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Statement by the Hon. HAFIZ A. PASHA ,
Governor of the Bank for PAKISTAN ,
at the Joint Annual Discussion

DR. HAFIZ PASHA S SPEECH
Adviser to the Prime Minister on
Finance and Economic Affairs
Government of Pakistan

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Mr. Chairman

My fellow Governors, Ladies and Gentlemen,

It is my privilege to participate in the 1998 annual meetings to which I welcome Palau as a new member, and also record my appreciation of the Joint Secretariat for the excellent arrangements made for these meetings.

This year's meeting is like no previous meetings. At no time in the past has the role of two institutions, the IMF and World Bank been as seriously questioned as it is being done today. Hardly a day is going by nowadays without the appearance of a leading article in the most influential newspapers and journals, written by some of the most eminent academics, political leaders and persuasive authors of the world, on the role of the IMF and the World Bank. To be sure, there has always been some confusion over the respective roles of the IMF and the World Bank. Remember, that Lord John Maynard Keynes, more a founder of the two institution than anyone else, was perplexed at the inaugural meeting of the IMF. He thought

the Fund should have been called a bank, and the Bank should have been called a fund.

Clearly, we are at the same crossroads that we were in 1944 at Bretton Woods. The present crisis has brought home to us, in stark terms, that, while global economic integration has presented developing countries with new opportunity, it has also incurred huge costs. Policy makers now have to contend with far too many exogenous factors. For instance, the world economic outlook, as outlined in the 3rd October communiqué, alludes to the substantial fall in commodity prices which is adding to the difficulties of many countries and to deflationary pressures on the global economy, as a result of which developing countries have to suffer losses in export opportunities, income, production. To these are added the social and economic costs of adjustment. The additional risk of destabilization imposed by unbridled capital movements is the ground for intense anxiety which has already gripped these meetings.

We in Pakistan have often pointed out the dangers inherent in too rapidly liberalizing capital movements in economies in which the macroeconomic framework and the financial sector are weak. Liberalization must be phased in accordance not only with the external situation but also with regard to the country's internal situation, the depth and breath of its markets and institutions. Without prior financial sector reforms there may be distortions in the regulatory structures, that might accelerate capital movements unrelated to the underlying economic situation. Based on these

considerations, we have always argued for an appropriately sequenced adjustment strategy. Much of our discussions with the Fund have centered on the sequencing and ownership of reforms which are the cardinal guiding principles.

This brings me to the important point about ownership of reform programs. Ownership cannot be externally induced or imposed. I am not rehearsing here the familiar condemnation of conditionalities. That would only be political rhetoric. My point is a more substantial one, that in its doctrinaire adherence to standardised economic prescriptions (the officially sanctified remedy for all ills) the IMF at times ignores home grown measures that can be more effective than those that are externally imposed. The unfortunate consequence of these attempts at adherence to a uniform economic theology is that hardly any attention is given to the context of a program. The great virtue of an indigenous reform effort is disregarded. Small wonder that IMF programs run into questions of ownership and arguments over the sequencing and timing of administering therapeutic treatment.

My fellow Governors, we in Pakistan have always been great supporters of the Bretton Woods Institutions and will continue to do so in future. We have continually argued for greater and sustained replenishment of IDA. We also favor capital increase which is the only long-term solution for ensuring that the Bank can provide financing for projects which the G-7 is itself encouraging the Bank to assist in. We also support the further replenishment of IMF quotas.

Mr. Chairman: Elimination of poverty was the prime purpose of the Bank and the raison détre of IDA. Despite a half century of efforts, poverty remains the biggest curse of mankind. One can even argue that some of the indices of impoverishment have in fact, worsened. However, with the arrival of Mr. Wolfensohn there has been a renewed vigor to get back to the Bank's first principles. We, in the Third World, are deeply appreciative of his vision of the strategic compact and a re-alignment of priorities for removal of hunger, want, malnutrition, and disease. The five-point conceptual framework which he unfolded yesterday could not have come at a more opportune time. We assure the management of both institutions that are solidly behind them as they trace their steps along the markers which the Chairman has so eloquently talked about.

Finally, let me give you a brief report on the economic situation in Pakistan.

Pakistan had undertaken a bold structural reform program in February 1997 when our Government assumed office. The economy was beginning to respond positively to the program with an increase in growth from 1.3% in 1996-97 to 5.4% in 1997-98, a reduction in the fiscal deficit to a five year low of 5.4 percent of GDP and a lowering of the rate of inflation to 7.8% from a double-digit level in the preceding years. Pakistan was therefore able to meet all the

performance criteria under the ESAF/EFF arrangements with the Fund. Despite this commendable performance, our program received a severe setback as our response to our regional security problems triggered sanctions against us. The sanctions also affected our relationship with the international financial institutions. Even the Fund Program was put in abeyance despite Pakistan having met the performance criteria. This disruption in our normal financing has led to severe difficulties requiring emergency measures. We are doing all that we can to continue with our reform program and are in the process of negotiations with the IMF. I am confident that the world community will be willing to support Pakistan in this endeavour.

I thank you Excellencies for providing me with this opportunity.