

**Bismillahir Rehmanir Rahim**  
**PAKISTAN DEVELOPMENT FORUM**  
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**ISLAMABAD**

**INAUGURAL SESSION**

**SPEECH OF**  
**MR. SHAUKAT AZIZ**  
**FINANCE MINISTER OF PAKISTAN**

- **Mir Zafarullah Khan Jamali, Prime Minister of Pakistan**
- **Cabinet Colleagues,**
- **Members of Delegations**
- **Excellencies, and**
- **Ladies and Gentlemen**

It is a great honor for me to welcome the delegates to the Pakistan Development Forum in Islamabad. The forum, which was established as a successor to the erstwhile Aid to Pakistan Consortium, has now evolved into an important channel of communication between Pakistan and its development partners. This is the 2<sup>nd</sup> Forum held in succession in Islamabad. I am grateful to our partners who agreed with our view that holding the Forum in Islamabad affords a much richer interaction and broader participation from Pakistan. It provides us a good opportunity to bring together all the key players involved in the management of economic, social and governance affairs of Pakistan and to present the main elements of our policies and implementation strategies. The feedback we receive

from the participants is considered important and allows us to align these policies with international best practices.

As we meet for the 5<sup>th</sup> Session of PDF, we see Pakistan rapidly passing through a major transformation. When this journey of economic revival was initiated back in 1999 the odds were heavily weighed against us. We were favored neither by the domestic opinion nor by the views of some of our key development partners. Although disappointed, we were not discouraged. We single-mindedly pursued the objective of implementing our homegrown reforms agenda. There was no seeing back since then. No matter how bold or unpopular a reform was, it was never more important than our commitment to reform the economy and to establish our credibility with people and development partners. It was eventually our perseverance with this agenda that has pulled the economy out of multiple crises we were facing and laid the foundation of a vibrant and growing economy.

Then as we begin the democratic process in the country in October 2002, it was apprehended by many that the gains country had made in reforming the economy would soon be neutralized. Well into 16 months in office, the Government of Prime Minister Mir Zafarullah Jamali has demonstrated that it believes in continuity and consistency of policy. Indeed, during this period the reforms process has been strengthened and made to reflect the inspirations our people.

In this success the support and advice that received from our development partners was highly valuable, as it flowed significantly after we established our credibility through painstaking reforms. This support and encouragement will be needed as we move to a higher level of reforms.

Ladies and Gentlemen:

The economic stability and prospects of high growth that we see today in Pakistan are indeed the benefits of reforms that we have carried out in recent years. They comprised a wide range of measures in almost all sectors of the economy aimed at expanding the role of the private sector, limiting the direct role of the public sector, strengthening the regulatory responsibilities of the government and allowing market forces to play a more decisive role in the determination of prices and outputs. Alongside structural reforms, strict fiscal discipline, prudent monetary stance, a host of governance reforms for improving service delivery, transparency in public decision making and unprecedented disclosure of information were the main instruments that stabilized a fragile and drifting economy and inspired the confidence of business and consumers.

Our economy is growing at nearly 6% with a high degree of price stability as inflation is consistency below 4% for the last 5 years. Pakistan's growth performance has been better than many developed and emerging market economies. It is particularly satisfactory in the backdrop of various external shocks over the last couple of years.

Agriculture sector, which was adversely affected due to unprecedented drought for three consecutive years, is now registering handsome growth for the second consecutive year. Manufacturing sector is presenting growing at 14%, which is a record.

We have maintained tight fiscal and monetary stances, which have brought down the fiscal deficit to 4.6% last year and will be further brought down to 4% at the end of this fiscal year. We have introduced fundamental reforms in our tax policy as well as in tax administration. While these efforts continue, our tax collection performance has greatly improved as for the second consecutive year we will not only be registering a growth of 15% in revenue collections but meeting the targets of the Fund program, which in the past were the perennial source of their failure. This year will also see the competition of our PRGF programme with IMF.

Traditionally, economic disequilibrium was caused by the problems in the balance of payments, with import demand significantly outstripping exports supplies. Low remittances, declining flows of foreign investments and heavy debt servicing obligations constantly pressed the need for devaluation in the local currency, which in turn fueled inflation and affected efficiency of local production. Policies aimed at liberalization of foreign exchange market, free float of exchange rate, modest growth in money supply and overall containment of aggregate demand have helped stabilize the external account. A series of rescheduling supports from the Paris Club have helped reduce the debt servicing burden.

This policy stance has particularly helped the exports sector. Exports are now growing at a handsome rate of our 14% and will cross the \$12 billion mark in this year. Non-food, non-oil Imports have also shown healthy growth of nearly 23%, reflecting the expansion of local production that depends on a number of imported inputs such as machinery and industrial raw materials. Workers remittances have shot up to an unprecedented level of \$3.6 billion in 2002-03 and this level will be maintained this year also.

The combined effect of improved exports performance and higher inflow of remittances is unprecedented build-up of our foreign exchange reserves, which now stand at nearly \$12.6 billion, sufficient for nearly 1 year of imports. This is in sharp contrast to what we were facing until recently, namely reserves hardly sufficient to cover few weeks of imports. As a result of strong build-up in reserves, the exchange rate has not only stabilized it has appreciated significantly during the last two years. An active stance by the central bank, through its purchases in the inter-bank market, has prevented further appreciation of rupee, as the exports were likely to be adversely affected.

On the back of a stable exchange rate, the central bank has also cut its discount rate to an all time low from 14.5% to 7.5%, thereby easing the monetary stance. Consequently, the interest rates in Pakistan are at their historical lows. Government is borrowing through its six months treasury bills at less than 2.0%.

Over the last two years, Pakistan has reduced the size of most expensive foreign liabilities by nearly \$4 billion from nearly \$38 billion at the end of FY00 to less than \$34 billion at the end of Dec.03. This represents a reduction of nearly 11% in foreign liabilities. In addition, country's external debt has undergone a major re-profiling, whereby the share of expensive debt has declined compared to soft term debt. We have also pre-paid nearly \$1.2 billion expensive loans of IFIs. These initiatives were made possible through a combination of increased supply of foreign exchange and availability of soft loans.

The macro-economic stability reflected in the above facts has been punctuated by a broad-based reforms program that has covered all the key economic sectors, including fiscal management, finance and banking sector, capital markets, privatization, agriculture, industrial policy, tax policy and administration, trade, oil & gas sector, water and power and information technology. The poverty reduction strategy paper (PRSP) developed by the government has brought the social sectors in the center stage of economic planning. Pro-poor expenditures are not only protected but substantial increases have been made in their level. More importantly, a governance reforms program has targeted revival of institutions of judiciary, civil services, law enforcement, audit and accounts, accountability, public financial management and empowerment of people. These reforms have led to the revival of a dormant economy, which is now poised for a take-off. It has new foundations, built on structural reforms that have removed numerous distortions in economic and regulatory roles of

the government while expanding the role of private sector and markets.

The combined effect of all these efforts, which may be termed as the ultimate certification, is the massive upgrade in Pakistan's credit rating by international rating agencies. From Selective Default in 1999, we have risen to B2 by Moody's and B by Standard and Poor's. This has enabled us to return to the international capital market with a new issue of Eurobonds, which was met with enormous success. Against a demand for \$500 million, we received subscription of \$2 billion or over-subscription of 4 times.

While pleased with the economic performance, we are not complacent. We are conscious of the challenges that remain on the horizon. Let me mention some of these challenges.

First, the need for accelerating the growth rate is quite pressing. Despite encouraging signs on the poverty front, which will witness significant improvements once the improved growth performance of the last two years is taken into account in the new households survey, we are conscious that it will remain challenging. There is no other way to address this problem but through the achievement of high rates of growth and by ensuring that the growth emanates from sources that have potential to create employment opportunities.

Second, we need to invest a much larger share of our development spending in human development. To this end, we need

to create additional fiscal space which, though easing a bit in the face of declining interest rates and re-profiling of our external debt liabilities, requires further expansion.

Third, the losses some of public sector corporations remain a burden on the budget. This drag is affecting our capacity to invest in the human capital. The need for accelerating the reforms process in these organizations and their expeditious disposal through privatization is quite evident. We have done considerable work on this front during the last year and much more is in the pipeline for early conclusion. PIA, PNSC, Steel Mill have performed well and turned around. Others are improving.

Fourth, there are significant bottlenecks, in achieving the full potential of our economy, posed by an inadequate stock of infrastructure. In particular, water storage, canals, roads and ports are some of the key infrastructures that need radical improvement. It is for this reason that our theme for the current PDF is "Infrastructure for accelerated Growth". We are mindful of the fact that in an expansive phase of economy, growth should not be choked for absence of required infrastructure. Both public sector and private sector will to play their role. On our part, we have already effected a significant increase in our development budget for this purpose and more will be done once additional fiscal space become available through debt retirement and elimination of losses of public sector corporations.

Fifth, although the year has witnessed significant activity, we need to do more to accelerate investment in the private sector. Evidently, further improvement in the overall regulatory environment and by acceleration in the process of privatization are required. But the private sector has to respond to the occasion as well. Government is fast vacating the space for the private sector, which must be occupied, otherwise there would continue to be gaps in the overall level of investment. We have also invited representatives from the private sector to this forum and hope that they will see the need for their active involvement in country's economic development.

Finally, we have to carry forward the reforms process to a higher level. The Second Generation Reforms are now needed after the economy is fully stabilized and greater focus is needed to accelerate the growth process. These reforms will focus increasingly on capacity building of institutions of governance such as civil services and judiciary while further improving the competitive environment for expanded private sector role.

The challenges outlined above clearly underscore the need for our continued cooperation with the development partners. We must also realize that this cooperation is not limited to maintaining viability of our external account. True, we will not need the Fund program after the successful conclusion of the on-going program, but our engagement with donors' community is more broad-based than merely relating to the issues of balance of payments. We need their support for facing these challenges and we are confident that

together we can make a Pakistan where people have access to basic human needs and where those willing to work find decent opportunities to make a living.

In conclusion, let me note that there is an even bigger challenge that we face, namely that of continuity and consistency. We need to remain on course not for one or two more years, but for many more years. We need to guard against reversals, slippages and loss of momentum.

The new democratically elected government is committed to this course. It is working under a vision, which is people-centered. I have no doubt that by working together with our partners we can turn this into reality. In addition, the guidance and leadership provided by President Musharraf has and will play a key role in our pursuit of excellence, development and growth.

**Ladies and Gentlemen,**

Pakistan is a country rich in natural resources and human capital. Our location makes us a natural hub for the region, and with the completion of Gwadar port our regional economic role will become even more pronounced linking Central Asia, Afghanistan, the Gulf and beyond. Our linkage with South Asia is also critical. We are doing our part to normalize our relations with India. Once this is done a new era of peace and stability throughout South Asia will be opened.

With your support and understanding, and our commitment towards transparency, good governance, and prudent economic management, Pakistan will Inshallah achieve its full potential and provide an prosperous future to the people of Pakistan. A strong, stable and economically vibrant Pakistan will be a source of strength and stability for our people, for the region and the world at large. Ladies & Genglemen-The Pakistan of today and tomorrow isnot the Pakistan of yesterday. Let us all join together to create a vibrant, exciting and prosperous Pakistan. We are all committed to make this happen.

Thank you.