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# Pakistan has made significant progress to get off FATF grey list: SBP chief

KARACHI: The State Bank said on Tuesday that Pakistan had made significant progress to get off the grey list of the Financial Action Task Force (FATF) while the central bank had been making all-out efforts to curb money laundering and terror financing.

Announcing the monetary policy with unchanged interest rate of 13.25 per cent, State Bank of Pakistan (SBP) Governor Dr Reza Baqir said that the last two reviews in May and September showed that Pakistan had made significant progress in most of the 27 points raised by the FATF. However, he said, the FATF was the final authority to decide if the progress was enough to pull Pakistan out of the grey list, adding that the country would have to continue making progress in this direction.

The State Bank, he said, had been constantly playing a role in curbing money laundering and terror financing which was in favour of the country.

Speaking about inflation and its impact on the interest rate, Dr Baqir said the SBP had decided to keep the rate unchanged at 13.25pc since inflation was expected to remain 11-12pc during the current fiscal year (FY20).

*State Bank keeps interest rate unchanged at 13.25pc*

He expressed the confidence that the inflation target of 5-7pc would be achieved in the medium term — over the next six to eight months.

“It is a transitional period for inflation and short supply shocks will be over soon. The real interest rate is in the range of one to two per cent which is much lower than many economies [of the world] and this is a positive sign,” he claimed.

The SBP governor said GDP growth for the current fiscal was expected to be 3.5pc, but it might slightly come down due to lower than expected performance of the agriculture sector. “Primarily on account of adverse supply side shocks to cotton production as well as contraction in LSM (large-scale manufacturing) to date, SBP’s projection for real GDP growth for FY20 is likely to be revised downward,” he added.

Cotton production has been revised downward due to adverse supply side shocks. LSM indicates that economic activity is strengthening in export-oriented and import-competing industries, while inward-oriented industries continue to slow down, he said.

The SBP governor said the export sector had so far emerged as the best performer for the economy. He announced plans to enhance the amount for long-term export financing and export finance scheme collectively by Rs200 billion.

He said the export scheme was not for all exporters but with the enhancement of incentives, all kinds of exporters had been added to it to diversify exports, adding that the limit had also been increased from Rs2.5bn to Rs5bn for an exporter.

Dr Baqir said a policy would soon be announced for small exporters. He said that three positive changes were noted since the announcement of the last monetary policy — substantial reduction in current account deficit along with a stable exchange rate which is market-based, improvement in business confidence (as per IBA-SBP survey) and fiscal developments which remained on track and in line with the commitments made under the IMF-supported programme.

He said revenue collection during the first half of the current fiscal had increased by 16pc, non-interest current expenditure was strictly controlled and Rs300bn [as compared to Rs187bn during the same period last year] was released under the Public Sector Development Programme, indicating that fiscal consolidation remained on track.

Dr Baqir rejected a perception that 'hot money' — foreign investment in treasury bills — was the real factor behind the increase in State Bank's foreign exchange reserves and that it could cause a serious problem. He said the bulk of SBP's reserves adequacy stemmed from the improvement in current account, and not portfolio inflows, while current inflows comprised only 3.8pc of total marketable government debt.

He said current account deficit contracted by 75pc to $2.15bn during the first half of FY20. The SBP's foreign exchange reserves increased from $7.28bn by the end of June 2019 to $11.73bn as of Jan 17, 2020, an increase of $ 4.45bn. The SBP's short liabilities fell by $ 3.82bn in the first six months of FY20. These developments have significantly improved the SBP's net international reserves position, he added.