SUMMARY of the Article "Debt trap," Editorial, Dawn, May 30th, 2024

Pakistan's debt situation has escalated significantly, resulting in immense pressure on the national budget. The fiscal deficit has averaged 7.3% of the GDP over the past five years, contributing to a national debt of Rs78.9 trillion, comprising Rs43.4 trillion in domestic debt and Rs32.9 trillion in external loans. This has created a debt trap where the country must continuously borrow to repay existing debts. Consequently, debt servicing costs have soared, with the latest estimates rising from Rs7.3 trillion to Rs8.3 trillion for the current fiscal year. The finance ministry's Mid-Year Budget Review Report indicates a 64% increase in debt payments, reaching Rs4.2 trillion in the first half of the fiscal year. This surge is attributed to both the growing debt stock and a record-high interest rate of 22%, which has significantly increased the cost of domestic debt. The report highlights that domestic debt payments constitute nearly 90% of total debt servicing costs. The high borrowing costs have adversely affected the entire economy, stalling private investment and economic growth. The editorial criticizes the government for failing to control the fiscal deficit, emphasizing that merely reducing interest rates will not resolve the underlying issue of excessive borrowing. To address this, the government must enhance its tax-to-GDP ratio by taxing under-taxed and untaxed sectors and cutting wasteful expenditures to reduce the fiscal deficit. The effectiveness of these measures will become evident with the announcement of the next budget.

Easy/Short SUMMARY (Pakistan Debt 2024 crisis):

Pakistan's debt has grown a lot recently, causing big problems for the budget.

The country owes Rs78.9 trillion and needs to keep borrowing to pay off existing debt. Debt payments have risen sharply, and this year's estimate is now Rs8.3 trillion. High interest rates, currently at 22%, have made things worse, especially for domestic debt. This has also hurt the economy by stopping new private investments. The main problem is the government's inability to control its spending, leading to more borrowing. To fix this, the government needs to improve its tax system and reduce unnecessary spending. We'll see their plans in the next budget announcement.

*SOLUTIONS of The Problem***:**

Improving Tax Collection

The government should focus on increasing the tax-to-GDP ratio by targeting untaxed and undertaxed sectors. This would involve expanding the tax base and implementing measures to ensure better compliance.

Reducing Wasteful Expenditure

Cutting down on unnecessary and wasteful government spending is crucial. This can be achieved by conducting thorough audits of public expenditures and eliminating or reducing non-essential programs and projects.

Lowering Interest Rates

Although not a complete solution, reducing interest rates can provide short-term relief by decreasing the cost of debt servicing. This should be done cautiously to avoid negative impacts on the economy.

Promoting Economic Growth

Stimulating economic growth through policies that encourage private investment can help generate more revenue. This includes improving the business environment, reducing regulatory burdens, and providing incentives for investment.

Enhancing Debt Management

Implementing a comprehensive debt management strategy to monitor and manage both domestic and external debt effectively. This includes negotiating better terms for existing loans and avoiding high-interest borrowing.

Strengthening Fiscal Discipline

Enforcing strict fiscal discipline by adhering to budgetary constraints and avoiding excessive borrowing. This involves setting realistic budget targets and ensuring transparency in government finances.

Increasing Foreign Direct Investment (FDI)

Attracting more foreign direct investment by creating a stable and investor-friendly environment. This can be done through policy reforms, improving infrastructure, and providing guarantees to investors.

Engaging in International Cooperation

Seeking assistance and cooperation from international financial institutions and friendly countries to restructure debt and secure more favorable loan terms.

Implementing Structural Reforms

Undertaking structural reforms to enhance economic efficiency and productivity. This includes reforms in sectors like energy, agriculture, and manufacturing to boost overall economic performance.

Encouraging Public-Private Partnerships (PPPs)

Promoting public-private partnerships to fund infrastructure and development projects. This can reduce the financial burden on the government and leverage private sector expertise and efficiency.

IMPORTANT Facts and Figures Given in the Article:

- Pakistan's national debt has reached Rs78.9 trillion.
- The domestic debt amounts to Rs43.4 trillion, and external loans total Rs32.9 trillion.
- The fiscal deficit has averaged 7.3% of GDP over the past five years.
- Debt servicing costs have risen to an estimated Rs8.3 trillion for the current fiscal year.
- The interest rate on domestic debt is at a record high of 22%.
- Domestic debt payments account for nearly 90% of total debt servicing costs.
- Debt payments increased by 64% to Rs4.2 trillion in the first six months of the fiscal year.

MCQs from the Article:

1. *What is Pakistan's current total national debt?*

A. Rs32.9 trillion
B. Rs43.4 trillion
C. Rs50 trillion
D. Rs78.9 trillion

2. *What has been the average fiscal deficit of Pakistan over the past five years?*

A. 5.3% of GDP
B. 7.3% of GDP
C. 10% of GDP
D. 12% of GDP

3. *What is the estimated debt servicing cost for the current fiscal year?*

A. Rs7.3 trillion
B. Rs6.3 trillion
C. Rs9.3 trillion
D. Rs8.3 trillion

4. *What is the current interest rate on domestic debt in Pakistan?*

A. 10%
B. 15%
C. 22%
D. 25%

5. *What percentage of total debt servicing costs is accounted for by domestic debt payments?*

A. 70%
B. 80%
C. 90%
D. 100%

6. *What does the finance ministry's Mid-Year Budget Review Report indicate about debt payments in the first half of the fiscal year?*

A. They increased by 64% to Rs4.2 trillion
B. They decreased by 10%
C. They remained unchanged
D. They increased by 20%

7. *What is identified as the main challenge in controlling Pakistan's debt situation?*

A. Low foreign investment
B. High inflation rates
C. Political instability
D. Government's failure to control its fiscal deficit

8. *What measure is suggested to improve Pakistan's tax-to-GDP ratio?*

A. Reducing interest rates
B. Taxing untaxed and undertaxed sectors
C. Increasing government spending
D. Reducing exports

9. ***What impact have high borrowing costs had on Pakistan's economy?***

A. Stopped new private investments and stagnated growth
B. Increased foreign investments
C. Reduced fiscal deficit
D. Boosted economic growth

10. ***What is expected to provide relief but not solve the issue of burgeoning deficit and debt accumulation?***

A. Reduction in interest rates
B. Increased foreign loans
C. Higher government spending
D. Reduction in tax rates

VOCABULARY:

1. *Exponential* (adjective) (□□□□□): Increasing rapidly by a constant proportion.
2. *Fiscal Deficit* (noun) (□□□□□ □□□□): The amount by which a government's total expenditures exceed the revenue that it generates.
3. *Debt Servicing* (noun) (□□□□ □□ □□□): The repayment of interest and principal on a debt.
4. *Anticipated* (verb) (□□□□ □□□□): Regarded as probable; expected or predicted.
5. *Expenditure* (noun) (□□□): The action of spending funds.
6. *Mounting* (adjective) (□□□ □□□□□): Increasing gradually.
7. *Spiralled* (verb) (□□□□□□): Increased rapidly.
8. *Attributable* (adjective) (□□□□ □□□□□): Regarded as being caused by.
9. *Zilch* (noun) (□□□□ □□□): Nothing.
10. *Elevated* (adjective) (□□□□): Raised or increased.
11. *Stagnated* (verb) (□□□ □□□□□): Ceased to develop or progress.
12. *Burden* (noun) (□□□□): A load, typically a heavy one.
13. *Accumulate* (verb) (□□□□ □□□): Gather together or acquire an increasing number or quantity.
14. *Burgeoning* (adjective) (□□□□□□ □□□□□): Beginning to grow or increase rapidly.
15. *Minimise* (verb) (□□□□ □□ □□ □□): Reduce to the smallest possible amount or degree.
16. *Mid-Year Budget Review Report* (noun) (□□□□□ □□□□□ □□□ □□□ □□□): A

financial report reviewing the budget performance at the mid-point of the fiscal year.
17. *Commercial Bank Loans* (noun) (□□□□ □□□□ □□□□□□): Loans given by commercial banks to entities.
18. *Audit* (noun) (□□□): An official inspection of an organization’s accounts, typically by an independent body.
19. *Reforms* (noun) (□□□□□□□): Changes made to improve a system, law, or practice.
20. *Public-Private Partnerships* (noun) (□□□□□□□□ □□□□□□□□□ □□□□): Cooperative arrangements between public and private sectors.

□ *Attention Please!*
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Debt trap
Editorial

PAKISTAN’S debt stock has grown exponentially in recent years. So have debt payments, putting pressure on the budget. With the government running an unsustainably high fiscal deficit that averaged 7.3pc of the economic output in the past five years, it is not surprising that the national debt has already surged to Rs78.9tr — including a domestic debt of Rs43.4tr and external loans of Rs32.9tr.

The country is in a debt trap where it must borrow more to pay back its existing debt — domestic and external loans both. It is thus only natural for annual debt payments to also spike. For example, the authorities had anticipated debt servicing to jump to Rs7.3tr or almost 58pc of the budgeted expenditure for the ongoing fiscal. However, according to a report, they have now revised these estimates to Rs8.3tr.

The finance ministry's Mid-Year Budget Review Report for the outgoing year confirms these concerns. The report shows that the nation's debt payments spiralled by more than 64pc to Rs4.2tr during the first six months to December, an increase attributable not only to the mounting stock of debt accumulated to finance the fiscal deficit but also to the surge in the cost of domestic debt because of a record-high interest rate of 22pc. The report says the expenditure on debt servicing during the six-month period far outpaced tax revenue growth, bringing "spending on development to zilch".

In the report, the ministry has blamed elevated domestic interest rates for our growing debt servicing woes. With the government covering nearly 80pc of its fiscal deficit through commercial bank loans amid drying official foreign flows, the interest rates are of primary concern as domestic debt payments accounted for nearly 90pc of the total debt servicing costs during the first half of the fiscal. The cost of borrowing has proved to be a major shock for the entire economy, and not just for the government, as new private investment has come to a halt and growth has stagnated.

What the report doesn't discuss are the reasons behind this debt trap. While the higher interest rates are a burden, the main challenge is the government's failure to control its fiscal deficit that is forcing it to accumulate more debt every day. Indeed, a reduction in interest rates will provide relief but will not solve the issue of burgeoning deficit and debt accumulation.

The task before the government is to boost its tax-to-GDP ratio to the global average by taxing the economy's untaxed and undertaxed sectors, as well as eliminating wasteful expenditure to cut the fiscal deficit to sustainable levels to minimise its borrowing requirements for financing the budget. Do the authorities realise this and are they moving in this direction? We will know once the budget is announced next month.

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