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RECORDER REPORT

Surge in country's indebtedness

It is indeed depressing to note that Pakistan's indebtedness continues to soar overtime to reach new levels. According to the latest data released by the State Bank, year-on-year basis, the federal government's total debt stood at Rs 32.24 trillion in August, 2019 as compared to Rs 24.73 trillion a year earlier, registering a sharp increase of 30 percent or Rs 7.51 trillion over the year. During the first two months of FY20, the government's debt stock recorded a rise of 1.42 percent, reaching Rs 32.24 trillion at the close of August, 2019 as compared to Rs 31.79 trillion in June, 2019. Federal government's domestic debt which rose from Rs 20.73 trillion in June, 2019 to Rs 21.50 trillion in August, 2019, depicting an increase of Rs 763.5 billion or 3.5 percent, was responsible for the increase in the country's indebtedness although external debt fell by Rs 310 billion to Rs 10.75 trillion in August, 2019 from Rs 11.06 trillion in June, 2019. Domestic debt comprised Rs 12.57 trillion of permanent debt, Rs 3.19 trillion of unfunded debt and Rs 5.73 trillion of floating debt.

A sharp rise in domestic debt and a decline, however modest, in external debt during July-August 2019 could be attributed to excessive reliance on domestic sources of financing fiscal imbalance in the absence of sufficient external financing and a substantial fall in current account deficit which reduced the need to borrow from outside sources. Nonetheless, a sharp jump of nearly Rs 764 billion or 1.42 percent in the country's indebtedness in just first two months of FY20 is a bad news for the country and is a reflection of much higher budget deficit than envisaged at the time of budget formulation due mainly to a substantial shortfall in government revenues compared to the target, coupled with growing current expenditures necessitated by higher debt servicing and defence expenditures. The most surprising element of this increase was the sharp criticism of the PTI party on the previous governments for 'heaping up' a very high level of debt on a poor nation. It must be stressed though that the rise in the stock of debt during the tenure of the present government is probably not due to its lack of commitment but due to its poor reading of the situation. The level of twin deficits, particularly expenditures on defence and debt servicing were, in fact, so high at the time of inception of the present government that it was not possible to eliminate or substantially reduce the overall stock of debt in a short period of time. Another factor contributing to the sharp increase in indebtedness during the year ended August, 2019 was a considerable depreciation of the exchange rate of the rupee which raised the debt level in rupee terms. The level of commitment of the present government to contain the twin deficits in order to reduce the overall debt stock could be gauged from the fact that it is making concerted efforts to broaden the tax base and eliminate tax exemptions as well as following a strict austerity programme on the fiscal side. The Prime Minister himself is so particular about austerity that he has made it a habit to undertake foreign tours through commercial flights, he has reduced office entertainment to the minimum. On the external side, substantial depreciation of the rupee and high tariffs on most of the imports have reduced the current account deficit by a significant margin.

This does not mean, however, that previous governments had done nothing to tackle the debt problem. The Fiscal Responsibility and Debt Limitation (FRDL) Act aimed at elimination of revenue deficit and reduction of public debt to prudent levels was passed by the National Assembly in March, 2005. But successive governments violated this law with impunity without offering plausible explanations to the parliament. The present government could also invoke the provisions of the FRDL Act, among other measures, to reduce the level of fiscal deficit and contain the overall stock of debt. The country is also bound to reduce the level of primary fiscal deficit sharply under the current dollar 6 billion EFF programme with the Fund. The PTI government could highlight the limitations imposed by the FRDL Act as well as the programme with the Fund to convince both the parliament and the public about the need to reduce fiscal deficit and contain the rising level of debt. We are afraid that if the government does not take the matter very seriously, the size of overall debt and debt servicing of the country would continue to rise beyond affordable limits besides making the options of the country limited in the coming years and mortgaging the future of our next generations.