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PAK - FOREIGN DEBTS [2008-13]

FOREIGN DEBTS DILEMMA:

The Daily Telegraph dated **26th September 2011** once held that cutting western funds was the only way to force Pakistan's government to face up to the challenge of balancing its budget and introducing long-awaited tax reform. ***"Aid is like using aspirin to treat cancer and the cancer is spreading,"*** Imran Khan was quoted. Mr Khan had warned that aid was propping up corrupt and incompetent elite in Pakistan.

Andrew Mitchell, International Development Secretary, ordered the doubling of aid to Pakistan, a country where 36m people were living below the poverty line. ***It was from £200m in 2010 to £446m in 2015 – one could look at the generosity of the donors*** and inert thinking level of rogue receivers. The fact prevailed that:

> *"The rich don't pay taxes here so the entire burden falls on the common man and the difference is made up by aid. If any money goes to the Pakistan government it will not reach the people who need it."*

It mirrored a decades' old dilemma in Africa where development experts continued debating whether aid created a culture of dependence, allowing governments to avoid taking responsibility for their own policies.

The economists know that debts don't just disappear; also that bailouts have big consequences; also that printing mountains of money always ends in disaster. And, unlike most of the pundits on TV and in the mainstream press, Pakistan's analysts could foresee what was really going on; though muffled in compromises and concessions at all levels.

Of course, the most important part of this situation was inherited in Pakistani politics since decades … all were prepared to welcome the resulting crisis; a national emergency, because most of Politician's moneys were lying in Geneva, London or Dubai. Not bothered if local banks would be unable to return their savings. They won't know what to do if the stock exchange suspended trading; pension income of the poor people was already eaten up - media reports of EBOI are referred.

In recorded economic history, with debts as big as of Pakistan's – ***every single country*** – has suffered a devastating economic collapse. There were NO exceptions.

For instance; during the Great Depression – when thousands of ordinary people lost everything – America's total debt hit 252% of GDP. In any circumstances, that was bad. During the Japanese economic collapse – which triggered more than two decades of deflation and a 75% drop in the stock market – Japanese total debt hit 498% of GDP.

That's twice as bad as the level of debt seen in America during the Great Depression. In the end, it would be cheaper to decorate your home with bank notes rather than wallpaper.

Pakistan's external debt increased substantially in successive years; during 2007-12 Pakistan's external debt increased by around $20 billion to $59.6 billion - multi%age increase. It is evident from external debt stock, total reserves as a percentage of external debt, export growth, currency exchange rate and fiscal deficit that ***since 1988 the only administration that improved Pakistan's finances was that of Gen Musharraf***.

In contrast, the successive PPP and PML[N] governments had taken Pakistan's finances towards an unsustainable path of external borrowing.

The PML[N] government made the external debt situation exceptionally worse by taking an extra $10 billion as external loans during its first year in power since May 2013. Without any apparent resources to pay these loans back, zero growth in tax revenue and depressed currency, the external debt was likely to take Pakistan towards a financial crisis.

Pakistan's external debt had increased by around $15.4 billion between 1988 and 1999 and by around $20 billion during 2007-12. In contrast, the said debt declined during 1999-2006 by around $3.4 billion.

During these years, Pakistan's ability to pay back its debt decreased significantly – during 2008-12, total reserves as a percentage of external debt decreased by 12.5%. With the continuing increase in debt obligations and reduction in foreign reserves, that ratio deteriorated further. In addition, Pakistan's export growth had also slowed down during 2008-12; ***it went***

down to -0.6%, as opposed to a staggering 10.2% annual growth level achieved during Gen Musharraf's administration.

Pakistan's ability to pay back external debt further eroded by the devaluation of Pak-Rupee, which depreciated by around 67% during 2008-13; it was mainly because of macro-economic misconduct, lack of growth in exports and reduction in foreign direct investment. During 2001-07 the Pak-rupee remained stable, perhaps, due to American aid up to the tune of $10.65 billion as against war on terror compensations.

As per World Bank data, average grace period of new Pakistan's external debt commitments since 2008 was 6.6 years. As the election cycle in Pakistan is five years, less than the average grace period for new debt, the PPP government did not show concern about paying back this debt during their respective tenure – leaving it for future governments and Pakistani citizens; known as ***'moral hazard'*** in economics.

In short, Pakistan's macro-economic fundamentals went gradually weakened substantially since early 2007. The next team of PPP's managers did not behave responsibly, thus Pakistan started moving towards an economic failure – leading to status of failing state dependent upon international donors and consortiums.

On 18th January 2013; in a luncheon meeting with journalists, Jeffrey Franks, adviser to the IMF for the Middle East and Central Asia, spoke at length on the grave economic situation for the country of Pakistan. He also shed light on the Fund's ongoing dialogue with the government, aimed at the course of a fresh bailout programme with hard tones.

IMF's Franks was accompanied by the new IMF Country Representative Mansoor Dailami. The IMF's prescription to Pakistan included a healthy measure of – not surprisingly – increasing taxes, cutting expenditures, withdrawing electricity subsidies and increasing interest rates to check inflation, which was expected to rebound soon and devalue the Pak-currency further. IMF's Advisor told that:

> *"We have agreed with the government that the deficit eventually needs to come down to 3-3.5% of the GDP in three years, from the current level of over 7%. According to our one-month assessment, Pakistan's currency is overvalued by 5-10%.*
>
> *Modest depreciation might yield positive results for the economy. The monetary policy also needs to be calibrated to bring down inflation to between 5-7%."*

[*'The Express Tribune'* dated ***19th January 2013*** is referred.]

The IMF's local chief underscored the need for having ***"broadest and deepest possible political support for any new programme."*** He observed that Pakistan's problems required long-term solutions, and that any new programme would not last less than three years.

Franks disclosed that, according to the IMF assessment:

> *"….the year 2013's budget deficit will remain around 7-7.5% of the GDP. In absolute terms, the IMF projects a Rs:16.24 trillion deficit – a whopping Rs:516 billion or 2.3% higher than government estimates. Besides the significant shortfall in revenues, Pakistan also may not be able to complete the auction of the 3G telecom spectrum, causing another shortfall of around Rs:75 billion."*

To add icing to that unsavoury cake, the economy was estimated to grow just 3.5% that year, as against official projections of 4.3%. ***"The number one bottleneck to growth was the energy sector, second was the energy sector, and the number three bottleneck is also probably the energy sector,"*** Franks had sarcastically remarked.

Private sector credit growth was very weak; large scale manufacturing was positive, but very low; and there was no sign of robust export growth. While declining inflation was a good indicator, it was also worrisome because domestic demand continued to remain weak. The government's tax collection efforts were in shambles as usual - an indicative of utter weaknesses in the economic sector.

The IMF projected the then account deficit of a low 0.7% of GDP, but that low level was dangerous due to drying foreign inflows; thus any restructuring of IMF loans was not at all possible. In IMF's opinion certain tough actions could bring a temporary drop in growth, but insisted that they were necessary for achieving macro-economic stability. The major advice was:

> ***"…the State Bank of Pakistan should be made an independent part of plans for the new programme".***

During IMF's that visit to Islamabad, the IMF's technical team also conveyed the message to the high-ups of the Ministry of Finance that there could be no assistance or standby arrangement provided the long-standing condition of ***implementing VAT in its original form was met.*** The IMF team argued that around 140 countries were strictly following VAT mode then as to why Pakistan was failing to implement GST under its true form i.e. VAT particularly when it was faced with acute budget deficit.

Though Pakistan had imposed General Sales Tax [GST] in VAT mode but due to exemptions and zero rating of several industries, the supply chain could not be completed and this was causing huge leakage of revenue. The Fund was also seeking inclusion of other sectors such as retail business, transport sector and agriculture under the GST because these sectors were contributing substantially towards GDP of the country.

The Federal Board of Revenue [FBR] in the budget 2010 presented new GST scheme which removed all sorts of exemptions and also put all zero rated sectors under the ambit of sales tax to complete the supply chain. The GST bill after getting approval from the National Assembly Standing Committee on Finance was also passed by the Senate, but since then it remained lying before the Upper House.

The new bill also barred the FBR from issuing concessionary SROs and only the parliament was empowered to make changes in the GST rules. The FBR sources estimated that around Rs:200 billion could have been generated if the new GST scheme was implemented.

The IMF had been insisting for the removal of all sorts of subsidies including those given on energy, bringing to an end the special procedures and cancellation of a large number of concessionary SROs which were causing billions of rupees in revenue loss.

Question was being raised if Pakistan could avoid knocking at the doors of IMF and prevent recurrence of a balance of payments crisis threatening to pull down the economy - at least not until Pakistan put its own house order. While economist Hafiz Pasha held that:

> *"The government can make it to the next budget without the Fund. It will be difficult to avoid another bailout in the first half of the next fiscal year as the government has to make hefty payments of about $3.5bn to the creditors, which, in turn, will reduce the liquid foreign exchange reserves to import cover of one month or so.*
>
> *The net liquid reserves with the State Bank are already down to under $9bn and exchange rate inching to Rs:100 a dollar. The IMF's assessment that rupee is 'overvalued' isn't helping the currency either.*

But it was sure that the IMF was set to run the show and not Pakistan's policy makers once the bailout was negotiated. The figures released by the State Bank for the six months ending December 2012 had shown 'balance of payments' deficit reducing to $541 million from $1.8bn a year ago and current account posting a modest surplus of $250 million or 0.2 % of GDP on transfer of US coalition support fund [CSF] then estimated at $2bn. However, the state economic managers failed to deliver.

In fact no step was taken during PPP's five years rule to plug energy shortages, improve security conditions and build economic infrastructure. The government did not follow the right set of policies needed to push industrial and agricultural growth.

The traders' community and industrialists held that:

> *"We can say goodbye to the IMF for good if we put our house in order: plug energy shortages, improve security, develop infrastructure, etc. The increase in the export of engineering goods to about $1.8bn in few years from $400-450mn shows that we have some non-conventional industries that can be used to substantially boost our exports."*

It remained a fact that the government and its departments like the Trade Development Authority of Pakistan did little to market the non-conventional exports. No research had ever been carried out to diversify exports or markets and promote several 'marginalised' industrial sectors with potential for huge export. The textile and clothing exports could be raised to $20bn in two years had the government ensured uninterrupted supplies of gas and electricity to it and successfully negotiated its entry into GSP plus scheme of the European Union.

In 2013, Pakistan had capacities to the tune of $4-5bn lying idle due to energy crunch — precisely the size of financial assistance being sought from the IMF. The provision of gas and electricity could revive that capacity and boost exports to $18bn. The GSP+ status could generate another $2bn in Pakistan's export revenues.

The financial experts were predicting a tougher economic adjustment programme given by the IMF. The IMF advisor himself had ruled out a new loan unless a broad and deep political consensus on broad-based financial and governance reforms was developed and ***'prior actions taken to implement them'.***

BUT the crux remained that:

> ***".....bailout or no bailout; Pakistan needs to implement reforms if it want to grow and get out of the current morass. Until then it will be forced to look for rescue by multilateral creditors every now and then and accept their harsh conditions & dictations."***

Referring to the '**Express Tribune' of 5th November 2013**: the national debt under PML[N] government piled up within three months of its rule to an unprecedented level adding Rs:980 billion in its debt stock, taking the total debt to Rs:14.98 trillion [*IMF had projected in January 2013 at Rs:16.24 trillion*]; till ending June 2013. As per State Bank of Pakistan [SBP]'s figures till ending September 2013, the PML[N] government made 7% increase in its foreign debts during first three months of its rule.

The increasing debt burden augmented the cost of the debt servicing, further thinning out the budgetary allocations. The debt servicing consumed the largest chunk of the budget followed by defence budget, both explicit and implicit.

As per SBP's report, the domestic debt increased from Rs:9.52 trillion to Rs:10.16 trillion in just three months, showing an increase of Rs:635 billion or 6.7%. Within the domestic debt, the short-term debt ballooned by Rs:611 billion or 11.7%. The debt under the market treasury bills for replacement of cash increased from Rs:2.27 trillion to Rs:3.1 trillion, depicting a net increase of Rs:750 billion or 33%.

About 7% devaluation of local currency against the US dollar was the main reason behind massive jump in the long-term foreign debt. The SBP had confirmed in its report that by ending June 2013 the US dollar was equal to Rs:99.20 that devalued by Rs:6.90 to Rs:106.1 a dollar by ending September – just in three months.

Till ending day of 2015, [***Bloomberg Report*** appeared in ***daily 'Dawn'*** dated ***16th February 2016*** is referred]; despite improvement in the country's security situation and the economy growing at an eight-year high, Pakistan risked default as 42% of its foreign debt, around $50 billion, was due in 2016.

Around $30 billion was due between July and September 2016, of which $8.3 billion was needed to be in foreign currency, depleting 40pc of the nation's $21 billion in foreign-exchange holdings. But a major part of the debt due was in local currency, which left the government with room to introduce more short-term instruments to leverage its current liabilities. Mervyn Tang, lead analyst for Pakistan at Fitch Ratings Ltd told Bloomberg:

> *"Pakistan's high level of public debt, with a large portion financed through short-term instruments, does make the sovereign's ability to meet their financing needs more sensitive to market conditions."*

In 2013, a $6.6 billion loan from the IMF was used to make payments for previous outstanding loans and avoid a Greece-like crisis. Since then, the projected debt due by ending 2016 could be estimated grown by 79pc. At Rs:13 trillion [$124 billion] total debt, **77pc of the budget was allocated for loan repayments this year.**

A concurrent challenge meeting IMF demands was to privatise state-owned concerns, but the strike at Pakistan International Airlines [PIA], which ended in February 2016 shacked the government. New taxes worth Rs:40 billion were already placed on the public shoulders in November 2015 to meet the fiscal deficit

In a statement ending January 2016, the Finance Ministry emphasised that Pakistan was committed to successfully implementing its IMF macro-economic stability program, while the IMF was equally confident. Despite the grim outlook, experts were optimistic because Chinese investment in the Economic Corridor Project had started flowing in.

However, the major risks were there; further capital flight and currency outflows, as well as devaluation of the rupee and fluctuations in the exchange rate. According to the IMF, the rupee was already overvalued at the current rate by as much as 20pc – and they had been constantly persuading the PPP & PML[N] governments to implement it; pressure on the rupee remained in place.

PPP Government Conceded Fouls:

On 4th February 2013; the PPP's government in Pakistan officially conceded ***that its total debt and liabilities were in excess of Rs:5 trillion***, also that it breached major limits imposed by the parliament under the Fiscal Responsibility and Debt Limitation Act 2005 [FDLRA] to check and bring down increasing debt levels deemed vulnerable to the nation's sovereignty by all means.

The two separate policy statements — Fiscal Policy Statement and Debt Policy Statement 2012-13 — released by the ministry of finance [MoF] said:

> *"…..that the three major requirements were violated during last financial year ending on 30th June 2012 owing to fiscal profligacy*

> *arising out of higher subsidies, lower revenues, drying up of external program loans and currency devaluations.*
>
> *…..that some of the requirements of the law continued to be violated every year consecutively since the current government came into power in 2008. Under the FDRLA- 2005, the government was required to submit annual reports to the parliament on debt and fiscal situation."*

The reports indicated the revenue deficit stood at 3.2% of GDP in 2008, declined to 1.2% in 2009, increased to 1.7% in 2010, jumped to 3.3% in 2011 and stood at 2.5% of GDP at the end of fiscal year 2012. The second most important condition to limit total public debt below 60% of GDP and then maintaining it at this limit every year could not be fulfilled, too.

The government consolidated Rs:391 billion or 1.9% into public debt in 2011-12 against outstanding previous years subsidies related to food and energy sectors due to which public debt to GDP stood at 61.3% of GDP at ending June 2012.

The third key milestone required reducing total public debt by 2.5% of GDP every year for 10 years — 2003 to 2013 — provided poverty alleviation related expenditures did not fall below 4.5% cent of GDP and doubling health and education related expenditures as percentage of GDP.

The policy statements, however, admit that reducing debt by 2.5 per cent every year remained a pipedream throughout the 10 year period including fiscal year 2011-12. The statements said total debt to GDP ratio stood at 59% in 2008, increasing to 60% in 2009 and 2010 and then dropping slightly to 59.3% in 2011 and finally increased again to 61.3% in 2011-12.

The PPP government also failed to double allocations for health and education throughout its five year tenure [2008-13] in compliance with its tall promises. The ***allocations for education as percentage of GDP stood stagnant at or around 1.8% in four years and slightly increased to 2.1% in fiscal year 2011-12.***

Likewise, the ***allocations for health also kept on fluctuation between 0.6 and 0.8% per cent of GDP in all five years***. Instead, the corrupt minds of the PPP exploited the public money in the name of social sector and poverty related expenditures at 9.3% in 2008, 6.7% and 6% in 2010 and 2011 respectively and then 8.2% in 2012.

The finance ministry said the composition of public debt witnessed major changes over the past few years with increasing reliance on domestic debt. Also, on an average, 66% of total increase in external debt was caused by the unfavourable movement of exchange rates since 2007-08.

The total public debt stood at Rs:12.667 trillion as on 30th June 2012, showing an increase of Rs:1.967 trillion or 18.4% higher than debt stock at the end of last fiscal year. This was mainly because of slippages in both revenues and expenditures that led to fiscal deficit at 6.6% of GDP excluding 1.9% of one-time debt consolidation. ***The interest servicing, security and subsidies constituted 60.9% of the revenue*** as expenditures were fairly rigid. The report concluded that:

> *"The external debt component grew by Rs:345 billion or 7.4% per cent over the last fiscal year even though appreciation of US dollar against other major currencies caused the foreign currency component of public debt to decrease by $1.74bn.*
>
> *This was, however, subdued by depreciation of rupee against dollar by almost 10 per cent."*

The PPP government completed its five-year term on 16th March 2016 but the tenure proved to be a nuisance and curse for consumers as many of them, hit by cash crunch, literally reduced the practice of bulk purchases owing to other burgeoning expenses, like rising utility and transportation charges and education expenses of their children.

Coalition partners, like MQM, ANP and friendly opposition PML[N], hardly took out any rally or protest march against sky-rocketing prices of essential items, petroleum prices and utility bills.

Even civil society and consumer associations paid a lip-service to sensitive issues relating to food inflation. The government never bothered to check the profit margin of manufacturers who continued to push up prices, knowing that no authority would take any action. Traders and commodity investors played havoc with prices on demand and supply situation.

Providing any relief or taking any measures to control prices of food items, both at provincial and federal levels, remained an issue of least interest during the PPP coalition government. No one could deny the negative impact of rupee's losing strength against the dollar, high transportation charges on account of hike in diesel, CNG and LPG prices, changes in duties and taxes etc. The government literally gave a free hand to market players and manufacturers who kept on increasing prices in the absence of any check or monitoring.

The dollar was equal to Rs:62 in March 2008 which shoot up Rs:100 in March 2013, thus making an adverse impact on import of finished products and raw material.

Even good wheat crop failed to lower flour prices as flour millers kept on pushing up prices owing to delay in getting wheat from provincial departments and hike in support price. When the PPP assumed power, 10kg flour bag, fine *atta, atta* no 25 and *chakki* flour were available at Rs:15, Rs:23, Rs:16 and Rs:24 per kg as compared to their rates of Rs:43, Rs:40, Rs:40 and Rs:44 per kg in March 2013 respectively.

Gram flour was available at Rs:45 per kg and in 2013 it quoted at Rs:100-115 per kg. Five kg cooking oil used to be sold at Rs:780 in February 2008 as compared to its rate at Rs:1,049 in March 2013. High quality Kernal Basmati Super was selling at Rs:90 per kg in March 2008 as against Rs:160 per kg in March 2008. Kernal Shaheen variety sold at Rs:135 as compared to Rs:80 per kg. Basmati 85 was priced at Rs:95 as compared to Rs:55 per kg; Irri 6's 03/2013 price was Rs:50 as compared to Rs:35 per kg in 2008.

In March 2013, fresh milk was selling at Rs:75 per litre as compared to Rs:40 in March 2008. Nido one kg pack carried a retail price of Rs:625 as compared to Rs:310, while Everyday tea whitener was available at Rs:560 as compared to Rs:285 in March 2008. One litre Tetra Milk was selling at Rs:144 in 2013 as compared to 2008's rate of Rs:90.

High quality mutton was selling at Rs:600-620 per kg in March 2013 as compared to Rs:300 per kg in 2008 while live poultry bird meat was Rs:170 per kg as compared to of Rs:112 per kg. Tapal tea pack of 200 gm was selling at Rs:125 as compared to Rs:63. Lipton Yellow tea pack was available at Rs:137 as compared to Rs:70 in March 2008.

In early 2008, when the PPP government came into power, petrol and diesel were carrying prices of Rs:62.81 and Rs:44.59 per litre as compared to Rs:103.70 and Rs:109.21 per litre when they left in March 2013. CNG and LPG were selling at Rs:37 and Rs:53 in 2008 as compared to rates of Rs:99 and Rs:120 per kg, respectively in March 2013. Sugar price more than doubled as it was being at Rs:55 as compared to Rs:25 per kg in 2007.

In pulses, high quality *masur* was available at Rs:90-100 per kg as compared to Rs:85 per kg in March 2008. Good quality *moong, mash, arhar* and gram pulse prices were Rs:110-120, Rs:95-105, Rs:145-160 and

Rs:100-105 per kg in March 2013 as compared to Rs:50, Rs:62, Rs:82 and Rs:48 per kg in February 2008.

In soaps and detergents, Surf Excel and Ariel one kg pack was available at Rs:240 each in March 2013 as compared to Rs:150 in March 2008. Lux 125 gm soap was priced at Rs:55 as compared to Rs:24. Safeguard big size toilet soap was tagged at Rs:45 as compared to Rs:30. One Sufi detergent bar was Rs:20 in 2008 as compared to Rs:36 in March 2013.

Karachi Wholesale Grocers Association [KWGA] Chairman claimed that food prices had surged by at least 40% to 200% in the PPP's five years rule due to impact of currency devaluation and high petroleum prices.

In addition, the government raised water, gas and electricity charges and did not focus on making dams, power plants and tapping solar and wind energy resources. With no check on essential items prices, manufacturers of other items also exploited the situation and the state did not take any action against the producers.

CADTM REPORT ON PAKISTAN 2013:

Committee for Abolition of Third World Debts **[CADTM]'s Report on Pakistan** published in **December 2013** told that Pakistan's public debt grew over the last six years at a pace never witnessed in the country's history - at an average rate of 21.5pc per annum from 2008 to 2013 against an average rate of 6.6pc per annum during 2000-07.

Pakistan's foreign debt was $65 billion in June 2013; the domestic debt even higher - more than $75 billion. On the other hand average annual debt servicing was about $6 billion – over 20% of export revenues, and more than half what Pakistan used to spend on health and education combined. Two Ds [Debt and Defense] consumed almost 70% of Pakistan resources, leaving peanuts for other expenditures.

The successive governments over the last 60 years accumulated Rs:6040 billion public debts while the previous PPP regime alone added Rs:8215 billion in just five years. Putting differently, every child born in 2007-08 carried a debt burden of Rs:36606. A child born in 2012-13 carried a debt of Rs:77896 – an increase of 112pc in just five years of the PPP rule during 2008-13; what a progress it was.

Within the public debt, it was domestic debt that had grown at a pace of 23.4pc per annum, faster than external debt, which stood at $46.2 billion in ending June 2008 and rose to $60 billion in ending June 2013. It could have gone much higher had the IMF not suspended its program in May 2010. Pakistan continued to service its external debt obligations out of its foreign exchange reserves.

Thus 2010's suspension of the IMF program was a blessing in disguise as it prevented Pakistan from further accumulating external debt to the extent of approximately $10 billion by now.

Within the domestic debt, the composition of debt witnessed considerable changes during the years 2008-13. Medium and long term debt was converted into short term debt with serious consequences for government's debt management.

In December 2013, over 55pc of domestic debt [Rs:5.2 trillion] was of short maturity, which must be rolled over at least once a year. Even more worrisome was the fact that the bulk of short-term debt was shifted to the shortest end of the maturity; three to six months.

In nutshell, the debt situation was worse while looking at the figures of Pakistan's foreign debt, which was galloping with horrific speed. Apparently there was no way out for the successive governments to get rid of this vicious circle but to persistently borrow more loans to meet their previous debt obligations.

History of Foreign Debt in Pakistan: The figures released by the Economic Affairs Division [EAD] and the Ministry of Finance [MoF] at year 2012's briefing to Special Committee on Debt portrayed that in the last 28 years Pakistan economy relied on reckless borrowing, which could not solve the economic problems of the country.

During the period from 1985 to 2012, a total amount of $72.261 billion loans and grants were received by Pakistan, including $59.240 billion as loan and $13.020 billion as grants. However, after repayment of total outstanding amount of foreign loans as of 31st July 2012, it remained $46.4 billion while total amount of grants received till ending 2013 were $13 bn.

During Gen Zia regime's last spill of 1985-88, the total foreign assistance received by the country was $6.37 billion including $4.6 billion as loans and grants of $1.7 billion. During 1988-90, in Benazir Bhutto's first regime, $4 billion as foreign loans and $1.11 billion as grants were received by PPP.

From 1990-93 during the first regime of Nawaz Sharif government, a total of $7.5 billion as foreign assistance including $6.1 billion as loans and $1.4 billion as grants were received. From 1993-96, during the second tenure of Benazir Bhutto a total of $8.1 billion foreign assistance including $7.3 billion as loans and $804 million as grants were received.

In Gen Musharraf's regime from 1999-2008, a total of $23 billion loans and grants were received by the country that included $17.9 billion as loans and $5.06 billion as grants while in 2008-2013 the previous PPP government received the total foreign assistance of $14 billion, including $11.6 billion as loans and $2.3 billion as grants.

Till ending 2013, Pakistan received a total foreign debt of $72.261 billion; $59.24 bn as LOAN and $13.02 bn as GRANTS – accumulated in 28 years [1985-2013]. That is why 49.4pc of Pakistanis live in poverty while 25% live below poverty line of $1 per day today.

Pakistan is perhaps among the best clients of international creditors. It never stopped its debt servicing even during worst human crisis in 2005, when about 89,000 of its people killed and millions rendered homeless by devastating earthquake. Again in 2010 super floods about 20 million people were severely hit, deprived of basic amenities, gone shelter-less and food-less, but Pakistan, like a good customer, did not seek any debt relief and continued debt servicing on its foreign debts.

In fact the successive regimes, instead of taking care of its people, had been continuously and shamelessly shifting the debt burden, under the dictations of IFIs, on the weak shoulders of poor populace. To be noted that Pakistan's 48.6pc of population does not have access to sufficient food.

Reckless borrowing from banks: During early 2013, the IMF program required the government of Pakistan to build $4 billion of additional reserves during that fiscal year; it was desperate to buy foreign exchange from any where to build the reserves.

In September 2013, the govt reached an agreement with a consortium of seven domestic and international banks to borrow $625 million to boost foreign exchange reserves. The list included; Bank of Tokyo, Al-falah Bank Limited, Credit Suisse, Standard Chartered Bank, National Bank of Pakistan, United Bank Ltd and Allied Bank Ltd.

More than half of the country's liquid reserves of over $10.3 billion were then held by the commercial banks. The deal remained in vogue, the government debt stood there while the banks were enjoying the maximum.

The then prevailing economic scenario upheld the debt burden for further up as Pakistan sought financing from other sources: $1.5 billion from the World Bank, $1.6 billion from the Asian Development Bank [ADB] and $2.4 billion from other 'friendly' countries.

IMF RUINED PAKISTAN LIKE GREECE:

International Monetary Fund [IMF] has been the most persistent lender to Pakistan and its loans have made Pakistan a more disastrous country.

In September 2013, IMF approved latest bailout loan of $6.64 billion under Extended Fund Facility. In exchange, it demanded such strict austerity measures that were bound to devastate the living conditions of the poor.

A total of $3 billion was repaid during the same financial year, including to the IMF. Once, Pakistan's dollar reserves stood at $6 billion then—only enough for Pakistan to pay for six weeks of imports. The strict conditions attached to the three-year EFF program included:

- **Budget cuts** to lower the fiscal deficit from 8.8pc of ***gross domestic product*** [GDP] to 6.3pc.
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- **Subsidies cuts -** one immediate target of subsidy cuts was electricity. The government agreed to a 30pc increase in electricity prices for domestic users. Gas prices were also "rationalized," with a new levy.
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- **Currency depreciation -** the Pak Rupee was devalued through un-announced measures to reach average of Rs:110 to the US dollar. On account of which the volume of foreign debt increased in one go.
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- **Privatization** - speeding the restructuring and privatization of state-run enterprises. The government selected 30 public firms for privatization, beyond the 35 that had already been chosen. About 1.2 million jobs were to cut down as result of privatization plan.
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- **Increase in taxes -** the IMF also demanded a significant increase in tax revenues from current levels of 9.7pc of GDP to 15pc by mid 2018, the expected time for fresh General Elections.

[*In June 2013's PML[N] budget, sales tax on imported and domestic second-hand clothes, largely consumed by the poor, was more than doubled from 2% to 5%; and income tax on asset management firms was cut by 10%, a gradual reduction in the corporate tax rate was announced.*]

The under-taxation of the wealthy elite, including politically powerful rural landlords, was given priority. The country collected less in taxes as a percentage of its economy than almost any other country of its size. While Pakistan failed to meet many of the lenders' demands to increase its overall tax revenue, the government managed to find a way to push through sales tax with focus of indirect taxation on the poor class.

Rouge Privatization: On dictations of the IMF, the PML[N] government directed the Privatization Commission to immediately start the process for sale of 31 public sector entities [PSEs].

The companies cleared for divestment included the Oil and Gas Development Company Limited, Pakistan Petroleum Limited, Mari Gas, Pak Arab Refinery, Pakistan State Oil, Sui Southern Gas Company Limited, Sui Northern Gas Pipelines Limited, Pakistan International Airlines, PIA-Roosevelt Hotel New York, Pakistan Railways, Gujranwala Electric Power Company, Lahore Electric Supply Company, Islamabad Electric Supply Company, Faisalabad Electric Supply Company, Northern Electric Generation Company, Pakistan Steel Mills, National Power Construction Company and Pakistan National Shipping Corporation.

The financial sector entities selected for sale in the first phase included National Bank of Pakistan, First Women Bank, Small and Medium Enterprises Bank, National Investment Trust Limited, National Insurance Company Limited, Pakistan Reinsurance Company Limited, State Life Insurance Corporation and House Building Finance Corporation. The Civil Aviation Authority, Karachi Port Trust, Port Qasim Authority and National Highway Authority were also added in the list.

The Pakistan government also made a commitment with the IMF to announce a strategy for the sale of 30 firms as a benchmark for disbursement of second trance of the IMF loan. Under the commitment, the government to announce privatization plans for remainder of total 65 entities by the end of 2013 but could not manage to implement it.

The overall impact of these IFIs-dictated moves proved as harsh blow to the living and social conditions of working class and the poor. Foreign loans weakened the economy more, eroded the currency, decreased the buying power of the masses, and promoted the interests of the business and land-owner tycoons, manufacturers and politicians.

In 2008-13 years, Pakistan had no capacity and capability to meet many of the millennium development goals, including on hunger, education, gender equality, child and maternal mortality and access to basic sanitation. High debt payments, and cuts in government spending, made it more difficult for the state to provide decent quality public services such as healthcare and education; the most basic requirements.

It remained a fact that in IMF's 2013 program, ***the IMF intervention in Pakistan was similar to its program for Greece***—which had deepened the recession in that country, reducing working people's conditions to miserable levels, increasing unemployment, imposing deep wage cuts, and wiping out social programs at all levels.

This ever-increasing debt burden brought worst implications on the lives of the poverty-stricken people. Since Pakistan has to repay its debts at any cost, it was unable to resolve its pressing problems; like energy crisis.

Pakistan's educational institutes and universities, operation theatres in hospitals and industries had to suspend their work due to lack of power. The closure of industrial units on account of load shedding, caused unemployment. The textile sector of Faisalabad got devastated by chronic power crisis; coupled with water crisis at many places.

Under IMF pressure, many poor families were left with no choice but to withdraw children from schools, particularly girls. The state of public health was even worst; 157 children died due to measles outbreak in Punjab till June 2013. Earlier that year, more than 460 children died from measles in Sindh. The lives of about 200 people were claimed by Dengue in year 2012 year in Punjab province alone; it was due to lack of vaccination coverage.

Joblessness coupled with price hike left little option for many poor families but to commit suicide. As per media reports the Govt had to ban rat-killer pills as many people used these pills as easy and cheap way to end their lives due to poverty. Some years back jumping from *Minar-e-Pakistan* in Lahore became favourite place of suicide committers. Taking it as sheer embarrassment, Government had to stop the electric lift service of the *Minar* to check this suicidal trend.

Debt and disasters - Pakistan has been deluged by a series of catastrophes, including 2005's Kashmir earthquake, 2007's cyclone and the 2010's super floods that displaced some 20 million people and destroyed infrastructure but through all these disasters, Pakistan could not get debt relief because ***the country got hefty amounts as donations and charity from world over but all the cash received went to the personal accounts of the top rulers or their aides and NOT to the cause***.

It is available on record that response of the IFIs and donor countries during the above mentioned disasters in Pakistan has been disappointment in comparison with other countries alike.

> [*For instance within 10 days of the Kashmir Earthquake in 2005, which left up to 3.5m people homeless, the donors provided Pakistan $247million (plus $45m pledges) – i.e.* ***$70 per person****.*
>
> *On the other hand within 10 days of the Haiti Earthquake in Jan 2010, some $742 million were provided and $920 million pledged to assist 1.5 million people. This amounted* ***to $495 per person****.*
>
> *Similarly, within 10 days of Cyclone Nargis striking Myanmar in 2008, affecting 2.4 million people, an amount of $110 million was provided ($109m pledged). This amounted to* ***$46 per person****.*
>
> *On the other hand after 2010 Pakistan floods, when 20 million people were affected, less than $45 million were provided ($91m pledged), which amounted to* ***$3.20 per person*** *only.*]

The natural disasters in the last one decade coincided with Pakistan's prolonged commitment to the US-led ***'war on terror'***, which cost the country more than $67 billion financial loss besides killing of 47,000 people including army and security personnel.

Pakistani intelligentsia and civil society kept the view that under the prevailing conditions, instead of further borrowing, Pakistan must be able to check corruption, tax the rich and mobilize all available resources toward relief for the poor through introduction of social protection systems. Instead of spending billions on debt service, Pakistan could divert those resources to end energy crisis and creating jobs for the poor on urgent basis.

In Pakistan, the debt dilemma has been a sustained economic torture. ***The debt on which these unjust loans were based kept this strategic nation exactly where world leaders wanted it – in absolute dependency.*** Some highly honest leadership would rise for suspension of debt payments, order a full audit, and repudiation of debts regarded as illegitimate. The reckless borrowing by the successive governments made the rulers un-accountable to their people.

An audit of the public debt of Pakistan didn't just mean debt cancellation. The people could have decided which debts were legitimate, and which debts not, as a first step towards a more accountable society. A debt audit could force accountability of the governments to the people: Let Pakistan's people be in charge of their economy.