Pakistan Debt Journey – The Real Culprits
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At a time when Pakistan's economy was growing at a steady pace from period beginning June 2013, there was one economic indicator that was perceived to be the looming threat: government debt. At 70% of its GDP, Pakistan's total debt as on June 2018 is higher than that of most other major Asian economies, except for Japan.

A government typically borrows to spend on subsidies, infrastructure [PSDP], and other social sectors. Hence, although the rising debt may be a concern, the ultimate use of borrowed funds is critical for proper analysis. Typically, emerging markets have high debt since government spending is higher. But borrowings must be channeled towards increasing investments and productivity. The ultimate use of the debt is more important to be analyzed rather than the level of debt. However, there is a problem if borrowed funds are not being spent productively.

The numbers (in below table) shows that national debt (both domestic and external) in Pakistan from June 2013 to June 2018. The analysis shows the real reasons and utilization of incremental debts. The hike in debt is due to change in exchange rates (USD Parity), Public sector spending, incremental revenue shares to provinces by federation post 7th NFC awards subsidies and other factors.

Prior to 7th NFC in 2010-11, the share in revenues for provinces was 43.75%, 45% and 46.25% for 2008, 2009 and 2010, respectively, after deduction of 5% collection charges and remaining was for federation including collection charges. After taking into account the collection charges, the effective sharing rates for provinces were 41.56%, 42.75% and 43.94% for 2008, 2009 and 2010, respectively.

After the announcement of 7th NFC awards, shares of revenues for provinces were enhanced to 56% for 2011 and to 57.5% for subsequent years, after deduction of 1% share to KPK for war on terror. After taking into account 1% share to KPK, the effective rates were 56.44% for 2011 and 57.93% for subsequent years.

The total debt in June 2014 was Rs 15,784 Billion (Domestic Debt Rs 10,907 Billion, External Debt Rs 4,877 Billion), Rs 1,776 Billion higher from 2013 levels. The increase is represented by spending of Rs 441 Billion in Public Sector Development Programs ("PSDP"), incremental NFC awards of Rs 339 Billion and other factors.

The debt increments between 2014 and 2015 was Rs 1,184 Billion reaching to Rs 16,968 Billion (Domestic Debt Rs 12,193 Billion, External Debt Rs 4,775 Billion). The change was due to increase in USD rate from Rs. 98.80 to Rs. 101.79 causing an increase of Rs 147.12 Billion, spending in PSDP by Rs 502 Billion and additional share of Rs 371 Billion to provinces.

The total debt in June 2016 reached Rs 19,044 Billion (Domestic Debt Rs 13,626 Billion, External Debt Rs 5,418 Billion) posting a year on year increase of Rs 2,075 Billion. The debt rise was due to increase in USD rate from Rs. 101.78 to Rs. 104.76 causing increase of Rs. 139 Billion, PSDP spending of Rs 602 Billion, and additional NFC costs of Rs 449 Billion.

By June 2017, total debt hiked to Rs 20,768 Billion (Domestic Debt Rs 14,849 Billion, External Debt Rs 5,919 Billion) resulting in an increase of Rs 1,724 Billion from 2016. However, this increase in debt was fueled due to increase in USD parity by Rs 6 Billion, PSDP spending of Rs 733 Billion and additional share of revenue to Provinces of Rs 474 Billion.

Between the period from June 2017 to June 2018, the total debt rose by Rs 3,441 Billion reaching to Rs 24,212 Billion (Domestic Debt Rs 16,416 Billion, External Debt Rs 7,796 Billion). Out of Rs. 3,441 billion, Rs 940 Billion was due to increase in USD rate from Rs. 104.88 to 121.54. Moreover, Rs 555 Billion contributed to PSDP spending and Rs 530 Billion were on account of additional payments to Provinces.

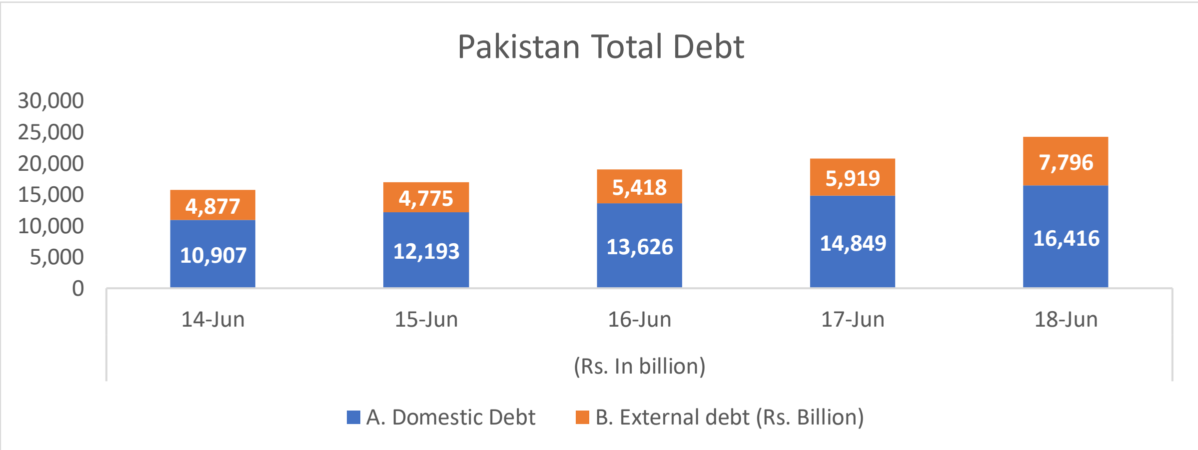
In order to alleviate the impact of inflation on citizens, especially the poor segments of society, the Federal Government spends a fairly large sum on providing power and food subsidies. The Subsidies have remained a big chunk of public spending and reason for rise in public debt. However, for fiscal consolidation efforts and to decrease public debt, the government has reduced in phases the quantum of subsidies in the last 5 years. The Subsidies were Rs 305.7 billion (Revised: Rs 323.02 billion) in FY 2014, Rs 241.6 billion (Revised: Rs 243 billion) in FY 2015, Rs 207.2 (Revised: Rs 196.54 billion) in FY 2016, Rs 153.7 billion (Revised: Rs 168.95 billion) in FY 2017, Rs 138.8 (Revised: Rs 147.6 billion) in FY 2018, thus posing an overall decrease by 54.68% during last 5 years

During the four-year tenure from June 2013 to June 2017, Pakistan's Total Debt increased by Rs. 6,760.4 Billion from Rs. 14,007 billion to Rs. 20,768 billion posting a 48% increase. However, as detailed above, out of Rs. 6,760.4, Rs. 292.99 billion was due to devaluation of PKR against USD (From Rs. 99.11 in June 2013 to 104.89 in June 2017) which accounts for 4% of total increase. Increment of Rs. 2,278 was due to PSDP spending which accounted for 34% of total debt increase. Federal spending in form of subsidies contributed Rs. 931.5 billion to the public debt representing 14% of the total increase for four years. Lastly, Rs. 1,635.5 was added due to additional share in revenue to provinces consequent to 7th NFC Awards, which accounted for 24% of total increase in debt.

The analysis above shows that 76% of the debt increment during first four years of previous government was utilized in PSDP spending, additional NFC shares, subsidies and PKR devaluation and meagre 24% were left to be utilized at the discretion of Federation.

During 2017-18, which was the election year and was partly governed by 'Care-takers' Rs. 3,444.1 billion was added to public debt in a single year, which is 51% in comparison to debt increment during previous four years. Devaluation, PSDP spending, Subsidies and additional NFC payments contributed 27%, 16%, 4% and 15% to the total increase during the year.

			(Rs. In billion)		
	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18
Total Debt	15,784	16,968	19,044	20,768	24,212
A. Domestic Debt	10,907	12,193	13,626	14,849	16,416
B. External debt (Rs. Billion)	4,877	4,775	5,418	5,919	7,796
Increase in debt	1,776.1	1,184.2	2,075.7	1,724.3	3,444.1
Due to:					
USD Parity	-	147.12	139.44	6.42	939.80
PSDP	441.02	502.20	602.06	733.34	555.22
Subsidies	323.02	243.00	196.54	168.95	147.60
Cost of NFC	339.58	371.55	449.67	474.70	530.91
US Dollar, last day average exchange rates	98.81	101.79	104.76	104.89	121.54
GDP	25,402	29,078	29,598	31,862	34,396
Tax Revenues	2,375	2,729	3,265	3,532	3,751
Tax To GDP	9%	9%	11%	11%	11%
Debt to GDP	62%	58%	64%	65%	70%

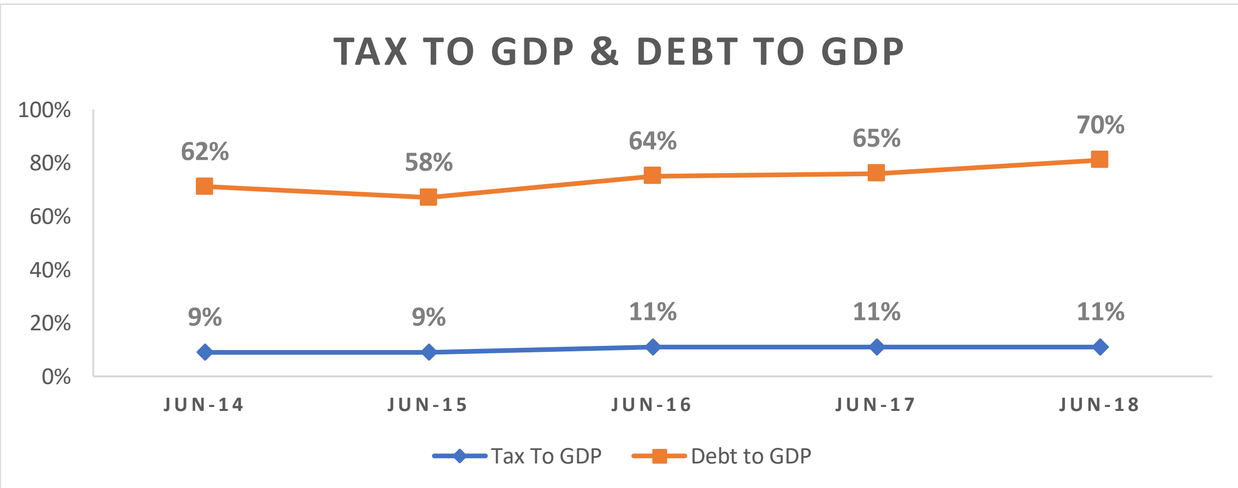


			(Million US $)		
	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18
US Dollar Parity	98.8088	101.7895	104.7619	104.8861	121.5405
External debt (Million US$)	**48,442**	**46,861**	**51,714**	**56,430**	**64,141**
Paris Club	13,607	11,664	12,678	11,973	11,643
Multilateral	26,269	25,245	27,488	28,437	29,063
Other Bilateral	4,385	4,941	5,445	6,323	8,674
Euro/ Sukuk global bonds	3,550	4,550	4,550	4,800	7,300
Military debt	36	0	0		
Commercial Loans	323	300	1,457	4,877	7,461
Local currency Securities (PIBs)	16	32	35		
Saudi fund for development (SFD)	140	100	60	20	
Local Currency Securities (T Bills)	116	29	1		

The above table shows breakup of External Debt from June 2014 to June 2018. The Paris Club, common name for 18 developed countries, formerly known as Aid to Pakistan Consortium shows a decreasing trend from 2014 to 2018 by 14.43%. The most preferred options of mode of foreign financing being Multilateral Loans and bilateral loans shows increase in same period by 10.63% and 97.8%. While the non-conventional mode of financing Euro/Sukuk increase by 105.63% during the same period. The commercial loans representing support from China and others shows steep rise in same period by 2209.9%.

As it is now clear that debt of any nation cannot be seen in isolation to assess the economic performance, there are other indicators which are used while comparing indebtedness of any nation. One such commonly used factor is debt to GDP ratio which was 62%, 58%, 64%, 65% and 70% for 2014, 2015, 2016, 2017 and 2018, respectively. Debt to GDP ratios of other regional countries of Bangladesh, India, China and Sri Lanka for 2017 were 27%, 69%, 48% and 78%, respectively.

Countries	Debt to GDP % 2017
Bangladesh	27.10%
China	47.60%
Pakistan	65.18%
India	68.70%
Sri Lanka	77.60%



Lastly, the most important criteria to evaluate Debt burden is to compare the debt of any person, organization or country with the assets owned by such person, organization or country, as the case be. However, unfortunately no Balance Sheet of Pakistan is prepared to objectively asses debt burden of Pakistan.