of international buyers.
- Allowing opening of non-resident PKR accounts remotely to overseas Pakistanis. The account can be operated through all the digital means and funds in these accounts are fully repatriable. Moreover, investment from this account has also been allowed in government debt securities and term deposit schemes of the bank maintaining this account.

- Allowing banks to remit up to USD 10,000 per annum without any regulatory approval for acquisition of services from abroad by residents. For payments exceeding USD 10,000/- banks may remit periodic payments as per underlying agreement after its registration with Foreign Exchange Operations Departments, SBP-BSC without any additional regulatory approval.
- Delegating registration of most common types of foreign currency (FCY) loans of local entities from abroad to banks for the purpose of project, working capital and trade finance.
- Introducing Regulatory Approval System (RAS), an online platform for banks for submission of cases and to receive regulatory decisions there against on behalf of their customers. The system has improved the overall visibility for the customers to know about the status of their foreign exchange related applications.
- Revising and updating Foreign Exchange Manual and Exchange Companies Manual by incorporating foreign exchange regulations, related Notifications, FE Circulars and Circular Letters. The manuals are available on SBP website to facilitate all stakeholders.

1.4.2 E-Commerce

E-commerce trade has been taking place both at domestic and international level for quite some time. However, this trend has surged during recent years, in particular during the pandemic its significance has increased tremendously.

Accordingly, SBP prepared a regulatory framework to facilitate cross border B2C e-commerce exports. This would not only help the established businesses but also new start-ups to reach out to global customers through e-commerce platforms. Moreover, this framework also aims at bringing the e-commerce exports into formal channel where the proceeds of exports would be formally recognized as exports and reflected in country's balance of payment figures, which would improve the country's trade and current account balances.

The framework has been shared with Pakistan Customs for implementing necessary changes in its WeBOC system, after which it will be rolled out.

1.4.3 FATF Action Plan And Pakistan's Mutual Evaluation

Pakistan is concurrently undergoing FATF Action Plan and Mutual Evaluation. In line with GoP's full commitment at highest level to comply with international AML CFT standards and requirements, SBP further strengthened AML CFT regime in Pakistan. Key initiatives taken in this regard in FX and Exchange Companies' area are outlined below:

- Foreign Exchange Regulation Act (FERA), 1947 has been amended in February 2020. The amendments are aimed at making the law more potent to curb illegal money/value exchange and transfer. These amendments have made violations of FERA permanently cognizable and non-bail able whereby punishments have been enhanced and trials are to be concluded within 6 months to a year.
- Issued detailed instructions for exchange companies on Targeted Financial Sanctions for prevention of Terrorism Financing and Proliferation Financing, to ensure meticulous compliance

of Statutory Regulatory Orders and Notifications of Government of Pakistan in terms of United Nations (Security Council) Act, 1948 and The Anti-Terrorism Act (ATA), 1997.

- Issued detailed instructions to exchange companies by aligning AML CFT regulations with FATF recommendations and bringing clarity in the relevant instructions, with special emphasis on risk based approach.
- Issued detailed instructions to banks for countering 'Trade Based Money Laundering'.
- Developed and delivered training and awareness sessions for regulated entities at different high risk geographical locations. Regulated entities also carried out hundreds of training programs throughout Pakistan. Dedicated capacity building sessions were also arranged for Law Enforcement Agencies.
- Launched an extensive awareness campaign through print and social media to deter the illegal Money or Value Transfer Services (MVTS). SBP regulated entities were also engaged for raising awareness through their branch network, websites, social media handles, etc. besides, using the social media handles of SBP. The advertisements were also published in newspapers.

1.4.4 Measures During COVID-19

Unprecedented global COVID-19 pandemic has affected all areas of economy. Some important measures taken in this regard are given below:

- Took measures to prevent downfall in home remittances during COVID-19. Banks were advised to conduct aggressive awareness campaigns regarding available digital/online channels for sending and receiving remittances, use of social media and direct messages to reach out to existing customers and promote remittances through different marketing activities and promotional schemes. Banks were also advised to ensure availability of cash in remittance rich areas and enhance their limit for cash over counter. As per World Bank, remittances to Pakistan are estimated to decline by 23 percent during CY2020. The above measures helped to offset the adverse impacts of COVID-19 on inflow of home remittances as remittances rose by 7.8 percent during March - June 2020 over the same period of 2019.
- Allowed banks to give extension of 90 days in realization of export proceeds to exporters until June 30, 2020 beyond the six months period already allowed to exporters.
- Allowed banks to extend the time period for import of goods and submission of shipping documents against advance payment, up to 90 days from the due date of import of goods until June 30, 2020 beyond the four month period already allowed to importers.
- Allowed banks to make advance payment up to 100 percent of the value of imports and open account payments without any limit on behalf of federal and provincial government departments and organizations, public and private sector hospitals or their approved agents, charitable organizations and commercial importers for the import of medical equipment, medicines and ancillary items for the treatment of COVID-19 patients.
- Arranged special awareness campaigns through regulated entities (Banks/Exchange Companies) for use of formal channels for remitting donations especially during COVID-19 and ensure that funds are remitted through legal channels and are to be sent only to non-proscribed NPOs in Pakistan. SBP also circulated the messages through its website and social media handles.

- Allowed consignment based export of permissible foreign currencies through cargo/security companies to continue operations during COVID-19.
- Instructed exchange companies to carry out capacity building sessions through on-line means during COVID-19.

1.5 Research

SBP also conducts in house research on macroeconomic issues relevant to monetary policy, exchange rate, trade and other topical issues. Some of the research papers were published in SBP publications including SBP Research Bulletin, Working paper series and Staff Notes. A wide range of topics were covered in these research, some of which are mentioned below:

- Negative call-repo spread puzzle
- The Conundrum of rising demand for currency
- Inflation and growth nexus: estimation of threshold for SAARC countries
- Firms reaction to currency fluctuation of the PKR
- Inflation forecasting using DSGE models
- Developing a debt sustainability analysis framework for Pakistan
- Impact of COVID-19 on food prices, worker remittances, external trade and current account
- Individual Incentives and Workers' Contracts: Evidence from a Field Experiment published in Oxford Economic Papers, November 2019
- Green Banking and Islam: two sides of the same coin published in Journal of Islamic Marketing, July 2019.

Further, in order to strengthen debate on economic issues, SBP organized three seminars:

- A talk by Mr. Athanasios Arvanitis, Deputy Director IMF, on Managing Crises in Emerging Markets, followed by a panel discussion. In his address, Arvanitis highlighted some of the common features of crises across Emerging Markets, notably the role typically played by elevated levels of debt, high public and external deficits, inflexible exchange rates, lack of competitiveness, low savings and investments and maturity and currency mismatches. This session was organized jointly by SBP and Pakistan Business Council (PBC).
- A conference on Firms and Growth in collaboration with the International Growth Center (IGC), and Pakistan Business Council. The objective of the seminar was to share research insights with policymakers, think tanks, academics, the private sector, media and the donor community.
- SAARCFINANCE Seminar on "Emerging Trends in Good Governance of Banking Sector in SAARC Region, held in Islamabad in collaboration with BPRD and NIBAF. The seminar was attended by delegates from Afghanistan, Bangladesh, Bhutan, Sri Lanka and Nepal.

SBP also released a series of video clips (podcasts) on the implications of COVID-19 for Pakistan's economy. During the period of uncertainty, these podcasts were well received by the stakeholders and went a long way to increase understanding of general public on linkages of COVID-19 with various sectors of the economy.

Besides, organizing seminars for policy debates and releasing podcasts, SBP also participated in meetings of Prime Minister's Task Force for Make-in-Pakistan initiative with industry stakeholders to discuss strategic policy issues.

1.6 Economic Analyses / Publications

The SBP publishes its quarterly and annual reports on the State of Pakistan's Economy, which provide analysis on the recent economic trends, issues and challenges. During FY20, the COVID-19 pandemic forced many economies, including Pakistan, to impose lockdowns to contain the spread of the disease. The SBP's flagship publications provided in-depth coverage on the adverse impact of the COVID-19 crisis on Pakistan's economy during FY20.

On the agriculture side, the changing dynamics of credit, implications of indicative pricing for cotton and threats posed by locust attacks were highlighted. In addition, economic measures taken to combat the fallout of COVID-19 situation on the domestic economy and exports performance were also discussed. On the fiscal front, issues such as FBR's documentation measures were reviewed and the economic implications of ending the zero-rating regime for export-oriented industries were analyzed. The publication also shed light on the significance and impact of the rebasing price indices with respect to trends in inflation.

During FY20, various pressing economic issues were covered in the form of special chapters and sections. In the Annual Report on the State of Pakistan's Economy FY19, a thematic chapter, titled "*Factors Constraining Investments in Pakistan*" was published with the objective to highlight discrepancies in the country's investment policies, laws and bilateral treaties and how these issues increase the risk of potential contract enforcement disputes arising between the state and the enterprises. Concerning the private sector, stagnancy in the SME segment was highlighted as a major reason for the dispersed and inadequate nature of investment activities in Pakistan. Also discussed in the chapter were the poor state of human capital development, dysfunctional institutional and operational infrastructure and an unsatisfactory focus of the government on investment retention practices.

In the quarterly reports, special sections on various economic topics of a timely and crucial nature were published. In the First Quarterly Report, "*Global Value Chains (GVCs) – Implications for Pakistan*" emphasized upon the importance for domestic firms to leverage on the facilitative policies to gain a foothold in the GVCs in order to align the product mix with trends in global demand and put exports on a sustainable growth path. In the Second Quarterly Report, "*The State of Competition in Pakistan*" highlighted the importance of competition for achieving economic growth and price stability and argued that a fundamental rethinking is required with respect to the regulatory structure of Pakistan's economy. In the Third Quarterly Report for FY20, "*Technical and Vocational Education and Training (TVET) in Pakistan: Issues and Challenges for Productivity Enhancement*" stressed the importance of TVET education with regards to human capital development, export competitiveness and economic growth, described the deficiencies in the current domestic TVET ecosystem and provided suggestions to correct the trend going forward.

1.7 Data Management System

In line with SBP Vision 2020, the statistics compiled by SBP largely follows international standards. The Balance of Payments statistics, monetary statistics, external sector statistics and flows of fund accounts are compiled in accordance with the guidelines provided in the manuals designed by international agencies such as the IMF, UN and the World Bank Group. Statistics produced by SBP is used for analyses, research and policy formulation both within and outside SBP by various stakeholders.

A number of initiatives were taken in data compilation and dissemination during FY20 as given below:

- Compilation of information on "Loans Classified by Borrowers" and "Deposits Distributed by Category of Deposit Holders" by implementing UN's International Standard Industrial Classification, ISIC Rev 4. This standard places more emphasis on production processes and goes to granular level to produce reliable, comparable and methodologically sound statistics.
- Pursuant to approval of methodology by the Governing Council, the Pakistan Bureau of Statistics (PBS) released price statistics on new base (2015-16) with effect from August 2019. The PBS, besides changing the composition of basket of goods also introduced Rural, Urban and National Price Indices. All the changes / improvements have been implemented and SBP now disseminates key prices statistics on regular basis. Coverage of Inflation Monitor has accordingly been enhanced by including new features and analysis.
- Compilation of Monetary Policy Information Compendium (MPIC) by incorporating new versions of two chapters on (Prices and external).
- For the IMF's Enhanced General Data Dissemination System (e-GDDS), SBP provided data on financial and external sectors for National Summary Data Page of Pakistan maintained by PBS.
- REER and Daily NEER data have been revised from January 2013 as the trade weights and trading partners were revised by IMF based on 2013-15 trade data. This update led to increase in number of basket currencies to 37, which were previously 25 based on 2010-12 trade data.
- Improved the ITRS client application (software used by banks for data reporting of foreign exchange returns) by incorporating the revamped foreign exchange coding guide for acquisition of data from banks.
- All activities relating to compilation of SBP trade data by quantity, unit and price have been performed and the latest list of HS codes acquired from Pakistan Revenue Automation Ltd (PRAL) is being incorporated in the ITRS client application.
- Completion / rollout of E-form data acquisition system through DAP from all banks.
- Completion of the development mechanism for reconciliation of trade data reported through ITRS and Web-based-one-custom (WeBOC)
- Exchange rates data compilation system has been migrated from DWH portal to DAP4. This is more efficient as compared to previous system.
- The scope of NBFCs and ICs in Data Acquisition Portal has been enhanced to fulfill IMF requirement pertaining to Financial Soundness Indicators (FSIs)
- The coverage of Lending and Deposit Rates has been enhanced by including data of Microfinance Banks (MFBs) and Development Finance Institutions (DFIs)

- Compilation of half-yearly scheduled banks statistics on ISIC 4 together with inclusion of branch wise data of MFBs and DFIs as a separate chapter in the publication 'Statistics on Scheduled Banks in Pakistan'.

Similarly, the following modules have been implemented for various departments of SBP during FY20:

- Implementation of ISIC4 and updated prudential regulations of SME in compilation of monthly Islamic/conventional banking statistics (A07 and A05).
- Compilation of half yearly statistics on scheduled banks.
- Data acquisition and compilation system for MFBs Capital Adequacy Ratio and integration with FSSD Dashboard (Phase 2).
- Basel III Liquidity Risk Reporting through DWH (Phase-I).
- Data Acquisition of Daily Cash Flow from commercial Banks.
- Monthly Reporting of Foreign Currency Deposits and Borrowings and their utilizations.

Besides, software development of the following modules was done, which are under implementation stage:

- Compilation of CAELS, CRR and SLR and integration with FSSD Dashboard (Phase 2).
- Data Acquisition on National Financial Literacy Program.

Further, the analysis of following modules and their requirement specifications for software development were also completed during FY20:

- Data Acquisition from Electronic Money Institution (EMI) Phase- I.
- Revamping of Foreign Exchange Computerized Reporting System (FXCRS).
- Data acquisition system for Quarterly Return on Consumer Grievance Handling Mechanism.