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Comparative and Trend Analysis of External Debt Executed by Pakistan

Azhar Khan[a], Naveed Farooq[b], Mohib Ullah[c], Shehzad Ahmad[d*]

Professor Institute of Social Policy and Research Peshawar. Associate Professor, Abdul Wali Khan University Mardan, Pakistan. Assistant Professor, Abdul Wali Khan University Mardan. Lecturer, Department of Management Sciences, Abdul Wali Khan University Mardan

[*]**Email:** shahxadahmad502@gmail.com

***Abstract*:** The government of Pakistan has had to take out a loan as a result of the country's significant budget-trade deficits, problems with foreign currency, and big savings-investment gaps. The purpose of this research is to find out the trend analysis, and to enquire about the repercussions of foreign debt, which was taken on by the previous three administrations in Pakistan over the period of 2008-2022. According to the data that is currently available on the country's foreign debt, the foreign debt was reported at a somewhat lower level while the PPP was in power from 2008 to 2012, followed by the PML (N) from 2013 to 2017, and then the PTI from 2018 to 2022. According to these facts and figures, the previous PTI administration was responsible for accruing the most amount of external debt. According to the results of this trend analysis, it is recommended that any and all forms of borrowing be carefully avoided. On the other hand, those types of loans that are essential should be used in those development initiatives that are more productive. Through the implementation of investment-friendly policies, inflows of direct foreign investment should be increased into projects that provide greater returns. It is necessary to make improvements that are beneficial to the taxation system in order to raise more money via taxation and bring the gap in the budget deficit down. Policymakers should also support integrated fiscal and monetary policies, since this is essential for achieving sustainable economic development, maintaining sustainable levels of foreign debt, and reducing pressure on the economy as a whole.

Key Words: Trend analysis, Foreign Debt, Comparative analysis of last three regimes (PPP, PML (N), PTI), Pakistan

1. Introduction

The buildup of foreign debt as a type of incoming foreign capital is a phenomena that often occurs in the developing nations. Unquestionably, countries with lower rates of saving are going to need to take out loans in order to achieve the level of economic growth and development that is considered to be optimal. Therefore, in order to maintain the growth rate of the economy, which would not otherwise be achievable with the limited resources that are available inside the country, foreign debt is taken on. According to Ali and Mustafa (2012), total external debt is defined by the World Bank as debt that is due to non-residents and may be repaid in terms of a foreign currency, products, or services. It is a widely held belief that countries who have been endowed with large amounts of foreign debt may be able to achieve macroeconomic stability if they put the money they have borrowed into projects that are more productive. These economies will not only help to speed up the process of economic development; in addition, they may have an easier time meeting their future debt obligations. Ali and Mustafa (2012) found that their research led them to the conclusion that foreign debt may have both good and negative consequences on the economy. Some industry professionals are of the opinion that the accumulation of foreign debt will have a positive effect on economic development. They reason that this will be the case due to the fact that it will lead to an increase in the amount of money that is brought in, which, in turn, will speed up the rate at which economic growth occurs.

The data figures show that over the past forty years, the foreign debt of many developing economies has increased tremendously due to the lingering current account deficit (import-export gaps), a deficiency of capital (saving–investment gap), and fiscal imbalances (revenue-spending gap) (Beyene and Kotosz, 2020). This can be attributed to the fact that there has been a gap between the amount of money that is saved and the amount of money that is spent. Due to budget deficits, trade deficits, and gaps between saving and investment, the majority of emerging economies have been forced to absorb huge amounts of funding from other countries. It has been shown by Dawood et al. (2021) that foreign debt is always a serious problem for a great number of nations, and it is anticipated that the situation would worsen over the course of the next few years as a result of the pandemic of COVID-19. The pandemic COVID-19 has brought to light the fragility of many economies that are not capable of self-sustenance, and as a result, the need for aid from or borrowing from other countries has gained increased notoriety. According to the Economic Survey of Pakistan (2022-23), the whole public debt was accounted for at PKR 44,366 billion in 2022 (end of March), demonstrating an upsurge growth of PKR 4,500 billion over the first nine (09) months of the 2022-23 fiscal year. At the same time, the decline in value of our currency in comparison to other international currencies, most notably the US Dollar, exerts a downward force on the value of foreign public debt and puts pressure on the economy. The problem of Pakistan's mounting external debt is one that the country's administration aims to solve by formulating a smart approach.

1.1 Statement of the Problem

At the moment, the economy of Pakistan is dealing with a number of challenges, the most significant of which are an ongoing increase in the general price level, a continuing depreciation in currency, a current account deficit, and a substantial amount of external debt. Nevertheless, debt accumulation leads to a worsening of the payback abilities of the indebted nations and, as a result, produces hurdles in the processes of developing the economy when the money that is borrowed is not utilized by the fund receivers in productive schemes and initiatives that are revenue feasible. The data statistics on Pakistan public debt of the last three regimes, namely PPP (2008-2012), PML(N) (2013-2017), and PTI (2018-2022), reveals that foreign debt was approximately 40-51 US billion during the PPP (2008-2012), and PML(N) (2013-2017) tenures, and it is recorded approximately 61-81 US billion during the PTI (2018-2022) tenure (Source: Economic Survey of Pakistan (various issues)). Therefore, there is a need for a comprehensive investigation into the issue of a considerable and ongoing increase in Pakistan's external debt.

Higher inflation, continued depreciation of currency, constant twin deficits, and enormous non-developmental expenditure are all regarded to be equally responsible for the growth in foreign debt. Weak planning, misuse of money, corruption, unstable political climate, and massive non-developmental spending are all seen to be equally responsible. An excessive rise in debt has been an issue for Pakistan for practically the previous 20 years.

1.2 Research Objectives

The primary purpose of the current research is to get knowledge about the incoming foreign debt from the years 2008 to 2022. In addition, it is important to learn about the trend of debt that was incurred during the previous three separate regimes, namely the PPP, the PML (N), and the PTI.

1.3 Significance of the Study

This research is concentrate on the strategies that these three most recent administrations have implemented in order to manage debt difficulties and, as a result, to reduce the burden of foreign debt. This study provides some policy suggestions based on the results about which kind of debt management strategy and practices needs to be implemented by the governments to minimize debt load and to cut down Pakistan's reliance on external debt from any source.

2. Literature Review

Several nations all over the globe have turned to sources of income derived from their foreign debt in order to finance the development project they are working on as well as satisfy other types of public spending. However, a large number of nations have been unsuccessful in both the sustainable use and efficient management of their foreign obligations. In addition, several countries are being coerced into operating on a debt-based economic model and have thus fallen into the debt-fueled debt trap. As part of a project run by the International Monetary Fund,

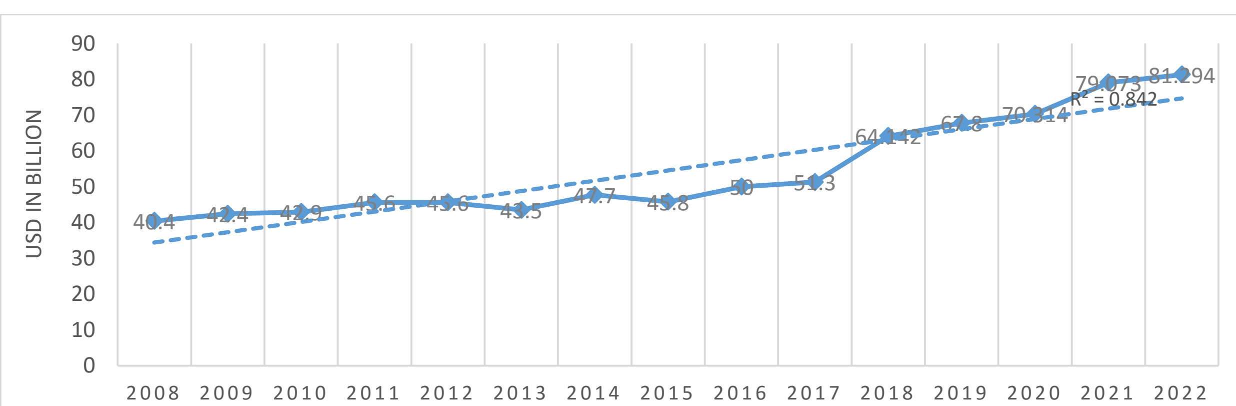
Bangura et al. (2000) conducted research on the management of foreign debt in low-income nations. According to the findings of the research, the management of foreign debt is a multi-faceted undertaking that requires the development of a transparent and fair strategy for debt management, the formulation of a functional and adequate institutional framework, and the successful execution and implementation of the many multi-faceted debt related policies. It is the most important step towards breaking free from the unsustainable dependency on foreign debt.
The research that was conducted by Senadza, Fiagbe, and Quartey (2018) looked at the effect that external debt had on economic development in Sub-Saharan Africa (SSA), specifically why there was an increase in the amount of foreign debt held by several of the continent's countries. According to the empirical results of Qureshi and Liaqat (2019), total foreign debt had a negative influence on the GDP growth rate in 123 countries from 1990 to 2015, and effective public policy is necessary to address the problem of debt accumulating. The data also suggested that this effect was seen from 1990 to 2015. The empirical findings of Chilombo & Jiang (2020) demonstrated that foreign debt had a negative influence on the economic development of nine (09) Southern African countries between the years 2000 and 2018. This finding was based on the period of time between 2000 and 2018. Mohsin et al. (2021) investigated whether or not there was a correlation between high levels of external debt and rapid economic expansion in the South Asian economies of Afghanistan, Bangladesh, Bhutan, India, Pakistan, Sri Lanka, Maldives, and Nepal. Using data from 2000 to 2018 received from the World Bank, conventional panel estimating methods (POLS, fixed effect), and quintile regression methodologies were used. According to the findings of the empirical study, the level of economic development in South Asian countries was significantly hindered by the countries' high levels of foreign debt.

3. Methodology

This is a quantitative method of research that makes use of secondary sources of information. Prior studies that are closely related to this one have been reviewed, analyzed, and used. In addition, analysis of data trends have been shown via the use of straightforward figures and graphs, which contributed in gaining knowledge about a comparison of the amounts of foreign debt incurred by the three most recent governments. As mentioned earlier, this study is based on secondary data, which have been gleaned from the Economic Survey of Pakistan (Various issues), State Bank of Pakistan; existing literature, and the World Development Indicators (2023), the World Bank publication.

4. Analysis

According to the most recent report that was released by the State Bank of Pakistan (SBP), it has been said that Pakistan's economic problem is worsening day by day and that Pakistan's overall debt climbed drastically by 38.1% to PKR 54.94 trillion by the end of January 2023 as compared to the same time previous year. This indicates that the total debt reached a new high of PKR 3.94 trillion in the month of December 2022, while Pakistan's foreign debt was reported at PKR 20.68 trillion in the month of January 2022. The study from the SBP also noted the possibility that the increase in foreign debt might be accredited to a significant depreciation of the PKR in comparison to the USD (The Nation, 2023). The trend analysis of different governments' foreign debt from 2008 to 2022 is shown in Figure 1, where the data reveals that the governments' foreign debt was at its lowest point in 2008 and would reach its highest point in 2022.

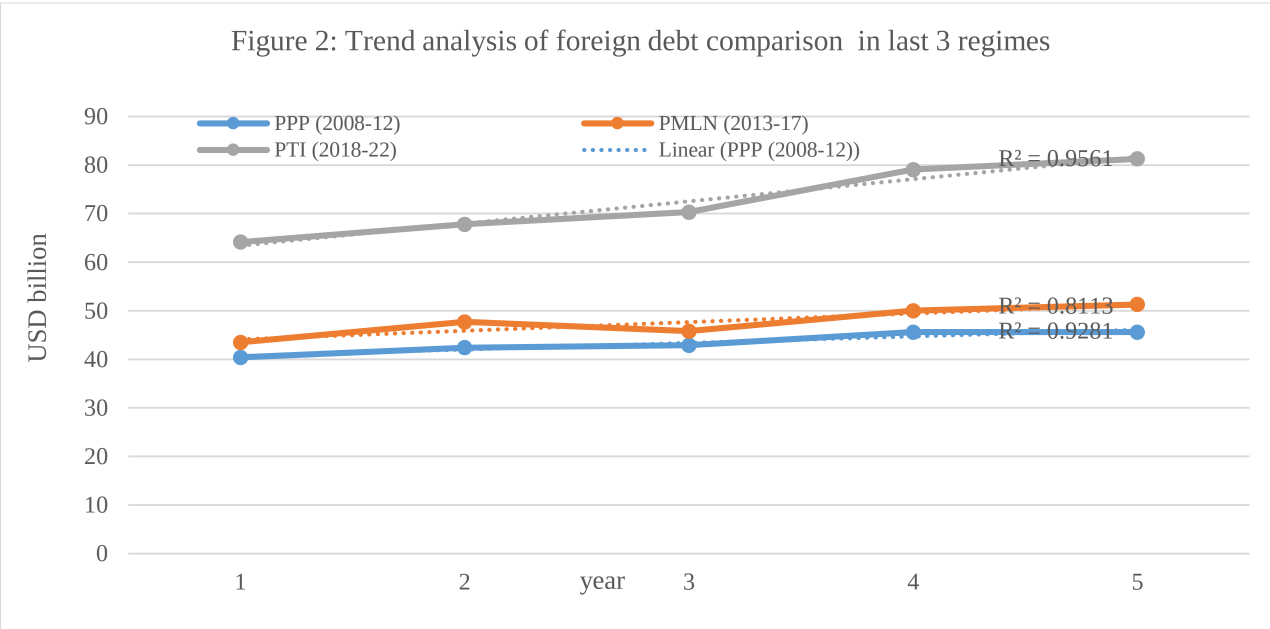


Sources: Economic Survey of Pakistan (various issues)

Figure 1: Trend Analysis of Foreign Debt

4.1 Comparative Analysis of Foreign Debt Management Strategies of PPP, PML (N) and PTI

Figure 2 and 3 presents the results of a comparative analysis of the amount of foreign debt incurred by the three most recent regimes. It is clear from looking at Figure 3 that the PPP had considerably lower levels of foreign loans throughout their term from 2008 to 2012, followed by the PML (N) from 2013 to 2017, and then the PTI between 2018 and 2022. Based on these facts and figures, it can be deduced that the previous administration, the PTI, racked up a greater amount of foreign debt. Table 1 provides an exhaustive breakdown of the foreign debt incurred by each of the three most recent administrations, compiled from a variety of different sources. The statistics shown in Table 2 cover the period from 1971 to 2022 and are presented in Pakistani rupees (in billions). The examination of Pakistan's foreign debt and domestic debt from 1971 to 2022 is shown in Figure 4, which can be seen here.



Sources: Economic Survey of Pakistan (various issues)

Note: (Public debt includes Paris Club, Multilateral, Other Bilateral, Euro Bonds/Saindak Bonds, Military Debt, Commercial Loans/Credits, SAFE China Deposits, and Saudi Fund for Development, ID and IMF)

Figure 2: Trend Analysis of Foreign Debt

Table 1. Overall Pakistan's Public Debt (2008-2022)

(USD in Billion)

Regimes	Year	Paris Club	Multilateral	Other Bilateral	Euro Bond	Saudi Fund for development	SAFE China deposit	IMF	Public debt
	2008	13.9	21.4	1.1	2.7	..	..	1.3	40.4
	2009	14	23	1.4	2.2	..	0.5	5.1	42.4
	2010	14	23.7	1.8	1.6	0.2	0.5	8.1	42.9
PPP	2011	15.5	25.8	1.9	1.6	0.2	0.5	8.9	45.6
	2012	15	25.3	2.5	1.6	0.2	1	7.3	45.6
PML(N)	2013	13.9	24.2	2.9	1.6	0.2	1	4.4	43.5
	2014	13.6	25.8	3.4	3.6	0.1	1	3	47.7
	2015	11.7	24.3	3.9	4.6	0.1	1	4.1	45.8
	2016	12.7	26.4	4.4	4.6	0.1	1	6	50
	2017	11.9	25.9	5.2	5.6	0	0.5	6	51.3
	2018	11.643	28.102	8.674	7.3	..		6.095	64.142

PTI	2019	11.235	27.788	12.717	6.3	..		5.648	67.8
	2020	10.924	30.898	13.428	5.3	..		7.68	70.314
	2021	10.726	33.836	14.821	7.8	..		7.384	79.073
	2022	9.708	34.513	17.151	8.8	..		7.471	81.294

Sources: Economic Survey of Pakistan (various issues)

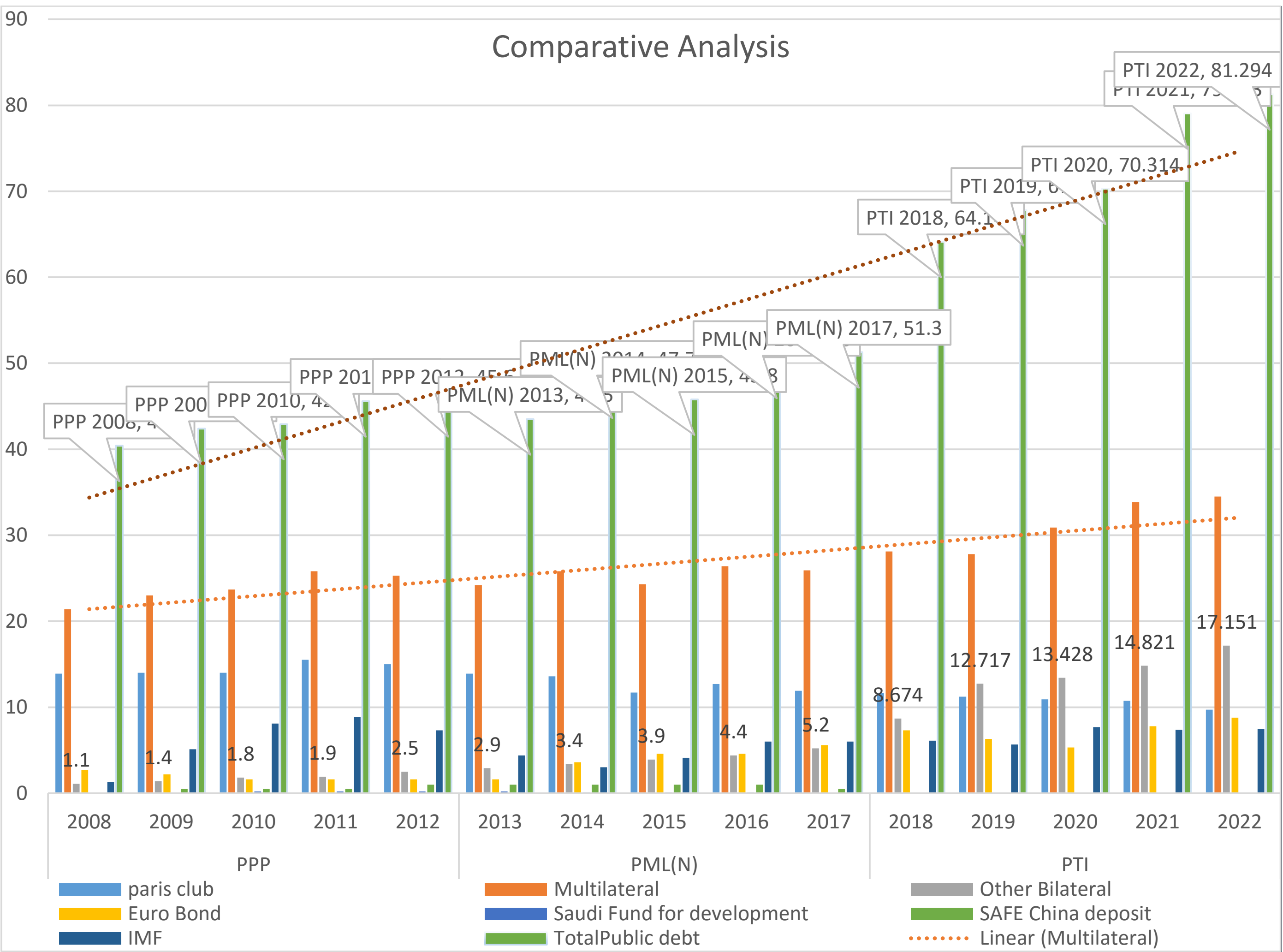


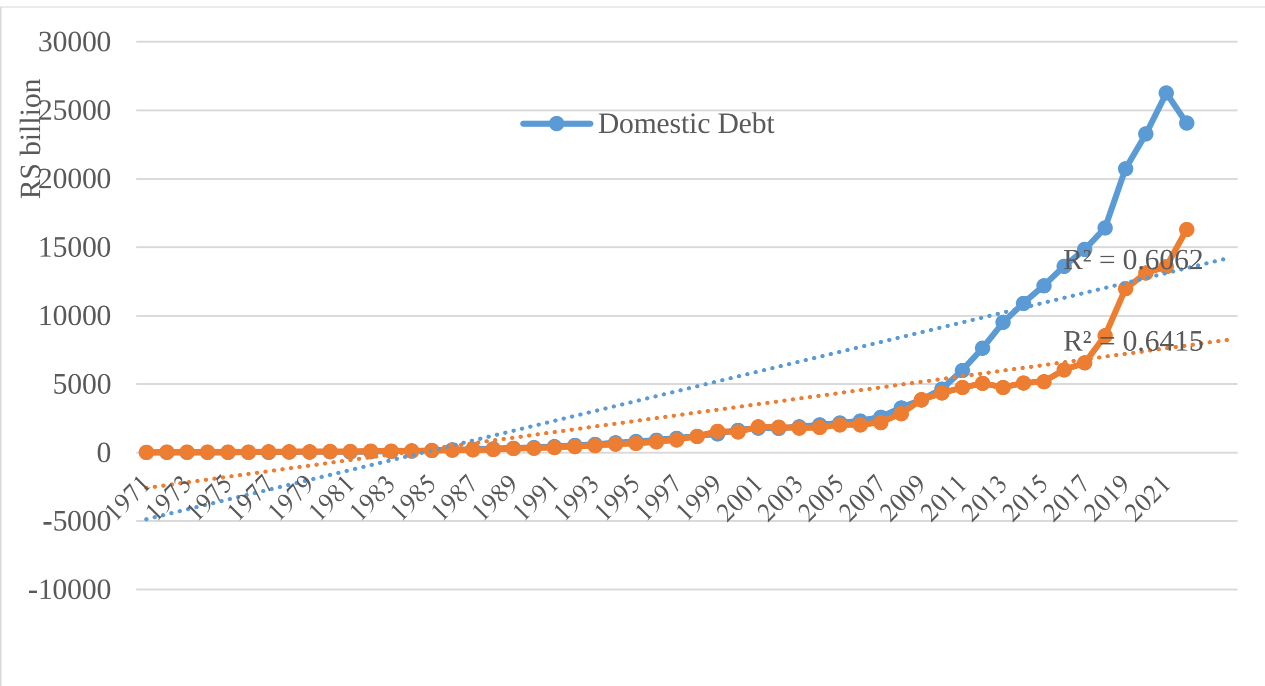
Figure 3: Comparative Analysis

Table 2: Trend in Total Pakistan's Public Debt (Pkr In Billion)

Year	Domestic Debt	External Debt	Public Debit	Year	Domestic Debt	External Debt	Public Debit	Year	Domestic Debt	External Debt	Public Debit
1971	14	16	30	1989	333	300	634	2007	2601	2201	4802
1972	17	38	55	1990	381	330	711	2008	3274	2853	6127
1973	20	40	60	1991	448	377	825	2009	3860	3871	7731
1974	19	44	62	1992	532	437	969	2010	4653	4357	9010
1975	23	48	70	1993	617	519	1135	2011	6014	4756	10771

1976	28	57	85	1994	716	624	1340	2012	7638	5059	12697
1977	34	63	97	1995	809	688	1497	2013	9520	4771	14292
1978	41	71	112	1996	920	784	1704	2014	10907	5085	15991
1979	52	77	130	1997	1056	939	1995	2015	12193	5188	17380
1980	60	86	146	1998	1199	1193	2392	2016	13626	6051	19677
1981	58	87	145	1999	1389	1557	2946	2017	14849	6559	21409
1982	81	107	189	2000	1645	1527	3172	2018	16416	8537	24953
1983	104	123	227	2001	1799	1885	3684	2019	20732	11976	32708
1984	125	132	257	2002	1775	1862	3636	2020	23283	13116	36399
1985	153	156	309	2003	1895	1800	3694	2021	26265	13601	39866
1986	203	187	390	2004	2028	1839	3866	2022 (End March)	24076	16290	44366
1987	248	203	458	2005	2178	2034	4211				
1988	290	233	523	2006	2322	2038	4359				

Source: Economics Pakistan Survey of Pakistan (2022-23), Govt of Pakistan



Source: Economics Pakistan Survey of Pakistan (2022-23), Govt of Pakistan

Figure 4: Trend Analysis of Pakistan’s External and Domestic Debt

4.2 Evaluation of the Effectiveness of each Government's Approach

In its Debt Policy Statement (January 2023), the Ministry of finance of the Government of Pakistan pointed out that many economies across the world are dependent on foreign debt to make up for the gap in the amount of available precious resources that are used to fund the government budget. In emerging countries like Pakistan, where there is a lack of sufficient financial resources, acquiring a loan becomes an absolute need in order to accomplish goals related to economic growth and social welfare. In addition, the government of Pakistan has to maintain a delicate equilibrium between the need for borrowing money to support the process of national economic growth and the need to ensure that the amount of foreign loan is kept under control and is proportionate to the country's ability to pay it back. Therefore, the strategy for managing debt must address national growth, the goal of which is to ensure that the most advantageous financing choices are selected in consideration of the costs involved and the risks involved. Because of the unfavorable exchange rate fluctuation brought on by the devaluation of the Pakistani Rupee in comparison to other currencies over the course of the almost two years that have passed, this has placed pressure on the growth in the amount of foreign debt. In accordance with the Act on Fiscal Responsibility and Debt Limitation (FRDL). On the strength of Pakistan's current primary surpluses, the government has vowed to bring the country's debt-to-GDP ratio down to a more manageable level while simultaneously promoting policies that would lead to stronger long-term economic development.

4.3 Discussion

At the moment, the economy of Pakistan is dealing with a number of issues, the most significant of which are high inflation, unemployment, consistent currency depreciation, a current account deficit, and foreign debt. The government of Pakistan has had to take out a loan as a result of the country's significant budget-trade deficits, problems with foreign currency, and big savings-investment gaps. It is believed that nations who suffer from a shortage of capital but are able to effectively put their foreign debt to use for constructive reasons are not at risk from its negative effects. However, if the loan is not used towards productive initiatives, it might end up being rather expensive for the nations who are receiving it.

4.4 Key Findings of the Trend Analysis

The economy of Pakistan is experiencing a number of challenges at the moment, the most significant of which are a constant increase in the general price level, a continuing depreciation in currency, a current account deficit, and a substantial amount of external debt. Countries suffering from a shortage of capital but having the capacity to use their debt productively are not doing themselves a disservice by taking on more obligations. Not only did countries need money to fund the twin deficits, but they also needed money to boost the process of economic growth and development, which would ultimately lead to an improvement in social welfare. Nevertheless, the continuing increase of Pakistan's public debt is a cause for concern for the country's prospects for economic growth and development.

4.5 The Accumulation of External Debt is Detrimental to the Expansion of the Economy

The accelerating pace of Pakistan's debt buildup was caused in large part by the widening macroeconomic imbalances and the widening twin deficits. The slowing economic development in Pakistan is a direct result of Pakistan's rising level of external debt, which is caused by the fact that debt service obligations, which include interest payments and principal amount, are made in foreign currency. Due to massive budget-trade deficits and enormous saving-investment gaps, the majority of emerging countries, including Pakistan, have been forced to accept a significant amount of funding from outside sources. The increase in the amount of debt owed to foreign creditors may be attributed to a number of factors, including poor planning, the misallocation of money, instances of corruption, an unstable political climate, greater inflation, an ongoing devaluation of currency, chronic twin deficits, and enormous non-developmental expenditure. It is clear that the foreign debt was recorded at a somewhat lesser level during the PPP's tenure from 2008 to 2012, followed by the PML (N)'s tenure from 2013 to 2017, and then the PTI's tenure from 2018 to 2022. Based on these facts and figures, it can be deduced that the previous administration, the PTI, racked up a greater amount of foreign debt.

5. Conclusion

The purpose of this research was to find out the trend analysis, and to enquire about the repercussions of foreign debt, which was taken on by the previous three administrations in Pakistan over the period of 2008-2022, and to offer some effective policy measures for the redemption of its debt. Although it was only documented as being 14 billion rupees in 1971, the entire amount of Pakistan's public debt is anticipated to be over 44,366 billion rupees in 2022 (end of March), according to the Economic Survey of Pakistan (2022-23). According to the data that is currently available on the country's foreign debt, the foreign debt was reported at a somewhat lower level while the PPP was in power from 2008 to 2012, followed by the PML(N) from 2013 to 2017, and then the PTI from 2018 to 2022. According to these facts and figures, the previous PTI administration was responsible for accruing the most amount of external debt. For the purpose of achieving sustainable economic development, maintaining sustainable levels of foreign debt, and thus decreasing pressure on the economy as a whole, it is important to implement a cautious approach consisting of consistent coordination of fiscal and monetary policy.

5.1 Recommendations for Policymakers and Stakeholders

According to the findings of this research, the following debt management policy suggestions should be considered:

a) The government of Pakistan has to keep up its honest fight to build up the necessary technical expertise on public management structures. This will enable the government to more effectively monitor the accumulation of debt and put in place proper methods of fiscal management.
b) Robust financial institutions that steer local savings in the nation towards investment, which, in turn, will stimulate economic expansion.
c) The government of Pakistan need to place its primary emphasis on improving the quality of governance by building powerful institutions. This would unquestionably contribute to the fight against corruption and would increase the efficiency of the government.
d) It is strongly recommended that any and all forms of borrowing be rigorously avoided, while those types of loans that are essential should be used in those developmental initiatives that are more productive.
e) Efficient policies that may support investment, development projects, and sustainable energy policies have to be established in order to meet the need. Through the implementation of investment-friendly policies, more FDI should be channeled into projects that would provide greater returns.
f) The economy of Pakistan ought to be one that is driven to expand by exports, rather than one that is driven by imports. The burden of the current account deficit will be lightened as a result of this.
g) The system of taxation has to go through necessary reforms in order to increase revenues generated via taxes and bring the gap in the fiscal deficit down.

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