Urgent debt relief needed as Pakistan faces perfect debt trap

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The indicators of a severe debt crisis were already present in Pakistan long before the Covid-19 crisis hit. Coordinated efforts by CSOs all round the world are needed to ensure that countries like Pakistan are not left alone dealing with its impact.

The indicators of a severe debt crisis were already present in Pakistan long before the Covid-19 crisis hit. The pandemic has merely served as a detonator of a structural crisis. After years of being under a neo-liberal offensive, Pakistan's debt burden has soared. Although the International Monetary Fund (IMF) classifies Pakistan as a country at low risk of debt distress, the reality is that the country already finds itself in a situation of debt distress, according to the Jubilee Debt Campaign's Debt Data Portal.

The G20 Debt Service Suspension Initiative (DSSI) that was announced in April is a positive gesture but can hardly be seen as a step forward. The DSSI simply represents the short-term postponement of payment, instead of the actual cancellation of debt obligations. Furthermore, the DSSI only contemplates the binding involvement of bilateral official debts. Participation of the private sector and multilateral organisations has remained voluntary. In the case of Pakistan, this means that a large share of the external debt owed by the country is effectively excluded.

For Pakistan, the G20 DSSI provides a temporary debt suspension for eight months, involving up to US$ 1.8 billion in postponed debt payments. This is just a drop in the ocean. During such testing times, nothing is more draconian than forcing a country to contract further loans to finance the emergency response to Covid-19. Pakistan has been forced to do so in significant amounts. The IMF provided the country with a US$ 1.4 billion loan under the Rapid Financing Instrument facility. In addition, a consortium of multilateral institutions, composed of the World Bank (WB), Asian Development (ADB) and Asian Infrastructure Investment Bank (AIIB) have signed agreements to provide loans to the country of up to US$ 1.75 billion.

Bullying behaviour from IFIs

In response to these challenges, Pakistan has adopted an outspoken position on the need for debt relief to poor countries. As a result, it has faced pressure from international financial institutions (IFIs) and Credit Rating Agencies (CRAs). CRAs have threatened Pakistan with credit risk downgrades for addressing the issue of debt justice. The debt problems of the country have also become an issue of global geopolitics. In a contradictory position, the US has simultaneously opposed Pakistan's call for comprehensive debt relief at the United Nations (UN) while it demands that China cancels bilateral loans extended to the country, as they are considered unsustainable and unfair.

In this context, Pakistan is projected to need US$ 27.8 billion to meet external debt service payments between September 2020 and June 2023. This figure includes payments for US$ 19.4

billion to the IMF, WB, ADB and China (CPEC loans). The external debt of the country stands at US$ 111 billion. Of this figure, 48.4 per cent is owed to bilateral official creditors, 38.1 per cent to multilateral creditors and 9.4 per cent and 4.1 per cent to unofficial and private creditors, respectively.

Working classes have been forced to bear the effect of this mounting debt burden through indirect taxation. The economy of Pakistan is currently in intensive care. However, IFIs and CRAs present a rosy picture under the garb of self-serving interpretations of debt sustainability. How can a country like Pakistan – with negative Gross Domestic Product (GDP) growth (for the first time in 70 years), 45 per cent of the population living below the poverty line, 12 per cent inflation rate and a debt-to-GDP ratio of over 80 per cent – have the ability to pay back over US$ 1 billion per month?

Pakistan's economy is heading towards crisis

Pakistan is in a perfect debt trap. Its economy is running purely on debt. Obviously, this will not be sustainable for long. Sooner rather than later it will come to the inevitable – default. Without urgent and significant debt relief from all creditors, coupled with local actions such as a public debt audit and a massive reduction in non-development expenditures, it will be hard for Pakistan to avoid a default.

Going forward, all global creditors need to stop dragging their feet and move towards urgent and comprehensive debt cancellation and relief for Pakistan and all other developing countries in need. Support must come free from the type of institutional bullying that has characterised 'help' in the past, including extensive use of policy conditionalities, blackmailing and asset stripping. A comprehensive solution must include at least three basic components:

1. **Fresh loans even to respond to the Covid-19 crisis must be stopped**. All external debt service payments on bilateral, multilateral and private debts owed by Pakistan should be suspended at least until June 2023.
2. **Comprehensive sovereign debt relief must follow the initial debt suspension phase**. Debt relief should follow the structure of the assistance offered by the global community to Germany in 1953.
3. **Independent debt audits must be considered an integral component of comprehensive sovereign debt relief**. Audits should take place at the national level and should be responsible for the assessment of the legality of all the previous loans. The results of the debt audits would then inform the process of cancelling illegitimate and odious debts.

Coordinated efforts by CSOs all round the world are needed to ensure that these measures are adopted and countries like Pakistan are not left alone dealing with the impact of the crisis.

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P.S.

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http://www.cadtm.org/Urgent-debt-relief-needed-as-Pakistan-faces-perfect-debt-trap