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Statement by the Hon. **JAMEEL AHMAD**,
Governor of the Fund for **PAKISTAN**

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Governor of the Fund for Pakistan**

Honorable Chairperson,

Fellow Governors, Ladies and Gentlemen,

At the outset, I extend my deepest condolences and unwavering support to the people of Morocco and Libya who were affected by tragic natural calamities recently. Our thoughts and prayers are with the affected families. Let me assure that the government and the people of Pakistan stand by your side in solidarity during this difficult time and offer our heartfelt sympathies. I firmly believe that both Morocco and Libya will emerge from this setback stronger than before.

I would like to structure my statement in four parts. First, I will highlight concerns regarding the ongoing near-term global economic recovery and its implications for Emerging Market Developing Economies (EMDEs) like Pakistan. Second, I will discuss some recent economic developments and policy reforms implemented in Pakistan. Then, I will highlight some economic headwinds that may affect the prospects of strong and sustainable economic growth in developing economies. I will finally offer a few propositions regarding the evolving role of the global financial safety net, with the IMF and the World Bank at its center.

Global Economy

The 2023 Annual Meetings of the World Bank Group and IMF provide us a unique opportunity to deliberate upon the risks to the ongoing, yet uncertain, global economic recovery, and to share ideas to promote inclusive growth. Indeed, the cascading impact of unforeseen shocks to the global economy that we have witnessed in the last four years are unique, as there is no precedence for such back-to-back global shocks in such a short span of time. Unfortunately, several economies are still growing at a frail pace and macroeconomic buffers, especially in EMDEs, are depleted. Therefore, strengthening liquidity and solvency buffers, especially in vulnerable economies, is the need of the hour. This requires policies that can help reduce uncertainties and safeguard the collective macroeconomic and financial stability of the economies. In this regard, it is important to highlight emerging risks that are evolving due to pattern of ongoing economic recovery globally. These risks tend to make some EMDEs and low-income countries (LICs) more vulnerable:

- IMF's projection of the global economic growth for both 2023 and 2024 is lower than the historical average, which has negative implications for global demand as well as trade.
- Within EMDEs, the growth projection for the next two years is more dispersed, with divergent trends.
- Inflationary pressures appear to have attained a somewhat higher plateau globally, as reflected by the IMF's projection of a gradual decline in global core inflation in 2023 and 2024.
- Tighter global financial conditions have severely restricted access of vulnerable developing economies to international capital markets, which further exacerbates their external sector vulnerabilities. Moreover, elevated borrowing costs – both domestic and foreign – have constrained the space for priority fiscal spending for the most vulnerable population segments and for climate-resilient projects

- External and fiscal buffers for several developing economies are already stretched and very little room is available to cushion against any further economic distress. There is a risk of debt distress spreading to weaker economies simultaneously.
- We have been witnessing the adverse effects of climate change-induced supply shocks with increasing intensity and frequency.

The nature of these challenges warrants a coordinated global policy response, in order to achieve inclusive, sustainable and resilient growth.

Recent Economic Developments in Pakistan

The past two years have been especially challenging for Pakistan. Post-pandemic supply side constraints, adverse terms-of-trade shocks, spillovers from the conflict in Ukraine, and catastrophic domestic floods last year, resulted in a sharp slowdown in economic growth, a surge in inflation, and a reduction in fiscal and external sector buffers.

To address these challenges and to attain macroeconomic stability, the country is pursuing a consolidation-oriented policy mix since late 2021. The State Bank of Pakistan has raised the policy rate by 1,500 basis points since September 2021 to 22 percent currently, to rein in inflationary pressures. At the same time, the market-based exchange rate is playing the role of first line of defense and has helped stabilize the external account. These actions were supplemented by a slightly contractionary fiscal policy stance that further contained demand-side pressures on inflation. More recently, Pakistan has entered into a nine-month Stand-By Arrangement (SBA) with the IMF that has helped address immediate external sector stability concerns by supporting the foreign exchange reserves. The government is fully committed to meeting the targets and reforms set under the program.

These tough but necessary policy decisions have begun to yield the desired results. Inflation is assessed to have peaked and is projected to trend down in coming months. The SBP's foreign exchange reserves have recovered from the low levels recorded earlier this year.

Notwithstanding these improvements, however, there is also a significant short-term economic cost associated with such decisions that have exacerbated further due to tighter global financial conditions along with growing trade fragmentation. The continuation of these unfavorable trends for an extended period will have further constraints on both fiscal and monetary interventions and will also delay the recovery process going forward.

Despite these challenges, the government continues to show strong commitment to implement wide-ranging reform measures. The reforms are aimed at broadening the tax base (to generate resources to support the most vulnerable population segments and undertake essential development spending); reducing losses of public sector enterprises; addressing artificial supply constraints across commodity and foreign exchange markets; and streamlining regulatory processes to facilitate businesses and encourage investment in the country.

Economic challenges ahead

In addition to country-specific challenges, now I would like to highlight some economic headwinds that many EMDEs and LICs are facing collectively. Addressing these obstacles is necessary for achieving our shared objective of inclusive, sustainable and resilient future economic growth. These challenges include:

- **The accumulation of high levels of public and external debt.** Both the stock of external debt and annual gross financing needs have spiked for several EMDEs and LICs, especially in the wake of recent cascading adverse global shocks. For these under-stress

economies, debt servicing – especially during the phase of economic contraction – can further strain government finances and limit fiscal space.

- **Protectionist policies.** In recent years, international trade dynamics have shown realignment, especially regarding global trade integration. Global trade tensions and so-called de-globalization in order to de-risk the supply chain has increasingly gained traction in policy circles. These trends may well contribute to higher inflation, lower growth and fragmented trade benefits for selected countries. EMDEs often rely heavily on international trade, and increased trade fragmentations can negatively impact their economic growth.
- **Geopolitics and elevated commodity prices.** Going forward, the continuation of the conflict in Ukraine, coupled with oil market dynamics, poses major risks to inflation, growth and external account sustainability for economies that depend on imported commodities, particularly as inputs. Higher input and commodity prices raise production costs, and resultantly compress aggregate demand, including exports. This also constrains fiscal space and impacts external balances adversely.
- **Climate change.** Efforts to combat climate change and achieve Sustainable Development Goals are at risk in many countries due to the need to shift resources away from these pressing issues towards the management of higher commodity price impacts and increased debt servicing. The increasing intensity, frequency, and wide-spread devastation by climate change related disasters, and its associated economic and financial risks, underscore the importance of coordinated efforts to decarbonize the global economy.

Role of World Bank Group and the IMF

The global scale of economic risks and headwinds is beyond any single country to navigate on its own. On this note, while applauding the role being played by the World Bank and the IMF in helping developing countries during challenging times, I would point out some aspects that need special emphasis:

- The burgeoning debt poses a serious challenge for policymakers as it erodes the already limited fiscal space and exposes the most vulnerable segments of the society. Accordingly, many countries have initiated debt restructuring proceedings and are also exploring the debt-for-climate and debt-for-nature swaps to free up fiscal resources so that governments can improve resilience without triggering a fiscal crisis or sacrificing spending on other development priorities. In this regard, both the World Bank and the IMF can help build the framework for prioritizing climate-critical infrastructure in debt restructuring processes to facilitate debt and environment-related objectives.
- There should be an enhanced cooperation not only with the World Trade Organization (WTO) but with other relevant regional partners to reduce barriers to trade and strengthen the international trading system. This will enable low-income countries to take advantage of trade-related opportunities to rebuild, invigorate their productivity gains, increase food production, and thus protect their populations from the risks of food insecurity.
- Both the World Bank and the IMF have a vital role to play, especially given the persistent uncertainties and unforeseen global shocks in recent years. They must help governments integrate risks and opportunities into their climate-related policies and decisions. The severity of climate-related shocks calls for an immediate and practical action plan. There is a need to increase and direct investments towards a low-carbon and climate-resilient growth trajectory and ensure the availability of adequate financing.

- Access and scope of the IMF's lending facilities like the Resilience and Sustainability Trust (RST) for combating climate change and Poverty Reduction and Growth Trust (PRGT) for vulnerable and poor countries should be enhanced. Arguably, the present scale and scope of RST requires a significant increase to address the mammoth task of supporting inclusive, green growth in developing countries. Also, relaxation in program conditionality and RST initiatives must go hand in hand with other poverty reduction programs simultaneously for vulnerable countries.
- Progress along the commendable initiative proposed in the past by advanced countries, of commitments to channel SDR towards low-income vulnerable countries, should be expedited.
- To enhance the resilience of the global financial safety net, it is imperative to reach a consensus at the international level regarding the 16th General Review of Quotas at the IMF.
