

PAKISTAN'S ESSENTIAL ECONOMIC CRISIS

Existential Economic crisis:-

There is a major real danger that Pakistan will default on its debt, which could lead to intensifying the political turmoil already surging terrorism.

Pakistan's stability increasingly depends upon the outcome of an ever-worsening economic crisis, the country is facing the risk of default due to its massive current debt obligations.

This burden has been exacerbated by the derailment of the \$6.5 billion IMF program Pakistan entered in 2019, as the int'l lender is unsatisfied with Pakistan's commitment to reform and ability to arrange for funds to meet external financing requirements. Troublingly, Pakistan's official foreign exchange reserves are hovering around \$4 billion which is insufficient to finance even a one-month of the country's import bill.

Can Pakistan recover from the economic debt?
To determine, it is important to consider:

1. The composition of Pak's overall external debt
2. Repayment pressure on the debt in both the short- and medium-term.
3. Potential inflows that can offset the debt outflows; and
4. Pakistan's external debt management strategy

1. PAKISTAN'S DEBT COMPOSITION - and the Terms on the debt

As the December 2022, Pakistan holds external debt and liabilities of \$126.3 billion nearly 77% of the debt, amounting to \$97.5 billion is directly owned by the government of Pakistan to various creditors, an additional \$7.9 billion is owned by Government-controlled public sector enterprises to multilateral creditors.

Who are these creditors? Pakistan's creditors fall in four broad categories;

multilateral debt

Paris club debt

Private and commercial loan

Chinese debt

MULTILATERAL DEBT:-

- A major share of Pak's debt is owned to multilateral institutions, amounting to roughly \$ 45 billions
- Islamabad's main multilateral creditors include the World Bank (\$18 billion), the Asian Development Bank (\$15 billion) and the IMF (\$ 7.6 billion).
- Pakistan owes smallest amount of the Islamic Development Bank and the Asian Infrastructure Investment Bank as well.

While a significant amount of Pakistan's total debt, multilateral debt doesn't present major short-term risks of Pak. The terms of most loans are largely concessional with a payment timeline spanning 18 to 30 years; most payments are spread in many small transactions. In 2022-23, Pak repaid a total \$ 4.5 billion debt to multilateral creditors, which is a fifth of the total debt payment for the year.

PARIS CLUB DEBT:-

- Pakistan owes \$ 8.5 billion to the Paris club, a group of 22 major creditor countries.
- This debt is ~~staggered~~ scheduled to be repaid over 40 years with less than 1% interest rate, and is mostly owed to Japan, Germany, France and the United States.

PRIVATE DEBT & COMMERCIAL LOAN:-

Pakistan holds a large amount of private debt; much of this is in the form of private bonds, such as Eurobonds and global sukuk bonds, amounting to the \$ 7.8 billions

Some of this debt is recent: In the last five years, Pakistan raised \$2 billion by floating Eurobonds of 5, 10, and 30 years at an interest rate ranging from 6 percent for five years and 8.87 percent for the 30 years

→ Pakistan holds foreign commercial loans to the tune of nearly \$7 billion which is likely to increase to nearly \$9 billion by the end of the current fiscal year.

→ Much of Pakistan's commercial loan stock is used owed to Chinese financial institutions, as Pakistan has rapid major non-Chinese commercial loans of institutions.

* Most commercial loans come with steep terms; they have to be repaid to the lenders between one of three years. The rates on the loans are high as well.

* Some are benchmarked against the London inter-bank offered rate (LIBOR). Others, like Chinese commercial loans, are pegged against the Shanghai inter-bank offered rate (SHIBOR).

* For example, the Pakistan recently obtained a \$2.2 billion commercial loan from the China Development Bank at six-month SHIBOR rate plus 1.5 percent.

This loan is to be repaid over a three-year period.

CHINESE BILATERAL DEBT

- Pakistan holds around \$27 billion of Chinese debt
- This includes around \$10 billion of bilateral debt and \$6.2 billion in debt provided by the Chinese government to Pakistani public sector enterprises, and Chinese commercial loans of around \$7 billion.
- In addition, China's State Administration of Foreign Exchange (SAFE) has placed \$4 billion worth of foreign deposits with Pakistan's central bank. The bilateral debt is on concessional terms with a maturity period of 20 years. In addition to the \$27 billion in the debt, Pakistan also has a currency swap facility with the Chinese.

2 SHORT- and MEDIUM-TERM DEBT

REPAYMENT PRESSURE

- Pakistan's large external debt comes with considerable repayment pressure.
- From April 2023 to June 2026, Pakistan needs to repay \$77.5 billion in external debt. For a \$350 billion economy, this is a hefty burden. The major repayments in the next three years are to Chinese

financial institutions, private creditors and South Africa.

* Pakistan faces near-term debt repayment pressure

* From April to June 2023, the external debt servicing burden is \$4.5 billion.

The major repayments are due in June when a \$1 billion Chinese SAFE deposit and a roughly \$1.4 billion Chinese commercial loan would mature.

Pakistani authorities hope to convince the Chinese to rollover both debts, something the Chinese government and commercial banks have done in the past.

* Even if Pakistan manages to meet these obligations, the next fiscal year will be more challenging, as the debt will rise to nearly \$25 billion.

* This includes \$15 billion of short-term loans and \$7 billion in long-term debt, including a vital \$1 billion repayment on a Eurobond in the fourth quarter.

* The short-term debt repayments include \$4 billion Chinese SAFE deposits, \$3 billion

Saudi deposits and \$2 billion UAE deposits.

Separately, Pakistan will need to repay another \$1.1 billion of long-term commercial loans to Chinese banks.

→ In 2024-25, Pakistan's debt servicing is likely to be \$24.6 billion, which includes \$8.2 billion long-term debt repayments and another \$14.5 billion short-term debt repayments; This includes major repayments to Chinese lenders of \$3.8 billion.

→ In 2025-26 the debt servicing burden is likely to be at least \$23 billion; That year Pakistan is to pay back \$8 billion to long-term debt, including repaying \$1.8 billion for a Eurobond and \$1.9 billion to Chinese commercial lenders.

3 EXPORTS, INVESTMENTS and REMITTANCES

— and PAKISTAN'S REPAYMENT CALCULUS

In order to repay its debt and avoid a sovereign default, Pakistan's earnings from exports, foreign direct investments and remittance inflows from foreign workers are vital.