Sovereign Debt Restructuring:

A HARD PILL TO SWALLOW FOR PAKISTAN?

Maria Syed

Let us take a whirlwind tracing of the debt distress situation – where are we standing right now? To start with, alongside a 23-program long relationship between the IMF and Pakistan, equally important are the bilateral friendly countries (with China playing a key role) and private creditors (composed of private bonds such as Eurobonds and global Sukuk bonds, and foreign commercial loan stocks). This brings Pakistan's external debt obligations to USD 77.5 billion from April 2023 to June 2026. Pakistan owes China approximately three times as much as it owes the IMF, meaning around USD 27 billion of Chinese debt: which includes both the bilateral debt and debt provided by the Chinese government to Pakistani public sector enterprises and Chinese commercial loans. In terms of lending arrangements with the IMF, Pakistan has interest payments and surcharges (as part of debt servicing) which further increases the cost of borrowing accounting for 45% of non-principal debt service from 2018 to 2023. Until 2022, Pakistan has paid a projected USD 122 million in surcharges and the per capita debt obligation stood at Rs. 216,708 or USD 1084 in June 2022. To put this into perspective, the minimum wage hovers around less than USD 150 in Pakistan.

The country is in shambles owing to the depletion of foreign reserves, high balance of payment deficit, massive currency depreciation, an inflation rate of 33% (highest since June 1974) and an interest rate at 21%, the highest in the region. Moreover, it has still not recovered from the recent climate crisis which had affected more than 33 million people including 73,000 women expected to deliver in the following month and affected livestock and crops causing USD 10.5 billion of economic damage. On top of that is the political instability and lack of governance that has thrown a wrench in the works – for instance despite having the so-called limited fiscal space and resorting to another IMF loan bailout, the 'laptop' scheme to bereintroduced by the current government seems to be the latest priority over climate adaptation/mitigation and the harrowing debt crisis. Currently, the capital flight to developed countries and downgrades by the international credit rating agencies have also constricted access to sovereign financing market. In this context, Pakistan finds itself awaiting the new IMF package in addition to the request of fresh loans from countries like Saudi Arabia and China. Foreign debt and principal interest payments are worth USD 22 billion in 2023 alone.

To avoid the impending high risk of debt default, the possibility of 'sovereign debt restructuring' is looked upon as a feasible option. This has to do with managing the debt in a certain way, involving changing maturities, grace periods, principal amounts, interest rates and the calling of suspensions to debt servicing. It stems from the policy initiatives of the institutions that are dominated by the G-7 wealthy nations and has garnered some criticism linked to the experiences of Argentina and Greece. The 9 core-principles outlined in the UN General Assembly for this process are sovereignty, good faith, transparency, impartiality, equitable treatment, sovereign immunity, legitimacy, sustainability and given the major right for restructuring. This would entail giving the sovereign state the 'right to design its macroeconomic policy which should not be impeded by any abusive measures'.

However, what is seen in practice is the glacial pace of restructuring which comes at the cost of 'austerity measures' or 'fiscal consolidation packages' whereby national fiscal instability reigns. This is generally part and parcel of the neoliberal ideology of tightening fiscal belts – allowing, it is alleged, for a gateway to accessing private credit, even if this means social devastation. Introspectively, the 'extended fund facility' is granted as a non-concessional loan and is subjected to conditionalities seen through the 'structural adjustment programmes' introduced in the country. Recently, Pakistan had to remove the untargeted subsidies on fuel and electricity, which had indefinitely contributed to the inflation spiral. Secondly, Pakistan had to raise its general sales tax rate to a minimum of 18%, and increase interest rates to 21% - devastating investment and consumption in the economy. Most importantly, the increase in electricity prices have adversely impacted food prices and this has exacerbated the food insecurity in the country. Only recently during Ramadan, the stampede at food distribution resulted in the loss of 11 lives in the southern port city of Karachi. Other implications to come out of such measures have gendered effects which put in place temporary, targeted and conditional social protection programmes rather than making it universal and holistic. These austerity measures also lead to the slashing of public expenditure for initiatives such as the Benazir Income Support Program, justified on the basis of 'constrained budgetary resources'.

Additionally, other predominant channels that women are affected by include the loss of livelihoods, workers' rights violations, increase in unpaid work and time poverty.

Hence, UNCTAD argues in line with full debt sustainability to be achieved only if and when the Human Declaration Rights and ICESCR stipulations (the right to food, shelter, adequate sanitation and other socio-economic human rights) are met in debtor countries rather than entailing 'intolerable sacrifices for the well-being of societies'. Some viable alternatives have been proposed by several experts like Jayati Ghosh, who argues for the need to rethink multilateralism as a whole – which stems from the need to restore public wealth and incorporate the ability to tax the rich and large corporations in order to create fiscal space. The repurposing of the IMF would be instrumental in helping developing economies stuck in debt traps due to their inability to pay, an initiative that would foster positive conditions for debt restructuring and debt relief to such countries in a manner that is suitable to all creditors. In line with global debt justice, the G20 countries can offer their assistance here via signalling to support the defaulting country at both political and financial levels to deliberately renege on their debt obligations to creditors that refuse to allow for necessary debt restructuring.

Moreover, debt sustainability assessments (DSA) can be revamped by incorporating the assessments of gender equality, human rights, and climate related commitments. These assessments would broaden the narrow economic considerations of only incorporating the country's ability to pay without accounting for how debt servicing is undermining the ability to meet the needs of international human rights obligations. Importantly, a consolidated global consensus can help restore transparency via debt audits in order to generate a more publicly accessible registry of debt data that can improve the methodology of debt sustainability analyses. It can also identify, through impact assessments, the trade-offs between meeting on the one hand, debt obligations, and on the other, national objectives such as economic and fiscal justice, gender equity, human rights, and climate mitigation, and other interests directly relevant to ordinary citizens.

The author is affiliated with The Third World Network, an independent non-profit international research and advocacy organisation involved in issues relating to development, developing countries and North-South affairs.