

Economy's freefall to a default

By Farrukh Saleem

ISLAMABAD: Of the 192 members of the United Nations, Pakistan's sovereign debt is now the riskiest. For the week ending Aug 29, Government of Pakistan bonds overtook Argentina's to be the most unsafe for investment.

In London, where Credit Default Swaps (CDS) are traded, the price for insuring \$10 million worth of Argentina's debt stood at \$788,000 while the price to insure the Government of Pakistan-guaranteed debt skyrocketed to \$950,000 — something that has never happened before — Pakistan's debt is now the priciest to insure (read: the London market is contemplating a default-like scenario).

Pakistan's total foreign debt and liabilities have now crossed

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the \$45 billion mark. 'Pakistan: Could the Political Chaos Lead to Sovereign Default?' a report by Citibank, asserts "if Pakistan opted to default, it would have to reschedule all of its debts, which amounts to \$2.6 billion in self-issued bonds and \$13.9 billion in bilateral debt". The report expects the "Pakistani rupee's fall to continue in light of government inaction and the break-up of the government coalition".

Pakistan is teetering on the brink of default. The rupee has lost some 20 per cent of its value over the past quarter and the KSE-100 Index is down a whopping 45 per cent. Pakistan cannot do without the IMF, the Asian Development Bank (ADB), the Islamic Development Bank and another Saudi oil facility.

On the internal front, things are even more critical. By the end of August, inter-corporate circular debt had soared to a colossal Rs400 billion. The government owes oil marketing companies Rs84 billion on account of price differential claims (PDC).

The Pakistan Electric Power

Company (Pepco) is owed Rs150 billion. The Federally Administered Tribal Areas (Fata) owe Pepco Rs75 billion. The Karachi Electric Supply Company (KESC) is holding back the payment of Rs56 billion. Several Independent Power Producers (IPPs) have threatened to encash the government guarantees.

Hubco (1,200 MW), Kapco (1,600 MW) and Uch (586 MW) are unable to produce electricity because of stuck payments with the government. Hubco and Uch, producing 1,786 MW, have put the government on a 30-day notice to pay their arrears of Rs66 billion or they would turn their plants off.

Pakistan is facing an acute solvency crisis. What happens after a country defaults on its debt obligations? Confidence, international as well as domestic, collapses, jobs are lost and economic activity takes a severe beating.

And we have a part-time finance minister, an almost dummy prime minister and a highly controversial politician poised to become the president. Make your own calculations.