



**PAKISTAN**

**SHAUKAT AZIZ, Governor**

It is indeed a matter of great privilege and honour for me to represent Pakistan at the Annual Meeting of the Asian Development Bank (ADB), which provides a forum for intensive and comprehensive interaction between a large number of countries in the region.

There is no doubt in my mind that under your excellent leadership, ADB has provided diversified and focused policies based on commitment and sincerity. The diversity of sectors covered under ADB's programs, ranging from agriculture to industry, from health to education, and from capital markets to financial services, indicates the depth of its operations and broad-based nature of its support.

I take this opportunity to commend you for the strong income position of ADB which has enabled approval of reduction in ordinary capital resources (OCR) charges with the waiver of the entire front end fee on all public sector loans approved during January 2004 to June 2005 and a reduction of 20 basis points in the OCE spread for all public sector loans outstanding from 1<sup>st</sup> July 2004 to 30<sup>th</sup> June 2005. This step is, I am sure, very welcome by all the developing member countries (DMC) who have argued strongly for a long time that there should also be allocated to reduce the debt service burden of OCR borrowers to allow them to free their resources in order to pursue poverty reduction interventions more aggressively.

It is also heartening to know that from the 2003 net income of \$436 million, ADB has allocated \$50 million to the Technical Assistance Trust Fund and \$150 million to the Asian Development Fund, thereby demonstrating ADB's continued strong commitment with its mandate for poverty reduction in Asia.

These are exciting times for us as we find that our economic attainments have been outstanding under the capable leadership of President Pervez Musharraf and the Prime Minister Mir Zafarullah Khan Jamali. Turn-around was possible because of the continuity and consistency of our home-grown reform agenda punctuated by a broad-based reforms program that has covered all the key economic sectors, including fiscal management, the finance and banking sector, capital markets, privatisation, agriculture, industrial policy, tax policy and administration, trade, oil and gas sector, water and power and information technology. The Poverty Reduction Strategy Paper (PRSP) developed by the Government has brought the social sectors in the center stage of economic planning. Pro-poor expenditures are not only protected but substantial increases have been made in their level. More importantly, a governance reforms

program has targeted revival of institutions of judiciary, civil services, law enforcement, audit and accounts, accountability, public financial management, and empowerment of people. These reforms have led to the revival of a dormant economy, which is now poised for a take-off. The engineering sector, cement industry, auto industry, telecommunication, oil and gas, hotel and tourism are expanding industries. The agro-based industry still have to expand, while the textile and value added industry is the mainstay and offers lucrative chances of jobs and returns. This year Pakistan's growth is expected to exceed 6% and is on a trajectory to reach 8% over 3 years.

In all these efforts ADB has been our consistent partner and we are very grateful to you, Mr. President, for taking a personal interest in Pakistan's efforts to make a new beginning.

An enormous challenge that Pakistan faced is the burden of public and external debt. We have followed a conscious strategy of lowering this burden and have brought macro-economic stability in the country whereby the overall budget deficit has been brought down from more than 6% to the targeted 4% gross domestic product (GDP) this year, inflation has been contained below 5%, the balance of payments has been significantly improved, foreign exchange reserves have been increased to a comfortable level of nearly 12 months of imports, the exchange rate is stable and appreciating, interest rates are at a historical low, and the stock market is rated as the world's best performing market. The Euro-Bonds for \$500 million, floated by the Government in the capital market were over-subscribed by a record four times. Efforts were also focused on borrowing only concessional foreign loans and seeking significant concessions from creditors such as rescheduling of official debt. This provided critical support by lowering the debt servicing burden. These policies have now enabled the country to take an even bolder initiative of retiring expensive loans borrowed from multilateral institutions like the World Bank and ADB. It may be recalled that the loans from these institutions were not included in the rescheduling exercise. Pakistan owes \$15 billion to these institutions. After undertaking a careful exercise of identifying expensive loans, 15 such loans were identified, all related to ADB, which are currently priced between 11% and 6.5%. Such loans were considered too expensive and hence found economical for prepayment. We have accordingly retired these loans for a total amount of \$1.171 billion and are in the process of identifying more loans for prepayment.

These positive developments, presenting a stable and robust economic outlook, enable us to redefine our borrowing needs. The World Bank and ADB remain our development partners and important sources of finance but under a different set of priorities, the objective being to have a manageable portfolio whose implementation can then be monitored to achieve satisfactory results. The following parameters will be determining our borrowing strategy in the future:

- a) reduce and maintain external debt at manageable level;
- b) retire the expensive debt on priority;

- c) external debts may be contracted only where there is full justification for the same, which will be determined by a combination of factors, including the cost of borrowing and the return on projects undertaken; and
- d) the projects for path-breaking institutional and managerial reforms, capacity building initiatives, infrastructure development, water resources management, and the power sector will be preferred for donor funding due to their far-reaching economic impact.

The Government of Pakistan intends to borrow for large-scale infrastructure projects in the water, highways, and power sectors, depending on the availability of high yielding priority infrastructure projects. We have decided to take OCR loans for infrastructure only and will continue to borrow loans offered under the ADF window but would ensure that they are for high capacity building and important social sector needs.

Finally let me congratulate to you Mr. President for your inspiring leadership and constructive actions to enhance ADB's effectiveness as a development partner. We also welcome Vice-President Liqun Jin and Vice-President Khempeng Pholsena whose wealth of experience bring greater dynamism to win the battle against poverty. I would also like to express my gratitude to ADB for arranging this Annual Meeting and for the warm hospitality extended to our delegation by the people of Jeju Island during our stay.