TECHNICAL SESSION-7: DEBT MANAGEMENT AND SUSTAINABILITY

Chair: Prof. Dr. Muhammad Hassan, Director, Institute of Management Sciences, BZU, Multan

Paper Title: Factors Affecting External Debt & Liabilities in Pakistan
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Abstract: Pakistan's external debt and liabilities as % of GDP deteriorated from 21 percent in 2015 to 35 percent in 2023. Consequently, its external debt and liabilities have become unsustainable and country is in a debt trap and facing a default situation where it has to borrow heavily from IMF and other lenders in order to pay its previous debt. In this perspective, this paper aims to explore the key factors that have led to the unprecedented rise in Pakistan's external debt.

Applying the ARDL model and the latest time series data spanning from 1994 to 2022, this study's findings reveal several key insights. Firstly, the current account deficit has a substantial and positive impact on the increase in external debt and liabilities, both in the short and long term. Similarly, fiscal deficits and foreign aid also contribute to the escalation of external debt and liabilities in Pakistan. Furthermore, the results highlight that a depreciation in the exchange rate leads to an increase in Pakistan's external debt and liabilities, with the exchange rate effect exerting a more pronounced influence compared to other variables. The main policy implications for Pakistan is that it should focus on exchange rate stability by reducing excess demand. The country need to depend on internal resources by increasing exports and tax revenue. Pakistan needs both internal and external adjustments. Thus, IMF should reconsider its condition for removing ban on import of non-essential goods which is counter-productive to economic stability and will further increase the indebtedness of the country. Pakistan need to promote IT, agricultural and mineral related exports and expedite the development of special economic zones under CPEC to attract FDI. This would help the country to enhance its foreign exchange earning capabilities to service and reduce its external debt.

Discussant: Dr. Hina Ali, Associate Professor, Women University, Multan