IMF, Pakistan and $73b deadly debt trap

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Pakistan's external debt is continuously rising with alarming speed. In Feb 2008, when the new civilian government came into power, the country was facing a default like situation. After securing Stand By Agreement (SBA) worth $ 11.3 billion with IMF in Nov 2008, the PPP government though saved itself from immediate collapse but the country is caught in deadly debt trap-burgeoning external loans of $52 billion by December 2009 and domestic debt of Rs. 3.8 trillion.

Pakistan's total external debt is likely to further grow by more than 43 per cent over the next five years, to about $73 billion in 2015-16 from about $52 billion early this year. According a recent report released by IMF, Pakistan's foreign debt will increase by about 13 per cent, to $57.1 billion by the end of the current fiscal year and is estimated to increase by 12.3 per cent, to $64 billion by the end of the next fiscal year. IMF's estimate suggests that the external debt will further increase in 2011-12 and cross $72.6 billion in 2015-16.

The Asian Development Bank will have the single largest share in the external debt, which will increase from $9 billion in July last year to about $15.8 billion in 2015, by more than 75 % in five years. The World Bank debt will increase by about 29 per cent from $12 billion to $15.5 billion by 2015. Bilateral debt is likely to increase by 96 per cent from the current $16 billion to $31.28 billion in 2015-16.

The debt trap is a multifaceted phenomenon. Like many other poor countries of the world, Pakistan too, since its inception, has repaid debts (through repayment and debt-servicing) many times more than the amount, it owed to multi-lateral and bilateral creditors. But still the payable debt is very much there and growing. Pakistan has sold out a number of its strategic assets to repay debts. During the last 16 years it has sold out 116 state owned enterprises earning an amount of over Rs. 395 billions and rendering half a million workers as jobless.

Pakistan's public debt has exceeded 90 percent of its GDP and debt servicing accounted for over half of current revenues. Now on the dictates of IMF the current PPP government is levying more and more taxes and making the lives of common people miserable. A most oppressive Value Added Tax is under way going to replace the Sales Tax. Severe pressure from IMF is mounting up to impose VAT if Pakistan really wants to get released 5th tranche under SBA.

The official figures, released by the State Bank admit that in addition to external debt of over US$52 billion, the government has borrowed Rs. 3851 billion from the Pakistanis-horrifying figures as billions of rupees are now required just for debt servicing. There has been a lot of hue and cry about the foreign debt but the official economists and political leaders do not utter a single word about outrageous internal indebtedness. They try to hide the fact that we are now diverting nearly 42 percent of our revenue collection towards domestic debt servicing. Thus contrary to the popular perception that debts drive development it has proved bottlenecks to true development.

Per Fiscal Responsibility and Debt Limitation Act, 2005, the government was supposed to reduce its foreign debt by 2.5 percent of GDP every year but successive governments/regimes miserably failed to do the same, blaming it on the global economic meltdown, slow foreign investment and poor economic activities on the domestic front.

The IMF conditionalities have aggravated the inequalities of income and wealth and resulted in more unemployment. These have caused more harm to us rather than doing anything really good. It is, therefore painful to note that every government in Pakistan continues to take loans by accepting and complying with harsh IMF conditionalities.

For instance under current SBA, Government of Pakistan has agreed to 11 strict IMF conditionalities. Worst among these are elimination of all sorts of public subsidies, reduction in budgetary allocation for social sector from 60 % to 45 %, depreciation of Pak currency to further 6-7 per cent, non-interference in financial matters of Stock exchanges and imposition of VAT etc.

It is not only IFIs but the misappropriation of foreign funds by the local ruling class has aggravated the debt situation. The successive governments/regimes in Pakistan ruthlessly abused foreign lending and never tried to live within their means-the way our civil-military bureaucrats, politicians spend national resources on their luxuries is unprecedented in the entire world. The on-going financial crisis is a logical outcome of the wrongdoings of the last many decades.

During Musharraf’s rule, Debt Reduction & Management Committee (DRMC) was constituted with tall claims to come out of the debt trap within a short span of time. Nobody knows what DRMC did in practical terms for which it was constituted- though like many other such bodies and institutions, it compiled a report about Pakistan’s debt scenario explaining the technical differences between “debts” and “liabilities” and how these should be recorded in government books.

There is little hope to come out of debt enslavement in the near future-to stop looking towards International Monetary Fund, (IMF), World Bank, Paris Club, London Club and Asian Development Bank (ADB)-unless a well-thought pro people welfare-based plan is devised implemented for self-reliance. There are no signs yet for the civil-military bureaucracy and public office holders to stop squandering foreign funds, wasting public money and plundering national wealth.

The rationale of seeking more and more debt for curing the evils caused by the mounting debt itself is simply beyond comprehension. The only alternative is to stop taking fresh loans, identify illegal odious loans and refuse to pay the same. At the same time we must mobilize all our resources-our annual tax revenue potential alone is not less than Rs. 4 trillion. If we manage to generate resources of Rs. 5-6 billion per annum and cut unproductive expenditure to the extent of Rs. 600-800 million, reduce our military budget, we will be able to come out of this debt trap within a decade or so.

On the other hand parallel radical efforts are urgently needed to launch a public awareness campaign to understand deceitful financial policies and doubtful debt politics of the IFIs. Contracting debt agreements with IFIs and other financial institutions is usually seen as a success of the government. Only few realize the pitfalls in the way of debt agreements. Progressive forces should come forward to build pressure on IFIs to abolish odious debt and convince government to show political will by refusing to pay illegal debts.

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