BOARDS OF GOVERNORS • 1997 ANNUAL MEETINGS • HONG KONG, CHINA

WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

INTERNATIONAL MONETARY FUND

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Press Release No. 50

September 23 - 25, 1997

Statement by the Hon. **SARTAJ AZIZ**,
Governor of the Bank for **PAKISTAN**,
at the Joint Annual Discussion

Statement by H. E. SARTAJ AZIZ
Minister of Finance and Economic Affairs of Pakistan
at the Joint Annual Discussion

Mr. Chairman,

It is a matter of honour and pleasure for me, once again, to represent Pakistan at the Annual Meetings of the Fund and the World Bank Group. The meeting is being held at a moment of history in our host country. The return of Hong Kong or Xiang Gang to its rightful owners, signals the end of an important phase in the political history of Asia. We join our Chinese hosts in celebrating this occasion and we thank them for the warmth of their hospitality.

We meet in the backdrop of the third successive year of robust global economic growth with an optimistic outlook. The notable feature of this growth is that it is widely shared by all regions, in particular by Africa and the countries in transition, which were suffering from depressed growth for quite some time. Slowing down of the inflation rate is another positive development.

This optimistic scenario is, however, over-shadowed by other developments. Slow growth in global trade, mainly caused by sluggish imports in some advanced countries has adversely affected the export performance of many developing countries. Despite signs of improvement, many developing economies continue to suffer from fiscal and external imbalances and structural rigidities. For them the primary concern is revival of sustained growth which should be supported by improved access for their products in world markets and inflow of resources at reasonable terms. Most of them are implementing programmes of stabilisation and adjustment. For these programmes to be meaningful and effective it is essential that due emphasis is placed on widely sharing the benefits of growth and provisions of safety nets with special consideration for disadvantaged groups. As these countries are opening up their markets, it is prudent that freer access to their products is ensured and advanced countries should desist from using labour standards, environment concerns and human rights as a disguise for renewed import restrictions.

It is satisfying to note that the net private capital flows to the developing countries have reached a record high of $ 200 billion last year. This event has however been constrained by the spectacle of turbulent financial markets in the south-east Asian region. While welcoming the inflows of productive long-term investment capital

from abroad, the region has simultaneously become hostage to the volatile judgements and aggressive activities of foreign portfolio managers. There is too much footloose capital at play, that moves from one country to the next, and forcing them to make policy adjustments that are destructive of business confidence and throw their economies off-track. In many cases, the original constellation of policies might have been optimal but became unsustainable simply because the countries were caught in the path of a spreading contagion.

It is in this context that we must think carefully about how we should implement the Declaration on Capital Account Liberalization. Our Executive Directors in the Fund have worked hard over the past months to develop the legal and policy framework for giving the Fund a leading role in the orderly liberalization of the capital account, by building in appropriate safeguards and discretion for country authorities. The Fund's past record in assisting members to accept the obligations of Article VIII under its existing jurisdiction demonstrates flexibility and moderation and we would expect nothing less in the exercise of its new jurisdiction. We, however, hope that in developing the transitional provisions and the approval procedures, the Fund will rely to the greatest extent feasible on the judgment of members as to pace the sequencing of the liberalization process, and that it would eschew deadlines or conditions, particularly in the context of the use of Fund resources.

Among the external forces to which developing countries are exposed in the globalized economy are large and unexpected changes in exchange rates among the major currencies, responding in part to equally unpredictable movements in international interest rates. To argue that there is little or nothing that can be done about them is to accept too quickly the rhetoric of free marketeers who find much private profit in undermining the defenses that have been built by developing countries to husband their own savings and to protect their still embryonic institutions from the onslaught of transnational financial conglomerates.

In this context, there is urgent need for timely information and transparency in capital movements. Perhaps institutions, like the Bank of International Settlements can play a more active role in informing Central Banks about large scale purchases and sales of their respective currencies. This will enable the countries concerned to take timely measures, if necessary to safeguard their position.

There is a tendency for surveillance to be intensified over the weaker, and not the stronger, members of the international community and to be applied by way of new conditionalities over areas that go under the broad rubric of "good governance". There can be no argument that good governance is an essential ingredient of a sustainable development process. But the legitimacy of the actions in this area must also be preserved and preserving it requires that there should be uniformity in the treatment of members, that they do not appear to be operating in ways that detract from their strictly non-political mandates, and that they do not over-stretch their

technical capacities by moving into domains far beyond their traditional core competence.

We note with satisfaction the progress made in extending ESAF beyond the year 2000 establishment of the Trust for Highly Indebted Poor Countries (HIPCs). The donors should now come forward with liberal assistance to ensure the successful implementation of these initiatives. We also commend the decision of the Board of the Fund on the New Arrangements to Borrow (NAB) which will ensure greater availability of resources to deal with exceptional situations.

We view with concern the sharp decline in the net official flows to developing countries in 1996. It is unfortunate that the ODA target of 0.7 % of GNP set some two decades ago still remains a far cry and that in case of many donor countries there is a persistent decline in their share of GNP devoted to assistance to developing countries. Private capital flows are no substitute to concessional assistance; the former are directed towards profitable commercial ventures in fast growing economies, while the latter are needed for building human capital and for alleviating poverty in a large number of low income nations. Quality growth which the Managing Director mentioned yesterday cannot be achieved and sustained without more rapid progress in social sectors.

Before I conclude may I say a few words about the current economic situation and prospects in Pakistan.

The Government, which assumed office in February last, has launched a programme of economic revival aimed at restoring stability and accelerating growth. The programme makes a basic shift in economic policy with recognition that the fiscal and external imbalances are partly the result of economic slow down in the preceding four years and that unless basic structural reforms are undertaken to revive the economy, traditional stabilisation measures will not be enough to correct these chronic imbalances. The focus of the programme is therefore on the revival of economic growth to 6%, with emphasis on accelerating industrial growth which has slumped in the past few years. For this purpose the maximum tariff rates have been slashed from 65% to 45%, the rate of General Sales Tax from 18 to 12.5% and the personal income tax rate halved. Financial and banking reforms have been introduced to liberalize the monetary policy, provide greater autonomy to the State Bank of Pakistan in formulating monetary policy, overseeing the performance of banks and financial institutions and speeding up the recovery of stuck up loans. The capital market has been strengthened for the promotion of investment and mobilization of resources. The process of privatization is being speeded up and public sector enterprises in the spheres of banking, finance, energy and transport and communications have been offered for disinvestment. Incentives have been provided for raising agricultural production and productivity by substantially raising the support prices of key items; liberal availability of credit and other inputs; distribution of state land to farmers; and dissemination of results of

agricultural research to farmers. Exports are being promoted mainly by reducing anti-export bias, and improving the competitive position of Pakistani products in world market.

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The critical issue of containing fiscal deficit is being addressed by controlling expenditure, broadening the tax base and improving tax collection. Through this policy we expect to bring down the fiscal deficit from 6.3% to 5% of GDP in the current fiscal year.

On the social front, besides Social Action Programme (SAP-II) focusing on basic education, primary health, population welfare and water supply and sanitation in rural areas, a Programme of Poverty Alleviation is also being launched.

The critical issue of governance has been taken up in right earnest. The process of accountability has been speeded up by strengthening legal and institutional framework; the Government departments and public sector institutions are being downsized and their administrative and financial management being improved; discretionary powers of officials have been curtailed; and steps taken to reorganize and privatise public enterprises.

These policies and measures have been widely appreciated. They have also provided a basis for the initiation of the medium term economic and financial programme with the IMF, supported by World Bank, envisaging financial assistance from the Fund under ESAF and EFF. We are determined to see that these programs are implemented in letter and spirit.

Thank you.

World Bank Group Annual Mtg. 1997
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