



## External Communications Department

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### **Governor SBP addresses investors about Pakistan's economy and the way forward**

Governor SBP, Mr. Jameel Ahmad met key international investors and fund managers in an event organized by Barclays on 13th April 2023 in Washington DC on Pakistan's Economic Challenges and Way Forward. Governor SBP briefed the participants about the challenges being faced by Pakistan, its policy response and the way forward for the country to address such challenges. Governor SBP also responded to the questions asked by the participants.

Governor SBP explained that Pakistan's economy is witnessing high inflation and external balance of payments pressures, which are largely driven by adverse global shocks and domestic developments. Commodity prices in the international markets, though have fallen from their peak levels in mid-2022, are still significantly higher than their pre-Covid levels, taking their toll on domestic inflation and external account. At the same time, global financial conditions have tightened, which has made it harder for EMs like Pakistan to access international financial markets. As a result, country's foreign exchange reserves and exchange rate came under stress. He stated that devastating floods during July-August 2023 in Pakistan have further accentuated the economic distress in the country.

With regards to the external account position, the Governor SBP stressed that, contrary to earlier expectations by the market, Pakistan has met all its obligations in a timely manner. He explained that the country's debt repayments have been rather front-loaded, whereas inflows have been gradual. The program loans from other multilateral agencies are waiting for the completion of the IMF review. In this interim period, the country continues to receive fresh financing, in addition to rollover of existing loans, from bilateral partners. The State Bank's foreign exchange reserves, after touching a low of \$2.9 billion by 3rd February, have since recovered to \$4.2 billion by 31st March.

While discussing the policy response in Pakistan, Governor SBP Mr. Jameel Ahmad informed that over the past 18 months, the State Bank has raised the policy rate by 1400 basis points, to 21 percent. Other measures taken to reduce demand-side pressures on inflation and the current account included tightening of regulations. Moreover, the exchange rate has adjusted over the past couple of months, served as the first line of defense against emerging external imbalances. He stated that on the fiscal side, the government is pursuing a contractionary fiscal policy. The fiscal deficit during July-January FY23 is lower than last year, despite the flood-related rehabilitation and reconstruction expenses. Moreover, the primary balance is in surplus so far, against a deficit last year.

The Governor SBP expressed that the country is on its way to achieving macroeconomic stability, as the impact of policy measures is already playing out in the economy. The current account deficit has narrowed and foreign exchange reserves, albeit low, are increasing. While inflation is currently elevated, it is expected to start decelerating over the next few months. And with the revival of the IMF program, the uncertainty regarding external financing will also fade away.

Governor SBP also highlighted that the country has undertaken a series of reform measures – including the strengthening of the central bank's operational autonomy; prohibition of government borrowing from the central bank; AML/CFT-related regulatory interventions; and measures to increase digitalization in the economy. These measures have addressed many structural weaknesses and will allow the economy to pick up sharply once the country is through the current challenges.

In his concluding remarks, Governor emphasized that Pakistan's economy has always rebounded strongly after undergoing severe shocks. We saw this happen after the devastating earthquake of 2005; the floods of 2010; and recently after the Covid-19 pandemic. No doubt, this time, we have faced not



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one but a series of domestic and global shocks. But we strive to rebound strongly from the current challenges as well.

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