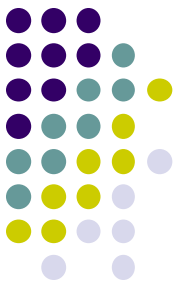


# **Debt Management in Pakistan**

**Samina Shabir**



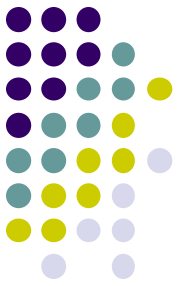
# Introduction

- Why Debt Management?

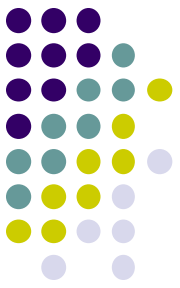
The current topic is important on account of fact that the growing public debt and resultant rise in debt burden is an issue of grave concern for our economy.

- What is debt management?
- Is the debt a bad thing or a good one?
- Debt - not a bad thing as long as it is used efficiently to generate enough resources to boost long term economic growth

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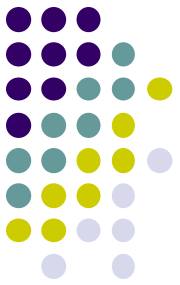


- Mismanaged and unsustainable debt leads to crowding out of private investment, inflationary pressures, financial system instability, exchange rate fluctuations etc.,.
- Mismanaged and persistent high debt also severely impacts the resource allocation by diverting resources from social and public services toward debt servicing.



# Cont'd

- The current report analyzes the issues of debt management in Pakistan through
  - Detailed analysis of profile of debt (public, domestic, and external) and debt burden indicators.
  - In depth analysis of debt management, its weaknesses, consequences and how it can be improved.

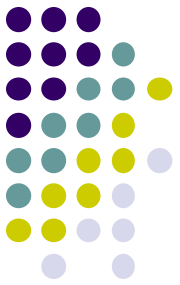


# Profile of debt (FY00-11)

- Public debt
- Domestic debt
- External debt

**1-Public debt** - the quantum of debt denominated in rupees as well as in foreign currency, owed directly by the government.

[Table 3.1: Structure of Public Debt](#)



## 2-Domestic Debt

- Permanent debt
  - Floating Debt
  - Unfunded Debt
- 
- Total domestic debt
    - Rs. 6015.4 billion at the end of FY11
    - Rs. 1578.8 billion in FY 00
  - Net increase in domestic debt is
    - Rs. 4436.6 billion
    - ( growth rate of 13 percent during FY00-FY11).*
  - Most of the increase in domestic debt is observed after FY 07 when the domestic debt stock increased from Rs. 2600.6 billion in FY 07 to Rs. 6015.4 billion in FY 11.

# Composition of domestic debt

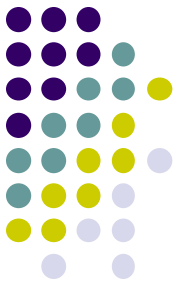
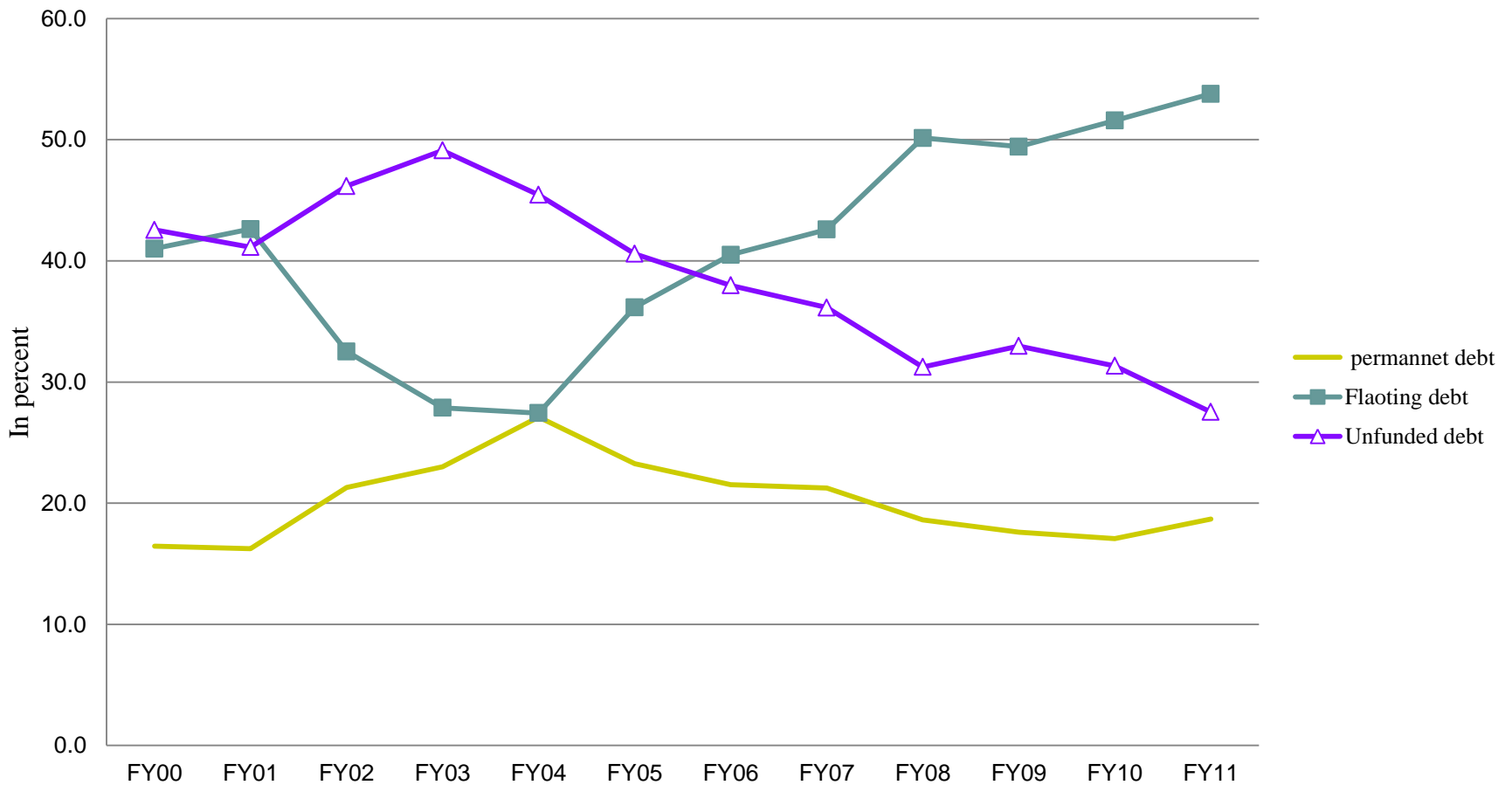
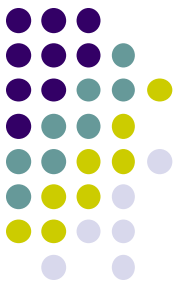


Fig 3.1 Composition of Domestic Debt, FY00-FY11





**3-External Debt**-The external debt and liabilities (EDL) of Pakistan consist of not only the foreign currency debt owed by the public as well as private sector but it also includes foreign exchange liabilities of the Central Bank.

- Total EDL

  - \$ 60 billion in FY11

  - \$ 37.8 billion in FY 00

- Net increase in external debt is

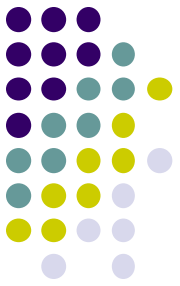
  - \$ 22.2 billion

- EDL decreased by 1.08 percent during FY00-FY05

- EDL increased from FY 05 onward with a growth rate of 8 percent during FY05-FY11.



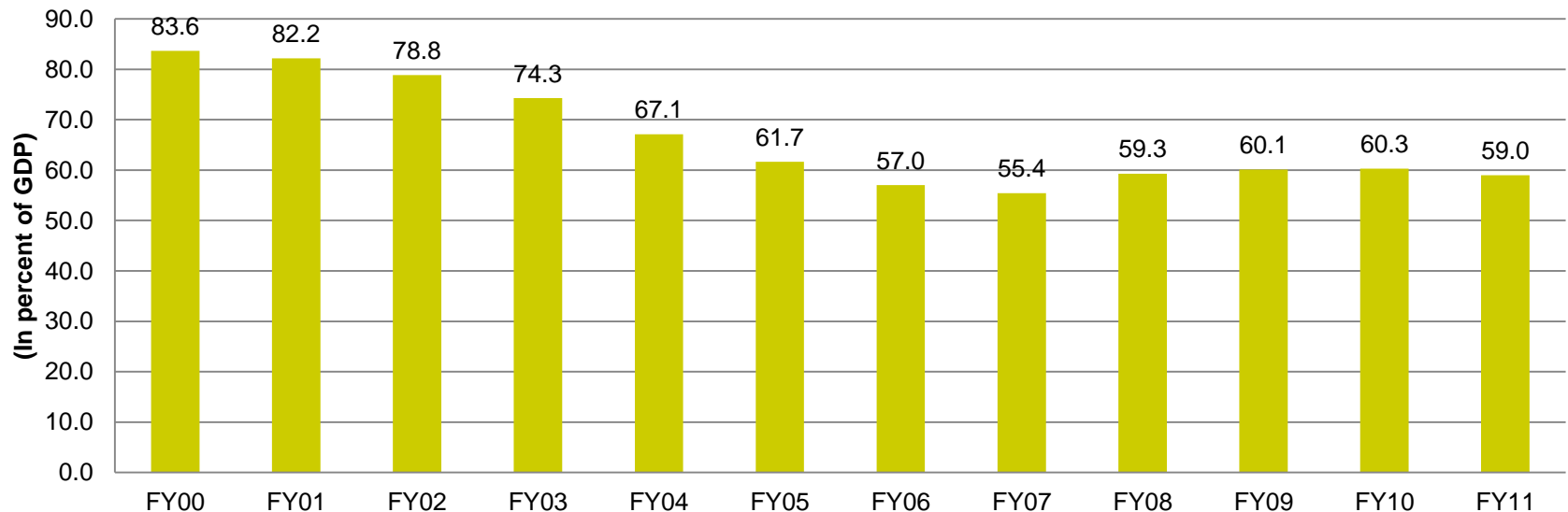
# Debt Burden measured through Debt Sustainability Indicators:



The assessment of the level of indebtedness of an economy can be measured by comparing the level of debt in relation to key macroeconomic indicators and ratios.

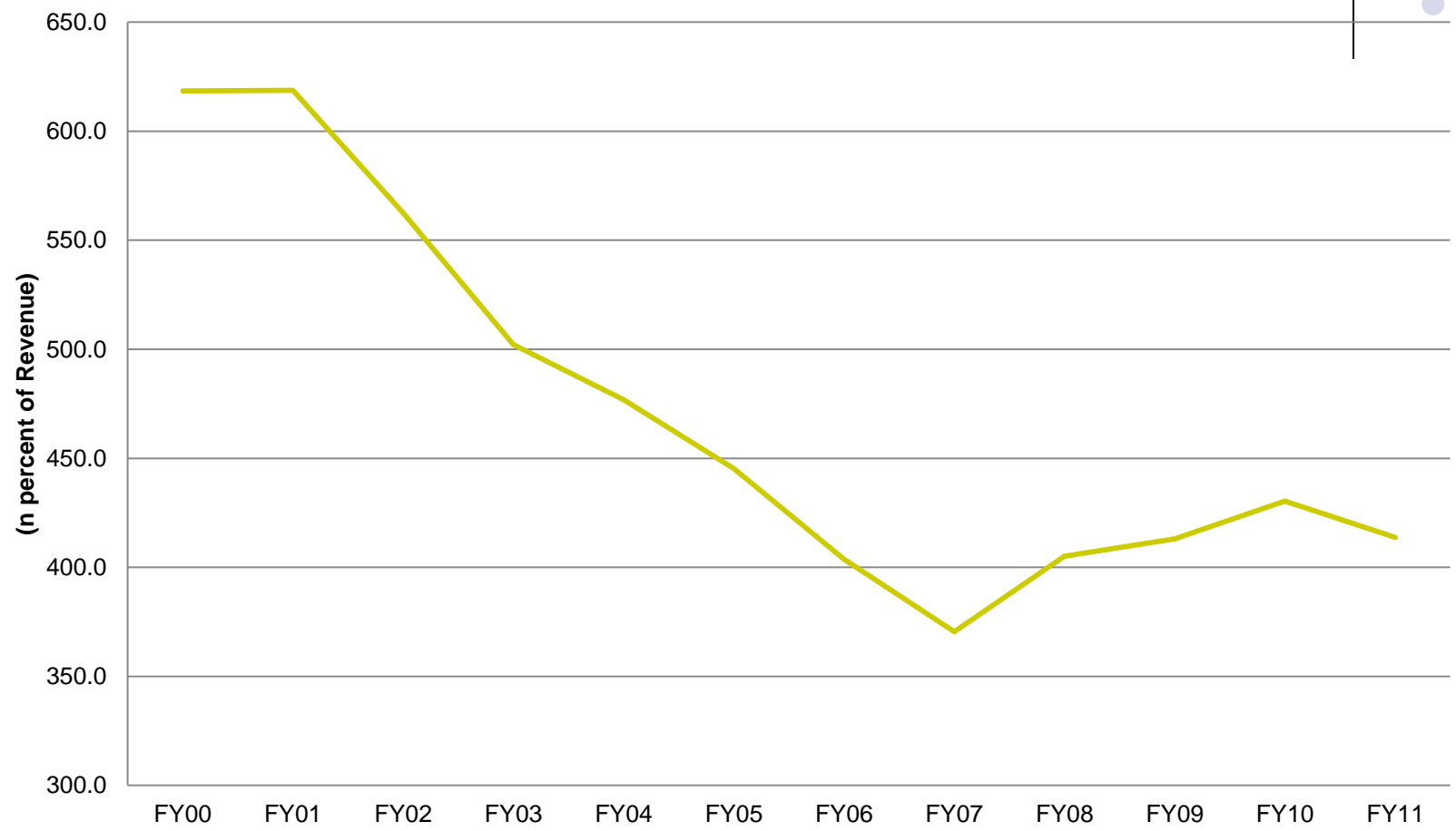
## 1. Public Debt Burden

**Fig 4.1: Public Debt ,FY00-FY11  
(in percent of GDP)**

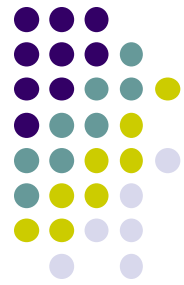
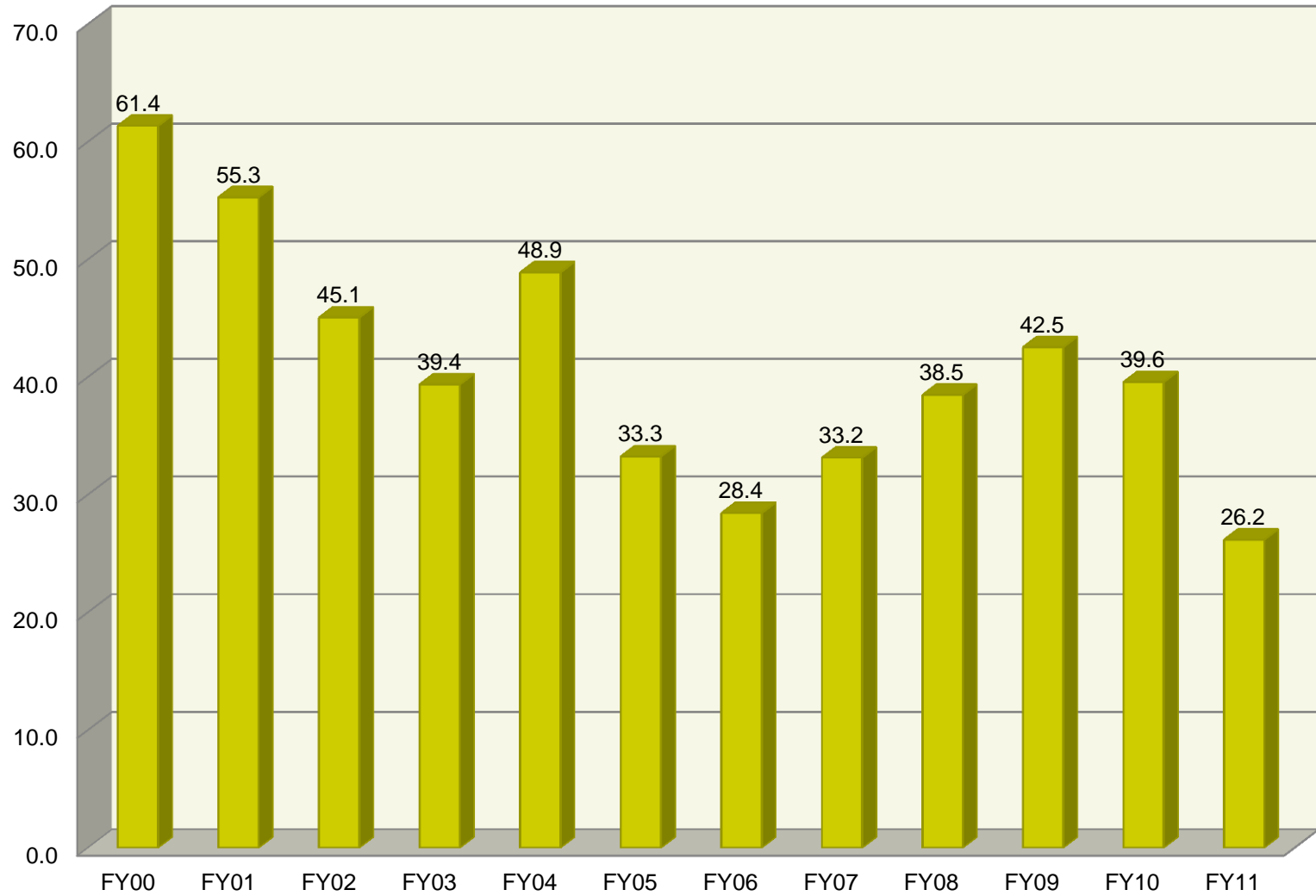


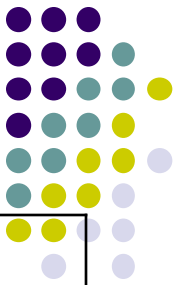


**Fig 1.2: Public Debt, FY 00-11**  
**(in percent of revenue)**



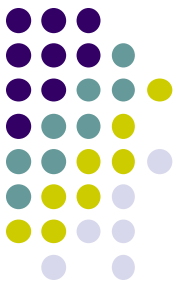
**Fig 1.3: Public Debt Servicing (as % of Govt. Revenues), FY00- FY11**





**Table 5.1: Real Growth of Debt Burden**

year	Real Growth of Revenue	Real Growth of public Debt	Real Growth of Debt Burden
FY00-05	5.8	0.3	-5.5
FY 06	9.1	-3.2	-12.3
FY 07	11.9	2.3	-9.7
FY 08	-0.6	8.3	8.9
FY 09	2.9	5.2	2.3
FY 10	0.3	4.3	4
FY 11	-8.4	1.1	9.5



## **Reasons for reduction in public debt Burden:**

- A lower growth of public debt relative to GDP
- An increase in real growth of revenues as compared to real growth of public debt
- Reduction in Fiscal and Current Account Deficits
- -Stability in exchange rate

## **Reasons for an increase in public debt Burden:**

- A higher growth of public debt relative to GDP
- An increase in real growth of public debt as compared to real growth of revenues
- Fiscal indiscipline on account of inappropriate government actions (subsidies on oil, food, fertilizers, high security related expenditures, increase expenditures for natural disasters)
- A slow pace of revenue generation
- A constant erosion of domestic currency

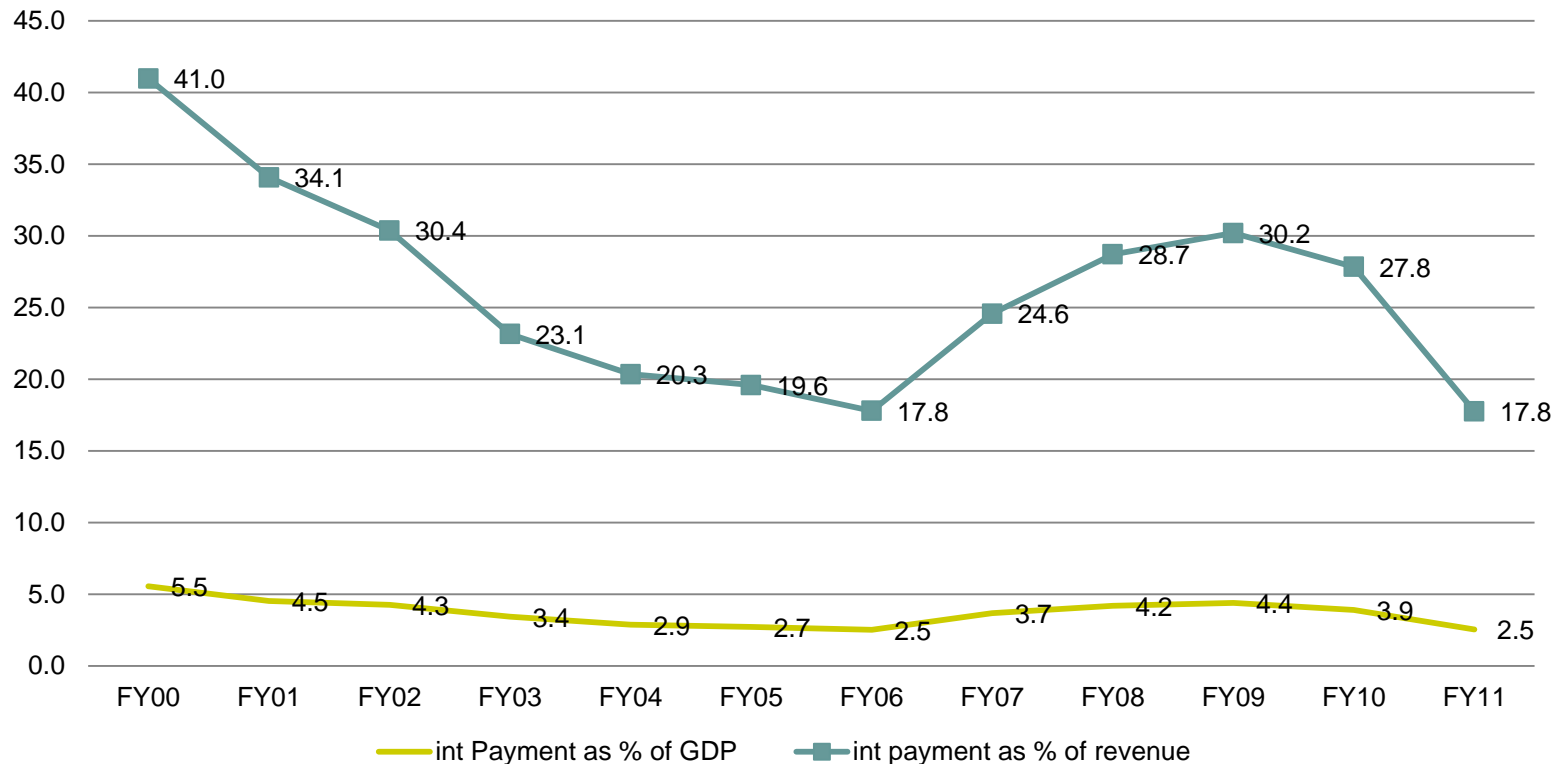


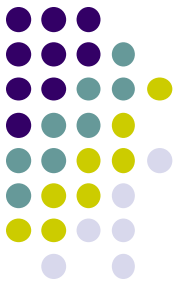
## 2-Domestic Debt Burden:

measured through

- Domestic interest payment in percent of GDP
- Domestic interest payment in percent of revenues

**Fig 4.4: Debt Servicing of Domestic Debt (in percent of GDP, Revenue FY00-FY11)**



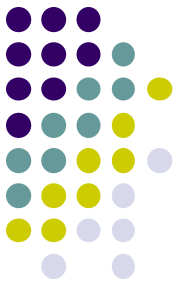


## Reasons for decline in domestic debt servicing:

- Better fiscal environment
- An increase in growth rate of GDP, faster growth in revenues as compared to interest obligations

## Reasons for an increase in Domestic debt servicing

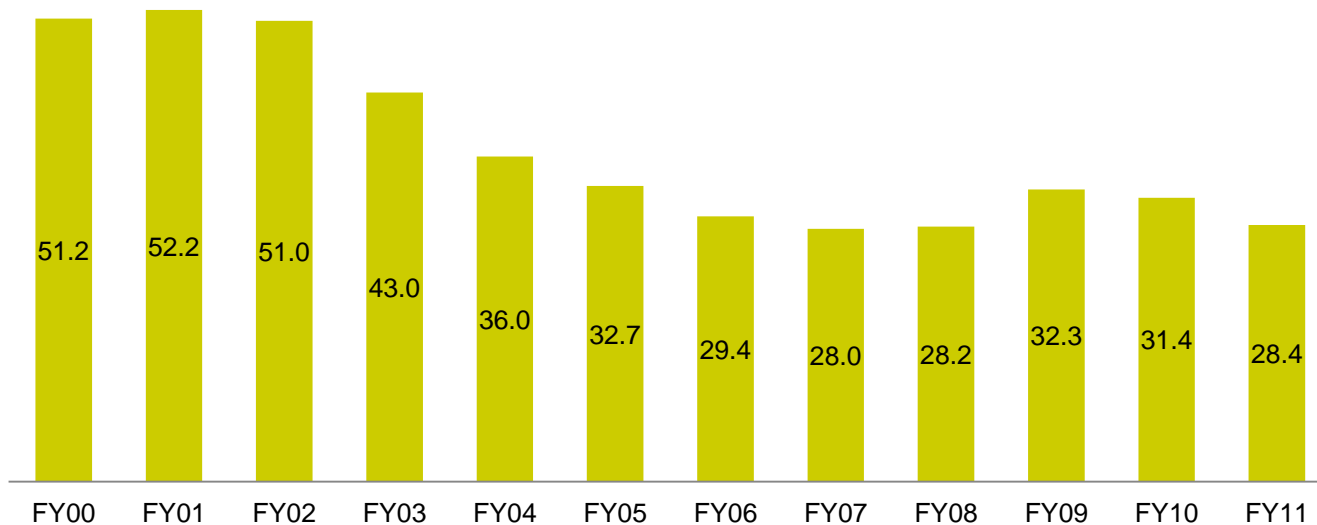
- substantial slippages in revenues causing enormous problems on the fiscal front



### 3-External Debt Burden:

External debt burden is best assessed in the light of various debt sustainability indicators which link the level of debt and debt service capacity to macroeconomic fundamentals especially the external one.

**Fig 4.4: External Debt & Liabilities (% of GDP)**







### Table 4.3: Trends in External Debt Sustainability Indicators

An improvement in debt sustainability indicators is attributed to

- rising exports
- Increase in FEE
- Decrease in external debt
- Increase in reserves

An increase in debt burden post FY07 as reflected by deterioration in debt sustainability indicators is mainly on account of

- Sluggish performance of exports
- Volatile capital flows
- Rapid depletion of reserves
- An increase in ED&L

## 4-External Debt Servicing (EDS):

Table 4.4: Debt Servicing of External Debt and Liabilities (Million \$)

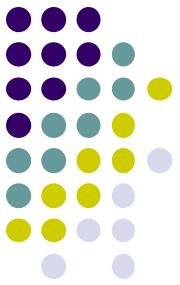


### Reasons for Reduction in EDS

- Re-profiling of Paris Club bilateral debt on a long-term horizon
- The substantial write-off of the US bilateral debt stock
- The prepayment of expensive debt and the relative shift in contracting new loans on concessional terms.

### Reasons for an Increase in EDS

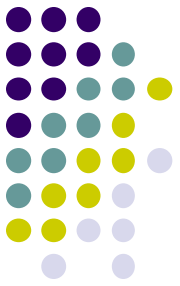
- Heavy payments in the form of Euro bond repayments
- Sukuk Bond and multilateral debt repayment
- Rescheduled payment for non-ODA Paris Club debt
- A deteriorating macro economic environment of the country



# **Issues in debt management**

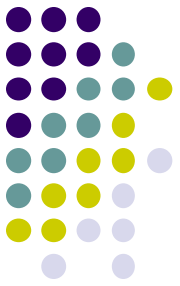
**shortcomings, causes, and consequences**

# Debt management functions performed by

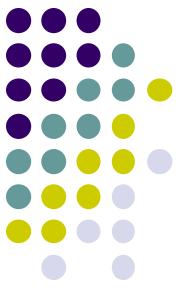


- Ministry of Finance (EAD and FD)
- EAD----- *deals with implementation, monitoring and record keeping.*
- FD-- *responsible for policy making relating to debt*
- SBP
- Planning Commission
- Central Directorate of National Saving-*maintains all the relevant information on domestic public debt raised thorough National Saving Schemes.*
- Debt Policy Coordination Office(DPCO)

# Deficiency in Current Debt Management Practices



- Poor coordination and information flow between debt management agencies.
- Outdated data management systems and limited computer access across different departments
- Long term planning and project feasibility are the least priority at the level of policy making and implementation
- Decisions regarding debt issues are mostly based on personal inclinations, political motives and vested interests.
- Debt management in Pakistan - not an integrated part of overall macroeconomic policies especially the fiscal and monetary policies.



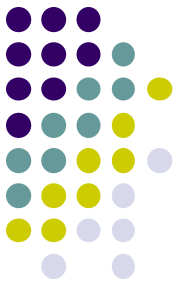
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- Fiscal consolidation lost ( missed revenue targets with rising expenditures)
- Failure of FRDL Act ( on account of Government's inability to contain the revenue deficit)
- Debt management- in spite of addressing these core issues work under subservience to political influence and bureaucratic mindset.
- Lack of adoption of strict guidelines for effective debt management
- Proposals put forward by debt reduction Committee in 2001 are still not implemented seriously
- DPCO not playing the crucial role of managing debt as was envisaged under FRDL Act 2005

# Consequences of poor Debt Management:



- The increase in the debt stock and rise in the debt burden in the recent past has negatively affected the economy.
- Eroding the purchasing power through a hike in inflation thus negatively influencing the whole economy especially the poor segment of society.
- Diverting resources from development or productive activities to non development expenditures.
- Economic growth also being affected ( insufficient investment, increasing waste and corruption and funds not being allocated on high economic and social return projects).



# Conclusion

- Improvement in public debt from FY00- FY 07 – attributed to several favorable developments (on the domestic , external front).

## **On domestic front:**

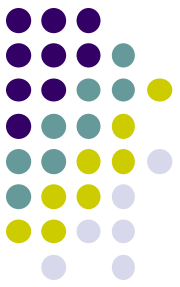
1. a robust growth rate of GDP
2. a healthy growth in revenues and exports
3. an increase in remittances, stability in exchange rate , and stable reserve position

## **On external front:**

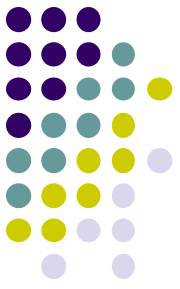
1. Pakistan's alliance with the US against the war on terror post 9/11- substantial write-off of the US bilateral debt stock
2. re-profiling of Paris Club bilateral debt on a long-term horizon
3. the prepayment of expensive debt and the relative shift in contracting new loans



# Cont'd...



- Post FY 07, a rapid escalation of public debt and resultant increase in debt burden is on account of following factors  
fiscal indiscipline ,extension of whole sale subsidies oil, electricity, food etc, higher security related expenditures, policy inaction on key expenditures and increased expenditures on account of natural disasters
- Debt management is not an integrated part of macroeconomic policies .
- Debt management lacks in terms of adherence to strict guidelines or observance of any prudent debt management strategy
- Floating debt occupies majority share in our domestic debt stock compared to permanent one.
- The borrowed funds -- never used optimally
- The improper management of debt resulting in low growth, diversion of resources from development or social activities, high inflation, low investment and a deteriorating macroeconomic environment.



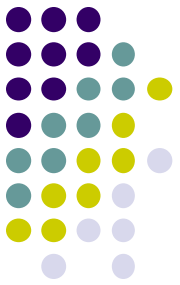
# Policy Recommendations

- Enforcement of prudent debt management strategy- which should not only focus on exploring the cheap and efficient sources of financing (both domestic and external), but should carefully examine the proper use of borrowed funds.
- The composition of domestic debt should be altered through development of domestic capital markets for long term government securities so that the heavy and growing reliance on short term money market borrowing which is undesirable and costly should be reduced.
- Adoption of a rule based fiscal policy
- Better policy formulation and institutional strengthening in various entities involved in management of debt

# Cont'd....



- Professional advice needed on matters relating to domestic and external borrowing
- Well defined Debt strategy should be adopted
- Free of bureaucratic and political pressures.
- An improvement in the macroeconomic environment of the country should be focused.( revenue generation, an improvement in the saving rate , investment in both human & physical capital, improvement in productivity of public as well as private sector through better efficiency, better governance and downsizing )
- An expansion of government revenues and exports while eliminating the excess of current government expenditures over revenues and improvement in the quality of resource use in public sector.



Thank you