

GOVERNOR'S SPEECH



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Assalam o Alaikum and Good Morning;

It is a matter of great pleasure for me to be a part of the first ever Asia's Energy Transition Summit. I extend my heartfelt appreciation to the Pakistan Renewable Energy Coalition, LUMS and its partners for organizing this summit on a topic of global concern and of special relevance for developing Asian economies. With many sustainable energy experts in attendance, I am hopeful that this conference will help us to chart out pragmatic solutions toward a green and safe future for our country and planet.

As we are all aware, climate change is one of the most pressing issues facing the world today. It is causing extreme weather events that result in loss of lives, livelihoods and critical infrastructure at an increasing frequency. Unpredictable weather events also pose substantial macroeconomic risks by destroying output of essential agriculture commodities, including food crops. These events also disrupt supply chain linkages, contribute to economic uncertainty, and also create additional challenges in achieving sustainable economic growth.

It is, therefore, important for countries to adopt an all-encompassing policy approach to reduce their carbon footprint and thereby slow down and eventually reverse the harmful impacts of climate change.

With this backdrop, today, I will touch upon three main themes. **First**, the progress on clean energy transition made globally as well as in Pakistan. **Second**, the opportunities as well as challenges faced by Pakistan in pursuing the much-needed transition towards

clean energy. And **third**, the role of stakeholders – including the government, central bank, international financial institutions and private sector – in taking the agenda for sustainable development forward from here on.

Ladies and gentlemen!

I am sure you are aware that Pakistan is among the top 10 countries most vulnerable to climate change. Yet, we are contributing negligibly to the factors that are fueling it. Despite this, Pakistan has committed to unconditionally reduce its overall projected emissions by 15 percent by 2030. We have also committed to reduce emissions by a further 35 percent, conditional on the availability of required external financing. To achieve the emissions target by 2030, Pakistan has planned to generate 60 percent of all energy from renewable sources.

In spite of significant macroeconomic challenges over the past couple of years, we have made important strides toward sustainable energy transition. In fact, Pakistan already stands at a comparatively cleaner position relative to other Asian and low and middle income economies in terms of the overall energy mix. Moreover, we are also transitioning away from fossil fuels at a faster rate than many regional economies. According to global data compiled by the Energy Institute, the share of fossil fuels in Pakistan's overall energy consumption has declined by 4.8 percentage points; from 86.7 percent in 2019 to 81.9 percent in 2023. In the same period, the average share of fossil fuels in Asian countries declined from 88.0 percent to 85.6 percent (2.4 percentage points). Meanwhile, for low and middle income countries, the drop in share was even lower – just 0.8 percentage points, from 90.8 percent to 90.0 percent.

Having said this, we know that we need to do a lot more to bring down our collective carbon footprint and achieve the emissions targets. We believe this is important for achieving sustainable growth in future.

Ladies and gentlemen!

This brings me to the second theme of my speech, about the opportunities as well as challenges faced by Pakistan in pursuing the transition towards cleaner energy. In terms of opportunities, there is tremendous availability of natural resources – especially solar, hydropower and wind – in Pakistan to gradually steer our energy mix towards

cleaner sources. According to a widely cited World Bank study, utilizing less than 0.1 percent of the country's available area for solar power would meet Pakistan's current total electricity demand. Apart from solar, wind resource is also considerable in the country, especially in parts of Balochistan and Sindh.

At the same time, however, there are some major challenges that limit our ability to utilize the available potential of clean energy sources and phase out existing fossil fuel-based energy generation.

First, the cost of undertaking the clean energy transition is quite substantial. For Pakistan, it runs into billions of dollars annually for many years. The cost relates to development and upgradation of infrastructure – such as hydropower plants, transmission systems, and so on, as well as to phase out existing fossil fuel-based power plants.

Second, the constrained fiscal envelope limits the government's ability to undertake the needed magnitude of investments into building resilience against climate change and to transition towards cleaner energy. The elevated budgetary borrowing requirement also leaves less space for the private sector to borrow for commercially viable clean energy projects.

Third, countries most at risk from climate change already have high debt levels. In fact, 28 of the countries that are most vulnerable to climate change are assessed by the UNDP to be in debt distress. This discourages investors, especially foreign institutional investors, from providing much-needed capital to these countries to undertake the required energy transition.

And fourth, developing countries today need to arrange funds to finance this energy transition, while suffering output losses due to changing weather patterns at the same time. These output losses lead to an increase in demand for imports to stabilize domestic supplies. This, in turn, leads to external account pressures for many emerging markets, at a time when access to global markets is already constrained for many of these countries. You may all recall the sizable impact of the devastating floods that had struck Pakistan in 2022, at a time when the country was already experiencing a challenging macroeconomic environment.

Ladies and gentlemen!

This brings me to the final theme of my talk, about what each of us present here today needs to do to facilitate the much-needed energy transition in our country.

First, macroeconomic stability is a paramount for sustained economic growth and energy transition. In this regard, SBP and the government have been focused on stabilization measures over the past couple of years, which are now yielding the desired results. Going forward, there is a need to focus on structural reforms to expand the overall fiscal envelope. This will also create more space for the private sector to borrow at feasible terms to undertake the needful investments.

Second, Pakistan needs to effectively tap the available international climate financing options. The IMF, World Bank, ADB and Asian Infrastructure Investment Bank have all expressed their eagerness in facilitating the global energy transition, especially for developing economies. These global institutions are uniquely positioned to support governments in designing feasible clean energy projects and develop financial products with the required safeguards for private investors. In this regard, IMF's Resilience and Sustainability Trust and the ADB's Energy Transition Mechanism are two facilities aimed at supporting emerging economies in their efforts to build resilience against climate change. On the home front, the ongoing macroeconomic stability is a welcome development to attract foreign investment. At the same time, there is a need to actively work on designing commercially viable projects and explore retiring existing fossil fuel-based projects. Such endeavors may result in concessional external financing from multilateral partners as well as foreign institutional investors.

Third, the domestic policy environment needs to be more conducive for setting up of clean energy projects and for development of domestic financial markets for sustainable investments. In this regard, SBP has undertaken a number of initiatives. In 2016, we introduced a revised Financing Scheme for Renewable Energy with a total outlay of Rs104 billion, which capped the maximum interest rate chargeable to borrowers at six percent. SBP also issued the Environmental and Social Risk Management implementation manual in 2022 for the banking sector. This manual is intended to facilitate banks in integrating environmental risks in their overall credit assessment exercise. Further, SBP is currently developing National Green Finance Taxonomy in collaboration with World Bank. This flagship project will define green economic activities in priority sectors with respect to climate change. Moreover, the Securities and Exchange

Commission of Pakistan has approved national guidelines for the issuance of green bonds or Sukuk financing by the corporate sector.

And fourth, the private sector – backed by sound technical advice from experts – will need to wholeheartedly come on-board for the clean energy agenda. While undertaking capacity expansion or new greenfield projects, the private sector should also consider environmental sustainability concerns and plan accordingly. This will allow it to potentially raise external financing from institutional investors looking to finance green projects.

Ladies and gentlemen!

In the end, I assure you that, at the State Bank of Pakistan, we are determined in developing a climate-driven central banking framework that is synchronized with all stakeholders in pursuit of a green energy transition. This is also at par with overall adaptability and climate change mitigation measures. To achieve these objectives, certainly we require institutional capacity building and collaboration, especially via events like today. These efforts will need to be shored up by the needed investments in research and development by both the public and private sectors. From the policymaking perspective, there is a need for clear-cut targets and timelines for de-carbonization across the manufacturing and agriculture supply chains. Lastly, the overall policy and regulatory framework should be focused towards incentivizing the transition towards green energy.

In conclusion, I would like to extend my gratitude to the organizers for organizing this important Summit and for inviting me to speak at this event.

With that, I thank you for your time, and look forward to the rest of the informative and insightful sessions today.
