"Improvements in Pakistan's Economy and Opportunities for Investment"
Governor's Address for Bloomberg Economic Forum
November 23, 2016; Karachi

Distinguished guests,
Ladies and gentlemen,

Assalam-o-alaikum!

I would like to begin by thanking Bloomberg for organising this discussion, and for inviting me to speak on the improvements in Pakistan's economy and the opportunities for investment these improvements have opened up.

As Pakistan enters the next phase of its growth story, I feel that it is important to take a dispassionate look at the past three years, and see how far along we have come, as a country. A review of some key macroeconomic indicators is in order here. From FY09 to FY13, real GDP growth averaged just 2.8 percent; this increased to above 4 percent over the next three years. In fact, real GDP growth touched an eight-year high in FY16. Meanwhile, the government's ongoing fiscal consolidation efforts limited the average budget deficit to 4.6 percent in FY16, against 8.2 percent in FY13.

Moreover, the country's foreign exchange reserves continue on their rising trajectory: the country's FX reserves are now hovering around US$ 24 billion, which are enough to finance over seven months of the country's import bill. To put this in context, just three years back, our reserves couldn't even finance three months of imports!

At this point, you might be tempted to ask, what has driven this improvement? The answer is prudent economic policies – on the monetary, fiscal and industrial fronts. SBP's decision to keep interest rates at record lows encouraged the private sector to opt for bank loans and finance key projects. On the external front, the support lent by the sizable reduction in global oil prices figured prominently, and helped offset export sluggishness. Remittance growth during the period also remained strong and financed the trade deficit to a great extent. And Pakistan's continued engagement with the IMF and other IFIs, and its re-entry into the international capital market, ensured that the country was not only able to easily make its FX payments, but also accumulate foreign exchange.

At the same time, the government's sharp focus on addressing the energy constraints has stimulated industrial activities. Besides, as you are all well aware, the security situation in the country, including Karachi, has improved considerably. These improvements on the economic and security fronts have bolstered investors' views about Pakistan. Just last month, Standard and Poor's upgraded Pakistan's sovereign rating, and the country was able to issue a US$ 1 billion Sukuk in the international market at extremely competitive rates.

Speaking of challenges, the first and foremost is the export decline, which entered into 10th straight quarter in Q1-FY17. The comfort provided by remittances, in terms of covering the trade deficit, has also weakened lately. On the fiscal side, the government is committed to meeting the budget deficit target for this year, without compromising on essential development spending. This will be crucial from public policy standpoint. And most importantly, as SBP economists recently highlighted in our Annual Report, we have to focus on social sector of the country in order to improve living conditions of the population. Although we have made a lot of progress in the field of financial inclusion and social safety nets, like BISP, the key sectors including health, education and other civic facilities still need more resources.

So, all in all, I would say that it is crucial how carefully the country is able to leverage the hard-earned macro stability to drive economic growth and social sector development going forward. In this backdrop, the role of private sector cannot be overemphasized. The private sector is the engine of growth in all leading economies of the world, with governments largely providing an enabling policy environment and playing a regulatory role. In Pakistan, due to a variety of reasons, the private sector has not been able to play as active a role in development as one would have hoped.

Ladies and gentlemen!

On our part, we truly believe that the private sector needs to be supported as long as it is willing to invest not only in physical capital, but also in capacity-building and skill-enhancement of human resources. To promote domestic investment, State Bank has not only brought down borrowing costs for all businesses by its easy monetary policy stance, but it has also put in place refinance facilities for exporters to cater their working capital requirements and technological up gradation needs.

SBP has also facilitated the federal government in establishing the EXIM Bank to enhance export credit and provide export credit guarantees and insurance facilities. Furthermore, we have simplified documentary procedures for businesses to expedite processes; for instance, exporters can now electronically file Form-E without visiting bank branches.

Similarly, SBP is making all out efforts to boost economic activities at small and medium level: our initiatives in this arena include: introduction of SME financing targets for banks/DFIs; credit guarantee scheme for small and rural enterprises; efforts for putting in place a secured transaction registry in the country; and separation of prudential regulations for small and medium enterprises.

While concluding, I would like to draw your attention to the recent interest shown by foreign investors in the country's economy. Corporate deals have been either concluded or are under discussion in sectors as varied as power generation and distribution, food processing, and automobiles. These examples offer just a glimpse of the huge investment potential that is available in the country. So, by utilising the financing facilities that are available, as well as record-low interest rates and low inflation, the private sector can take the lead role in the country's economic development. With the strong domestic demand and improving business climate, the private sector has more reasons than ever before to take the driving seat.

I thank you for your time!