

Pakistan's public debt-to-GDP ratio increases to 87.2%

ISLAMABAD: The country's public debt-to-GDP ratio increased to 87.2% in June this year, the finance ministry said on Saturday.

The ministry maintained that the country's public debt was sustainable and its capacity to repay also adequate.

The total public debt, as of June 30, 2020, has increased to Rs36.3 trillion or 87% of the GDP.

There was an addition of Rs11.35 trillion or 45% in the total public debt in the past two years -- more than what the previous government had accumulated in its five-year term.

In a statement, the ministry said the government planned to run primary surplus, maintain low and stable inflation and promote measures that supported higher long-term economic growth.

Quoting the State Bank's figures, the ministry said the total public debt-to-GDP ratio had increased from 86.1% in June 2019 to 87.2% in June 2020.

This figure had declined to around 84% in December 2019 due to an increase in the collection of taxes by the Federal Board of Revenue (FBR) and strict control on current expenditure.

"Prudent economic policies had resulted in the posting of a primary surplus in February 2020 which was after a gap of many years," the statement read.

"However, the Covid-19 pandemic adversely impacted the economy and slowed down the government's programmes focused on reforms."

The coronavirus outbreak resulted in a reduction in revenue and an increase in expenditures, decline in domestic and global demand, lower tourism and business travel, trade and production linkages and supply disruptions, etc.

"Resultantly, the debt-to-GDP ratio has increased due to the sharp decline in growth and the increase in the budget deficit primarily due to Covid-19 related expenditures during the last four months of the fiscal year 2020," the ministry maintained.

According to the Global Economic Prospects report published by the World Bank Group in June 2020, Pakistan's economy has shown greater resilience than its peer in South Asia.

“In view of the foregoing it is expected that the government will be able to bring back the debt-to-GDP ratio on a clear downward path over the medium term through increase in revenues and fiscal discipline,” the statement read.

When the PML-N government left the corridors of power, the total public debt was Rs24.95 trillion or equal to 72.5% of GDP. In just two years, it has surged to 87% of GDP, which is unsustainable and carries huge risks for the economy and the country's foreign policy.

According to finance ministry spokesperson Mohsin Chandna, about 42% of the additional debt in the past two years was due to debt servicing expenses and another 31% because of currency devaluation.

Independent experts have criticised the PTI government for keeping the interest rate artificially high at 13.25% and devaluing the currency more than the requirements – the two factors that had now contributed to skyrocketing the public debt.

In February last year, Prime Minister Imran Khan had vowed to bring the public debt down to Rs20 trillion. PM Imran has been very critical of the economic policies followed by the previous PPP and PML-N governments and has set up the Debt Inquiry Commission to investigate reasons behind the addition of Rs18 trillion to the debt stock in 10 years.

But the spokesman said that the public debt management indicators have significantly improved in the past one year due to better management that reduced the refinancing risks and ended the exploitation of the banks that were making “easy money in the past”.