"Oh you who believe! Stand out firmly for Justice, as witnesses to Allah, even as against yourselves, or your parents, or your kin, and whether it be (against) rich or poor"

An-Nisa, 4:135

UNLOCKING THE CHAINS OF DEBT

A CASE for DEBT CANCELLATION

The Third World (developing) countries sought foreign debt to increase the productive potential (capacity) of their economies. Although productive potential of the economies increased to some extent, yet it promoted "debt seeking behavior" a great deal. This behavior is closely associated with unlimited desires which in turn pump up artificial demand.

Since the foreign debt was dollar denominated, the poor developing economies did not have the dollar earning capacity. For instance, the prices of many commodities produced by poorer countries have fallen, sometimes drastically due to international competition since 1980s. Poor countries thus have less hard currency to service their debts and the 'knock-on' impact on exchange rates meant that poor country debts *(often counted in foreign currency like US dollars)* ballooned still further in real terms for the country.

The statistics show that the developing country debts swelled from $70 billion in 1970 to $1340 billion in 1990, $1970 billion in 2000, and $3,545 billion in year 2009. Thus the debt burden in absolute terms increased almost 40 times in 35 years[1]. On the contrary, the share of developing countries in the world GDP slightly increased from 15.4% in 1970 to around 22% in 2010. By combining these two statistics, it can be safely claimed that foreign debt outsmarted the size of the economy i.e. GDP. Moreover, the share of developing countries in the world population increased from around 73% in 1970 to 82% in 2010[2], showing that more people became poor in the developing countries.

The debt bill of the developing countries continued to increase since early 1980s. Taken together, interest payments and capital repayments represent a real gold mine for the creditors. From 1980 to 2009 the amount paid by South in repayments of borrowed capital was about $666 billion, which is 8 times of amount of Marshall Plan[3] (Marshall Plan was $ 100 billion). While rich countries give $136 billion per year in aid to poor countries – a figure touted by western leaders as evidence of their benevolent concern for the wretched of the earth. On top of this, poor countries pay about $600 billion to rich countries in debt service each year, much of it on the compound interest of loans accumulated by oppressed rulers long since deposed. These figures alone amount to nearly 18 times the size of the aid budget.

The third world debt did not prove to be beneficial for the local populations. It has allowed the transfer of massive amounts of capital from poor countries to rich countries. The reimbursements under debt servicing impacts directly on the poor countries' social welfare budgets, and has resulted in the "economic re-colonization" of the periphery by the transnational companies and governments of the most industrialized countries.

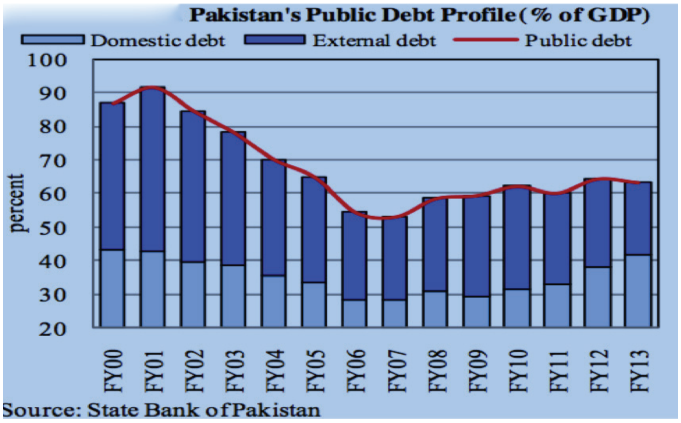
[1] Damien Millet and Eric Toussaint, *La dette ou la vie, Aden*, 2011
[2] UN, Population Division, UNDATA
[3] Damien Millet and Eric Toussaint, *La detteou la vie, Aden*, 2011

Pakistan Debt –

Patterns, Trends and Composition

In technical sense, the debt to GDP ratio is an important statistics which shows to what extent a country is "solvent", meaning the ability of a country to repay its debt. This ratio has considerably declined since 2001 when it touched 90%. Although the successive governments got rescheduling with Paris Club creditors on multiple occasions[4], the last restructuring was availed in December 2001 by the Musharraf regime. This restructuring provided a much needed breathing space to the economy as shown in Figure-1. The sharp fall in the domestic and external debt from FY02 to FY07 can be traced due to this rescheduling in 2001.

Figure-1



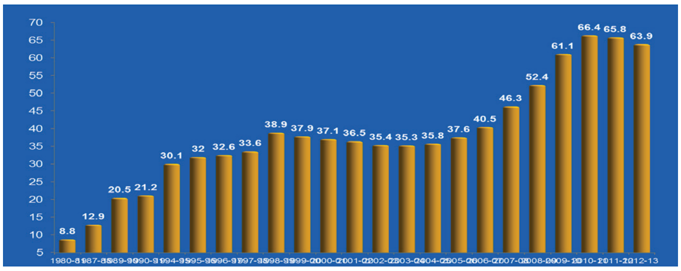
Source: State Bank of Pakistan

Despite all odds, the ratio is hovering around 60% since 2008, and the period between FY08-FY13[5] which was very troubling internationally did not aggravate the situation.

The Figure 2 shows that Pakistan added $1.6 billion in external debt in 8 years (2000-07) but added $19.6 billion in just 4 years (2008-11). Foreign Debt averaged $48951.37 million from 2002 until 2014 in Pakistan, reaching an alltime high of $66490 million in the third quarter of 2011 and a record low of $33172 million in the third quarter of 2004[6]. Pakistan's foreign debt continued to be a major risk to the country's macroeconomic stability during FY11-13. When external inflows were squeezed further during the period, the Government substituted foreign debt for domestic one. The shift to domestic debt was a prudent strategy since a government can never default on the domestic debt and the reports of the State Bank of Pakistan even mention this point. However, a government can default on to its external debt and commitments which has happened to many emerging and developed countries.

However the composition of domestic debt was very imprudent since the Government shifted towards the short term debt. Medium-to-long term debt has been converted into short-term debt with serious consequences for government's debt management. This is because of the shorter duration of floating debt, which is raised by the government through treasury bills. The share of floating debt in domestic public debt stood at 55% at the end of FY 2013. The rising share of short-term debt raises roll-over and interest rate risks to some extent, but the Government, instead of the State Bank of Pakistan, borrowed heavily from the commercial banking system during FY 2011 to 2013 which was very costly. This behavior of the Government nurtured a culture of laziness among the commercial banks and made them profitable.

Figure-2 Chronology of Pakistan foreign debt



Source: Ministry of Finance

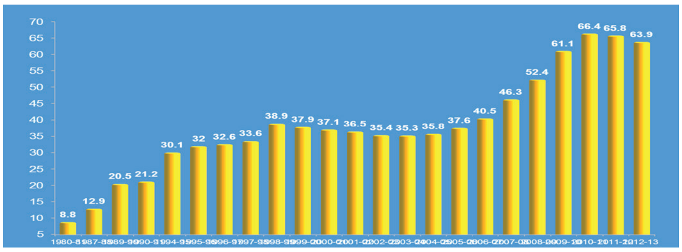
Pakistan debt is ever increasing and never come down since 2007. Pakistan added $1.6 billion in external debt in 8 years (2000-07) but added $19.6 billion in just 4 years (2008-11). In the later period, particularly since 2008 it was the domestic debt more rapidly increased than the foreign debt, as shown below.

In June 2014

- Total debt liabilities: **Rs18, 241 billion**[7]
- The foreign Debt stands at: **Rs4, 791 billion**[8]
- The Domestic Debt stands at: **Rs10, 907 billion**[9]
- The Debt to GDP ratio stands at: **63.3%**[10] *(Still falls short of meeting the 60% target set under the Fiscal Responsibility and Debt Limitation Act).*
- The Debt servicing ratio stands at: **Rs1100 billion**[11]
- The Ratio of Revenue/debt repayments: **47%**[12]

Every Pakistani owes Debt: Rs.101, 338[15]

Furthermore, concerns about debt sustainability deepened with the growing burden of debt servicing[13]. Worryingly, 47% of whatever the government generated in revenues between July-March 2013-14 went to paying off the debt against 44% in the previous year. Despite the 1% point reduction during FY13-14, Pakistan's public debt is still 63.3% of GDP – slightly higher than the ceiling of 60% under the Fiscal Responsibility and Debt Limitation Act (FRDL) of 2005[14]. The surge in debt servicing, which is not supported by a corresponding improvement in tax revenues specifically direct taxes, is leading to large fiscal imbalances that have to be financed from domestic sources.



Every government goes to the IMF for breaking out of balance of payment crisis since it provides a natural solution to the problem. However, opposition parties raises hue and cry to attain political mileage out of it. The interesting phrases to score politically are "begging bowl" and "slavery". However, they turn a deaf ear to this jargon when they themselves are at the helm of affairs.

[4] Pakistan has entered into debt rescheduling arrangements with the Paris Club creditors in FY72, FY74, FY81, FY99, FY01 and FY02. Last time Pakistan entered into a debt rescheduling agreement with the Paris club creditors in December 2001. This also paved the way for pre-payment of expensive debt, loan write-offs and adjustment in the domestic debt stock. For details see Special Sections 1 & 2 in SBP's 2nd Quarterly Report for FY02.

[5] The international oil price shock of FY08 and the consequent emergence of circular debt have caused significant expansion in Pakistan's fiscal deficit during FY08-13. Average fiscal deficit rose to 6.8 percent of GDP during FY08-13, compared to 3.7 percent of GDP during FY01-07. This, along with the international recession that resulted in large external imbalances, has led to significant additions in country's public debt stock since FY07. Current account deficit averaged at 5.5 percent of GDP between FY08-10.

[6] http://www.tradingeconomics.com/pakistan/external-debt

[7] http://www.thenews.com.pk/Todays-News-2-277712-Debt-on-each-Pakistani-is-over-Rs1-lac-now

[8] Ibid

[9] Ibid

[10] http://www.tradingeconomics.com/pakistan/government-debt-to-gdp

[11] http://www.thenews.com.pk/Todays-News-2-277712-Debt-on-each-Pakistani-is-over-Rs1-lac-now

[12] http://tribune.com.pk/story/716725/every-pakistani-now-owes-rs82627/

[13] Overall debt servicing increased to 6.7 percent of GDP during FY13, compared to 6.3 percent in the previous year. The ratio of external debt servicing to foreign exchange earnings deteriorated to 12.0 percent on end-Jun 2013, compared to 9 percent, a year earlier. The ratio of overall interest payment to tax revenues (after adjusting for provincial share) deteriorated to 118.9 percent, from 103.9 percent in FY12

[14] In an effort to ensure fiscal discipline, government adopted a „rule based" fiscal policy stance in FY05 through the enactment of FRDL Act, which placed a limit of 60 percent of GDP on government debt to be reached by the end FY13.

[15] http://www.thenews.com.pk/Todays-News-2-277712-Debt-on-each-Pakistani-is-over-Rs1-lac-now

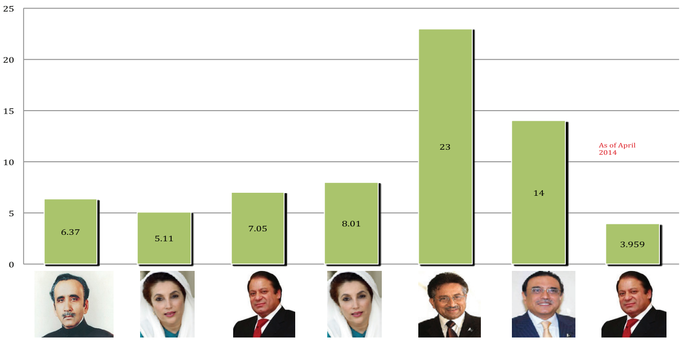
The Prime Minister Nawaz Sharif during his election campaign, made claims that on assuming power he will get rid of external debts, however, the PML-N government is no different from its predecessor in this regard and knocking the doors of international lenders vigorously and vehemently. Pakistan's external debt and liabilities stood at $61.8 billion as of March 31, 2014, rising by $906 million in previous nine months. Most of this external debt is made up of loans from multilateral lenders and Paris Club. Islamabad owes International Monetary Fund (IMF) around $3.6 billion.

Table 1:Total foreign loans and grants Pakistan secured in 28 years (1985-2013)

No	Period	Loan	Grant	Total
1	1985-88	$4.6 billion	$1.07 billion	$6.37 billion
2	1988-90	$4.0 billion	$1.11 billion	$5.11 billion
3	1990-93	$6.1 billion	$1.04 billion	$7.05 billion
4	1993-96	$7.3 billion	$804 million	$8.01 billion
5	1999-08	$17.9 billion	$5.06 billion	$23.0 billion
6	2008-13	11.6 billion	$2.03 billion	$14.0 billion
Total	**28 years**	**$59.240 billion**	**$13.020 billion**	**$72.261 billion**

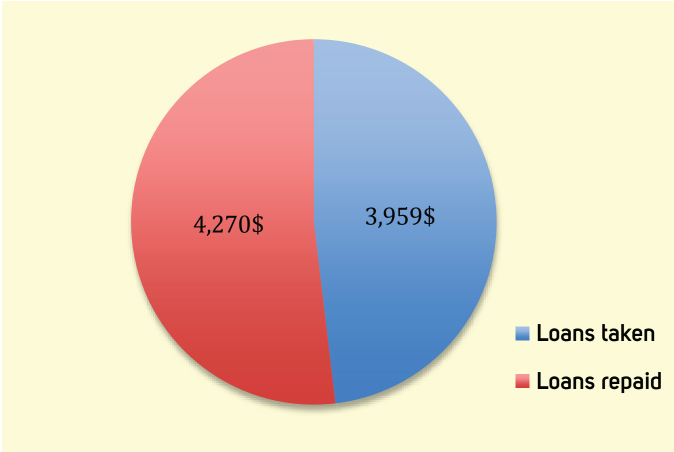
Source: figures provided by the Economic Affairs Division (EAD) and the Ministry of Finance at a briefing in 2013 to National Assembly Special Committee on foreign and domestic loans formed by the NA Speaker, Fehmida Mirza on 27 July 2012

Total foreign loans acquired in 28 Years (1985-013) in billion dollars



The two regimes of, Gen Zia and Gen Musharraf together secured $21.5 billion out of total existing foreign debt of $59.240 billion as of June 2013. This total makes almost 1/3 of the total foreign debt, Basically these regimes took enormous benefits of favorable international political economy since Pakistan was a front line state in the first and the second Afghan war.

Amount of Foreign Loans taken and repaid as of April 2014 (in million dollars)



- The Pie Chart shows that the Nawaz government has secured total foreign loans as of April 2014 are $3959 million and repaid total amount of $4270 million.

The debt servicing means the repayment of debt in the form of principal and interests. Table below shows the debt servicing of Pakistan during 2008 to 2013 along with the foreign exchange reserves at the end of the year. This debt servicing hovers around $ 3 to 5 billion which drains out the foreign exchange reserves a great deal. This can be observed the situation at the end of FY 2013. *(Table-2-below)*

Table 2: External debt servicing (2008-13) amount in million dollars and Foreign Exchange Reserves

Repayment	FY2008	FY 2009	FY2010	FY2011	FY2012	FY2013
Principal	1,866.70	2,837.40	3,139.90	2,457.80	3,276.30	5,046.40
Interest	1,247.80	1,158.80	1,015.00	1,073.70	1,018.50	932.7
Total	**3,114.60**	**3,996.20**	**4,155.00**	**3,531.40**	**4,312.40**	**5,979.10**
Foreign Exchange Reserves	**13,299**	**13,715**	**16,750.4**	**18,243.8**	**15,288.6**	**11,019.6**

Sources: State bank of Pakistan (Annual Report 2012-13)

- Impact of the debt burden is horrific: 60.19% live below absolute poverty line[16]

The debt burden has squeezed govt. spending on social sector. Pakistan spends just 2% and 2.6% of its GDP on education and health respectively. There are 5.5 Million out of school children. Thousands of children and mothers die every year due to lack of proper health and medical facilities. Over all 49.4% is living below poverty line. Pakistan will be spending Rs1.658 trillion (42.1% of Budget) during the fiscal year 2014-15 to IFIs and its creditors but have nothing to spend on people-on whose name the loans are contracted.

Table 3 below shows the breakup of the debt servicing between bilateral and multilateral donors in FY 2012-13. The actual debt servicing of foreign loans amounted to $3,006 million, comprising $2,970 million central loans and $36 million guaranteed loans. Debt servicing of central loans amounted to $2,970 million, comprising $2,243 million principal repayment and $727 million interest payments. About 23.52% ($707 million) of the total debt servicing went to the bilateral creditors and 63.14% (1,898 million) to the Multilateral Creditors. About 86.66% (2,605 million) was against the Medium & Long-Term loans while 13.34% (401 million) was against the Short-Term loans[17].

[16] http://www.dailytimes.com.pk/business/03-Jun-2014/earning-2-a-day-60-19-population-live-below-poverty-line (Economic Survey for 2013-14)
[17] http://www.ead.gov.pk/gop/index.php?q=aHR0cDovLzE5Mi4xNjguNzAuMTM2L2VhZC91c2VyZmlsZXMxL2ZpbGUvWWVhciUyMEJvb2tzL0ZpbmElMjB5ZWFyJTIwYm9vayUyMDIwMTItMTMucGRm

Table 3: External Debt Servicing -2012-13 (Amount in million dollars)

Particular	Principal Amount	Interest Amount	Total Amount
(A) Medium & Short term			
(1) Bilateral	337	370	707
Paris Club	176	387	463
Non-Paris Club	161	83	244
(2) Multilateral	1539	359	1898
Total A (1+2)	1876	729	2605
(B) Short Term	390	11	401
Grand Total A+B	**22,66**	**740**	**3006**

Source: Economic Affairs Division, Year Book 2012-13

Why debt cancellation?

Keeping in view the above argument, there is a need to exercise the right of foreign debt cancellation. For instance, the losses incurred by different sectors of Pakistan's economy as result of US-led war on terrorism in the last 13 years might go close to $102 bn mark a rough estimate[18]. In return, Pakistan had so far received around $15bn through official channels on account of over $10bn in shape of Coalition Support Fund (CSF) compared to official losses of $68 bn till fiscal year 2010-11, so only 14% losses were reimbursed by the US. In the head of military assistance in shape of FMF (Foreign Military Fund), Pakistan received $2.1bn, grants for the economy to the tune of $1.5bn, budgetary support of $1.2bn and debt write- off $1.5bn[19].

Pakistan had to face innumerable economic as well as precious human losses. On top of that, the wave of suicidal attacks has a heavy toll on the psychology of the society. Consequently, economic growth slowed and demands for imports reduced with consequential decline in tax collection and inflows of foreign investment were naturally adversely affected, accentuated by the travel bans issued by western governments to its traders, entrepreneurs, tourists etc. Pakistan continued to pay a heavy price in terms of both the economic and security terms. A large portion of its resources, both men and material, are being consumed by this war for the last several years.

Pakistan got debt rescheduling from Paris Club in 2001/2002 in return for supporting war on terrorism, but the country was ignored by the Paris Club and other donors when it was in dire need of debt relief during the 2005 earthquake and 2010 and 2011 floods. Pakistan deserved a real debt relief on both the occasions, however, donors did little and their help remained limited to humanitarian aid. The international community led by America has cancelled debt on the basis of 'humanitarian concern' doctrine with Nigeria enjoying $18bn debt relief in 2005. Iraq received $30bn debt relief from the powerful Paris Club with 80% of its debts cancelled courtesy of US support and world happily cancelled the debt for Haiti owing to the effects of its awful earthquake. Pakistan deserves equal treatment to Nigeria and Iraq and must demand that its debts are forgiven too. Even more recently IMF cancelled $330 million debt of Ebola-hit Liberia, Sierra Leone and Guinea. But a terror-hit and flood-hit Pakistan was ignored.

For many years Pakistan was run by undemocratic technocratic regimes aided and abetted with western support, which did little for the masses. It's very clear that the debt contracted by these regimes is a major portion of Pakistan's debt and about 50% may be easily forgiven since the two Afghan wars and their spillovers have destroyed part of the economic potential of Pakistan along with social rights of the population.

For many economic managers the debt cancellation demand may be illogical and kind of daydreaming, but for many others this demand is quite logical and sensible from human rights perspective. On the one hand various laws, precedents and international protocols urge IFIs to cancel poor countries debt under extraordinary circumstances (like the one Pakistan is going through) and on the other hand allow Pakistan to announce unilateral suspension on debt repayments. A demand for cancellation of Pakistan's un-payable and unjust debts is not unjustified. Pakistan needs grant aid, rather than loans, to stand back on its feet. Such kind of demand is not new.

To suspend payment of foreign debts is not a new thing; many poor countries have exercised this lawful right in the past[20]. Far from being an end in itself, these measures should be seen as first step towards a radically different model of development based on a guarantee of fundamental human rights. If a war-torn Germany can get debt relief four times during the period from 1929-1953, why not terror-torn Pakistan. This is also important from the perspective of global peace. A terror-torn Pakistan may destabilize the global peace since we live in an interconnected world.

Our Urges

Government of Pakistan

- We Urge the Government of Pakistan to repudiate the illegitimate debts acquired by non representative regimes.
- We Urge the Government of Pakistan to demand "DEBT RELIEF" from donor community and IFI's on the pattern of War hit Germany as Pakistan is bearing a heavy cost of "WAR ON TERROR" which has inflicted an economic cost to tune of $102 billion in the last 13 years
- We Urge the Government to establish a parliamentary debt audit commission comprising civil society representatives and debt experts to assess the true picture of the public debt of Pakistan and ascertain the illegitimate portion of debt In line with the recommendations of the Special Committee on Foreign and Domestic Loans (SCFDL),
- We Urge the Government to make debt agreements subject to parliamentary approval in line with the recommendations of the National Assembly's special Committee on Foreign and Domestic Loans, established on 27th July, 2012.
- We urge that the government should re-negotiate with the Creditors and work seriously to address the structural problems of the economy.
- We urge the Government of Pakistan to reduce debt dependency by increasing tax to GDP ratio through progressive taxation & to fill the gap of fiscal deficit. The government should not put huge burden on the masses as the economy remained in the double digit inflation for seven years. The past high inflation entails huge political cost in the form of unrest, law and order and terrorism.
- We urge the Government of Pakistan to stop acquiring program loans and if necessary project loans can be acquired thus ensuring that reckless international borrowing must be stopped.
- We urge the Government of Pakistan to fulfill its commitment to engaging with Swiss authorities under the new Swiss law, 'The Restitution of Illicit Assets Act, 2010' (RIAA) and take practical steps to bring back the Pakistani money.

Civil Society of Pakistan

- We urge the CSO's to join hands to harness the debate towards the cancellation of debt which has been acquired by non-representative regimes.
- We Urge the Academia to establish research work on the economic impacts of Debt interest as well as identification of alternative sources of financing for development.
- We urge the Pakistani media to play its due role in highlighting the adverse effect of debt on Pakistan's economy and sensitize the political leadership and educate the masses.

IFIs/Donors

- We Urge the Creditors to cancel the Debts extended to the non-representative Regimes in light of UN Convention A/68/L.57/Rev2
- We demand that IMF should expand the criteria for the new Post-Catastrophe Debt Relief Trust Fund by including the countries elevated to middle income level.
- We urge the Creditors to observe responsible lending to ensure just spending of the funds. They should stop demanding regressive economic conditions.
- We urge the donor countries to transform official development assistance (ODA) into grants in the light of commitment made at 1992 Rio conference.

[18] Source: http://tribune.com.pk/story/716558/economic-survey-13-year-war-on-terror-cost-102-5-billion/
[19] Ibid
[20] In 1985 Peru a small Latin American country refused debt repayment to World Bank and IMF. In 1986 Cuba refused $2.5 billion debts to Paris Club, Russia. In 2001 Argentina suspended repayments of $ 80 billion. In 2005 Paraguay refused $ 85 million debt to Swiss banks.