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

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Mr. Chairman, Ladies and Gentlemen

1. It is a matter of great privilege and honor for me to address this august gathering.
2. We are meeting at perhaps the most tumultuous times the world is witnessing since the establishment of Bretton Woods Institutions. For the last more than one year we have seen a series of successive shocks that were unleashed in the wake of sub-prime crisis. Oil and food prices shocks have affected the developing countries most profoundly, and we are still reeling under their aftermath. In the days ahead, the situation is likely to be compounded by the second round effects of the on-going financial crisis.
3. In the case of Pakistan, we are not merely facing the economic consequences of the global crises but are playing the role of a frontline state against the war on terror. If on the one hand, more than 100,000 of our troops are battling a ferocious militancy, on other, our peoples in the main cities and federal capital are becoming victims of the suicide bombings. The loss of lives and economic cost imposed by this war are now rising to an unbearable level. There is a very negligible portion of these costs that is defrayed by our partners.
4. We also had to face the challenge of democratic revival as well. Our people gave a resounding verdict in favor of democracy as the principal instrument that would rid the country not only of militancy but of their economic deprivation also. The battle of democracy has been won after great sacrifices, the most notable is that of our great leader Shaheed Mohtarma Benazir Bhutto, who bravely sacrificed her life but has kindled a light that would show us the way in dark alleys of war on terror. But unfortunately, the elected

leaders have inherited an economy that was encumbered by the burden of subsidies accumulated due to unanticipated shocks of oil and food prices.

5. I take pride in stating that despite the gravity of the challenges, the democratic government has not abandoned country's resolve to move forward and to do things right both in standing up to the call of fighting the militancy as well as in preserving the market economy that we have evolved during the last two decades. We may be amongst the few countries who have successfully adjusted to the unprecedented increases in petroleum and electricity prices by eliminating nearly all the subsidies. The pain inherent in this adjustment can be gauged by the fact that these prices have nearly doubled or will be doubled at the close of the adjustment. We have also successfully met the challenges of food shortages both through timely imports as well as by aligning domestic agriculture prices with international prices. On the monetary side, we are fighting rising inflation by interest rates adjustment and by containing the monetary growth. We have also set the goal to adhere to a zero net government borrowings target from the central bank.

6. However, Mr. Chairman, these measures have not been accompanied by the support from our development partners that was needed to fully meet the needs of the economy. Even as the measures have helped contain the rapidly deteriorating macroeconomic framework the challenges remain on the horizon, and for this reason are equally determined to rise to their needs.

7. It should be understandable that adjusting to these shocks was a painful process, particularly for the most vulnerable segments of our population. To mitigate their sufferings we are launching a major program of cash transfers to the poorest households in the country. We are conscious of the challenges that are typically faced in targeting this group, and for this reason we will seek Bank's assistance from its vast experience in this field.

8. Mr. Chairman, although the multiple crises have been difficult to face, they have given us an opportunity to undertake a soul searching exercise and identify the vulnerabilities that characterized our economy and society. Accordingly, we are drawing fundamental programs to further restructure our economy and strengthen our institutions of governance so that we are better prepared to face such challenges in the future.

9. Besides ensuring macroeconomic stability, our new program will be primarily aimed at poverty reduction. For this purpose, apart from cash transfers to the poorest households, we will provide health insurance, skills development opportunity for at least one member of the family, and a suitable development support that will create temporary employment opportunities for each union council, which is the smallest administrative unit. This program will be supported by initiatives to revitalize agriculture, make the industry competitive, meet the growing energy needs, raise capital and finance for development, remove infrastructure bottlenecks through public-private partnership and reinvigorate the institutions of governance so that a just and fair administrative machinery serves as the anchor for the implementation of a vigorous and ambitious economic program.

10. Mr. Chairman, we look up to our development partnership, especially the IFIs, to help us lead this program, through both their advisory and financial assistance. We would also recommend that our bilateral partners also play their role within the larger framework that will evolve through active consultation with the IFIs.

11. In closing, let me acknowledge the effective role both IMF and World Bank are playing in the economic development of Pakistan. We are looking forward to even stronger ties in the coming days so that Pakistan successfully meets the challenges posed by multiple global crises.