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Report – Webinar

"Providing Debt Relief: Time for Solidarity"

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The Institute of Strategic Studies Islamabad (ISSI) organized a webinar titled "*Providing Debt Relief: Time for Solidarity*," on June 1, 2020. The agenda of the webinar was to initiate a discussion on Prime Minister Imran Khan's Global Initiative on Debt Relief, Pakistan's current economic situation in the global pandemic crisis and to dwell on possible solutions.

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 discussion was moderated by Director Research, ISSI, **Mr. Najam Rafique**, who highlighted that in a battle to overcome the pandemic, the developing world has to contend with current account and fiscal deficits, faltering service and production industries, failing businesses, and laboring national budgets. With falling exports and remittances, balancing their budget will be an uphill task for many developing countries. He pointed out that the World Bank is already projecting the global economic growth to shirk by 5% this year and has warned that up to 60 million people will be pushed into "extreme poverty", which will erase all the progress made in poverty alleviation in the past three years. Under these circumstances, it is important that there be a unified global effort to implement Prime Minister Imran Khan's Global Initiative on Debt Relief.

In his introductory remarks, Director General ISSI, **Ambassador Aizaz Ahmad Chaudhry** stated that debt overload is a global phenomenon and the developing countries are gravely affected by this more than others. Moreover, the global crisis is deepening, even before the Covid pandemic, economic slowdown was in motion. He said that the present state of the world may be heading towards a depression, similar to that of the 1920's. As a result, the world trade is shrinking. The World Trade Organization (WTO) forecasts a $ 2 - 3 trillion financing deficit for the developing countries in the coming year which is an alarming situation. Ambassador

Chaudhry stressed that keeping in mind the changing world dynamics, it is time for solidarity. He highlighted Prime Minister Imran Khan's view in this time of calamity; an appeal that was also welcomed by the United Nations Secretary General. The idea is that all the stakeholders must promote coordinated health care and economic response. Some actions have already taken place like the G20 meeting in Riyadh that committed one year debt relief to the developing countries of $500 billion on an immediate basis. Similarly, the Prime Minister has urged the countries in the World Economic Forum (WEF) to come together to share the burden of the developing countries in this time of need. The same thought was also shared by the Prime Minister with countries of the Paris Club and other financial institutions. The most important aspect highlighted by Ambassador Chaudhry was the adverse effects this might have on Pakistan. He said that the situation is still vague and unclear, the lockdown has affected the country in every aspect, the GDP is shrinking, growth rates have gone down, and remittances have shrunk. The effect of the pandemic is wholesome, and it's a tough challenge. We must endeavor to defeat this challenge and reach common solutions. He pointed out that GDP is shrinking, exports are going down and we are heading towards a very challenging situation.

Dr. Usman Chohan spoke about the emerging market crisis and the adverse health and economic situation caused by the pandemic. He was of the view that health crisis and market slowdown are two parallel issues during this crisis. The lockdown has pushed many financial institutions, governments and households into a tight spot. As a result, factories are ceasing productions, restaurants are being closed, retail stores are closing, commodity prices have nosedived, remittances have shrunk and unemployment has become rampant. The scope of things, he predicted, are far worse than it was in 2008-09 and the developing countries have become more indebted as a consequence. However, there is a trade-off. Amidst the crisis, there is a moral and ethical debate parallel to the question of a lockdown and decreasing economy. The longer the lockdown is in place, the more intense the recession will be, debts will increase, and on the opposite, if you let people out early the recession will start to subside. Dr. Chohan highlighted that every sector of the economy is highly indebted; corporations which are financial like banks but the non-financial corporations as well like large multi-nationals, governments and people as households possess debts about 300% plus of GDP of the world. The developed countries are more indebted, but this belies the increase year on year in debt that has happened over the last few decades.

Similarly, the government debt has also doubled in Pakistan. He highlighted that the government debt has doubled to Pak Rs 70 trillion since the 2008 crisis; and the pandemic response will drive that further higher. For emerging markets, debt is very large in an absolute amount, there is $900 billion in debt that is coming due in a short-term horizon. Dr Chohan talked about the frontier market; as Pakistan used to be categorized as a frontier market as it got stable and grew. Pakistan's rise has been substantial but the categories of debt are very different; the financial corporate and government debt has swelled and non-financial corporate and state owned enterprises (SOEs) weighted average share of the GDP is large in the frontier markets. He was of the view that the frontier markets are particularly vulnerable in terms of the fragility due to their financial systems as well as the risk of default as they have much likely incidents of going bankrupt.

Dr. Chohan highlighted that the situation is worrisome in the current pandemic because in normal circumstances, the emerging markets would have been receiving flows of funds in billions of dollars and in general would have remained positive. And in the most recent quarter, one can see that this pattern has fallen to the floor. Hence the emerging markets faced a large loss of foreign portfolio investment. The crisis of today is more intense than that of the mini crisis of 2013 and 2015. For Covid-19, the drop has been slow and the non-portfolio flow has reached almost minus 100%. This situation makes it all the more important for the government of Pakistan to articulate the need for debt relief.

Dr. Chohan also spoke on the matter of temporary freeze by the G20 and the repayment of bilateral loan worth about $20 billion for 76 poor countries. He highlighted that it was a half-hearted relief by the G20 and they have urged the private creditors to do the same. He was of the view that while there is a moral understanding between the countries to work together and save the system, the private sector doesn't share or articulate the same values. This may lead to ad-hoc standstill and restructuring which asks for the debt relief effort to be subsumed within a larger movement and private sector has to be incorporated into that movement. Hence, the larger question is how much stimulus is required by the emerging markets? According to the International Monetary Fund (IMF), approximately $2.5 trillion are required to meet the need, while the approval to the stimulus remains at $67.1 billion, whereas some of the other multi-lateral organizations are following suit, but with smaller amounts.

Highlighting the risks of private creditors, Dr. Chohan stated that although the magnitude of the crisis remains high, but to go to private creditors is nothing but a risk as they profit from the distress of sovereign governments who are unable to pay debts. What happens is that a particular private company becomes as large as creditor for a certain country that it can dictate the structure of any relief or even how the restructuring is to be done at all. He cited examples of Franklin Templeton which is a large financial giant based in the US and has so many bonds in Ukraine that it has been able to dictate how things happen in Ukraine with questionable results. Similarly, Lebanon is another example, Ashmore a private creditor company own so much in Lebanon that they are willing to decimate the country. Lebanon is a nightmare scenario for Pakistan, there are people on the street, riots and the country is at the verge of collapse. Another example is Argentina that has been a playground for private creditors such as the Blackrock and T Rowe Price. Together, the two main bondholder groups wield enough power to make or break the country.

Hence, keeping in mind the above, Pakistan needs to be watchful of going to private creditors, so if Pakistan makes an appeal for debt relief it needs to keep an eye out for taking help from the private creditors. China, Dr. Chohan stated, is now the official creditor to the developing world. The positive relations that Pakistan has fostered with China over the years have to be part of the discourse and China should be far more lenient in debt relief to Pakistan. Dr. Chohan in his presentation also floated a proposal of Central Credit Facility on the lines by Lee Buckheit and Mitu Gulati. The design of the proposal is such that whatever is given in interest payments on sovereign debts would be allocated in fund, which could be borrowed against Covid-specific relief. The problem again is that the private sector, creditors are not interested, ultimately the bigger problem and worry comes down to the fact that although there is a rule-based world order, there is no rule specifically for one type of crisis which is the sovereign debt restructuring. Concluding his remarks, Dr. Chohan stated that there is no international system for systematic sovereign restructuring mainly because of the interests involved of the private creditors who make money out of the misery and distress of the countries. Nonetheless, in terms of building a world-based order, having proper sovereign restructuring that are done on a humane, compassionate and sustainable manner while helping the creditors over the long run is important.

Mr. Farrukh Iqbal Khan started his talk by pointing out the situation that led Prime Minister Imran Khan to launch the debt relief initiative, the current situation as well as the future of the debt relief and the issues associated with it. He was of the view that the primary effort was to ensure that this time around, unlike the Jubilee 2000 movement that took place, the effort was that Pakistan, which is one of the IDA countries and was under a different criterion than the heavily indebted countries, should also be made part of this initiative. Hence, Prime Minister Imran Khan took this initiative and has called for global debt relief and is continuously engaging the world community. The Prime Minister and the Foreign Minister himself have reached out to a host of leaders across the globe. They reached out at Foreign Ministers level, leadership level, and are still engaged bilaterally with many countries as well as the world community in this regard. The effort is primarily to make debt relief more holistic.

Mr. Khan highlighted the conditionalitites that comes with debt relief. He clarified that this initiative is not debt relief but 'debt suspension initiative,' whereby the debt is suspended for a certain period of time until December 31, 2020 with an option of further extension. While talking about the conditions, he said that the countries under the debt suspension will be subject to certain condionalitites, for example; a country will not be allowed to borrow commercially until the said period is over. Likewise, there are issues that are still lingering in addition to the issues listed in the G20 communiqué. There are issues about credit rating; Pakistan is already put under review which will increase Pakistan's risk rating. Then there are issues regarding the currency fluctuation; while Pakistan takes more debt, the dollar parity vis-à-vis Pakistani rupee changes.

He said that the hit Pakistan is getting due to the Covid-19 economically, socially, is much larger than the assistance Pakistan is getting, combined with the effort Pakistan is pulling along by utilizing the resources it has managed to put forward. Talking about the United Nations perspectives, Mr. Khan stated that there are three strands of the current situation; firstly, the debt suspension initiative apart from certain emergency relief facilities that was offered by the IMF to Pakistan, the debt suspension initiative is falling short of what is needed. Secondly, he explained that this is an oxymoronic situation. The important question to be debated upon is whether Pakistan can lead the debt suspension towards debt relief? According to many estimates and models by the economists, financial experts and academics, salvaging the global economy without debt relief from a recession or impending depression will not be possible. Thirdly, if at all, this leads to world debt relief, what could be the conditions that can guide the international community that some kind of relief can be given to the countries. According to Mr. Khan, the only way some form of debt relief that can be obtained will only happen through sustainability. He said that sustainability is the need of the hour in order to move ahead. Fourthly, he said it is important to understand the current situation vis-à-vis the rivalry between China and the US, where China is being pushed to take the brunt for the current crisis.

The challenge for Pakistan is to maintain a balance and to create equilibrium. Pakistan has created a group of informal friends in which Pakistan invited 20 to 25 countries alongside private banks, multilateral development banks, representation from the Secretary General of the UN office and UN department. The purpose is to create this platform without any preconceived notions, to come together in time of crisis to address the global situation that requires a global and wholesome understanding and unbiased participation. Concluding his remarks, Mr. Farrukh Iqbal Khan stated that there are still many questions that beg to be answered and understood. Sanity needs to prevail. We need to have clarity within our academia, within the policy makers, that a global crisis of this nature cannot be handled by drawing more walls, and suspending trade.

Sharing his observations on the subject, **Dr. Abid Qaiyum Suleri** stated that the pandemic which is going to lead to negative GDP growth is likely to affect Pakistan's economy in dire ways and the recent locust attacks are also very likely to further exacerbate the situation. Quoting figures from the State Bank of Pakistan, Dr. Suleri stated that 40% of Pakistani population is living below multi poverty index. Moreover, there is also negative .38% GDP growth in which agriculture was the only saviour which is already threatened by the locust infestation which has not only invaded Pakistan, but India and Iran as well. According to an estimate approximately Rupee 500 to 600 billion of the rural economy will be directly impacted. Similarly, lockdown has affected many businesses around the country that has also increased the threat of joblessness in the country. Hence, the ongoing pandemic is posing grave challenges for Pakistan and the lockdown has shut many businesses and affected the informal economy as well.

The closure of economic activity poses several challenges, especially in the shape of growing unemployment. Lockdown has also affected the Small to Medium Enterprises (SME's) and around one million SME's may not survive the lockdown in the country because of their informal nature and non-documented economy, whereby, it would be difficult to provide them this sort of relief and fiscal stimulus. Talking about the exports of the country, he stated that the closure of economic activity, food insecurity due to the spread of the pandemic and the locust infestation has also created a security issue. Dr. Suleri further explained that in this current crisis scenario, Pakistan has two choices to make:

Firstly, Pakistan needs to take care of its credit rating, we need to remain a responsible state, but at the same time Pakistan has to follow suit of the expansionary fiscal policy and a populous demand that we minimize the disruption to the liquidity, and ensure the independence of the sectors, business and households.

Secondly, how would it happen when the GDP is contracting the sources of income, and not only the exports are getting affected, we are also foreseeing decrease in remittances due to oil price fluctuation. So, while on one hand Pakistan is getting the benefit of low petroleum prices globally, the flipside of it accounts for massive lay-offs abroad that would directly affect the remittances. Hence, with limited fiscal space, Pakistan needs to me mindful of the IMF target under which the next budget is being prepared. In addition, Pakistan has to take care of some of the commitments with the IMF. Pakistan should be mindful of the fact that while they would ignore Pakistan's non-policy fiscal slippage – any of the expenditures that Pakistan made on the Covid response, but they would not ignore the policy fiscal slippage on the energy circular debt and public sector enterprises. Dr. Suleri highlighted that Pakistan has got indications from the IMF, from multi-lateral as well as G20 nations that any of the relief that Pakistan will be getting will only be for Covid response. One of the estimations is that 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. While taking about the revenue which is coming to Pakistan, Dr. Suleri explained that Pakistan has already received $1.8 billion from the IMF as rapid finance instrument; $240 million were provided by the World Bank groups while additional $2 billion dollars finance is under consideration as a new financing facility. ADB has given Pakistan half a billion dollar and are also giving Pakistan $305 million as emergency assistance, and small amounts from bilateral. He further explained that when we look at the entire amount provided and compare with the public debt profile, it is 34.1 trillion Rupees at the end of March 2020 that was up 7.4 percent from 31.7 trillion rupees in June 2019.

For the year 2020 Pakistan holds a $20.7 billion debt to 11 members of the G20 nations and we have to make $1.8 billion payment by December 2020, there is interest payment as well as the principal amount. The challenges faced by Pakistan are enormous, in terms of shrinking GDP growth as well agriculture in the form of locust infestation, the stimulus package, uncertainty of lockdown, and the increasing number of confirmed Covid cases each day on an average of 3000 persons. In this crisis scenario, the policy choice for Pakistan is to somehow go for 'debt rescheduling.' Although Pakistan does not qualify for debt alleviation, the debt write-off will not be an option for Pakistan, the maximum Pakistan can get is debt rescheduling by December 2020.

Talking about the policy recommendations, Dr. Suleri stated that it is pivotal that Pakistan decides that whatever relief Pakistan gets, it has to spend it on the health sector and ensure that systems are in place for food security for masses during the crisis. This is also an important opportunity for Pakistan to experiment with minimum universal social protection at least in Baluchistan, where we can ensure that each and every one of the resident are protected for health expenditure and unemployment. Dr. Suleri stressed that Pakistan needs to think out-of-the-box. It has to gradually move towards the minimum universal protection system. Tax relief for the SME's should be another major area where funds must be spent. Pakistan also needs to create non-debt capital inflows from abroad. Pakistan should also join hands with the emerging economies for medium-term debt relief by 2023-24. The country needs to be mindful that the any relief that it will get will come with strings attached

Mr. Humayun Akhtar Khan, while giving his perspective stated that Prime Minister Imran Khan has been the first one to call out for debt relief. Moreover, there are now voices on the international stage calling for debt relief as well as more concessional funding for low income economies affected by the pandemic. They include the IMF, the World Bank, G20, and some member countries of the G7. The Prime Minister has had the good prudence and anticipation to be the first among world leaders to call for debt relief and propose a Global Debt Relief Initiative. Mr. Humayun Khan raised 4 pertinent points.

First, in order to analyze the current economic challenges and opportunities for Pakistan, we must understand the underlying tension that is inherent in dealing with the crisis. Addressing the health crisis weakens the economy, while revival of the economy affects the health of the citizens. For a country with a weak health system, the most important tool to protect the lives of the people is a strict lockdown, allowing economic activity only for the most essential services and supplies.

Shedding light on the economic situation under the Covid crisis, he stated that Pakistan's economy has dual challenges. The economy was already in slowdown even before the crisis came. Commodity producing sectors like agriculture and industry were already sluggish, while Large Scale Manufacturing was in decline. High inflation was another problem, especially on food items and utilities, further rise in public debt levels, a sharp decline in Rupee value, and low investment were all present even before the pandemic hit the country. While talking about the IMF program, he was of the view that government has been able to bring about a degree of economic stability. The current account deficit has narrowed, though on the back of low imports and inflow of foreign funds to benefit from the high interest rate on T bills, while some reduction has also been seen in the fiscal deficit. However, the GDP growth was low and public debt, including external debt, was on the rise.

Second point that he raised was regarding economic challenges during the lockdown. He stated that dampened demand and the cost of spending have been a major source of risk for the economy. Government and international organizations estimate a fall in GDP of 1.5% for fiscal year 2020. According to the Finance Advisor, the budget deficit may reach 9% this fiscal. This in return would cause the current account deficit to worsen, and as it will be financed by more debt, debt levels will rise. He further highlighted that debt on Pakistan is on an increase, on December 31, 2019, Pakistan's total debt and liabilities stood at Rs. 41 trillion or 102% of GDP, while the public debt was over 80% of GDP including PSEs and Government of Pakistan's liabilities, whereas the gross figure climbed to 90% of the GDP. The continuous escalation of public debt, especially external debt, is a long and endemic problem of our economy. This means that government has to divert higher amount of funds for mark-up payment at the expense of essential services or projects. To the extent that mark-up payment goes overseas on external debt, it is a net transfer of resources from our economy. This is a structural flaw in our economic decision making, which successive governments have not addressed for decades. He highlighted that the primary worrying feature of our external debt is an increase in borrowing cost as well as reduction of maturity period. Share of concessional finance from IFIs and Paris Club bilateral donors fell from 87% in 2013 to 64% in 2018. It stood at 61% in December 2019. This has added to the burden of interest payment in foreign exchange and makes the economy more vulnerable to changes in the external economic climate.

Third, regarding the health sector, Mr. Khan stated that the health sector is the one ignored the most. It is interesting to compare the amount that is spent on health, which is 1% of GDP. Total amount spent on health is Rs. 400 Billion (federal and provincial spending). Similarly, expenditure on mark-up is five times that made on health. Public expenditure on health and education together is about 3.5% of GDP, still well below what we will pay in interest payment. Just the mark-up paid on external debt will exceed Rs. 300 billion for this year. He was of the view that this is not the best use of tax resources. Behind the abstraction of numbers are grim realities. They show up in our high social deficit, which prevents sustained growth. They also show up in our lack of capacity to meet the present health crisis. He cautioned that we are approaching the level where these risks may go beyond what is prudent and safe for the economy.

Fourth, Mr. Khan stressed that the current global situation is also no cause for comfort. IMF has said that it may place an extra amount of USD one Trillion to meet emergent expenses of economies in need. The World Bank and the ADB are also similarly committed. He further clarified that the IMF has also said that world GDP would fall by 3% in calendar year 2020 and the leading economies of the US and Europe would suffer considerably as their GDPs are expected to fall by 6 to 7.5% respectively. Among major economies, only China and India would likely have positive growth rates at below 2% each, though there are now doubts about India's growth. Likewise, world trade could fall by as much as 30%, as IMF suggest about $100 billion may have left emerging economies to safer places. All these numbers indicate a difficult period ahead for the world economy.

On the issue of world liquidity, Mr. Khan said that according to IMF estimates, countries across the globe have deployed $9 trillion to help people and firms get through the crisis, both in direct budgetary spending and in loans, equity and guarantees. About 90% of that amount has been in advanced economies or G20 emerging economies. Such spending is to ensure that national economic systems survive the pandemic so that it will be ready for revival when the crisis tapers. It is also to ensure health and welfare of their citizens. The people are a key economic agent for revival and growth.

Highlighting major constraints on world resources, Mr. Humayun Khan said that currently a major world recession is in the making, which is greater than the 2008 financial crisis and may well be worse than the great depression of 1929. The fear of an economic collapse resulting in large scale bankruptcies and defaults is real. The major economies had been playing a risky game for some years, with very high public and private debt, especially private. World nominal GDP is about $83 trillion. World debt, public and private, has grown to $188 trillion, i.e. 225% of world GDP, of which, USA has a debt to GDP ratio of 265%, while China stands at 258%.

Touching upon the challenges that come with debt relief, he stated that seeking debt relief sends a message that the economy is precarious. In the past, countries that received debt relief were viewed as too risky for FDI. Today, that may not be the case given the large number of economies that need such help. What is required is a robust plan for economic growth and development must accompany debt relief. The goal of the plan should be capital accumulation to enhance the economy's productive capacity, i.e. increase in the stock of plant and machinery, critical infrastructure, and quality of human capital. Mr. Humayun Khan highlighted two conflicting developments in the world taking place at the same time: the development that hinders the chance of a major multilateral debt relief initiative, and one that supports it.

Talking about the situation in Pakistan, Mr. Humayun Khan said that Pakistan has done well to make debt relief a multilateral effort. The Prime Minister cited five countries in Sub Saharan Africa that were emerging as successful economies with the help of debt relief. Now, economic problems caused by the pandemic may reverse those gains. Yet, no multilateral effort would succeed without leadership from the US. Therefore, 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. Pakistan is an important US ally and also of China. It is creditable that Pakistan has earned debt relief of over a billion dollars. Concluding his remarks, Mr. Humayun Khan said that in order to revive the economy from the deleterious effect of the virus, we will need more debt. Perhaps with the help of US and China, Pakistan may find additional fiscal space.

However, Pakistan must have a growth plan in place to ensure that the money is spent on building productive capacity of the economy for future growth. That is the only way to emerge out of the continued dependence on others.

Dr. Iftikhar Husnain shared his views regarding the current economic challenges in the context of debt relief. He emphasized on the need for long-term solutions to the current problems as the pandemic is likely to continue and that the challenging question of the trade-off between saving lives or the economy continues to be a serious challenge leading to socio-economic problems. He was of the view that the Covid crisis is not going away soon. There are active debates that there is a need to plan long-term solutions to overcome the scenario as the pandemic will remain and become the new normal. This has impacted humanity in multi-dimensional ways and will continue to further hit the economy and the human factor over the very long-term.

He stressed that it is imperative to understand that what are the problems currently faced by Pakistan. First and foremost is adjusting to this new normal; the socio-economic lifestyle will completely change with the new normal. The production scenario will change, foreign policy will become different, trade and relationship between the countries will also be altered. This requires a long-term strategy.

Secondly, the question arises how can we navigate the uncertain world? The Covid pandemic has hit every country in the world and not a single country is free from it.

Talking about the immediate debt relief, Dr. Husnain stated that with debt relief there is an element of time attached; Pakistan needs to get a breathing space. He reiterated that there is a need for out-of-the-box solutions as the new normal after the Covid-19 will be different. He was of the view that the lenders should give more breathing space to the developing countries who are highly hit by the pandemic. If Pakistan gets time for its debt payments, there is a possibility that the economy is put back on track and damage control is contained.

Moreover, the government should also be prepared to handle massive unemployment situation in the country which is not just an economic problem but also a social problem. This will hit Pakistan in the sector of remittances and government needs to take measures to incorporate unemployed people abroad like in the Gulf, into the routine business.

Furthermore, the government needs to implement SoPs during no lockdown. If the SoPs are followed, the effects will be slowed down and the government will be able to control the spread theoretically.

Shedding some light on the issue of exports, Dr. Husnain said that like remittances, earning from exports is very critical for Pakistan. The government has to make policies that are focused on the export that are need of the new times and not the traditional exports. Now we have to know what could be the possibilities of the exports in the future. It is for sure that it will not be the previous exports as the trade between the countries will take time to reach the previous level and for 100% trade mobility it may take five years or more.

On the issue of debt relief, Dr. Husnain said that if the facts and figures are put into picture we can see that this is a very temporary relief effort. The government will eventually have to create resources from the within which will be difficult as the economy is reeling at a low point. Hence, the government has to move towards restructuring the fiscal policy and experiment with an expansionary fiscal policy. The government should reduce the taxes, and make massive spending in different fields, including the health sector as the country is going to get exposed to the pandemic. The government needs to fix the areas where it can spend and provide the demand so that the business falls into routine over time. Dr. Husnain stressed that government needs to strengthen its social security network, with a particular focus for free health care. The government should plan targets from 5 or 10 years for healthcare facility. Moreover, a relocation of labor force from the Gulf is imperative. This can be obtained by expanding the agriculture sector by implementing SoPs. Moreover, coordinated efforts are required between the federating units so that this problem could be overcome as early as possible.

Dr. Salman Shah, in his keynote address drew attention to the fact that the pandemic has created an extraordinary situation never witnessed before. He said that unfortunately, this is a global economic meltdown and all services are affected by it in severity. Moreover, he said that the government has to focus on economic development and on creating employment generation along with the required social security nets. He was of the view that there is a meltdown of economic activity all over the world starting with the disruption of global trade and disruption of supply chains and value chains both domestically and globally. In Pakistan, the issues that we were tackling of deficits and payment prices have suddenly been changed into issues of depression.

The question which now arises is how can we prevent our economy from going into a depression? Pakistan is heading into a depression where the entire production of the country has been disrupted. It's not a demand driven disruption but a supply driven disruption which has not been experienced in Pakistan before. Moreover, the urban economy is paralyzed, the services sector in Pakistan is almost 60% of the GDP and there is a stark decline in the sector. The services sector has affected almost 30 million people who have already lost their jobs and have no income and the income compression is going to lead to a downward cycle.

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. Dr. Shah elaborated that the paradigm shift has to be how do you protect the economic cycle, supply chain and the employment cycle so that the economy can at least stop going into a depression and stabilize.

Under the current scenario, stabilization is a totally different concept compared to the previous economic cycle. Previously, stabilization was dependent upon controlling the deficits and the external account and the ability to focus on taxes to correct the fiscal deficit and growth was not the forefront. But now, everything has been put back and growth has to be the driving force of the policy makers. More important is that you don't end up into the negative zone and you protect the economy by creating employment opportunities as the regular supply of jobs from the private sector will shrink considerably and the government will have to ensure to somehow provide social security for people who will be affected.

Similarly, while working on the budget we have to be mindful of the shortfalls of the remittances and the export side. Dr. Shah was of the view that 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 that would mean that the development budget will have to be sacrificed, and perhaps the current budget would have to be frozen.

In addition, in an environment where government has to provide employment opportunities, we will have to work on infrastructure development and it will have to be the number one priority, this means that Pakistan has to be able to finance such development. On the other hand, Pakistan not only is facing health crisis but also financial crisis. This limit the options for Pakistan, for example, taxes at the moment is not the option as it is the area where the government is providing relief. Hence, the option in sight is to find more debt from the domestic sector and global sources. He further elaborated that although Pakistan may be able to raise the debt ceiling which the National Economic Council puts in place, so that the infrastructure development is able to act.

Secondly, the financial sector has to play an extraordinary role. Shedding light on the issue of debt profile, Dr. Shah said that the external debt of Pakistan is composed of multiple types of debt, from multilateral to bilateral and commercial and all of the different forms would need a different kind of a treatment – it would need a global approach to be tackled. Pakistan needs to take coordination actions backed by national government to tackle this issue. Pakistan's debt of almost $100 billion has average repayment of six to seven years. This means Pakistan has a very high risk of default, and if Pakistan fails to refinance and falls back every year, the debt will increase by 10 to 15 billion dollars and the burden on Pakistan will grow.

He further stated that Pakistan needs to increase the timeframe for debt repayment to 15-20 years. Similarly financial institutions at the multilateral level, World Bank, IMF and the international financial institutions will have to come up with ideas to refinance and to stop the haemorrhaging of the finances in the developing countries. This is the time when the developing countries can commit to strong exchange program and reforms in return for debt concessions. Dr. Shah emphasized that for the first time in Pakistan's history, economists have been forced to look at supply chains and how to manage them. The regulatory environment for supply chains is poor, the financial, technical and human inputs are limited and the market is underdeveloped. He was of the view that it is imperative that Pakistan formulates a strategy and proposals on the issue of debt relief not only at the integrated global platforms but also at bilateral platforms. He stressed that if Pakistan fails to get the desired relief, it will be difficult for it to service the debt at this point.

Interactive Session

Several questions and observations were raised during the interactive session on the issue of humanitarian assistance by the developed countries to fulfil their own interest.

Responding to the observations, the speakers were of the view that nations are motivated by their own national interest even in humanitarian disasters. Even in wars people make money. One of the speakers was of the view that this is a highly leveraged world with respect to the developing and emerging economies. There is a realization that the developed countries will have to look at the not-so-developed economies. The world is aware that the developed as well as developing nations will have to be looked after to come out of this situation. It was also highlighted that the underdeveloped nations or the Group of 77 can get together on a single platform so that they can have a single voice as well like the developed nations. Hence dealing an issue as a union of underdeveloped countries will be helpful and unless the voice is not raised you are not going to be heard.

Replying to another question on the issue of privatization, Mr. Humayun stated that Pakistan has not done any privatization in a long time. Government has sold their shares on profit but the last substantive privatization was of PTCL in 2006. Pakistan has a successful model of privatization of the entire cement sector and banking sector, but there were huge setbacks when Pakistan couldn’t privatize the steel mill sector.

Dr. Suleri was of the view that there is a need to fix the public sector enterprises, the opposition of the leading political party makes it difficult for them to initiate the process of privatization. Same was seen during the time of PML (N) and same is the case today. Hence, the current government needs to talk to the opposition and try to come up with an agenda for privatization because the lenders will not carry on with the subsidizing.

Dr. Shah pointed out that privatization is a populist idea, and while anti privatization policy wins you votes, it destroys the fiscal balance of resources the same money can be used to pay off the debt. Pakistan has been unable to sell a good story about privatization and Pakistan is one of those countries, which after the collapse of the Berlin wall when the world went for big market reforms and was able to create solid market economy, Pakistan was left behind for many reasons.

Pakistan has failed to improve the productivity of the economy and make the economy more competitive.

In his concluding remarks, Ambassador Khalid Mahmood, Chairman Board of Governors, ISSI said that pandemic has led to economic stagnation all over the world and the world is moving towards recession. At the national level we are faced with the decline of exports, decline of imports, decrease in remittances, and in foreign direct investment, leading to an increase in foreign debt. Under these circumstances, the Prime Minster took the initiative to seek debt relief for the developing countries, as they are faced with more economic and health challenges. He further elaborated that it is not very simple to get debt rescheduling and restructuring of the loans by international institutions. On the other hand, the developing nations cannot do without this effort, and this effort has to be made collectively as pointed out in the Prime Minister's initiative which has already evoked some support by the UN Secretary General and G20. However, Pakistan needs to do more, we need to do more and work on the economic diplomacy and mobilize public support for this cause. He was of the view that economic diplomacy and debt relief will provide Pakistan with a breathing space. He opined that the government needs to work on putting together a sustainable growth model.