

### **Country moving towards stability: SBP governor**

Governor State Bank of Pakistan (SBP) Dr Reza Baqir has said the country is on the way to stability and growth after the new economic team is addressing two major issues of instability through broader reforms.

"Yes, yes; the worst is over" and "the country is moving towards stability on the back of steps taken by the country's economic team and with the support of friendly countries," he said while responding to a question at his first press conference in Karachi as well as addressing the media at Islamabad through a video link, after taking charge as Governor of the SBP here on Monday.

Dr Baqir who assumed the charge of office less than two months ago, spoke about the reasons that led to economic instability in the country and the measures taken to mend the situation. The Governor advocated for market based exchange rate to achieve growth in exports and for import substitution.

He said the country has addressed issues of current account deficit and fiscal deficit. After recent depreciation, the current account has witnessed a substantial decline as the current account deficit was \$19.9 billion during the fiscal year 2017-18 which has come down \$11.6 billion during the 10 months of current fiscal year and the central bank expects that the figure would be \$13 billion by the end of current fiscal year, ending on June 30.

The SBP Governor said that the government's decision not to monetise the fiscal deficit is a big step towards granting greater autonomy to the State Bank of Pakistan.

He said that the government decision not to borrow from the SBP for deficit financing is very important signal towards autonomy of the SBP and "we are moving towards it." He said that international experience is that where central banks are given more autonomy, investment increases in those countries.

He said the challenges faced by Pakistan could be avoided if the country had pursued market-based exchange rate as exports would have increased. He maintained that measures required other than market based exchange rate have been taken care of in the budget to increase the growth in exports.

Dr Baqir said that during the last one month, market-based exchange rate has two way movements, with inflows from Pakistani expatriates for their families led to appreciation of exchange rate. At the same time, he said as before June 30, 2018, companies have to close their books and this led to depreciation of exchange rate.

About increase in interest rate, he said that curbing inflation on the basis of future projection is the foremost priority for an increase or any decrease in discount rate.

About International Monetary Fund's (IMF's) role, he stated that in the past he has been working with the IMF but now he is on the other side and working for the country, adding the IMF

programme will bring financial stability in the country. He said that bigger benefit of the IMF programme is that it sends signal to international market, which heavily relies on the Fund. The IMF board would meet on July 03 and consideration of Pakistan's request for the programme is on its agenda.

Dr Baqir said that IMF programme is beginning of the process and the SBP would do only those things which are in the best interest of the country. He said that there was a positive impact with significant inflows in the assets and stock market after staff level agreement with the IMF mission.

Stock market is one of the reflections of other assets market in the country. "We are moving ahead with a plan to address the factors that brought instability in the country," he added.

He agreed that increase in discount rate would increase the cost of debt servicing but the choice had to be made whether to take decision to fight inflation or to decrease the cost of debt servicing.

He said that the role of central bank is to ensure price stability (controlling inflation), financial stability (secured banking), and economic growth (including to create jobs).

According to him, instability in economy was due to external and fiscal deficit. "We are confident as these two factors are being addressed now," he said. Due to fixed exchange rate regime, Pakistan's external situation (Current Account Deficit or CAD) started deteriorating and reserves were falling. After recent depreciation, country has seen a substantial decline in CAD. "Neither Fixed not free float regime of exchange rate is good for Pakistan, as former can lead of external imbalance and latter can lead to manipulation," he said. Currently, in Pakistan market based system is implemented which protects exchange rate from manipulation and simultaneously follows demand supply mechanism.

Pakistan has started getting benefit from currency devaluation in the form of increase in export volumes. Further, imports are down which eventually promotes import substitution (local industry). He said market-driven exchange rate currency can appreciate and depreciate both.

He said Monetary Policy Statement (MPS) is designed to fight against inflation on forward looking manner. MPS committee of central bank is independent.

There are two primary benefits of IMF program, 1) financing deficit at low mark up, and 2) signaling stability to international community which help country to bring more dollar inflows in the form of low markup loans and investments both.

As per SBP Governor, SBP has completed all tasks of the IMF and next board meeting of IMF is scheduled on Jul 03, 2019. Egypt and Pakistan have similarities and differences both. Exchange rate in Egypt before IMF program was quite volatile where informal and interbank rates had difference of over 100 percent. In case of Pakistan spread is quite narrow while the fiscal deficit problem in both countries is same.

Reuters adds: Pakistan's new central bank governor Reza Baqir on Monday dismissed the idea of a free floating rupee as he outlined reforms aimed at ending instability in the South Asian economy.

Pakistan's policy is a "market based exchange rate system" that follows supply and demand, but that will not be left completely to the market, Baqir said in his first press conference as State Bank of Pakistan (SBP) governor.

"So, if there is a volatility, then state bank intervenes. You need to keep a close eye on the market. That is our regime and we want to go with this regime," Baqir added.

Pakistan's currency has lost almost 50% of its value since December 2017, stoking inflation and putting pressure on the government as voter anger at higher prices grows.

Last week finance ministry signalled that worse is to come, with economic growth of 3.3% in the financial year ending June, well off the government's target of 6.2%, with growth seen falling to 2.4% in 2019/2020.

Pakistan agreed in principle to a \$6 billion International Monetary Fund (IMF) bailout in April amid speculation that the fund wanted Pakistan to adopt a free float as part of any assistance package.

Baqir, an ex-senior IMF economist, said that the government was enacting economic reforms aiming to shore up confidence. This included ending the "strong rupee" policy, which had led to pressures building up within the economy, but would not extend as far as a fully free floating currency.

"An exchange rate that remains fixed for a long time is not in our favour. On the other hand, a free float also is not suitable," Baqir said.

Pakistan has always said the rupee is freely traded, but traders say the central bank underpins the exchange rate in a thinly traded market in what is a de facto managed float system.

The previous government pursued a strong rupee policy, effectively fixing the rupee against the dollar at a rate that the IMF and analysts said was too high, leading the country to burn through its foreign currency reserves to defend the rupee.

Baqir said the central bank's independence was vital and it will now follow market realities, adding that it will no longer give loans to the government and cut money printing by the central bank that has stoked inflation.

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