Note:

Pakistan's Debt Position and the Question of Debt Retirement

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Introduction

There can not be any doubt in the minds of economists, sociologists, political scientists or the general public that external debt has become a burden for poor nations rather than the much-advertised source of financial help to these countries. In the words of the late Cardinal Hume, Archbishop of Westminster, "Whatever the detailed history of today's debt ridden countries, nearly all have one key fact in common: that those who could be blamed the least, the poorest people in the poorest countries, have suffered the most". The British Chancellor of the Exchequer Gordon Brown said, "The debt of poor countries is a great moral issue of our day and this decade. It is the greatest single cause of poverty and injustice across the earth and potentially one of the greatest threats to peace". He added, "We must cut the debt and do so now". In the words of Mikhail Gorbachev, "Nothing is more important than the debt question. It is absolutely necessary to resolve the problem as soon as possible. We cannot keep waiting". The great African leader Julius Nyerere said, "Is it right that we starve in order to pay our debts?"

Human deprivation in South Asia is massive. It is the poorest region of the world, where five hundred million people live in absolute poverty. Pakistan, India & Bangladesh are the biggest borrowers from the World Bank in 1997-1998 fiscal year. These countries in South Asia contain over one-fifth of humanity, consisting of 1.2 billion people. However these South Asian countries spend less than five percent of their combined GNP on its people, due to which growing population has become a liability rather than a precious human resource. The UNDP Human Development Report 1996 shows that nearly two-thirds of the population in South Asia is deprived of basic human capabilities. Widespread human deprivation in South Asia contrasts sharply with the militarisation in the region, as two of the biggest armies in the world (India & Pakistan) are being maintained in South Asia. It is the only region where the defense budget is continuously growing mainly due to the nuclear arms race. South Asian states are far below the global twenty percent targets

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with public spending. In Pakistan, it is only 3.2 per cent. In India - 6.8 per cent, in Sri Lanka - 8.1 per cent, in Bangladesh it is only 10 per cent.[1]

The World Bank has been lending to Pakistan since 1952. During this span of 47 years it has sanctioned about 93 loans and 136 credits, totaling US$10 billion[2] The World Bank's highest borrowers are also the most corrupt, according to the Transparency International Index. Pakistan is a favourite debtor country of the World Bank (among the top 12). Pakistan's experience shows that even with the best planning, most of development aid is misguided or badly implemented. Yet the loud demand for more aid continues, ignoring the important factor that development depends on the effective use of existing aid. Squandering of money on projects was in the interest of the ruling elite, as the interested parties used or deposited a large portion of these funds in their personal accounts. It becomes the responsibility of the World Bank to ensure (which it did not) that this money was spent for the specific purpose. This money was meant to be invested in the uplift of the poor people and the economy, but instead has been embezzled and misappropriated by different governments in the country. Quoting Mr. James Wolfensohn the President of IBRD, "to end poverty we must fight corruption. It is central to our mission. Corruption is a cancer in the body politic, a tax on the poor".

Pakistan's ever increasing debt burden and the cost of servicing this debt is perhaps the single most important economic issue in the country today. Economic policies of the governments have failed completely to fill the gap in the trade balance, balance of payments, budget deficit, or resource gap over the many decades. Poverty has grown in the country during the last ten years. Pakistan is among the most illiterate countries of the world. General health conditions of the population are very poor, so is the income generating capacity of a large number of the population. Under this back drop, high population growth rate, low economic growth rate and ever-increasing national debt are a recipe of disaster for the country's future which seems unsustainable under the circumstances. According to the *World Development Report* 2000-2001, Pakistan is among the Highly Indebted Countries & Low Income Nations of the World.[3] The yearly growth rate of the country during the last decade has been estimated to be around 4.8 per cent per annum only to be nullified by a population growth of an average of 3.1 per cent per annum.[4] The population in 1999-2000 was 137,5 million people[5]. Pakistan is

[1] Huda, Huma, *World Bank & Borrowers*, Southasia, September 30, 1999, p. 25.
[2] Huda, Huma, *op-cit.* p. 39.
[3] Attacking Poverty. *World Bank Report* 2000-2001, Oxford University Press, NY 2000, pp.334.
[4] Hussain , Ishrat Dr. *The Daily News* Lahore, April 16, 2000.
[5] *Pakistan Economic Survey*, Finance Division, Government of Pakistan 1999-2000, p. 121.

a nation that spends only 2.2 percent of its budget on education, 0.5 per cent on its health. And where 80 per cent of its villages are without clean drinking water, sewerage, hygiene facilities, and 60 per cent are without electricity. Where one child under the age of 5 dies every 40 seconds and one child is born every 10 seconds. Where one mother dies in child birth every 90 seconds because of lack of health facilities, where the per capita income is US$450 per annum which is less than the US$ 500 World Bank poverty line. Despite numerous IMF agreements since the early 1980's there was little fiscal adjustment over the last two decades. The average fiscal deficit during the last five years has been close to 7 per cent of the GDP with no clear downward trend. According to the *South Asian Development Report* 1999 the Human Governance Index, of 58 countries mentioned in the index, Pakistan ranks 52 in economic governance, 48 in political governance, 47 in civic governance, 52 in humane governance and 54 in human governance.[6]

Debt & Economic Situation of Pakistan

The debt position and the statistical data of debt servicing and their influence on Pakistan's economy can be seen from the following tables and statistics. Table-1 shows the exports, imports & trade balance of Pakistan during 1998-1999 and 1999-2000.

Table-1: Exports, Imports & Trade Balance of Pakistan (in Million US$)

	Exports	Imports	Balance
1998-1999	6,308	7,516	-1,208
1999-2000	6,927	8,337	-1,410

Source: *Pakistan Economic Survey,* Government of Pakistan, Islamabad 1999-2000, pp. 84

Balance of trade of Pakistan shown in Table-1 points to a deficit of above US$ 1.2 billion in 1998-1999, rising up to above US$ 1.4 billion in 1999-2000 (July March). Exports of the country are at US$ 6.3 billion in 1998-1999, rising to approximately US$ 7.0 billion in 1999-2000 (July-March) and imports swelling to above US$ 7.5 billion in 1998-1999, reaching up to approximately US$ 8.4 billion in 1999-2000 (July-March).[7] Table-2 shows Pakistan's total external obligations and liabilities as on 1st March 2000.

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[6] Human Development in South Asia 1999, The Crisis of Governance, Oxford University Press, NY 1999, pp 39-30.

[7] *Pakistan Economic Survey*, op-cit. p. 84.

Table-2: Pakistan Total External Obligations and Liabilities 1-3-2000 In Million Dollars

Items	June 1999	Dec 1999
A. External Debt		
Medium long term EAD	2,4115	24,547
IMF	1,853	1,724
Short & Commercial Borrowing + IDB	1,306	1,381
FRN & Bonds	610	610
Defence Saving Certificates	764	683
Pvt. Loans/s.Credit/SBP Deposits	4,705	4,400
(of which SBP/BOC deposits)	(1,270)	(1,390)
Total A	33,353.2	33,345
B. Debt Obligation to Residents in Foreign Exchange		
Bearers Certificates	196	175
US$ Bonds	1,164	1,288
Total B	1,360	1,463
Total A + B	34,713.2	34,808
C. Other Foreign Obligations		
FCA's (Institutionals)	1,380	1,310
FE-25 Deposits	616	806
Total C	1,996	2,116
Total A + B + C	**36,709.2**	**36,924**

Note: Frozen Foreign Currency Accounts of Residents & Non-residents of US$ 2350 Million end December 1999 are not included in the table.

US$ bonds and bearer certificates are at presently shown as domestic debt also.

Source: Hassan, Pervaiz, Dr. A Strategy for Debt Reduction And Management, Government of Pakistan, Finance Division, 2001.

From Table-2 it can be seen that Pakistan's total external obligations in December 1999 was about US$ 37 billion. US$ 33.3 billion external public and publicly guaranteed debt; US$ 1.5 billion debt obligation to residents in foreign exchange; and US$ 2 billion other foreign obligations.

Pakistan's total obligations to foreigners and locals in foreign currency at the end of June 1999 were US$ 36,7 billion, and on 31st December 1999 was approximately US$ 37 billion, amounting to US$ 37.5 billion by the end of 2000 – an increase of approximately US$ 1 billion yearly. Table-3 shows Pakistan's total internal debt outstanding on 31st June 2000.

Table-3: Internal Debt Outstanding on 31st June 2000 (In Million Dollars)

Types of Debt	1998-1999	1999-2000
Permanent	6,343.92	6,126.94
Floating	11,231.8	12,931.80
Unfunded	11,478.9	13,389.68
Total Internal Debt	**29,054.62**	**32,448.42**
Total Internal Debt as % of GDP	49.9%	51.1%

Source: *Pakistan Economic Survey*, Government of Pakistan, Islamabad 1999-2000, pp. 46

While from Table-3 it can be seen that during 1999-2000 the internal debt of Pakistan was approximately US$ 32.5 billion (US$ 6 billion permanent debt; US$ 13 billion Floating debt and US$ 13.4 billion unfunded debt). Total internal debt as percentage of the GDP was above 51 per cent in 1999-2000. External indebtedness and internal indebtedness together shows a total of US$ 69.5 billion (total debt) which is more than 100 per cent of the country's GDP. Table-4 shows Pakistan's public debt on June 1999 and then on December 1999.

Table-4: Public Debt in Foreign Exchange (US$ Million)

Items	June 1999	Dec 1999
A. Public Debt owed to Non-Residents		
Mideun Long Term EAD	24,115	24,547
IMF	1,853	1,724
Short & Commercial Borrowing + IDE	1,306	1,381
FRN & Bonds	610	610
Defence Saving Certificates	764	683
Foreign Central Bank Debosits With SBP	1,270	1,390
Total A	29,918.2	30,335

B. Public Debt owed to Residents			
Bearer Certificates		196	175
US$ Bonds		1,164	1,288
	Total B	1,360	1,463
	Total A + B	**31,278.2**	**31,798**

Source: Hassan, Pervaiz, Dr. A Strategy for Debt Reduction And Management, Government of Pakistan, Finance Division, 2001,

From Table-4 it can be seen that the total public debt of Pakistan owed to non-residents in December 1999 was US$30.3 billion, compared to US$ 30 billion in June 1999. Public debt owed to residents in December 1999 was approximately US$ 1.5 billion, while in June 1999 it was approximately US$ 1.4 billion. Total Public debt of the country in December 1999 was US$ 31.8 billion compared to US$ 31.3 billion in June 1999 – an increase of approximately US$ 0.5 billion in 6 months. Table-5 shows the public and publicly guaranteed external debt disbursed and outstanding from all sources as on 30th June 2000.

Table-5: Public and Publicly Guaranteed External Debt Disbursed and Outstanding as on 30th June 2000

(Estimated) in Million US$)

Particulars	Disbursed & Outstanding	Undisbursed	Total Debt
A. Consortium	**10,374.2**	**2,150.0**	**12,524.2**
Belgium	55.8	41.5	97.3
Canada	348.6	0.0	348.6
France	828.6	138.2	966.8
Germany	1,268.4	272.3	1,540.7
Italy	211.9	0.0	211.9
Japan	4,590.9	1,375.9	5,966.8
Netherlands	110.6	9.9	120.5
Norway	32.4	22.3	54.7
Nordic	45.2	6.6	51.8

Sweden	115.1	5.5	120.6
UK	94.9	48.9	143.8
USA	2,671.8	228.9	2,900.7
B. Financial Institutions	**13,191.2**	**2,925.9**	**16,117.1**
ADB	5,397.7	1,361.7	6,759.4
IBRD	3,772.6	527.7	4,300.3
IDA	3,852.7	913.1	4,765.8
IFDA	132.6	75.8	208.4
IFC	0.0	0.0	0.0
Bank of Indosueaz Singapore	1.3	0.0	1.3
NBP Bahrain	28.3	0.0	28.3
E. I. Bank	6.0	47.6	53.6
C. Non Consortium	**1,567.1**	**149.1**	**1,716.2**
Spain	26.3	4.7	31.0
China	357.8	32.0	389.8
Denmark	19.9	0.0	19.9
Czechosovakia	14.4	0.0	14.4
Romania	0.0	0.0	0.0
Austria	27.8	0.0	27.8
Russia	202.2	95.0	297.2
Switzerland	67.9	0.4	68.3
Finland	6.1	0.0	6.1
Australia (Wheat Board)	96.4	17.0	113.4
Korea	748.3	0.0	748.3
D. Islamic Countries	**360.6**	**324.2**	**684.8**
Kuwait	65.2	116.0	181.2
Libya	17.4	0.0	17.4
UAE	59.2	0.0	59.2
S. Arabia	79.6	34.8	114.4
OPEC Fund	29.4	34.2	63.6

IDB	54.6	87.5	142.1
Oman	6.9	0.0	6.9
Turkey	48.3	51.7	100.0
Total	**25,493.1**	**5,549.2**	**31,042.3**

Source: *Pakistan Economic Survey*, Government of Pakistan, Islamabad 1999-2000, pp. 105

It can be seen from Table-5 the consortium for debt to Pakistan was owed US$ 12.5 billion, International financial institutions were owed more than US$ 16.1 billion. Non-consortium countries were owed US$ 1.7 billion, and Islamic countries were owed approximately 0.7 billion. (See Table-12) The debt burden will consume 86.54 per cent of the government's revenue for paying back the principal loans as well as interest on these loans. The *State Bank of Pakistan Report* 1999-2000 states, besides external liabilities, of US$37.30 billion under different categories, Pakistan is committed to pay in rupee liabilities 1.72 billion dollars on account of frozen foreign currency accounts and on various foreign currency certificates. The per capita indebtedness of the country is US$ 509 (US$ 236 internal debt per person, plus US$ 273 external liabilities per person), when the per capita income of the country is only US$ 450. Table-6 gives a detailed break down of the debt servicing of Pakistan in year 1999-2000 and also calculates the increase of future debt servicing payments of the country each year from 2000 till 2003. Table-6 also shows the total break down of heads of debt servicing of three years in the future, i.e. 2000-2003.

Table-6: Debt Servicing Payments due Including Rollover of Central Bank Deposits (8-3-2000 in US$ Million)

	1999-2000			2000-2001			2001-2002			2002-2003			2001-2003 Total		
	P	**I**	**T**	**P**	**I**	**T**	**P**	**I**	**T**	**P**	**I**	**T**	**P**	**I**	**T**
Medium & Long term debt EAD	1752	832	2584	1474	713	2187	1414	664	2078	1371	597	1968	4259	1974	**6233**
Short Term/Medium Term (Rescheduled MOF)	59	149	208	345	86	431	583	69	652	57	16	73	985	171	**1156**
IBD Short Term	146	8	154	NA	20	20	NA	NA	0	NA	NA	0	0	20	**20**
IMF (MOF)	296	49	345	252	38	290	201	66	267	349	57	406	802	161	**963**
Defense (Saving Certificates)	128	44	172	89	36	125	84	30	114	97	24	121	270	90	**360**
Euro Bonds	0	50	50	0	59	59	0	59	59	146	51	197	146	169	**315**
Special US$ bonds	0	60	60	0	105	105	774	97	871	218	35	253	1097	237	**1229**
Private Loans (SBP)	623	241	864	582	214	796	523	166	689	466	127	593	1571	507	**2078**
Govt. Deposits *	800	44	844	900	56	958	1200	60	1260	1200	60	1260	3300	178	**3478**
Institutional Deposits	272	52	324	1103	36	1141	0	0	0	0	0	0	1103	38	**1141**
Others	56	10	66	41	6	47	121	NA	121	0	0	0	162	6	**168**
Total	**4132**	**1539**	**5671**	**4786**	**1373**	**6159**	**4900**	**1211**	**6111**	**3904**	**967**	**4871**	**13590**	**3551**	**17141**

P = Principal Loan; I = Interest; T = Total = Principal + Interest

* Gross Repayments before assumed rollover.

Source: IMF International Financial Statistics, April 2000.

It can be seen from Table-6 that Pakistan's total debt servicing in 1999-2000 was US$ 5,671 million (US$ 4,132 million as Principal loan and US$ 1,539 million as interest on loans). In 2000-2001 Pakistan's debt servicing will be US$ 6,159 million (US$ 4,786 million as principal and US$ 1,373 million as interest), or US$ 488 million more than 1999-2000. The total debt servicing from 2001 till 2003 will be US$ 17,141 million (US$ 13,590 million as principal and US$ 3,551 million as interest. Table-7 also looks into the Total external debt burden of four South Asian countries (India, Pakistan, Bangladesh, Sri Lanka and Bangladesh) in 1998

Table-7: Public Debt of India, Bangladesh, Sri Lanka & Pakistan 1998 (for Pakistan 1999)

South Asia	Total Debt As % of		Internal Debt As % of		Net Value of External Debt As % of		Total Debt servicing As % of	
	GDP	Revenue	GDP	Revenue	GNP	Exports	GNP	Exports
India	47.2	384.9	44.0	358.4	20.0	143.0	2.8	20.6
Bangladesh	-	-	-		23.0	135.0	1.5	9.1
Sri Lanka	91.1	528.3	45.7	264.8	41.0	92.0	2.9	6.6
Pakistan	**99.3**	**629.0**	**45.6**	**289.1**	**44.0**	**230.0**	**4.5**	**23.6**

Source: IMF International Financial Statistics, April 2000.

Table-7 shows Pakistan's net value of debt, as percentage of GDP was the highest in South Asia. Pakistan's net value of its debt was 99.3 percent of its GDP and 629 percent of its revenue receipts, compared to Sri Lanka (91.1 per cent, and 528.3 per cent respectively in 1998) and India (47.2 per cent, & 384.9 per cent respectively in 1998). Internal debt of Pakistan in 1999 was 45.6 per cent of GDP, and 289.1 per cent of its revenue receipts, as compared to Sri Lanka (45.7 per cent, & 264.8 per cent respectively in 1998) and India (44.0 per cent, & 358.4 per cent respectively in 1998). Pakistan's net value of external debt in 1998 as percentage of GNP was 44.0 per cent, Sri Lanka – 41 per cent; Bangladesh – 23 per cent, and India 20 per cent. As percentage of their respective exports – Pakistan, 230 per cent; Sri Lanka, 92 per cent; Bangladesh, 135 per cent and India, 143 per cent. The total debt servicing as percentage of Pakistan's GNP was 7.5 per cent, of Sri Lanka – 2.9 per cent, of Bangladesh 1.5 per cent, and of India – 2.8 per cent. Total debt servicing as percentage of the country's respective exports – Pakistan 39.0 per cent, Sri Lanka, 6.6 per cent; Bangladesh, 9.1 per cent, and India 20.6 per cent. Net value of debt as percentage of GNP, Pakistan was highest in South Asia (44.0 per cent), as percentage of exports in Pakistan was also highest in South Asia (230.0 per cent). Total debt servicing of Pakistan for the same year was also highest in South Asia, both as percentage of GNP (7.5 per cent) and as percentage of exports (39.0 per cent). Table-7 points out that net value of Pakistan's external debt is 44 per cent of its GNP and 230 per cent of its total exports in 1999. Table-7 also shows that Pakistan's debt servicing is 7.5 per cent of its GNP and 39 per cent of its total exports in 1999. Table-8 shows the breakup of interest and debt servicing of Pakistan as percentage of the country's GDP during the years 1998-1999 and 1999-2000.

Table-8: Debt Servicing as Percentage of GDP

Items	1998-1999	1999-2000
Interest on Domestic Debt (Federal)	6.2	5.8
Interest on Foreign Debt	1.3	1.6
Repayment of Foreign Debt	4.2	3.0
Total Debt Servicing	11.9	10.8

Source: *Pakistan Economic Survey,* Government of Pakistan, Islamabad 1999-2000, pp. 46

From Table-8 it can be seen that in 1999-2000 Pakistan's interest on domestic Federal debt was 5.8 per cent of the GDP as compared to 6.2 per cent of the GDP in 1998-1999. The interest on foreign debt was 1.6 per cent of the GDP in 1999-2000 as compared to 1.3 per cent of the GDP in 1998-1999. Repayments on foreign debt were 3 per cent of the GDP in 1999-2000 as compared to 4.2 per cent of the GDP in 1998-1999. The Table-shows that total debt servicing of Pakistan in 1999-2000 was 10.8 per cent of the GDP as compared to 11.9 per cent of the GDP in 1998-1999, i.e. 1.1 per cent less than the previous year. Table-9 shows the debt servicing payments on foreign loans 1998-1999 & 1999-2000 from all foreign sources.

Table-9: Debt Servicing Payments on Foreign Loans 1998-1999 & 1999-2000 (in Million US$)

Particulars	Principal	Interest	*Total Debt Servicing 1998-1999*	Principal	Interest	*Total Debt Servicing 1999-2000*
A. Consortium	**359.147**	**77.581**	***436.728***	**138.300**	**74.640**	***212.94***
Belgium	-	0.782		-	-	
Canada	15.947	2.360		15.947	2.360	
France	11.227	5.090		-	4.120	
Germany	42.514	12.242		4.329	5.088	
Italy	1.580	0.569		2.358	0.620	
Japan	14.796	27.521		-	44.649	
Netherlands	1.576	0.562		0.934	0.527	
Norway	0.401	0.287		1.875	1.620	
Sweden	0.591	1.689		-	2.081	
UK	-	1.424		2.644	0.801	
USA	270.515	24.455		110.841	13.554	
B. Financial Institutions	**492.946**	**368.193**	***798.139***	**520.921**	**370.726**	***891.647***
ADB	215.193	151.019		220.567	142.919	
IBRD	215.147	184.880		229.140	196.089	
IDA	53.737	28.138		61.339	27.573	
IFAD	6.300	2.457		8.122	2.345	
IFC	1.685	0.105		-	-	
Nordic	0.914	1.594		1.753	1.800	
Bank of Indosueaz	-	-		-	-	
C. Non Consortium	**167.619**	**7.623**	***175.242***	**150.860**	**19.097**	***169.957***
Australia	147.880	5.431		148.300	6.721	
Austria	2.991	0.991		-	0.224	

China	0.958	-		-	5.068	
Korea	11.000	-		-	0.017	
Spain	-	0.041		-	-	
Singapore	-	-		2.101	0.215	
Nissowai	-	-		0.459	1.079	
European Investment Bank	-	-		-	0.244	
Switzerland	4.790	1.160		-	-	
D. Islamic Countries	**45.324**	**11.211**	***56.535***	**34.006**	**11.283**	***45.289***
IDB	29.403	7.233		23.311	4.817	
Kuwait	0.262	0.058		-	-	
Libya	1.156	0.185		-	-	
Oman	1.250	0.037		2.500	0.781	
OPEC Fund	8.417	0.919		8.195	0.798	
S. Arabia	1.230	0.037		-	-	
Turkey	-	-		-	4.887	
UAE	3.606	2.297		-	-	
E. Rescheduled Debt	**-**	**-**		**-**	**80.000**	***80.000***
Grand Total	**1065.036**	**464.608**	***1529.644***	**844.087**	**555.746**	***1399.833***

Source: *Pakistan Economic Survey*, Government of Pakistan, Islamabad 1999-2000, pp. 112

Table-9 shows that in 1999-2000 Pakistan serviced its debt to consortium countries approximately to the tune of US$ 213 million; to International financial institutions more than US$ 891.6 million; to non-consortium countries – approximately US$ 170 million, and to Islamic countries – approximately US$ 45.3 million. Table-10 shows the Government of Pakistan's budgetary position in fiscal years 1998-1999 and 1999-2000.

Table-10: Federal Government's overall Budgetary Position (in Million Rupees)

Items	1998-1999 (Actual)	1999-2000 (Estimates)
I. Receipts		
Direct Taxes	110,402	123,000
Indirect Taxes	198,128	239,000
Total Tax Revenue	308,530	362,000
Total Revenue Receipts	465,271	510,915
Capital Receipts	63,632	80,716
External Resources	**270,000**	**104,374**
Total Resources	**680,909**	**553,867**
II. Expenditure		
Current Expenditure	516,272	563,060
Defence	143,471	143,377
Debt Servicing	290,695	313,273
Civil Administration	44,468	47,874
Development Expenditure	98,761	101,200
Total Expenditure	**615,033**	**664,260**
GAP	-73,811	91,393

Source: *Pakistan Economic Survey*, Government of Pakistan, Islamabad 1999-2000, pp. 41.

From Table-10 it can be seen that the debt servicing as allocated in the fiscal budget of Pakistan 1999-2000 was 47.3 per cent of the current budgetary expenditure; 56.6 per cent of the total budgetary resources; 300 per cent of the budgetary external resources; 61.3 per cent of the total revenue resources. 86.54 per cent of the total tax receipts; and 90.45 per cent of the total export receipts of the country during the year 1999-2000 Table-11 shows the sources and use of foreign exchange in Pakistan during the fiscal year 1999-2000.

Table-11: Sources and uses of Foreign Exchange 2000 (July-June) in US$ Million

Sources	US$ Mill.	Uses	US$ Mill.
Non-Interest Current Account balance of payments surplus	-	Debt Service Payments (including rollovers)	6,200
Disbursements from Medium and longer term Loans	1,600	Increase in Foreign Exchange Reserves	500
Foreign Investment Inflows	400		
Possible Privatization Proceeds	500		
Agreed Re-scheduling July-December, 2000	600		
Additional Re-scheduling from Paris Club	400		
Debt Relief from Non-Consortium Countries	200		
Exceptional quick disbursing Assistance from IMF/World Bank/ ADB	1,000		
Rollover of Government Deposits	900		
Additions to F. E. – 25 Deposits	500		
Gap (Rollover of Institutional F.C.D.)	600		
Total	**6,700**	**Total**	**6,700**

Source: Hassan, Pervaiz, Dr. A Strategy for Debt Reduction and Management, Government of Pakistan, Finance Division, 2001,

From Table-11 it can be seen that Pakistan is in a situation of a classical debt trap, where new loans are being taken in order to service old loans. The total amount from all sources of foreign debt to Pakistan in year 2000-2001 alone were US$ 6.7 billion but the same amount is spent on debt service repayment including roll over to the tune of US$6.2 billion and foreign exchange reserves to the tune of US$ 0.5 billion. The per capita external debt in Pakistan 1999-2000 was US$ 231, which in rupee terms was Rs. 13,500[8] – an amount which is equivalent to a month's pay for a grade 19 Gazetted Officer in the Government of Pakistan. Debt servicing alone for the year 2000-2001 will be US$ 5,671 million (Rs. 3,29,000 million) which is per capita US$ 41.18 or in rupee terms equal to Rs. 2,400.

Pakistan's external debt is 53.8 per cent of the GDP; Total external liabilities of 37.30 billion dollars are 61.3 per cent of the GDP. Of the total amount falling due in the year 2000, - US$ 3.7 billion were actually paid out of the country's foreign exchange earnings and by drawing down on the country's liquid reserves. Debt servicing on account of these liabilities during the last fiscal year amounted to 7.8 billion dollars or 95.9 per cent of the earned export proceeds. The State Bank Report points out that the amount eligible for rescheduling and roll over in the current fiscal year is 2.2 billion dollars. In 1999-2000 this amount was 3.9 billion dollars.

The main thrust of the revenue collection of the federal government is on indirect taxation in the country followed by direct taxation from the salaried classes. The entire revenue collection for the fiscal years 1999-2000, 2000-2001 is not enough to pay back the interest and principal on the foreign and internal debt that has been accumulated in the country. Total federal budget of 1999-2000 was Rs. 664,260 million, (US$ 11,453 million)[9] out of which Rs. 563,060 (US$ 9,708 million) was the current budget and the rest – Rs. 101,200 million (US$ 1,74 million) capital budget. Total resources for the current budget were envisaged at Rs. 553,060 million (US$ 9,535.5 million). Total revenue receipts were Rs. 510,915 million (US$ 8,809 million). The share of debt servicing in the 1999-2000 budget was Rs. 313,273 million (US$ 5,400 million), which was 7.8 per cent higher than the previous budget; 61.31 per cent of the total revenue receipts; and 56.56 per cent of the total resources of the federal budget for the year 1999-2000.[10] Debt servicing as percentage of GDP was 7.2 per cent in 1990-1991, 8.8 per cent in 1994-1995 and has increased to 10.8 per cent in 1999-2000. In rupee terms it was Rs. 73,532 million in 1990-1991, was Rs. 1,64,469 million in 1994-1995 and rose to Rs. 3,44,423 million in 1999-2000.[11] Expenditure on education as percentage of GDP in 1999-2000 is 2.2 per cent, and on health – 0.5 per cent of GDP.[12] One of the major sources of government expenditure is debt servicing followed by defense

[8] (US$ 31798 million / 137.5 million population).
[9] Calculated at an exchange rate of Rs 58 to US$ 1.
[10] *Pakistan Economic Survey*, op-cit., p. 41.
[11] *Ibid.*, p. 45.
[12] *Ibid.*, p. 6-7.

expenditure, and the expenditure on civil administration. Development expenditure on economic sectors, social sectors, health and education are at a very low priority.

Social and Economic Effects of Mounting Debt In Pakistan

A weak economy means that the country cannot generate enough resources for investment purposes or in order to increase the standard of living of its people. And interestingly enough, a weak economy, low investments, employment and income also mean that the country cannot even start sustaining itself sufficiently, nor pay back already taken and misused loans from external and internal sources.

In 1994-1995 the over all foreign investment in Pakistan was US$ 1,532.3 million (US$ 442.4 as direct foreign investments and US$ 1,089.9 million as portfolio investment). While in 1999 – 2000 the over all Foreign Investment in Pakistan was US$ 392.8 million (US$ 360.5 as direct foreign investments and US$3 2.3 million as portfolio investment). This shows that between 1994-1995 and 1999-2000 a decrease in direct foreign investment by US$ 81.9 million, and a substantial decrease in portfolio investment by US$ 1,057.6 million, which means an overall decrease in foreign investments to the tune of US$ 1,139.4 million.[13]

The Asian Development Bank (ADB) in its regional economic outlook stated that the ratio/percentage of people in Pakistan living below the poverty line in 1990 was 25.2 per cent. Now this has increased to 34 per cent. The number of people living under the poverty line or a dollar a day increased from 17.6 million to 44 million according to the *Economic Survey of Pakistan* 1999-2000. The incidences of calorie-based poverty in Pakistan increased from 17.3 per cent in 1987-1988 to 22.4 per cent in 1992-1993 and to 32.6 per cent in 1998-1999.[14] The *World Bank Report* "*Partnership and Development*" states that "Pakistan's low growth rate through the 1990's made poverty worse". In the statement of John Wall, the Director of World Bank for Pakistan, "In Pakistan poverty increased during the 1990's compared to the 1950's and 1970's". Development expenditure has dropped from 8 per cent in the 80's to 6 per cent in the early 90's and now to 3 per cent of the GDP in 2000. Almost all the increase in the share of interest payments has come at the cost of development. That explains the poor economic growth rate of Pakistan.[15]

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[13] *Ibid*., p. 40.
[14] *Ibid*., 1999-2000.
[15] Ahmad Sultan, *Attacking Poverty*, The Daily Dawn, op-cit. 2000.

The share for development in total government spending which was 40 per cent in 1980 and 25 per cent in 1990 has gone down to 13 per cent in 2000, while interest payments increased from about 18 per cent in 1980 to 30 per cent in the 1990 and 32. 7 per cent in 2000. The cut back in development spending at a time when the overall public investment rate was declining had very adverse effects on the economy, depressing growth rates and limiting progress to meet social goals. The growing public and external debt burden has caused a sharp slow down of Pakistan's economic goals from over 6 per cent per annum in the 1980's to less than 4 per cent in the late 1990's. This automatically leads to an increase in poverty. Foreign savings accounted for only 10 per cent of our investment in 1999-2000 because of rising debt service payments. This is a very high decline. It is ironic that while the country has been borrowing in the name of economic development and prosperity of the people, the real result of debt is growing poverty in the country. This has many lessons for both the government of Pakistan as well as the donors to Pakistan.

World Bank Criteria for Heavily Indebted Poor Countries (HIPC)

In order to tackle the problem of debt retirement, we must also look into the World Bank's own criteria of retiring of writing off debt of countries that are heavily indebted as quoted by IMF in its report. The criteria is as follows:

- If the external debt exceeds the export earnings by 220-250 per cent the World Bank considers the debt unsustainable. Foreign debt of Pakistan in 1999 was US$ 37 billion according to the *State Bank of Pakistan Report* 1999, rose to US$ 37.5 in year 2000, which was 230 per cent of its total exports in 1999. External Debt of Pakistan stood at 463.7 per cent of balance of payments receipts from exports plus remittances of overseas Pakistanis. During the 1990's it was an average of 250-300 per cent.[16]

- If the total debt servicing transcends 20 percent of export earning, the World Bank considers the debt unsustainable (i.e. the debt servicing/export ratio is greater than 20 per cent). Pakistan's foreign debt servicing absorbs 39 per cent of its total export earnings in 1999 and 35 per cent of all foreign exchange assets.[17] The debt servicing payments are projected at US$ 6,265 million, which was 16.5 per cent of the GDP of Pakistan and was 7.5 per cent of its GNP.

[16] The Daily *News* op-cit. 1999.
[17] Kardar, Shahid, The Daily *Dawn* op-cit. 2000.

- If the debt GNP ratio is 80 per cent or more, the World Bank considers the debt unsustainable. The total disbursed and outstanding debt (internal and external; medium and long term) has been estimated at US$ 74.5 billion at the end of December 2000. Total debt of the country is more than 100 per cent of its GDP.

From the above statistics it is seen that Pakistan qualifies for the World Bank debt retirement criteria. The only reason according to the *IMF Report* is that Pakistan receives aid from the World Bank, which excludes Pakistan from those HIPC countries whose debt will be retired in the near future. Quoting the IMF report, "With a stock of public and publicly guaranteed debt amounting to US$ 28.8 billion at the end of 1996-1997, (which has increased to US$ 37 billion by the end of 1999) Pakistan may be regarded as a highly indebted developing country"... "Pakistan has always been current in its debt obligations, and has not benefited from any sort of debt rescheduling since 1981. The major agencies of Credit Rating rate Pakistan's sovereign risk at non-investment grades. However, following the 1996-exchange crisis, they have downgraded Pakistan within this grade (to B2 for Moody's and B+ for Standard and Poors). The average annual interest rate on public external debt has been stable at 3.6 per cent. (Although Pakistan meets the debt and debt service criteria used to define highly indebted poor countries, it is not classified by the World Bank as a HIPC case because of its eligibility for IBRD resources)".[18]

How to go about Debt Retirement

Kofi Annan, Secretary General United Nations has called for "a fair and transparent process for debt cancellation – an objective and comprehensive assessment by an independent panel of experts not unduly influenced by creditor interests. Such an assessment should not be restricted to HIPC countries. But should also encompass other debt-distressed low income and middle income countries. There should also be a commitment on the part of creditors to implement fully and swiftly any recommendation of this panel regarding the writing off of unpayable debt".

The vicious circle of poverty has ensured that the much-needed resources for human resource development as well as for the increase in investment levels in Pakistan do not materialise. Against this backdrop, repayments and heavy interest on the already taken loans and credits of the country are becoming an added burden. The policy makers are seeking new loans just to pay back the old ones and to keep the country solvent.

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[18] *IMF Report* 1996-1997, pp. 55-56.

Something, somewhere will have to break under this burden. The already poverty stricken people will go towards added burden of poverty, famine and disease. The ultimate responsibility of this looming disaster will lie on the shoulders of both the government of Pakistan and the international donors. The financial crunch will have to come from the rich nations. It is better to reduce the debt burden of Pakistan now, rather than to pay more to keep the people alive in the future.

There are three approaches to solving the debt problem of Pakistan, when the government has not spent this amount of US$ 35 billion on the development of its people. The first option is that the total debt of the Third World should not be paid back. The thinking behind this option is that because these nations have already paid back the donors much more than the principal amounts in the shape of interest on these loans over the years, therefore the loan should automatically be liquidated or "nationalised". The president of Cuba, Fidel Castro is a strong advocate of this approach to liquidating debt of the developing nations. The theme was also echoed in the meeting of the Group of 77 in Havana at the end of the year 2000. The second approach is of moratorium on debt. In other words having agreements between the donors and the recipient nations to freeze the debt for a minimum of 20 years, and this amount should be spent on the uplift of economic growth in the recipient nation. When required growth rates are achieved, the debt and interest should be paid back. The third approach, or the middle path, which is being taken by most of the developed nations today in respect of the international debt crisis of HIPC's is to write off a bigger part or all of the debt of these nations through mutually decided criteria and norms. This is called debt retirement. For Pakistan's debt problem the option of debt retirement through a mutually agreed formula and approach between the government and its donors is the only option. An agreement should be reached that the amount of financial resources saved from debt retirement should be spent on the uplift of the poor and other deprived sections of society through community participation and under strict monitoring of the donor agencies and organisations.

The debt to international organisations and consortium countries with a total interest of above US$ 5 billion poses the immediate problem for Pakistan. These nations and organisations have already agreed in principle to write off debts to the HICP for low-income nations in the world. The problem situation of Pakistan is seen as more acute than even the very criteria set down by the World Bank itself, and therefore Pakistan qualifies as a nation whose debt liabilities should be written off and retired.

If in the HIPC nations self-sufficiency is not achieved, the debt burden is not reduced and investment on human resource development is not increased, Pakistan will not be able to stand together in the comity of nations and sustain economic growth levels. Pakistan will not be able to protect her environment and advance the development in scientific research and technology because she is spending a major portion of badly needed financial resources servicing the old debts. Both human resource development and sustainable economic growth need heavy investments, and the money has either been embezzled by their rulers or paid back to the donors as debt servicing.

By looking into the list of debt defaulters (government functionaries, and politicians) who have embezzled public money and have defaulted on their bank loans, one gets a glimpse of the extent to which the people of Pakistan have been robbed of their share of the nation's wealth. "Borrowers, mostly from the country's elite, are estimated to have defaulted on about 211 billion rupees[19] or US$ 3,638 million.[20] Another news item states, "Loans worth Rs. 40 billion (US$ 690 million) have been rescheduled, and many among the big defaulters have either got their loans rescheduled/ written off or escaped."[21]

The argument being made here is that when US$ 1 billion a year minimum was being spent on defense from foreign sources as announced by the *State Bank Report* 2000 and as more that US$ 4 billion has been embezzled in the previous government, and an equally obnoxious amount in the previous government subsequent to the last one, most of the money coming from abroad has not been spent on the people's social and economic uplift. Therefore is it just and fair that the people of the country should not be held liable for the fraud of its powerful elite and rulers? The responsibility of the donor nations (to ensure that the money is spent for the purpose that it has been borrowed) is as much as of the government of Pakistan. Because the donors also knew of the plunder and misuse of the funds which were coming from their sources for specific development and uplift purposes and were subsequently not spent on these projects. The control and accountability network put down by the donors for every penny of theirs spent in Pakistan as well as their respective media were conscious of the fact that the money was not being spent on the right target. Even then the donors close their eyes to the plunder and kept financing all subsequent regimes and politicians of the country. In the words of the Nigerian President Obasanjo, "The people who gave these loans knew that

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[19] *The Daily News*, op-cit. 1999.

[20] Calculated at an exchange rate of Rs 58 to US$ 1.

[21] *Ibid.*

the money wasn't being used wisely. Perhaps they even took their cut. Yet the ordinary people have to pay back these loans. This is the injustice of it all. The burden of our debt is immoral". The donors are at fault as much as the ruling elite of Pakistan. The time has come that both these sections should take the responsibility away from the poverty-stricken people who should not be made responsible twice over for the mistakes and misconduct of others.

On the one hand, finances meant for their uplift and economic development were misused and misdirected away from the people to the foreign bank accounts of the rich and powerful (ironically, in the very banks of the donor nations). And on the other hand, by paying back the principal as well as the interest on the debt that they did not spend. The Government of Pakistan should take it as priority number one to retire all the debt of Pakistan in order to generate enough resources to spend on the social and economic uplift of the country through human development, economic growth and investment in research and technological development. The donor nations should also fulfil their commitments to the people of Pakistan by retiring their part of the debt, so that the burden of the people would be eased and an era of sustainability and social prosperity in Pakistan might commence with their economic and scientific help. Those who have misused the funds should be taken to task, in what ever nation they may reside for the time being in accordance with local and international laws, so that the plundered wealth of the country can be returned to their rightful owners – the people of Pakistan. The entire process needs negotiations and agreements on principal between the government of Pakistan and the donors under a mutually agreed formula.

What Debt Relief Would Bring To Pakistan

Rs. 3,13,273 or US$ 6,265.46 as debt servicing if spent on human development in Pakistan and the alleviation of poverty in the country will constitute an average income of US$ 500 per year for 12.5 million households which is the World Bank's poverty line criteria income. Total external debt of US$ 32 billion will constitute an average income of US$ 500 for 64 million households if the entire debt of the country is written off.

Pakistan's Ambassador and permanent representative to the UN, Mr. Shamshad Ahmad (while addressing the 55th session of the UN General Assembly on November 18, 2000) said that, "In the Highly Indebted Poor Countries (HIPC's), children were ten times less likely to live up to the age of five than those in rich countries". He continued, " Without alleviation of the debt burden, there was little likelihood that national policies could be fully implemented and the goals of WSC (World Summit of Children) achieved anytime in the future".[22]

Debt relief in the form of debt retirement if negotiated, should save for the country a total of US$32.0 billion (the amount of external public debt of Pakistan) or an average of US$ 6.3 billion yearly as debt servicing. Financial resources if spent on human development can put through school the large number of school-age children that are out of school; training of teachers both for primary and secondary schools, as well as for higher educational levels; ensure clean drinking water for most of the villages in Pakistan; provide basic health facilities in the rural areas and ensure that children below the age of five and mothers during pregnancy do not die in the country. These financial resources can be used for building infrastructure in Pakistan in order to expand market structures so that investment opportunities and employment levels can be enhanced. Resources saved from debt retirement can be used to develop an energy resource base in the country that can ensure cost effectiveness in attracting foreign investment so that the country can embark upon a more self-reliant economic growth model with enhanced human resources, developed infrastructure and cheap energy sector. It can go a long way in ensuring higher incomes, consumption and saving patterns in the country and bigger and comprehensive economic growth levels.

[22] *The Daily Dawn*, op-cit. 2000 p. 19.

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