We appreciate the work of the Bank staff in preparing the CAS Progress Report for Pakistan and the Structural Adjustment Loan. We are also grateful for the technical briefing which contributed to our better understanding of some important issues.

The Progress Report document provides an objective perspective on the recent political and economic developments in Pakistan since the last CAS Progress Report discussion. In 1997 Mr. Sharif’s Government embarked on an ambitious reform program. The initial phase of its implementation was very successful, and there was a considerable improvement in the economic performance through most of 1997/98. However, following the nuclear testing in May 1998 and imposition of external sanctions, the financial situation in Pakistan significantly deteriorated and, as a result, the implementation of many important reform measures was adversely affected. Despite a number of emergency measures that the Government took to address the balance of payments crisis and sustain domestic economic activity, the threat of an unprecedented financial, economic, political, and social meltdown remains.

At the same time it should be recognized that even when financing for structural reform program dried up, the Government remained committed to the reform course, and, notwithstanding setbacks, the progress achieved in implementation of the current CAS placed Pakistan in the High Base Case lending scenario.

As we see it, the key question of today’s CAS discussion is what the Bank’s response should be in this very complex situation. In our opinion, the Progress Report contains the right answer. We appreciate the bold and pro-active stance taken by the Staff and Management and strongly support their strategic choice. Of course, the risks involved in stepping up Bank assistance to Pakistan are very serious and require careful mitigating efforts, but we agree with the Report that a wait-and-see option is fraught with disastrous consequences for the country.
We endorse the proposed lending program for the period until the consideration of the next full CAS. The main components of the program are two one-tranche adjustment operations: the Structural Adjustment Loan and the Power Sector Adjustment Loan. Although they were not specified as such in the last CAS, we find them fully consistent with the CAS's objectives of supporting strong reform performance with fast-disbursing assistance. As regards the planned level of IBRD lending, we have no problem in accepting the justification presented in the Progress Report as well as at the technical briefing prior to the Board discussion.

The Structural Adjustment Loan is under consideration along with the CAS Progress Report. We note with satisfaction that the borrower has met all the prior conditions for its presentation to the Board. We welcome and approve this operation as a timely and appropriate Bank response to the request of the Government of Pakistan which has been demonstrating a strong commitment to its far-reaching economic reforms. At this critical juncture the SAL will help Pakistan overcome a major external financing crisis, improve its creditworthiness and restore investors' confidence. At the same time this operation will support the on-going structural adjustment program initiated by the Government to restore the basis for rapid growth and poverty reduction.