



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

5 March 2011

Nick Dearden  
Director  
Jubilee Debt Campaign  
The Grayston Centre  
28 Charles Street  
London  
N1 6HT

A handwritten signature in black ink that reads 'Jen M. Dearden,'.

Thank you for your letter of 17 February about the floods in Pakistan. This has been the worst natural disaster to hit Pakistan in a generation.

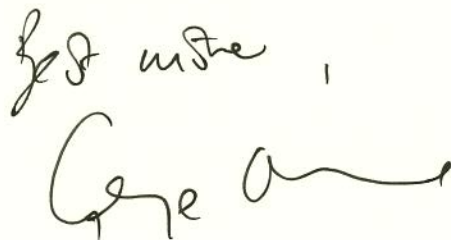
We fully agree that we need to ensure that the international community supports Pakistan through relief, recovery and reconstruction from the flooding, and we have been actively lobbying other governments on this front. However our position on debt relief has not changed, so we will not signal to the Pakistan authorities that the UK government would support debt relief if requested.

Pakistan's external debt is \$56 billion, 25% of GDP, similar to the average of 22% of GDP for middle income countries. By comparison, Pakistan has a high level of domestic debt of 31% of GDP. The average interest rate on its domestic debt is much higher than on its external debt, so interest payments on domestic debt are considerably higher.

The Pakistan authorities have not formally requested debt relief and we respect this position. Unlike so-called Heavily Indebted Poor Countries (HIPC) such as Haiti, Pakistan is a middle income country, with significant foreign investment, and it benefits from being able to borrow in international markets. A request for debt relief from the Pakistani authorities could risk undermining confidence in Pakistan's economy, and the ability of both the Government and businesses to be able to access finance. The cost of borrowing could rise, the willingness of creditors and investors to lend to, and invest in, Pakistan could fall, and Pakistan's economy would suffer as a result. In fact, new financing from the IMF would give it new resources to spend in priority areas.

The UK's approach to support Pakistan is to provide targeted assistance that deals directly with the impact of the flooding, and to encourage the international community to do the same. Following the Bilateral Aid Review, the UK's aid to Pakistan could potentially more than double, scaling up to an average of £350 million a year until 2015. This means Pakistan could become the UK's largest recipient of aid. This increase in UKaid will be calibrated to the Government of Pakistan's own progress on reform, at both the federal

and provincial levels, including taking tangible steps to build a more dynamic economy and tackle corruption.

A handwritten signature in black ink, appearing to read "George Osborne". The signature is written in a cursive, flowing style with a prominent initial "G" and a long, sweeping underline.

GEORGE OSBORNE