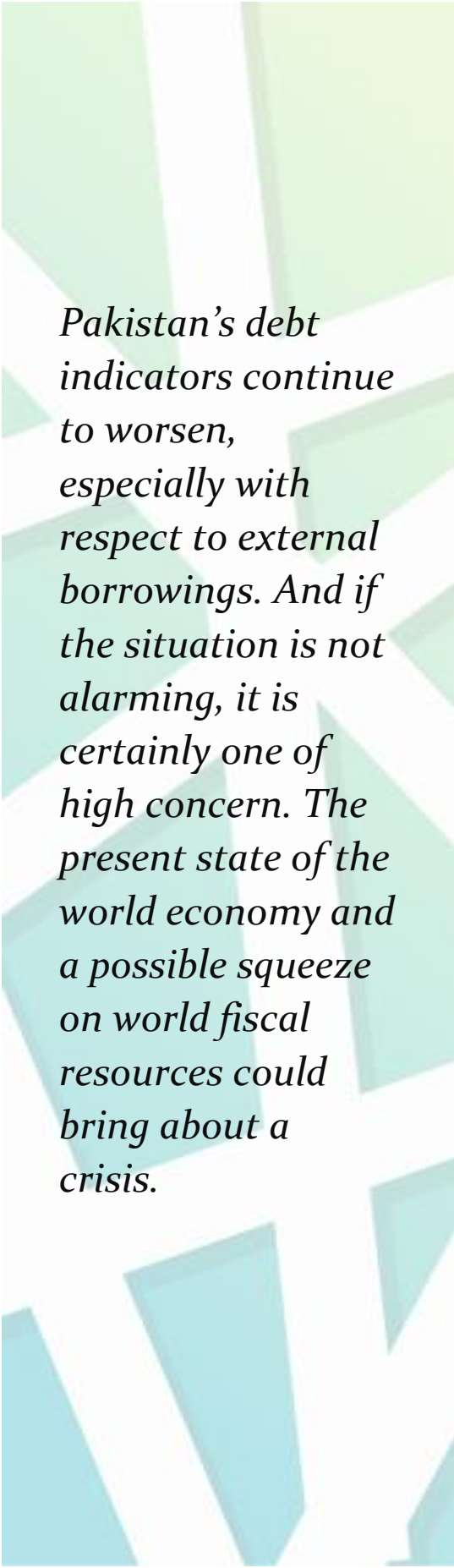




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# **PAKISTAN'S DEBT AND DEBT SERVICING IS CAUSE FOR CONCERN**

October 2020



*Pakistan's debt indicators continue to worsen, especially with respect to external borrowings. And if the situation is not alarming, it is certainly one of high concern. The present state of the world economy and a possible squeeze on world fiscal resources could bring about a crisis.*

In FY 20 alone, Pakistan added a total of Rs. 4.3 Trillion to its total debt and liabilities. This amount is 10.4 % of GDP. In two years, total debt and liabilities have grown by a massive Rs. 14.7 Trillion. This shows weak fiscal management as well as inability to stimulate growth in the productive sectors. It also reflects a failure to make the necessary reforms in key sectors of energy and power.

While government often ascribes increase in debt to exchange value changes, the picture is more complex. Domestic debt has grown at an equal pace and external debt has also grown in US dollars. The increase in domestic debt is because of weak FBR revenue collection, where attempt to reform may have had the opposite effect of what was intended. High discount rate, with no apparent economic logic, slowed down the economy, and with it tax revenue. Despite increase in power tariff, revenue collection by DISCOs have not improved. Consequently, in addition to government borrowings, PSE debt has increased.

In US\$, gross public external debt grew by 13% in FY 19 and by 5.4% in FY 20. In the last five years or so, source of funds had shifted from concessional long tenure multilateral and Paris Club loans to higher cost commercial and other bilateral. The latter was mostly from China. This raised the average cost of debt and reduced its tenure. As multilateral debt picked up again in FY 2020, government has taken the wise course of using it to pay back costly commercial funds and bonds.

Yet, debt sustainability indicators are in decline. External debt and liabilities was USD 95 Billion in 2018. It has grown to almost 113 Billion in FY 20. Pakistan has added USD 17.8 Billion to total external debt and liabilities in two years.

By June 2020, our external debt and liabilities was 45% of GDP. The number stood at 30% of GDP in 2018 and 25% of GDP in 2013. As the debt is used mostly for BoP and budgetary support, there is no way of knowing how it will

be paid back. Pakistan has always been carefree in taking on foreign loans.

During the first decade of the 2000s, project aid was 39% of total borrowing. This ratio fell to 37% of total disbursed loan for the period 2011-2019. This was despite the boost from CPEC flows. In FY 19, project aid fell to 30% of total and in July-March FY 20, it fell to 20% . Project aid is investment that creates future returns for the economy, enabling it to repay. That is, if projects are selected with care, they stimulate economic growth. It helps servicing of foreign loans, by improving competitiveness and exports. At present, very little if any of foreign loans have gone into sectors that directly increase export.

Essentially, we are borrowing to repay past debt. We are in a debt trap that is entirely of our own making. It is a risk to our national security.

Consequently, debt servicing has claimed an increasing share of the country's forex resources. In FY 2020, debt servicing reached a high of USD 14.6 Billion. This amount is a massive 5.4% of GDP and more than half of our total export earnings. One silver lining is that a major part of this amount was repayment of principal, especially of high cost debt. Even so, Pakistan paid USD 3.3 Billion in interests alone. This amount is a transfer of resources from (mostly) Pakistani taxpayers to credit organizations, funds, and individuals in wealthy countries. About 73% of interest and 84% of principal is to service public debt. At this level of repayment and with scant addition to exports, as total debt continues to grow, its sustainability becomes a huge concern.

This sad state of affairs reflects the history of our approach to economic governance. We follow an economic model that places consumption needs above investment. And our inability to raise taxes, a subject that needs separate treatment, as well as continued need to subsidize specific sectors and loss making PSEs, drain GoP resources. Public money is best used to increase manufacturing sector productivity by investing in human capital and hard and soft infrastructure.

Global indices that measure such things show that this has not been our priority. Pakistan ranks 152nd out of 189 countries in HDI. It fell six places between 2017 and 2019. In World Economic Forum's competitiveness index, it ranks 110th of 141 countries, falling three places in 2019. A series of studies show that labour productivity in Pakistan is in long term decline. This means that we need more capital input for the same amount of return. These developments do not just happen. They are the outcome of political choice exercised over decades by our leadership.

The result of such choice is high indebtedness. See Tables below.

- In FY 2020, Pakistan's total debt and liabilities was 107% of GDP.
- Gross public debt, including PSEs, was 87% of GDP
- In dollar terms, in FY 20, external debt reached 43% of GDP, up from 30% of GDP in 2018. It was 25% of GDP in 2013.
- Consequently, markup payments claimed 38% of total federal expenditure.
- External debt servicing, both principal and interest, rose to USD 14.6 Billion in FY 20, 5.4% of GDP

## 1. Pakistan: Trend of Repayment of Principal and Interest on External Debt

	Million USD				
	FY '01	FY '07	FY 13	FY 18	FY 20
Payments Principal + Interest	1,668	2,977	5,978	7,495	14,578
% Export of goods and services	18.7	16.7	24.0	38.6	52.2
% of Forex Earnings	11.7	8.9	11.9	20.3	26.1
% GDP	2.3	1.3	2.4	2.3	5.4

### Source:

1. For fiscals 2000-01, 06-07 from Pakistan Economic Survey 2016-17, Statistical Appendix Table 9.3 Page 117
2. Rest SBP Summary of Pakistan External Debt Servicing and SBP Summary of Balance of Payments BPM6—August 2017

## 2. Repayment of Principal and Interest: Where is it going

	USD				Million
	FY 18	FY 19	FY 20	Change % 20/19	
Total	7,495	11,589	14,578	26	
Principal	5,178	8,638	11,345	31	
Interest	2,317	2,951	3,233	10	
Interest as % of total	31	25	22		
Public debt repayment	5,987	9,245	11,895	29	
Principal	4,200	6,955	9,543	37	
Interest	1,787	2,290	2,352	3	
% of total repayment	80	80	81	--	

### Major Repayment recipients

	%			
	FY 18	FY 19	FY 20	Change 20/19
Paris club	11	7.5	3	--
Multilaterals	22	16	13	--
Other bilateral	5	5.5	5	--
Bonds, Sukuk, and commercial	15	35	39	--
Others	47	36	40	--

### 3. Change in source of debt

Million USD

	FY 18	FY 19	FY 20	Cumulative Change 3 years
Paris Club	-294	-408	-311	-1,013
Multilateral	497	-314	3,110	3,293
Other Bilateral	2,852	4,043	711	7,606
Commercial	4,099	690	-1,273	3,516
IMF	-14	-447	2,032	1,571
Forex Liabilities	1,565	5,368	-597	6,327
Short-term	735	-352	277	670
PSEs	-35	1,342	1,033	2,340
Change in total public debt + PSEs	9,405	9,923	5,002	--
Private debt	2,588	1,508	491	4,587
Intercompany debt	339	-319	1,037	1,057
Change in total debt	12,322	11,112	6,510	--

## 4. Pakistan External Debt and Liabilities

Billion USD

	June 2007	June 2013	June 2018	June 2019	June 2020
<b>Public Debt incl PSEs</b>	<b>36.7</b>	<b>52.3</b>	<b>78.1</b>	<b>88.1</b>	<b>92.9</b>
<b>Public and Guaranteed Debt</b>	<b>36.7</b>	<b>50.2</b>	<b>75.4</b>	<b>83.9</b>	<b>87.9</b>
• Multilateral and Paris Club	31.4	37.7	39.7	39.0	41.8
• Other bilateral	1.0	2.9	8.7	12.7	13.4
• Bonds, Sukuks, commercial	2.9	1.6	14.1	14.8	13.6
• Short-term debt	0	0	1.6	1.3	1.5
• IMF	1.4	1.4	6.1	5.6	7.7
• Forex Liabilities guaranteed	---	2.4	5.1	10.5	9.9
<b>PSEs</b>	<b>--</b>	<b>2.1</b>	<b>2.7</b>	<b>3.9</b>	<b>4.9</b>
<b>Banks</b>	<b>--</b>	<b>1.6</b>	<b>4.4</b>	<b>4.7</b>	<b>4.6</b>
<b>Private debt</b>	<b>2.0</b>	<b>6.8</b>	<b>9.2</b>	<b>10.5</b>	<b>11.1</b>
<b>Total External Debt</b>	<b>38.7</b>	<b>57.0</b>	<b>91.2</b>	<b>103.0</b>	<b>108.5</b>
<b>Intercompany debt</b>	<b>1.5</b>	<b>2.8</b>	<b>3.7</b>	<b>3.3</b>	<b>4.4</b>
<b>Total Ext Debt &amp; Liabilities</b>	<b>40.3</b>	<b>59.8</b>	<b>95.1</b>	<b>106.3</b>	<b>112.9</b>
Official liquid reserves	13.3	6.0	9.9	7.7	12.5
<b>Ext Debt &amp; Liabilities % of GDP</b>	<b>28</b>	<b>25</b>	<b>30</b>	<b>37</b>	<b>43</b>
<b>GDP in Billion USD</b>	<b>144</b>	<b>237</b>	<b>313</b>	<b>279</b>	<b>264</b>

## 5. Stock of Pakistan's Total Debt and Liabilities-Summary

Billion Rupees

	June 18	June 19	June 20
<b>Total Debt and Liabilities</b>	<b>29,879</b>	<b>40,223</b>	<b>44,564</b>
<b>Gross Public Debt</b>	<b>24,952</b>	<b>32,708</b>	<b>36,397</b>
<b>Government Debt</b>	<b>24,212</b>	<b>31,787</b>	<b>35,106</b>
Domestic	16,416	20,732	23,281
External	7,796	11,055	11,825
<b>Total External Debt &amp; Liabilities</b>	<b>11,575</b>	<b>17,341</b>	<b>18,979</b>
<b>Commodity Operation and PSEs Debt</b>	2,311	2,805	2,758
Guaranteed Debt & liabilities	919.6	1,213.0	1,174.0
Non-guaranteed Debt & liabilities	1,391.8	1,592.0	1,583.6

### As Percent of GDP

	June 18	June 19	June 20
Total Debt and Liabilities	86	106	107
Gross Public Debt	72	86	87
<b>Government Debt</b>	<b>70</b>	<b>84</b>	<b>84</b>
Domestic	47	55	56
External	23	29	28
Total External Debt & Liabilities	33	46	45

<b>Pakistan Total Debt &amp; Liabilities</b>				
	<b>Rs. Billion</b>			
	<b>June 2007</b>	<b>June 2013</b>	<b>June 2018</b>	<b>June 2020</b>
<b>Total Debt and Liabilities</b>	5,249	16,228	29,879	44,564
YoY Growth	10	12	19	11
% of GDP	60	71	86	107
<b>Total debt</b>	5,101	15,531	28,437	42,087
YoY Growth	10.6	12	18	12
% of GDP	59	68	82	101
<b>Domestic Debt</b>	2,714	9,833	17,483	24,772
YoY Growth	12	17	17	12
% of GDP	31	43	51	59
<b>External Debt</b>	2,386	5,698	10,953	17,316
YoY Growth	9	-4.5	31	10.7
% of GDP	27	25	32	41.5
<b>Total Liabilities</b>	148	697	1,442	2,477
External	49	227	622	1,663
Domestic	99	470	820	813
<b>Memorandum Items</b>				
<b>Gross Public Debt</b>	4,896	14,494	24,953	36,397
YoY Growth	9.6	12	16.5	11
% of GDP	56	63	72	87
<b>Government Debt</b>	4,761	13,832	24,212	35,106
YoY growth	10	15	16.6	10.5
% of GDP	55	60	70	84
<b>External Debt &amp; Liabilities</b>	2,436	5,925	11,575	18,979
YoY Growth	9	-4.5	33	9.5
% of GDP	28	26	34	45

**Source:**

SBP Pakistan's Debt and Liabilities Profile, All domestic liabilities are commodity operations



Budget deficit			Billion Rs. %
	FY 19	FY 20	+/- Change %
Total Expenditure	8,345.6	9,648.5	15.6
Total Revenue	4,900.7	6,272.2	-27.9*
<b>Budget deficit</b>	<b>-3,444.9</b>	<b>-3,376.3</b>	<b>-2.0</b>
Add back debt servicing	2,091.1	2,619.7	25.3
<b>Primary deficit</b>	<b>-1,353.8</b>	<b>-756.6</b>	<b>-45.2</b>
Budget deficit % GDP	-8.9	-8.1	-9.0
Primary surplus % GDP	-3.5	-1.8	-49.6
GDP	38,559	41,727	8.2

Expenditure				
	FY 19	FY 20	% +/- FY 20/ FY19	% of total FY 20
<b>Total Fed &amp; Prov Exp</b>	8,345.6	9,648.5		
%GDP	21.6	23.1	15.6	
% of total rev	170	154		
<b>Total Exp Fed</b>	5,599	6,818.9		
% of GDP	14.5	16.3	21.7	100.0
% of rev*	275	208		
<b>Current Exp Fed</b>	4,804	6,092.6		
% of GDP	12.5	14.6	26.8	89
%Fed revenue	236	186		
• <b>Debt serv</b>	2,091	2,620		
% of GDP	5.4	6.3	25.3	38
% of Rev	103	80		
• <b>Defence</b>	1,147	1,213		
% of GDP	3	3	5.7	18
% of Rev	56	37		
• <b>Pensions &amp; grants</b>	1,182	1,803		
% of GDP	3	4	52.5	26
% of Rev	58	37		
<b>Sub-total</b>	4,420	5,636		
% of GDP	11.5	14	27.5	83
% of Rev	217	172		
<b>Balance for civil</b>	384	457		
% of GDP	1	1	19.0	7
% of Rev	19	14		
<b>PSDP</b>	795	726		
% of GDP	2	1.7	-9.0	11
% of Rev	39	22		

***Fed revenue = net receipts after transfer to provinces***

Revenue				
	FY 19	FY 20	% +/- FY 20	% of total fed tax FY 20
<b>Total Rev: fed and prov</b>	4,900.7	6,272.2	28	
%GDP	13	15		
<b>Total Fed Rev</b>	4,435.6	5,782.0		
%GDP	11.5	14	30	100
<b>Total Fed Tax</b>	4,072	4,334		
% GDP	10.5	10	6	76
<b>Total FBR</b>	3,829	3,998		
% GDP	10	9.6	4	70
<b>Indirect</b>	2,384	2,474	4	43
%GDP	6.2	6.0		
<b>Direct</b>	1,446	1,524	5	26
%GDP	3.7	3.6		
<b>Other Tax</b>	242.2	336	39	6
<b>Non-tax revenue</b>	364	1,448	500	25

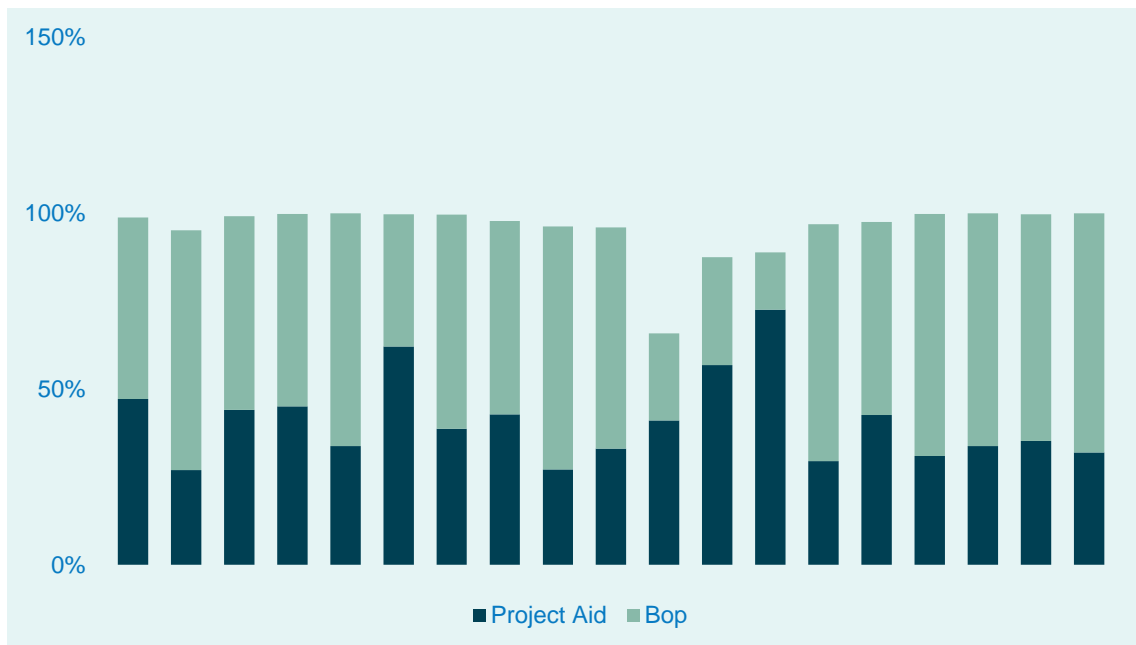
**Key economic indicators**  
**Fiscal years 20 and 19**

**Million USD**

	<b>FY 19</b>	<b>FY 20</b>	<b>Aug 20</b>
<b>GDP %</b>	1.91	-0.38	--
<b>LSM %</b>	-2.3	-10.2	5.0
<b>Inflation CPI %</b>	7.34	10.73	8.74
<b>Forex Reserves 30 June</b>			
Net	7,285	12,132	12,738
Gross	14,482	18,886	19,908
<b>Current Account deficit</b>	<b>-13,434</b>	-2,970	805
% of GDP	-4.8	-1.1	-1.8
<b>External Trade</b>			
<b>Trade balance Goods</b>	<b>-31,805</b>	-23,180	<b>3,413</b>
%		<b>-27.1</b>	<b>-7.5</b>
<b>Exports</b>	22,958	21,394	3,585
%		-6.8	-4.3
<b>Imports</b>	54,763	44,574	6,998
%		-18.6	-5.9
<b>Workers' Remittances</b>	21,740	23,131	4,863
%	9	6	31
<b>FDI</b>	1,362	2,561	226
%	-51	88	40

**Figure 1:**

Most of the aid is for BOP support. Project aid is a small part of total aid



Aid	2000-2010	2011-2019
Project	39%	37%
BoP	59%	63%

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