INSTITUTE OF
STRATEGIC STUDIES

web: www.issi.org.pk
phone: +92-51-9204423, 24
fax: +92-51-9204658

Executive Summary – Webinar

"Providing Debt Relief: Time for Solidarity"

June 1, 2020

Rapporteurs: Mahrukh Khan and Sarah Akram *Edited by: Najam Rafique*

Pakistan is facing a dual challenge of overcoming the pandemic and saving people, particularly the most vulnerable segments of the population, from economic deprivation and hunger due to lockdown. On the other hand, the country's total external debt stands around $105 billion, and the pandemic response will drive it further higher. Just the mark-up paid on external debt will exceed Rs. 300 billion for 2020. Pakistan will require around $15 billion in the next fiscal year to take care of the needs in the absence of the exports and remittances and shortfall that would come from the FBR revenue. Even under these challenging circumstances, the GOP has already provided an $8 billion package under the 'Ehsaas cash distribution programme' to support people and businesses affected by the lockdown in the country due to coronavirus.

In April 2020, Prime Minister Imran Khan appealed for a "Global Initiative on Debt Relief" for developing countries who face unprecedented health and economic challenges across the world where thousand have already lost employment, and millions are in danger of becoming unemployed. The Global Initiative on Debt Relief seeks to bring together stakeholders on a single platform to promote coordinated health and economic response and aims at laying ground for urgent debt relief to the developing countries by providing them fiscal space and financial relief through enhanced debt relief and restructuring without arduous conditionalities.

In order to discuss Prime Minister Imran Khan's Global Initiative on Debt Relief, the current economic situation emerging out of the pandemic and to dwell on possible solutions, the Institute of Strategic Studies Islamabad (ISSI) organized a webinar titled "*Providing Debt Relief: Time for Solidarity*" on June 1, 2020.

Dr. Salman Shah, Advisor on economic affairs and planning to Chief Minister, Punjab, was the Keynote Speaker at the occasion. The webinar comprised an eminent panel of speakers including: Mr. Farrukh Iqbal Khan, Director General (UN), Ministry of Foreign Affairs; Dr. Usman Chohan, Director, Economic Affairs & National Development, Centre for Areospace & Security Studies; Dr. Abid Qaiyum Suleri, Executive Director, Sustainable Development Policy Institute, Islamabad, Mr. Humayun Akhtar Khan, Chairman & CEO, Board of Institute for Policy Reforms, Lahore; and Dr. Muhammad Iftikhar ul Husnain, HoD Economics, COMSATS University, Islamabad.

The experts at the webinar highlighted that the pandemic has led to economic stagnation and is leading the world towards a global recession far worse than the Great Depression of the 1930's. With current account and fiscal deficits, falling exports, faltering service and production industries, failing businesses, and laboring national budgets, debt overload will be a global phenomenon and the developing countries will be gravely affected by this more than others. It was a unanimous perceptions that all stakeholders must come together to defeat this challenge and reach common solutions.

Challenges

1. Finding finances to meet emergent expenses.
2. Tradeoff between saving lives or the economy.
3. Ensuing strict lockdown to save lives at the expense of weakening the economy.
4. Growing unemployment.
5. Falling exports
6. Dwindling remittances.
7. Food insecurity, made worse by locusts infestation.

Recommendations

- Pakistan needs to be watchful of going to private creditors who profit from the distress of sovereign governments.
- Create a Central Credit Facility on the lines by Lee Buckheit and Mitu Gulati.
- Pursue debt suspension/rescheduling rather than debt relief since it would not be possible for the international financial institutions to completely write off debts.
- Ensure sustainability of economic growth through independence of the sectors, business and households.

- Ensure continued trade.
- Follow an expansionary fiscal policy.
- It is pivotal that Pakistan decides that whatever relief it gets, must be spent on the health sector.
- Ensure that systems are in place for food security for masses during the crisis.
- Experiment with minimum universal social protection with a particular focus for free health care.
- Tax relief for the SMEs.
- Create non-debt capital inflows from abroad.
- Join hands with the emerging economies for medium-term debt relief by 2023-24.
- Ensure strict lockdown, allowing economic activity only for the most essential services and supplies.
- Address structural flaws in economic decision making, i.e. diverting higher amount of funds for mark-up payment at the expense of essential services or projects.
- Pakistan may wish to review if it prefers to be part of a multilateral effort, which may take years, or independently approach important capitals directly.
- Reviving the economy from the deleterious effect of the virus, will require more debt. Perhaps with the help of US and China, Pakistan may find additional fiscal space.
- Covid crisis is not going away soon. Need for long-term solutions to adjust with the new normal including socio-economic lifestyles, new production scenarios as well as trade relationship between the countries.
- The government should be prepared to handle massive unemployment situation in the country which is not just an economic problem but also a social problem.

- In the sector of remittances, the government needs to take measures to incorporate unemployed people abroad like in the Gulf, into the routine business.
- Make policies that are focused on new exports that are need of the new times and not the traditional exports.
- Reduce taxes, and make massive spending in different fields, including the health sector. Plan targets from 5-10 years for healthcare facility.
- As the production shrinks, the income compresses which compresses consumption which brings down investment, which in turn brings down production further. This is a vicious cycle that needs to be addressed very quickly.
- Growth has to be the driving force of the policy makers.
- While working on the budget, the government has to be mindful of the shortfalls of the remittances and the export side. This pressure will lead the revenue generation to go down, this ultimately means that if the budget has to be prepared under the IMF framework of fiscal restraint, development budget will have to be sacrificed, and perhaps the current budget has to be frozen.
- Infrastructure development will have to be the number one priority.
- Need to increase the timeframe for debt repayment to 15-20 years.
- Formulate a strategy and proposals on the issue of debt relief not only at the integrated global platforms, but also at bilateral platforms.