

Dr. Amjad Waheed, CFA
Chief Executive Officer

Pakistan's economy has been on the decline since 2007. Low tax to GDP ratio and high non-development spending has resulted in massive government borrowing. Government total debt has risen by around 2.5 times from Rs 4.57 trillion in 2007 to Rs 11.24 trillion at present (see Chart below). This is twice the total bank deposits of Pakistan. Development spending, which is critical to sustain economic growth and meet the basic social needs of the poor such as education, health care, clean drinking water, population planning, etc., is estimated to decline from 5% of GDP in FY 2007 to 2.4% in FY 2011. The Government's total tax revenues are eaten away by debt servicing and defence spending. Excessive government borrowing has also crowded out the private sector whereby private sector credit as a percentage of total domestic credit expansion has declined from 80% during FY2007 to just an average of 22% during 2008-2010.

We come across several of our present and potential investors and get a chance to listen to their views. Presently most of them are very concerned about the economic and law and order situation. They worry about their personal safety and that of their family and staff. They are more worried about the dacoits, the kidnappers and the extortionists than the suicide bombers. They have put their investment plans on hold, waiting to see how the situation develops. This slowdown in investments is negatively impacting job creation, government revenue collection, and economic growth. A large number of top Pakistani businessmen have got together on the platform of "Pakistan Business Council". They have laid down a basic economic and social agenda that they feel is important to follow to get Pakistan out of the present quagmire. They have met with all major political parties and have in general got a positive response. It is time for the government and other political parties to commit themselves to an economic and social roadmap that is clearly defined and is do-able. This will give a positive signal to the local and foreign investors, and will make them invest. Any delay on this front can be very destructive for Pakistan.

Pakistan's foreign debt servicing burden has increased from US\$ 2.9 billion in 2007 to US\$ 5.6 billion at present. In 2002 following September 11, 2001 events, the Government was able to reschedule its foreign debt. This resulted in the annual foreign debt servicing burden declining from US\$ 5.1 billion in 2000-01 to US\$ 2.8 billion in 2004-05, thus creating room for the government to increase its development spending. A large chunk was rescheduled for 10 years that has now become due. Also, payments to IMF for the US\$ 8 billion facility that we took since 2008 will also become due from 2012. Thus, external debt servicing is expected to rise substantially from 2012 onwards. It is, therefore, critical that the Government should request rescheduling of its bilateral and multilateral debt in exchange for its support in the war on terror. This can uplift the economy in a short span of time.

