Pakistan in a straitjacket: Is India next?

by Ramtanu Maitra

In spite of repeated displays of bravado by Dr. Mahbubul Haq, Pakistan's former finance minister and a venerated economist of the subcontinent, it is evident that Pakistan is now under the diktat of the International Monetary Fund. As India's growing deficit in the balance of payments and rising deficit figures are tossed around, there is a growing awareness that the Indian government, unable to refurbish its Treasury through generation of resources internally, is borrowing more and more, and steadily sliding the country into a massive debt crisis.

At this point it is almost impossible to ascertain how much foreign debt India has accrued to date. There are many figures available, but each varies from the other significantly. On Nov. 18, 1988, Indian Minister of State for Finance Eduardo Faleiro, answering a question in the Parliament, said that outstanding foreign debt as of March 1988 was Rs. 54,817 crores—the equivalent of about $40 billion. A study published recently in the *Economic and Political Weekly,* a leading economic magazine, estimated outstanding debt at close to Rs. 76,000 crores—about $52 billion. In addition to these two non-tallying numbers there are still others.

Recently, the Washington-based International Institute of Finance (IIF) published a study in which India was identified as "the largest debtor nation in Asia." According to IIF, India has accrued about $60 billion of unpaid loans. Besides, India has also to consider the debt accrued while purchasing military hardware and other commodities from the Soviet Union and East Europe. One estimate indicates that such debt amounts to a tidy sum of Rs. 20,000 crores (about $14 billion), to be paid back through export of goods and commodities.

The confusion does not end with specifying the actual amount of foreign debt that India has accrued, but extends to pinpointing the amount that India pays as debt service annually. According to world debt figures, debt servicing accounts of 18% of India's foreign earnings. According to Dr. P.D. Ojha, Deputy Governor of the Reserve Bank of India, India's central bank, the debt servicing ratio has risen in recent years due to India's taking greater recourse to medium-term commercial borrowings and drawings from the IMF. "The rising trend in this ratio from 13.6% at the end of the Sixth Plan (1980-84) to 24% in 1987-88 has exceeded the Seventh Plan (1985-89) projection of 176% for the plan period as a whole," Oja pointed out recently.

By another estimate, which appeared in September 1987 in *Business India,* a business fortnightly published from Bombay, "the debt service ratio—interest payments on India's medium- and long-term debt and on borrowings from the IMF, plus amortization on the account of these two items—which was only 12.5% during 1983-84, rose to 19.5% in 1985-86 and shot up to 25% during 1986-87." *Business India* also notes that the 25% debt service ratio does not take into account India's large liabilities in the form of short-term credit and substantial deposits received from non-resident Indians abroad.

Debt rising, by any standard

Despite the cloud of confusion caused by inaccurate information, it is evident that India's debt is mounting fast. According to the government, India's foreign debt was Rs. 39,701 crores in March 1986—which indicates that, by the government's own account, within two years India has accumulated another Rs. 15,000 crores (about $10 billion) of foreign debt. At this rate, if the balance of payments situation continues to deteriorate as it has for the past several years now, it will not be long before the IMF can be expected to call upon India to "restructure its economy."

Yet there is very little public discussion on the matter. According to one economic journalist, the absence of accurate information has led to a level of complacency. At the same time, the World Bank's fulsome praise of the way India is handling its finances is given a great deal of credence by one and all. The Bank's annual report, in which it stated that the World Bank "stands fully behind India's goal of eliminating absolute poverty by the year 2000," drew a lot of media attention. Others who push aside the fear of the debt trap by stating that so long as India's external debt is made up of the amounts authorized by the World Bank, IDA, and bilateral credits, there is scope for a great deal of mutual understanding and rescheduling of repayments.

However, India's external debt is not devoid of commercial borrowings and, in fact, available figures indicate that during the fiscal year 1987-88 alone the domestic financial institutions borrowed from foreign commercial banks to the tune of Rs. 800 crores (about $550 million).

One wishes that India does not suffer from such illusions. On the other hand, the World Bank will continue to spin its web attracting the potential victim. "We are not worried about India's increasing debt ratio at this stage. India has managed its economy rather well," World Bank vice president for Asia, A. Karaosmanoglu told the press Jan. 31 in New Delhi after a two-week stay in the country for touring and talks with government officials. But the country has to step up exports, he emphasized.

Case in point

Such assurances were also given recently to Pakistan. In a 1986 monograph titled "Pakistan and the World Bank—Partners in Progress," the World Bank lauded Pakistan for its "dynamic economy in which there is increasing international interest" and for the "progress" that had been made in restructing the economy in the past two decades. Within two years of these paeans, strong reassurances from Dr. Mahbubul Haq notwithstanding, it has now been found that the *sarkari khazana* (government treasury) is empty and that Pakistani authorities have, according to the IMF, "recognized that the domestic and external financial trends of recent years were not sustainable."

Pakistan has now amassed $14 billion of foreign debt, and each Pakistani, whose $390 annual income was lauded by the World Bank and Pakistani authorities alike, now owes $109 in foreign exchange. The irony is that this debacle occurred during the time when Pakistan's gross national product rose at a better rate than ever. Between 1980 and 1986—a period when, according to the World Bank's convenient hindsight, Pakistan was "living on borrowed time"—the Pakistani economy grew at a rate of 7% annually. In 1987 it fell to 5.5%.

A few voices have come out expressing fear of India's growing problems with foreign exchange. On a generalized note, Indian Finance Minister S.B. Chavan, inaugurating an international seminar in January on the new world economic order, warned of the disquieting trends in the world economy, in particular the growing debt of the developing nations and its negative impact. Others have pointed specifically to India's falling foreign reserves and growing balance of payments deficit.

The latest "Report on Currency and Finance," published by the Reserve Bank of India for 1987-88, indicates that at the end of calendar year 1988 India had foreign exchange reserves sufficient to meet three months' import bill. During the period April to December 1988, foreign exchange reserves declined by Rs. 1052 crores (about $700 million) against a decline of Rs. 528 crores (about $360 million) in the same period of 1987, in spite of the fact that exports rose by 22% during this period.

As the Reserve Bank of India (RBI) pointed out, the situation is going to get worse with the worsening debt repayment commitments and receding hopes of a substantial rise in foreign exchange earnings due to the stagnant state of the world economy. In fact, India's foreign exchange reserves have now fallen significantly below the foreign currency-denominated deposits placed with banks in India.

As in the case of Pakistan, India's foreign exchange problems have begun to show up, ominously, as the country looks forward to a significant growth in GNP. RBI predicts, for instance, that the growth of national income for 1988-89 may be as high as 9%.