

Analysis of Pakistan's Debt Situation: 2000-2017¹

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First, let us begin by clarifying the definitions and concepts that are used frequently and have created a lot of confusion among the laymen's mind.

Pakistan's total debt and liabilities (TDL) consist of public debt and private debt. Total stock of outstanding debt and liabilities on June 30, 2017 stood at 79% of GDP. Of this, Gross Public Debt accounted for 85% of the total outstanding or 67.2% of GDP. The remaining 15% is the private debt mostly to borrowers outside the country, for which the government has no fiscal obligation, but the SBP has to provide foreign exchange to service this debt. Within the gross public debt, the government's share was predominant – almost 92% while the balance was owed by the public enterprises but guaranteed by the government. Borrowing from IMF is also included in gross public debt, although it is a liability of the SBP.

The total debt and liabilities is made up of borrowings in Rupees – from SBP, banks, National Savings schemes, prize bonds, Sukuk etc. and borrowings in foreign currency – from multilateral institutions such as the World Bank, ADB, IDB, bilateral countries or international financial markets in the form of Eurobonds or Sukuk. The Rupee denominated borrowing is termed as Domestic Debt, while the foreign currency denominated borrowing is called External Debt.

It is not advisable to examine the debt burden in terms of absolute amounts or per capita terms. The correct way to access is to use

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various indicators that relate total Public Debt stock to national income, exports, revenues, total foreign exchange earnings, foreign exchange reserves, and total revenues.

A more important and relevant way is to look at the total debt servicing capacity, especially that of External Debt. As this has to be paid in foreign exchange, the capacity is very much dependent on current and future earnings of foreign exchange and the level of reserves. This requires careful examination of the tenor (medium or long term, short term) element of Concessionality, interest rate, grace period of each loan contracted.

The risks of Domestic Debt are quite different from those of External Debt. Lumping Domestic and External Debt together is analytically incorrect. While both create debt servicing liability for the budgetary purposes and therefore affect the fiscal balances the risk profiles of the two are quite different. Domestic Debt has to be paid in rupees which can be printed or the Central Bank can acquire those obligations on its balance sheet by creating reserve money. It involves creating possible inflationary pressures but there is no risk of default which is a real threat in case of foreign currency denominated debt. Countries that have suffered debt crisis have faced solvency and liquidity risks in servicing their foreign currency loans.

Risks arising in case of Domestic Debt are roll over risk, interest rate risk, and crowding out of private sector credit.

So we would therefore largely focus the rest of the discussion on the External debt and liabilities and its servicing. What are the early warning signs or indicators that show the build up of vulnerabilities?

- What is the composition of External Debt i.e the break up between Medium and Long term (MLT) and short term (ST) loans? If it is heavily dominated by MLT loans then the risk is relatively lower ,

- What are the ratios of External Debt and Liabilities (EDL) to GDP, Exports, Foreign Exchange Earnings and Official reserves? If these ratios are on a downward moving path over time there is not much cause for alarm
- How much is the element of concessionality in the stock of the EDL i.e. the average interest rate, years to maturity, proportion of fixed rate loans? The higher is the element of concessionality the stronger is the safety valve
- Are the country's official liquid reserves adequate to cover the short term loans and loans maturing during the year? What is import coverage ratio? Will the demand from both these create pressure on the reserves?
- Is the real rate of interest on loans lower than the real rate of growth of national income?

We now examine the data in Tables I-X to discern the broad patterns, indicators and trends for special attention to public debt. The following conclusions can be drawn.

- External Debt situation was out of control in 2000 when the debt servicing payments due were as high as 290 percent of the official liquid reserves available. Between 2008 and 2008 the debt reprofiling by Paris club, accumulation of official reserves led to an easing of the burden and by 2008 debt servicing payments amounted to only 25 percent of reserves. There was a further pressure in 2013 but it took a turn for better in the next four years raising its ugly head once again in 2018. The rapid depletion of reserves in recent months has created serious concern, as Import growth is quite accelerated and the current account deficit is widening. Total debt servicing obligations have, however, remained at the same

level as in 2008 i.e. around 6 percent of GDP and have in fact declined by 1 percentage point(ppt) from 2013.

- Public External Debt is lower in 2017 i.e. 20.7 percent of GDP while it was 27.1 percent in 2008 and 21.4 pct in 2013. About 93 pct of the public external debt falls under the category of Medium and Long term while 7 pct under the short term. Therefore the risk appetite for further short term borrowing to tide over payment difficulties cannot be ruled out as the short term public external debt to SBP reserves ratio is 5.5. Concessional loans still form more than half of the outstanding stock and commercial loans account for only 1.6 percent of the total.
- Total stock of TDL on June 30, 2017 stood at 79 percent of GDP which is 16 percentage points (ppt) higher than 2008 and 6 ppt than 2013. Domestic Debt now accounts for 70 percent of TDL up from 52 pct in 2008 while external debt is down to about 30 pct. Of the TDL, the share of Gross Public Debt was 67.2% of GDP which did not rise at the same speed as the total TDL.(6.8 ppts higher than 2008 and 3.4 ppts than 2013). The real culprit was the private sector debt which rose from 2 percent of GDP in 2008 to 11.5 percent in 2017 . It is pertinent to point out that for private debt the government has no fiscal obligation but the SBP has to provide foreign exchange to service this debt. Borrowing from the IMF is also included in gross public debt, although it is a liability of the SBP and has no fiscal consequences.
- A major setback has been caused by stagnation in foreign exchange earnings due to a \$ 4 billion drop in export receipts since 2013 .This has raised the EDL to FEE ratio from 121 to

162 in 2017 . There has been some growth in exports in last few months but the pace is unspectacular to make a dent. The other element which is picking up is Foreign Direct Investment but that also won't be able to lower this ratio significantly.

- On the fiscal side, almost 24% of government revenues were pre-empted by payments of interest and foreign loan repayments . The average interest rate is down to 6.3 percent with domestic debt being relatively expensive at 8.2 percent.

FY 2000-2017	FY00		FY08		FY13		FY17	
	Amount	% of GDP	Amount	% of GDP	Amount	% of GDP	Amount	% of GDP
Total Debt and Liabilities	3,337	88.0	6,691	65.3	16,338	73.0	25,064	79.0
Public Debt	3,189	84.1	6,476	63.2	14,291	63.9	21,409	67.5
Domestic	1,579	41.6	3,412	33.3	9,520	42.5	14,849	46.8
External	1,610	42.5	3,064	29.9	4,771	21.3	6,560	20.7
Private Debt	148	3.9	215	2.1	2,047	9.1	3,653	11.5
GDP (PKR Billion)	379,204		1,024,655		2,238,082		3,172,405	

Table II: Evolution of Pakistan's Debt Servicing Profile (PKR Billion)								
FY 2000-2017	FY00		FY08		FY13		FY17	
	Amount	% of GDP	Amount	% of GDP	Amount	% of GDP	Amount	% of GDP
Total Debt and Liabilities Servicing	366	9.7	642	6.3	1,539	6.9	1,877	5.9
A. Public Debt Servicing:					1,413	6.3	1,616	5.1
External	147	3.9	202	2.0	428	1.9	391	1.2
Domestic	219	5.8	440	4.3	985	4.4	1,225	3.9
B. Private Debt Servicing	N.A		N.A		126	0.6	261	0.8

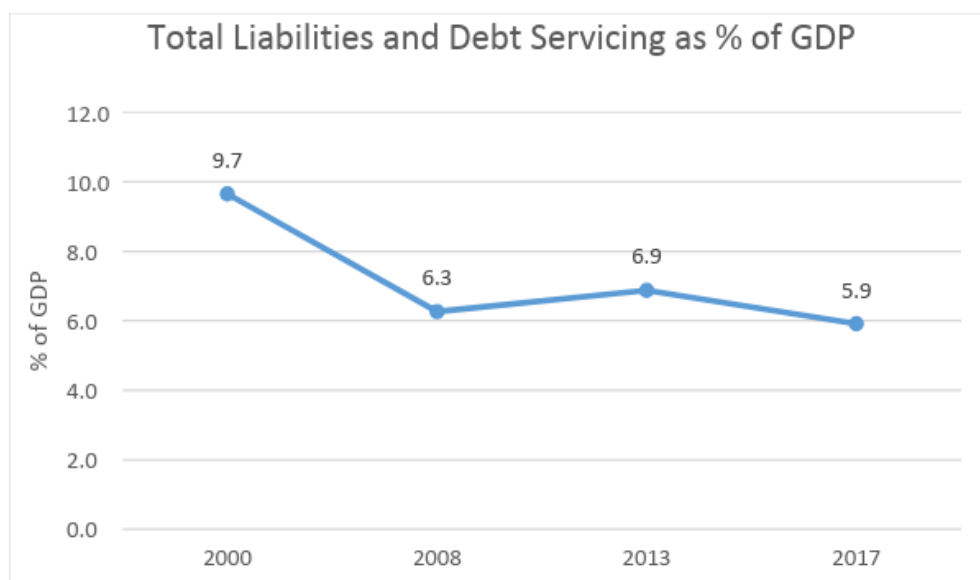
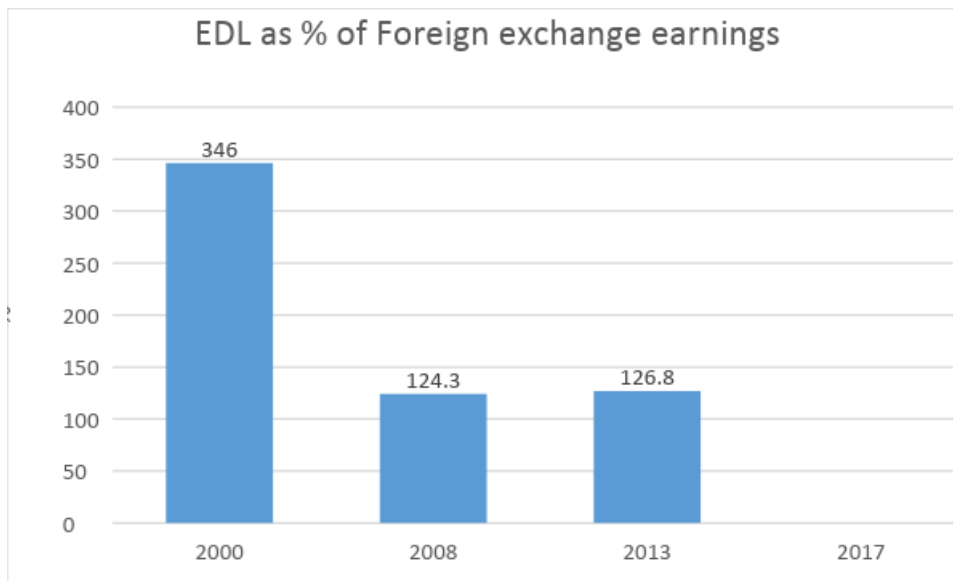


Table III: Key Debt Sustainability Indicators

	<u>2000</u>	<u>2008</u>	<u>2013</u>	<u>2017</u>
1 Total Debt and Liabilities	88.0	65.3	73.0	79.0
2 External Debt and Liabilities EDL/GDP	66		27	27.3
3 EDL/Exports	517			
4 EDL/Foreign exchange earnings	346	124.3	126.8	
5 Short term public external debt/EDL	3.2	1.5	0.5	1.3
6 Commercial loans/EDL				7.7
7 External loans maturing within one year/official liquid reserves			68.5	31.9
8 Concessional debt/EDL	55	66	50.1	54.8
9 Official reserves/EDL			18.1	25.8
10 Short term public external debt/Total Reserves			2.4	4.1
11 Public external debt/GDP			21.3	20.6



	2000	2008	2013	2017
Public Debt Servicing PDS/GDP	9.5	6.6	6.9	5.9
PDS/ Current expenditure	49.6	36.6	29.1	39.1
PDS/ Total Government Revenue	59.1	45.3	40.5	44.8
External:				
External Debt servicing paid (USD million)	6,327	3,029	6,485	6,073
EDS/ foreign exchange earnings	24.1	7.7	12.9	15.9
EDS/exports	36.1	8.6	20.6	29.9
EDS/official Reserves	294.2	26.5	67.0	37.7

FY 2000-2017	2000		2008		2013		2017		% of Total
	Rs. Billion	% of total	Rs. Billion	% of total	Rs. Billion	% of total	Rs. Billion	% of total	
Total Public Debt	3189		6476		14291		21407		100
External	1610	50.5	3064	47.3	4,769	33.4	6,552	30.6	30.6
Domestic	1579	49.5	3412	52.7	9,522	66.6	14,855	69.4	69.4
As Percentage of GDP:									
	2000	2008	2013	2017					
Total Public Debt	84.1	59.0	64.0	67.2	Annual Rates of Growth				
External	42.5	27.1	21.4	20.6	2012-2016	12.4%			
Domestic	41.6	31.9	42.5	46.6	2016-2017	8.8%			

Table VI: Pakistan's External Debt and Liabilities (USD million)

	<u>FY00</u>	<u>FY08</u>	<u>FY13</u>	<u>FY17</u>
A. Public Debt and Liabilities:	<u>35,018</u>	<u>43,078</u>	<u>51,245</u>	<u>66,103</u>
A.1 Government debt	17,804		43,752	56,430
Medium and Long Term	27,674	39,732	43,448	55,547
Short Term	1,333	713	264	882
From IMF	1,550	1,337	4,387	6,109
Foreign Exchange	5,664	1,296	3,106	3,564
A.2 Public Sector Enterprises Debt		<u>1,203</u>	<u>1,848</u>	<u>2,706</u>
Medium and Long Term		1199	1236	1618
Short Term		4	612	1088
A.3 Borrowing from Banks			<u>276</u>	<u>237</u>
Medium and Long Term			53	32
Short Term			223	205
B. Private Debt	2190	1880	<u>7531</u>	<u>13934</u>
B.1 Borrowing from banks	148	-	1278	4270
B.2 Non Guaranteed Debt	2842	2842	3143	6416
B.3 Debt Liabilities to direct investors			3110	3248
	<u>38,000</u>	<u>46,161</u>	<u>60,900</u>	<u>82,980</u>

Table VII: Composition of Pakistan's Public Debt and Liabilities

	Percentage Shares			
	<u>FY00</u>	<u>FY08</u>	<u>FY13</u>	<u>FY17</u>
A. Public Debt/ Total EDL	<u>92.3</u>	<u>95.9</u>	<u>87.5</u>	<u>82.9</u>
O.W. Medium Long Term debt	77.1	91.5	81.0	77.3
Short Term debt	0.3	1.6	1.4	1.3
Foreign Exchange Liabilities	14.9	2.8	5.1	4.3
B. Private Sector Debt/ Total EDL	<u>7.9</u>	<u>4.0</u>	<u>12.4</u>	<u>16.7</u>
Banks/ Non-resident deposits	0.4	-	2.1	5.1
Non-guaranteed debt O.W. short term	7.5	4.0	5.2	7.7
Bonds/trade/ other liabilities			5.1	3.9

Table VIII: Foreign Aid disbursed during different political regimes (USD million)

	<u>Loans</u>	<u>Grants</u>	<u>Total</u>	<u>Annual Average</u>
Junejo (1984/85 - 1987/88)	4651	1,728	6,379	1,595
Benazir Bhutto (1988/89 - 1989/90)	4,072	1,118	5,190	2,595
Nawaz Sharif (1990/91 - 1992/93)	6,153	1,421	7,574	2,525
Benazir Bhutto (1993/94 - 1995/96)	7,374	576	7,950	2,650
Pervez Musharraf (1999/2000 - 2007/08)	17,952	5,062	23,014	2,557
Asif Ali Zardari (2008/09 - 2011/12)	11,695	2,310	14,005	3,501

Source: Presentation made by the Economic Affairs Division to the Special Committee for National Assembly on Foreign and Domestic Loans. September 12, 2012

Table IX: External Debt Servicing						
	<u>FY00</u>			<u>FY08</u>		
	Total	Actually Paid	Rescheduled/ Rolled over	Total	Actually Paid	Rescheduled / Rolled over
A. Public guaranteed debt	0 4,08	1 1,87	9 2,20	6 2,55	6 2,55	-
B. Private non-guaranteed debt	8 83	8 83		3 46	3 46	
C. IMF	0 24	0 24		1 19	1 19	
D. Central bank/Deposits	7 90	7 10	0 80	0 1,23	0 3	1,200
E. Foreign currency Bonds	2 12	2 12		8 2	8 2	
F. Foreign Currency Accounts	4 1,46	2 39	2 1,07			
G. Others	-				0 13	130
H. Short Term debt servicing						
Total	<u>7,837</u>	<u>3,756</u>	<u>4,081</u>	<u>4,383</u>	<u>3,183</u>	<u>1,200</u>
Principal	6,118	2,399	3,719	3,135	1,935	1,200
Interest	1,719	1,357	362	1,248	1,248	-

External Debt Servicing (continued)						
	<u>FY13</u>			<u>FY17</u>		
	Total	Actually Paid	Rescheduled/ Rolled over	Total	Actually Paid	Rescheduled / Rolled over
A. Public guaranteed debt	5 5,85	5 5,35	0 50	4 5,72	4 5,22	500
B. Private non-guaranteed debt	4 35	4 35		8 59	8 59	-
C. IMF	9 29	9 29		6 8	6 8	-
D. Central bank/Deposits	2 81	2 11	0 70	1 71	1 1	700
E. Foreign currency Bonds	-	-	-			
F. Foreign Currency Accounts	-	-	-			
G. Others	4 21	4 21		7 21	7 21	-
H. Short Term debt servicing	7 50	7 50		6 2,10	6 2,10	-
Total	<u>7,686</u>	<u>6,486</u>	<u>1,200</u>	<u>8,157</u>		
Principal	6,753	5,553	1,200	6,537		
Interest	933	933	-	1,620		

Table X: Public Debt Servicing Indicators (Rs. Billion)

	<u>2000</u>	<u>2008</u>	<u>2013</u>	<u>2017</u>
<u>Total Public Debt Servicing (PDS)</u>	<u>330.0</u>	<u>682</u>	<u>1,475</u>	<u>1,779</u>
Domestic		440	907	1,206
External		242	568	573
PDS/GDP	9.5	4.8	6.9	5.9
PDS/Current Expenditure	49.6	34.3	<u>10.3</u>	<u>9.9</u>
PDS/Total Government Revenue	59.1	32.7	21.6	24.0
<u>External Public Debt service Ratios</u>				
EPDS/Foreign Exchange earnings	24.1		12.9	15.9
		6.3		
EPDS/Exports of goods & services	36.1	12	20.6	29.9
EPDS/Official Reserves		28		
	162.9		55.4	32.4
<u>Cost and Maturity:</u>				
Average Interest Rate:			7.8	6.3
Domestic			10.7	8.2
External			1.0	2.1
Average Time to maturity (years)			4.5	3.9
Domestic			10.8	2.1
External			10.1	8.5
Fixed rate debt/PDS %			54.0	61.9
Domestic			39.6	54.3
External			83.4	81.5

