

Q= What is concept of Public debt?
Explain dimensions for Tackling
debt problem of developing countries
like Pakistan?

A= **Introduction**

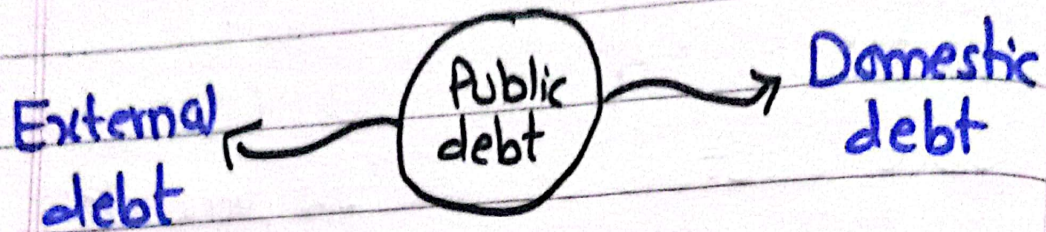
Public debt is one of the major
daunting issues, which are being
faced by developing countries. Pakistan
is also the victim of public debt
problem. The galloping size of public
size of public debt is worsely
affecting the economic growth and
development of developing countries

Concept of Public Debt

Definition.

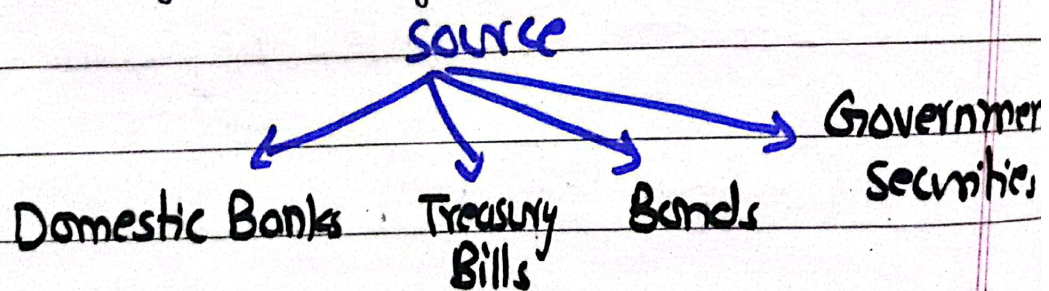
Public debt refers to the
amount of money borrowed by
the federal government of a
country in order to meet the gap
between its revenue and expenditure.

Public debt is associated with the government entities which borrow to finance their country's needs. Public debt can be categorized as



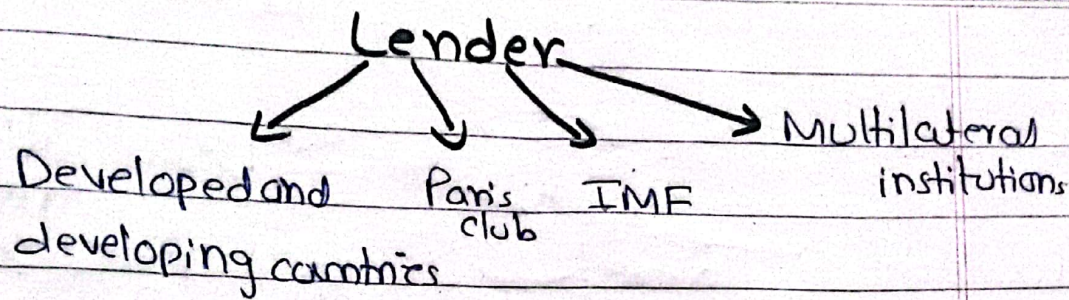
Domestic Debt

It refers to the amount of debt borrowed within the country from domestic lender or through issuing of bonds or securities.



External Debt

It refers to the that part of public debt that is taken from foreign lenders. The lenders can be



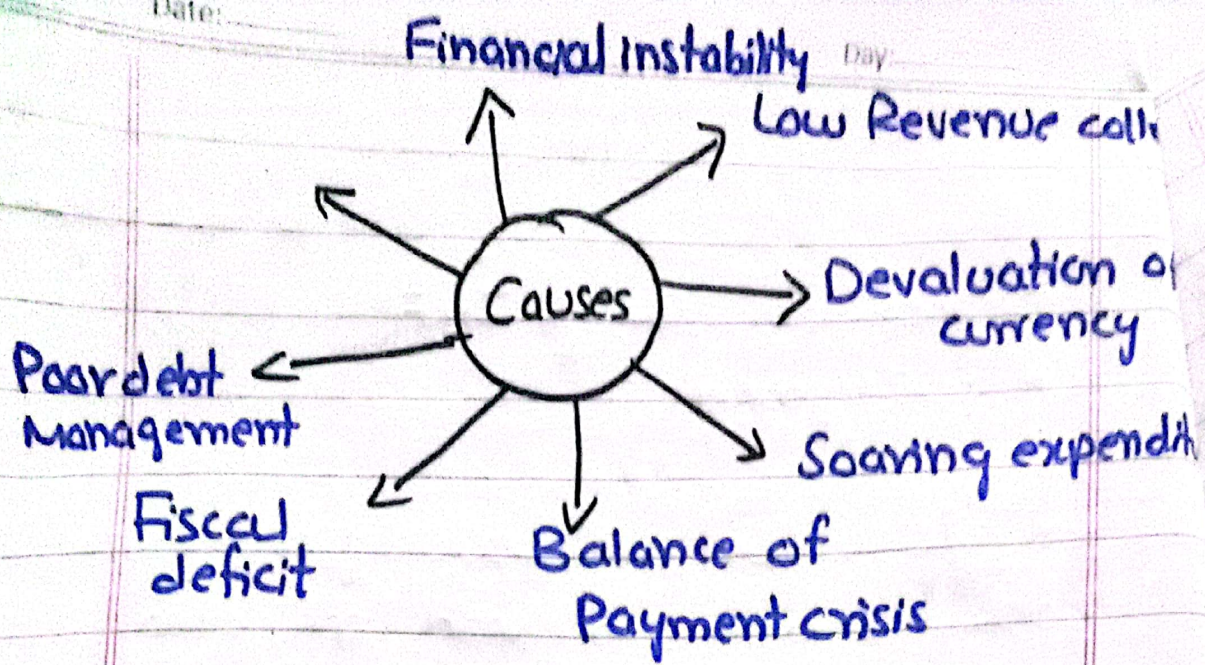
Public debt are usually categorized as short term and long term debt.

Short term → Maturity time less than a year

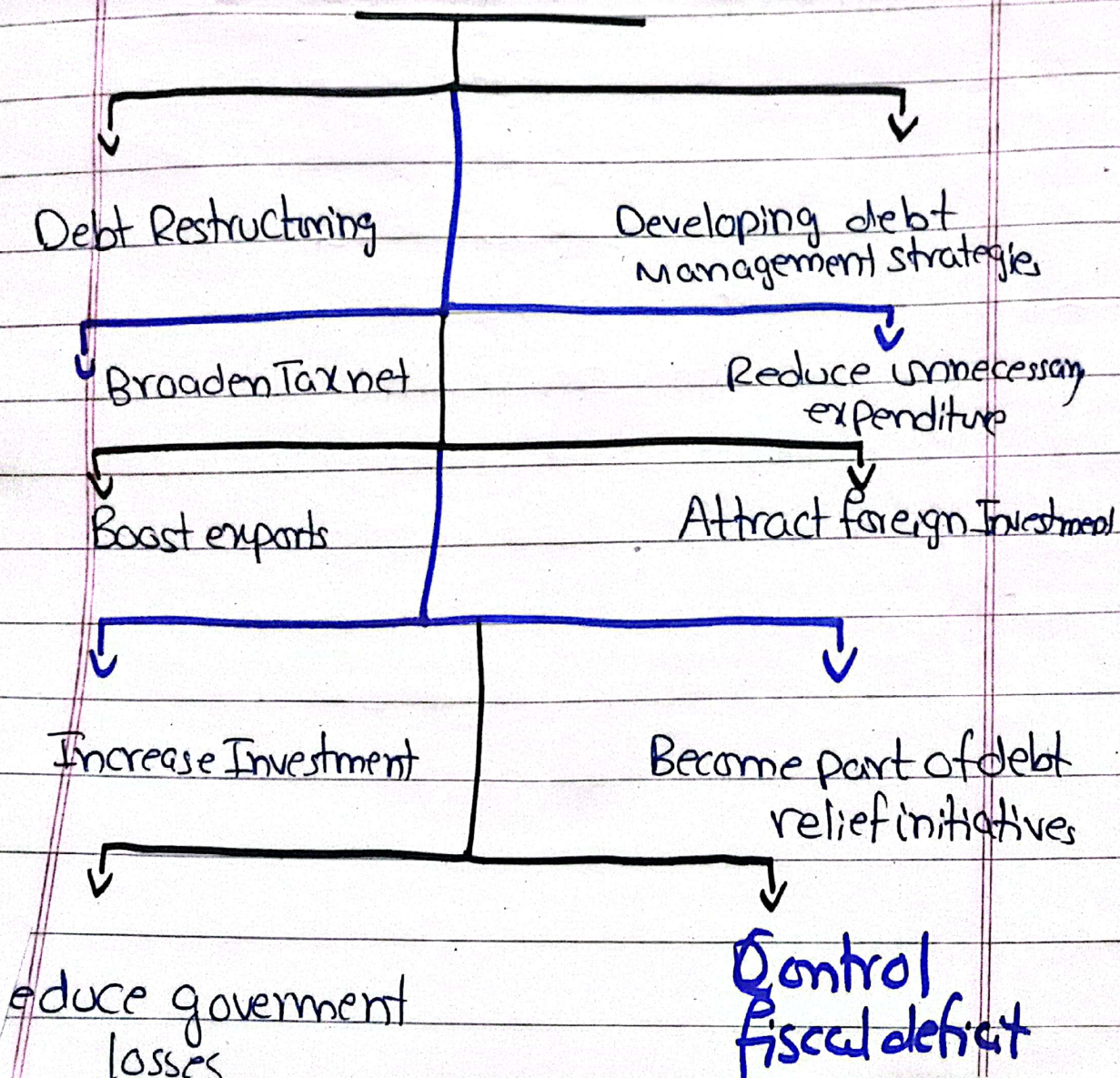
Long term → Maturity time greater than a year.

Moreover, public debt has both positive as well as negative ramifications. On **positive side**, it helps country to bridge up its fiscal deficit, increase spending on social services etc. While, on **negative side**, it leads to debt cycles, economy slowdown, debt and mark up burden etc.

There are different factors contributing to rise in public debt

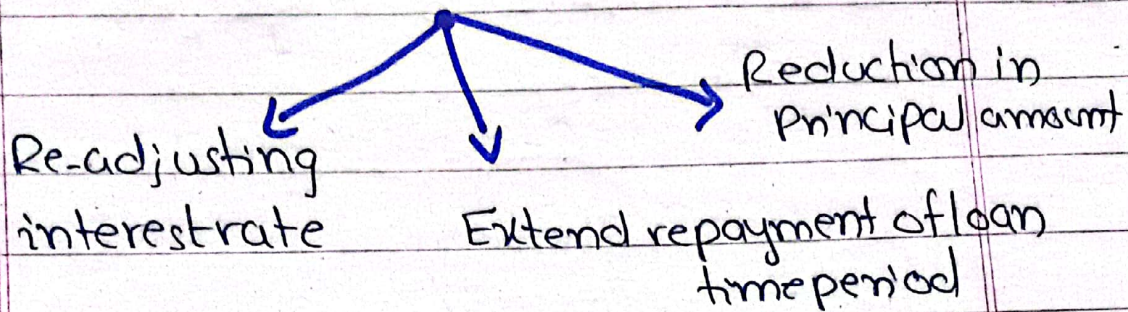


Dimensions to tackle Public Debt



Debt Restructuring

Debt restructuring is vital to tackle the menace of public debt. It involves negotiating with lenders for

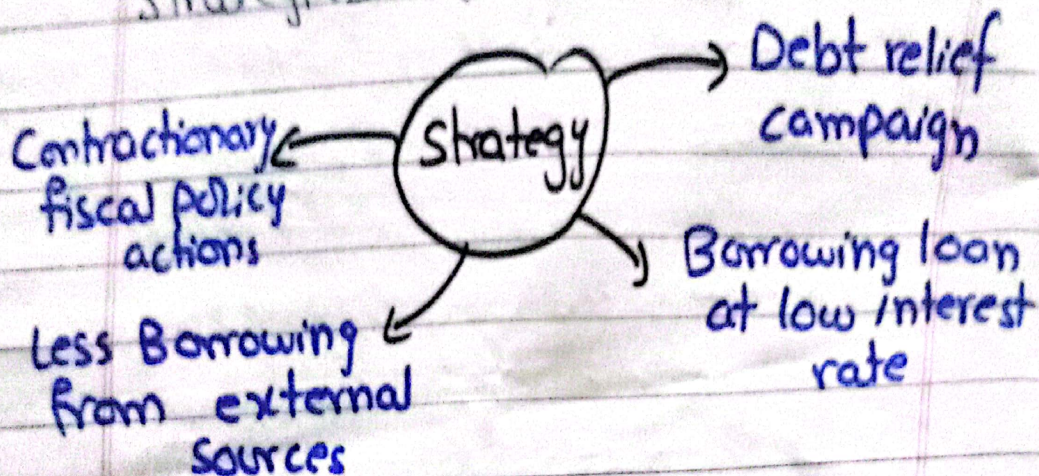


Developing countries like Pakistan can resolve debt issue through debt restructuring, reprofiling or debt roll over.

Pakistan total debt has reached to **77 billion Rs** in FY24. While, external debt and liabilities out of this total debt amounts **124.5bn\$**. Pakistan has negotiated with **China** for the rollover of its debt owed to Pakistan for 3 years as per **IMF demand** for securing a new loan package.

Developing Debt Management Strategies

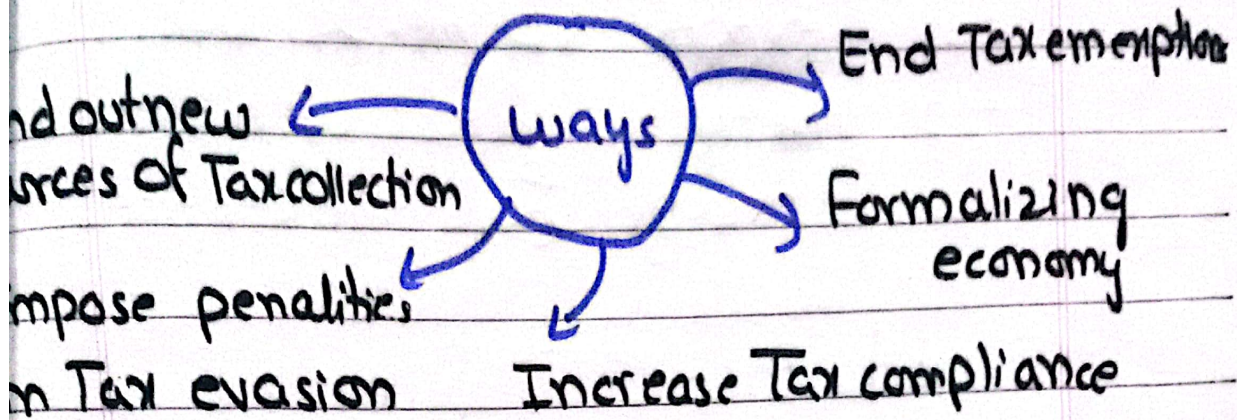
Developing countries like Pakistan can deal with debt problem through developing comprehensive debt management strategies. like



Broaden Tax Net

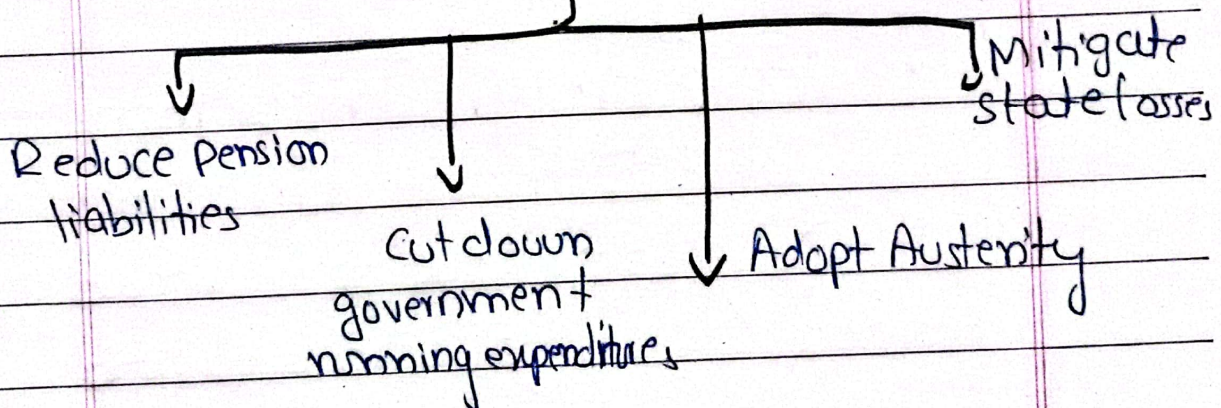
In Pakistan, one of the major cause of public debt is low revenue which is result of narrow tax base. Pakistan tax to gdp ratio is 9.5% which is less than the benchmark of 15% set by World bank that is necessary for economic

growth of a country. Developing countries can wide the tax net:



Reduce Unnecessary Expenditures

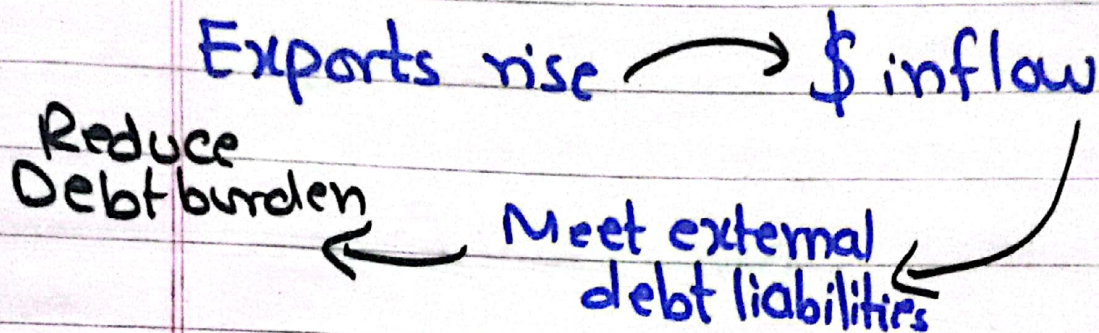
Moreover, by cutting down the unnecessary expenditures, fiscal deficit can be narrowed down. In this regard



In this way, public debt issue can be resolved to some extent.

Boost Exports

Developing countries should boost exports volume. It will help them to deal with debt crisis through following channel:



There is a dire need of increasing Pakistan export volume from 30 bn\$ to at least 60-70 bn\$ in upcoming years.

Attract Foreign Investment and Domestic Investment

Developing countries should increase foreign and domestic investment volume. It will

Generate revenue \rightarrow Reduce fiscal deficit

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graph TD; A[Generate revenue] --> B[Reduce fiscal deficit];
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Moreover, foreign investment will help to meet dollar crisis that can be used to repay loan. Pakistan has **13.6%** Investment to GDP ratio which is not compatible with South Asia having average of 30%.

Debt Relief Initiative

Countries need to become part of global debt relief initiatives like

Highly Indebted Poor
developing countries

Multilateral debt
sustainability initiative.

By becoming part of these initiatives, developing countries can mitigate their public debt prudently and sustainably.

Reduce Government Losses

There is a dire need of reducing government owned enterprises losses. These losses paves way for countries to borrow loan to meet up these deficits. It burdenizes debt profile of country. Pakistan is also bearing state owned enterprise losses and faced **loss of 1.3 bn** in FY22 and FY23. There is need to privatize these enterprises for mitigating losses.

Mitigate Fiscal Deficit

Countries should try to bridge up gap between **Revenue** \longleftrightarrow **Expenditure** by opting above mentioned strategies.

Less Fiscal Deficit \rightarrow **Less Borrow**

In FY 23, Pakistan fiscal deficit was 6.8%. while in FY22, it was 7.7%. In FY25, it has set target of 6.9%. Pakistan has to narrow it with every passing year for getting rid of public debt.

Conclusion

Public debt is monstrous for developing nation's economic prosperity. For getting rid of this giant and grave issue, developing countries have to take some stern initiative, and adopt a pragmatic approach for resolving public debt crisis in near future.