CARBS POLICY LAB

SUPERIOR UNIVERSITY

Debt Management & Fiscal Security: Strategies for Sustainable Public Debt Management and Economic Stability

By Arsam Tufail Butt

HIGHLIGHTS

- Pakistan's debt crisis reflects weak economic growth, low productivity, limited exports, and inadequate domestic savings. Sustainable debt management requires expanding the productive economy rather than relying solely on borrowing restrictions or fiscal austerity.
- Stronger Institutions: Credible fiscal rules, transparent debt data, effective enforcement, and stronger institutional coordination are essential for fiscal sustainability, accountability, and evidence-based policymaking.

Executive summary

Pakistan's public debt has risen sharply over the past seven years, total public debt grew by an estimated 155 percent between 2019 and 2026, with domestic debt roughly tripling over the same period. This second roundtable on the topic brought together economists and public finance specialists to move from diagnosis to policy architecture, examining the institutional, fiscal, and structural reforms needed to place Pakistan's debt trajectory on a sustainable footing. The central conclusion was that Pakistan's debt problem is fundamentally a growth and institutional problem rather than a borrowing problem in isolation: sustainable debt management requires higher domestic savings, export-led industrial growth, credible fiscal rules with real enforcement, reliable public data, and better coordination across government, industry, and academia — not fiscal austerity alone.

Background and context

The first roundtable in this series mapped Pakistan's debt composition and servicing pressures against the backdrop of post-pandemic monetary tightening, currency depreciation, and recurrent balance-of-payments stress, concluding that the debt challenge reflects deeper imbalances in revenue mobilisation, expenditure management, and sovereign liability governance rather than a purely fiscal accounting issue. This second convening shifted the focus to policy architecture: the legislative and institutional mechanisms needed to operationalise sustainable debt management and secure fiscal space for essential services, social protection, and growth-enabling investment. It builds on the existing legal framework, the Public Debt Management Act (2021) and the Ministry of Finance's Debt Policy Coordination Office, which participants noted has improved reporting but still lacks binding fiscal rules, institutional independence, and forward-looking liability management instruments found in comparable developing economies.

Key discussion points

Debt dynamics and the two-gap constraint

Dr Ariba Aslam framed Pakistan's financing constraints through the two-gap model: a persistent trade (foreign exchange) gap driven by import dependence and weak export earnings, and a savings-investment gap in which low domestic savings force reliance on external borrowing to finance investment. She noted the World Bank benchmark suggesting an investment-to-GDP ratio near 25 percent is generally needed to sustain high growth — a level Pakistan has not consistently reached. She cautioned against treating all liabilities alike, arguing that circular debt tied to Chinese Independent Power Producers should not automatically be classified as conventional external sovereign debt, and that undocumented expenditures continue to complicate accurate debt assessment.

Growth-oriented macroeconomic reform

Dr. Ghulam Ghaus argued that high policy interest rates are discouraging industrial investment and that a gradual reduction, paired with more accessible commercial credit for productive sectors, would stimulate private investment and growth. He linked this to a broader concern about premature deindustrialisation: sustainable development typically follows a sequence from agriculture to industry to services, but Pakistan has shifted toward services without sufficiently building its manufacturing base. He recommended modernising agriculture, particularly irrigation and water management, as a foundation for industrialisation, and proposed using PEST analysis (political, economic, social, and technological factors) as a framework for long-term policy planning.

Structural transformation and industrial policy

Dr. Mahwish Zafar argued that debt sustainability should be assessed against 10–15-year forward projections rather than short-term fiscal snapshots, since interest rate paths materially affect both servicing costs and growth. She observed that CPEC investment has concentrated on infrastructure while industrial development has lagged and recommended greater emphasis on Special Economic Zones and industrial production to convert infrastructure gains into productive capacity. Drawing on the experiences of Vietnam, Indonesia, and Chile, she called for export-led growth, agricultural modernisation, diversification toward higher-value production, and expanded investment in information technology alongside agriculture — underpinned by stronger coordination between government, industry, and academia before policy is designed.

Fiscal governance and institutional reform

Dr. Salman Shah focused on the credibility of the fiscal framework itself. He stressed that debt definitions must be standardised and reconciled with international databases before meaningful policy can be built on top of them. On the Fiscal Responsibility and Debt Limitation (FRDL) Act, he noted that while the legislation sets debt limits, enforcement remains weak: Parliament receives the required information but faces limited consequences for non-compliance, pointing to New Zealand as a comparator for stronger institutional accountability. He also argued that improving Pakistan's sovereign credit rating is a strategic priority, since higher ratings lower borrowing costs, improve investor confidence, and help attract foreign investment.

Cross-cutting issues: the IMF and federalism

Participants noted that IMF programme design centres on achieving primary surpluses, revenue exceeding non-interest expenditure, and on reducing fiscal deficits and debt accumulation, but that IMF assessments evaluate Pakistan's consolidated fiscal position rather than provincial performance individually. This raises a coordination challenge under the 18th Amendment, where the federal government retains finance and foreign affairs while provinces hold major responsibility for education, health, and industry. Interest payments were cited as currently consuming a sizeable percentage of GDP, a level participants agreed significantly constrains public spending regardless of how the federal-provincial split is managed.

Policy recommendations

Fiscal reform

- Strengthen implementation and enforcement of the FRDL Act, including consequences for non-compliance with debt limits.
- Pursue sustainable primary surpluses through improved tax collection and rationalised, non-essential expenditure.
- Standardise debt definitions and reconcile official statistics with international databases to restore data integrity.

Debt management

- Restructure high-cost debt where feasible and diversify borrowing instruments (e.g., sovereign bonds such as Eurobonds and Panda Bonds).
- Distinguish circular and quasi-fiscal liabilities (e.g., IPP-linked circular debt) from conventional external sovereign debt in official reporting.
- Prioritise improving sovereign credit ratings to reduce borrowing costs and attract investment.

Monetary policy

- Lower policy interest rates gradually as macroeconomic conditions allow, to ease debt-servicing costs and support investment.
- Expand affordable credit access for productive, investment-oriented sectors rather than consumption.

Industrial and export policy

- Expand Special Economic Zones and encourage public-private partnerships to convert CPEC infrastructure into industrial capacity.
- Pursue targeted import substitution in strategic sectors alongside an export-led growth strategy.

- Invest in agricultural modernisation — irrigation, water management, and research — as a foundation for industrial diversification.

Governance and institutional coordination

- Institutionalise coordination mechanisms between government, industry, and academia ahead of major economic policy design.
- Use structured planning tools (e.g., PEST analysis) to align fiscal, industrial, and monetary policy over 10–15-year horizons.
- Improve federal-provincial coordination on fiscal reporting, given provinces' role in education, health, and industry under the 18th Amendment.

Conclusion

The roundtable's deliberations converged on a shared diagnosis: Pakistan cannot manage its way out of debt distress through fiscal tightening alone. Durable debt sustainability requires raising domestic savings and investment toward growth-consistent levels, rebuilding an industrial base capable of generating export earnings, and embedding credible, enforceable fiscal rules within a more transparent and better-coordinated governance structure.

Roundtable Participants

The roundtable, organized by the Punjab Higher Education Commission (PHEC) under the Center of Excellence for Public Policy and Economic Development (CEPPED), aimed to advance evidence-based public policy and economic development by bringing together participants from leading Punjab universities, including Superior University, BNU, UMT, PU, UAF, and BZU.

Ambassador Mansoor Ahmad Khan (Chair, BCPR/BNU), Dr. Salman Shah, Former Finance Minister, Dr. Ghulam Ghouse, Dr. Mahwish Zafar, Dr. Aribah Aslam, Dr Zainab Ahmed, Arsam Tufail Butt, Muhammad Insar.

Dr. Mahwish Zafar from CARBS Policy LAB, Superior University has joined as Panellist in roundtable on Debt Management & Fiscal Security: Addressing Strategies for Sustainable Public Debt Management and Economic Stability.

Author Profile

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