Debt, Debt Justice and Development

This panel is not accepting abstracts

Pakistan continues to struggle in managing its sovereign debt. The sovereign/country is trapped in the classic trilemma of higher sovereign debt, lower capacity to finance debts and ever-growing development financing needs. The problem is equally worse on the external and domestic debt fronts. Skyrocketing debt repayment needs - lower reserves, dwindling dollar inflows, stagnant exports, rising imports – also pose serious challenges for external debt financing. More debt is being taken on solely to pay the interest on external loans, without addressing the principal. As a result, the overall debt burden continues to grow, leading to increasing debt distress.

The situation with domestic debt is no different. Declining revenues and rising expenditures are further inflating fiscal deficits, driving the need for increased domestic borrowing. With other options proving ineffective, borrowing from the central bank - commonly referred to as deficit financing through printing money - and from commercial banks has become a core macroeconomic policy to fund public spending.

This, however, deepens the domestic debt trap. The State Bank of Pakistan prints new currency to fund excessive government borrowing, which devalues the currency, resulting in higher prices for the same goods and driving up inflation. In response, the SBP raises interest rates to control inflation. However, higher interest rates increase the cost of borrowing, leading to even larger debt payments. The cycle of more borrowing and rising debt repayments continues, further entrenching the domestic debt trap.

‘Debt’ and ‘Development’ are inversely linked. The more spent on debt repayments, the less is available for critical areas like education, health, and infrastructure. Debt consumes funds that should go towards development. In a country with a population growth rate of 2.5%, where increasing investment in health, education, and infrastructure is essential, the risk of default looms if the next debt payment is not met. With insufficient tax revenues, development spending is being sacrificed to meet debt obligations, further crippling future growth prospects.

Pakistan’s policymakers are grappling with a difficult trilemma: rising spending needs, an escalating debt burden, and shrinking fiscal space for government expenditures. On the brink of default, the country relies heavily on continued IMF support, which often comes with conditions like expenditure cuts, higher taxes, and more debt. As a result, social outcomes like education, health, employment, and poverty are worsening, pushing the country further off its development path. Ultimately, it is the common citizen who bears the burden of debt repayment, with no corresponding developmental benefits.

The outlook remains bleak, as another IMF programme - focused on stabilisation policies that could slow economic growth - is likely on the horizon. The government faces the challenge of balancing short-term fiscal pressures with long-term growth. To avoid further deterioration, fundamental reforms to increase tax revenues are essential to ease the pressure on spending and reduce public borrowing.

On the external front, the international community holds a responsibility to help end sovereign debt traps in countries like Pakistan, as these nations require breathing space to recover. Global financial institutions, such as the IMF and the Paris Club, can play a crucial role through initiatives like the G20's debt suspension during COVID-19.[1] On the domestic front, the government must implement measures to enhance transparency and introduce governance reforms that improve the efficiency of public spending. However, achieving this is far from easy and demands strong political will and ownership, along with a carefully crafted strategy to tackle these complex challenges.

Objective and Participation

Against this background, this discussion will bring together Civil Society Organisations (CSOs), thought leaders and policymakers. It aims to generate a debate and build capacity of civil society, particularly think tanks working on social and economic issues, on debt justice. Finally, through engaging a working group of experts from these think tanks, the discussion aims to provide a forum for sustainable debate on sovereign debt from the people's perspective, particularly debt justice.

Panel Organisers

Dr Sajid Amin Javed, Deputy Executive Director, Sustainable Development Policy Institute, Islamabad, Pakistan
Email: sajidamin@sdpi.org

Mr Abdullah Dayo, Programme Advisor, Friedrich-Ebert-Stiftung (FES) Pakistan Office
Email: abdullah.dayo@fes.de

[1] The debt suspension criteria need updating. Rather than requiring formal applications - which hurt economic rankings and often cost more than the relief - predefined qualifiers should automatically make countries eligible for debt suspension or relief, avoiding unnecessary damage to their economic standing.