

## TECHNICAL SESSION-7: DEBT MANAGEMENT AND SUSTAINABILITY

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

**Paper Title:** Subnational Debt in Pakistan: Role of Fiscal Imbalances, Economic Growth and Rule-Based Debt Policy

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**Abstract:** The rising government debt is an overarching theme in Pakistan's economic and debt management, yet a little very attention is paid to subnational public debt and fiscal solvency. The debt is one of the chronic problems of Pakistan, which is attributable to persistent deficits, large non-development expenditures, weak debt repayment capacity, low tax-to-GDP, rising cost of domestic and external borrowing. The most significant structural roots of subnational debts are in low tax effort of successive subnational governments. The disproportionately higher magnitude of expenditure decentralization compared to revenue decentralisation and tax autonomy results in transfers dependency, large Vertical Fiscal Imbalances (VFIs) and bailout expectations. Based on an exclusive balanced panel data of subnational public finances from 1971-2021, at disaggregated subnational (provincial) level, this essay is pioneering study in examining the effect of VFIs on subnational debt. The findings suggest that VFIs are relevant and significant in explaining the public debt. VFI, expenditure decentralisation and population density are positively related to public debt. The effect of policies reforms like fiscal responsibility law, rule-based debt policy and debt ceiling regulations are found to have corrective role in debt reduction, but statistically insignificant. This emphasises the need for exhaustive subnational fiscal reforms to target untapped revenue sources like land revenue, agriculture income tax and urban immovable property tax, in addition to efficiency improvement for non-tax revenue collection against charges of public utilities, irrigation and other services, and it needs not to mention that output-based budgeting and robust expenditure management will complement the reforms interventions related to subnational revenues.

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