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# Pakistan's Mounting Debt Crisis Signals Prolonged Economic Instability

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Pakistan's financial situation has gone from precarious to critical. With little revenue generation of its own, the country has racked up tens of billions of dollars in loans from both friendly nations and international institutions. According to economists, a large portion of these loans is being recycled to pay off past debts, raising concerns that Pakistan is falling into a debt trap. In simple terms, Islamabad is borrowing just to repay what it already owes, with no sustainable path in sight.

In the past fiscal year alone, Pakistan borrowed a staggering $26.7 billion in foreign loans. More than half of that was used just to refinance existing debt, not for any form of infrastructure investment or job creation. This ongoing pattern has only solidified Pakistan's reputation among global creditors as high-risk, causing lenders to demand steep interest rates, further worsening the cycle.

Much of this money has come from familiar sources: Saudi Arabia, China, the United Arab Emirates (UAE), and Kuwait. According to government figures and financial analysts, Saudi Arabia has parked $5 billion in Pakistan's central bank with an interest rate of 4%. The agreement includes a provision for annual rollover if Islamabad fails to repay. China, touted by Pakistan's leadership as an "all-weather friend," has loaned $4 billion at a 6% interest rate. The UAE has deposited $3 billion into the central bank, again under the assumption that Islamabad will continue to roll it over as needed.

In addition to friendly governments, global financial institutions have extended massive lines of credit. The Asian Development Bank (ADB) gave $2.1 billion, and the World Bank contributed $1.7 billion. The Islamic Development Bank pitched in another $716 million, while Saudi Arabia added $200 million under a separate oil financing deal, with a costly 6% interest tag attached.

Islamabad's inability to tap into the global bond market in the past year has only added to its financial woes. Pakistan had initially planned to raise $1 billion through Eurobonds and Panda bonds, but was shut out due to poor fiscal health and declining investor confidence. As of the end of June, the country's foreign reserves stood at roughly $14.5 billion—but a significant portion of that is tied up in refinanced and rolled-over loans, not in liquid assets.

This bleak financial picture has implications beyond simple economics. The International Monetary Fund (IMF) and the World Bank, once lifelines for struggling economies, are reportedly becoming wary of extending additional support. Pakistan's low credit rating and chronic dependency on aid, rather than reform or self-reliance, have made even institutional backers reconsider their options. It's worth noting that these organizations do not throw good money after bad; if Islamabad's economy fails to improve structurally, further aid may be off the table.

From a policy standpoint, Pakistan's current economic model appears unsustainable. The nation's leadership has opted for short-term bailouts instead of long-term reforms, increasing its dependency on foreign powers, both friend and foe. And while these nations may be willing to assist in the short term, there's no guarantee that patience or generosity will last forever.

Analysts say Pakistan will require structural reforms and stronger fiscal discipline to stabilize its economy and avoid long-term financial instability. Without that, the country's debt crisis isn't just a financial issue; it's a warning of deeper instability that could reverberate across the region.