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PRESS RELEASE
One-Day Conference: Debt Issues of Pakistan

Dr Javed Ashraf, Vice Chancellor, Quaid-i-Azam University (QAU), in his inaugural address said that while Pakistan's debt stands at 19 trillion PKR, as long as the returns exceed the cost, debts and loans can lead to many growth opportunities. The real question is how the loans are being used. Dr Ashraf was speaking at the one-day conference 'Debt Issues of Pakistan' organised by the Islamabad Policy Research Institute (IPRI). IMF, which has become an ugly word in Pakistan has only asked Pakistan to cut subsidies; to spend responsibly; cut fiscal deficit; and improve our tax base. There is nothing wrong in following the IMF guidelines about generating our own revenues; and carefully examining the proper use of borrowed funds.

President IPRI Ambassador (Retd) Sohail Amin in his welcome address shared that the pernicious combination of absence of tax-paying culture in the country, economic burden of the war on terror and inflation are the major hurdles restraining the government from dealing with the issue of debt accumulation. Though, Pakistan's economy has made significant progress toward strengthening macroeconomic and financial stability and resilience as in August 2016, the International Monetary Fund (IMF) has cleared payment to Pakistan of a final $102 million tranche in a $6.4 billion three-year programme. However, Pakistan's present and future debt situation demands proper attention and management, he said. He recommended that in order to keep the debt within manageable limits and to reduce the country's vulnerability to external shocks, there is an urgent need for developing a long-term and comprehensive debt strategy based on the principle of self-reliance and better macro-economic management.

Dr Eatzaz Ahmed, Professor/Director International Institute of Islamic Economics (IIIE), International Islamic University presentation on 'Pakistan's Debt Problems: Past, Present and Future' was of the view that while Pakistan's current debt situation is not as grave as it was a few decades ago, however, if it does turn into a crisis, it will impose greater burden on citizens, given additional complications such as circular debt and deteriorating institutions and lack of trust in political leadership whether in power or in opposition. In his simulated models for the future, he informed that even miniscule changes can lead to major changes given past debt trends, for example, Pakistan's external debt at 42% may grow, but internal debt (48%) may remain stable. If tax revenue increases by even one percent, external debt will decline and come down to 19% in 30 years. Cutting government spending can also have an impact on debt, however, increasing tax revenue is the key. In the public sector, capital output ratio is higher so it should be relieved of certain public sector enterprises like the PIA which will increase productivity. Although Pakistan's current debt burden seems to be sustainable, any major unfavorable external shocks such as a decrease in the flow of foreign remittances due to expected recession in oil exporting Middle East can alter the equation in a fundamental way, he said.

Dr Usman Mustafa, Professor/Head Department of Business Studies, Pakistan Institute of Development Economics (PIDE), was of the view that a rapid escalation of public debt and resultant increase in debt burden in Pakistan has been due to fiscal indiscipline, extension of subsidies, increase in security related and natural disasters expenditures and policy inaction in key sectors. He pointed out that debt management in Pakistan is not an integrated part of macroeconomic policies, and floating debt occupies majority share in our domestic debt stock compared to permanent one. Ironically, borrowed funds are not used optimally, he said. Debt is not a local or national issue rather it has become a global concern. He briefly highlighted best practices from other countries such as Colombia and Indonesia which strengthened its institutional framework for sound public debt management; Kenya build a sequenced reform plan; and Armenia's plan of broader borrowing choices. Discussing the Turkish economic debt situation, Dr Mustafa shared that Erdoğan inherited a debt of $23.5 billion which came down to $0.9 billion in 2012. They have not signed any new deal, rather they have completely paid it off through institutional reforms; compensating and supporting the private sector; and through financial and banking sector reforms. He warned that if Pakistan rushes to another IMF bailout, 'we would have earned the distinction of being the country with the most prolonged borrowing in the world.' Rather, the government should focus on having a robust growth rate of GDP; healthy growth in revenues and exports; an increase in remittances; stability in exchange rate, and stable reserve position. On the external front, policy-makers should prioritise better debt negotiations; re-profiling of Paris Club bilateral debt on a long-term horizon; and the prepayment of expensive debt and the relative shift in contracting new loans by implementing a prudent debt management strategy which is 'Effective and Efficient'.

Dr Sajid Amin Javed, Research Fellow, Sustainable Development Policy Institute (SDPI), Islamabad, was of the view that debt is contextual, and therefore, it is very hard to find a debt-level threshold which is optimal, and one needs to look at each country's case individually. Unfortunately, GDP is the most overlooked area when we devise debt management strategies, he said. Quick fix solutions are akin to flirting with disaster. The debt crisis cannot be solved simply by reducing government expenditure or increasing taxes since both have more pains and fewer gains associated with them. A good debt strategy depends on a strong and sustainable growth strategy; and an Expansionary Monetary Policy that avoids excessive public borrowing which is discouraging private investment already. He concluded that it is critical to 'make debts sustainable through economic growth; and exchange rate management by restoring value of rupee to its original.

In the Question and Answer session, it was brought up that 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 is reduced. The panellists agreed that social costs of debt are visible and painful; and that adoption of a rule based fiscal policy, and institutional strengthening in various entities involved in management of debt was important. There should be an expansion of government revenues and exports while improving the quality of resource use in the public sector.