

### **External debt exceeds \$100 billion**

Pakistan's external debt has crossed \$100 billion by the end of January 2019. It now stands at just over \$101 billion. The level of external debt was \$95.3 billion at the start of the current financial year. In seven months, it has increased by \$5.7 billion.

A large part of the increase in gross inflow of external borrowing since June 2018 is in the form of support mobilized from friendly countries. This includes \$2 billion of budgetary financing by China, \$3 billion from Saudi Arabia and \$1 billion initially from the UAE in the form of deposits with the SBP. In addition, \$2.5 billion has been obtained from traditional and mostly concessional sources like the multilateral agencies and bilateral sources. Further, incremental borrowing by the banks and the private sector is estimated at under \$1 billion. Therefore, the overall level of borrowing from June 2018 to January 2019 is \$9.5 billion. The external debt repayment during this period is estimated at \$3.8 billion, thereby implying increase in the level of external debt of \$5.7 billion.

The rate of increase in the external debt has jumped up sharply in recent months. The rise on a monthly basis since June 2018 is close to \$830 million. At this rate, the annual increase in 2018-19 will approach \$10 billion. As such, by the end of June 2019, Pakistan's external debt could approach \$106 billion. Flows of \$2 billion more from the UAE and \$2.5 billion from China are due shortly. In addition, the deferred oil payment facility will effectively add at least another \$1.5 billion of debt by the end of 2018-19.

The PML (N) Government has been accused of being profligate in external borrowing during its five year tenure. Cumulatively, the external debt of Pakistan increased by \$34 billion in these five years. This implies an annual average increase of almost \$ 6.8 billion. The year 2018-19 is likely to witness a rise in the level of external debt of almost \$10 billion, which is substantially greater than the average annual increase from 2012-13 to 2017-18. This is attributable to the enormously increased pressure to finance the extremely large current account deficit, which was \$19 billion in 2017-18 and may come down \$13 billion this year if the recent decline in imports and rise in exports persist.

There is need to highlight the evolution of the external debt to GDP ratio of Pakistan. This was 25 percent of the GDP in 2012-13 at the end of the tenure of the PPP government. By 2017-18, it had gone up to 30 percent. Now, with the big absolute increase, the external debt to GDP ratio is likely to reach 38 percent of the GDP in 2018-19. The rise is magnified by the sizeable devaluation of the rupee which has reduced the dollar value of the GDP.

The exceptional debt burden of Pakistan can be highlighted by comparison of the external debt to GDP ratio with that of India and Bangladesh. The ratio was 20 percent in India and 19 percent in Bangladesh as compared to Pakistan at 28 percent in 2017. As highlighted above, it could approach 38 percent by the end of 2018-19.

The composition of external debt of the country is also changing rapidly. The share of private external debt was 16 percent at the end of 2012-13. This has increased to 20 percent by December 2018. This debt tends to be more commercial in character. Within public external debt, the share of foreign exchange liabilities has gone up after the recent deposits by Saudi Arabia and the UAE with the SBP. Also, the share of high cost commercial debt has gone up sharply from only 3 percent in June 2013 to 18 percent on December 2018. Currently, the amount owed to international commercial banks is \$6.8 billion and the outstanding floatation of Euro/Sukuk bonds is \$7.3 billion. These bonds are beginning to mature, with \$1 billion due to be retired in April 2019. The deposits with the SBP are mostly of a short run nature.

The fundamental implication of the changing composition of external debt is that the quantum of debt repayment is rising rapidly. In the case of the external debt with the Government, the total repayment was \$2 billion in 2012-13. This doubled to just over \$4 billion by 2017-18. There is likely to be a big jump in repayment of government debt of 75 percent to \$7 billion in 2018-19 and to over \$9 billion in 2019-20.

Other repayments are also becoming due. The repayment of the IMF EFF loan becomes relatively large from this calendar year onwards. The amount is \$688 million in 2019, which rises to \$1004 million in 2020 and reaches a peak of \$1129 million in 2021. The repayment period effectively comes to an end in 2026, with only small repayments thereafter.

The deposits with SBP by Saudi Arabia and the UAE will need to be rolled over. If not, then in a year's time a repayment of as much as \$6 billion will have to be made to the two countries. Similarly, commercial loans and swap funds or deposits with the SBP will also need to be rolled over, if possible, sooner or later.

The country is truly in the 'external debt trap'. Increasingly, the annual external financing requirement will be determined by the quantum of external debt repayment and less by the size of the current account deficit. Also, while the latter can be reduced by policy actions the former is in the nature of a fixed obligation predetermined by borrowing in previous years.

The scenario for 2019-20 is full of daunting challenges. An IMF loan, if negotiated successfully, is inadequate if it remains restricted to the residual quota access of \$6 billion. Other sources will no doubt, become available in the presence of an IMF Program like the Multilaterals. But even the \$6 billion from the IMF over the next three years will decline to \$3 billion or so after repayment of the past EFF loan. If loans and deposits are not rolled over by our friends then the financial sustainability of the country will be seriously jeopardized even in the presence of a Fund Program.

(The author is Professor Emeritus at BNU and former Federal Minister)

DR HAFIZ A PASHA