Pakistan's Economy Struggles Under Record Debt Burden

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Pakistan's economy is teetering on the edge, weighed down by an unprecedented $26.7 billion in foreign loans acquired during the 2023–24 fiscal year, according to data compiled from the Ministry of Economic Affairs, the State Bank of Pakistan (SBP), and the Ministry of Finance. This staggering figure underscores a deepening dependency on external creditors, with roughly half of these borrowings dedicated to refinancing existing loans, as reported by The Express Tribune. The nation's foreign exchange reserves, standing at $14.5 billion by the end of June 2024, are largely propped up by refinanced loans, rollovers, and fresh borrowings, a precarious foundation for economic stability.

In the fiscal year 2023–24, Pakistan's loan disbursements rose slightly from the previous period, yet only $3.4 billion, approximately 13% of the total, was allocated to project financing, per the Ministry of Economic Affairs. This modest investment in productive projects highlights a critical issue: the bulk of borrowings are into budgetary support and bolstering reserves, neither of which generates revenue to service mounting debts. The Ministry of Finance has warned that Pakistan's debt-to-GDP ratio and gross financing needs, now exceeding 15% of GDP, have crossed sustainable thresholds and are projected to remain elevated through at least 2026.

The federal government recorded $11.9 billion in loans, a $1.2 billion increase from the prior year. Multilateral institutions, including the International Monetary Fund (IMF), which provided $2.1 billion, and the Asian Development Bank (ADB), contributing $2.1 billion, played a significant role. The World Bank, however, fell short of expectations, disbursing $1.7 billion $300 million below its planned allocation, and has not committed to new budget support for the 2024–25 fiscal year. The Islamic Development Bank added $716 million, while Saudi Arabia extended $200 million via an oil financing facility at a steep 6% interest rate, a costly burden for Pakistan's strained finances.

Bilateral creditors, notably Saudi Arabia, China, the UAE, and Kuwait, have become linchpins in Pakistan's financial survival. Saudi Arabia holds $5 billion in cash deposits at the SBP with a 4% interest rate, rolled over annually due to Pakistan's inability to repay. China's $4 billion in deposits carries an interest rate reportedly around 6%, supplemented by $484 million in guaranteed loans primarily for infrastructure-related purposes. The UAE maintains $3 billion in deposits, while the IMF's three-year programme assumes continuous rollovers of $12.7 billion in loans from these nations, as a strategy that raises serious questions about long-term external sector stability.

Commercial loans, totalling $4.3 billion, included refinanced Chinese loans and borrowings backed by ADB and other multilateral gguaranteesPakistan's sub-investment-grade credit rating has effectively locked it out of international capital markets, stalling plans to raise $1 billion through Eurobonds and Panda bonds. Instead, the government and SBP have resorted to expensive commercial loans supported by multilateral guarantees to plug funding gaps. "Pakistan's reliance on high-cost borrowing is a symptom of deeper structural issues," noted an economic analyst in a recent interview with The Express Tribune. "Without addressing these, the cycle of debt will only worsen."

The government's failure to access global markets, coupled with unsustainable debt metrics, paints a grim picture. Pakistan's economy is not merely borrowing to grow; now it is borrowing to survive. With limited funds directed towards productive investments and a heavy reliance on rollovers, the nation faces a daunting road ahead, tethered to creditors with little room to maneuver.