



PAKISTAN'S INITIATIVE ON DEBT RELIEF

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(Views expressed in the brief are those of the author, and do not represent those of ISSI)



On April 12, 2020, Prime Minister Imran Khan requested the world for providing debt relief to developing countries engaged in a battle with coronavirus. In his address, Prime Minister Imran Khan stated, “I appeal to world leaders, to UN Secretary General (Antonio Guterres) and to heads of the financial institutions, to launch an initiative, an initiative that will give debt relief to developing countries to combat the coronavirus.”¹ Prime Minister Imran Khan pointed out that the developing countries with very high debt to GDP ratio already lack fiscal space in order to invest in proper healthcare facilities necessary for fighting the pandemic.

In the midst of the current situation when the whole world is focused on overcoming the coronavirus, the developing countries with heavy debts are the most vulnerable. The World Bank has already termed the pandemic as a perfect storm for South Asia. There’s a risk that the decades’ performance of taking people out of poverty will be reversed. South Asia is home to 1.8 billion people where more than 600 million people already live in poverty.² It has the world’s most densely populated cities with improper infrastructure and lacking basic health facilities. The lockdowns are already affecting thousands of people pushing them below the poverty line. Daily wage workers are severely being affected. The biggest challenge for developing countries like Pakistan is to save people not only from dying due to coronavirus but also from hunger.

¹ Amir Waseem, “PM Imran Khan asks world for debt relief in war on COVID-19”, *Dawn*, April 13, 2020, <https://www.dawn.com/news/1548748/pm-imran-asks-world-for-debt-relief-in-war-on-covid-19>

² “South Asia: As COVID-19 spreads, fears rise for people at higher risk”, *Amnesty International*, March 26, 2020, <https://www.amnesty.org/en/latest/news/2020/03/south-asia-as-covid19-spreads-fears-rise-for-people-at-higher-risk/>

A major chunk of the Pakistan's budget is spent on loan repayments and debt servicing, leaving a meager amount for health expenditure. In September 2019, Pakistan's external debt and liabilities stood at \$107 billion and it paid \$11.6 billion in FY2018-19 to service these loans.³ According to an IMF report, Pakistan has \$12.731 billion of external debt repayment obligation in 2021.⁴ Moreover, it owes \$6.744 billion to non-Paris Club bilateral creditors, of which \$3.48 billion is to China, \$2.245 billion to Saudi Arabia and \$1 billion to the UAE and \$1.627 billion to multilateral creditors such as the World Bank (WB) and the Asian Development Bank (ADB).⁵ Pakistan's exports have dropped and the remittances are also expected to drop as the economic activity around the world has come to a halt. This will put further pressure on Pakistan's current account. However, the imports have also declined and it is expected that the trade deficit would contract by \$2 billion during current fiscal year, according to IMF's recently released data.⁶ The exports are expected to drop by \$1.86 billion to \$23.732 and imports may reduce by \$4.64 billion to \$48.291 billion during Fiscal Year 20.⁷

Considering the current economic scenario all over the world, the G-20 countries have decided to give debt relief to 76 International Development Association (IDA) borrowing countries including Pakistan which have poor economies and will be facing grave economic consequences due to the ongoing pandemic. It has been agreed that all the debts falling due during May 1 till December 1, 2020 will be suspended and packaged into new loans for which the payments will not start before June 2022.⁸ The payments would then be made over the subsequent three years. However, according to the IMF's Resident Chief in Pakistan, Teresa Daban Sanchez, the G-20 debt relief announcement is a bit complex and unclear and the countries need to first apply in order to be considered for debt relief rescheduling.⁹ So far none of the countries eligible for the debt relief including Pakistan have applied for debt relief.

The G-20 debt relief initiative is a step in the right direction and important for Pakistan considering that the country took a \$6 billion bailout package last year from IMF. The economy was already

³ Baqir Sajjad Syed, "Pakistan welcomes G-20 decision to suspend debt servicing for 76 countries", *Dawn*, April 17, 2020, <https://www.dawn.com/news/1549894/pakistan-welcomes-g-20-decision-to-suspend-debt-servicing-for-76-countries>

⁴ Ibid.

⁵ Khurram Husain, "Pakistan included in G-20 Debt Relief plan", *Dawn*, April 16, 2020, <https://www.dawn.com/news/1549599/pakistan-included-in-g20-debt-relief-plan>

⁶ Imran Ali Kundi, "Trade deficit projected to contract by \$2b during current fiscal year", *The Nation*, April 21, 2020, <https://nation.com.pk/21-Apr-2020/trade-deficit-projected-to-contract-by-dollar-2b-during-current-fiscal-year>

⁷ Ibid.

⁸ Khurram Husain, "Pakistan included in...", *Dawn*, April 16, 2020, <https://www.dawn.com/news/1549599/pakistan-included-in-g20-debt-relief-plan>

⁹ "Going forward in COVID-19 times: Pakistan has not so far applied for debt relief from G20 countries", *The News*, April 20, 2020, <https://www.thenews.com.pk/print/647591-going-forward-in-covid-19-times-pakistan-has-not-so-far-applied-for-debt-relief-from-g20-countries>

crippled due to the severe austerity measures and high indirect taxes affecting the poor and the working class the most. With the economy at halt, the unemployment in the country has increased severely, pushing more people into poverty. Hence, Prime Minister's debt relief initiative was timely and will give some breathing space to an ailing economy of Pakistan. However, the government needs to come up with a coherent strategy in order to make the most of this debt relief package and effectively tackle the impact of coronavirus.