

Yaseen Anwar: Main challenges for the State Bank of Pakistan

Address by Mr Yaseen Anwar, Governor of the State Bank of Pakistan, on the 65th Independence Day, Karachi, 14 August 2012.

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Dear Colleagues,

Ladies and Gentlemen,

Assalam-o-Alakum!

I am delighted to be here with you today to celebrate the 65th Independence Day of our beloved country.

Today reminds us of our great leaders and forefathers who fought for independence of our nation with a vision to form a country for the welfare of its people. Allow me to quote from Quaid-e-Azam Muhammad Ali Jinnah's famous address at the inauguration of Pakistan Constituent Assembly on 14th August 1947 at Karachi;

"It will be our constant endeavor to work for the welfare and wellbeing of all the communities in Pakistan, and I hope that everyone would be inspired by the idea of public service, and they will be imbued with the spirit of co-operation and will excel in their political and civic virtues which go to make a great nation and help to advance its greatness."

These words reflect the statesmanship, wisdom and vision of our great Quaid, under whose inspiring leadership, the first ideological state of the world came into being. The leaders and workers of the Pakistan Movement also deserve our rich tributes.

It is now our duty to transform this country into a truly developed state, as envisioned by our Quaid. I am sure that by following the guidance of our founding fathers, we can easily overcome our main challenges.

The Quaid, while inaugurating State Bank of Pakistan on 1st July 1948, from this very podium, said in his address that *"State Bank of Pakistan symbolises the sovereignty of our State in the financial sphere"* and had set some high goals for our institution and I quote;

"I need hardly dilate on the important role that the State Bank will have to play in regulating the economic life of our country. The monetary policy of the bank will have a direct bearing on our trade and commerce, both inside Pakistan as well as with the outside world and it is only to be desired that your policy should encourage maximum production and a free flow of trade."

Today, the State Bank has been striving to fulfill the twin objectives of monetary policy i.e., maximizing production/employment while ensuring price stability. Pakistan has a well developed banking sector and financial infrastructure which helps in meeting the credit demand of our productive sectors and transmitting the monetary policy. The banking system is largely responsive to the needs of the growing economy. In addition, our banks are considered safe, relative to some of the advanced nations, where confidence in financial institutions has dwindled as a result of the recent financial crises. People still feel safe to keep their hard earned savings in banks here. Likewise, banks have been performing well in attracting new equity with their high ROE which is unmatched in the region.

State Bank has also been working to increase the welfare of all communities in line with the Quaid's vision for Pakistan. Financial inclusion is a core component of SBP's financial sector development strategy. It envisages transforming the financial market into an equitable system with efficient market based financial services to the otherwise excluded poor and marginalized population including women and young people. In addition, inclusive finance recognizes that a continuum of financial services providers work within their comparative

advantages to serve the poor and low-income people, as well as micro and small enterprises.

Therefore, in order to further build the linkages of the banking sector to promote access to finance for the poor and marginalized segments of the population, the State Bank has been promoting financial inclusion through innovative approaches. SBP has been actively supporting microfinance in Pakistan to make major breakthroughs in reaching out to millions of underserved people who require a wide variety of financial services. Presently, nine MFBs are operating in Pakistan. The success of microfinance in Pakistan is widely acknowledged by the international community. Our microfinance regulatory framework has been ranked globally at the top in 2010 and 2011 by the independent “the Economic Intelligence Unit” of UK’s “The Economist” Magazine.

Moreover, a unique opportunity for the financial sector in Pakistan are the branchless banking regulations that have catalyzed a number of branchless banking deployments with dual advantages: First, there is enormous scope for expanding outreach, especially to hard-to-reach rural areas. Second, alternative delivery channels promise significant cost reduction to institutions. Due to these benefits, the expansion in the retail network of microfinance has arisen overwhelmingly from agents and mobile phone channels.

In a little over 2 years, the branchless banking deployments with 26,954 active agents offering low-cost services all over the country, including in the hitherto neglected areas, have surpassed the 10,000+ branch network of banks. As a result of these low-cost, efficient financial services being offered at convenient locations the quarterly volume of transactions has reached to 28 million totaling Rs.115 billion. The average size of these transactions is Rs.4,000 which shows that technology is reaching out to the previously unbanked, marginalized segments of the society. The years ahead are expected to see continued expansion in the market – new players, innovative distribution channels, market segmentation, price reductions etc. Moreover, a number of initiatives have been taken to promote access to finance in the SMEs, agriculture, and housing sectors that largely focus on creating an enabling environment by addressing regulatory barriers, market failures and industry bottlenecks, as well as to ensuring consumer protection.

Despite having in place internationally acclaimed regulations, innovative delivery channels, industry-wide market development initiatives, the growth in financial access leaves much to be desired. This partly explains why Pakistan has one of the lowest financial penetration levels in the world with 56% of the adult population totally excluded, and another 32% informally served.

Here, I would like to recognize that part of the challenge may be lying on the demand side of the equation. Therefore, initiatives such as the National Financial Literacy Program (NFLP) have been rolled out by the State Bank along with stakeholders to address the lack of financial literacy. The program focuses on different themes such as savings, budgeting, debt management, investment, consumer protection and branchless banking to impart awareness and understanding of basic financial concepts to the low-income and unbanked population.

In conclusion, it’s true that our economy is going through testing times; but let me just assure you that Pakistan holds enormous potential for economic growth. The State Bank will keep on working with all stakeholders to ensure that the financial system is well positioned to meet the growing needs of the economy and for achieving our shared goals of economic growth and prosperity.

This momentous occasion compels me to urge upon all employees of the State Bank to continue to stride for transforming this prestigious institution into the best central bank of the region.

Let me conclude with these words of our Quaid, and I quote “Let us on this day, humbly thank God for his bounty and pray that we might be able to prove that we are worthy of it.”

Happy Independence Day! Thank you

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