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PAKISTAN'S EXTERNAL DEBT BURDEN: CAUSES, COMPLEXITIES AND REMEDIES

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By

Asad Sayeed and Ejaz Rashid

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Asad Sayeed and Ejaz Rashid

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INTRODUCTION

- The burden of unsustainable external debt severely compromises the economic prosperity and progress of any developing country. If foreign debt cannot be serviced through a country's foreign exchange reserves, then the country either defaults or borrows to repay the debt at onerous terms. The former severely jeopardizes growth prospects through a collapse in investment. On the other hand, if debt liabilities are postponed through fresh borrowings or rescheduling, then the costs include a severe compromise on a country's economic and thereby political sovereignty.

- Prior to the events of September 11, 2001, Pakistan's economy was caught in a vicious debt trap. The situation further worsened when sanctions were imposed by the G-8 countries on bilateral and multilateral lending as a consequence of Pakistan's nuclear tests in May 1998 and subsequently because of the military coup in October 1999. Pakistan was able to reschedule US $ 3.96 billion of its bi-lateral liabilities through the Paris Club in 2000. The reschedule was, however, on short-term basis and dependent on the IMF agreement, which was being finalized at the time with all its stringent conditionalities.

- The post September 11, 2001, events once again brought Pakistan into the limelight of global geo-strategic interests. The most significant benefit which Pakistan attained vis-à-vis its external debt problem was the restructuring agreement with the Paris Club in December 2001. Under the agreement, the debt repayment period was extended to a span of 38 years with a grace period of 15 years. This means that Pakistan's debt servicing liabilities will decline by US $ 2.7 billion between 2002 and 2004 and according to the State Bank, the net present value of external debt is expected to decline somewhere between 27 and 43 per cent between 2002 and 2017.

- In addition to restructuring of debt with the Paris Club, Pakistan has benefited from the various inflows over the last year. Remittances from overseas Pakistanis doubled, multilateral aid was resumed, and bi-lateral budgetary support from the United States and payments for logistical support for the war on terrorism in Afghanistan has helped Pakistan to post a current account surplus in the fiscal year 2001-02. The current account surplus has also lead to accumulation of foreign exchange reserves equivalent to finance more than ten months of imports.

- Although, Pakistan is no longer on the verge of an external debt crisis, a number of issues still need to be addressed. Sustainable debt servicing requires high and sustainable growth in GDP and foreign exchange earnings. The country is yet to achieve these goals.

- The previous military government of General Musharraf has outlined a debt management strategy on the recommendations provided by the Debt Management Committee (DMC). The Report of the committee entails a future debt management strategy, which has to be followed till 2010 with the objectives to reduce the overall public debt, including its external component. It also identifies the causes for debt accumulation and its unsustainability over the years. Whatever the shape of Pakistan's future political scenario, the report of the DMC will be a benchmark for any future debt management policy.

- This Report consists of three sections. Section I addresses the causes of external debt overhang in Pakistan during the 1990s. With a breakdown of different elements of the balance of payments, this section seeks to explore the reasons behind the increase in different components of the external account. Subsequently, the relationship between the fiscal deficit and external debt indicators has been analysed to determine the causality between internal deficits and external constraints. Section II presents a critical appraisal of the report prepared by the DMC. The last section concludes by recommending that a balance between debt sustainability and development objectives should be the policy goal.

I. CAUSES FOR THE INCREASING DEBT BURDEN

- The total external debt stock, foreign debt-GDP ratio and the net present value are important indicators of a country's external debt burden. In the decade of the 1980s, Pakistan's debt stock more than doubled from US $ 11.4 billion in 1980-1981 to US $ 22.35 billion in 1989-1990. In terms of its share of GDP, the debt stock increased from around 40 per cent to 56 per cent of the GDP during the same time period. During the 1990s, the debt stock increased from US $ 25 billion to US $ 34 billion and the debt stock-GDP ratio increased to 61 per cent in 1998-99.

- In nominal terms, the rate of growth of debt stock was lower in the 1990s compared to the previous decade; however, in real terms, the rate of growth was higher in the 1990s. However if foreign exchange coming in through the FCAs is treated as public debt, then growth in public debt is much faster in the post 1991 period.

- In Pakistan, net foreign exchange earnings (non-debt creating) have always remained less than debt servicing requirements. Traditionally, debt servicing has always taken place by borrowing long-term and on concessionary rates. If long-term debt is treated as earned income, then the ratio of debt servicing to foreign exchange earnings becomes a meaningful measure and by this account the situation has worsened during the 1990s.

- Between 1985 and 1992, the ratio of debt servicing to foreign exchange earnings was in the range of 19 to 33 per cent. Thereafter, it increased continuously between 1993 and 1998-99. If net figures, excluding foreign currency accounts are considered, the debt crisis started in 1992 and peaked in 1999 when Pakistan received some respite from the Paris Club.

- Although the DMCR mentions large and persistent fiscal and current account deficits and imprudent use of borrowed funds, the report does not adequately acknowledge

exogenous factors which have resulted in Pakistan's external debt build up. These factors include deceleration in remittance incomes and increasing interest and amortization liabilities of debt incurred in the past.

I.1 Foreign Debt Build Up and the External Account

I.1.1 Dissecting the Current Account

- The largest component of the current account is the trade balance. The trade deficit as a share of GDP reduced from an average of 7.7 per cent in 1985-90 to 4.7 per cent during 1991-98. Therefore, it can be argued that the trade deficit was not responsible for the burgeoning current account deficit in the 1990s. The *Services* component of the current account particularly interest payments, on average, increased by almost 40 per cent during the period. Moreover, interest payments on Foreign Currency Deposits (FCDs) as well as other forms of foreign exchange denominated bonds amounted to an additional drain of 0.7 per cent of the GDP on the current account during this period. The drain on the current account vis-à-vis FCDs can be termed as a policy induced failure, whereas that due to loans taken earlier is an inheritance from the past.

- The primary current account deficit during the period 1991-98 increased to 1.79 per cent of GDP from 0.8 per cent of GDP in 1985-90. Exogenous factors (such as long-term interest payments) and policy induced failures (introduction of FCDs) mainly contributed towards this increase.

- On the other hand, the inflow of foreign exchange also deteriorated significantly in the 1990s. Real inflows (net of Foreign Currency Accounts) declined by a massive 42.5 per cent in the 1991-98 period compared to the 1985-90 period. A precipitous decline in remittances underpinned the overall decline in net inflows in the country. In terms of share in GDP, remittances declined from 6.9 per cent of GDP to 2.8 per cent of GDP in the 1991-98 period. In the 1985-90 period, remittances accounted for roughly 89 per cent of the trade deficit whereas this share declined to a meagre 59.3 per cent of the trade deficit in the 1990s.

- Incremental increase in the current account deficit was partly exogenous and partly policy induced. Increase in interest payments on long-term debt amongst outflows and reduction in official transfers can be wholly ascribed to exogenous factors.

- Interest payments on FCAs and increase in outflows on account of profits and dividends was a direct result of current account liberalization. Decline in remittances, which was the larger contributor to the incremental increase in the current account deficit can only be consigned to both exogenous and policy induced failures.

- The trade account shows that growth in exports in the 1991-98 period plummeted to 2.7 per cent per annum compared to 10.2 per cent per annum in the 1985-90 period. Pakistan's exports did not face any significant deterioration in terms of trade. So far as nominal devaluations were meant to spur export growth, that did not happen because their was no real impact on the real exchange rate during the period (See

figure 2). This is because nominal devaluations fed into high inflation almost instantaneously. Exporters were not protected from the corresponding increase in their cost of production because other elements of the overall liberalisation package were of a cost increasing nature. Reduction in export subsidies through enhancement in the rate of export refinance, the removal of the cotton subsidy, removal of utility subsidies and increasing transaction costs because of a move towards sales taxation all went to increasing their overall production cost.

- Lack of export growth in the 1990s is because of the absence of a pro-active policy on the part of the state to promote industry or exports. In a country which is not well-endowed with lucrative natural resources, export growth takes place in the larger context of growth and structural change within the manufacturing sector. The fact that wide-ranging trade liberalisation did not create the impulse for a shift in resource allocation from non-tradeables to tradeables called for creating special incentives to bring about such a transformation.

I.1.3 Bleeding of the Capital Account

- Foreign Direct Investment in Pakistan has increased substantially in the 1991-98 period crossing the US $ 1 billion mark during the year 1995-96. Economic liberalisation in general and the Independent Power Production (IPP) policy in particular has been responsible for this surge in FDI. Similarly, portfolio investments jumped from an average of US $ 134 million per annum in the second half of the 1980s to US $ 458 million in the 1991-98 period. Average inflows in both FDI and portfolio investment, in real terms, were a mere 0.8 per cent of the GDP. In fact, netting out FDI with the contingent liability of profit and dividend remittances the net inflow is a mere US $ 143 million or 0.2 per cent of the GDP. Therefore, the policy of capital account liberalisation did not yield any significant returns. In fact, in the later years, the bleeding got even got more pronounced as outflows on the profit and dividend account in the current account was higher than the inflows.

- The amortization of private sector debt, though less in magnitude, also increased precipitously during the period from an average of US $ 132 million to US $ 457 million in the two periods. Amortization of long-term public debt consumed 3 per cent of GDP on average during the 1991-98 period. In terms of amortization as a ratio of long-term inflows, roughly 60% of these inflows were going back to the donors in the form of amortization payments. The ability of the capital account to finance the current account deficit was thus constrained a great deal during this period.

- Categorizing the causes for balance of payment difficulties during the 1991-98 period are: Trade deficit falls in the realm of both policy and governance failures. Increase in interest payments in the current account, was partly exogenously determined and partly due to governance failures. The most important element of inflows in the current account are the remittances which have declined because of exogenous factors with some element of policy and governance failure also. Decline in official transfers during the 1991-98 period was again exogenous to both policy and governance criteria during the period.

✍ The final analysis indicates that the most important factor in increasing BOP crisis and consequently the creation of a debt overhang were policy failures. Exogenous factors were a close second and governance failures were the last.

I.2 External Borrowing and Public Finance

✍ Public finance considerations directly impinge on external debt in two ways. First, the external debt stock and increasing foreign exchange liabilities impinge on the fiscal deficit. Second, since project aid is an important element of public investment, it is argued that unproductive use of foreign borrowings leads to external debt unsustainability. It is important, therefore, to determine the causality between the fiscal deficit, balance of payments and external debt accumulation.

I.2.1 Causality between the Budget Deficit, External Liabilities and the External Deficit

✍ **A simple method to track the causal relationship between the fiscal deficit and external debt is through the primary budget deficit. The primary budget deficit in the 1980s averaged 4.7 per cent of GDP. This was reduced to 2 per cent of GDP between 1990 and 1996 and then turned into a primary surplus. The ability of Pakistan's economic managers in the 1990s to first reduce the primary budget deficit and then to turn it into a surplus, is indicative of their commitment to fiscal discipline.**

✍ **This reduction in the primary deficit was, however, accomplished at the cost of reducing public investment and thereby compromising on GDP growth.**

✍ To test the causality between external debt, foreign exchange requirements and the budget deficit, a pair-wise Granger causality test for the three variables from 1973 to 2000 has been used. The three Granger hypotheses which were tested include (i) causality between the budget deficit and the foreign exchange constraint; (ii) causality between the budget deficit and the external debt stock; and (iii) causality between the external debt stock and foreign exchange requirements.

✍ The results indicate that unidirectional causality runs from the foreign exchange constraint to the budget deficit and then from the budget deficit to the external debt stock. Bi-directional causality was observed between foreign exchange requirements and the external debt stock.

✍ The most significant result is that an increase in foreign exchange liabilities increase the budget deficit and not vice versa as implied in the report of the DMC and is generally perceived.

I.2.2 Foreign Aid and Investment Efficiency

- Another issue of public finances and external borrowing is the role of public investment. External borrowing has traditionally had a large share in public investment through the project aid component in the Annual Development Programmes of the federal and provincial governments.

- Incremental Capital Output Ratio (ICOR), which is a standard method for investigating investment efficiency, has shown marked deterioration in the 1990s. The aggregate ICOR in the 1980s was 2.97 per cent, which deteriorated to 4.12 per cent in the 1990s. Since it has been empirically demonstrated that public sector investment has a crowding-in impact on private investment through creating externalities eventually captured by the private sector, it suggests that a separate ICOR for public investment cannot be constructed. It is, therefore, not possible to ascribe blame of increasing inefficiencies on either public or private investment in isolation of the other.

- An important issue of investment efficiency is that whether investment carried out by borrowing resources in foreign exchange create commensurate returns in foreign exchange earnings. If this does not happen, then repayment of these loans create problems via the foreign exchange constraint.

II. THE PROPOSED MANAGEMENT STRATEGY: A CRITICAL APPRAISAL

II.1: Debt Management Strategy and Macroeconomic Projections

- The Debt Management Committee Report (DMCR) proposed certain macroeconomic projections in the medium and long run to reduce Pakistan's debt burden.

- The most striking feature of the medium term and to a certain extent the long-term macroeconomic strategy proposed is the policy of stabilisation rather than growth to achieve the objective of debt reduction. This has been based on two assumptions. First, stabilisation goals achieved in the medium run will automatically lead to revival of long-term economic growth. Second, growth in both medium and long runs is not based on a significant increase in the investment-GDP ratio but on improvements in capital efficiency, based on rapid decline in ICOR. Both these assumptions require careful scrutiny.

- Since 1997, Pakistan has been under a heavy dose of stabilisation and the results have been that investment has collapsed, the ICOR has further increased while growth has taken a nosedive. Consequently, poverty and unemployment have both increased at a much faster rate.

- Neither theory nor any empirical evidence suggests that stabilisation will necessarily lead to economic growth.

- On the other hand, reduction in ICOR or improvements in capital efficiency has been based on governance reforms, which is premised on the rule of law and state-level decision-making based on accountability, transparency and equity.

- In Pakistan, many of the governance issues are a part of complex socio-economic and political economy issues that the country is afflicted with. To expect resolution of these complex issues for major productivity gains in the medium run entailing five to ten years is highly unrealistic.

- That improved governance requires the state to maintain its expenditure patterns or even increase them is not compatible with the proposal in the DMCR that the share of government expenditure in GDP should be reduced.

- A major dilemma is the reduction in debt and to achieve the broader objectives of development. Running high fiscal deficits that create debt liabilities should be avoided. If enhancement of public expenditures from its present low level is required, then the tax-GDP ratio has to be increased.

- The most flagrant case of lack of transparency is witnessed in the military budget. While rest of the public expenditures are available for public scrutiny through accounting procedures, the military budget is a one-line item in the *Demands for Grants* document. When there is an elected Parliament, this is one expenditure head, which is not debated and duly approved.

- Importantly, while the DMCR does mention reducing the level of the defence budget from 4.7 per cent of GDP presently to 3.9 percent by 2004 and down to 3 percent by 2010, it does not include transparency in the defence budget as part of its various exhortations on good governance.

II.2: Debt Management and the External Account

- The report of the DMCR has presented some salient targets to be achieved by mid 2004 as an exit strategy from the burden of external debt. These targets include (i) Achievement of a non-interest current account surplus of US $ 3.8 billion by June 2004; (ii) Net Foreign Private Investment to US $ 2.5 billion; (iii) Privatisation proceeds of US $ 3 billion; (iv) Foreign exchange reserves of US $ 3.8 billion; (v) No further IMF assistance beyond the current PRGF; (vi) Qualified assistance from the world Bank and the ADB; and (vii) Reduction in the external debt burden to the sustainable level of 200 per cent of foreign exchange earnings by mid-2005.

- A number of these targets have been achieved due to a change in the government's foreign policy after September 11, 2001. However, the target of net direct foreign investment at US $ 3 billion appears difficult in view of the previous average of less than US $ 500 million per annum. Moreover, privatisation to date has yielded much less than what was envisaged in the DMC's report.

- The issue of privatizing public utilities is complex. Since utilities distribute public goods, their public goods character i.e. provision of service to the entire population at affordable rates has to be maintained. Ownership does not matter as long as the state is able to regulate the public goods character of these entities.

✍ Another important issue is the use of arbitrary thresholds for debt sustainability used in the DMCR. Reduction in the external debt burden to sustainable level of 200 per cent of foreign exchange as proposed by the DMC report has been borrowed from the indicators of debt sustainability employed by the World Bank in the case of Highly Indebted Poor Countries (HIPC) initiative. A number of empirical and analytical lacunae in the concept make such arbitrary ratios completely inappropriate to be utilized.

3. CONCLUSIONS AND SUGGESTIONS

✍ The post September 11 scenario has helped Pakistan a great deal in reducing its chronic debt problem. This includes a significant reduction in the trade deficit, more than doubling of foreign remittances and most importantly the Paris Club debt restructuring.

✍ These are better times for Pakistan as far as the external account is concerned. In an era of financial and trade openness, there is no better insurance against unanticipated external shocks then to embark on a sustainable growth and developmental path. The report presents three future policy directions in this perspective.

✍ ***First, the tendency to borrow externally to finance the budget deficit has increased since 1997-98 compared to 1980-97. The rationale for increasing reliance on external financing for budgetary purposes is perhaps that external borrowing is on concessional terms and therefore its interest payment obligations in the future will be lower compared to borrowing domestically. This is true presently as international interest rates are unusually low and in comparison domestic interest rates are unusually high. However, this large differential in domestic and international interest rates may not last long.***

✍ ***The fact that external debt has to be repaid in foreign exchange and is dependant on both exchange rate fluctuations and the country's ability to earn foreign exchange means that domestic balance is achieved at the cost of potential external imbalance in the future. By definition, developing countries have fewer degrees of freedom vis-à-vis foreign exchange liabilities. This is a risky policy option which can and should be avoided.***

✍ Second, the medium and long-term issue should be to revive growth and investment in the economy and to create a dynamic export base in the country so that the need for external debt is minimised.

✍ High debt servicing requirements have a tendency to crowd-out private investment. The historically low level of investment prevalent in the economy at present can be broken by a substantial increase in public investment, both physical and social.

✍ The thorny issue for policy makers has been about financing a major boost in public investment. The window of opportunity that has been created since the writing of the DMCR has been the unprecedented level of foreign exchange reserves accumulation by Pakistan. A part of these reserves – after having determined some rational level to be kept for contingencies – can be used for creating the fiscal space for higher levels of public investment. Retirement of external debt which further reduces debt servicing

liabilities beyond that already achieved through the Paris Club can be one way of creating this fiscal space.

- Part of the reserves can also be channeled to provide a boost for private investment through lowering interest rates. At present, real lending rates in Pakistan are much higher than the developing country average, notwithstanding significant reductions in the domestic discount and NSS rates in the recent past. In recessionary conditions, the argument for sustaining such high interest rates is that it provides a large spread for the banking sector which is necessary to clean the infected balance sheets of the Nationalised Commercial Banks (NCBs). If the reserves can be used to clean up these balance sheets in one go, then interest rates can be slashed by a larger magnitude instead of the small trickles in which it is being done presently.

- Foreign debt obligations can only be honoured sustainably through earning foreign exchange. Remittance incomes from abroad and enhancement of exports are the two instruments, which create non-liability foreign exchange earnings. Remittance income is a limited option because it depends on exogenous reasons rather than domestic policy instruments. Therefore exports of goods and services is the only instrument through which growth can be sustained over a long period.

- Adoption of a pro-active strategic industrial policy and the development of industrial clusters are two ways in which other countries have expanded their industrial and export base. Both are interventionist policy tools to which there is aversion amongst both government and its donors. These policy tools, however, have been central to successes achieved in growth and export promotion amongst late developers, particularly in East Asia.

- In conclusion, the problem of external debt and debt servicing is closely linked with the adoption of a developmental outlook on policy making. In an increasingly globalised world, a weak internal economy makes the country all the more vulnerable to external shocks. The most important manifestation of such shocks is an inordinate increase in the external debt stock and problems in serving the accumulated debt. The adoption of a developmental policy framework ultimately hinges on strategic statecraft by the bureaucracy, the military, the politicians and civil interest groups in society. These are however issues which require more focused analysis which is beyond the remit of this analysis.

INTRODUCTION

Pakistan faces grave debt problems that threaten the economic future of the country
(Debt Management Committee Report, 2001)

An unsustainable external debt burden, as the above quotation suggests, severely compromises economic prospects of a developing country. In the extreme scenario, if foreign exchange denominated debt cannot be serviced through a country's foreign exchange earnings then it either defaults or borrows to repay this debt at onerous terms. In the former case, there exists the possibility of economic ostracisation from the rest of the world, resulting in the country's inability to import necessities such as oil, food, machinery and equipment. The result is runaway inflation (or in extreme cases physical shortages of necessities), collapse of growth and investment, further accentuation of inequality and a quantum jump in the population below the poverty line. Even if the debt overhang is postponed through fresh borrowing or reschedules, it is at the cost of a severe compromise on a country's economic and consequently political sovereignty.

Before September11, 2001, Pakistan's economy was caught in the web of a vicious debt trap. Committed outflows of foreign exchange on 30 June, 2001 exceeded inflows by $ 4.56 billion. Of this amount, Pakistan was able to obtain rescheduling through the Paris Club on $ 3.96 billion. This reschedule was on a short-term basis and was contingent on an IMF agreement being finalised, with all its stringent conditionalities.

While the debt overhang had become serious over the years, sanctions imposed by the G-8 countries on bi-lateral and multi-lateral lending after the country's nuclear tests in 1998 and subsequently after the military coup in 1999 further compounded the already precarious external debt situation. Two short-term Paris club reschedules – one in January 1999 and the other in Sept 2001 – saved Pakistan from imminent default on its external liabilities. These were short–leash relief measures on only a part of bilateral external debt and had merely postponed the day of reckoning as all underlying indicators with respect to external liabilities remained dismal.

The cataclysmic events of September 11, 2001 have once again catapulted Pakistan into centre-stage of global geo-strategic interests. The most significant benefit vis-à-vis external

debt was achieved through the debt restructuring agreement inked with the Paris Club in December of 2001. According to this agreement, Pakistan's entire bi-lateral debt of US $ 12.5 billion has been substantially restructured. The Paris Club debt restructing has meant that the debt repayment period has been extended to 38 years with a grace period of 15 years.[1] This debt restructuring means that Pakistan's debt servicing liabilities will decline by roughly US $ 2.7 billion between 2002 and 2004 and thereafter between US $ 8.6 billion and 11 billion depending on the interest rates negotiated with individual countries (SBP, 2002, p 99). Similarly, the net present value of Pakistan's external debt is expected to decline by 27 per cent to 43 per cent between now and 2017 (ibid). Only three other countries – Poland, Egypt and Yugoslavia – have been given such generous debt relief by the Paris Club.

Apart from the Paris Club debt restructuring, Pakistan's balance of payments have benefited tremendously from various inflows over the last year. The doubling of remittances from overseas Pakistanis, resumption of multilateral aid and bi-lateral budgetary support from the United States, as well as payments for logistical support for the war on terrorism have enabled Pakistan to post a current account surplus in the year 2001-02. This has also resulted in the Pakistani currency having appreciated with respect to the US Dollar by more than 10 per cent over the year. This current account surplus has also resulted in the accumulation of reserves equivalent to more than eight months of imports at last count.

While Pakistan is no longer on the threshold of an external debt crisis for now, a number of issues pertaining to the country's external debt burden still need to be addressed. Sustainable debt servicing requires more than the reduction of the net present value of debt. It requires high and sustainable growth in GDP and in foreign exchange earnings. The country is yet to embark on a path to achieve these twin goals. It will also require that appropriate fiscal discipline is maintained so that new borrowing is not squandered in unproductive expenditures – including borrowing for current expenditure and defence.

The Musharraf government has outlined a debt management strategy based on the report of the Debt Management Committee which was headed by Dr. Parvez Hasan. The Debt Management Committee Report (henceforth DMCR) has outlined a future debt management

[1] These are the terms for concessional bi-lateral debt, known as Official Development Assistance (ODA). ODA debt is 70 per cent of the total restructured debt stock. Thirty per cent of the remaining debt stock has been restructured for 23 years with a grace period of 5 years.

strategy to be followed till 2010 to reduce public debt, including its external component. The DMCR has also identified the causes for debt accumulation and its unsustainability. This is appropriate as only if we learn from past mistakes, will we be able to avoid them in the future.

Whatever shape Pakistan's future political landscape takes, the DMCR will remain the benchmark for any future debt management policy simply because it is the only comprehensive exercise that the Government of Pakistan has undertaken on this critical issue. It is, therefore, important to critically appraise the approach adopted in this report. Needless to say if the government is to commit itself to a strategy of debt reduction it should be one which not only keeps external debt within sustainable limits but also does not compromise on other important goals of economic performance – growth, welfare and poverty reduction. Since there is a link between the assessment in the DMCR of the causes of debt unsustainability that took place in the 1990s and the strategy put forth, it is important to revisit the causes afresh.

This study thus seeks to address three issues. In section I, we address the causes of the debt overhang created in the mid 1990s. Through a detailed breakdown of different elements in the external account, we shall seek to explore the reasons behind the increase in different elements in the external account. Thereafter, we will also look at the relationship between the fiscal deficit and different external debt indicators in order to determine the causality between the internal deficits and external constraints.

Section II addresses the debt management strategy proposed in the DMCR. A number of targets proposed in the DMCR– such as accumulation of reserves, reduction in the net present value of debt, securing the Poverty Reduction Growth Facility (PRGF)- have already been achieved in the wake of favourable developments in the post-September 11 geo-political scenario. However, there is no room for complacency. Over the long term, the ability of the country to earn foreign exchange will have to be enhanced if we are to avoid slipping into another debt trap. Specifically, the debt management strategy has to be seen in the context of growth and investment revival and the trade-offs suggested in the DMCR require critical appraisal.

Section III will then move from appraisal of the DMCR to policy alternatives regarding debt management which are commensurate with sustainable economic growth and investment in the country.

I. CAUSES FOR THE INCREASING DEBT BURDEN

Debt indicators are usually presented in terms of stock and flow measures. Table 1 presents stock measures of total debt stock and its share in GDP in both nominal and real terms. The DMCR (pg 2) correctly states that debt figures should always be analysed in real terms because "part of the debt is wiped out by inflation". Therefore it is appropriate to take inflation adjusted numbers as the benchmark. The total debt stock, its share of GDP and its Net present Value are important indicators of the debt burden.

TABLE 1
DEBT STOCK AND SHARE OF GDP

Years	External Debt (Nominal)	External Debt (Real)	External Debt to GDP Ratio
1981	11,414	23,136	40.62%
1982	12,294	23,052	48.70%
1983	13,251	23,506	46.20%
1984	14,165	23,660	45.50%
1985	15,074	23,889	48.37%
1986	16,155	24,904	50.67%
1987	17,017	25,420	51.06%
1988	18,434	26,710	48.04%
1989	20,350	28,188	50.80%
1990	22,354	29,433	56.01%
1991	24,191	30,423	53.15%
1992	25,259	30,841	51.80%
1993	27,541	32,616	53.29%
1994	29,418	33,956	56.41%
1995	30,847	34,703	50.57%
1996	32,723	35,950	51.29%
1997	33,864	36,440	53.74%
1998	35,715	37,863	57.62%
1999	36,089	37,731	61.48%
2000	34,069	34,818	56.04%

Source: State Bank of Pakistan, Annual Report, Various Issues.

In terms of some of these indicators we see in Table 1 that Pakistan's debt stock more than doubled from $ 11.4 billion to $22.35 billion in the decade of the 1980s. In terms of its share of GDP, the debt stock increased from roughly 40 per cent of GDP to 56 per cent of GDP. In the 1990s, the debt stock increased from $ 25 billion to $34 billion and its share in GDP increased to 61 per cent. In nominal terms, therefore, the rate of growth of debt stock was lower in the 1990s compared to the previous decade (see Table 2). In real terms, however, the rate of growth in debt stock was

slightly higher in the 1990s.[2] In terms of stock indicators, therefore, we see that there is not much difference in debt accumulation between the two periods. There is, however, an important caveat to official debt figures. FCAs (both resident and non-resident) were a direct liability of the State Bank and should thus be added to the official debt stock (for further information, see ADB 2002).[3] For the purpose of not diverting from official figures at this stage, we have presented only official debt stock figures.[4]

TABLE 2
GROWTH IN EXTERNAL DEBT STOCK: NOMINAL AND REAL

	External Debt (Nominal)	External Debt (Real)
1981-90	7.75%	2.71%
1991-98	5.72%	3.18%
1999-2000	-2.33%	-4.11%

Source: State Bank of Pakistan, Annual Report, Various Issues
Asian Development Bank (Global Development Finance 2001)

Stock indicators, however, are not useful if a debt crisis is to be discerned. The defining character of external debt is that it has to be repaid in foreign exchange.[5] Indicators of inflows and outflows of foreign exchange are, therefore, most critical in terms of tracking the onset and persistence of an external debt crisis. In the pure case, if net foreign exchange earnings (non-debt creating) are less than debt servicing requirements then debt servicing becomes unsustainable. In the case of Pakistan, net foreign exchange earnings have always been less than the debt servicing liabilities if both interest and amortization liabilities are taken into account. Traditionally debt servicing has taken place by borrowing long-term and on concessionary rates. If we treat long-term debt as earned income,[6] then the ratio of debt servicing to foreign exchange earnings becomes a more meaningful indicator of the ability to service debt. It is on this important indicator that we see the situation in the 1990s deteriorating.

Table 3 shows that between 1985 and 1992 the ratio of debt servicing to foreign exchange earnings hovered in the range of 19 to 33 per cent. Since 1993 it increased continuously till 1998-99. Thereafter it reduced mainly because of Paris Club rescheduling. The ratio in column 5 of Table 3, however, is inclusive of resident foreign currency accounts (FCAs)

[2] Lower inflation in developed countries during the 1990s caused this difference between growth rates in real and nominal terms.
[3] Other relatively smaller elements, such as military debt and foreign exchange borrowings of semi-autonomous public sector corporations have also not been added in official public debt figures until very recently.
[4] Our analysis on the debt crisis, however, has not been affected by official underreporting of the debt stock as FCAs are taken into account when looking at causes of BOP problems that emerged in the 1990s.
[5] Resort to deficit financing through inflationary means and re-rolling of existing debt are options available for sovereign *domestic* debt but not for *external* debt, at least for developing countries.
[6] In the 1990s, even medium term borrowing was included in this definition.

shown as inflows. Resident FCAs, as we know now, were a volatile financial instrument which could be recalled at short notice. It should, therefore, be treated as a liability rather than earnings.[7] A more realistic picture emerges once we net out FCAs from foreign exchange earnings. This increases the ratio on average by 3 percentage points between 1992-93 and 1998 (the year when resident FCAs were frozen.) The immediate debt crisis, therefore started brewing in 1993 and peaked in 1998-99 till Pakistan received a respite from the Paris Club and subsequently a restructuring on bilateral debt in 2001.

TABLE 3
EXTERNAL DEBT SERVICING AND FOREIGN EXCHANGE EARNINGS
(US $ Million)

Period	Total Debt Servicing	Foreign Exchange Earnings	Foreign Exchange Earnings (net of FCA)	Debt Servicing / Foreign Exchange Earnings	Debt Servicing / Foreign Exchange Earnings (Net FCA)
	(A)	(B)	(C)	(B/A)	(C/A)
1985	1,070	5,555	5,555	19.26%	19.26%
1986	1,339	6,246	6,246	21.44%	21.44%
1987	1,465	6,443	6,443	22.74%	22.74%
1988	1,595	7,139	7,139	22.34%	22.34%
1989	1,657	7,343	7,343	22.56%	22.56%
1990	1,803	7,681	7,681	23.47%	23.47%
1991	1,754	8,807	8,617	19.92%	20.36%
1992	2,011	10,326	9,008	19.48%	22.32%
1993	2,599	9,470	8,927	27.44%	29.11%
1994	2,996	9,389	8,637	31.91%	34.69%
1995	3,447	10,517	10,136	32.78%	34.01%
1996	3,597	10,916	10,153	32.95%	35.43%
1997	3,859	11,343	9,996	34.02%	38.61%
1998	4,017	11,864	10,388	33.86%	38.67%
1999	3,873	9,996	9,457	38.75%	40.95%
2000	4,154	11,360	11,038	36.57%	37.63%
2001	3,838	13,670	13,136	28.08%	29.22%
2002	3,507	14,857	14,572	23.61%	24.07%

Source: State Bank of Pakistan, Annual Report, Various Issues

The 1991 to 1998 period thus merits special scrutiny. The DMCR mentions a number of factors for the build-up of the debt problem. The central problems according to the DMCR are large and persistent fiscal and current account deficits as well as imprudent use of borrowed funds. The latter includes "wasteful government spending, resort to borrowing for non-development expenditures and poor implementation of foreign aided projects."(pg 1). It also mentions weakening debt carrying capacity – in terms of "stagnation and or decline in government revenues and exports – and rising real cost of government borrowing."(ibid)

[7] This view is corroborated by the DMCR which suggests the resident FCAs "should be treated as borrowings rather than earnings." (page 21)

While some of these factors are specific to the domestic debt build-up, which is outside the remit of our analysis, reasons stated in the DMCR fall broadly in the realm of policy and governance failures. There is no quibble with this analysis. However, the DMCR does not adequately acknowledge exogenous factors that played their part in the country's external debt build-up. A sharp deceleration in remittance incomes and increasing interest and amortization liabilities of debt incurred twenty to thirty years ago are exogenous to both policy making and governance at the time.

To investigate the build-up of the external debt overhang, both the external account and the fiscal deficit need to be investigated in detail.

1.1. Foreign Debt Build Up and the External Account

According to the DMCR, the principal reason for the creation of the external debt overhang in the 1990s was the high current account deficit that the country was running during the period. The conceptual point of departure that the DMRC (page 2) uses for this purpose is stated as:

> If there is a primary current account balance, the ratio of external debt to foreign exchange earnings will not increase as long as the real interest rate on debt does not exceed the real rate of growth of foreign exchange earnings

This textbook conceptualisation we believe does not apply to developing countries like Pakistan. In economies where there is a large sovereign debt portfolio, interest payments on sovereign debt are a large part of foreign exchange outflows. Similarly, non-trade related inflows, such as remittance income or open market purchases, are an important part of the total foriegn exchange inflows. Foreign Direct Investment (FDI), which is part of the capital account, creates an immediate and at times an important liability in the current account in the form of profits and dividends. This is especially true in the case of Pakistan where FDI investment has been geared almost exclusively to the domestic market. As such, its contribution to exports is minimal. Moreover, large outflows from the capital account in the form of amortization payments on debt prompt the state to borrow short-term (apart from drawing down its reserves), which in turn has an almost immediate feedback on the current account in the form of rising interest payments.

Balance of payments, therefore, have to be seen in their entirety rather than focussing only on the current account. In any case, since Pakistan has rarely run a primary balance on the current account, the conceptualisation used in the DMCR is not relevant.

In order to analyse the external account for the purpose at hand, we have divided the Balance of Payments (BOP) series into three distinct time periods; 1985 to 1990[8], 1991 to 1998 and then from 1999 to 2001. The purpose is to compare the 1991-98 period – when the debt build up started moving towards unsustainable levels - with the immediate past and the post-rescheduling period. This detailed data is presented in Table 4.

TABLE 4
BALANCE OF PAYMENT TABLE (CONSTANT PRICES 2000-01)

(US $ Million)

Items	Average			As Percentage of GDP		
	1985-90	1991-98	1999-2001	1985-90	1991-98	1999-2001
1. Trade Balance	-4,047	-3,040	-1,638	-7.85%	-4.77%	-2.69%
Exports(fob)	5,489	8,367	8,382	10.50%	13.12%	13.84%
Imports (fob)	9,535	11,407	10,021	18.35%	17.89%	16.54%
2. Services (Net)	-1,748	-3,074	-2,902	-3.34%	-4.80%	-4.79%
Shipment	-771	-931	-809	-1.48%	-1.46%	-1.33%
Other transportation	201	101	91	0.39%	0.16%	0.15%
Travel	-161	-485	-151	-0.30%	-0.77%	-0.25%
Investment Income	-1,087	-1,945	-2,037	-2.08%	-3.03%	-3.36%
interest payments	-1,087	-1,517	-1,547	-2.08%	-2.36%	-2.55%
Profit and Dividend	0	-428	-490		-0.67%	-0.81%
Other goods, services,& Income	71	187	4	0.13%	0.29%	0.01%
3. Current Transfers (Net)	4,292	3,426	3,528	8.32%	5.42%	5.86%
3.a Current Transfers NET FCA	4,292	2,470	3,053	8.32%	3.93%	5.07%
a) Private Transfers - net	3,586	3,017	3,135	6.97%	4.76%	5.19%
i) Workers' Remittances	3,600	1,804	1,067	6.99%	2.86%	1.76%
ii) FCA (Residents)	0	955	476		1.49%	0.79%
iii) Outright Purchases	0	0	1,461			2.43%
b) Official Transfers	706	408	799	1.36%	0.66%	1.32%
4. Current Account NET FCA	-1,502	-3,643	-1,488	-2.87%	-5.64%	-2.42%
4.a Primary Current Account Balance	-415	-1,170	535	-0.79%	-1.79%	0.92%
4.b Current Account Balance (1+2+3)	-1,502	-2,688	-1,012	-2.87%	-4.15%	-1.63%
5. Financing	1,502	2,688	1,012	2.87%	4.15%	1.63%
I Capital Account(net)	1,503	2,608	-2,431	2.87%	4.06%	-3.95%
a) Foreign Investment	330	1,030	221	0.63%	1.58%	0.36%
i) Direct investment in Abroad (Net)	-13	0	-27	-0.02%	0.00%	-0.05%
ii) Direct investment in Pakistan(Net)	218	571	433	0.42%	0.88%	0.71%
iii) Portfolio investment in Pakistan(Net)	124	458	-185	0.24%	0.70%	-0.30%
	0	341	-12		0.52%	-0.02%
b) Foreign long-term loans/credit (Net)	899	1,259	-582	1.70%	2.01%	-0.96%
i) Disbursements	1,966	3,171	1,915	3.76%	4.97%	3.15%
Project Aid	1,695	1,798	1,121	3.22%	2.82%	1.84%
Food Aid	0	373	145		0.58%	0.24%
Non Food	0	284	460		0.46%	0.77%
Others (private loans/credits)	271	717	189	0.53%	1.12%	0.31%
ii) Amortization	1,068	1,912	2,497	2.06%	2.97%	4.11%
Official	936	1,456	1,979	1.80%	2.26%	3.26%
Others (private loans/credits)	132	457	518	0.26%	0.70%	0.85%
c) Official Assistance (Commercial and IDB)	90	207	-356	0.17%	0.33%	-0.58%
d) FCA (Non-residents)	269	196	-1,474	0.54%	0.29%	-2.39%
e) Others (mainly outstanding exports bills etc)	-84	-84	-240	-0.17%	-0.14%	-0.39%
II. Changes in Reserves (-Inc/+Dec)	22	43	-645	0.05%	0.03%	-1.08%
Assets	294	-43	-727	0.58%	-0.11%	-1.22%
SDRs	0	0	1	0.00%	0.00%	0.00%
Forex (State Bank of Pakistan)	288	-41	-395	0.56%	-0.11%	-0.67%
Forex (Commercial Banks)	6	-2	-334	0.01%	0.00%	-0.55%
Liabilities	-273	86	83	-0.53%	0.14%	0.14%
Use of Fund Credit	-273	86	83	-0.53%	0.14%	0.14%
Purchases/drawings	180	283	326	0.36%	0.44%	0.54%
Repurchases	453	197	243	0.89%	0.30%	0.40%
III. Errors & Omissions	-45	37	725	-0.09%	0.06%	1.19%
IV. Exceptional financing	0	0	2,964			4.82%

Source: State Bank of Pakistan, Annual Report, Various Issues
Asian Development Bank (Global Development Finance 2001)

[8] We would have preferred to have gone back to 1980, but detailed data on various sub-heads of the BOP was not available going so far back.

I.1.1. Dissecting the Current Account

The current account deficit in the 1980s averaged 2.87 per cent in real terms whereas in the 1991-98 period, this increased to 4.2 per cent of GDP. Excluding the treatment of FCAs as inflows for reasons given above, the current account deficit in the 1991-98 period increased to 5.6 per cent of GDP in real terms. It is not surprising that with such a high current account deficit, the BOP went out of sync and the threat of imminent default on external liabilities loomed large.

The largest component of the current account is the trade balance. We see that on average the trade deficit in the 1985-90 period was $ 4047 million and reduced fairly substantially to $3040 million in the 1991-98 period. As a share of GDP, therefore, the share of the trade deficit actually reduced from 7.7 per cent of GDP to 4.7 per cent of GDP. It is important to note, therefore that the trade deficit was not responsible for the burgeoning current account deficit in the 1990s. Rather, by reducing its share in real GDP, the trade deficit on its own contributed towards reducing the current account deficit.

It is in the Services section of the current account that we see the real haemorrhage taking place. The interest payments component increased on average by almost 40 per cent during the period. Interest payments on their own increased outflows by almost one percentage point of GDP.

What caused interest payments to increase so rapidly in the 1990s? This can be answered by further disaggregating the interest payments component in the current account. This disaggregation is given in Table 5. We see that long term debt incurred by the country – mostly from multilateral and bilateral sources - increased by 35 per cent in real terms. The maturity profile of these loans is on average 20-30 years. Since this is interest on long term debt, contracted in the past, it is completely exogenous to the policy framework of the time.

TABLE 5
DETAILS OF INTEREST PAYMENTS IN THE CURRENT ACCOUNT – CONSTANT PRICES 2001

(US $ Million)

	AVERAGE		
	1985-90	**1991-98**	**1999-2002**
Public Long-Term	550	852	874
Public Medium-and Short-Term	-	88	101
Interest on FCDs	-	431	368
Interest on Private Sector Debt	-	130	224

Source: State Bank of Pakistan, Annual Report, Various issues
Asian Development Bank, Global Development Finance, (2001)

The second category under the head of interest payments is interest on various forms of foreign currency deposits (FCDs) in Pakistan. The first FCD instrument was issued in 1985 in the form of the Foreign Exchange Bearer Certificates (FEBCs). Thereafter in 1991 the now (in)famous Foreign Currency Accounts (FCAs) were introduced by the Nawaz Sharif government on exceptionally liberal terms.[9] From a negligible amount before 1991,[10] interest on FCDs peaked at $ 516 million in 1996-97 alone. The average outflow of foreign exchange between 1991 and 1998 accounting for FCDs as well as other forms of foreign exchange denominated bonds was $469.3 million per annum. This amounted to an additional drain of 0.7 per cent of GDP on the current account during this period.

The drain on the current account due to the FCDs can be categorised as a policy-induced failure. The counter argument can be that since there were significant inflows coming in through the FCDs, they were plugging other foreign exchange gaps. Average net inflows during the period were $ 1151 million but outflows through interest payments on this account averaged $469.3 million per annum. Thus, 40 per cent of the net inflows were going into interest payments only on FCDs. By any account this is a high-cost debt creating option. Not only did it divert remittances which were a non-liability inflow into a liability inflow, but also because of the incentive for dollarisation it created, their net economic cost appears to outweigh the marginal benefits that they created in easing the pressure on the country's balance of payments.

Outflows on account of profits and dividends (given in Table 4) and interest payments on private debt (given in Table 5) combined resulted in average real outflows of US $ 543 million per annum during the 1991-98 period. While comparative figures for both these heads are not available for the 1985-90 period, they are expected to have increased substantially in the 1990s. A liberalised financial and trading environment as well as an increase in FDI activity[11] suggest that this was an additional burden on the current account. Under both these heads we see an increasing trend in the 1999-2001 period also. The impact on outflows on both these counts can thus be reasonably categorised as policy induced.

[9] The interest rate offered was 1 per cent plus LIBOR and borrowing in Rupee terms against these deposits was allowed. Their could not have been a more conducive incentive structure for dollarisation of the economy. Moreover, the State Bank provided foreign exchange risk cover on these deposits, which created a large implicit subsidy.

[10] Data on interest payments on FEBCs and DBCs is not available. It can still be inferred that interest payments under this head was a relatively small amount.

[11] Details on FDI are given in Table 4 and also in Appendix Table B-1 and B-2.

The extent to which debt servicing contributed to the current account balance can be gauged by netting interest payments from the overall current account deficit, i.e. through estimation of the primary current account deficit. We see that the primary current account deficit during the period 1991-98 increased to 1.79 per cent of GDP compared to 0.8 per cent of GDP in the 1985-90 period. Exogenous factors (long-term interest payments) and policy induced failures (introduction of FCDs) mainly contributed towards this increase.

On the other side of the ledger, non-trade inflows of foreign exchange also deteriorated significantly in the 1990s. On average, real inflows- net of FCAs - declined by a massive 42.5 per cent in the 1991-98 period compared to the 1985-90 period. Even if the FCAs are accounted for as inflows, decline in average net inflows between the two periods was to the tune of 20.2 per cent. Seen as a share of GDP, the average net inflows declined from 8.3 per cent of GDP to 5.4 per cent of GDP in the 1990s. More significantly if we net out the FCAs, the share of net inflows further declines to 3.9 per cent of GDP. This decline in net inflows, more pronounced than the increase in interest payments, was a critical factor in the burgeoning current account deficits experienced in the 1991-98 period.

In the case of Pakistan, two principal components of inflows are remittances sent by overseas Pakistanis and official inflows for BOP support, mainly coming through the International Financial Institutions (IFIs). In 1991, resident FCAs were added to the inflow account and later in 1999 outright purchase of foreign exchange by the State Bank from both the kerb and inter-bank markets created new avenues of foreign exchange inflows.

A precipitous decline in remittances underpinned the overall decline in net inflows in the country. Foreign remittances had peaked in the early 1980s and had started declining in the latter half of the 1980s. In real terms, average remittances exactly halved between 1985-90 and 1991-98 (see Table 4). In terms of their share in GDP also, remittances declined from 6.9 per cent of GDP to 2.8 per cent of GDP in the 1991-98 period. Another way in which the importance of remittances can be gauged is by looking at the share of the trade deficit that they financed. In the 1985-90 period, remittances financed roughly 89 per cent of the trade deficit, while this share declined to a meagre 59.3 per cent of the trade deficit in the 1990s.

Is the decline in remittance income exogenous to the policy framework? Reduction in the absolute number of Pakistanis working in the oil rich Middle East after the Gulf War in 1991 was an immediate cause for the decline in remittances. Also the composition of the workforce

changed in the sense that manual and unskilled labour declined (Addleton, 1992). This meant that the propensity to remit income also reduced as more skilled and affluent workers tend to take their families with them. On the other hand, inefficiency of Pakistani banks to remit incomes expeditiously, the introduction of a legal kerb market, the introduction of FCAs for both resident and non-resident Pakistanis and increasing volatility in the Rupee also meant that the incentive to remit money through legal channels reduced. The latter set of issues can be categorised as policy or governance failures.

This debate could be resolved empirically if the exact number of Pakistanis residing abroad – particularly in the Middle East – and their average propensity to remit is accounted.[12] In the absence of such information, more qualitative factors will have to be assessed. There is no evidence to suggest that inefficiency of the nationalized commercial banks increased in the 1990s compared to the 1980s. Also, non-resident FCAs were a small amount (as we see in the capital account) and did not wholly substitute for the large decline in remittances that occurred. Although the legal kerb market did expedite the flow of remittances through non-bank channels, such channels, i.e. the *hundi* market was operative before the inception of the legal kerb market. The quantum of remittances through non-banking channels, however, might have increased in the mid 1990s when the difference in the official and kerb markets was high.[13] It will only be safe to suggest that equal weight should be given to exogenous and policy induced failures for the sharp decline in remittances.

Another element of current transfers is official inflows. These refer to official inflows for BOP support in the form of grants from other bi-lateral and multi-lateral sources. Official transfers reduced on average by 42 per cent in the 1990s compared to the 1985-90 period and their contribution to GDP also halved in the 1990s. A reduction in the quantum of overseas assistance can perhaps be ascribed as wholly exogenous – at least to economic policy. The end of the Afghan war and the end of the cold war are important explanatory phenomena in this regard. On the one hand, these events reduced Pakistan's geo-strategic importance and on the other hand, both multilateral and bi-lateral donors had to spread their aid portfolio much thinner to incorporate the post-socialist economies of Eastern Europe and Central Asia.

[12] Such empirical research has not been carried out in our knowledge.

I.1.2. The Current Account Deficit: Further Discussion

The upshot of the discussion on the burgeoning current account deficit so far is that the incremental increase in the current account deficit was partly exogenous and partly policy induced. Increase in interest payments on long term debt amongst outflows and reduction in official transfers can be wholly ascribed to exogenous factors. On the other hand, interest payments on FCAs and increase in outflows on account of profits and dividends was a direct result of current account liberalization. Decline in remittances, which perhaps was the larger contributor to the incremental increase in the current account deficit can only be consigned to both exogenous and policy induced failures.

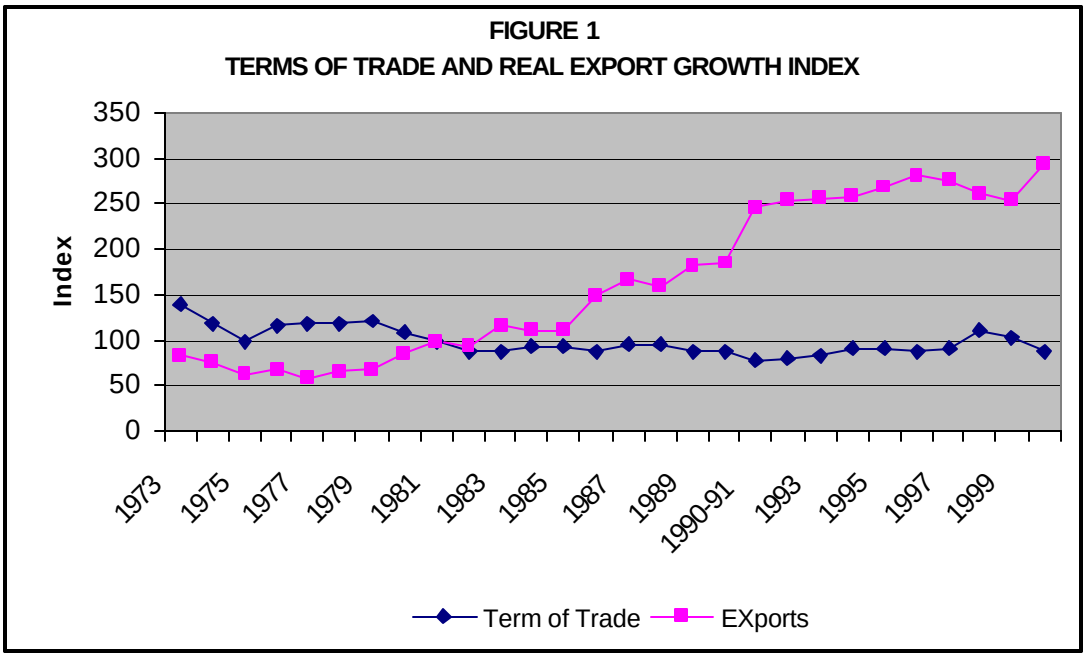
We also saw earlier that that the trade deficit did not contribute incrementally to the current account deficit. However, the point has to be also made that the trade deficit remained the largest component of the current account deficit and thus any improvement in the current account balance was circumvented by a persistent and high trade deficit. The underlying reason for a high trade deficit in the 1990s was a virtual collapse in export growth. In the 1991-98 growth in exports plummeted to 2.7 per cent per annum compared to 10.2 per cent per annum in the 1985-90 period.

Factors behind a significant slowdown in exports thus need to be ascertained. There are usually two factors which lead to such deterioration in developing countries. First, export growth in value terms can decline if there is a significant deterioration in the country's terms of trade. This was the principal cause for debt accumulation in Sub-Saharan Africa (Nissanke and Ferrarini, 2001 and UNDP 1999). Second, theory suggests that an incentive structure which creates a bias against exports in relation to production for the domestic market. Pakistan has been in the process of liberalizing its trade and foreign exchange regimes throughout the 1990s. [14] Why did this significant effort at liberalization not yield results vis-a- vis a shift in resource allocation from non-tradeables to tradeables?

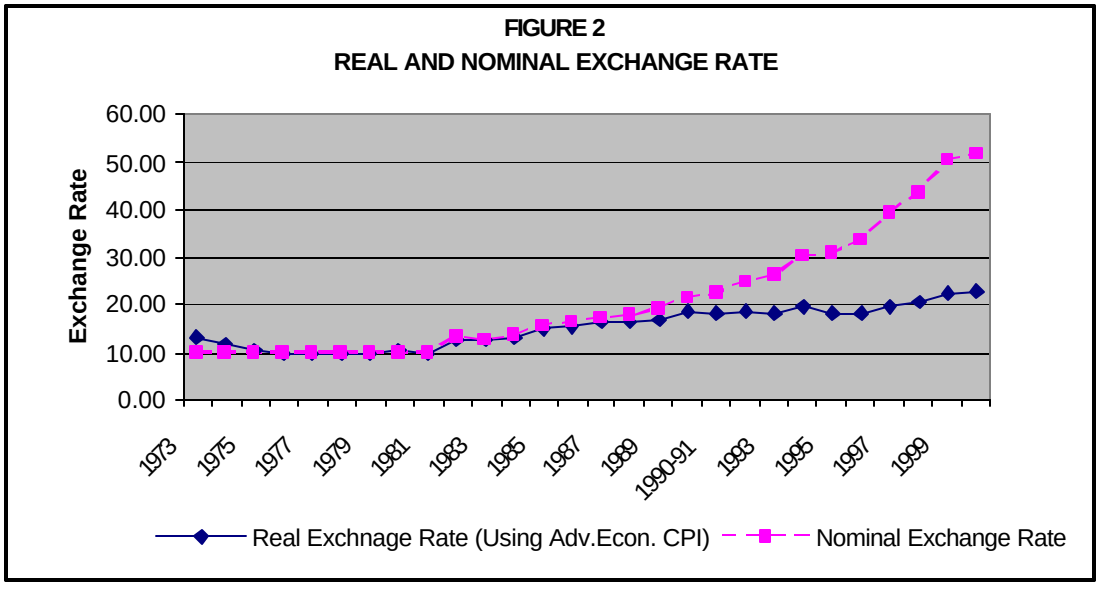
Figure 1 clearly demonstrates that Pakistan's exports did not face any significant deterioration in terms of trade. So far as nominal devaluations were meant to spur export

[13] This takes us to the issue regarding factors for swift nominal devaluations in the 1990s. Reasons for this are varied but arguably a large current account and trade deficit was fuelling devaluation rather than the other way round.

[14] Trade liberalization occurred through reduction in maximum tariff rates, reduction in tariff slabs, removal of export duties and through frequent devaluations of the Rupee.



growth, that did not happen because their was no real impact on the real exchange rate during the period (See figure 2). This is because nominal devaluations fed into high inflation almost instantaneously. Exporters were not protected from corresponding increase in their cost of production because other elements of the overall liberalisation package were of a cost increasing nature. Reduction in export subsidies through enhancement in the rate of export refinance, the removal of the cotton subsidy, removal of utility subsidies and increasing transaction costs because of a move towards sales taxation all went to increasing their overall production cost.



Another reason that explains the lack of export growth in the 1990s has been the absence of a pro-active policy on the part of the state to promote industry or exports. In a country which is not well-endowed with lucrative natural resources, export growth takes place in the larger context of growth and structural change within the manufacturing sector. The fact that wide-ranging trade liberalisation did not create the impulse for a shift in resource allocation from non-tradeables to tradeables demonstrates – at least in the case of Pakistan – that market based allocative incentives are not sufficient for export growth. We shall revisit possible alternatives of pro-active policies in section III.

I.1.3. Bleeding of the Capital Account

Pressure on the current account is typically met through inflows in the capital account or through drawing down reserves. The ideal situation would be that current account deficits are financed by non-debt creating inflows. These essentially come in the form of foreign investment, both direct and portfolio.[15] If capital inflows are debt creating instruments, then it leads to a further increase in the debt stock and depending on the net present value of the incremental debt stock, creates inter-temporal problems for the current account deficit as interest payments in the future increase. The worst case scenario is that the capital account itself starts to bleed if net inflows are too low to cover for the current account deficit. In that case reserves will be run down, short-term borrowing will be resorted to and along with the current account, the capital account itself will sooner or later go in the red. Pakistan's capital account in the 1990s oscillated along the latter two scenarios.

In Table 4 we see that foreign direct investment (FDI) in Pakistan increased substantially in the 1991-98 period, having crossed the $ 1 billion mark in the year 1995-96. Economic liberalisation in general and the Independent Power Production (IPP) policy in particular has been responsible for this surge in foreign direct investment during this period. In terms of average real inflows there was a 3-fold increase in the 1991-98 period compared to the 1985-90 period. Similarly portfolio investment jumped from an average of $ 124 million per annum in the second half of the 1980s to $458 million in the 1991-98 period. Average inflows in both FDI and portfolio investment category in real terms were, however, a mere 0.8 per cent of GDP. In fact if we net out FDI with their contingent liability of profit and

[15] As mentioned earlier, these inflows do create foreign exchange liabilities in the form of profits and dividends and disinvestments.

dividend remittances then the net inflow is, on average, a mere $143 million or 0.2 per cent of GDP. We thus see that the policy of capital account liberalisation did not yield any significant dividends. In fact in later years, the bleeding got even more pronounced as outflows on the profit and dividend account in the current account was higher than the inflows.

The DMCR (p23) itself acknowledges this failure on the policy and governance front. It states:

> The consequences of …foreign investments in the energy sector, with guaranteed off-take and guaranteed price for electricity, on the long run Balance of Payments situation were apparently not carefully considered, either by the government or the World Bank and the IMF.

Since much of the FDI during the period was in the energy sector, it is important to concentrate on this sector. Whether or not Pakistan needed to attract FDI in thermal power generation is a debatable issue, but the terms and conditions on which MOUs and agreements with IPPs were signed were clearly going to create a drain on the BOP. Not only should the government of the time be faulted for agreeing to these terms and conditions, but as the DMCR suggests, also the World Bank and other bi-lateral and multilateral sources that endorsed and underwrote these agreements. We shall, therefore, categorise the failures of omission and commission as both policy and governance failures.[16] Governance failure also occurred in not attracting more foreign investment (and at better terms). Political instability, the law and order situation and the row with IPPs over sovereign guarantees can be consigned as important governance failures during the time.

Long-term borrowing in the form of project aid – mainly from the World Bank and ADB – and food and non-food aid, mainly from bi-lateral sources has been an important element of inflows in the capital account. This is mostly long-term concessional borrowing and although it is a debt creating instrument, its net present value is relatively low. In the 1991-98 period, inflows on this account averaged $ 3171 million per annum. This comes to roughly 5 per cent of GDP. Because data for the 1985-90 period in this head is not complete, it will not be appropriate to compare the two time periods.

[16] This is not to say that the policy was wholly flawed. In a situation where there is a complete political deadlock on hydel power generation and a huge gap existed between demand and supply of electric power, there were perhaps few other options. But the terms on which it was drawn were problematic.

Thus far the capital account is seen as having had a nominally positive impact on the balance of payments position. However, once we look at amortization of previously acquired debt, the picture changes quite dramatically. We see that amortization payments in the early 1990s more than doubled compared to the late 1980s. Within this head the largest increase was is in debt servicing for long-term loans, which increased from an average of $1068 million to $1912 million.

Similarly, amortization of private sector debt, though less in magnitude, also increased precipitously during the period from an average of US $ 132 million to US $ 457 million in the two periods.[17] In terms of is share of GDP, amortization of long-term debt consumed 3 per cent of GDP on average in the 1991-98 period. If we conceptualize amortization as a ratio of long- term inflows, we see that roughly 60 per cent of these inflows were going back to the donors in the form of amortization payments. The ability of the capital account to finance the current account deficit was thus constrained a great deal during this period. Amortization of long-term loans usually acquires a steep curve at the end of the maturity period. Although precise details are not available, it is conjectured that most of these loan were acquired more than a decade ago. In that sense, the spike in amortization payments in the 1990s is exogenous to policy and governance structures of the time.

The other category of inflows from the capital account was through non-resident FCAs and short-term official borrowing, mainly to tide over BOP constraints. In certain years, net short-term borrowing jumped up significantly, as in the fiscal years of 1992-93, 1995-96 and 1997-98 (see Table B-2 in the Annexure). The reason for this short-term borrowing was clearly to tide over BOP constraints, created because of failures occurring in different elements of the capital and current accounts. It cannot, therefore, be counted amongst our given criteria. Rather it is distress borrowing to cover for failures occurring elsewhere.

Reasons for Unsustainable Debt Servicing Accumulation: A Summarization

Having gone through the different elements of the Balance of Payments, we are in a position to club together the reasons for debt accumulation identified earlier. Unfortunately it is not possible to quantify the results or give them appropriate weights because of the very nature of the exercise. As given in Table 6, we have categorised the trade deficit to fall in the realm of

[17] Although this debt is accrued by the private sector, because the foreign exchange is surrendered to the State Bank, repayments are a responsibility of the State Bank. In that sense, private sector debt servicing becomes a state liability also.

TABLE 6
CAUSES FOR BALANCE OF PAYMETN DIFFICULTIES: 1991-98

	Exogenous Shock	Policy Failure	Governance Failure
Current A/C:			
Trade Deficit		?	?
Interest Payments	?	?	
Workers Remittances	?	?	?
Official Transfers	?		
FCA's		?	
Capital Account:			
Foreign Investment		?	?
Long-Term Borrowing	n.a	n.a	n.a
Amortization	?		
Short-term borrowing	n.a	n.a	n.a

both policy and governance failures. Policy failure was both in the form of omissions and commissions. Financial liberalization and taxation policy are in the realm of commissions and the lack of an industrial policy and an exit policy for failing enterprises is in the realm of omissions. Exchange rate management and increasing transaction costs on tax and refinance rebates as well as textile quota management can be construed as governance failures. Increase in interest payments in the current account, as mentioned above, was partly exogenously determined – as in the case of interest obligations of long-term debt – and partly due to policy failures, as that of FCDs.

On inflows in the current account, the most important is worker's remittances. As argued above, this is by and large an exogenous factor with some element of policy and governance failures also. Decline in official transfers during the 1991-98 period was again exogenous to both policy and governance criteria during the period. The role of FCAs, on the other hand, in accentuating the current account deficit – essentially through creating high contingent liabilities – was a policy failure.

On the capital account, inflows through foreign investment did not play the role envisaged in textbooks in a liberalized policy environment. The fact that FDI has created large contingent liabilities can be consigned as both policy and governance failures. Failure to attract more foreign investment and at better terms was due to political instability as well as a precarious law and order situation in the country can also be categorised as governance failures. The surge in amortization payments, which was a major reason for the BOP crisis in the 1990s, was wholly exogenous to the policy and governance frameworks of the time.

In the final analysis, we see that the most important factor in the increasing BOP crisis and consequently the creation of a debt overhang were policy failures. Exogenous factors were a

close second with governance factors being the last. In spite of the fact that this categorisation is wholly qualitative, some important implications can be discerned from it.

That policy related failures are the most important variable in the increasing BOP constraint is an important indictment of the macroeconomic framework adopted with domestic consensus in 1991. It is important to also note that the policy framework was fully endorsed by the World Bank, the Asian Development Bank and the International Monetary Fund. In the context of the BOP situation, important policy shifts initiated under the broad umbrella of structural adjustment and liberalization policies were liberalisation of the current account, the introduction of FCAs and a flawed energy policy (which was the main source of FDI) during the period.

It is suggested in the press and by government functionaries that the debt build-up is due to governance failures. From our analysis above, governance failures scored last in the list. Governance is difficult to define, let alone measure. Moreover flawed governance is perhaps also endogenous to the radical shift in that policy framework that took place in the 1990s. A liberalized economy *ipso facto* requires a higher level of monitoring, regulation and management. The swift policy change adopted in the early 1990s caught the economic managers unaware, so to speak, without the capacity to monitor or effectively regulate a liberalized financial structure and current account.

Inheritance from the past also weighed heavily on the increasing instability in the country's balance of payments and in the build-up of external debt. Increasing interest payments on long-term debt, a swift increase in amortization payments and a corresponding decline in remittances were all exogenous factors.

I.2. External Borrowing and Public Finance

Along with the external sector, it is also important to track the role of public finances in the mounting difficulties of high external debt stock and its servicing. There are two ways in which public finance considerations directly impinge on external debt. First, the external debt stock and increasing foreign exchange liabilities impinge on the fiscal deficit. It will thus be important to determine the causality between these three variables. In other words, does an increase in the fiscal deficit lead to a balance of payments crisis and thereby on the external debt stock, or is it the other way round? Second, since project aid is an important component

of public investment, it is argued that unproductive use of foreign borrowing leads to external debt unsustainability. Productivity of public investment as well as some conceptual issues pertaining to this proposition are then examined.

I.2.1 Causality Between the Budget Deficit, External Liabilities and the External Deficit

To understand the causal relationship between the budget deficit, debt servicing on the external account and debt accumulation, it is important to first track the primary budget deficit.[18] If the primary budget deficit is declining or has been converted into a surplus, then the budget is essentially carrying the burden of the past rather than profligate spending in the present. The DMCR (p.17) shows that the primary budget deficit in the 1980s averaged 4.7 per cent of GDP and between 1990-96 this was reduced to 2 per cent of GDP. In 1996, Pakistan attained a primary budget surplus, which continues till today. This clearly demonstrates that the Pakistani economy in the last decade has been paying the price of profligate spending in the 1980s and earlier, rather than indulging in high budgetary expenditure itself. In fact, the ability of economic managers in the 1990s to first reduce the primary budget deficit and then to turn it into a surplus, is indicative of their commitment to fiscal discipline.

The pursuit of reducing the primary budget deficit was, however, accomplished at the cost of reducing public investment and thereby compromising on GDP growth. Public investment solely bore the brunt of reduction in the budget deficit during the period. The DMCR (page 19) states: "Almost all of the increase in the share of interest payments has come at the cost of development. While defence spending in constant prices more than doubled between 1980-81 and 1999-00, real development expenditure actually declined over that period." Deceleration of GDP growth in the 1990s in turn perpetuated a vicious cycle of creating other internal and external imbalances.[19]

To further test for causality between external debt, foreign exchange requirements[20] and the budget deficit, we used the pair-wise Granger causality test for the three variables from 1973 to 1999-200 (see Appendix 1). Three Granger hypotheses were thus tested. i) causality

[18] The primary budget deficit is defined as the budget deficit net of interest payments on domestic and external debt.

[19] On the external front, the lack of public investment indirectly impacted on export growth and internally, slow GDP growth meant that the commensurate increase in revenues was either not forthcoming or when it did, it was at the cost of crowding out private investment and consumption.

between the budget deficit and the foreign exchange constraint; ii) between the budget deficit and the external debt stock; and iii) between the external debt stock and foreign exchange requirements.

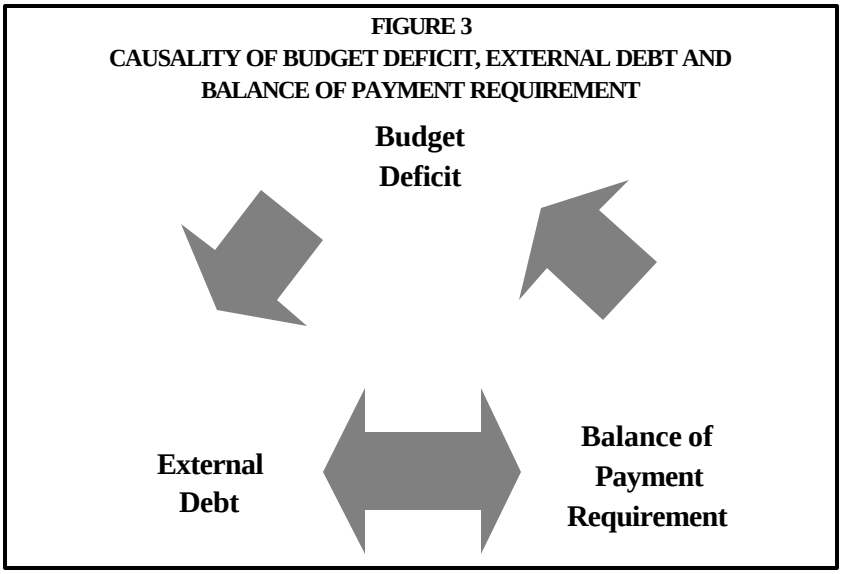
Results presented in Table 7 show that unidirectional causality runs from the foreign exchange constraint to the budget deficit and then from the budget deficit to the external debt stock. Bi-directional causality was observed between foreign exchange requirements and the external debt stock. This relationship can visually be seen in Figure 3.

TABLE 7
GRANGER CAUSALITY TESTS FOR BUDGET DEFICIT, EXTERNAL DEBT, AND BALANCE OF PAYMENT REQUIREMENT

Null Hypothesis	Obs	F-Statistic	Probability
BDEF does not Granger Cause EDEBT	26	21.2514	9.0
EDBET does not Granger Cause BDEF		2.47000	0.108
FEQ does not Granger Cause EDEBT	24	12.6418	0.000
EDEBT does not Granger Cause FEQ		7.99300	0.00303
FEQ does not Granger Cause BDEF	24	4.84372	0.01966
BDEF does not Granger Cause FEQ		1.94192	0.17086

Note: See Appendix A for details

FIGURE 3
CAUSALITY OF BUDGET DEFICIT, EXTERNAL DEBT AND BALANCE OF PAYMENT REQUIREMENT



Econometric results further testify the conclusion reached by simply looking at the movement of the primary budget deficit. The most important result is that an increase in foreign exchange liabilities increase the budget deficit and not vice versa as implied in the DMCR (p 1) and is commonly perceived. An increase in the budget deficit then impacts on the external debt stock via its impact on foreign exchange liabilities.

[20] Foreign exchange requirements here are defined as the current account deficit plus amortization of debt.

Moreover, it is also to be noted that interest payments on domestic debt increased at a much faster rate than that of domestic debt. The DMCR itself acknowledges that the reason for this increase was mainly rooted in financial liberalisation initiated in the late 1980s. In this regard the DMCR (pg 18) states:

> Financial sector liberalization initiated in 1989, with the assistance of the World Bank, led to full market based auction programme for government borrowing. However, this liberalization was premature and ill-timed because it assumed a quick reduction in the fiscal deficit to sustainable levels. Its impact on the contrary was to sharply raise the government interest bill.

We have already seen the damage that financial liberalisation at the time had done to the external account. Here we find that a similar damage was also meted out by the actual nature, timing and sequencing of financial liberalisation in the late 1980s and early 1990s. That these programmes were fully supported by the international financial institutions (IFIs) as suggested by the above quote suggests that the responsibility for policy failures has to be shared by Pakistan's donors also.

I.2.2. Foreign Aid and Investment Efficiency

The other issue vis-a vis public finances and external borrowing is the role of public investment. External borrowing has traditionally had a large share in public investment through the project aid component in the Annual Development Programmes of the federal and provincial governments. It has been argued that low productivity of this investment is responsible for the increasing difficulty in the repayment on interest and principal of these loans.

The standard method for investigating investment efficiency is through the Incremental Capital Output Ratio (ICOR). Comparing the ICOR between the decades of the 1980s and 1990s shows a marked deterioration. The aggregate ICOR in the 1980s was 2.97 whereas in the 1990s it deteriorated to 4.12.[21] Such aggregate inefficiency in capital use, however, does not necessarily suggest that public investment, driven mainly by project aid, is solely to blame for it. It has been demonstrated empirically that public sector investment in Pakistan has a crowding-in impact on private investment through creating externalities eventually captured by the private sector (Haider, 2002 and IMF, 1993). Thus a separate ICOR for public investment will not adequately capture the externalities emanating from this form of

[21] Calculated on the basis of 5 year moving averages.

investment. It is, therefore, quantitatively not possible to ascribe the blame of increasing inefficiencies on either public or private investment in isolation of the other.[22]

Perhaps more important than investment efficiency *per se* is the issue of whether investment carried out by borrowing resources in foreign exchange create commensurate returns in foreign exchange earnings. If this does not happen, then repayment of these loans create problems via the foreign exchange constraint. These are issues that stem from the two-gap and three-gap Harrod-Domar growth models.[23] External borrowing is justified to bridge the savings-investment gap that is typical of all developing countries. Thus foreign savings (in the form of project aid) is critical to develop domestic infrastructure. However, dams, roads or electrification are all by and large non-tradeables and thus do not directly create income streams in foreign exchange necessary to service external debt.

Ultimately debt servicing in foreign exchange requires the creation of a robust and dynamic tradeables sector. This implies that resources have to be channelled into exports and that the efficiency of resource use in tradeables has to be high enough to carry the burden of debt incurred in the investment for non-tradeables. Not only does this require removal of the anti-export bias stressed so much by the IFIs - but also a pro-active role of the state to channel these resources towards a dynamic export sector. This issue is elaborated upon in section III.

To recap: We saw that the declining primary budget deficit as well as Granger causality tests clearly demonstrate that it is the foreign exchange constraint that leads to an increase in the budget deficit. The increasing budget deficit, in turn, leads to higher borrowing for deficit financing purposes and thus to further debt accumulation. This result is in contrast to both government and IFI conceptualisation where fiscal deficit is seen as the 'mother of all evil.'[24] Investment efficiency in the aggregate has declined in the 1990s which causes further strain on servicing debt incurred for investment purposes. However, sustainable servicing of the external debt requires the creation of a dynamic exports sector.

[22] Qualitatively it is convenient to look at inefficiencies in government departments and projects to demonstrate declining investment efficiency. But whether this is more or less than the (in)efficiency of the private sector needs explicit determination. Such a determination will also have to account for the externalities that public investment creates for private investment.

[23] See Chenery and Strout (1966) for a detailed exposition on the two gap and three gap Harrod-Domar models. Also see McDonald (1982), which alludes to the foreign exchange transformation problem that the gap models do not address.

[24] The most cogent argument in favour of this hypothesis is given in ADB (2002). However it remains a hypothesis in that document also and has not been tested.

II. THE PROPOSED DEBT MANAGEMENT STRATEGY: A CRITICAL APPRAISAL

The DMCR very aptly states that "sound debt management, like good economic management in general, is more of an art rather than a science." Thus any strategy which seeks to reduce the debt burden in general and external debt reduction in particular, can only provide rough contours and general directions rather than a specifically modelled prognosis. This is essentially because governments do not preside over economies but political economies. Moreover, third world states operate in an international environment on which they have little control. September 11 has been the most stark and vivid reminder of this phenomenon.

The DMCR has proposed certain macroeconomic projections as well as specific external account projections for the medium and long run to reduce the country's debt burden. We examine both these strategies below.

II.1. Debt Management Strategy and Macroeconomic Projections

The most striking feature of the medium term and to some extent the long run macroeconomic strategy proposed in the DMCR is that stabilization, rather than growth is the route taken for debt reduction. This is in spite of the fact that the report explicitly states that "reduction of debt to sustainable levels cannot be the only economic goal." (p28) In fact the report purports to tackle the debt problem thorough a twin pronged strategy of " a) a notable reduction in the debt burden and b) a significant increase in the growth rate over the medium term." (ibid)

TABLE 8
MACRO ECONOMIC PROJECTIONS IN THE MEDIUM AND LONG RUN

	1980s	1990-95	1995-99	2000-2004	2004-2010
Real GDP Growth	6.5	4.9	4.0	4.8	6.2
Inflation	7.7	11.5	3.6	5.6	6.1
Investment (% of GDP)	18.7	19.5	15	15.9	19.7
ICOR	2.8	3.7	4.0	3.1	2.9

Source: DMCR, page 31.

There are two important assumptions at work in these projections. First, the link between medium and long term growth is based on the assumption that stabilization goals achieved in the medium run will automatically lead to long term growth revival. This is in spite of the fact that growth revival in the long run is below Pakistan's long run trend growth rate. Second, growth in both the medium and long runs is not based on a significant increase in the investment-GDP ratio, but on improvements in capital efficiency, based on a rapid decline in the ICOR. Both these assumptions need careful scrutiny.

That regardless of the rhetoric about a 'two-pronged' strategy, detailed projections on key stabilisation indicators in the DMCR further illustrate the continuation of stabilisation policies in the long-run.[25] The budget deficit is to be reduced from 6 per cent of GDP in 1999-2000 (at the time when the report was written) to 3 per cent in 2000-2004 and to 1.8 per cent of GDP in 2009-10. Total Government expenditure, on the other hand, is to be reduced from roughly 23 per cent of GDP prevalent presently to 20.8 per cent of GDP and development expenditure increased from an abysmally low level of 3 per cent of GDP presently to 3.5 per cent in 2003-2004, going up to only 4.5 per cent of GDP. In spite of the fact that the medium term deficit target seems impossible to be met,[26] the prognosis of the DMCR is clearly in the direction of walking a fiscal tightrope.

Pakistan has been under a heavy dose of stabilization, at least since 1997. This tendency has become more pronounced in the last three years (see Table 9). The results are there to see. Investment has collapsed – with the ICOR further increasing - and as a result, growth has taken a nosedive. Consequently, poverty and unemployment have both increased at a fast rate. The DMCRs medium term projections are thus already out of the ball park. But the more important point is that neither theory nor empirical evidence suggest any cogent economic reasoning that stabilization will *necessarily* lead to growth.

TABLE 9
GROWTH AND INVESTMENT INDICATORS IN RECENT YEARS (CONSTANT PRICES)

	1990-97	1997-2002	1999-2002
GDP Growth (% per annum)	4.4	2.9	3.8
Total Investment/GDP	16.8	14.2	13.5
Public Investment/GDP	8.4	6	5.8
ICOR	3.7	5.0	4.9

Source: Computed from data given in GOP, Economic Survey, various issues.

The other heroic assumption on which projections in the DMCR are based is the reduction in ICOR from the prevailing level of 4.9 to 3.1 in 2003-04 and further to 2.9 in 2009-10. The reduction in the ICOR – in other words improvement in capital efficiency – is premised on improvements in productivity coming through governance reforms.[27]

[25] See Tables 13 to 15 in the DMCR (pp 38-41). These tables present different scenarios with 'strong fiscal adjustment' with 'high and moderate' social and development expenditure projections.
[26] In 2001-02, the fiscal deficit-GDP ratio was close to 7 per cent. It is highly unlikely that in the next two years this will be brought down to 3 per cent of GDP, particularly with a representative government in office. In any case, such a target can only be achieved at the cost of further strangulating growth and thereby accentuation of the already dismal unemployment and poverty situation.
[27] See page 30 in the DMCR for a definitive statement on this.

The most widely used definition of governance is one which is premised on the rule of law and requires state-level decision making to be based on the criteria of accountability, transparency and equity. Another definition – more prevalent amongst state bureaucracies- is one of merely better fiscal and financial management, which may run contrary to popular rights and demands of diverse interest groups. While there may be different views on whether governance – based on the above criteria – has improved in Pakistan or not since the military coup, the fact of the matter is that it has not led to any perceptible improvement in investment efficiency as seen by the high ICOR presented in Table 9.

Improvements in governance in a liberalised economy will also mean that public resources have to be spent on effective regulation and coordination of economic agents participating in the market. Moreover, provision of public goods, i.e. physical and social infrastructure, is abysmally low and are necessary prerequisites for sustainable economic development. As such, it is unlikely that government expenditure as a share of GDP will reduce.

In short, many of the governance issues are part and parcel of complex socio-economic and political economy issues that Pakistan is afflicted with.[28] To expect resolution of these complex issues leading to major productivity gains in the medium run of the next five to ten years is unrealistic. More importantly, improved governance will require the state to maintain its expenditure patterns or even enhance them. It is thus not compatible with strict stabilization criteria proposed in the report.

The obvious dilemma is squaring up debt reduction objectives with broader developmental objectives. Running high fiscal deficits, which create inter-temporal debt liabilities is precisely the outcome that needs to be avoided. If maintaining the level of government expenditure or in fact its enhancement is required then the ideal situation should be that the tax-GDP ratio is enhanced. The DMCR hopes that the revenue-GDP ratio will jump from its present low level of 16.8 per cent of GDP (and the tax-GDP ratio at 12.8 per cent of GDP) to 19 per cent of GDP in 2009-2010. Removing procedural hurdles and corruption in the CBR through sound management procedures are at best limited options.[29] The incentive to pay taxes will only be there if credibility is established with regard to the transparency of public

[28] See Sayeed (2002) for a detailed historical exposition on the nature of such complexities.

expenditure, its use in the public interest and its equitable distribution across regions and income groups.

So far as transparency of public expenditure is concerned, perhaps the most flagrant case of lack of transparency is to be found in the military budget. Whereas the rest of public expenditure is available for pubic scrutiny according to standard accounting procedures, the defence budget is a one-line item in the *Demands for Grants* document. Moreover, when there is an elected Parliament, this is one expenditure head which is not debated and duly approved. Considering that military expenditure is roughly 24 per cent of total federal government expenditure and roughly 38 per cent of total tax revenue,[30] this is a notable governance failure according to the above mentioned criteria. It is also interesting to note that while the DMCR does mention reducing the level of the defence budget from 4.7 per cent of GDP presently to 3.9 percent by 2004 and down to 3 percent by 2010, it does not include transparency in the defence budget as part of its various exhortations on good governance.

II.2. Debt Management and the External Account

The DMCR has also outlined an exit strategy from the external debt burden through improvements in the external account. Some of the salient targets to be achieved by mid-2004 given in the report are:

- Achievement of a non-interest current account surplus of $ 3.8 billion by June 2004.
- Net Foreign Private Investment to $ 2.5 Billion
- Privatisation proceeds of $ 3 Billion
- Foreign Exchange reserves of $ 3.8 billion
- No further IMF assistance beyond the current PRGF
- Qualified Assistance from the World Bank and ADB
- Reduction in the external debt burden to the sustainable level of 200 per cent of foreign exchange earnings by mid-2005.

Mainly, thanks to the government's foreign policy posture viz. the war on terrorism, a number of these targets have either been achieved or are well on the way to be achieved. The foreign exchange reserves target has been achieved, the PRGF agreement with the IMF is proceeding smoothly and the non-interest current account surplus earmarked is also on the

[29] That in spite of many years of concerted efforts and scores of reports to revamp the CBR have only resulted in a continuously declining tax-GDP ratio should make policy makers pause for a moment and address the issues of the incentive for compliance by the tax payers.

[30] These ratios increase further if military pensions and servicing of military debt is taken into account. World Bank (2002) estimates that expenditure on defence related services goes up to as much as 29 per cent of federal government expenditure if these heads are incorporated.

way to be met.[31] The target on net-foreign direct investment looks difficult to be attained given that it has averaged less than $ 500 million per annum.

The other two elements, expectation of privatisation receipts to the tune of $ 3 billion by 2002 and achieving the debt sustainability criterion of reducing the ratio of the external debt stock to foreign exchange earnings of 200 per cent need comment. These are both issues which will not only impact on long term debt reduction – as the short term problem has been resolved courtesy September 11, but also have important implications on long term development prospects.

Privatization to date has yielded returns much less than those envisaged in the DMCR. Going by the privatisation of UBL recently – which yielded a mere $ 200 million – the target of achieving $ 3 billion has not been met. The probability of this target being achieved is also highly improbable.

There is, however, a larger issue at hand. The rationale of privatising state run enterprises, especially utilities, needs to be explicated. If the argument that they are bleeding the exchequer and, therefore, should be disposed off, is problematic. In their current state of losses and mismanagement, there will be few takers for these enterprises. If their losses are appropriated by the government and mismanagement curtailed, then is there any rationale in privatising them? Only an ideological commitment to privatisation, rather than sound economic reasoning, can be invoked for this argument.

The issue of privatising public utilities is much more complex. Since utilities produce and distribute public goods, their public goods character has to be maintained. This entails provision of the service to the entire population (to the extent possible) and cross-subsidization of the service to enable access according to the ability of different income groups to pay for the service. In essence, ownership does not matter so long as the state is able to regulate the public goods character of these entities. The competence, transparency and adherence to public interest of existing regulatory authorities in Pakistan leave a lot to be desired. In fact even in developed countries, incentive incompatibility and information asymmetries have meant that regulatory agencies that are far more competent and

[31] In 2001-02, the non-interest current account surplus posted was $ 1280 million. With a large surge in remittances and reduced interest payments due to debt-restructuring, the target set in the DMCR appears realistic.

accountable than those in Pakistan have not been able to adequately protect the public interest.[32]

Suffice to say that privatisation of state enterprises – and particularly of public utilities – requires debate before this family silver is disposed off. Selling these entities without due regard to either public interest or under an incentive structure which allows the private purchaser to indulge in asset stripping is an in-ordinate price to be paid by common people for debt reduction. We say this with due regard to the fact that contingent liabilities that mismanaged and under-invested state enterprises create present and future liabilities for the tax payer also. Unless all other possible options for cutting their losses and improving the management of these enterprises are not exhausted, privatisation of these entities will not be in the public interest.

Yet another academic but important issue that requires attention is that of using arbitrary thresholds for debt sustainability. Targets set out in the DMCR with regard to external debt aim to reduce the external debt stock- foreign exchange earnings ratio to 200. This is considered to be the 'switching point' below which external debt is deemed to become 'sustainable.' The concept of sustainability ratios has been borrowed from indicators of debt sustainability employed by the World Bank in the case of the Highly Indebted Poor Countries (HIPC) initiative.[33] A number of empirical and analytical lacunae in this concept make such universal ratios wholly inappropriate to be used, either to judge the ability of a country's debt servicing capacity or indeed to unravel the causes which lead to debt servicing burdens that are unserviceable.

Debt sustainability thresholds are essentially based on an empirical regularity based on cross-country regressions. Two influential studies conducted by Underwood (1990) and Cohen (1996) demonstrated that in a sample of seventy three low income countries, crossing certain threshold ratios has invariably resulted in them accumulating arrears on external debt servicing or they have sought rescheduling. Sensitivity analysis conducted on the same data sets, however, reveal that a 5 per cent lowering of critical values would add another ten

[32] The example of rail and water privatisation in Britain and of the electricity crisis in California recently are some examples in this regard.

[33] The HIPC sustainability criteria are applicable to countries which are low income, defined as those with per capita incomes less than $695. The sustainability ratios used are debt-export ratio of 200-250 per cent in NPV terms or 20-25 per cent of the ratio of debt servicing to export ratios. For domestic debt, the debt stock-revenue ratio is taken to be 280. See World Bank (1996) for further information.

countries to the group of 'severely indebted' category from the 'moderately indebted' category. Based on such observations, Hjertholm (2001) shows that there are countries with debt burdens over these limits, which have managed to avoid debt rescheduling and others below these thresholds that have run into arrears.

The more serious problem in using such indicators is their weak analytical base and their disregard for developmental goals of countries. Analytically, these threshold or switching values are incomplete indicators. For instance, by using only exports (or foreign exchange earnings) and not the trade deficit (or total inflows), they do not adequately take into account non-debt related foreign exchange outflows that occur. For instance, even if the debt stock - export ratio is low but the trade deficit is high,[34] there will be a foreign exchange crisis in meeting debt obligations. In such a situation, a debt crisis is created where none existed, either if heavy borrowing is undertaken to meet the foreign exchange constraint created as a result of the high trade deficit or if imports are constrained. This also highlights the time-invariant path of trade related as well as other balance of payments constraints that are usually beyond the control of developing countries (Hjertholm, 1999).

The above example also illustrates that these sustainability thresholds are based almost exclusively on creditor concerns.[35] To illustrate, by not taking into account the trade deficit, the assumption implicit in these indicators is that countries earn foreign exchange only to repay external debt. The World Bank and IMF define sustainability as a situation where a country "is expected to be able to meet its current and future external obligations in full, without recourse to relief or rescheduling of debts or the accumulation of arrears, and without unduly compromising economic growth." (IMF and World Bank, 1996). Hjertholm (1999, p 35) rightly states that "in practice, the overriding aim of using sustainability targets, as presently applied, is the restoration of debt service capacity." It is ironic that these indicators are termed 'sustainability' targets as they so explicitly undervalue growth and investment goals of developing countries as without expanding their productive and trade base, these countries will not be able to service debts in the long run. More paradoxical is the fact that such an explicit creditor concern makes way in the DMCR which is a country report of the

[34] This can happen either if there is an adverse external or internal shock. The former will be due to falling export prices or an international recession. The latter can be caused by a drought or flood prompting food imports or an inordinate increase in the price of oil or other imports.
[35] See Oxfam (2001) for a further articulation of this position.

Government of Pakistan and one which purports to work on a 'twin pronged' strategy of debt reduction without compromising on growth and developmental concerns.

III. CONCLUSIONS AND SUGGESTIONS: STRIKING A BALANCE BETWEEN DEBT SUSTAINABILITY AND DEVELOPMENTAL GOALS

As mentioned in the Introduction, post September 11 events have helped a great deal in ameliorating Pakistan's chronic external debt entrapment. To recap, a significant reduction in the trade deficit (due mainly to import compression and not an upsurge in exports), more than doubling of foreign remittances, budgetary support from coalition partners in the war against terror and most significantly the Paris club debt restructuring, has enabled Pakistan to run a current account surplus for the first time in three decades. It has also resulted in an unprecedented accumulation of foreign exchange reserves, appreciation and subsequent stability in the exchange rate and elimination of the differential between the kerb and inter-bank exchange rates. These are all significant – perhaps unprecedented – developments on the external front.

While these are times when Pakistan's economic managers can breathe easy so far as the external account is concerned, it is also time that some serious thought goes into ensuring that such a crisis does not recur. It is therefore important to ensure that in an era of financial and trade openness the country embarks on a sustainable growth and developmental path. There is no better insurance against unanticipated external shocks. In this vein, three specific directions for future policy action are suggested below. These suggestions, should, however, be seen as broad directions, rather than specific and quantified proposals.

First, the tendency to borrow externally for financing the budget deficit has increased in the recent past. The proportion of external borrowing, net of interest payments in foreign exchange in financing the budget deficit hovered around 22 to 24 per cent between 1980 and 1997. Since 1997-98, this share has increased every year and in 2001-02 was as high as 69.75 per cent.[36] This is an ominous trend and will lead to increasing external debt accumulation in the future. The rationale for increasing reliance on external financing for budgetary purposes is perhaps that external borrowing is on concessional terms and therefore its interest payment obligations in the future will be lower compared to borrowing domestically. While this is true

[36] See Table B.3 in Annexe 2.

presently as international interest rates are unusually low and in comparison domestic interest rates are unusually high. However, this large differential in domestic and international interest rates may not last long. Moreover, the fact that external debt has to be repaid in foreign exchange and is dependant on both exchange rate fluctuations and the country's ability to earn foreign exchange means that domestic balance is achieved at the cost of potential external imbalance in the future. Since, by definition, developing countries have fewer degrees of freedom vis-à-vis foreign exchange liabilities this is a risky policy option which can and should be avoided.

As argued earlier, since the domestic status quo is likely to be maintained in the short to medium run, it is unlikely that fiscal deficits can be reduced in the manner envisaged in the DMCR. In the absence of a substantial improvement in the revenue-GDP ratio and/or a significant reduction in non-development expenditure (defence and contingent liabilities of WAPDA and KESC), reduction of the fiscal deficit through slashing public investment is undesirable. Realism, therefore, demands that fiscal deficits are financed through low interest domestic borrowing. While reducing interest rates further on NSS instruments is a contentious issue as it impacts on incomes of the elderly belonging mainly to the middle class, in the larger interest of the economy this trade-off will have to be resorted to. The intention is to get out of the stabilization straight jacket without relying on the hope of improved governance and the more untenable assumption of the stabilization-growth linearity.

Second, the medium and long term issue is to revive growth and investment in the economy and to create a dynamic export base for the country so that the need for external debt is minimized. The benchmarks given in the DMCR for public and aggregate investment in the medium and long run (see Table 8),[37] as argued earlier, are in the stabilization realm. An investment boost much further than that envisaged by the military government and the IFIs will be required if growth revival in the economy has to take place.

High debt servicing requirements have a tendency to crowd-out private investment.[38] Whether Pakistan could have broken through this vicious circle prior to September 11 is a

[37] The DMCR projections are similar to those agrees with the IMF in the PRGF Programme and the Interim Poverty Reduction Strategy Paper (I-PRSP) prepared by GOP.

[38] Deshpande (1997) says that high levels of debt servicing can be conceptualised as a tax on investment. If an increasing share of production and exports is used for payments to external creditors, then this maybe known to the investors beforehand and thus dissuade them from investing large amounts.

moot point.[39] The historically low level of investment prevalent in the economy at present[40] can be broken by a substantial increase in public investment, both physical and social.

A high rate of public investment has the potential to create three forms of externalities for growth and investment. First, investment in both physical and social infrastructure will lower costs for private investment in the medium to long run. According to the World Bank (1998), Pakistan's physical infrastructure is "in an advanced state of decay." Second, high levels of public investment can also provide the requisite demand push in an economy,[41] which in turn will improve capacity utilisation in the short run and lead to higher levels of public investment in the medium to long run. Third, public investment has the more intangible impact of reviving 'animal spirits' – to borrow Keynes' phrase – amongst private investors.

The thorny issue for policy makers has been about financing a major boost in public investment. The window of opportunity that has been created since the writing of the DMCR has been the unprecedented level of foreign exchange reserves accumulation by Pakistan. A part of these reserves – after having determined some rational level to be kept for contingencies – can be used for creating the fiscal space for higher levels of public investment. Retirement of external debt which further reduces debt servicing liabilities beyond that already achieved through the Paris Club can be one way of creating this fiscal space. Similarly, State Bank lending to the government from these reserves for fiscal pump-priming can have a similar effect.

Part of the reserves can also be channelled to provide a boost for private investment through lowering interest rates. At present, real lending rates in Pakistan are much higher than the developing country average, notwithstanding significant reductions in the domestic discount and NSS rates in the recent past. In recessionary conditions, the argument for sustaining such high interest rates is that it provides a large spread for the banking sector which is necessary to clean the infected balance sheets of the Nationalised Commercial Banks (NCBs). If the

[39] In Sayeed (1999), we have argued that even during the debt trap public investment could have been enhanced through expenditure re-switching – essentially through reduction in defence and central government expenditure – towards public investment.
[40] The level of investment-GDP ratio in 2000-01 was the lowest since 1966. Similarly the private-investment-GDP ratio in the same year was the lowest since 1975. Authors' calculations based on data provided in various issues of the *Economic Survey.*
[41] According to SPDC (2002), demand component in GDP growth has been close to zero in the recent past.

reserves can be used to clean up these balance sheets, then interest rates can be slashed by a larger magnitude instead of the small trickles in which it is being done presently.

There is no apparent case of creating a further moral hazard through such a strategy. High real interest rates mean that the banks (and their defaulters) are being subsidised either by the new investors who borrow at these high rates or by the public at large which suffers the consequences of the lack of investment. Our proposed strategy, while still subsidising the banks, only converts the negative externality of this strategy into a positive one.

Third, honouring external debt obligations, particularly in ways which are not in conflict with broad developmental goals, will by definition, require the ability to earn foreign exchange which minimise future liabilities on the current account. Remittances from overseas Pakistanis as well as exports are the only two instruments which are non-liability creating foreign exchange earners. The former option is limited in terms of its further growth as exogenous factors rather than domestic policy determine its limits. Exports of goods and services is, therefore, the only instrument amenable for policy interventions through which growth can be sustained over a long period.

As we saw earlier, exports have fared unevenly over the last decade. In the aggregate, export growth in real terms has averaged 2 per cent per annum in the 1990-2002 period. There has also been little structural change in Pakistan's export profile over the last decade or so. The share of traditional exports – primary products, yarn and cloth still dominate the country's export profile.[42] While the garments and made-up apparel sector has grown over the years, its share in total exports has not increased significantly. This stagnation in the tradeables sector is in spite of the fact that market driven financial and economic liberalisation policies adopted during this period were all premised on export-led growth. Removal of foreign exchange controls, an export-friendly exchange rate policy,[43] liberal tax incentives for exporters and suspension of relevant labour laws in export processing zones have not only failed to boost export growth, but have been unable to prevent the stagnation in the export sector witnessed over the last decade.

[42] According to SPDC (1999) the share of non-traditional exports has reduced in the 1990s compared to the previous decade.

So what went wrong? Arguably, the implicit neo-classical assumption that reduction or removal of the anti-export bias by 'getting prices right' is both necessary and sufficient for resource allocation towards enhancement of trade, has not worked in Pakistan. It can be argued that these incentives were not adequately administered and a number of other disincentives also worked in tandem. That maybe so. It still, however, goes to show that price incentives are not necessary and sufficient conditions for an export surge. Without a more pro-active role of the state in resource allocation, the creation of a dynamic exports sector is neither theoretically possible (see Krugman, 1986) nor has it been witnessed in those countries that have been able to significantly boost their exports in the recent past.

Two important forms of intervention have been prevalent in successful industrialisers and exporters. One is a strategic industrial policy and the other is through the attainment of collective efficiency through clusters of small and medium enterprises. Common to both is a conscious and sustained level of state support and infrastructure provision, which in many cases militates against the neo-liberal precept of 'getting prices right.'

The core concept of a strategic industrial policy is rooted in providing selective, time bound and contingent incentives to certain industrial sectors (or firms within those industries). By time bound, it is meant that preferential incentives should be for a specific time period and renewal of incentives beyond that time should be based on explicit criteria. Contingent subsidies or rents mean that preferential incentives should be based again on explicit criteria – such as capture of market share, growth in exports or improvements in productivity through technological adaptation – and if within the time frame these criteria are not met then such incentives should be withdrawn.[44] It should be apparent that this is not a suggestion of going back to the 'bad old past' of a red-tape dominated sanctioning regime, excessive protection and a wholly flawed regional investment incentives which in the past passed for 'industrial policy'. Their time bound and contingent nature as well as the fact that rather than being universally applicable to all sectors and industries, they are targeted towards sectors chosen on explicit criteria adds the prefix of 'strategic' to our proposal of adopting an industrial policy.

[43] As shown earlier, nominal devaluations did not translate into real devaluation, in part because of the flawed sequencing of financial and real sector liberalisation.

The notion of 'collective efficiency' through small industry clusters where small amounts of financial and human capital come together with product and process specialisation has gained currency in the recent past (see Schmitz and Nadvi, 1999 for a comprehensive review). Many of such clusters already exist in Pakistan and the potential of fostering the development of new ones in a country of Pakistan's size is large. An important prerequisite for such clusters to develop and contribute substantively to productive employment growth in general and export growth in particular, however, is to create effective linkages of these clusters to trade networks and credible third party (usually the state) conflict resolution mechanisms within and across clusters. It goes without saying that a pro-active state is a necessary condition for such clusters of small and medium industries to develop over time.

In conclusion, the problem of external debt and debt servicing is closely linked with the adoption of a developmental outlook on policy making. In an increasingly globalised world, a weak internal economy makes the country all the more vulnerable to external shocks. The most important manifestation of such shocks is an inordinate increase in the external debt stock and the incapacity in serving the accumulated debt. The adoption of a developmental policy framework ultimately hinges on strategic statecraft by the bureaucracy, the military, the politicians and civil interest groups in society. These are however issues which require more focused and concerted research and analysis which is beyond the remit of this analysis.

[44] This was the cornerstone of the strategic industrial policy pursued in high growth East Asian economies. See Khan (2000) and Chang and Cheema (2002).

APPENDIX-A

BUDGET DEFICIT, EXTERNAL DEBT, AND BALANCE OF PAYMENT REQUIREMENT

We wish to investigate whether the statistical relationship between the government budget deficit, external debt and balance of payment requirement in Pakistan are unidirectional, bi-directional or the above variables do not influence each other.

To identify the relationship between the time series, cointegration test and Granger- causality test are employed. Annual data on **BDEF** (budget deficit) and **Edebt** (External Debt) and are **FEQ** (balance of payment requirement) are taken for period 1973 to 2000.

Time series data are often found to be non-stationary, containing a unit root. (Gujarati, 1995, p.714). Vector Auto-regressive VAR estimates are efficient if variables included in the VAR model are either stationary or cointegrated (their linear combination is stationary). So, first we test for stationarity across the BDEF, EDEBT and FEQ, using Augmented Dickey- Fuller test (ADF). The output of E-Views ADF is presented in table A.1.

TABLE A.1
E-VIEWS OUTPUT OF UNIT ROOT TEST FOR GOVERNMENT BUDGET DEFICIT, EXTERNAL DEBT, AND BALANCE OF PAYMENT REQUIREMENT

Government Budget Deficit		External Debt		Balance of Payment Requirement	
ADF Test Statistics	2.145	ADF Test Statistics	2.223	ADF Test Statistic	0.133
1% Critical Value	-3.808	1% Critical Value*	-2.565	1% Critical Value	-3.734
5% Critical Value	-2.979	5% Critical Value	-1.954	5% Critical Value	-2.990
10% Critical Value	-2.629	10% Critical Value	-1.622	10% Critical Value	-2.634

We can see that all three variables BDEF, EDEBT and FEQ are non stationary. In the next step, we have to check whether the two time-series are co integrated. if residuals from regressions:

$$BDEF_t = a_0 + a_1 FEQ_t + \mu_t$$

$$EDEBTt = a_0 + a_1 BDEFt + \mu_t \quad .... \quad ..... \quad ..... \quad ..... [E.1]$$

are stationary. (Gujarati, 1995, pp. 726-727). E-views estimation output of regression (E.1) is presented in table A.2(a) and A.2(b) and ADF test for residuals, μ_t, is presented in table A.3(a) and table A.3(b).

Table A.2(a):
Dependent Variable: BDEF
Sample(adjusted): 1975 1999
Included observations: 25 after adjusting endpoints

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FEQ	0.768742	0.059783	12.85892	0.0000
C	14892.18	5619.693	2.649999	0.0143
R-squared	0.877888			

Table A.2(b):
Dependent Variable: EDEBT$*E
Sample: 1973 2000
Included observations: 28

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-58436.92	27971.38	-2.089168	0.0466
BDEF	8.664964	0.311474	27.81922	0.0000
R-squared	0.967496			

Table A.3(a)

ADF Test Statistic	-3.642	1% Critical Value*	-3.749
		5% Critical Value	-2.996
		10% Critical Value	-2.638

*MacKinnon critical values for rejection of hypothesis of a unit root.

Table A.3(b)

ADF Test Statistic	-2.802592	1% Critical Value*	-3.707
		5% Critical Value	-2.979
		10% Critical Value	-2.6290

*MacKinnon critical values for rejection of hypothesis of a unit root.

We can see that these residuals are stationary, so BDEF and FEQ are cointegrated, and also EDEBT and BDEF are cointegrated, therefore, we can conduct Granger- causality test in levels.

Our specification for Granger-causality test is as follows:

$$y_t = a_0 + a_1 y_{t-1} + a_2 y_{t-2} + \ldots\ldots\ldots\ldots + a_1 y_{t-1} + ß_1 x_{t-1} + ß_2 x_{t-2} + \ldots\ldots\ldots + ß_1 x_{t-1}$$

$$x_t = a_0 + a_1 x_{t-1} + a_2 x_{t-2} + \ldots\ldots\ldots\ldots + a_1 x_{t-1} + ß_1 y_{t-1} + ß_2 y_{t-2} + \ldots\ldots\ldots + ß_1 y_{t-1}$$

The lag length is taken to be equal to 2 in our case. It is desirable to trace the longer lag period, maybe 5 or so, but in case of short time series it is impossible to do so. In case of short time series, however, a lag length that is longer than 2 will consume a lot of degrees of freedom and estimation becomes impossible (Gujarati, 1995, p.632). E-Views runs Granger-causality test by automatically testing four hypotheses:

1. Y Granger- causes X;
2. X Granger- causes Y;
3. Causality goes in both directions;
4. X and Y are independent.

E-Views output is shown in table A.4. The Granger- causality test shows that unidirectional causality goes from BDEF to EDEBT and FEQ to BDEF. While bidirectional causality exist between EDEBT and FEQ. F-test is used to test the hypothesis that collectively the lagged coefficients are zero. We discovered that there is statistical dependence between movement in BDEF and EDEBT. In particularly, past movements of BDEF contribute to an explanation of movements in EDEBT. Similarly, there is statistical dependence between movement in FEQ and BDEF. While in case of EDEBT and FEQ, past movements of EDEBT contribute to an explanation of movements in FEQ and vice Versa.

TABLE A.4
GRANGER CAUSALITY TESTS FOR BUDGET DEFICIT, EXTERNAL DEBT, AND BALANCE OF PAYMENT REQUIREMENT

Null Hypothesis	Obs	F-Statistic	Probability
BDEF does not Granger Cause EDEBT	26	21.2514	9.0
EDBET does not Granger Cause BDEF		2.47000	0.108
FEQ does not Granger Cause EDEBT	24	12.6418	0.000
EDEBT does not Granger Cause FEQ		7.99300	0.00303
FEQ does not Granger Cause BDEF	24	4.84372	0.01966
BDEF does not Granger Cause FEQ		1.94192	0.17086

APPENDIX-B

TABLE-B.1
BALANCE OF PAYMENTS- SUMMARY TABLE (CURRENT PRICES)

	Items	FY85	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02
1.	**Trade Balance**	**-2,542**	**-3,058**	**-2,303**	**-2,557**	**-2,552**	**-2,484**	**-2,483**	**-2,236**	**-3,267**	**-2,000**	**-2,537**	**-3,704**	**-3,145**	**-1,867**	**-2,085**	**-1,435**	**-1,269**	**-360**
	Exports(fob)	2,469	2,946	3,491	4,363	4,653	4,932	5,902	6,762	6,782	6,685	7,759	8,311	8,096	8,414	7,528	8,163	8,953	9,133
	Imports (fob)	5,011	6,003	5,795	6,920	7,207	7,416	8,385	8,998	10,049	8,685	10,296	12,015	11,241	10,281	9,613	9,598	10,202	9,493
2.	**Services (Net)**	**-811**	**-1,018**	**-979**	**-1,382**	**-1,467**	**-1,622**	**-1,790**	**-2,224**	**-2,748**	**-2,355**	**-2,384**	**-3,249**	**-3,659**	**-3,264**	**-2,618**	**-2,766**	**-3,142**	**-2,620**
	Shipment	-485	-506	-455	-556	-583	-596	-655	-677	-821	-726	-965	-990	-928	-875	-805	-750	-820	-746
	Other transportation	188	177	189	113	62	76	116	94	120	100	128	49	15	76	110	94	61	103
	Travel	-23	-39	-62	-158	-156	-252	-310	-518	-658	-282	-288	-504	-541	-279	-122	-142	-110	-145
	Investment Income	-505	-640	-694	-828	-885	-966	-1,160	-1,266	-1,499	-1,599	-1,771	-1,953	-2,167	-2,230	-1,808	-2,016	-2,361	-2,311
	Interest payments	-505	-640	-694	-828	-885	-966	-862	-980	-1,157	-1,290	-1,420	-1,575	-1,717	-1,720	-1,399	-1,596	-1,548	-1,464
	Profit and Dividend	0	0	0	0	0	0	-298	-286	-341	-308	-351	-378	-450	-510	-409	-420	-813	-847
	Other goods, services & Income	14	-10	44	47	94	117	219	143	109	151	412	149	-36	142	1	48	-42	479
3.	**Current Transfers (Net)**	**3,086**	**3,300**	**2,952**	**2,776**	**2,688**	**2,749**	**2,905**	**5,564**	**2,688**	**2,704**	**2,758**	**2,605**	**3,247**	**3,430**	**2,468**	**3,197**	**4,737**	**5,724**
3.a	**Current Transfers NET FCA**	**3,086**	**3,300**	**2,952**	**2,776**	**2,688**	**2,749**	**2,715**	**2,246**	**3,145**	**1,952**	**2,377**	**1,842**	**1,900**	**1,954**	**1,929**	**2,875**	**4,203**	**5,439**
	a) Private Transfers -net	2,664	2,822	2,558	2,256	2,104	2,231	2,292	3,814	2,327	2,300	2,437	2,378	2,958	3,210	2,274	3,061	3,898	4,253
	i) Workers' Remittances	2,681	2,827	2,573	2,282	2,120	2,233	1,848	1,468	1,362	1,446	1,866	1,861	1,409	1,490	1,060	983	1,087	2,389
	ii) FCA (Residents)	0	0	0	0	0	0	190	1,318	543	752	161	765	1,547	1,476	539	322	534	283
	iii) Outright Purchases	0	0	0	0	0	0	0	0	0	0	0	0	0	0	531	1,634	2,317	1,376
	b) Official Transfers	402	479	394	520	585	518	613	430	361	314	321	227	299	220	584	927	839	1,469
4.	**Current Account NET FCA**	-1,267	-775	-330	-1,163	-1,331	-1,357	-1,539	-2,214	-3,870	-2,403	-2,544	-5,111	-4,904	-3,177	-2,774	-1,326	-208	2,459
4.a	**Primary Current Account Balance**	-762	-135	364	555	-447	-391	-506	84	-2,170	-364	-743	-2,773	-1,840	19	-830	592	1,874	8,204
4.b	**Current Account Balance (1+2+3)**	**-1,267**	**-775**	**-330**	**-1,163**	**-1,331**	**-1,357**	**-1,368**	**-896**	**-3,327**	**-1,651**	**-2,163**	**-4,348**	**-3,557**	**-1,701**	**-2,235**	**-1,004**	**326**	**2,744**
5.	**Financing**	**1,267**	**775**	**330**	**1,163**	**1,331**	**1,357**	**1,368**	**896**	**3,327**	**1,651**	**2,163**	**4,348**	**3,557**	**1,701**	**2,235**	**1,004**	**-326**	**-2,744**
	1. **Capital Account(net)**	**321**	**1,212**	**592**	**1,052**	**1,364**	**1,782**	**1,440**	**1,060**	**2,712**	**3,157**	**2,476**	**3,968**	**2,459**	**1,048**	**-2,278**	**-4,177**	**-643**	**-1,050**
	a) Foreign Investment	**102**	**213**	**194**	**264**	**206**	**286**	**323**	**615**	**880**	**699**	**1,719**	**1,265**	**1,377**	**738**	**570**	**-75**	**145**	**-7**
	i) Direct investment in Abroad (Net)	7	6	-1	-18	-40	-12	-7	8	4	6	-3	4	18	-29	-44	1	-37	-2
	ii) Direct investment in Pakistan(Net)	71	144	308	162	210	217	246	335	309	354	442	1,102	682	601	472	472	323	486
	iii) Portfolio investment in Pakistan(Net)	24	163	85	120	36	80	84	272	570	339	1,280	159	677	166	142	-550	-141	-491
		0	0	0	0	0	0	-9	219	137	289	1,099	205	268	221	28	73	-140	-4

TABLE-B.1
BALANCE OF PAYMENTS- SUMMARY TABLE (CURRENT PRICES)

	Items	FY85	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02
	b) Foreign long-term loans/credit (Net)	**357**	**450**	**224**	**509**	**1,246**	**1,036**	**880**	**1,586**	**1,411**	**1,216**	**881**	**1,101**	**525**	**1,117**	**0**	**-1,087**	**-636**	**-331**
	i) Disbursements	***922***	***1,129***	***993***	***1,276***	***2,019***	***1,858***	***1,772***	***2,617***	***2,853***	***2,922***	***2,900***	***3,223***	***2,671***	***3,414***	***2,474***	***1,471***	***1,654***	***1,712***
	- Project Aid							1,084	1,464	1,631	1,683	1,820	1,962	1,587	1,366	1,489	986	785	643
	Food Aid	615	819	924	1,161	1,882	1,723	135	292	308	291	259	283	409	623	250	191	0	0
	Non Food							223	267	206	316	218	19	0	625	550	125	678	985
	Others (private loans/credits)	309	310	71	116	136	130	330	604	708	672	612	759	675	793	195	167	191	184
	ii) Amortization	565	699	771	767	772	837	892	1,031	1,442	1,706	2,027	2,122	2,142	2,297	2,474	2,558	2,290	2,043
	Official	458	516	724	714	707	757	785	794	1,156	1,293	1,455	1,503	1,592	1,724	2,038	1,967	1,795	1,512
	Others (private loans/credits)	106	183	47	53	65	80	107	237	286	413	572	519	550	573	436	591	495	531
	c) Official Assistance (Commercial and IDB)	59	23	-4	178	-155	308	430	-650	869	298	-216	367	-252	598	-709	-308	79	-455
	d) FCA (Non-resident)	0	480	359	34	21	175	-139	-44	177	280	210	443	576	-76	-2,295	-1,884	-96	-171
	e) Others	-179	-32	-182	-46	-46	-23	-54	-447	-325	671	-118	764	209	-1,323	156	-741	-126	-81
II.	**Changes in Reserves (-Inc/+Dec)**	**992**	**-500**	**-246**	**150**	**-17**	**-377**	**-6**	**-130**	**569**	**-1,585**	**-238**	**433**	**1,032**	**306**	**-824**	**-71**	**-1,000**	**-2,766**
	Assets	**1,076**	**-265**	**94**	**466**	**-11**	**-252**	**114**	**-352**	**512**	**-1,882**	**-353**	**395**	**1,199**	**148**	**-1,254**	**209**	**-1,085**	**-3,056**
	SDRs	**0**	**-25**	**14**	**5**	**5**	**3**	**0**	**0**	**-2**	**4**	**-2**	**1**	**1**	**0**	**2**	**0**	**1**	**-9**
	Forex (State Bank of Pakistan)	1,013	-208	29	447	-29	-157	71	-431	615	-1,792	-390	623	923	854	-809	380	-727	-2,703
	Forex (Commercial Banks)	63	-32	51	15	13	-98	43	79	-101	-94	39	-229	273	-46	-447	-171	-359	-340
	Liabilities	-84	-236	-340	-316	-6	-125	-120	222	77	297	95	36	-167	158	430	-280	85	290
	Use of Fund Credit	-84	-236	-340	-316	-6	-125	-120	222	77	297	95	36	-167	158	430	-280	85	290
	Purchases/drawings	148	242	167	0	160	2	0	326	265	381	210	277	152	347	826	0	324	484
	Repurchases	232	478	507	316	166	127	120	103	186	84	115	241	319	229	196	280	239	194
III.	**Errors & Omissions**	**-45**	**-25**	**-15**	**-39**	**-16**	**-48**	**-46**	**-34**	**26**	**79**	**-75**	**-51**	**66**	**347**	**992**	**501**	**626**	**958**
IV.	**Exceptional financing**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**3966**	**3965**	**692**	**135**

Research Report No.45

PAKISTAN'S EXTERNAL DEBT BURDEN: CAUSES REMEDIES AND COMPLEXITIES

TABLE-B.2
BALANCE OF PAYMENTS- SUMMARY TABLE (CONSTANT PRICES 2000-01)

Items	FY85	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01
1. **Trade Balance**	-5,613	-4,714	-3,441	-3,705	-3,535	-3,271	-3,123	-2,730	-3,869	-2,309	-2,854	-4,069	-3,384	-1,979	-2,180	-1,467	-1,269
Exports(fob)	3,913	4,541	5,215	6,322	6,448	6,494	7,422	8,256	8,032	7,716	8,729	9,151	8,712	8,541	7,871	8,343	8,933
Imports (fob)	9,526	9,255	8,656	10,026	9,983	9,765	10,545	10,986	11,901	10,025	11,583	13,200	12,096	10,921	10,050	9,809	10,202
2. **Services (Net)**	-1,286	-1,569	-1,462	-2,002	-2,032	-2,135	-2,251	-2,715	-3,254	-2,718	-2,682	-3,569	-3,937	-3,460	-2,737	-2,827	-3,142
Shipment	-769	-779	-680	-806	-807	-785	-824	-827	-972	-838	-973	-1,088	-999	-926	-840	-767	-820
Other transportation	298	272	283	164	86	100	146	115	142	115	144	54	14	81	125	96	61
Travel	-37	-59	-92	-229	-216	-332	-390	-632	-779	-326	-524	-554	-582	-206	-128	-145	-180
Investment Income	-800	-887	-1,037	-1,199	-1,225	-1,272	-1,459	-1,546	-1,774	-1,845	-1,992	-2,146	-2,332	-2,470	-1,899	-2,060	-2,161
Interest payments	-800	-887	-1,037	-1,199	-1,225	-1,272	-1,084	-1,197	-1,370	-1,489	-1,598	-1,730	-1,848	-1,823	-1,463	-1,631	-1,548
Profit and Dividend	0	0	0	0	0	0	-375	-349	-404	-356	-395	-415	-484	-647	-425	-429	-613
Other goods, services,& Income	22	-16	85	68	181	154	275	175	129	174	464	164	-39	151	3	49	-42
3. **Current Transfers (Net)**	4,899	5,088	4,410	4,022	3,724	3,620	3,053	4,352	3,103	3,121	3,103	2,862	3,494	3,636	2,580	3,267	4,737
3.a **Current Transfers NET FCA**	4,899	5,088	4,410	4,022	3,724	3,620	3,414	2,742	2,540	2,253	2,674	3,024	2,044	2,072	2,017	2,938	4,203
a) Private Transfers -net	4,255	4,350	3,821	3,268	2,914	2,911	2,883	3,802	2,256	2,759	2,742	2,613	3,183	3,401	2,377	3,328	3,899
i) Workers' Remittances	4,256	4,359	3,848	3,279	2,937	2,927	2,324	1,782	1,850	1,669	2,099	1,805	1,516	1,580	1,108	1,009	1,087
ii) FCA (Residents)	0	0	0	0	0	0	239	1,609	643	868	429	838	1,449	1,565	564	329	534
iii) Outright Purchase	0	0	0	0	0	0	0	0	0	0	0	0	0	0	555	1,670	2,157
b) Official Transfers	637	738	589	753	810	709	770	549	428	362	361	249	311	233	611	947	839
4. **Current Account NET FCA**	-2,000	-1,195	-493	-1,686	-1,844	-1,787	-1,960	-2,703	-4,583	-2,774	-2,862	-3,613	-5,277	-3,388	-2,900	-1,355	-208
4.a **Primary Current Account Balance**	-1,200	-208	344	-486	-619	-515	-636	101	-2,520	-417	-836	-3,047	-1,980	20	-674	-605	1,874
4.b **Current Account Balance (1+2+3)**	-2,000	-1,195	-493	-1,686	-1,844	-1,787	-1,721	-1,094	-3,940	-1,906	-2,433	-4,777	-3,827	-1,803	-2,337	-1,026	326
5. **Financing**	2,000	1,195	493	1,686	1,844	1,787	1,721	1,094	3,940	1,906	2,433	4,777	3,827	1,803	2,337	1,026	-326
1. **Capital Account(net)**	508	1,368	884	1,525	1,889	2,346	1,810	1,294	5,212	3,644	2,786	4,599	2,646	1,111	-2,302	4,269	-643
a) **Foreign Investment**	162	483	289	383	285	376	406	751	487	807	1,934	1,390	1,482	782	596	-79	145
i) Direct investment in Abroad (Net)	11	9	0	-27	-56	-15	-9	10	5	7	-3	4	19	-31	-46	1	-37
ii) Direct investment in Pakistan(Net)	113	222	162	233	291	283	309	439	365	409	497	1,211	734	657	493	482	323
iii) Portfolio investment in Pakistan(Net)	37	252	128	174	50	106	106	332	320	391	1,440	175	728	176	148	-562	-141
	0	0	0	0	0	0	-11	267	102	234	1,226	225	284	234	29	75	-140

APPENDIX-B

TABLE-B.1
BALANCE OF PAYMENTS- SUMMARY TABLE (CURRENT PRICES)

	Items	FY85	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02
1.	**Trade Balance**	**-2,542**	**-3,058**	**-2,303**	**-2,557**	**-2,552**	**-2,484**	**-2,483**	**-2,236**	**-3,267**	**-2,000**	**-2,537**	**-3,704**	**-3,145**	**-1,867**	**-2,085**	**-1,435**	**-1,269**	**-360**
	Exports(fob)	2,469	2,946	3,491	4,363	4,653	4,932	5,902	6,762	6,782	6,685	7,759	8,311	8,096	8,434	7,528	8,163	8,933	9,133
	Imports (fob)	6,011	6,003	5,795	6,920	7,207	7,416	8,385	8,998	10,049	8,685	10,296	12,015	11,241	10,301	9,613	9,598	10,202	9,493
2.	**Services (Net)**	**-811**	**-1,018**	**-979**	**-1,382**	**-1,467**	**-1,622**	**-1,790**	**-2,224**	**-2,748**	**-2,355**	**-2,384**	**-3,249**	**-3,659**	**-3,264**	**-2,618**	**-2,766**	**-3,142**	**-2,620**
	Shipment	-485	-506	-455	-556	-583	-596	-655	-677	-821	-726	-965	-990	-928	-875	-805	-750	-820	-746
	Other transportation	188	177	189	113	62	76	116	94	120	100	128	49	15	76	110	94	61	103
	Travel	-23	-39	-62	-158	-156	-252	-310	-518	-658	-282	-288	-504	-541	-279	-122	-142	-110	-145
	Investment Income	-505	-640	-694	-828	-885	-966	-1,160	-1,266	-1,499	-1,599	-1,771	-1,953	-2,167	-2,230	-1,808	-2,016	-2,361	-2,311
	Interest payments	-505	-640	-694	-828	-885	-966	-862	-989	-1,157	-1,290	-1,420	-1,575	-1,717	-1,720	-1,399	-1,596	-1,548	-1,464
	Profit and Dividend	0	0	0	0	0	0	-298	-286	-341	-308	-351	-378	-450	-510	-409	-420	-813	-847
	Other goods, services & Income	14	-10	44	47	94	117	219	143	109	151	412	149	-36	142	1	48	-42	479
3.	**Current Transfers (Net)**	**3,086**	**3,300**	**2,952**	**2,776**	**2,688**	**2,749**	**2,905**	**5,564**	**2,688**	**2,704**	**2,758**	**2,605**	**3,247**	**3,430**	**2,468**	**3,197**	**4,737**	**5,724**
3.a	**Current Transfers NET FCA**	**3,086**	**3,300**	**2,952**	**2,776**	**2,688**	**2,749**	**2,715**	**2,246**	**3,145**	**1,952**	**2,377**	**1,842**	**1,900**	**1,954**	**1,929**	**2,875**	**4,203**	**5,439**
	a) Private Transfers -net	2,664	2,822	2,558	2,256	2,104	2,231	2,292	3,814	2,327	2,300	2,437	2,378	2,958	3,210	2,274	3,061	3,898	4,253
	i) Workers' Remittances	2,681	2,827	2,573	2,282	2,120	2,233	1,848	1,468	1,562	1,446	1,866	1,861	1,609	1,490	1,060	983	1,087	2,389
	ii) FCA (Residents)	0	0	0	0	0	0	190	1,310	543	752	161	765	1,547	1,476	539	322	534	283
	iii) Outright Purchases	0	0	0	0	0	0	0	0	0	0	0	0	0	0	531	1,634	2,317	1,376
	b) Official Transfers	402	479	394	520	585	518	613	430	361	314	321	227	299	220	584	927	839	1,469
4.	**Current Account NET FCA**	-1,267	-775	-330	-1,163	-1,331	-1,357	-1,539	-2,214	-3,870	-2,403	-2,544	-5,111	-4,904	-3,177	-2,774	-1,326	-208	2,459
4.a	**Primary Current Account Balance**	-762	-135	364	333	-447	-391	-506	84	-2,170	-361	-743	-2,773	-1,840	19	-830	592	1,874	4,224
4.b	**Current Account Balance (1+2+3)**	**-1,267**	**-775**	**-330**	**-1,163**	**-1,331**	**-1,357**	**-1,368**	**-896**	**-3,327**	**-1,651**	**-2,163**	**-4,348**	**-3,557**	**-1,701**	**-2,235**	**-1,004**	**326**	**2,744**
5.	**Financing**	**1,267**	**775**	**330**	**1,163**	**1,331**	**1,357**	**1,368**	**896**	**3,327**	**1,651**	**2,163**	**4,348**	**3,557**	**1,701**	**2,235**	**1,004**	**-326**	**-2,744**
	1. **Capital Account(net)**	**321**	**1,212**	**592**	**1,052**	**1,364**	**1,782**	**1,440**	**1,060**	**2,712**	**3,157**	**2,476**	**3,968**	**2,459**	**1,048**	**-2,278**	**-4,177**	**-643**	**-1,050**
	a) Foreign Investment	**102**	**213**	**194**	**264**	**206**	**286**	**323**	**615**	**880**	**699**	**1,719**	**1,265**	**1,377**	**738**	**570**	**-75**	**145**	**-7**
	i) Direct investment in Abroad (Net)	7	6	0	-18	-40	-12	-7	8	4	6	-3	4	18	-29	-44	1	-37	-2
	ii) Direct investment in Pakistan(Net)	71	144	308	162	210	217	246	335	309	354	442	1,102	682	601	472	472	323	486
	iii) Portfolio investment in Pakistan(Net)	24	163	85	120	36	80	84	272	570	339	1,280	159	677	166	142	-550	-141	-491
		0	0	0	0	0	0	-9	219	137	289	1,099	205	268	221	28	73	-140	-4

TABLE-B.2
BALANCE OF PAYMENTS- SUMMARY TABLE (CONSTANT PRICES 2000-01)

Items	FY85	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01
b) Foreign long-term loans/credit (Net)	566	663	335	738	1,727	1,364	1,107	1,936	1,671	1,404	991	1,210	569	1,184	0	1,111	-636
i) Disbursements	*1,441*	*1,748*	*1,456*	*1,849*	*2,756*	*2,404*	*2,228*	*3,195*	*3,179*	*3,173*	*3,272*	*3,441*	*2,874*	*3,619*	*2,587*	*3,501*	*1,654*
Project Aid							1,363	1,788	1,932	1,941	2,048	2,156	1,708	1,451	1,567	1,010	785
Food Aid	972	1,262	1,180	1,082	2,607	2,299	170	344	365	291	290	421	440	669	240	191	0
Non Food							406	326	244	365	245	21	0	663	573	128	678
Others (private loans/credits)	490	478	306	167	189	197	289	737	838	776	689	854	726	845	204	171	191
ii) Amortization	895	1,078	1,151	1,111	1,029	1,102	1,122	1,259	1,508	1,969	2,280	2,231	2,305	2,435	2,587	2,614	2,290
Official	726	795	1,081	1,034	980	997	987	969	1,369	1,492	1,637	1,651	1,713	1,829	2,131	2,010	1,795
Others (private loans/credits)	169	282	70	77	99	105	135	289	339	477	644	579	592	607	456	604	495
c) Official Assistance (Commercial and IDB)	62	32	-6	258	-215	406	541	-794	1,029	336	-243	403	-250	634	-741	-397	70
d) FCA (Non-residents)	0	740	537	78	29	230	-175	-54	210	323	229	485	620	-74	-2,309	1,925	-96
e) Others (mainly outstanding exports bills etc)	-282	-49	-271	67	63	-30	-68	-546	-385	775	-133	872	225	-1,415	163	-757	-126
II. Changes in Reserves (-Inc/+Dec)	**1,532**	**-772**	**-368**	**218**	**-24**	**-497**	**-8**	**-159**	**098**	**-1,830**	**-268**	**474**	**1,110**	**324**	**-861**	**-73**	**-1,080**
Assets	**1,705**	**-408**	**141**	**675**	**-15**	**-332**	**143**	**-430**	**606**	**-2,172**	**-375**	**434**	**1,290**	**157**	**-1,311**	**214**	**-1,085**
SDRs	**0**	**-39**	**21**	**7**	**7**	**4**	**9**	**0**	**-2**	**5**	**-2**	**1**	**1**	**0**	**2**	**0**	**1**
Forex (State Bank of Pakistan)	1,606	-320	43	648	-40	-207	89	-536	728	-2,068	-439	684	995	206	846	388	-727
Forex (Commercial Banks)	99	-49	77	21	18	-129	54	96	-120	-109	66	-252	294	-49	-467	-175	-359
Liabilities	-152	-363	-509	-457	-9	-165	-151	271	91	343	107	40	-180	168	450	-286	85
Use of Fund Credit	-152	-362	-509	-457	-9	-165	-151	271	91	343	107	40	-180	168	450	-286	85
Purchases/drawings	235	374	249	0	221	3	0	397	311	440	236	304	164	410	654	0	324
Repurchases	387	737	757	457	230	167	151	126	220	97	129	265	343	243	205	286	239
III. Errors & Omissions	**-72**	**-36**	**-25**	**-57**	**-22**	**-63**	**-83**	**-42**	**31**	**91**	**-84**	**-56**	**71**	**368**	**1037**	**512**	**626**
IV. Exceptional financing	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**4146**	**4052**	**692**

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