Policy Brief # PB-82-2024

March 27, 2024

Pakistan’s Debt Profile

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By

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Pakistan confronted serious economic, political and security crises in 2023 stemming from a long-standing failure to undertake meaningful structural reforms. In 2023, Pakistan experienced record inflation (37.97 percent in May 2023), a sharp decline in per capita income (11 % decline in 2022-23), highest ever external debt servicing ($18 billion in 2023 with an increase of 37 percent compared to previous year) and near default that resulted in an International Monetary Fund's rescue loan.

Pakistan's debt is a formidable and existential challenge that new elected government will face and requires immediate and strategic solutions. Pakistan's debt-to-GDP ratio is estimated above 70% and interest payments on its debt will soak up 50% and 60% of the government's revenues this year. That is the worst ratio of any sizable economy in the world (IMF and credit ratings agencies). Pakistan's debt per capita had grown from $823 in 2011 to $1,122 in 2023, a 36% increase in 12 years (Ammar & Zeeshan).

Pakistan's debt profile is alarming and its borrowing and spending habits are unsustainable. The country's debt grew at a faster pace in 2023 as compared to the last year. Both the domestic and external factors contributed in the sharp rise in the debt. The country's total debt and liabilities (including domestic and external debt) is estimated at Rs77.104 billion.

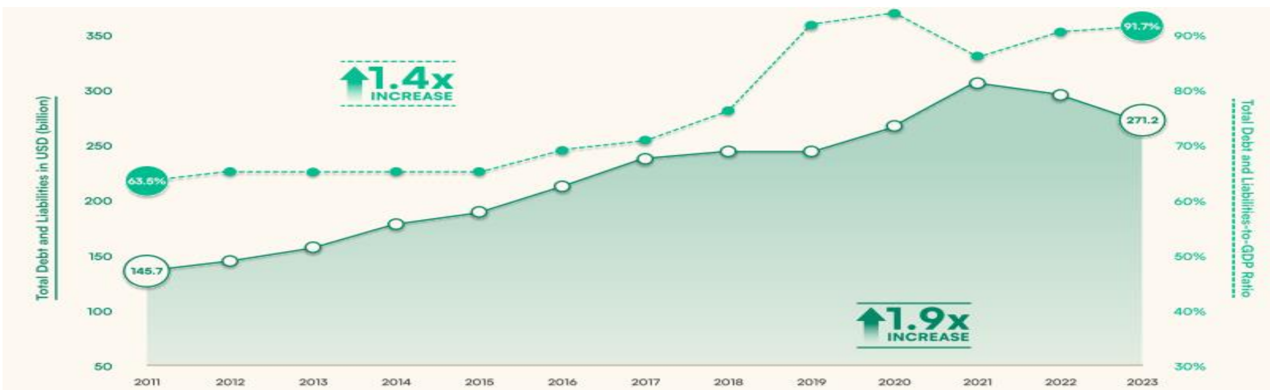
Table 1: Pakistan's Total debt and Liabilities

(Billion Rupees)

	End Period Position				
	FY19	FY20	FY21[R]	FY22[R]	FY23[P]
I. Government Domestic Debt	20,732	23,283	26,265	31,085	38,809
II. Government External Debt	11,055	11,825	12,439	16,747	22,031
III. Debt from IMF	921	1,291	1,162	1,410	2,040
IV. External Liabilities[1]	1,710	1,663	1,378	2,276	3,102
V. Private Sector External Debt	2,481	2,628	2,575	3,698	5,159
VI. PSEs External Debt	631	870	1,065	1,667	2,151
VII. PSEs Domestic Debt	1,394	1,491	1,437	1,393	1,687
VIII. Commodity Operations[2]	756	813	904	1,134	1,486
IX. Intercompany External Debt from Direct Investor abroad	543	728	633	838	1,114
A. Total Debt and Liabilities (sum I to IX)[6]	**40,223**	**44,592**	**47,858**	**59,772**	**77,104**

Source: State Bank of Pakistan

Figure 1: Pakistan's total Debt and Liabilities



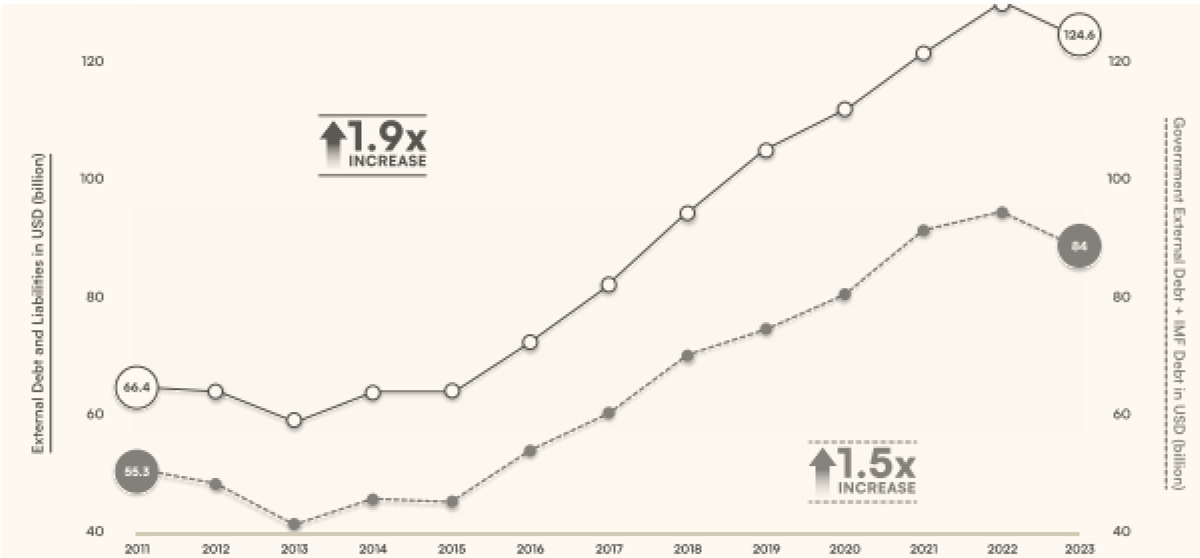
Source: screen grab of Tabadlab's report "A Raging Fire: Pakistan's Debt Crisis"

The domestic debt had increased by six-fold while external debt had nearly doubled since 2011 (Tabadlab) as depicted in the following figure

Figure 2: Pakistan's Domestic Debt

Source: screen grab of Tabadlab's report "A Raging Fire: Pakistan's Debt Crisis"

Figure 3: Pakistan's External Debt



Source: screen grab of Tabadlab's report "A Raging Fire: Pakistan's Debt Crisis"

Domestic debt increased on account of high financing needs and limited external inflows, while entire increase in external debt stemmed from depreciation of PKR against US dollar. The external debt however, declined in dollar terms owing to higher scheduled payments and lower-than-expected external disbursements in the back drop of delay in the completion of 9th review under IMF's EFF program and downgrading of Pakistan's credit rating by the international rating agencies (SBP).

The domestic debt primarily borrowed from Ijara Sukuk(7.5%), Pakistan Investment Bonds(52.4%),Treasury Bills(22.2%), Prize Bonds (0.9%),National Savings Schemes(6.7%) Foreign Currency Loans(22.2%),Government Domestic Liabilities(2%),PSE Debt(4%),Commodity Operations(3.5%),Others (0.2%), and Naya Pakistan Certificates(0.3%) while the external debt was borrowed from Paris club (6.3 per cent), multilaterals (30.1pc), other bilateral (19.1pc), commercial banks and T-bills (4.9pc), Eurobonds (6.3pc), the International Monetary Fund (5.7pc), banks (5.1pc) and private sector liabilities (12.7pc) (Ammar & Zeeshan).

State bank of Pakistan revealed that Pakistan has to repay foreign debt amounting to $27.47 billion by November 2024. This repayment includes both the principal loans and interest costs. Pakistan will need to go for another IMF Program to ensure the smooth repayment of its debts following the conclusion of the current standby arrangement in March 2024. The payments due are marginally higher than the average forecast of $20-22 billion for the next 12 months.

The government should consider the following measures[1] to mitigate the growing debt crisis

1. de-risking the business environment by providing a stable legal framework and consistent sovereign commitments to local and foreign investors to consider long-term and high-risk investments
2. implementing fiscal discipline and effective expenditure management by Implementing fiscal discipline and effective expenditure management which include controlling government spending, prioritizing public investments, and ensuring efficient use of resources
3. increasing foreign currency inflows for capital development through creation of special funds and partnerships to bring in capital for important projects (particularly export-oriented agricultural and industrial development projects) and encouraging global investments
4. making internal recalibrations by managing state-owned entities, prioritizing and expand a public-private partnership ecosystem, with stringent governance to mitigate inevitable elite rent-seeking and encouraging capital reallocation
5. expansion of the public-private partnership ecosystem,
6. expanding the direct tax net including retail and wholesale trade in the tax net; incentivizing provinces to increase property taxes and digitalizing the economy and increase banked population to increase the tax net.
7. establishing an export-oriented industrial policy and rethinking climate finance through leveraging debt-for-nature swaps.

[1] Proposed in a report titled " A Raging Fire: Pakistan's Debt Crisis" by Ammar Habib Khan Zeeshan Salahuddin