# Rising Debt: A Serious Threat to the National Security
by
Dr. Ashfaque H. Khan*

## I. Introduction

Pakistan's external and public debts are growing at a threatening pace for the last eight years (2008-15) owing to fiscal profligacy on the one hand and substantial decline in non-debt creating inflows as well as a decline in exports, on the other. The speed at which the governments have borrowed during the period has caused serious alarm in various circles as it is considered to be something that is posing a serious threat to the national security. The recent pace of accumulation of debt suggests that, if remain unchecked, Pakistan's public debt in general and external debt in particular would reach an unsustainable level in the next five years. The size of the external debt in particular would be large enough for Pakistan to service its external debt obligations in an orderly manner.

Apart from the direct consequences for national security, rising debt is also a threat to macroeconomic stability and hence to growth, employment generation and poverty. It is well-known that high and rising debt depress investment by increasing uncertainty. As the size of the public debt increases, there is a growing uncertainty about the actions and policies that the government will resort to in order to meet its debt service obligations, with adverse effects on investment. In particular, as the stock of public debt increases, there may be expectations that the government's debt service obligation will be financed by distortionary measures. In these circumstances, potential private investors will prefer to divert their activities towards quick return investment rather than long-term, high risk and irreversible projects. Rapid accumulation of debt can also be accompanied by increasing capital flight if the private sector fears the imminent threat of devaluation and/or increases in taxes to service the debt obligation.

In short, high and rising debt constitute a serious threat to economic prosperity. It acts as major impediments to investment and growth and hence to employment generation and poverty alleviation. It is also a discouragement to foreign investment because it creates uncertainty about the government's policy and accordingly generates a high risk environment for doing business in the country. High and rising debt also put pressure on the exchange rate, thus causing sharp depreciation with the attendant rise in public debt and inflationary pressure. Additionally, it also discourages the government from undertaking counter-cyclical policy to revive the economy. Thus high and rising debt is a serious threat to both economic and national security and hence be taken seriously by the political leadership.

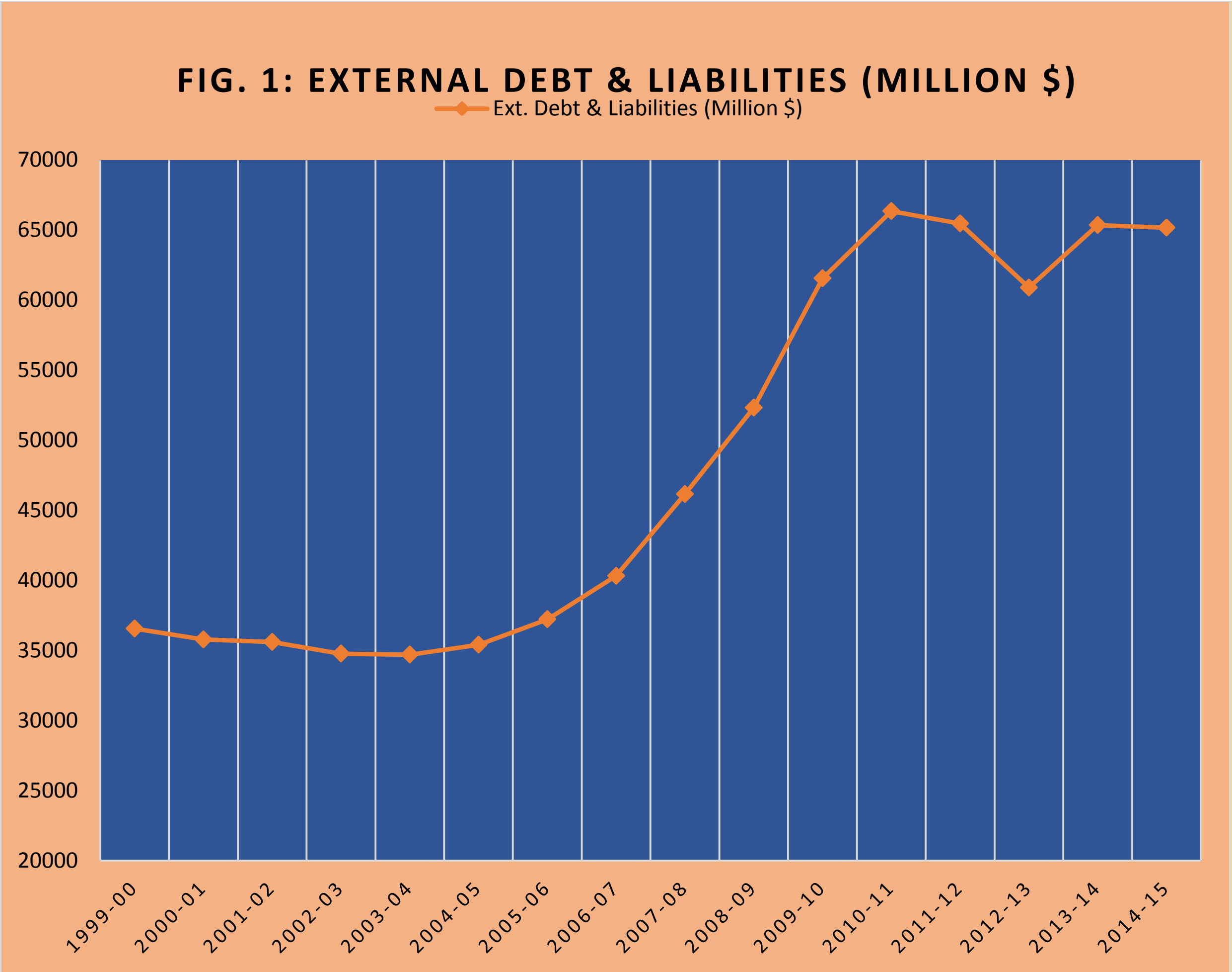
The purpose of this paper is to review the current debt situation, how it evolved over the years, its impact on the economy and the future outlook of the country's debt in the light of maturing bonds, expiry of Paris Club debt rescheduling, the start of the repayment of the current IMF Program and the projects to be undertaken under the China-Pakistan Economic Corridor (CPEC). The plan of the paper is as follows. In section II, we review the trends in external debt and debt

service obligations. The trends in public debt are reviewed in section III. Domestic debt and its changing structures are also discussed in this section. The emerging debt scenario in the next five years is documented in section IV and its consequences for the economy and national security are discussed in section V. The final section contains concluding remarks and some suggestions to address challenges of the growing debt. Relevant data and graphs are documented in the appendix.

## II. External Debt

There are two types of debt – public debt and external debt. Public debt has two components – the rupee component and foreign currency component. Public debt is denominated in rupee term. External debt is denominated in dollar term. The foreign currency component of public debt is part of external debt as well. Why should we examine these two types of debt separately? The answer is that the causes and consequences of these two types of debt are different. Public debt is the outcome of budgetary development and therefore the rise in this debt has serious consequences for the budget. External debt on the other hand is the outcome of the developments in the external balance of payments. A rise in external debt will have serious consequences for the country's balance of payments as well as for national security. Let me turn to discuss the trends in external debt over the last 15 years (2000-2015).

Pakistan's total stock of external debt and liabilities (EDL) grew at an average rate of 3.9 percent per annum during 2000 to 2015 – rising from $36.6 billion to $65.2 billion during the period. The EDL grew at an average rate of 1.4 percent per annum during 2000 – 2007 but its growth accelerated to an average of 6.2 percent per annum during 2008-15. More interestingly, the EDL grew at an average rate of 13.3 percent per annum during 2008-11, depicting an extra-ordinary surge in debt. Pakistan added almost $29 billion in its external debt since 2000, of which $3.761 billion was added during 2000-2007 while the remaining $24.9 billion was added during 2008-2015. In other words, Pakistan added almost seven times more debt in the last eight years compared with the previous eight years **(See Fig. 1 and Appendix A for data)**.




The factors contributed to the surge in external debt during the post-2008 period include: i) financing of the large current account deficit, ii) large amortization payment, iii) decline in non-debt creating inflows like foreign investment, privatization proceeds and grant assistance; and iv) extensive borrowing at high cost for building foreign exchange reserves. It is the speed and the size of external debt that Pakistan added in the last eight years have emerged as a serious threat to its national security.

What is more alarming is the fact that two-third (65% or $42.2 billion) of the total stock of external debt and liabilities ($65.2 billion) was added during the decade of the 1990s and during 2008-15 ($17.356 billion and $24.9 billion, respectively). In other words, two-third of the debt accumulated in 18 years and the remaining one-third ($23 billion) external debt was accumulated in the remaining 50 years. This simply reflects the state of economic governance during these periods as it totally drowned the country under debt. The same speed of borrowing is continuing and as such has created a national security issue **(see Table 1).**

## Table 1: Addition to Debt

| Period | External Debt & Liabilities (million $) | Public Debt (Billion Rs) |
|---|---|---|
| 1948-60 | 145 | - |
| 1960-70 | 2814 | - |
| 1970-80 | 6499 | 155.4 |
| 1980-90 | 9749 | 646 |
| 1990-2000 | 17356 | 2217 |
| 2000-2007 | 3761 | 1796 |
| 2008-2015 | 24859 | 13005 |

**Source: State Bank of Pakistan; Ministry of Finance, Government of Pakistan**

A further example of reckless borrowing can be seen from the fact that during 2008/09 to 2012/13 that is, in five years, the government contracted almost $25 billion loan, of which, bilateral/multilateral amounted to $17.4 billion or over 70 percent and the remaining $7.4 billion from the IMF. During the last two and a quarter year, the current regime also contracted $25 billion loan from the same sources. A journey which was completed in five years, the present regime equaled the feet in contracting loan in less than the half tenure. What is horrifying to note that during the 2008/09 to the first quarter of the current fiscal year (2015-16) the two regimes have contracted almost - $50 billion loan. It is beyond doubt that they have drowned the country under debt (See table 2 for the details).

**Table 2: Loan Contracted by PPP and PML (N) Governments during 2008-09 to September 2015-16**

| Year | PPP | | PML (N) | |
|---|---|---|---|---|
| | Bilateral/ Multilateral | IMF | Bilateral/ Multilateral | IMF |
| **FY2009** | 4,797.9 | | | |
| **FY2010** | 4,564.7 | 7,400 | | |
| **FY2011** | 2,738.1 | | | |
| **FY2012** | 4,018.1 | | | |
| **FY2013** | 1,277.6 | | | |
| **FY2014** | | | 14499 | 6,640 |
| **FY2015** | | | 3,633 | |
| **FY2016** | | | 3891 | |
| **Total** | 17,396.4 | 7,400 | 22,023 | 6,640 |
| | **24,796** | | **28663** | |

*Source: State Bank of Pakistan*

The country borrows from external sources mainly for four reasons; that is to finance current account deficit; for amortization payment (principal amount due for payment); to finance development projects; and to build foreign exchange reserves. Bulk of external borrowing during the last eight years has been mainly on account of amortization payment and building foreign exchange reserves. Consequently, the structure of external debt has changed significantly, moving away from bilateral to multilateral sources. Multilateral debt accounted for 38 percent of the total debt and liabilities in 1999 – 2000 but increased to over 53 percent in 2010-11 owing to the generous disbursement from the IMF **(See Table 3).**

The share of bilateral debt declined accordingly from almost 36 percent to 27 percent during the same period. The share of multilateral debt has now declined to 44 percent in 2014-15 but the share of bilateral debt remained more or less unchanged. The share of Eurobond and Sukuk (Islamic bond) increased significantly from 2.6 percent in 2010-11 to 7.4 percent in 2014-15 – an increase of almost five percentage points. In other words, over one-half of the decline in multilateral share has been compensated by the rise in the share of bonds. In so doing, it appears

that Pakistan has shifted away from relatively cheaper sources of borrowing to expensive ones with adverse consequences for interest payment going forward **(See Table 3).**

**Table 3: Shares of Different Debt in Total External Debt and Liabilities (Million $)**

| Years | MLT Debt | Bilateral Debt | Euro/Sukuk Bond | Others |
|---|---|---|---|---|
| **1999-2000** | 13,914 (38.1%) | 13,067 (35.7%) | 1,770 (4.8%) | 7,812 (21.4%) |
| **2006-07** | 20,165 (50.0%) | 13,693 (34.0%) | 2,800 (6.9%) | 3,666 (9.1%) |
| **2010-11** | 35,461 (53.4%) | 17,927 (27.0%) | 1,750 (2.6%) | 11,228 (16.9%) |
| **2013-14** | 29,547 (45.2%) | 18072 (27.6%) | 3,840 (5.9%) | 13,906 (21.3%) |
| **2014-15** | 28,883 (44.3%) | 17,137 (26.3%) | 4,850 (7.4%) | 14,313 (22.0%) |

Note: Figures in parentheses are shares of respective debt in total debt
***Source: State Bank of Pakistan***

It is important to note that from a policy perspective, a critical appraisal of external debt and liabilities should not entirely focus on the variation on the absolute stock, but, instead, it should also focus on the burden of debt. Pakistan's EDL as percentage of exports was as high as 446.4 percent in 1999-2000, decline sharply to 235.6 percent by 2006-07 owing to slow growth in debt (1.4% p.a.) on the one hand and an impressive growth (11.1 % p.a.) in exports on the other. The EDL as percentage of exports continued to rise thereafter, reaching as high as 270.1 percent in 2014-15 owing to the rapid increase in EDL (6.2 % p.a.) on the one hand and slower growth (4.4% p.a.) in exports on the other. Yet another way to analyze the burden of debt is to estimate the EDL as percentage of foreign exchange earnings (include exports, remittances, foreign investment etc.). The ratio was over 300 percent in 1999-2000 but declined rapidly to 123.6 percent by 2006-07 owing to a slower growth in debt and robust growth (15.4% p.a.) in foreign exchange earnings. The EDL as percentage of foreign earnings continued to exhibit a fluctuating trend during 2008-2015 owing to slower increase in exports, declining trend in foreign investment and continued strong growth in remittances. While EDL grew at an average rate of 6.2 percent p.a. during 2008-15, foreign exchange earnings increased at an average rate of 6.0 percent p.a. during the period **(See Fig. 2).**

## II.1: Project versus Non-Project Loan

Some discussion on loan disbursed as project loan and non-project loan is essential to understand the burden of debt. Pakistan has been receiving loans from consortium, non-consortium and Islamic countries either for financing projects or for financing budget and current account deficits as well as receiving food aid and relief goods. Economists have argued that if necessary, the country may prefer project loan because it would enhance the production capacity or the debt creating capacity of the country. Non-project loan of which, budgetary/balance of payment support accounts on average, over 85 percent simply adds to debt and worsen debt-to-GDP ratio.

**Table 4: Shares of Project and Non-Project loan in total Disbursement of loan (%)**

| Year | Project Loan | Program Loan/Non-Project-Loan |
|---|---|---|
| **1990s** | 73.0 | 27.0 |
| **1999-2000** | 72.2 | 27.8 |
| **2000-01** | 47.1 | 52.9 |
| **2001-02** | 26.9 | 73.1 |
| **2002-03** | 44.1 | 55.9 |
| **2003-04** | 45.1 | 54.9 |
| **2004-05** | 33.7 | 66.3 |
| **2005-06** | 62.1 | 37.9 |
| **2006-07** | 38.7 | 61.3 |
| **2007-08** | 42.8 | 57.2 |
| **2008-09** | 27.1 | 72.9 |
| **2009-10** | 33.1 | 66.9 |
| **2010-11** | 41.1 | 58.9 |
| **2011-12** | 56.7 | 43.3 |
| **2012-13** | 72.5 | 27.5 |
| **2013-14** | 29.5 | 43.0 |
| **2014-15** | 44.0 | 56.0 |

Percent

| Year | Project Loan | Non-Project Loan |
|---|---|---|
| **2000-07** | 45 | 55 |
| **2008-15** | 43 | 57 |
| **2000-15** | 45 | 55 |

**Source: Pakistan Economic Survey 2014-15**

The shares of project loan are reported in **Table 4**. A cursory look at the table suggests that on average, 73 percent of loans received by Pakistan was against various projects in the 1990s, while only 27 percent was disbursed as non-project or mostly program loan. In the decade of 2000 and beyond (during the last 15 years), the share of project loan declined to an average of 45 percent, while the share of non-project or program loan increased to 55 percent.

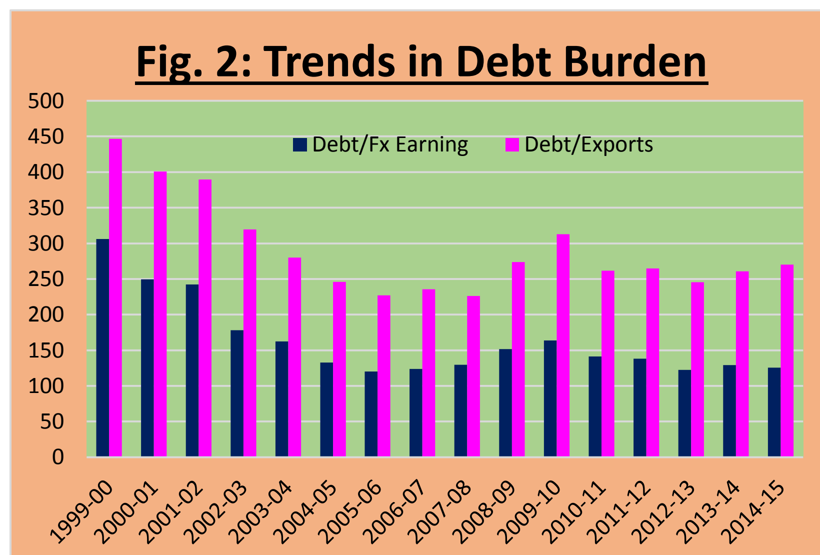
What message these numbers convey? Did production capacity or the debt carrying capacity increased during the 1990s, because of almost three – fourth of loan received against various projects? The answer appears to be no. Pakistan's public debt-to-GDP ratio was close to 100 percent and external debt – to – GDP ratio was over 60 percent by the end of the 1990s – a

burden which was considered very high for a developing country like Pakistan amid the inflows, primarily coming against various projects.

A fluctuating trend was observed in the case of program loan during the post – 2000 period ranging between 27.0 – 73.0 percent but averaging 55 percent. What happened to the country's debt burden? The debt burden continued to decline during 2000-2007 period, but increased somewhat during 2008-15 period. Public debt – to – GDP ratio declined to 55.2 percent while external debt – to- GDP ratio came down to as low as 27 percent by 2006-07. During the post – 2008 period, public debt – to – GDP ratio increased to 63-64 percent and external debt – to – GDP is hovering around 30 percent. The loan program loan is meant to meet the cost of reform in various sectors of the economy. The idea is that reforms would remove bottlenecks and irritants in smooth functioning of the economy which will ultimately contribute to higher sustainable growth.

The usefulness of project loans would depend upon the selection, approval, execution, monitoring and timely completion of projects. Pakistan's record in all these areas has remained notoriously poor. We have been recklessly approving the projects purely on political grounds resulting in massive buildup of throw-forward over the years. The implication of throw-forward is that ongoing projects do not get an adequate allocation in the budget, resulting in delays in completion of projects as well as massive cost overrun (for a detailed discussion on this issue, see Hafiz Pasha and others "Review and Analysis of Pakistan's Public Investment Program" submitted to the Planning Commission, Government of Pakistan, June 2011). As far as program loan is concerned, the successive governments during the post-2000 period have been receiving loans with a promise to introduce wide-ranging structural reforms. The performance on the reform side has not been up to the mark at best or the reforms introduced by one regime was undone by others, leaving the country at a ground zero level all the time.

There is, therefore, no sacrosanct about project versus program loan. What is required is to build the capacity (both individual and institution(s) in the areas of selection, approval, execution, monitoring and timely completion of projects as far as project loan is concerned. In this respect, the capacity of the Planning Commission and its staff need massive strengthening. On program loan, the commitment of the political leadership as well as the quality of staff in line ministries are crucial for the success/usefulness of the program loan.

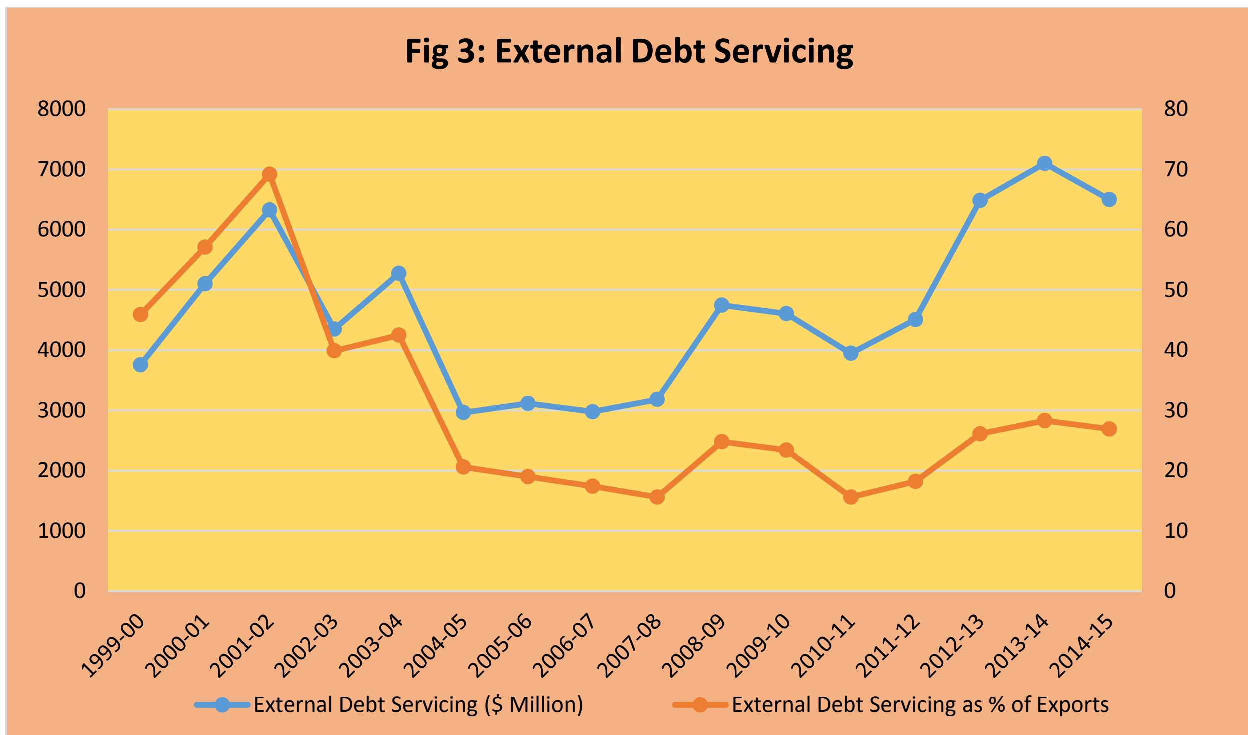



## II.2 External Debt Servicing

External debt servicing depends on the size and the average interest rate of the outstanding stock of external

debt and liabilities. The debt contracted in the decade of the 1990s (over $17.3 billion), some of which were maturing in the late 1990s to mid-2000s. External debt servicing amounted to $3.8 billion or 46 percent of export earnings in 1999-2000, reaching as high as over 69 percent in 2001-02. Explaining differently, over 69 percent of exports earning was consumed for debt servicing in 2001-02. Debt servicing ratio continued to improve rapidly – declining to as low as 17.4 percent in 2006-07. Factors responsible for improving debt servicing profile include; i) re-profiling of Paris Club bilateral debt on a long-term horizon, ii) substantial write – off of the US debt, iii) the prepayment of expensive debt amounting $1.1 billion and iv) the relative shift in contracting new loans on concessional term.

External debt servicing profile continued to deteriorate since 2007-08 – rising to 27 percent of export earnings by 2014-15 for two reasons. Firstly, the stock of debt has risen at a relatively faster pace (6.2 % p.a.) during 2008-15 and hence external debt servicing increased from $3.2 billion in 2007-08 to our $7.0 billion in 2013-14. Secondly, the performance of exports continued to remain lackluster during the period – bad enough, exports are declining during the last two years. In other words, 27 percent exports are being consumed for debt servicing, thus reducing the country's capacity to import **(See Fig. 3)**. It is well-known that the economic activities in a developing country like Pakistan are largely dependent on imported raw material, capital goods, machinery, equipment and energy. A decline in the capacity to import is bound to slow down economic activity, resulting in declaration of economic growth, rise in unemployment and poverty, and slower growth in tax collection.




## III. Public Debt

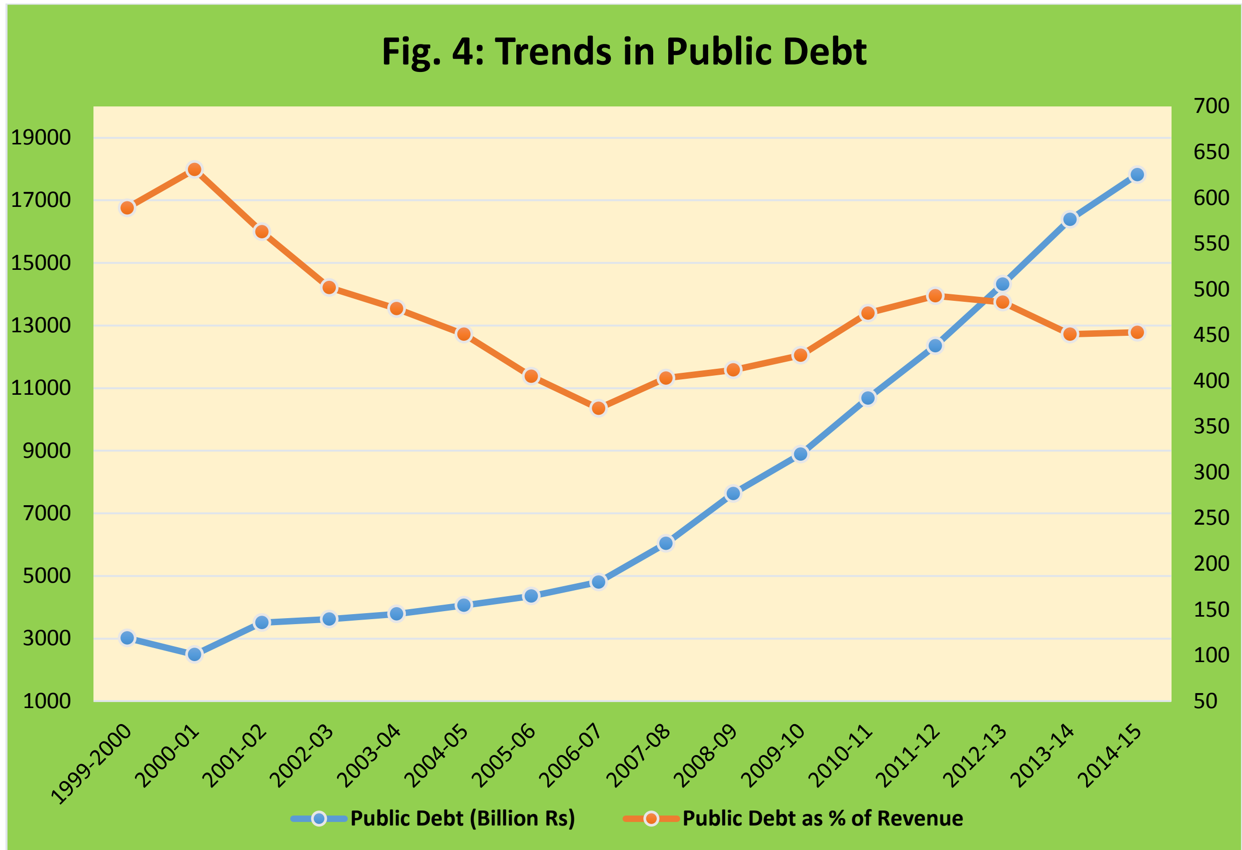
The persistence of a large fiscal deficit owing to the government's inability to collect adequate resources on the one hand and failure to contain or rationalize expenditures on the other has led to the extra-ordinary surge in public debt. Pakistan has experienced serious macroeconomic imbalances in the 1990s as well as during 2008-15, mainly on account of fiscal profligacy and accordingly has paid a heavy price in terms of deceleration in economic growth and investment and the associated rise in unemployment and poverty.

Public debt is the outcome of the developments on fiscal side as well as on the exchange rate. The fiscal deficit has averaged 7.5 percent of GDP during 2008-15. In addition, we have seen sharp depreciation of the exchange rate, decline in privatization proceeds and grant assistance. All these factors have contributed to the surge in public debt in recent years. Public debt grew at an average rate of 12.6 percent per annum during 2000-2015. However, this growth rate hides more information than it reveals. Public debt grew at an average rate of 6.9 percent per annum during 2000 – 07 owing to lower budget deficit (averaging 3.8% of GDP), stability in exchange rate and substantial receipt of privatization proceeds. Like the decade of the 1990s, fiscal profligacy became the hallmark of successive governments during the post-2008 era, resulting in an average growth of almost 18 percent per annum in public debt – more than two and a half times faster in pace compared with 2000-2007 period. In a plain language, it took 60 years to accumulate Rs. 4.8 trillion of public debt while the country added over Rs. 13 trillion in just 8 years. During the last two years, the country added Rs. 3.5 trillion in public debt – a clear testimony of fiscal profligacy and reckless borrowing **(See Table 1).**

Rising public debt has also increased its burden on the economy as well as on revenue. Fiscal profligacy of the 1990s led to the extra-ordinary surge in public debt which reached as high as almost 80 percent of GDP by 1999-2000. This level of public debt was unsustainable. To bring the debt at the sustainable level, a debt reduction strategy was prepared in early 2000, the salient features of which included i) reduction in fiscal and current account deficits, ii) lowering the cost of borrowing, iii) raising revenue and foreign exchange earnings, and iv) debt re-profiling from the Paris Club. Furthermore, to inject financial discipline in the country, the Fiscal Responsibility and Debt Limitation Act 2005 (FRDL) was promulgated in June 2005. Although the FRDL Act was promulgated in June 2005, this Act was already being implemented by the Ministry of Finance since 2002-03 to bring sanity in the country's fiscal operations.

The strategy paid handsome dividends. Public debt as percentage of GDP (a critical indicator of the country's debt burden) which stood at almost 80 percent in 1999-2000 declined sharply to 55.5 percent by 2006-07. Sharp reduction in budget and current account deficits, stability in exchange rates, and a rise in privatization proceeds played important roles in reducing the country's debt burden. Fiscal profligacy of the last eight years along with sharp depreciation of exchange rate reversed the declining trend in public debt which now hovers around 63 percent of GDP for the last several years. In so doing, the successive governments of the last eight years have remained in violation of the FRDL Act 2005, as the Act binds the government to keep public debt-to-GDP ratio below 60 percent.

Public debt is a charge on the budget because debt servicing is the single largest budgetary item, therefore, it must be viewed in relation to government revenue. Public debt stood at 589 percent of total revenues in 1999-2000 but declined rapidly 370 percent a decline of 219 percentage points of revenue in just eight years. Fiscal profligacy of the last eight years has reversed the declining trend and as such public debt increased to 453 percent of total revenue in 2014-15 – an increase of 83 percentage points **(See Fig. 4).**




## III.1: Interest Payment

The rising stock of public debt has serious consequences for debt service obligations. The surge in public debt during the last eight years has caused interest payments to almost quadruple – rising from Rs. 369 billion in 2006-07 to Rs. 1304 billion in 2014-15. Interest payment was consuming 28 percent of total revenue in 2006-07 which has now increased to 33 percent in 2014-15. In other words, one-third of total revenues of the country is being used up for interest payment alone, leaving two-third to be used to finance all other activities. Consequently, the country's quality of physical infrastructure as well as human capital is on the decline due to lack of spending on these two growth critical spending.

## III.2: Domestic Debt

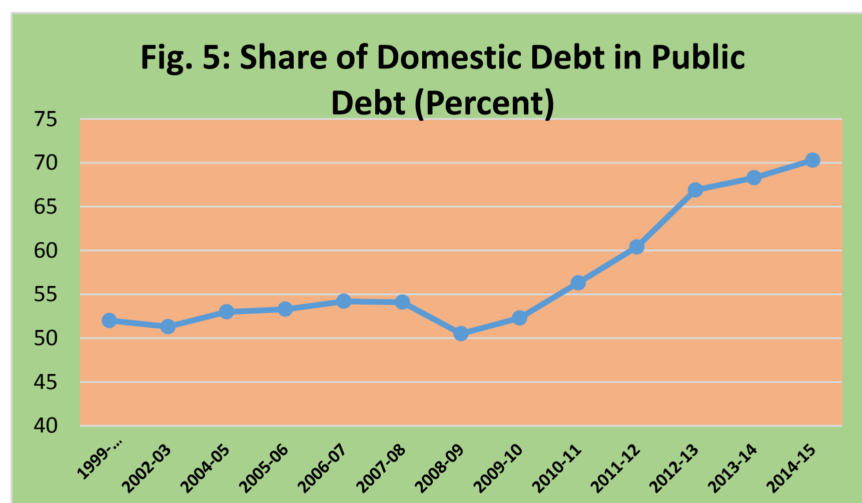
Within public debt, the share of domestic debt has risen at a very rapid pace since 2010-11 owing to the sharp decline in external flows. It may be pointed out that since the suspension of the IMF program in May 2010 due to the non-compliance of the IMF conditions, external flows from other multilateral institutions also dried up. Pakistan had no option but to rely on domestic sources to finance relatively large budget deficit. Since domestic debt is relatively expensive, the heavy reliance on it led to the surge in interest payment which reduced the fiscal space to be spent on physical infrastructure and education, health and skill developments.

The share of domestic debt in public debt was 52 percent in 1999-2000 and remained in this range until 2009-10. The share of domestic debt increased to 56.3 percent in 2010-11 but surged rapidly to 70.3 percent in 2014-15, causing interest payment to increase rapidly as well **(Table 5 and Fig. 5).**

**Table 5: Share of Domestic Debt in Public Debt (Percent)**

| Years | |
|---|---|
| **1999-2000** | 52.0 |
| **2002-03** | 51.3 |
| **2004-05** | 53.0 |
| **2005-06** | 53.3 |
| **2006-07** | 54.2 |
| **2007-08** | 54.1 |
| **2008-09** | 50.5 |
| **2009-10** | 52.3 |
| **2010-11** | 56.3 |
| **2011-12** | 60.4 |
| **2012-13** | 66.9 |
| **2013-14** | 68.3 |
| **2014-15** | 70.3 |

***Source: State Bank of Pakistan***




Growing fiscal indiscipline on the one hand and relative decline in external flows on the other made the government to become a desperate borrower. In the absence of proper debt management, more than half of the domestic debt shifted to the short –term (less than one year maturity) maturity, thus

creating a nightmare for the State Bank of Pakistan to refinance maturing short – term debt **(See Table 6).**

**Table 6: Share of Short –term (< 1 year) Debt in Domestic Debt (Percent)**

| Years | |
|---|---|
| 2011-12 | 53.6 |
| 2012-13 | 54.3 |
| 2013-14 | 41.9 |
| 2014-15 | 37.6 |

***Source: State Bank of Pakistan***

Realizing the challenges of refinancing risks of maturing short-end government papers (T-bills), the government planned a right strategy to shift short-term debt (≤1 year) to long-term debt. But it chose absolutely the wrong time to execute this strategy and as such inflicted more than Rs. 85 billion additional cost to the budget in coming one-to-two years. In order to understand this damage which was caused either advertently or inadvertently by the government's finance team, it is essential to discuss the Pakistan Investment Bonds (PIBs) – a medium – to – long term government papers ranging from 3 to 30 years to raise money to finance fiscal deficit.

The successive governments issued Rs. 1.21 trillion worth of PIBs of different maturities during December 2000 to December 2013, that is, in 13 years. The present government issued Rs. 3.103 trillion worth of PIBs during January 2014 to June 2015, that is, in 18 months. In other words, the present government issued almost three times more PIBs in just 18 months compared with what was issued in 13 years. As part of the strategy to shift from short –term debt to long-term debt, the government issued Rs. 2.5 trillion worth of PIBs in 2014 alone at a weighted average interest rate of 12.17 percent. Almost 58 percent or Rs. 1.44 trillion of this was 3 years PIB, and 5, 10 and 20 years accounted for 20.4 percent, 20.3 percent and 1.2 percent, respectively. Thus, 58 percent PIBs of 3 year maturity issued in 2014 at an interest rate of 11.9 percent. In other words, the government refinanced the maturing short term debt (≤ 1 year Treasury Bills) through 3 years PIBs mostly.

At the time of refinancing the maturing treasury bills, the average interest rate was 9.65 percent. Thus, the debt of 9.65 percent was shifted mostly to 11.9 percent medium – term debt (3 year PIBs) with interest rates differential of 2.26 percentage points. To gain, at the most, additional two years of maturity the interest cost is increased to Rs. 33 billion. Now with declining T-Bill, rates of 6 percent, the interest rates differential has increased to 5.9 percent and the additional interest payment at the time of maturity has increased to over Rs. 85 billion. No sensible finance minister would shift low cost debt to high cost debt at the time of declining interest rate. In so doing, the minister benefited the Commercial banks at the cost of national exchequer. The right strategy, executed in the wrong time, will cost additional Rs. 85 billion to national exchequer. Rs. 85 billion in the next two years. By shifting from short-to-medium term papers, Pakistan only gained 1 ½ to 2 years maturity at enormous cost in terms of interest payment. Was it a deliberate

attempt to benefit Commercial banks or was it a sheer incompetence of the finance team? I leave this to the readers to decide.

## IV. Future Outlook

Pakistan has borrowed heavily in the last eight years, both from domestic and external sources. It has added over Rs. 13 trillion in public debt and almost $25 billion in external debt during the period. Many factors have contributed to the unprecedented surge in both public and external debt. These include; i) the persistence of a large fiscal deficit, as a result of continued fiscal profligacy, ii) large current account deficit in the initial periods during the post-2008, iii) sharp depreciation of exchange rate, iv) decline in non-debt creating inflows (FDI, Portfolio investment, privatization proceeds, grants assistance etc.), and v) large amortization payment. The current IMF program also forced the government, particularly after 2013-14 to become reckless borrower. The design of the current on-going IMF Program was such that it has forced the government to borrow from any sources to build foreign exchange reserves so that Pakistan continued to repay its loan to the IMF on time. It is for this reason that the current program has been termed as 'self-serving program' or 'defensive lending' by the independent economists. Accordingly, Pakistan entered in borrowing spree, both from traditional and non-traditional sources at a relatively higher cost. Hence, the debt accumulated at a rapid pace with all its adverse consequences for the economy.

The current state of Pakistan's economy is the mirror image of the consequences of the surge in public and external debt. Notwithstanding the government's claims of economic successes, the fact is that Pakistan's economy is growing at an average of 3.2 percent p.a. during the last seven years, industrial growth is stagnating at slight above 1.0 percent per annum, agriculture is growing at 2.5 percent p.a., private sector is not borrowing to expand their businesses, domestic investment as percentage of GDP has declined significantly, exports are falling, foreign direct investment is declining, foreign investors are leaving the country, tax collection performance is dismal, unemployment, particularly youth unemployment is rising, and people are getting out of the job market (not looking for jobs) after remaining unemployed for considerable period (also known as 'discouraged worker phenomenon'). The country is also witnessing the unprecedented rise in corruption, civil unrest, social chaos and the absolute failure of governance.

What is then in store for Pakistan in the next-five years? If the past is any indication and that the current style of governance continuing, the outlook appears grim. Several factors will supplement 'the normal growth' in external debt and liabilities going forward. These include: i) the expiry of Paris Club debt rescheduling of Official Development Assistance (ODA) component amounting $8.8 billion in September 2016; ii) $500 million 10 year Eurobond is maturing on March 23, 2016; iii) the current IMF program amounting $6.67 billion is ending in August 2016, therefore, its repayment will start in March 2018; iv) $750 million 10 year Eurobond is maturing in May 2017; v) $1.0 billion 5 year Sukuk (Islamic Bond) maturing November 2019, vi) $1.0 billion 5 year Eurobond is maturing in April 2019.

In short, $500 million euro bond will be maturing in 2015-16; $750 million euro bond maturing in 2016-17; $1.0 billion Sukuk maturing in 2018-19 and $1.0 billion Eurobond maturing in 2019-20. Thus, altogether $3.25 billion bond will be maturing during the forecast period for which Pakistan will have to borrow from external sources to repay these debts. On top of this is the start of the repayment of the current IMF Program loan amounting $6.67 billion.

Yet another development will be taking place during the forecast period (2015-16 to 2019-20) which will add at least $14.6 billion to external debt. The project cost of the China-Pakistan Economic Corridor (CPEC), as stated by the IMF in its Eighth Review Report (October 6, 2015), amounts to $45 billion. It has two components – transport infrastructure connecting Gwadar to Kashgar (Western China) costing $10.6 billion and energy-related projects amounting $33.8 billion. Transport infrastructure projects will be financed by government-to-government long-term loans on concessional terms and are expected to be completed by 2017-18. Energy-related projects will be financed by Commercial loans from Chinese financial institutions by Chinese investors, who, in collaboration with Pakistani partners will undertake construction of all projects. Transport infrastructure projects will be executed within the overall envelope of the Public Sector Development Program (PSDP). Hence, according to the IMF, the transport infrastructure projects will be completed by 2017-18, therefore, $10.6 billion will be added to external debt in the three year time.

In projecting debt and liabilities for the next five years (2015/16-2019/20), the above – stated information has been taken into account. Furthermore, I also use my judgment about the pace of inflows, the capacity in the government to absorb inflows and complete the projects on time, based on my eleven years of experience in the Ministry of Finance. Forecasts are always based on assumption as well as on judgment, however it is entirely possible that I can go wrong in my judgment and assumptions and the forecast numbers may change. Nonetheless, the forecast is based on my best of ability to understand the workings of the Pakistani economy. Although, I have reported the tables here but their detailed workings and assumptions are available with author.

Table 7 reports the amount of dollars that will be required to service external debt for which debt has to be created, as well as the amount of loan that Pakistan will be receiving under the CPEC driven projects during the next five years. The total amount of additional debt for 2015-16 is estimated as $4.62 billion which is projected to rise to over $ 10 billion in 2018-19 owing to the large inflows under the CPEC infrastructure and energy-related projects, the repayments of the IMF loan, payments of Paris club debt and payment against Eurobond/Sukuk.

**Table 7: Summary of Additional Debt (Billion $)**

| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---|---|---|---|---|---|
| **Traditional Debt Payment*** | 3.53 | 3.62 | 3.71 | 3.80 | 3.90 |
| **CPEC Transport Infrastructure** | 0.50 | 2.50 | 3.00 | 3.50 | 1.10 |

| CPEC Energy Projects | 0.00 | 0.50 | 1.00 | 1.00 | 1.50 |
|---|---|---|---|---|---|
| **IMF Loan Repayment** | 0.09 | 0.034 | 0.124 | 0.392 | 1.157 |
| **Paris Club Debt Payment** | 0.00 | 0.00 | 0.40 | 0.40 | 0.40 |
| **Euro bond/Sukuk Payment** | 0.50 | 0.750 | 0.00 | 1.00 | 1.00 |
| **Total** | **4.62** | **7.40** | **8.234** | **10.09** | **9.057** |

* growing @2.5 % p.a

These additional debts are added to the respective stock of previous year's debt and reported in Table 8. The on-going fiscal year (2015-16) is likely to end with $70 billion of external debt and liabilities and projected to rise to over $85 billion by the end of the current regime's tenure (2017-18) and further to $105 billion by 2019-20. The present regime during its tenure would be adding $25 billion in external debt. Given the dismal performance of exports over the last two years, exports are projected to rise to $ 27 billion by 2019-20. The burden of the debt as measured in relation to export earning as well as percent of GDP are also reported in **Table 8.** External debt and liabilities as percent of exports and GDP which stood at 271.0 percent and 24.1 percent, respectively in 2014-15 are projected to rise to 387.4 percent and 28.3 percent by 2019-20. This is certainly unsustainable. It is important to note that the current external debt –to-export ratios for Bangladesh and India are 88 percent and 80 percent, respectively as against 271 percent for Pakistan – three and half a times higher than South Asian neighbors.

**Table 8: External Debt and Liabilities: Future Outlook (2015/16-2019/20)**

| Year | External Debt and Liabilities (Billion $) | Exports (Billion $) | GDP (Billion $)* | Debt/Export (%) | Debt/GDP (%) |
|---|---|---|---|---|---|
| **2014-15** | 65.2 | 24.1 | 271.0 | 270.1 | 24.1 |
| **2015-16** | 69.8 | 23.2 | 285.0 | 300.9 | 24.5 |
| **2016-17** | 77.2 | 23.9 | 300.5 | 323 | 25.7 |
| **2017-18** | 85.4 | 24.7 | 322.2 | 345.7 | 26.5 |
| **2018-19** | 95.5 | 25.7 | 344.9 | 371.6 | 27.7 |
| **2019-20** | 104.6 | 27.0 | 369.4 | 387.4 | 28.3 |

* Used IMF Forecast from Eight Review Document

With rising external debt, the debt servicing is also projected to rise going forward. Table 9 documents external debt servicing and the burden of debt servicing, measured as percent of exports. External debt servicing is expected to remain more or less at last year's (2014-15) level in 2015-16 but projected to rise to $10 billion by 2019-20. The burden of external debt servicing is projected to deteriorate rapidly, rising from 28.4 percent to almost 37.0 percent by 2019-20. In other words, 37 percent of export earnings will be consumed alone for external debt servicing, leaving only 63 percent to finance only one-fourth of rising import bills, forcing Pakistan to borrow even more going forward.

**Table 9: External Debt, Servicing: Future Outlook (2015/16-52019-/20)**

| Year | External Debt Servicing | Export (Billion $) | Debt Servicing Export (%) |
|---|---|---|---|
| **2015-16** | 6.6 | 23.2 | 28.4 |
| **2016-17** | 7.3 | 23.9 | 30.5 |
| **2017-18** | 8.1 | 24.7 | 32.8 |
| **2018-19** | 9.1 | 25.7 | 35.4 |
| **2019-20** | 9.9 | 27.0 | 36.7 |

As stated earlier, a developing country like Pakistan borrows for the repayment of loans, to finance current account deficits, for the financing of development projects, and if required, to borrow to build foreign exchange reserves. Going forward, it will be extremely difficult for Pakistan to borrow for other than the repayment of loans and financing current account of deficits. The external financing requirement for Pakistan is projected to rise from $8.3 billion in 2015-16 to $ 18.4 billion by 2019-20. This fact is well-documented in **Table 10**.

**Table: 10 External Financing Requirement (Billion $)**

| Year | Debt Servicing | Current Account Deficit | Total |
|---|---|---|---|
| **2015-16** | 6.6 | 1.7 | 8.3 |
| **2016-17** | 7.3 | 2.7 | 10.0 |
| **2017-18** | 8.1 | 5.5 | 13.6 |
| **2018-19** | 9.1 | 6.5 | 15.6 |
| **2019-20** | 9.9 | 8.5 | 18.4 |

What are the likely inflows during the forecast period? Table 11 reports the likely inflows from various sources. Likely inflows in 2015-16 is estimated to be $ 4.5 billion but projected to rise to almost $ 11 billion by 2018-19 due to the inflows of Chinese financing as well as expected, though optimistic, rise in foreign investment.

**Table 11: Likely Financial Inflows (Billion $)**

| Year | Traditional Donors | Chinese Financing | Foreign Investment | Total |
|---|---|---|---|---|
| **2015-16** | 3.00 | 0.5 | 1.0 | 4.50 |
| **2016-17** | 3.25 | 3.0 | 1.5 | 7.75 |
| **2017-18** | 3.50 | 4.0 | 2.0 | 9.50 |
| **2018-19** | 3.75 | 4.5 | 2.5 | 10.75 |
| **2019-20** | 4.0 | 2.6 | 3.0 | 9.60 |

Having estimated the total financing requirement as well as likely inflows, this is the time to estimate financing gap. Table 12 documents the financing gap which stands at $3.8 billion in 2015-16, projected to rise to $4.1 billion in 2017-18 ( the last year of the present government) and further to almost $9.0 billion by 2019-20. By looking at the financing gap number for 2017-

18, it appears that Pakistan will have no option but to seek yet another three year IMF program to prevent balance of payment crisis.

**Table 12: Financing Gap (Billion $)**

| Year | Total Financing Requirement | Likely Availability of External Financing | Financing Gap |
|---|---|---|---|
| **2015-16** | 8.3 | 4.50 | 3.80 |
| **2016-17** | 10.0 | 7.75 | 2.25 |
| **2017-18** | 13.6 | 9.50 | 4.10 |
| **2018-19** | 15.6 | 10.75 | 4.85 |
| **2019-20** | 18.4 | 9.60 | 8.8 |

There appears to be two possibilities – one that Pakistan do not negotiate a new program with the IMF after the expiry of the on-going program in August 2016 under the pretext that the country's economy has recovered , it is boyant and growing strongly and that, its foreign exchange reserves are comfortable. The government may use the exit from the IMF Program for the 2018 election campaign to demonstrate its successes on the economic front. It has built enough reserves through expensive borrowing to survive one-and-a-half year without the IMF Program. Under the assumption that it is re-elected in the 2018 election, it will start the negotiation for a new IMF Program sometime June/July 2018.

Second, that given the gravity of the situation, Pakistan may start negotiation for a new IMF Program immediately after the end of the current program. In both the cases, Pakistan will be forced to implement the same old 'Stabilization First or Austerity Program' with its disastrous consequences for the economy as well as for the people of Pakistan. Pakistan has been pursuing the same program since 2008 in one way or the other which has seriously damaged the country's growth potential. The prolongation of the same program either after 2016 or 2018 would have disastrous consequences for growth, employment and debt situation. Such a development would bound to create a serious national security issue as well.

Even if we survive 2017-18 debacle, the financing gap reaches to a dangerous level thereafter ($ 9.0 billion by 2019/20) that even the new IMF Program would become insufficient to cover the gap. This is the development that Senator Enver Baig and Bret Stephens have alluded through print and electronic media which deserve serious attention. Who will bail Pakistan out from serious balance of payment crisis? Who will inject at least $ 10 billion to meet financing gap and at what cost?

## V. Consequences for Economy and National Security

As stated in the previous section, Pakistan's external debt situation is likely to worsen in the next five years. External debt is projected to be $105 billion or over 387 percent of export earnings by 2019-12. Consequently, the external debt servicing is projected to be $10 billion or 36.7 percent of export earnings by 2019-20. Financing gap is projected to be $9.0 billion in 2019-20. What will be the macroeconomic consequences for the economy as well as consequences for the national security owing to the worsening of the external debt situation?

Pakistan has already witnessed the consequences of growing debt burden in the 1990s and during the post-2008 period. Going forward, the consequences will further aggravate if reckless borrowing continues. Hence, the macroeconomic consequences may include deceleration in both private and public sector investment, slower economic growth in the range of 3.3 – 3.8 percent per annum (though the government will continue to manipulate growth numbers as it has done during the last two years), unemployment, particularly youth unemployment will continue to rise as the economy would not be in a position to create enough jobs to absorb new entrants to the job market; the people may get out of the job market after remaining unemployed for considerable period (commonly known as 'discouraged worker' phenomenon), poverty would rise, industrial growth is likely to remain stagnant at the current level (growing in the range of 3-4 percent per annum), exports growth would stagnate, foreign investors in general would remain shy but – Chinese Investors may bring investment at a slower pace, tax collection performance is expected to remain dismal, and the country may see the imposition of senseless taxation to generate tax resources in a desperate condition. Such a developing economic scenario is bound to promote corruption even further, may breed civil unrest, social chaos and absolute failure of governance. Such a development would definitely pose a serious threat to national security.

While the successive governments who ruled the country since 2008 are to be blamed for current economic woes, the IMF and its ill-designed program is equally responsible for slowing Pakistan's economic growth and making the people of Pakistan permanently poor. The current IMF program is going to expire in August 2016. Should there be a new program? The answer would carry serious implications for debt problems going forward. I have already discussed two possible scenarios in the last section. Both scenarios pose serious economic difficulties for Pakistan.

The rising debt may itself cause national security challenges. In recent months, there is an emerging view in informed circle that if the current speed of borrowing continues, there is a danger that Pakistan may not be able to service its external debt obligations. In such an event, the international forces may come to rescue Pakistan on the condition that it surrenders its nuclear assets. Former Senator Mr. Enver Baig has recently aired his concern through print and electronic media, pointing out that the speed with which Pakistan is borrowing, there is no doubt in his mind that the country is heading towards debt trap and that the burden of debt would reach a level which will be beyond Pakistan's capacity to repay. In such a situation, the international forces and players would rescue us on the condition of surrendering our nuclear assets (see Ihtesham ul Haque's article "Chasing Imperfection". The NEWS, October 5, 2015). Senator Enver Baig repeated his assertion in a television program (ARY) on the same day.

Is Senator Baig's view farfetched? Is he ringing a false alarm? The answer appears to be no. Mr. Bret Stephens wrote in the **Wall Street Journal** on December 16, 2008 under the title "Let's Buy Pakistan's Nukes". In his article Mr. Bret gave a reference to the visit of former President Asif Ali Zardari to the United States, where he asked for '$100 billion to stave off economic collapse'. According to Mr. Bret, this is not a bad deal and wrote "Let's buy their arsenal". He proposed in his article that "let the Pakistani authority verifiably eliminate its entire nuclear

stockpile and the industrial base that sustains it. In exchange, the US and other Western donors would agree to a $100 billion economic package administered by an independent authority and disbursed over 10 years…." Senator Baig's concern cannot be dismissed summarily at the back of such an extreme view existing in the West about the nuclear assets of Pakistan. Our debt projection suggests that the external debt and liabilities would rise to $105 billion and the financing gap would reach close to $9.0 billion by 2019-20. This is where Pakistan would face a real crunch and may not be able to service its external debt obligations as well as finance current account deficits. This is the tipping point in the mind of Senator Enver Baig.

## VI. Concluding Remarks and Policy Recommendations

Serious concern has been raised in recent months in various circles about the reckless borrowing, both domestically and abroad resulting in rapid accumulation of debt and its consequences for the economy and national security. The present paper has analyzed the developments of both public and external debt separately. The paper has also attempted to forecast external debt, external debt servicing, their burden, financing gap and consequence for economy and national security over the next five years, that is, up to 2019-20. It has been shown that during the last eight years (2008-15), Pakistan accumulated almost $25 billion in external debt and over Rs. 13 trillion in public debt. When the decade of the 1990s is added, it is found that out of the total stock of outstanding external debt and liabilities, 65 percent or over $42 billion were accumulated in the 1990s and during the last eight years. This is a clear reflection of the state of economic governance during these two periods. It lends further support to the fact that the current and the previous regimes appear to be in a race as to who can borrow more or who can be the most reckless borrower. The two regimes since 2008-09 have contracted almost $50 billion loan which will continue to be disbursed going forward. Although the country borrows from external sources mainly for four reasons, that is, to finance current account deficit, amortization payment, financing development projects and to build foreign exchange reserves, bulk of external borrowing during the last two years has mainly been on account of amortization payment and building foreign exchange reserves.

The burden of debt, defined as external debt and liabilities in relation to export earnings has also deteriorated during 2008-15. The burden has increased from 235 percent to 271 percent of exports during the period – three-to-three-and-a half times higher than India and Bangladesh. Public debt as percentage of GDP has also increased from 55 percent to 63-64 percent during the same period and has remained in violation of the FRDL Act 2005 since then. With the rise in debt during 2008-15 period, external debt servicing as percentage of export earnings increased form 17 percent 27 percent and interest payment rose three-and-a-half time during the period. In other words, more than one-third total revenue is consumed for interest payment and 27 percent export earnings is used for debt servicing.

The paper also found that the share of domestic debt in total public debt increased rapidly from 54 percent to 70 percent during 2008-15. Since domestic debt is relatively more expensive, the heavy reliance on it has led to the surge in interest payment which, consequently, has reduced

fiscal space for spending on human capital and physical infrastructure, hence severely constraining the country's growth potential. Realizing the challenges of refinancing risks of maturing short term debt (≤ one year government papers), the government planned a right strategy to shift-short term debt to longer-term. But the government chose the wrong time to execute right strategy and as such inflicted more Rs. 85 billion additional cost to national exchequer in one-to-two years time. Was it a deliberate attempt on the part of the finance team to benefit commercial banks or was it a sheer incompetence of them?

Pakistan has borrowed heavily in the last eight years. The current state of Pakistan's economy is the mirror image of the consequences of rising debt. If the past is any indication of the future and that if the current style of governance continues, Pakistan's debt profile is likely to worsen in the next five years. Besides reckless borrowing that is expected to continue; there are maturing bonds amounting to \$3.25 billion, the start of the repayment of the current IMF loan amounting to \$6.67 billion and the loan amounting to \$10.6 billion under the CPEC is likely to be disbursed, all these will adversely be affecting Pakistan's debt profile going forward. Based on these developments, the paper has made a conservative forecast of Pakistan emerging debt profile in the next five years. The highly conservative estimates suggest that Pakistan's external debt and liabilities are likely to be \$105 billion by 2019-20. The burden of the debt is projected to be over 387 percent of export earnings and 28.3 percent of GDP. With rising external debt, the debt servicing is projected to be \$9.0 billion or would be consuming 37 percent of export earnings – leaving 63 percent to finance only one-fourth of import bills. Total financing requirement, the likely inflows and financing gap are calculated. Pakistan's financing requirement is projected to rise from \$8.3 billion to \$18.4 billion by 2019-20. Consequently, the financing gap increases from \$3.8 billion to \$08.8 billion during the forecast period.

The worsening debt situation will have serious consequences for the economy and national security. Macroeconomic consequences include slower investment and economic growth, rising unemployment and poverty, stagnating exports, declining foreign investment, dismal tax collection, and the continuation of senseless taxation. Such a development on the economic front is bound to promote further corruption, breed civil unrest, social chaos and absolute failure of governance with a serious threat to national security. Serious concern has also been raised in some circles that in the event of Pakistan's failure to service its external debt obligations, the international forces may come to rescue Pakistan provided it surrenders its nuclear assets. Such an eventuality should be taken seriously.

Debt is nothing but deferred taxation. Pakistanis are born free but they are in debt everywhere. Our children and grandchildren will be paying off our debt through higher taxation. What are we leaving behind for our children: a mountain of debt and expected higher taxation? Is this an inter-generation distributive justice? Pakistan has borrowed heavily from the future and enjoying a living standard that is unsustainable. An unprecedented surge in debt is the sure road to ruin and failure to repay will not only be the breach of trust but will likely to compromise on our national security. Every successive Prime Minister in the last eight years has talked about "trade and not aid" but their finance ministers believed in "debt and not trade". Although the successive

governments have become reckless borrowers, it is also a fact that reckless lenders too have further worsened Pakistan's debt situation.

Managing the country's debt is an art as well as a science. It requires proper institutions to manage debt. Successful reduction in debt burden would require genuine fiscal consolidation (not through 'accounting terrorism') and a policy mix that support growth. Key elements of this policy mix and measures include addressing structural weaknesses in the economy, domestic resource mobilization, supportive monetary policy, promoting exports and creating conducive environment through right policies to attract foreign investment.

## VI.1: Policy Recommendations

The unprecedented surge in debt has caused serious damage to the economy. The weak and frivolous economic team that has managed the economy since 2008 has weakened the core economic institutions like the Ministry of Finance, Planning Commission, SBP, the Federal Board of Revenue, the Pakistan Bureau of Statistics, the Security and Exchange Commission of Pakistan, the regulatory bodies like NEPRA, OGRA, and so on. Accordingly, it has weakened the ability of these institutions to prepare robust and sound economic policies and deal with the international financial institutions like the IMF, World Bank and the ADB. Economic policy making has, therefore, shifted to the IFIs, primarily to the IMF. Such a situation is not desirable for a nuclear country with 190 million population.

What needs to be done? **Firstly,** the country's leadership will have to change its style of governance. Managing the economy should be at the forefront of the leadership. The current economic team is too weak to handle Pakistan's complex economic problems and must be replaced by professional and competent economists. There is no dearth of bright people in this country. **Secondly,** the government should refrain from managing the economy through 'media management' and 'accounting tricks' and giving a false sense of prosperity. The more transparent the government is, the better it is for the country. **Thirdly,** the Planning Commission needs to be strengthened with a view to building its capacity to prepare, approve, execute, monitor and complete the projects in time. The government should form a high level Committee, including professional economists from outside the government to resolve the issue of throw-forward by eliminating politically motivated and low return projects. This will improve the allocation for higher returned projects so that they could be completed in times.

**Fourthly**, the government needs to prepare its own borrowing strategy, the salient features of which may include i) borrowing to finance current account deficit, however, effort should be made to finance the deficit from non-debt creating inflows like FDI, grants, portfolio investment and privatization proceeds so that the borrowing requirement is minimized; ii) borrowing for amortization payment; iii) borrowing for financing higher return projects; and iv) if there is a need to build foreign exchange reserves through borrowing then it should be at the bottom of our priorities and that too from the cheapest sources.

**Fifthly,** there is an urgent need to strengthen the country's debt office, currently housed in the Ministry of Finance, through professional economists with greater understanding of debt management. **Sixthly,** Pakistan has pursued an austerity program for the last seven/eight years, which has severely damaged the economy. A change in fiscal policy stance is needed. Pakistan needs more investment in physical infrastructure and human capital (education, health, vocational training etc.) and less tut-tutting about fiscal deficit. The time has come to move out from "Stabilization first" policy to striking a balance between growth and stabilization. Prolonged period of 'austerity' has caused human sufferings in Greece; do we want to become another Greece? Act, before it is too late.

**Seventhly,** Pakistan urgently needs wide-ranging structural reforms in the tax system and tax administration, power sector, industries, agriculture, exports, financial sector, and overall governance. We have simply talked about reforms thus far without undertaking any credible reforms. The IMF, for its political motive, has always stated that Pakistan's reforms program is 'broadly on track'. In so doing, it has bred complacency on the part of the government. **Eighthly,** the current NFC Award has been disastrous for the financial stability of the country. Without making corrections it will continue to damage Pakistan's fiscal stability. How to correct the weaknesses of the current NFC Award is well documented in Ashfaque H. Khan, "$7^{th}$ NFC Award: Has it Worked?", **Development Advocate Pakistan, Vol. 2, Issue 2, June 2015 (a publication of the UNDP Pakistan).**

**Eighthly,** while debt continues to rise, every effort be made to enhance the country's debt carrying capacity. In this respect, serious attention be given to arrest the declining trend in exports. The problems of exporters be addressed forthwith by restoring their external competitiveness. Their cost of doing business must be reduced by providing them energy at competitive rates, refraining from senseless taxation, returning their refunds/rebate on time, providing them a competitive exchange rate, removing structural bottlenecks in their production of exportable commodities and providing them opportunities to borrow from commercial banks. **Ninthly,** create conditions through policies to attract foreign investment (a non-debt creating inflows). The government must talk to the representatives of foreign investors in Pakistan to know their problems as to why they are leaving the country and why the outflow of investment is rising rapidly, particularly in the last two years. Constant engagement with the private sector (both domestic and foreign) is the key to the success.

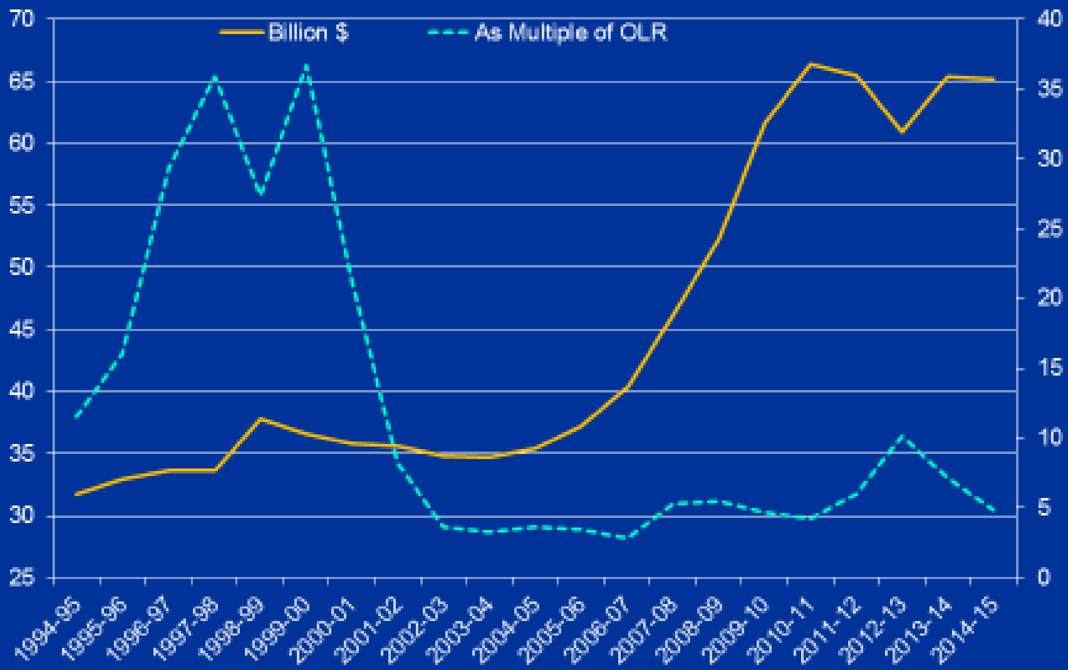
**** The author is Principal & Dean, School of Social Sciences and Humanities, National University of Sciences & Technology, Islamabad.*** ***He is grateful to Dr. Hafiz A. Pasha, Abdul Wajid Rana and Hammad Mushtaq for their valuable comments on the earlier draft.***

**Appendix A**

## Trends in External Debt and Liabilities and Public Debt

| Year | External Debt & Liabilities | | Public Debt | |
|---|---|---|---|---|
| | Billion $ | As Multiple of OLR | Billion Rs | As % of Revenue |
| 1994-95 | 31.7 | 11.5 | 1532 | 474 |
| 1995-96 | 32.9 | 16.0 | 1750 | 460 |
| 1996-97 | 33.6 | 29.4 | 2037 | 530 |
| 1997-98 | 33.6 | 35.9 | 2338 | 544 |
| 1998-99 | 37.8 | 27.4 | 2946 | 628 |
| 1999-2000 | 36.6 | 36.7 | 3018 | 589 |
| 2000-01 | 35.8 | 21.2 | 3489 | 631 |
| 2001-02 | 35.6 | 8.2 | 3510 | 563 |
| 2002-03 | 34.8 | 3.6 | 3621 | 502 |
| 2003-04 | 34.7 | 3.3 | 3787 | 479 |
| 2004-05 | 35.4 | 3.6 | 4063 | 451 |
| 2005-06 | 37.2 | 3.4 | 4357 | 405 |
| 2006-07 | 40.3 | 2.8 | 4803 | 370 |
| 2007-08 | 46.2 | 5.3 | 6040 | 403 |
| 2008-09 | 52.3 | 5.5 | 7631 | 412 |
| 2009-10 | 61.6 | 4.7 | 8890 | 428 |
| 2010-11 | 66.4 | 4.2 | 10680 | 474 |
| 2011-12 | 65.5 | 6.0 | 12652 | 493 |
| 2012-13 | 60.9 | 10.1 | 14321 | 486 |
| 2013-14 | 65.4 | 7.2 | 16389 | 451 |
| 2014-15 | 65.2 | 4.8 | 17819 | 453 |

***Source: State Bank of Pakistan; Debt Policy and Coordination Office, Ministry of Finance, Government of Pakistan***


Trends in External Debt and Liabilities
Billion $
As Multiple of OLR
70
65
60
55
50
45
40
35
30
25
40
35
30
25
20
15
10
5
0
1994-95
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
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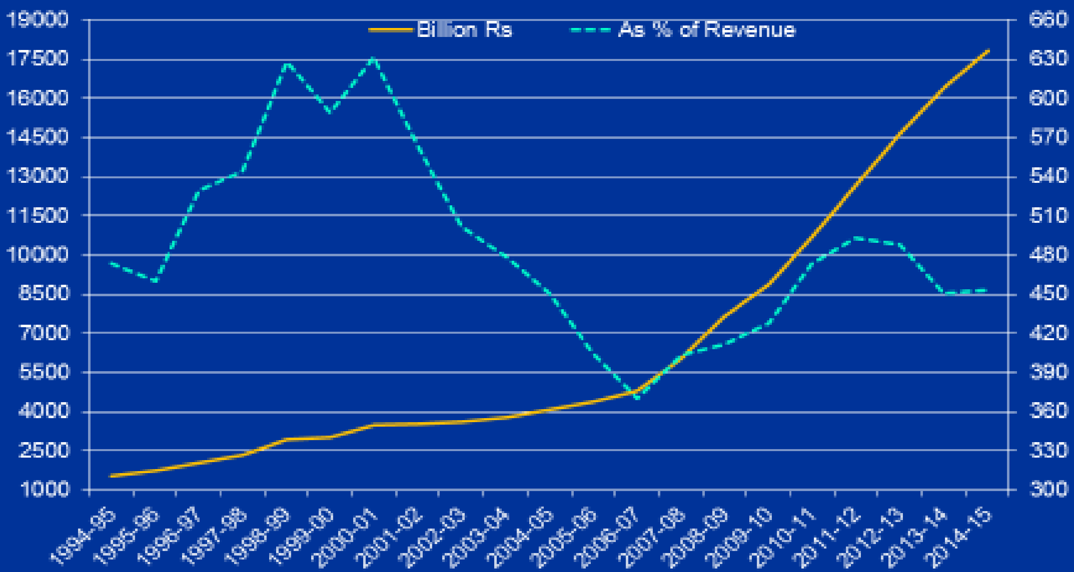
2009-10
2010-11
2011-12
2012-13
2013-14
2014-15


Trends in Public Debt
Billion Rs
As % of Revenue
19000
17500
16000
14500
13000
11500
10000
8500
7000
5500
4000
2500
1000
660
630
600
570
540
510
480
450
420
390
360
330
300
1994-95
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14
2014-15

**Appendix B**

## Trends in Debt Burden

| Year | Ext. Debt & Liabilities (Million $) | Fx Earning, (Million) | Exports Million $ | Debt/Fx Earning (%) | Debt/Exports (%) |
|---|---|---|---|---|---|
| 1999-00 | 36563 | 11940 | 8190 | 306.2 | 446.4 |
| 2000-01 | 35783 | 14335 | 8933 | 249.6 | 400.6 |
| 2001-02 | 35608 | 14696 | 9140 | 242.3 | 389.6 |
| 2002-03 | 34778 | 19536 | 10889 | 178.0 | 319.4 |
| 2003-04 | 34706 | 21394 | 12398 | 162.2 | 279.9 |
| 2004-05 | 35413 | 26657 | 14401 | 132.8 | 245.9 |
| 2005-06 | 37229 | 30921 | 16388 | 120.4 | 227.2 |
| 2006-07 | 40324 | 32635 | 17119 | 123.6 | 235.6 |
| 2007-08 | 46161 | 35634 | 20427 | 129.5 | 226.0 |
| 2008-09 | 52331 | 34483 | 19121 | 151.8 | 273.7 |
| 2009-10 | 61567 | 37574 | 19673 | 163.9 | 313.0 |
| 2010-11 | 66366 | 46987 | 25356 | 141.2 | 261.7 |
| 2011-12 | 65478 | 47417 | 24718 | 138.1 | 264.9 |
| 2012-13 | 60899 | 49711 | 24802 | 122.5 | 245.5 |
| 2013-14 | 65365 | 50638 | 25078 | 129.1 | 260.6 |
| 2014-15 | 65183 | 51861 | 24131 | 125.7 | 270.1 |

***Source: State Bank of Pakistan; Debt Policy and Coordination Office, Ministry of Finance, Government of Pakistan***

**Appendix C**

## External Debt Servicing

| Years | External Debt Servicing ($ Million) | External Debt Servicing as % of Exports |
|---|---|---|
| **1999-00** | 3756 | 45.9 |
| **2000-01** | 5101 | 57.1 |
| **2001-02** | 6327 | 69.2 |
| **2002-03** | 4349 | 39.9 |
| **2003-04** | 5274 | 42.5 |
| **2004-05** | 2965 | 20.6 |
| **2005-06** | 3115 | 19.0 |
| **2006-07** | 2977 | 17.4 |
| **2007-08** | 3183 | 15.6 |
| **2008-09** | 4747 | 24.8 |
| **2009-10** | 4606 | 23.4 |
| **2010-11** | 3948 | 15.6 |
| **2011-12** | 4507 | 18.2 |
| **2012-13** | 6485 | 26.1 |
| **2013-14** | 7100 | 28.4 |
| **2014-15** | 6500 | 27.0 |

***Source: State Bank of Pakistan; and the IMF***

**Appendix D**

# Trends in Public Debt

| Year | Public Debt (Billion Rs) | Public Debt as % of Revenue |
|---|---|---|
| **1999-2000** | 3018 | 589 |
| **2000-01** | 2489 | 631 |
| **2001-02** | 3510 | 563 |
| **2002-03** | 3621 | 502 |
| **2003-04** | 3787 | 479 |
| **2004-05** | 4063 | 451 |
| **2005-06** | 4357 | 405 |
| **2006-07** | 4803 | 370 |
| **2007-08** | 6040 | 403 |
| **2008-09** | 7631 | 412 |
| **2009-10** | 8890 | 428 |
| **2010-11** | 10680 | 474 |
| **2011-12** | 12352 | 493 |
| **2012-13** | 14321 | 486 |
| **2013-14** | 16389 | 451 |
| **2014-15** | 17819 | 453 |

***Source: State Bank of Pakistan; and the IMF***