

WELCOME ADDRESS OF THE GOVERNOR, STATE BANK OF PAKISTAN,  
DR. ISHRAT HUSAIN  
DELIVERED AT THE INAUGURAL CEREMONY OF THE  
34<sup>TH</sup> ANNUAL MEETING OF THE BOARD OF DIRECTORS OF THE  
ASIAN CLEARING UNION (ACU)  
AT LAHORE ON 16<sup>TH</sup> MAY, 2005

It is a great honour for the State Bank of Pakistan to host the 34<sup>th</sup> Annual Meeting of the Board of Directors of the Asian Clearing Union. I welcome you all to Pakistan and wish you a pleasant and productive stay in our country. It is also indeed a pleasure for me to welcome the guests from Afghanistan and the Maldives Monetary Authority, who are attending this conference as Observers.

We all are familiar with the purpose and background of the Asian Clearing Union. We have also reviewed each year the progress that was made and problems that our members had faced in international trade and payments and tried to modify the coverage, mechanism and procedure of the Asian Clearing Union. What I wish to emphasize today is that major changes have taken place in the international scene during the last one year which necessitates our taking a closer look at the record and relevance of the Asian Clearing Union in relation to fast changing global environment.

In the rapidly changing environment, in which regional grouping is becoming a vehicle for trade promotion and economic co-operation, the Asian Clearing Union should revisit its charter, examine its relevance and find ways to expand the intra-regional trade and economic co-operation in a multilateral context. We have to be outward looking and our objective should be to bring about coherence and consistency in our macroeconomic policies that attract direct foreign investment. The Annual Report of ACU for the current year (2004) indicates that even though intra-regional trade is growing, the operations through the Asian Clearing Union are limited. Our efforts to expand its membership have not as yet succeeded. However, I may add here that the ACU has not experienced a default. Although there have been persistent debtors in the ACU system, their negative net balances have not been large. There has not been a "structural creditor problem" in the ACU.

I would like the Governors to give some thought as to how we can make Asian Clearing Union an important vehicle for the expansion of intra-regional trade and further economic coordination, and how our banking and financial markets

could be made complementary for the maximization of economic welfare of the member states.

Asian Countries have demonstrated during the last several decades that it is possible to make great strides in uplifting the living standard of the majority of the people within a short span of time. I am extremely encouraged by the impressive progress that is being made by member countries of the Asian Clearing Union. Each and every country is working hard to bring about reduction in the incidence of poverty and improve the human development indicators. There is no doubt that the challenges ahead of us are quite formidable but giving the political will, national determinations and collective action I am sure we will be able to march ahead on the road to progress and prosperity.

The last five years have been extremely critical for our own country, Pakistan. The strategy of economic revival that was initiated in December, 1999 has been successfully implemented and its main pillars were achieving macro-economic stability, improve the governance, introduce structural reforms and resume the path to accelerated growth. The results of the implementation of this strategy are quite well known and I will not get into the details as Pakistan delegation will dwell on them in their presentation.

Let me briefly add here that the banking sector reforms undertaken by the State Bank during the last five years have helped us provide stability and strength to Pakistan's financial sector. Independence of monetary policy has been a major factor in inculcating financial discipline in the public finances, while autonomy of the State Bank in regulating the financial system has been the main strength of reviving the financial institutions of the country. By contributing to financial discipline and financial stability, we have managed to turn a poorly managed financial system into a strong and sound one. The State Bank would be glad to share the details of the legal, structural, prudential and administrative changes that Pakistan has undertaken in the last five years to reach this stage of stability in the banking and the financial sector of the country.

I would like to briefly mention here that country's economy has been continuously growing for the past two years. The GDP for the current fiscal year is likely to be over 7½ per cent which will be the highest growth witnessed in the country during the past 13 years.

Before concluding, I would once again like to welcome the participants and wish them a pleasant stay in Pakistan.

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