

## **Debt Accumulation and Its Implications for Growth and Poverty**

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### **I. INTRODUCTION**

Rising levels of debt and debt servicing, falling rates of investment, declining growth rates of output and employment, and sharp increase in poverty sum up the disappointing performance of Pakistan's economy over the last decade. By the end of the fiscal year 2001, external debt had increased to \$30 billion, and the ratio of external debt and the present value of debt servicing stood at 64.0 and 80.0 percent of GDP respectively. Even though the ratio of debt servicing to export earnings and debt servicing to total foreign exchange earnings have declined because of debt rescheduling, still they were 37.4 and 23.3 percent, respectively, in 2000-01. Prior to debt rescheduling, the two ratios were 55.4 and 34.9 percent in 1997-98. The average growth rate of GDP has been less than 4 percent, with a declining trend, and unemployment rate has increased from less than 5 percent to 7.8 percent over the last decade. The real wages have fallen, and one-third of the population is unable to meet its nutritional requirements. While a number of factors including the inconsistency of the economic policies of successive governments, Structural Adjustment and Stabilisation Programmes of the IMF, and corruption have been responsible for this state of affairs, debt accumulation to alarming proportions is also a major cause of such performance.

The debt problem has been haunting the policy-makers for about a decade. The present government appointed a Debt Reduction and Management Committee early in 2000; it submitted its report in March 2001 [Pakistan (2001)]. The Report called for early resolution of the debt problem because it could otherwise slow down the growth rate further, increase inflation, destabilise the currency, and adversely impact the flow of trade and technology. The Report recommends revival of growth, reduction in the future borrowing, bringing down of the real cost of borrowing, divestiture of the assets, improving the effectiveness of the government expenditure, and improving the carrying capacity through growth in revenues, exports, remittances and other foreign receipts for resolution of the

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problem. It also came up with a short-term strategy, which called for rescheduling of \$5.1 billion of debt payments. Whereas the recommendations of the Report for the resolution of debt problem need to be firmed up with strong action programmes, some of the actions taken by the government in recent past are a move towards that direction. The \$12.5 billion worth of rescheduling of debts implies that the short-run problem has been resolved.

How the debt crisis impacts growth and poverty has been widely discussed in the literature [For example, see Williamson (1989); Ahmed and Summers (1992); Fishlow (1985) and Lustig (1999)]. Whenever the debt crisis assumes significant proportions, the resource inflows dry up and there is a negative transfer of resources from the debtor countries. The investment tends to fall as the debt rises beyond safe limits, investible resources fall due to sharp increase in the debt servicing, investors lose confidence, demand falls to low levels, interest rates start rising, and there is a massive capital flight.

With a view to financing debt-servicing, the government has to increase taxes. If taxes are imposed on capital or the income received from it, investment tends to fall. Alternatively, if the taxes are imposed on the goods consumed by the poor, real incomes of the poor are reduced. Similarly, if the public expenditures are reduced, especially the development and the social sector expenditures the poor are impacted adversely. All three ways imply an increase in poverty.

How the debt got accumulated, why it became difficult to service the debt, and to what extent debt overhang and the mechanism through which it has affected the poverty levels in Pakistan are examined in the present study. The process and trends of debt accumulation in Pakistan are examined in Section II. The use of loans and impact on the economy of Pakistan are examined in Section III. The process through which debt accumulation has impacted the poor adversely has been analysed in Section IV. Debt restructuring and the impact of debt rescheduling are discussed in Section V. Major conclusions are summarised in the last section of the study.

## **II. THE PROCESS AND TRENDS IN DEBT ACCUMULATION**

The high and continued level of fiscal and balance-of-payments deficits has been responsible for the sharp growth in external debt. While almost one-third of the budgetary deficit has been financed by foreign aid, the balance-of-payments deficits have been financed mostly by borrowing rather than by foreign private investment. Since the balance-of-payments deficit in most of the years in the 1990s has exceeded \$2 billion, the debt outstanding at present has gone up to \$30 billion despite regular servicing of debt.

Because of the unsustainable levels of budgetary and balance-of-payments deficits, Pakistan has implemented various Structural and Stabilisation Programmes of the IMF and the World Bank since 1987-88 but only very few have been fully

implemented. The fiscal deficit, therefore, continued to be in the range of 6 to 7 percent of GDP<sup>1</sup> and the balance-of-payments deficit, instead of falling, increased and peaked at \$4,575 million in 1995-96, and for the last couple of years it has been around two billion dollars.

The recent difficulties in servicing the debt suggest that external debt is not in the tolerable limits. Siddiqui and Malik (2002) present eight different indicators and all of these suggest that debt<sup>2</sup> in Pakistan is significantly higher than the average of South Asia and the least-developed countries. For example, debt to export ratio in 1997 in Pakistan was 342.9 percent as compared to 174.5 percent of South Asia and 141.0 percent in the LDCs. Debt to GDP ratio in Pakistan was 58.3 percent as compared to 28.4 percent in South Asia and 40.5 percent in the LDCs; and the ratio of debt servicing to exports in Pakistan was 28.3 percent as compared to 15.3 of South Asia and 4.3 percent in the LDCs. All the indicators point to the severity of the problem Pakistan is facing.<sup>3</sup> Nevertheless, Chaudhary and Anwar (2002), using debt Laffer curve, show that Pakistan's debt is not so high that the creditors could write off at least a part of the debt and would also gain in the process. This indicates that Pakistan has the potential to pay the debt; it is only illiquid and qualifies for debt rescheduling but not a write-off. Nevertheless, like any other developing country, Pakistan welcomes any debt write-off and as a matter of fact half a billion dollars of Pakistan's debt has also been written off.

The external debt problem has been compounded during the last decade because of the increasing reliance on short/medium-term financing to meet external obligations. The sharp increase in debt servicing is essentially due to changes in the term structure of the debt. For example, in FY96-97, short/medium-term debt represented about 18 percent of Pakistan's external liability and accounted for over 55 percent of the debt servicing cost. Debt-servicing accounted for as much as 62.1 percent of the total exports and 46.0 percent of the total foreign exchange earnings in 1996-97.

### III. FOREIGN CAPITAL INFLOWS AND THEIR CONTRIBUTION TO GROWTH RATE

Whereas each of the successive governments has called for self-reliant growth, they all have invariably relied on foreign aid to finance a significant proportion of investment in the short run. It was expected that by raising the levels of investment and output foreign aid would result in higher levels of savings, and

<sup>1</sup>In 2001, however, the budgetary deficit declined to 5.2 percent of GDP.

<sup>2</sup>Debt as a proportion of exports, Debt-GDP ratio, total debt servicing as a percentage of exports, interest payments as a percentage of exports, reserves to debt ratio, short-term to total debt, concessional debt to total debt, and multilateral debt to total debt.

<sup>3</sup>Nevertheless, there are a large number of countries whose debt exceeds even that of Pakistan. On the basis of some indicators, even in South Asia there are some countries whose debt exceeds that of Pakistan.

rising export levels would ensure that the foreign capital inflow may not be required to fill the resource and trade gaps in the long run (See the 3rd and 6th Five-Year Plans). However, governments hardly made any serious effort to mobilise resources and their budgets continued to be in deficit, and the resource and trade gaps widened, thus increasing the dependence on foreign capital even further. The increase in debt servicing has resulted in a further reduction in the investible resources. To meet the debt servicing obligations, the governments engaged in short-term borrowing, and that compounded the debt-servicing problems.

No doubt, foreign capital enables investment levels to rise beyond those that can be financed by domestic savings. In the absence of capital inflows, a growth rate exceeding 4 percent at the existing savings rates of Pakistan is difficult to conceive. However, while foreign aid is expected to generate higher levels of investment and GDP, such expectations may not materialise if foreign capital is not channelled into productive economic activities, and is used instead for higher levels of public or private consumption. Obviously if no assets are created corresponding to the foreign capital inflows, it results in lower level of savings and growth in the long run. Moreover, foreign aid also influences the choice of projects and technologies and can have adverse income distribution and employment effects.

The debt crisis emerges because the loans are not properly utilised. There are at least four major reasons for improper use of loans, viz., the donor's agenda; corruption; capital flight; and the adverse impact of loans on the domestic savings. Whereas the donor agencies play an important role in economic development by providing the requisite finances, they also influence the policies and agenda of the government through their choice of projects and technology, programmes, economic strategy, and consequently, the levels of efficiency, employment, poverty, and income distribution. That sovereignty is compromised has been extensively analysed. For example, see Corbo and Suh (1992); Jain and Bongorals (1994); Banuri, Khan, and Mahmood (1997); Kemal (1994); Killick (1995); Park (1995); McGillivary *et al.* (1995); Morrissey (1995); Pasha (1995); Cameron (1995); Tetzlaff (1995) and Reiger (1995). Tying of aid to sources and to certain projects reduces utility of the aid, and it may not generate sufficient output and exports for debt repayment.

Corruption is widespread and a substantial part of the resources earmarked for development projects are misused [World Bank (2001)]. The widespread corruption in Pakistan is well-reflected in the large number of cases being investigated by the National Accountability Bureau. We may note that a part of the money obtained through corrupt practices is used in conspicuous consumption, while the remaining money leaves the country.

Dornbusch (1985) and Ize and Ortiz (1986) argue that currency overvaluation, threat of devaluation, and increasing domestic financial instability result in capital flight. While these are important issues in capital flight, there are many other motives that lead to capital flight. For example, the corruption money may leave the

country to avoid any accountability, because the corrupt feel that such money is safer abroad. Similarly, the domestic producers may use foreign resources to fund domestic investment and invest their own resources abroad even if the return is lower outside the country, as long as they earn more than the cost of funds. Moreover, when implicit or explicit public guarantees create interdependence among private investors, a move by one borrower that increases the likelihood of its own default increases the expected tax obligations of other borrowers, and by placing these funds abroad they escape increased tax payment.<sup>4</sup>

That aid contributes to the development process significantly is based on the assumption that in the absence of aid, investment rates would be lower. If it is assumed that the entire capital inflows are used only for investment purposes, then the foreign aid, on average, would have increased the growth rate by almost 20 percent. However, the assumption may not be tenable if foreign capital inflows result in a higher level of private and public consumption and, as such, the savings rate falls. [See Bhagwati (1970); Chaudhary and Hamid (1987); Griffin and Enos (1970); Mosley (1987) and Nabi and Hamid (1991)]. By regressing the savings rates against the foreign capital inflows along with other variables that affect the savings behaviour, it has been found that foreign capital inflows have entirely been used to finance consumption in Pakistan [Kemal (1997)]. The increase in foreign capital has resulted in lowering the savings by the same magnitude, and as such foreign aid may have contributed almost nothing to growth. Siddiqui and Malik (2002) estimate directly the impact of debt on growth rates and argue that debt accumulation and growth have a non-linear relationship. Up to a certain level, the impact is positive; and beyond the threshold level, the relationship turns negative. While debt accumulation in other countries of South Asia so far has not had a negative impact on the growth rate, debt accumulation in the case of Pakistan is resulting in low growth.

#### IV. DEBT AND POVERTY

Whenever a country is in a debt crisis, a large proportion of public expenditures and the foreign exchange earnings are absorbed by debt servicing. Increasing debt servicing requirements in the absence of debt relief leaves the following three choices to the governments of the debtor countries, viz., taxation of capital, taxation of consumption, and reduction in the public expenditures. Each of these has significant implications for an increase in the poverty rates.

With a view to raising the public revenue to finance debt servicing, the government may increase the tax on capital and/or its incomes. This encourages capital flight<sup>5</sup> and the investment levels fall. A decline in the levels of investment

<sup>4</sup>Eaton (1987) and Khan and Haque (1985) argue that there is an asymmetric risk of expropriation facing domestic and foreign investors. Domestic investors invest abroad and they finance their investments from borrowing abroad especially when the debt is guaranteed by the government.

<sup>5</sup>Rogoff (1992) suggests that when the debt-GDP ratio is sufficiently large it cannot be paid in full; then the repayment of debt is a tax on the new investment.

results in reduction in the level of output, and the Okun law suggests that the employment would fall. The increase in unemployment to 7.8 percent in the recent years in Pakistan confirms this. Rising unemployment levels restrict the growth of nominal wage rates, resulting in declining real wage rates. This, together with the rising unemployment, implies the worsening functional income distribution. If we remember that the poor hold very little capital, this also implies deterioration in the size distribution of income as well.

Whereas the trickle-down theory suggests that growth is sufficient and there is no special reason to go for pro-poor growth, Kakwani (2001) argues that whereas growth tends to reduce poverty, income inequality tends to increase the poverty levels, i.e., there is a trade-off between growth and income distribution. He calculates the growth rates of per capita GDP required if the gini coefficient increases by one percent to keep the poverty gap at the same level. This ratio changes from one country to another and ranges between 1.23 in the case of Korea to 4.07 in the case of Thailand.

If the government decides instead to tax consumption, then it enlarges the tax net and the commodities used by the poor are also taxed, making the tax regressive. This impacts the poor sections of the society directly.

The government may reduce the public expenditures. As long as it reduces the wasteful expenditures, it is good for the economy and the poorer sections of the society. However, the poor are hit directly—to the extent the development expenditure, social sector expenditure, and subsidies are reduced.

Let us examine how Pakistan has financed the rising debt servicing over the last decade. Pakistan reduced the personal and corporate income taxes.<sup>6</sup> This led to an increase in the investment levels as long as Pakistan was pursuing consistent economic policies and the economy was being liberalised. However, because of the lack of continuity of policies by the successive governments and the rising debt burden, there has been a sharp fall in the investment levels despite the reduction in tax rates.

The slow-down of investment has led to a reduction in the growth rate of GDP which has impacted poverty through inadequate employment generation. Compared to the growth of labour force at a rate of 2.4 percent, the expected growth rate of employment is in the range of only 1.5 percent,<sup>7</sup> thus adding 0.5 million persons annually to the ranks of the unemployed. The unemployment rate rose to 7.8 percent in 1999-2000.<sup>8</sup> Moreover, there has been a shift in the employment structure from

<sup>6</sup>While the revenue from direct taxes as a proportion of total revenue is shown to have been rising, it is due to withholding taxes where they are the final payment. If these are excluded, then there is no increase in the proportion of direct tax revenue, which would be no more than 20 percent of total tax revenue.

<sup>7</sup>With GDP growing at less than 4 percent and an employment elasticity of around 0.4 yields, employment is expected to grow at a rate of around 1.5 percent.

<sup>8</sup>The unemployment rate for urban areas is higher than for rural areas. Similarly, teenagers and females suffer from a higher level of unemployment than the remaining categories.

the industrial sector towards less productive sectors. Employment in the manufacturing sector declined from 14.2 in 1987-88 to 10.2 in 1997-98. This shift has also resulted in an increase in underemployment, contributing further to the poverty levels in the country.

As a part of its Structural Adjustment Programme, Pakistan has significantly reduced the customs duties. As these were the major source of revenue, the result is a substantial fall in the tax revenue. The direct taxes were reduced in the hope that the action will stimulate the investment and production levels, but due to a number of factors mentioned in the preceding sections the investment, instead of rising, has fallen. Therefore, the entire burden of adjustment for raising the tax revenue fell on the sales tax and reduction in public expenditure. Not only was the sales tax net broadened; the sales tax rates were also rather high.

How did this change-over from tariffs to sales taxes impact poverty? It may be underlined that because of widespread smuggling, most of the import duties on the consumer goods were redundant, and as such tariff rationalisation involving a decline in import duties did not result in a reduction in the prices of imported goods or their substitutes produced within the country.<sup>9</sup> On the other hand, extending the sales tax even to the goods having maximum weight in the consumption bundle of the poor—and that too at a high rate—is expected to affect the poorer sections of the society adversely. A tax structure that was meant to be progressive has turned regressive. The tax burden of the poorest income group has increased by 3.8 percent, and that of the richer sections of the society has declined by 20.0 percent [PIDE (2001)].

Despite the widening of the sales tax net and the high rates of the tax, the public revenues failed to rise. Accordingly, to create a space in the budget to meet the needs of debt servicing, public expenditures had to be reduced. The public expenditures did decline from 26.7 to 20.5 percent, but the decline was mainly observed in the development expenditure, which declined from 6.9 to 2.7 percent of GDP, and also particularly in the social sectors in the current budget.

The decline in the development expenditure impacts poverty in three ways. First, it reduces the construction activities, which are the most labour-intensive activities, and thus tends to generate higher unemployment levels. Secondly, the private investment also tends to fall because the availability of the physical and social infrastructures is constrained. Thirdly, the decline in expenditure on social sectors such as education and health has a direct adverse impact on the poor.

While debt servicing increased rapidly, both the development and the current subsidies have fallen rather sharply. Whereas total subsidies at constant prices show a modest growth from Rs 8151 million in 1990-91 to Rs 9116 million in 2000-01 at constant prices of 1990-91, most of these subsidies are provided to the loss-making public enterprise units. The poverty-related subsidies in fact declined from Rs 5257

<sup>9</sup>The households may, however, indirectly benefit through increase in employment.

in 1990-91 million to just Rs 284 million by 2000-01, i.e., from 0.52 to 0.01 percent of GDP [Niazi (2001)].

It is therefore quite clear that in Pakistan the debt has impacted the poor through a reduction in the employment and wage rates, an increased tax burden, and a decline in subsidies.

## V. OVERCOMING THE DEBT CRISIS

The debt issue, however, is not just limited to Pakistan [Fischer (1987)]. Most of the developing countries face an acute debt problem which needs to be efficiently and equitably resolved. It is sometimes believed that only the writing-off or rescheduling of debt would be the end of the debt crisis. This is far from the truth. Debt crisis is not resolved until the debt situation is such that there is confidence in the country's ability to service its debt over time under a reasonable range of economic conditions, and the debt burden must not leave the debtor in a state of long-term stagnancy [Fisher (1987)]. An efficient and pragmatic resolution of debt crisis, as pointed by Carmichael (1999), is one that stimulates investment and, through investment, economic growth; lowers protection; and helps institute reforms at both the macro economic level (especially fiscal restraint and sound management of exchange rates) and the microeconomic level (liberalisation of markets, removal of distortions). What should be the equitable resolution? There are major differences, and there are judgmental issues regarding the distribution of burden amongst the developing, and industrial countries and the shareholders of the commercial banks. However, when a partial write-off would improve the capacity to pay off the debtor, then it is a Pareto optimal situation, where both the debtors as well as the creditors stand to gain.

The four main ways of debt resolution include procedural reform, policy reform in debtor countries, increased investment in debtor countries, and forgiveness.

- Procedural reforms include multi-year debt rescheduling, reducing the size of banking syndicates, altering the accounting rules to allow debt write-offs, gradual amortisation, and helping the debtors in reducing the flight of capital.
- Policy reforms that can help the debt resolution are all sorts of macro policies that encourage savings and exports, and in this regard fiscal and exchange rate policies are crucial. However, implementation of such policies is not all that easy as it includes substantial reduction of consumption, especially of the very poor.
- While supply expansion can be more effective and less painful than the demand reduction as a means of servicing the external debt and restoring external balance, the debt overhang acts as an effective tax on investment, to the extent that the rewards of successful investment may accrue to the foreign creditors and as such it is difficult to implement.



- Bradley (1986); Sachs (1986) and Krugman (1988) suggest outright debt relief of varying magnitudes as it would be in the interest of both the lenders and the debtors. Using the debt Laffer curve one can determine the points where it will be better for the creditor to forgive the loan rather than insist on full repayment of debt. We may point out that at rather high levels of debt, the debtor countries are discouraged to take remedial actions. As a matter of fact, debt write-off can increase the capacity for repayments.

Debt resolution may be market-based or through government intervention. The market mechanism allows the banks to trade what otherwise would be untradable debt and, as has been pointed out by Fischer (1987), there are at least ten different ways that it can be done. These include the development of secondary insurance and financial markets, indexed loans, contingent lending obligations, longer maturity debts, debt equity swaps, debt service in local currency, return of flight of capital, country funds, debt subordination and interest capitalisation. The interventionists, in general, believe that there should be a new international institution which links the debtors and the creditors.

Whereas the debt of a highly indebted country can be sold at a discount,<sup>10</sup> there is uncertainty of the amount which is expected to be paid after debt rescheduling. The amount at which the debt may be sold is the expected value of the probability distribution. When the debt obligation is reduced through write-offs, the capacity to pay might even increase. Krugman (1988) argues that the creditors may wish to forgive part of a country's debt to increase the likelihood that it will repay what remains. The tradeoff can be improved by indexing repayments to the state of nature.

Even if the Laffer curve type analysis does not qualify Pakistan for a debt write-off, the country does qualify for debt rescheduling. Pakistan approached the Paris Club for rescheduling of its public and publicly guaranteed debt and the request was granted in January 1999; the debt of 3 billion dollars was rescheduled over the July 1998 to December 2000 period. Similarly, the commercial debt amounting to \$927 billion was also rescheduled by the London Club. The Euro Bond of maturity over the 1999 to February 2000 period was rescheduled through a voluntary exchange with a single bond of extended maturity. The terms to which debt rescheduling was agreed by the Paris Club included a grace period of 5 years, repayment period of ten years after the grace period, and the same rate of interest at which the original loan was lent. Pakistan also got another debt rescheduling for the year 2001. However, rescheduling was for a shorter period and was not consistent with Pakistan's capacity to pay. Short-term debt rescheduling gave very limited breathing space and could hardly stimulate the investors.

<sup>10</sup>The discount factor of the debt is the value of debt.

Rescheduling recently negotiated by the Government of Pakistan is distinctive in three ways. First, the entire bilateral debt of Consortium countries of \$12.5 billion has been rescheduled. Secondly, the debt rescheduling has been for a longer period, i.e., 35 years repayment with 15 years' grace period for IDA loan, and 25 years repayment with 5 years' grace period for the others. Thirdly, it has not been just rescheduling; there has been re-profiling of the debt in such a way that it takes into consideration the country's capacity to pay.

Such a debt rescheduling is expected to impact Pakistan's economy positively in a number of ways. First, the agreement with the IMF culminating in the debt rescheduling over a longer period, hopefully, would improve the credit rating of Pakistan and help in the investment and growth process. Secondly, a sharp reduction in the external debt servicing provides fiscal space to pursue development work and the programmes that directly or indirectly impact the poor positively. Thirdly, it would allow the State Bank of Pakistan to pursue a monetary policy that stabilises the economy without squeezing the investment levels.

While debt rescheduling would definitely help in the growth prospects and, resultantly, the employment and real wages may start rising and poverty is reduced, we must ensure that the debt crisis does not recur. We must ensure that the fiscal space is used for public investment and total savings and investments rise. Stagnant investment and savings levels imply that the future generations will face an even more acute problem of debt than has been experienced recently. That the government has recently increased the development expenditures is a good omen. A better investment climate with strong economic fundamentals is expected to result in higher levels of investment. It will be instrumental to not only stopping the capital flight but may also mean that the capital that has already left the country comes back. The stimulation of growth along with pro-poor policies will ensure that poverty levels start falling.

## VI. CONCLUSIONS

The preceding analysis shows that even though debt burden as a percentage of GDP of Pakistan exceeds that of all the South Asian countries, it still is not so high as to qualify for a debt write-off. This implies that Pakistan has the capacity to service its debt. In this context, long-term rescheduling (to avoid illiquidity) through re-profiling of debt assumes great significance. However, we must ensure that the short-run gain is converted into long-run gain as well, and not into a long-run liability. Accordingly, the following ten major elements, outlined by Ahmed and Summers (1992), must be kept in view.

- Systematic thinking is crucial to avoid bad lending decisions.
- There should be close monitoring of how loan proceeds are spent.
- Those opting out of the international financial system generally do worse.

- Good national policies are necessary for economic revival and access.
- Economic adjustments take time and sustainability of reforms should be taken into consideration.
- There is a compelling need for official action to overcome the free-rider's problem through concerted lending and/or debt reduction.
- Without official action, debt problems fester with unfortunate consequence for both debtors and the creditors.
- Debt reduction is sometimes necessary but never sufficient to restore external viability.
- Building risk-sharing contingencies into financial contracts is much less costly than renegotiating contracts when things go wrong.
- External finance for investment that comes to low-income countries must come from official resources.

Annexure Table 1

*Profile of Domestic and External Debt*

	(Rs billion)			
	1997-98	1998-99	1999-2000	2000-01
<b>Total Debt Servicing</b>	278.3	343.1	353.9	325.0
Total Interest Payment	191.6	220.1	256.8	237.1
Domestic	160.1	178.9	206.3	178.8
Foreign	28.7	38.0	44.9	50.5
Explicit Liabilities	2.8	3.2	5.6	7.8
Repayment of Principal (Including Repayment of Foreign Debt)	86.7	123.0	97.1	87.9
<b>Ratio of External Debt Servicing to</b>				
Export Earnings	55.4	35.3	36.5	37.4
Foreign Exchange Earnings	34.9	23.6	23.4	23.3
<b>Ratio of Total Debt Servicing to</b>				
Tax Revenue	78.4	87.8	87.2	68.9
Total Revenue	64.8	73.2	65.9	57.0
Total Expenditure	43.9	53.0	47.6	49.5
Current Expenditure	52.5	62.7	55.0	49.3

*Source: State Bank of Pakistan, Annual Report 2000-01.*

Annexure Table 2

*Trends in Balance of Payments*

(Million \$)

Years	Exports	Imports	Trade Balance	Remittances	Current Account Deficit
1987-88	4362	6919	2557	2013	1682
1988-89	4634	7207	2573	1897	1934
1989-90	4926	7411	2485	1942	1891
1990-91	5902	8385	2483	1848	2171
1991-92	6762	8998	2236	1468	1346
1992-93	6782	10049	3267	1562	3688
1993-94	6685	8685	2000	1446	1965
1994-95	7759	10296	2537	1866	2484
1995-96	8311	12015	3704	1461	4575
1996-97	8096	11241	3145	1409	3846
1997-98	8434	10301	1867	1490	1921
1998-99	7528	9613	2085	1060	2429
1999-00	8190	9602	1412	983	1143
2000-01	8926	10195	1269	1087	508

Annexure Table 3

*Budgetary Deficit in Pakistan*

(as Percentage of GDP)

	Total Revenues	Tax Revenues	Surplus of Autonomous	Public Expenditures				Budgetary Surplus	Primary Surplus
				Total	Non-development	Interest Payments	Development		
1987-88	17.3	13.8	0.9	26.7	19.8	6.9	6.9	8.5	-1.6
1988-89	18.0	14.3	0.7	26.1	19.9	5.0	6.2	7.4	-2.4
1989-90	18.6	14.0	0.8	25.7	19.3	6.9	6.5	6.5	+0.4
1990-91	16.9	12.7	0.8	25.7	19.3	4.6	6.4	8.7	-4.1
1991-92	19.2	13.7	1.2	26.7	19.1	5.2	6.4	7.7	-2.5
1992-93	18.0	13.3	0.1	26.0	20.3	5.9	5.7	8.0	-2.1
1994-95	17.3	13.8	0.3	22.9	18.5	5.2	4.4	5.6	-0.4
1996-97	15.6	13.2	-	22.0	18.5	6.6	3.5	6.4	+0.2
1997-98	16.0	13.2	-	23.7	19.8	7.6	3.9	7.7	+0.1
1998-99	15.9	13.3	-	22.0	18.6	7.4	3.4	6.1	+1.3
1999-00	16.9	12.8	-	23.4	20.2	8.3	3.2	6.5	+1.8
2000-01	15.7	12.8	-	20.5	18.8	6.8	2.7	5.2	+1.5

Source: *Economic Survey, 2000-01* and previous issues.

Annexure Table 4

*Federal Subsidies*

(Million Rupees)

	Total Subsidies	Poverty Related Subsidies	As % of Total Subsidies	Wheat for FATA/NA	Imported Wheat	Wheat for Afghanistan	Edible Oil	Sugar
1990-91	8150.9	5256.6	64	148.6	788.3	1156.1	2140.9	312.0
1991-92	8205.9	5259.7	64	128.4	3671.4	250.0	187.9	32.0
1992-93	5177.3	3235.7	62	126.4	2324.9	100.0	–	–
1993-94	5138.2	2999.4	58	142.3	483.2	175.0	–	–
1994-95	3691.1	3331.3	90	521.6	443.9	44.0	–	–
1995-96	10435.4	9181.5	88	537.7	7014.0	107.8	–	–
1996-97	7588.2	6798.1	90	473.8	5864.7	–	–	–
1997-98	6554.8	4897.6	75	464.1	4221.5	10.0	–	–
1998-99	3992.5	3623.8	91	501.0	2072.9	60.0	–	–
1999-00	14427.0	1555.9	11	474.0	1045.9	5.0	–	–
2000-01	27706.1	671.5	3	638.5	0.0	20.0	–	–
2001-02	20680.3	2244.5	11	638.5	1	50.0	–	–

Annexure Table 5  
*Trends in Investment*

(Percentage of GDP)

Years	Total Investment	Fixed Investment	Public Investment	Private Investment	Share of Private Sector in Fixed Factor
1987-88	17.3	15.8	8.5	7.4	46.5
1988-89	18.3	16.7	8.7	8.0	48.2
1989-90	18.2	16.6	8.0	8.6	51.7
1990-91	18.5	17.0	8.3	8.7	51.3
1991-92	19.9	18.4	8.7	9.7	52.7
1992-93	20.6	19.0	9.0	10.0	52.5
1993-94	19.4	17.8	8.3	9.5	53.6
1994-95	18.3	16.8	8.2	8.6	51.3
1995-96	18.7	17.1	8.1	9.0	52.5
1996-97	17.7	16.2	6.8	9.4	58.0
1997-98	17.1	14.5	4.9	9.6	66.2
1998-99	15.0	13.3	5.3	8.0	60.2
1999-00	15.0	13.4	5.3	8.1	60.4
2000-01	14.7	13.1	5.6	7.5	57.3



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