

# Reforms to ensure 6pc growth

## Textile sector well positioned to survive challenges in 2005, says Dr Ishrat

NEW DELHI (APP) - With huge investment of dollar two billion on balancing, modernisation and replacement, Governor, State Bank of Pakistan, Dr Ishrat Husain Friday said textile sector is fast re-hauling and positioning itself to survive the challenges of new textile market in 2005 with focus on value-addition, pricing and quality.

In an exclusive interview with this agency, the SBP Governor, who was here to attend an Asian Clearing Union (ACU) conference, said the textile industry is not only old type of yarn and cloth, but "we have one billion dollars exports of bedwear, knitwear and readymade garments. We are also increasing synthetic textiles exports, so it is value-added where are going in".

"And the textile industry must be complimented for the foresight they have shown by completely re-hauling and positioning themselves for 2005", he said maintaining, other major sectors where a lot of investment is taking place as result of governments aggressive economic policies are Oil and Gas and Financial Sectors.

With the turnaround of economy in a short span of over three years, Dr Ishrat said the dynamic economic approach and deep-rooted structural reforms have put the Pak economy on the rails from completing macro eco-

omic stability towards high growth rate.

Governor, SBP said, he availed the opportunity of this visit to India to brief the Central Bank Governors of the seven Asian countries about the economic progress and achievement, Pakistan made during the last three and half years.

They were very much impressed by the turnaround of the economy and indicators, showing positive results, the Governor said adding he also briefed the Indian print and electronic media in threadbare fashion as news about Pak economy was almost non-existent here.

Dr Ishrat said he presented factual appraisal of the economic progress, which Pakistan was able to make from October 1999 to June 2003 at the conference. This was possible not only because of the macro-economic stability but also due to the deep-rooted structural reforms and good economic governance, he added.

Responding to a question, SBP government told this scribe, "you can achieve macro economic stability, but it would be short-lived phenomena until it is accompanied by serious reforms in financial sector, tax administration and trade liberation.

These reforms, if continued for the next five years, he maintained would provide the basis for sus-

tained six per cent growth in the GDP, reduce the poverty and increase employment in the country.

"So I felt that this was a good message, which clarified a lot of misgivings about Pakistan's economic situation in the minds of Indian media", he added.

"After a long time we have been able to convey a picture about Pakistan's economy, which is both update and also removed some of the misunderstanding in the minds of Indian intelligentsia", stated SBP Governor.

To another question, Dr Ishrat Husain said if everything goes right, by the grace of Allah, Pakistan would be able to get rid of IMF by 2004 as had been promised by the government three years ago.

As per track record, Pakistan used to be One Tranche Country. But since year 2000, Dr Ishrat said, we have received ten tranches from the IMF without any interruption or any slowdown including all (three) tranches under Standby Arrangement".

"So this has provided a lot of credibility for Pakistan not only in the IMF and World Bank but also in the international financial markets. Our credit rating has been going up from a selective default to B plus by Standard & Poors and Moodys", he added.

"Inshallah by 2004, when this agreement (Medium Term PRGF) is completed, we will no longer require any support of financial nature of the IMF", Dr

Ishrat said.

To a query about the privatisation of Habib Bank, Governor State Bank said, by the grace of Allah, we should be able complete the process of privatisation in another three months.

He further said the only bank, which is remaining in the public sector is Habib Bank and because of the uncertainty created by the Iraq war, the privatisation of the Bank was postponed.

But we have revived the process and already received eight Expression of Interests (EOIs). June 30, is the last date and we hope we will get some more good banks, which may be interested in Habib Bank and in another three months time, Inshallah, we should be able to complete the process of privatisation", Dr Ishrat added.

After the privatisation of Habib Bank, 80 per cent of the banking assets in Pakistan will be in the hands of the private sector as compared to 30 per cent banking assets in the hands of private sector in India, he maintained continuing, even today, 60 per cent banking assets of Pakistan are in the hands of Private sector and so this is place of Pakistan among the most progressive countries as far as banking sector is concerned.

Asked as what would be the impact of the new and first budget of the nascent democratic government in Pakistan, Governor, SBP categorically said the budget is making a transition

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from completing the macro-economic stability towards a higher growth.

As you know this year our target was 4.5 per cent growth while we have already achieved 5.1 per cent which is very unusual. People have targets and they are under-performed and in this case, there was target and we have surpassed the growth rate", he added.

"Now based on this, our own analysis shows in about two years time, if every thing remains constant and there are no other exogenous shocks, we will be able to get on the path of 6 per cent growth rate which is required for the reduction of poverty and creation of employment, he forcefully pleaded.

Replying to another question, Dr Ishrat said the good news is that the government has almost stopped borrowing from banks and the State Bank and the cost of the borrowing to the government from the banking sector is down to less than 2 per cent, so that provides a lot space to the government in reducing its debt servicing and freeing up the resources for the development expenditures.

To a query about Non Performing Loans, Governor SBP said another good news is that during the last five years, out of the new loans, which have been advanced, only five per cent are only Non Performing.

While 95 per cent loans are performing and they are paying on time (90 days limit). So at least the new flows of the loans are performing, he expressed further saying, in last six years, the loan quality has improved and in future we will not be faced with the problem which we faced twenty or twenty five years".

With the slash in the lending rates and excess liquidity, Dr Ishrat said the Private Sector credit is more than double from Rs 50 billion to Rs 120 billion, indicating a healthy sign for the economy.

Responding to a question as if economic approach helped restore the confidence of both domestic and foreign investors and fostering economic activity in the country, Dr Ishrat said it always takes some time. For investors we do not have scope for big items.

"We have lot of excess capacity in cement, automobile, sugar, fertilizer, refineries, power generation, we have already invested a lot in these big items. I do not expect a lot investment will take place in these areas. But capacity will be better utilised in order to increase the output and GDP.

However, cement and construction industry are picking up in the country. Most of the investments have taken place for the modernisation of textile industry. Around two billion dollars have already been invested in the balancing, modernisation and replacement (BMR) of the textile industry.

That is very essential because by 2005 Pakistan will be faced with a new world market as far textile is concerned. Where pricing and quality would be the main determinants that how much we can sell.

And the textile industry must be complimented for the foresight they have shown by completely re-hauling themselves and positioning themselves for 2005. And this process is going one even this year, next year and year after more investment will be going in textile industry, which is our major export item and 66 per cent exports are originating from the textile sector.

Dr Ishrat said the second area where a lot of investment is taking place is Oil and Gas sector. Pakistan was dependent on just a few gas fields and those were depleting so we have to find new discoveries. And I am quite happy that new discoveries have taken place. But you need investment both in production as well as transmission pipelines for the gas.

Likewise, substantial investment is taking place in the Financial Sector, he said adding, for Example the State Bank increased the minimum capital requirement from Rs 500 million to Rs one billion for all the banks so we have almost 40 banks in the country. "So if you can look at it, there will be a lot of investment coming in the banking sector along with leasing companies, modarabas, investment banks and other financial institutions where the capital requirements have been increased," he viewed.

"And some of these companies are making profits and reinvesting their profits in building up their capital base. These are the three major sectors and I hope with the deregulation and loss of the monopoly of Pakistan Telecommunication, there would be a great interest and investment in the telecommunication sector in the coming years," Dr Ishrat observed.

About the major focus in the new budget, he said agriculture, small and medium enterprises, construction industry particularly Housing and Infrastructure, have been given a lot of incentives and attention in this particular budget.

To a question about the utilisation of Foreign Exchange Reserves, Governor State Bank said, "you don't use your Insurance Policy. Insurance policy is always for bad times and FER are Insurance that you are not going for begging from IMF or other banks when things are bad for Pakistan."

China has Foreign Exchange Reserves of over \$ 300 billion. India has Foreign Exchange Reserves of 78 billion dollars because they also want to protect themselves against unanticipated and unfortunate shocks to the economy. So that is what, Central Banks all over the world are doing.

Now this is not government's money and it cannot be spent on government projects. It is collective kitty of all the Pakistanis including Residents and Non-Residents Pakistanis and it cannot be utilised for projects in the country.

Projects can only be financed out of the budget. So people in Pakistan confuse the budgetary expenditure with the Foreign Exchange Reserves. There is only one way the foreign exchange reserves can be used, that is by increasing borrowing by the government from the Central Bank.

But right now, he disclosed, government does not need borrowing, because they are reducing the fiscal deficit. So people think because we have these reserves so we should utilise them

for increasing our spending. Spending can only be increased if our budget allows us to do that.

The government has almost stopped borrowing from banks and the State Bank and the cost of the borrowing to the government from the banking sector is down to less than 2 per cent, so that provides a lot space to the government in reducing their debt servicing and free up the resources for the development expenditures.

"That is why, you have such a huge increase as far as the stock of domestic debt is concerned. We are in a dilemma. Most of the new debt is being created because of the inflows of the NSS (National Savings Schemes). In NSS, Anybody can buy any certificates at any point of time and government does not need that much money. But because this facility is available, the government has projected that they will get only 48 billion from the NSS.

In the first ten months, he said, the borrowing has already gone up to 72 billion, so when government does not need the money but they have to accept this money, that is why the debt is gone up.

Otherwise the bank borrowing, where the government has control, has actually declined. There has been hue and cry that the profits rates on National Schemes have been curtailed. There is genuine problem for the pensioners and the widows, and now we have provided a new scheme for pensioners and widows where they will be given higher interest rates.

"But the common people like you and me were using higher interest rates to borrow at lower interest rates from the banks and invest in the NSS and that is very unfair that the government has to bear very high cost because of this arbitrage opportunity," he added.

To a question about the liquidity excess, he said there will be excess liquidity with the major player in the market (the government) does not need money any more and those resources are available.

Because of this excess liquidity the interest rates have come down. The weighted average interest rates are 7.5 per cent now as against 14.5 per cent five months ago. So there is phenomenal decline and because of this phenomenal decline in the interest rates, the private sector credit is more than double from Rs 50 billion to Rs 120 billion.

Likewise in agriculture, where the commercial banks were reluctant to go in, they have increased their lending by 28 per cent and they are now going for mortgaged financing. They are going for the SME financing. They are going for auto financing. So these are the new areas of business where the commercial banks never had the expertise or inclination because they used to very safely invest their all depositors money and it was no banking.

"Now we want the banks to do things for the middle class of the country; for the agriculture area of this country and for the small and medium entrepreneurs. That is the only way to have excess

liquidity. They cannot complain that they do not have the money and lower interest rates. Thus the benefits accrue to a common middle class family in Pakistan. And this is the direction, the State bank is pushing all the commercial banks but it will take some years before they can show the results but the beginning has been made," he maintained.

Replying to a question about Non Performing Loans (NPLs), Governor State Bank said there are two parts of the Non Performing Loans problems. One is the stock of the debt, which is a longstanding issue since 1970.

For that, the State Bank has designed a policy of writing off. You recover all those loans, which have been in the loss category for several years, and which the probability of recovery is almost zero. But you have their securities. We have the full address, cash that in and apply this against those NPLs. And if there is shortfall, you write off.

So this way we hope that not only the NPLs problem of the banks will be resolved, but lot of sick units, which are closed down because of the problems of the banks, will be revived.

And so far there has been very good progress. Last number, Dr Ishrat said he saw was 58 billion Rupees of Non Performing Assets, which have been coming under this particular scheme, adding this would bring down substantial reduction in the stock of the debt.

Then we have the CIRC, which acquires these assets from the public sector banks and put them to auction to the third party. This is another way of getting rid of the Non Performing Assets. And third is that our willful defaulters who have been using the banking loans to maintain a very

high standard for themselves but not paying to the banks. For them, we are referring the cases to the NAB, so it can take action.

To a question as when Pakistan will get rid of IMF loans, Dr Ishrat said, "if you have sincerity of purpose, clear vision and work hard, you can get rid of dependence on others.

To a query about dishing out expensive debt, Dr Ishrat said, "We have offloaded 4.5 billion dollars of short term debt and commercial debt during the last two years. And that is why our debt has come down.

"When I say debt, it also includes foreign exchange liabilities to the Non Resident Pakistanis and Resident Pakistanis. It has come down from \$ 38 billion to \$ 34 billion, despite the fact we are borrowing from the IMF, World Bank and Asian Development Bank on very soft terms. So we are paying the hard terms loans, but substituting them with soft term loans, which are payable in 35 years at 0.75 per cent rpt 0.75 per cent interest rate.

In response to a question about local unit viz a viz greenbill, Governor SBP said actually local unit is not only stable against greenback, but it is also appreciating and from Rs 64, it has gone up to Rs 57.60.

So people are now not speculating on depreciation, but they think it is going to be much stronger. The function of the Central Bank is only to provide stability, that means there should not be any violent fluctuation. We don't determine the rate, the rate is determined in the Inter Bank Market. The Central Bank intervenes by purchasing dollars or selling dollars in order to smooth out all the fluctuations in the market, said Dr Ishrat.