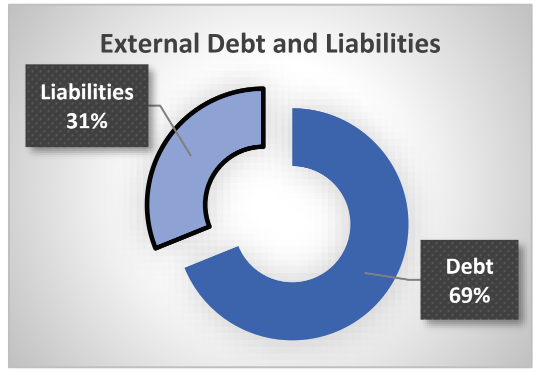
Pakistan’s Debt Payment Management

A Note

manzil
PAKISTAN

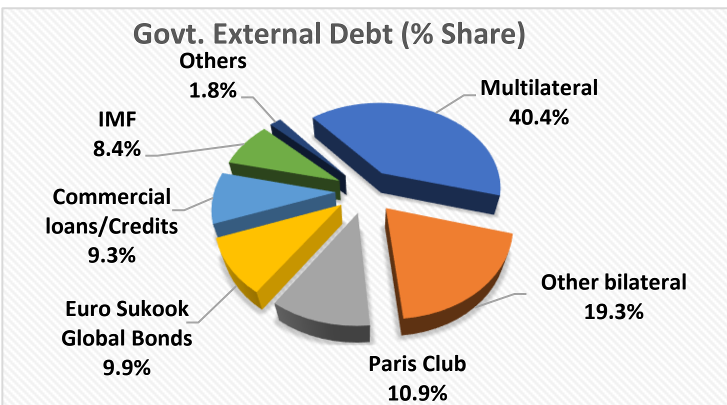
1 The Present Situation of Pakistan's Debt

One of the biggest problems faced by Pakistan is its mountain of unpaid loans. Over the years, Pakistan has borrowed from several foreign and domestic institutions. The outlook of Pakistan's foreign reserves greatly depends on the borrowed capital. Pakistan's borrowings total up to USD 127 billion. Approx. 69% of Pakistan's total borrowings, is External debt while the rest of the 31% is External liabilities.

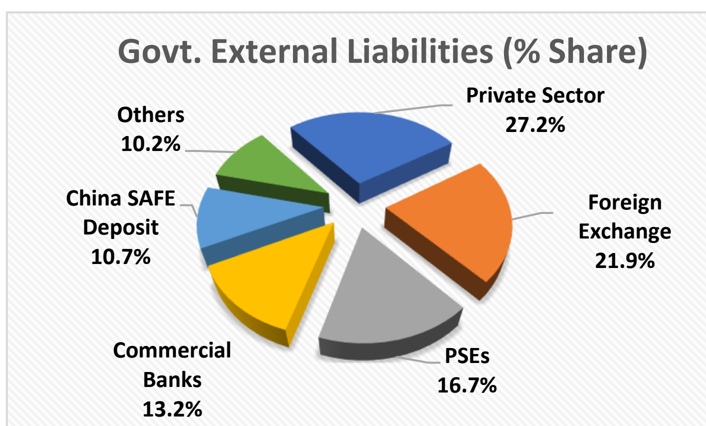


Pakistan's total External Public Debt stands at USD 88.76 billion as per March 2022. It has been substantially inceasing each year. The debt has been growing at stable pace of USD 3-4 billion each year but in FY 2020-21 which was hit by COVID-19, it grew by approx USD 9 billion.

The break of external debt reveals a major portion from multilateral loans making up of 40.4 percent (USD 35.8 billion), followed by bilateral loans with 30.2 percent (USD 26.8 billion). The loan from Paris Club is accounted in bilateral loans amounted to USD 9.7 billion. The remaining portion of external debt is divided into global bonds (including Euro Sukook), commercial loans and credits accounts for 9.9 percent, and 9.3 percent respectively. Pakistan's borrowings from International Monetary Fund (IMF) make up 8.4 percent of the total External Public Debt.



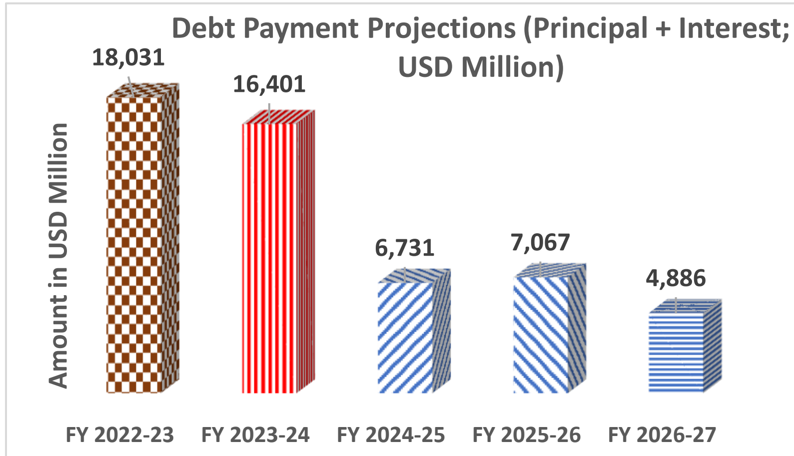
As far as the external liabilities are concerned, the private sector liabilities makes the large proportion of 27.2 percent (USD 10.9 billion), followed by foreign exchance liabilities of 21.9 percent (USD 8.8 billion). The external liabilities owed by Public Sector Enterprises (PSEs) accounts for 16.7 percent (USD 6.7 billion) of the total external liabilites, followd by Commercial banks with 13.2 percent (USD 5.3 billion). The deposits from china accounts for 10.7 percent (USD 4.3 billion), and other time deposits accounts for 10.2 percent (USD 4.1 billion). The following table provides a details break of external debt and liabilities.



Financing Source / Creditor Type / Donor		External Debt and Liabilities (As of March 2022)				
		Debt > 1 Year	Debt < 1 Year	Total	% Share of Sub Totals	% Share of Grand Total
Govt. External Debt (in USD Million)						
Multilateral		34,513	1,301	35,814	40.35%	27.79%
Bilateral	Non-Paris Club	17,151	-	17,151	19.32%	13.31%
	Paris Club	9,708	-	9,708	10.94%	7.53%
Bond Holders (Euro / Sukuk)		8,800	-	8,800	9.91%	6.83%
Commercial Loans		8,210	-	8,210	9.25%	6.37%
IMF		7,471	-	7,471	8.42%	5.80%
Naya Pakistan Certificate		1,327	-	1,327	1.49%	1.03%
Others		154	130	284	0.32%	0.22%
Sub Total External Debt		87,334	1431	88,765	100.00%	68.88%
Govt. External Liabilities (in USD Million)						
Private Sector Liabilities		10,900	-	10,900	27.18%	8.46%
Foreign Exchange Liabilities		8,800	-	8,800	21.95%	6.83%
Public Sector Enterprises (PSEs)		6,700	-	6,700	16.71%	5.20%
Commercial Banks		5,300	-	5,300	13.22%	4.11%
China SAFE Deposit		4,300	-	4,300	10.72%	3.34%
Others		4,100	-	4,100	10.22%	3.18%
Sub Total External Liabilities		40,100	-	40,100	100.00%	31.12%
Grand Total		127,434.00	-	128,865.00	100.00%	
Source: Pakistan Economic Survey 2021-22 | SBP Report | other sources						

Payment Schedule

The time to repay the loans drawn by Pakistan is knocking on the door. Pakistan has been convincing the creditors to reschedule the loan repayments for many reasons. The loan repayments had been rescheduled years into the future but those extended deadlines have finally arrived and Pakistan lacks the funds to repay the loans.



As exhibited in the figure, the biggest chunk of the scheduled repayments is scheduled in financial year 2022-23. Pakistan owes USD 18 billion in the repayment of loans in the FY 2022-23. The capital owed is to decrease, although not substantially, in the next financial year. The scheduled repayment in the FY 2022-23 and FY 2023-24 adds up to approx. USD 34.4 billion while the scheduled repayments in the FY 2024-25, FY 2025-26 and FY 2026-27 add up to USD 18.68 billion. The mountain of repayment immediately faced by Pakistan is massive and has gained this enormity because of repeated rescheduling requested by Pakistan on account of not being able to repay them as per schedule.

Financing Source / Creditor Type / Donor		Total (FY23-FY27) Amount in USD Million			
		Principal	Interest	Total	% Share
Multilateral		11,039.92	2,499.70	13,539.62	25.49%
Commercial Banks		8,799.88	684.01	9,483.89	17.85%
Bilateral	Non-Paris Club	4,704.45	876.26	5,580.70	10.51%
	Paris Club	3,581.82	531.25	4,113.07	7.74%
IMF		5,327.00	236.00	5,563.00	10.47%
China SAFE Deposit		4,000.00	90.00	4,090.00	7.70%
Bond Holders		3,800.00	2,649.02	6,449.02	12.14%
SFD Time Deposit		3,000.00	60.00	3,060.00	5.76%
Naya Pakistan Certificate		1,086.00	151.00	1,237.00	2.33%
Total		45,339.07	7,777.24	53,116.31	100.00%

In the next five years, Pakistan faces the total scheduled repayment of USD 53.1 billion to different creditors. Of these, scheduled repayment of multilateral loans accounts for USD 13.5 billion (approx. 25% of the total), International Monetary Fund (IMF) USD 5.5 billion (approx. 10.5% of the total repayments) and repayment of bilateral loans from other countries (non-Paris club) amounted to USD 5.6 billion and USD 4.1 billion to the Paris club (approx. 10.5% and 7.7% respectively). While approx. 17.85% (USD 8.8 billion) is owed to commercial banks. The external liabilities in the form of safe deposits and SFD time deposits accounts for USD 4.0 billion and USD 3.0 billion, respectively. The complete account of the scheduled loan repayments along with interest payments is exhibited in the table.

2 The Narrative for Pakistan's Debt Quandary

At international front, Pakistan needs strong narratives and positive image building. Pakistan's current debt quandary is because of many reasons. These largely includes economic losses on account of increased climate change impacts in the past two decades. Besides, bearing the heavy losses by the country due to prolong state of war against terrorism since 2001.

Climate Change Scenario

Pakistan is a populous country (ranked sixth globally) and the 26th largest economy. The diversified geographic profile entails susceptibility to several natural disasters. The country is classified as one of the most vulnerable to climate change impacts and the same has now become an existential threat to the country. Despite producing less than one percent of GHG emissions, Pakistan is now the ground zero of a global climate catastrophe. It ranked as the eighth most-vulnerable country to extreme weather due to climate change, according to the Global Climate Risk Index compiled by environmental NGO German-watch. Being an agro-based economy, the country is considered disaster-prone.

Pakistan is paying the cost of climate change induced by the industrial development in the advanced and neighboring countries. Pakistan is facing down the costs of global warming at 9.1 percent of its GDP, which is the highest in the region as identified by a recent UN-ESCAP 2022 report. Due to natural disasters and extreme weather events, the loss of life in the country stood at around 0.2 million people as of April 2020. Around 50 percent people lost their lives during the last two decades because of disasters and extreme weather events. During the last two decades, the accumulated economic and monetary losses are USD 26.5 billion.

War Against Terrorism

Beside natural calamities, Pakistan has also suffered loss of lives and economic and monetary losses for being front line partner and major player in the war against terrorism in the country and neighboring areas. Pakistan, because of its proximity and historical connection, faced the most serious consequences of war in Afghanistan ranging from security to socio-economic. Hosting of millions of Afghan refugees not only burdened Pakistan's economy but also put additional stress on its internal security situation. The direct and indirect cost incurred by Pakistan due to incidents of terrorism amounted to US$ 126.79 billion during the period 2001-2017. Another issue faced by Pakistan because of its involvement in the war on terror is the Internally Displaced Persons (IDPs). Although there is uncertainty about the actual number of IDPs, the United Nations puts the figure at 2.3 million. Due to complicated processes of documentation and institutional inefficiencies, not all IDPs have been registered. Catering to the needs of these IDPs, Pakistan has spent significant funds and has also faced the security threats posed by the uncontrolled influx of people from the tribal areas.

The Need of Narrative

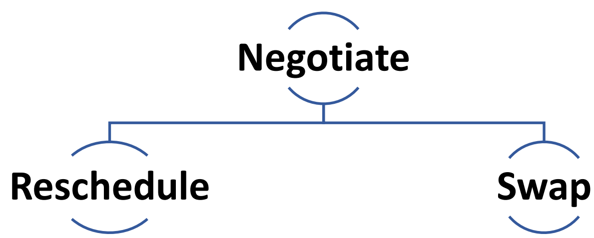
Thus, Pakistan’s dependence on foreign borrowings and aids have acutely increased in the past two decades. Pakistan also depends on a large volume of imports that deplete the foreign reserves. To maintain the imports and to pay back those loans, the state of Pakistan’s foreign reserves does not look very promising or indicate any positive growth. Pakistan is in dire need of foreign investment and such investment can only be attracted by showcasing a positive outlook of the country’s political and economic situation. Building a narrative for the international community to portray a fresh and profitable image of the country can be a fruitful effort. Pakistan should work on stepping up its relationship with the partner countries and strike more profitable agreements. An encouraging and determined narrative will greatly help in achieving such a feat.

3 How to Manage the Debt Payments

Around USD 18 billion of Pakistan's loan is scheduled for repayment in 2022-23. The servicing of 40% of the total debt is due in the next five years which makes up approx. USD 53 billion and it is no secret that Pakistan lacks the funds to do so.

Debt Profiling

Pakistan's external debt can be classified into three categories; Bilateral, Multilateral and Institutional. Bilateral loans are the loans that are obtained as a result of one-on-one negotiations with an individual country while Multilateral loans are the ones that are attained from a collective group of countries acting as a Unit like G7, European Union (EU), Paris Club, etc. Institutional loans are the ones that are awarded by monetary institutions or agencies such as International Monetary Fund, Asian Development Bank, World Bank, etc. Pakistan's foreign debt woes can be remedied by the two-pronged strategy suggested below. Every aspect of the strategy covers and can be utilized in all three types of loans.



Negotiation

Loan programs are entered into by countries through exhaustive negotiations. The negotiations cover every feature of the program including interest rates, guarantees and repayment schedules. Pakistan is in a state of economic chaos and can opt for renegotiations with its creditors. Pakistan can take up the interest rates, repayment schedules and/or anything else that needs to be revised to bring the program within the possibility of repayment.

1. Reschedule

One of the resorts available to Pakistan is opting for rescheduling of the payments. Pakistan, along with other developing countries, have had their repayments rescheduled due to COVID-19 by a few donors. Pakistan can also blow the trumpet of its inclusion and sacrifices in the war on terror. Pakistan missed a large volume of opportunities to develop its economy because of the fallout of its role in the war. Pakistan's economy lost decades worth of development on account of the security threats resulting from the war on terror. This can be used to convince the creditor countries and institutions to reschedule the imminent loan repayments years into the future.

2. Swap

A country can shift its liabilities from one creditor to another by swapping which means obtaining capital from another source to extinguish the former.

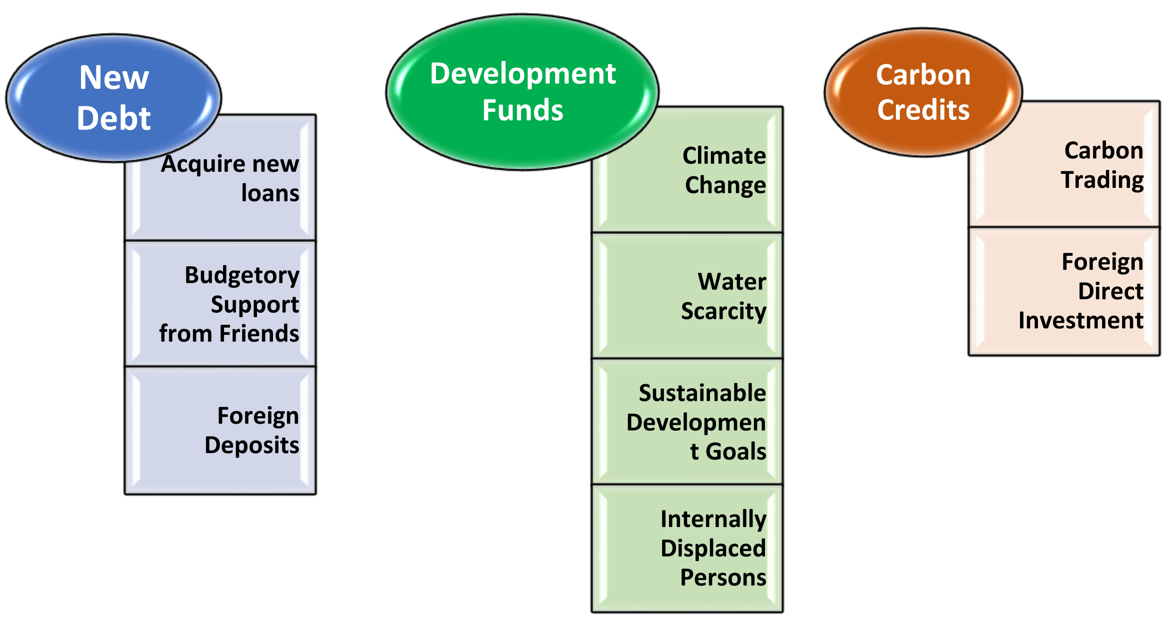
Paris Club Debt Swap

Paris Club agreements may contain a provision enabling creditors to voluntarily engage in debt swaps. These operations may take the form of debt-for-nature, debt-for-aid, debt-for-equity or other local currency debt swaps. One of the modes of these swaps is when the debtor country directs the servicing of the debt to a fund that will be used to finance development projects in the country (debt-for-development swaps)

https://clubdeparis.org/en/communications/page/debt-swap

The same objective can also be fulfilled by attracting funds for specific development programs and using their local currency to carry out the tasks while reserving the foreign currency obtained through the development program for other uses. Pakistan can swap the debt owed from the previous loans, with new loans or funds.

SWAP OPPORTUNITIES



New / Fresh Debt

The current debt can be swapped with new debt to procure temporary relief from immediate scheduled repayments.

- Pakistan can acquire new loans from different sources or from the different programs of the same sources to tackle the previously owed debt. That way the immediate threat of bankruptcy will be averted and the new payments will be scheduled years into the future.
- Pakistan can seek budgetary support from friends like it has done in the past. Brother countries like Saudi Arabia and China have assisted Pakistan financially in the past by offering economic rehabilitation programs with relaxed repayment schedules.
- Foreign deposits from other countries also helps in portraying a positive image of the country to the foreign investors. It displays a sustainable trading environment and encourages foreign investment.

Development Funds

Pakistan can ask the creditor countries to relocate the funds owed by Pakistan to social development pubic programs. In which case, the lender country writes off the money owed by debtor country as aid for a specific social development program and the debtor country invests on that social development program using its local currency. Swap with development project funds have double edge benefits, and result in no out flows of forex, reduction in pressure on rupee devaluation, improvement of economy, reduction of inflation and poverty.

- ***Climate Change***

According to several accounts, Pakistan is among the top ten countries that are most affected by climate change. Pakistan can use that to its advantage and ask the lenders to allocate the owed amount to the aid that they give to developing countries to take measures against global warming and climate change. In return, Pakistan can work on the projects of climate change and show some results to satisfy the lenders.

- ***Water Scarcity***

This is the time to intervene, as the climate induced impacts would lead to water scarcity in the country, besides other impacts of extreme and erratic weather patterns. The crisis is looming with every day. Besides, the geo-strategic location of Pakistan also requires high support to maintain peace in the region and globally.

- ***Sustainable Development Goals***

Foreign Funding requests can be made for other Sustainable Development Goals (SDGs) such as Ehsaas Program, BISP, etc. Pakistan can also attract funding for the rehabilitation of the Internally Displaced Persons (IDPs) resulting out of prolonged war on terror. The country would need to convince the creditors to write off the loans as development funds for the rehabilitation of distressed IDPs looking towards the world community for a sigh of relief.

ADB Support for SDGs to Indonesia

On 16th of February, 20122, the Asian Development Bank (ADB) approved a $150 million loan to support a facility aimed at accelerating Indonesia's economic recovery from the coronavirus disease (COVID-19) pandemic and catalyzing public and private funds to support green and bankable infrastructure projects to help the country reach the United Nations' Sustainable Development Goals (SDGs).

https://www.adb.org/news/150-million-adb-loan-support-green-recovery-catalyze-financing-toward-sdgs-indonesia

- ***Internally Displaced Persons (IDPs)***

An issue faced by Pakistan because of its involvement in the war on terror is the Internally Displaced Persons (IDPs). Although there is uncertainty about the actual number of IDPs, the United Nations puts the figure at 2.3 million. Due to complicated processes of documentation and institutional inefficiencies, not all IDPs have been registered. Catering to the needs of these IDPs, Pakistan has spent significant funds and has also faced the security threats posed by the uncontrolled influx of people from the tribal areas. Pakistan faces IDPs crisis to this day and needs monetary assistance in rehabilitating the IDPs and sending them back home. Foreign funding can be attracted for providing basic facilities in the native regions of the IDPs to encourage them to move back to their homes.

Carbon Credits

There is an international consensus that global warming has significantly jeopardized the sustainability of atmosphere essential for economic and social development. Food and water scarcity, increase in coastal floods, and deterioration in health emanating from spread of diseases are some likely repercussions of global warming. Therefore, extensive measures are required to reduce Green House Gas (GHG) concentration to cope with global warming.

ADB Green and Blue Bonds

Through Green Bond program, Asian Development Bank supports its developing member countries in mitigating greenhouse gas (GHG) emissions and adapting to the consequences of climate change, whilst reducing poverty and improving the quality of life of their people. ADB has expanded its green bond framework to include blue bonds for ocean health investments. In order to address the growing funding gap required to protect and restore ocean health, global markets need to systematically change. Blue bonds encourage that shift by increasing the amount of capital that can be invested in oceans to finance solutions at scale.

https://www.adb.org/work-with-us/investors/adb-green-bonds

Pakistan has been signatory to all significant international declarations of environment, including, Kyoto Treaty. The Kyoto Protocol (KP) has provided the country an entry avenue in the form of carbon trading (CT) to the international environment market. Pakistan at present possesses a very small share (0.4 percent) of the CT market. Thus, there is opportunity to increase the market share and capitalizing on economic benefits of the protocol as well as addressing environmental issues. Besides, improving the carbon credits, the fear of exclusion and restrictions for its export market specifically in European Union will also be reduced.

A policy may be introduced for inclusion and motivating the private sector to participate in carbon credit program. Involving private sector and enabling public-private partnership will also attract the foreign direct investment in the area. This will bring positive impact on employment opportunity and technology transfer. Being an agrarian economy, the improvements in environment condition would have positive impact on agriculture productivity as well. Pakistan can also convince the institutions that are assigned with the duty to award the carbon credits to exchange the credits with relevant foreign currency as per the value of carbon credits offered by country. Overall, there is likely improvements in socio-economic status of the country along with its contribution towards highly needed environment sustainability.

Other Swap Opportunities

Social Development Projects

According to some sources, the world bank has allocated USD 8.5 billion for 50+ social development projects and Pakistan can put efforts to obtain a chunk of it. All it needs to do is to identify the projects that are suitable for performance for it among the 50+ projects. Similarly, Pakistan should work with other donors like Asian Development Bank (ADB), European Union (EU), International Finance Corporation (IFC), United States Agency for International Development (USAID), etc. to identify potential projects which could assist Pakistan to swap the loans with the funding. Pakistan needs to align its Public Sector Development Projects (PSDP) in accordance with the funding opportunities available with donors.

To overcome the looming crisis of water scarcity in the country, Pakistan may initiate projects for water reservoirs and dams.

In the above context, the negotiation to swap the loans with other funding is the most recommended option of negotiation besides availing rescheduling opportunities. However, for the confidence building of the donors and debtors, Pakistan needs to take some initiatives such as membership of Open Government Partnership, enhance public-private partnership with local and international non-governmental organization working for social development in Pakistan and take policy initiatives for facilitating private investments in social projects.

Open Government Partnership

Open Government Partnership (OGP) is a multi-stakeholder initiative focused on improving government transparency, accountability and responsiveness to citizens. The OGP introduces a domestic policy mechanism through which government and civil society establish an ongoing dialogue on the design, implementation and monitoring of the commitments. Since OGP's launch, its membership has grown from 8 to 77 countries, 106 local governments, and thousands of civil society organizations participating in the OGP process.

In 2016, Ministry of Economic Affairs Division, has taken an initiative for the membership in OGP. After meeting the OGP's membership eligibility criteria (achieved 15 of the 16 criteria) which cover areas such as budgetary transparency, access to information, asset disclosure and a legislation for asset disclosure by public officials, the Government of Pakistan initiated the joining process of OGP with the approval of Cabinet and the Finance Minister handed over Pakistan's Letter of Intent to join OGP to the French President Francois Hollande during the fourth biennial OGP Global Summit in Paris held in December 2016.

Government of Pakistan is committed to the principles of open government, accountability and transparency. Pakistan has also developed the National Action Plan for the OGP and has also created an interim multi-stakeholder forum for the same. However, for somehow the other reason, the initiative could not be completed, and Pakistan still is not the member of OGP.

4 *Recommendations*

Pakistan should take necessary steps for revival its inclusion in OGP to acquire the funding opportunities smoothly. Besides Pakistan also needs to initiate dialogues with its debt partners for the rescheduling and swapping of debt and external liabilities. The swapping of the loans is recommended because it will not only create ease in external debt servicing and liabilities but also improve country's foreign reserves. The healthy state of foreign reserves will also support in improving the currency (rupee-dollar) parity, which in turn will support in reducing the inflationary crisis in the country. Thus, will provide significant impact in reducing poverty in the country.

It is imperative that Pakistan takes the necessary steps to address its foreign debt woes soon. In the wake of current surge of global inflation, a number of developing countries have had their economies collapse as they couldn't optimally encounter their economic challenges. The biggest issue faced by the economy of Pakistan is the external debt and as soon as it settles, Pakistan will be able to fight inflation, poverty and unemployment in a better manner. Once the country is debt free, it can freely spend on the well-being of its citizens.