

Macro-economic Reforms and Socio-economic Service Delivery Under an IMF Programme

[Salutation and preliminaries]

1. Pakistan's economic situation today is well known to all of us. The GDP growth rate has fallen, the budget deficit has increased and the balance of payments situation is bleak. Businesses are closing, unemployment is growing and the incidence of poverty has increased. The rate of inflation is at levels not seen in the country in 30 years. Most people in the country are experiencing hardship, but the poor and middle class families are in pain and distress like never before.

2. Experts may differ with each other on how we ended up in this situation. They may differ on how to put it right, and how long this will take. The fact remains that it takes time—often years—before reforms can stabilize a troubled economy, create new jobs, and reduce poverty. The regional and global environment, in economic as well as political terms, also plays a major role in the fortunes of our country. Today, it is helping Pakistan by bringing in aid and concessional finance, but hurting us in terms of our trade, investment and growth prospects.

3. Let me summarize where we stand today in terms of the reform process. Pakistan signed a Stand-By Agreement with the IMF in November 2008 that would conclude in September 2010. This agreement is for about \$7.6 billion. It aims to contain the current account and fiscal deficits that Pakistan is facing. Containing these unsustainable deficits is a fundamental pre-requisite for stabilizing the national economy.

4. As we discovered last year, not even Pakistan's best friends in the international community were willing to assist the country without an internationally acceptable plan for reform. This government has negotiated an IMF agreement that is acceptable to the international community. In terms of conditionalities, this agreement is softer than similar programmes agreed in the past. Moreover, the agreement is consistent with the government's own plan as contained in the budget for 2008-09 and subsequent pronouncements and commitments for the welfare of the people.

5. The IMF agreement and supporting measures by the government have already begun to show results. Foreign investors and credit rating agencies have shown improved confidence in the country. Funding from multilateral and bilateral sources has resumed. A process of building up foreign exchange reserves has started, and the exchange rate has stabilized.

6. A government that has been elected for five years can initiate reforms, maintain its resolve, and hope for the global economy to improve. But it is also responsible for the people's welfare for five years, and needs to plan accordingly. Planning for such a large population with meagre resources has not been easy even in the best of times, when the GDP was growing rapidly, jobs were being created at a fast pace, and there was fiscal space in the budget for welfare and development. Today, the challenge is more daunting than ever before because of the circumstances we are facing.

7. The approach we are following is consistent with economic common sense, as practised in Pakistan and other developing countries. To start with, experts agree that economic growth will always have some trickle down effect. The trickle down is large when

the GDP grows fast—say, by more than 5-6% per year—and the agriculture sector shows a high rate of growth. For the last 20 years, however, growth has not translated into jobs as much as it did in the past. This trend has also been observed in neighbouring countries.

8. The fact is that even the high growth rates of recent years have not helped absorb all the people who are joining the labour force every year. There are large numbers of people who are willing and able to work, but not finding employment. In addition, there are people who cannot take up employment in the market because they suffer from disease, disability or other constraints. Thus, millions of people, including millions of women, are bypassed by the market. These people need direct assistance from various sources, including the government and the country's philanthropists. Obviously, the number of needy people increases when economic growth is slow, jobs are scarce and the rate of inflation is high, which is the situation today.

9. Over the years, government has introduced several initiatives for direct assistance to the needy. Most of the ongoing ones are included in the Medium Term Development Framework (MTDF) for 2005-2010. Some of them create employment through public works; some help through microfinance and others by investing in people; and some aim to provide cash to the needy. This government has added a targeted initiative for the needy, called the Benazir Income Support Programme, or BISP. This initiative was planned before the agreement with the IMF, and in view of the recognition that the poor were already suffering unprecedented hardship—and getting little help. BISP has a budget of Rs 34 billion for 2008-09 and aims to reach xxx needy families during this period. This can be seen as a stimulus to economic activity, but one that is placed in the hands of the poor.

10. The design of the programme is rigorous in comparison with earlier programmes. It is also subject to review and improvement during implementation. [SOMETHING ON THE INTENDED BENEFICIARIES AND CHECKS AND BALANCE]

11. I would like to emphasize that the programme also has a strong focus on improving the condition of poor women. In particular, it encourages women, their families and government agencies to provide legal identity to poor women. Inclusion of women through legal identity is an essential step towards inclusive governance. Legal identity would also contribute to women's inclusion in political systems. Thus, BISP is promoting concrete progress instead of lamenting that our country cannot develop if half the population is left out.