Opening Address by the Governor SBP

Seminar with Her Excellency Ms. Christine Lagarde, Managing Director IMF

Emerging Markets in the World Economy”

24th October 2016

- Her Excellency Madame Christine Lagarde, Managing Director IMF,
- Hon’ble Senator Mohammad Ishaq Dar, Federal Minister for Finance, Revenue, Economic Affairs, Statistics, and Privatisation,
- Esteemed Diplomats
- Learned scholars from academia,
- Heads and representatives of national and international financial institutions,
- Government officials,
- Friends of Media,
- Distinguished Guests, Ladies and Gentlemen,

I warmly welcome you all to this seminar!

First, let us all greet Her Excellency Ms. Lagarde on her visit to Pakistan and thank her for gracing today’s seminar as the Keynote speaker. Armed with her remarkable credentials, Ms. Lagarde has not only led the IMF judiciously during a time of global economic and financial stress, but in fact it has been under her leadership that the IMF has forged successful collaborations with many emerging countries for their economic betterment. Most of these countries have now overcome their short-term external imbalances and adopted better standards of governance – and you can be sure they know exactly who to thank! Befittingly, we will request Ms. Lagarde to enlighten us today on the role of emerging markets in the world economy, drawing on her invaluable insights and extensive firsthand experiences.

Ladies and Gentlemen,

The relevance of the topic for Pakistan is high, as it is an emerging economy with a large population. When we observe the evolving global economy, it is evident that emerging markets face a unique set of challenges, but if managed well, the results have far reaching implications for growth. However, economic developments do not occur in a vacuum; in fact, they often precipitate a host of new considerations, such as income inequality, social security, environmental concerns, and so on. Moreover, for any progress to be truly sustainable, the need for macroeconomic stability in general – and financial stability in particular – is a matter of paramount significance.

Ladies and Gentlemen,

It was within this context that Pakistan – faced with a balance of payments crisis – embarked upon the IMF's External Fund Facility Program in September 2013. At that time, the economy was mired in persistent energy deficiencies, declining development expenditures, rising inflation, and meager foreign exchange reserves. As a result, the country's economic potential was on the decline and investor confidence was badly shaken. There was a need to reform policies and systems which could be instrumental in reversing the meltdown and add to the well being of Pakistanis.

I believe that the Government took the right step to enter the IMF program at that crucial juncture. Furthermore, its sincere efforts and commitment have been instrumental in driving the program to a successful completion. Indeed, the Government and State Bank of Pakistan have worked hard together to achieve this goal, and restored the much needed stability and stakeholder confidence in doing so. Before I go on to highlight the achievements of this Program, let me make two things clear: One, no IMF Program is an easy program. This explains why Pakistan has never in the past completed an IMF program. The fact that we have completed one also shows the seriousness towards reform. Two, having completed the IMF program, one should not be complacent about what remains to be done. Specifically, on the continuous consolidation of the macroeconomic stability gains we have made and the reforms that remain to be done.

Let us briefly look at some evident achievements made during the program.

Under the program, establishment of an independent Monetary Policy Committee and publication of minutes of the Monetary Policy Committee meetings, besides enhanced SBP autonomy, is expected to bring further transparency in monetary policy decision making. In plain words, these reforms provide us with a superior and structured decision–making technology. Similarly, strengthening of the internal operations of SBP, improvement in capital adequacy of banks, enactment of Credit Bureau Act, amendments to Anti Money Laundering Act, promulgation of Deposit Protection Corporation Act, and amendment to Financial Institutions Recovery Ordinance, are the major reforms that would increase financial sector resilience against any domestic and external shock. Indeed, these reforms directly address bank runs and related financial crisis.

Further, amendments in Fiscal Responsibility and Debt Limitation Act to enhance fiscal prudence, removal of Federal Board of Revenue's powers to grant exemptions through issuance of Statutory Regulatory Orders and removal of tax exemptions are critical reforms that will go a long way to support a sustained increase in tax revenues.
These reforms and range of other actions taken by the government have produced concrete results. These have not only helped the country to build the foreign exchange reserves and provide stability to foreign exchange market – a direct consequence of the program, but also supported a sustained increase in tax revenues, lower fiscal deficit, and a significant reduction in direct fiscal borrowings from State Bank of Pakistan.

Overall, the improvement in economic environment has supported the revival in real private investment and gradual recovery in economic activity with well anchored inflation expectations.

In light of this consolidation, and factoring in an improved security situation, the future for Pakistan is very encouraging. Backed by concrete reforms, I am confident that real GDP growth – which has shown improvement in the last three years already – is poised to continue on an upward trajectory.

Ladies and Gentlemen,

Before we move on, I would like to take this opportunity to acknowledge and congratulate the Prime Minister, Mian Muhammad Nawaz Sharif, who mandated, took tough political decision, and spent his political capital for the success of the IMF program.

I would also like to acknowledge Finance Minister, Senator Mohammad Ishaq Dar, who led and coordinated the program with relentless energy and deep acumen, while providing space and support to the Central Bank to strengthen institutional credibility.

Here, I also wish to recognize the commitment, professional standards and technical expertise of the IMF team, under the able guidance of Mission Chiefs, Mr. Harald Finger and Mr. Jeff Frank. Indeed, they deserve special accolades. I have fond memories of long hours of tough discussions and negotiations.

There are other members of Pakistani team who actively supported and worked hard, but, due to paucity of time, cannot be named here. I, however, cannot resist naming a few whose contribution to the success of this program remains remarkable. These are Finance Secretary, Dr. Waqar Masood Khan; current and former Chairmen of FBR, Mr.

Nisar Muhammad Khan and Mr. Tariq Bajwa; and Chairman Privatization Commission, Mr. Muhammad Zubair. Last but not the least my own staff and the able members of our Independent Monetary Policy Committee.

Two final points before I conclude. First, for reforms to take place, the timing and the sequencing matter. In this program, perhaps in more than any other programs in the past, these two factors were taken into consideration and probably these strategically contributed much to reaching the finish line as much as to actually implementing the innovative changes themselves. Much remains to be done. Second, there is a specific reason why I thanked many personalities moments ago. It is that the power of a shared-goal, which we achieved on this occasion, and the productive synergies that this common-path creates is my own greatest lesson from the exercise we have concluded: Together is better.

Thank you!