Debt Policy Statement 2016-17

Debt Policy Coordination Office
Ministry of Finance

Debt Policy Statement
2016-17

Debt Policy Coordination Office
Ministry of Finance
Government of Pakistan

This page is left intentionally blank.

Table of Contents

Acknowledgements

This policy statement has been prepared to fulfil the requirement laid out under Section 7 of the Fiscal Responsibility and Debt Limitation Act 2005. I would like to acknowledge the strategic input and policy guidance provided by Finance Minister, Senator Mohammad Ishaq Dar and Finance Secretary, Dr. Waqar Masood Khan. I would like to acknowledge the input of various Ministries, Departments, Divisions and Agencies, particularly for timely provision of data by Budget Wing (Ministry of Finance) and Economic Affairs Division. I would like to recognize the efforts put in by Mr. Sajjad Ahmad Shaikh, Director Debt, Mr. Muhammad Ikram, Deputy Secretary, Mr. Muhammad Umar Zahid, Financial Analyst, Mr. Arsalan Ahmed, Financial Analyst and Mr. Zaheer Abbasi, Section Officer in the realization of this comprehensive document.

Ehtesham Rashid
Director General
Debt Policy Coordination Office
Ministry of Finance

Lists of Tables & Figures

1.0 Introduction

1.1 The main objective of public debt management is to ensure that the government's financing needs and its payment obligations are met at the lowest possible cost over the medium to long term, consistent with a prudent degree of risk. Sound debt management strategies can be instrumental in ensuring financial stability, by mitigating the risks of refinancing, exchange rate fluctuations and debt accumulation that could impede economic growth. The need for effective debt management is of utmost importance for the developing countries like Pakistan as borrowing is required to enable development agenda and accelerate the pace of economic growth without ignoring the intergenerational impact.

1.2 Similar to the last two year's trend, Pakistan's public debt dynamics continued to witness various positive developments during 2015-16. Government updated its Medium Term Debt Management Strategy (2015/16-2018/19) to ensure that both the level and rate of growth in public debt is fundamentally sustainable and can be serviced under different circumstances while meeting cost and risks objectives. In accordance with the objectives set forth in Medium Term Debt Management Strategy (MTDS), the share of external debt in total public debt increased, which eased pressure on domestic funding sources. Importantly, large part of the increase in external debt was contributed by concessionary borrowing from International Financial Institutions (IFIs) which also contributed towards reducing the cost of overall public debt portfolio. Encouragingly, the government was able to meet the IMF ceiling on borrowing from SBP and zero quarterly limit under the amended SBP Act 1956 during 2015-16.

1.3 The conducive economic environment coupled with supportive monetary policy provided opportunity for the government to reduce the interest rates on its wholesales debt instruments along with aligning the rates on retail debt instruments with the market yields. As a result, the cost of domestic borrowing has substantially reduced as the weighted average interest rate on government domestic debt portfolio is reduced to a single digit as at end June, 2016. Accordingly, the government domestic interest expenditure is reduced to 26 percent of total revenue during 2015-16 as compared with 31 percent during the last fiscal year.

1.4 Government is taking measures to maintain public debt levels within prudent limits. To place the debt-to-GDP ratio on a firm downward trajectory and bolster macroeconomic stability, the government has made amendments to the Fiscal Responsibility and Debt Limitation (FRDL) Act by defining the ceiling for the Federal Government budget deficit at 4 percent of GDP (excluding foreign grants) during the period 2017-18 to 2019-20 and 3.5 percent of GDP thereafter. Public debt shall be reduced to 60 percent of estimated GDP until 2017-18, and thereafter a 15-year transition has been set towards a debt-to-GDP ratio of 50 percent.

2.0 Debt Policy Statement

2.1 The Debt Policy Statement is presented to fulfill the requirement of Section 7 of the Fiscal Responsibility and Debt Limitation (FRDL) Act, 2005 which states that:

(1) The Federal Government shall cause to be laid before the National Assembly, the Debt Policy Statement by the end of January each year.

(2) The purpose of the Debt Policy Statement is to allow the assessment of the Federal Government's debt policies against the principles of sound fiscal and debt management and debt reduction path.

(3) In particular and without prejudice to the provisions of sub-section (2) the Debt Policy Statement shall, *inter alia*, contain –

(a) assessment of the Federal Government's success or failure in meeting the targets of total public debt to estimated gross domestic product for any given year as specified in the debt reduction path;

(b) evaluations of external and domestic borrowing strategies and provide policy advice on these strategies;

(c) analysis of the foreign currency exposure of Pakistan's external debt;

(d) consistent and authenticated information on public and external debt and guarantees issued by the Federal Government;

(e) information of all loan agreements contracted, disbursements made thereof and repayments made thereon, if any, by the Government during the fiscal year; and

(f) analysis of trends in public debt and external debt and steps taken to conform to the debt reduction path as well as suggestions for adjustments, if any, in the Federal Government's overall debt strategy.

3.0 Principles of Sound Debt Management

3.1 Debt is an important measure of bridging the financing gaps. Prudent utilization of debt leads to higher economic growth and it also helps the government to accomplish its social and developmental goals. Comprehensive debt management is required on the part of government not only to keep the current levels of debt under control but also to fulfill the future repayment obligations. This does not subvert the importance of vigilant fiscal and monetary policies. The management of public debt also requires effective coordination with macroeconomic policies, including reserve management and exchange rate policy.

3.2 Domestic and external debt needs to be treated separately owing to their different implications. Domestic debt is a charge on budget and must be serviced through government revenues and/or additional borrowings whereas external debt, in addition to charge on revenues, is also a charge on balance of payment and must be serviced from foreign exchange earnings, reserve drawdown, and additional borrowings. Therefore, the two should be managed separately to ensure fiscal and external account solvency. Each of these types of debt has its own benefits and drawbacks, with a trade-off between costs of borrowing and exposure to various types of risks that need to be balanced in order to ensure sufficient and timely access to cost efficient funding. A comprehensive approach in managing domestic debt must place a high priority on the development of domestic capital markets and avoid the crowding-out of the private sector.

3.3 As a rule of thumb, as long as the real growth of revenue is higher than the real growth of debt, the debt to revenue ratio will not increase. Crucially, future levels of debt hinge around the primary balance of the government. Mathematically, if the primary balance (fiscal deficit before interest payments) is zero and the growth in revenue is higher than the cost of invested funds, the debt burden will ease. Bridging the gap between revenues and non-interest expenditure and ensuring reduction (generation) in primary deficit (surplus) is an essential pre-requisite that facilitates debt management efforts.

3.4 Managing the levels of external debt and the risks associated with them pose a different set of challenges. In this case, if the growth in Foreign Exchange Earnings (FEE) exceeds the growth in external public debt, the ratio of external public debt to FEE will continue to decline. Although external debt expressed as a percentage of GDP and export earnings depicts the levels and burden of external debt, a clear insight into the future path of debt is gained by analyzing the non-interest current account deficit. A nil current account deficit before interest payment and higher growth in FEE compared to the interest rate paid on external public debt will ensure a decline in external public debt to FEE over time. Focus on limiting the non-interest current account deficit and ensuring that the cost of borrowing is kept at a minimum, restricts the increase in debt level in the medium to long-term while partially mitigates the inherent risks of external borrowing.

4.0 Review of Public Debt

4.1 Public debt is defined as the debt of the government (including Federal Government and Provincial Governments) serviced out of consolidated fund and debt owed to the International Monetary Fund. Public debt has two main components, namely domestic debt (incurred principally to finance fiscal deficit) and external debt (raised primarily to finance development expenditure).

4.2 Gross public debt was Rs.19,678 billion as of end June 2016 while net public debt stood at Rs.17,825 billion. Government has been able to contain the fiscal deficit for the third year in a row, however, increase in public debt was higher than financing of fiscal deficit during 2015-16. Apart from fiscal deficit, increase in the government credit balances with State Bank of Pakistan/commercial banks, debt from the IMF and dual revaluation loss on account of depreciation of US Dollar against other foreign currencies as well as depreciation of the Pak Rupee against the US Dollar contributed to the increase in public debt. External debt in US Dollars increased by 13 percent during 2015-16 due to net external inflows and revaluation loss due to the depreciation of the US Dollar against other foreign currencies. It is worth noting here that cumulative growth in external public debt was around 6.2 percent during last three years (2013/14-2015/16).

4.3 The average cost of gross public debt was reduced by 70 basis points during 2015-16 owing to smooth execution of the MTDS. Interest rates on domestic debt instruments fell quite sharply due to conducive macroeconomic environment and supportive monetary policy which led to a reduction in the average cost of domestic public debt portfolio by 100 basis points during 2015-16. The average cost of the external loans obtained by present government comes to around 3 percent which is significantly lower than the domestic financing cost even after one builds a margin of capital loss due to exchange rate depreciation. In rupees term, external public debt as percentage of GDP declined from 21.4 percent in 2013 to 20.4 percent in 2016. Moreover, overall average cost of public debt fell since external public debt is dominated by concessionary lending from multilateral and bilateral development partners.

4.4 Government was able to mobilize external inflows from multilateral and bilateral development partners and continued its presence in international capital markets through the issuance of Eurobonds in September 2015. The new bond was a substitution of domestic borrowing with lower cost of around 108 basis points compared with the yield of Pakistan Investments Bonds (PIBs) at that time. To the extent of the proceeds from bonds, the government reduced domestic debt by the same amount. Besides, the new issue protected loss of reserves due to payment of bond of similar amount due in March 2016.

Table-1: Public Debt

	2011	2012	2013	2014	2015(P)	2016(P)	2017(P)*
(Rs. in billion)							
Gross Domestic Debt	6,016.7	7,638.1	9,521.9	10,920.0	12,198.9	13,626.9	14,399.0
*Net Domestic Debt	5,173.5	6,831.6	8,686.2	9,551.3	10,804.8	11,773.5	12,138.3

	2011	2012	2013	2014	2015(P)	2016(P)	2017(P)*
External Debt	4,750.2	5,057.2	4,796.5	5,071.5	5,181.8	6,051.1	6,139.4
Gross Public Debt	10,766.9	12,695.3	14,318.4	15,991.5	17,380.7	19,678.1	20,538.4
***Net Public Debt**	9,923.6	11,888.8	13,482.7	14,622.8	15,986.6	17,824.6	18,277.6
(In percent of GDP)							
Gross Domestic Debt	32.9	38.1	42.5	43.4	44.4	46.0	43.0
*Net Domestic Debt	28.3	34.1	38.8	37.9	39.3	39.8	36.2
External Debt	26.0	25.2	21.4	20.1	18.8	20.4	18.3
Gross Public Debt	58.9	63.3	64.0	63.5	63.2	66.5	61.3
***Net Public Debt**	54.3	59.3	60.2	58.1	58.1	60.2	54.5
Memo:							
Foreign Currency Debt (US$ in billion)	55.3	53.5	48.1	51.3	50.9	57.7	58.7
Exchange Rate (Rs./US$, End of Period)	86.0	94.5	99.7	98.8	101.8	104.8	104.6
GDP(b) (Rs. in billion)	18,276	20,046.5	22,385.7	25,168.8	27,493.1	29,597.9	33,509.0

*Net of government deposits with the banking system - Source: IMF Public Sector Debt Statistics Guide for Compilers and Users (2013)

P:Provisional *end-September, 2016

Source: State Bank of Pakistan, Economic Affairs Division, Budget Wing and Debt Policy Coordination Office

4.5 An improvement was observed in most of the public debt risks indicators during last three fiscal years in-line with the objectives set forth in Pakistan's first MTDS (2013). Refinancing risk of the domestic debt portfolio reduced through lengthening of the maturity profile as percentage of domestic debt maturing in one year was reduced to 51.9 percent at the end of June 2016 compared with 64.2 percent at the end of June 2013. Exposure to interest rate risk was also reduced as the percentage of debt re-fixing in one year decreased to 44.4 percent at the end of June 2016 compared to 52.4 percent at the end of June 2013. Similarly, share of external loans maturing within one year was equal to around 31.9 percent of official liquid reserves at the end of June 2016 as compared with around 68.5 percent at the end of June 2013 indicating improvement in foreign exchange stability and repayment capacity.

4.6 Government updated its Medium Term Debt Management Strategy (2015/16 - 2018/19) as the macroeconomic realities have changed since 2012-13. While it incorporates the new economic realities such as new market conditions and the overall economic cycle yet it focuses on the same principles as laid out in the first MTDS (2013) i.e. the guiding principle remains lengthening of the maturity profile of domestic debt and mobilization of sufficient external inflow in the medium term while making appropriate tradeoffs between the cost and risks. Encouragingly, the public debt risk indicators have improved during all four quarters of 2015-16 and are on track to achieve the targets set under the updated MTDS.

4.7 One of the objectives of MTDS was to facilitate the development of debt capital market. A well-developed debt market for long term investment is essential for the growth of economy as it provides additional avenues for raising funds besides providing investment opportunities to the investors. Government is taking various steps to provide an efficient and liquid secondary debt market to the investors (Box-1).

Box-1 - Development of Debt Capital Market

I. Development of automated system for the e-reporting of:
   - Features of each issue of debt securities;
   - Redemption status of issued debt securities;
   - Compliance status of the covenants of the trust deeds.

II. Formulation of Credit Rating Companies Regulations, 2016;

III. Formulation of Regulations for listing of debt securities issued through public offer;

IV. Federal Government vide Ordinance Number V of 2016 has notified amendments to tax ordinance to offer tax neutrality in case of issuance of Sukuk under Special Purpose Vehicle (SPV) structure by removing tax anomalies that were earlier available only to commercial securitization. The amendments to the tax law now provide the same tax treatment bringing the issuance of Sukuk on a par with their counterparts;

V. Revised settlement mechanism was introduced in consultation with State Bank of Pakistan (SBP), whereby investors now have option to settle their trades in GDS market on T+1 basis instead of T+0. Thus, buy trades where 100 percent cash is not available with CDC at the time of trade shall be allowed subject to deposit of pre-trade margins in form of cash and/or highly liquid government securities by trading participant with PSX.

Future Plans With Regard to Development of Debt Capital Market:

I. Possible utilization of the stock exchanges for primary market/auction of the government debt securities to enable wider outreach and improve participation of retail segment;

II. Formulation of Debt Securities Trustee Regulations, 2016;

III. Review of the companies (Asset Backed Securitization) Rules, 1999;

IV. Review of the regulations for listing of debt securities issued to the Qualified Institutional Buyers (QIBs);

V. Formulation of Public Offering Regulations, 2016;

VI. Formulation of Private Placement of Securities Rules, 2016;

VII. Formulation of Share Registrars Balloters Regulations, 2016;

Source: Securities and Exchange Commission of Pakistan

4.8 Gross public debt was Rs.20,538 billion as at end September 2016, while net public debt was Rs.18,278 billion. Domestic debt recorded an increase of Rs.772 billion during the first quarter of 2016-17 while government domestic borrowing for financing of fiscal deficit was Rs.369 billion during the said period. This differential is mainly attributed to increase in government credit balance with SBP/commercial banks during the first quarter of 2016-17 which was mostly utilized by the government in October 2016. Hence, the pace of domestic debt increase is expected to be smoothened in second quarter of 2016-17.

4.9 Government was required to meet its PIBs maturity amounting to Rs.1,427 billion during the first quarter of 2016-17. Given the impact of maturing amount on the appetite of domestic debt market, the government planned well in time and started mobilizing more through fresh issuance of PIBs and Government Ijara Sukuk (GIS) to cover up the existing PIBs maturities i.e. the government issued Rs.2,271 billion from January 2015 to September 2016 and that too at lower yield and higher duration. Although the government was able to more or less neutralize the overall impact of PIBs maturity on domestic debt sustainability indicators, however, the entire PIBs amount was challenging to re-finance during the quarter through fresh issuance of PIBs which resulted in positive quarterly borrowing from the SBP. It is worth noting here that net zero quarterly borrowing was tied with the fixation of ways and means limit which is in a process of finalization.

4.10 External public debt increased by around US$ 1 billion during first quarter of 2016-17 and recorded at US$ 58.7 billion. Government mobilized US$ 1.83 billion during first quarter of 2016-17, mainly from commercial banks (US$ 900 million), bilateral sources contributed US$ 423 million (mainly funded by China amounting US$ 405 million and IMF (US$ 102 million) and multilateral development partners (US$ 405 million). Government also repaid US$ 1.08 billion during the first quarter of 2016-17. Rest of the increase in external public debt was contributed by translational losses on account of depreciation of US Dollar against other foreign currencies.

5.0 Dynamics of Public Debt Burden

5.1 The debt burden can be described with many parameters and there is no single threshold for debt ratios that can delineate the "bad" from the "good". Debt burden can be expressed in terms of the stock ratio i.e. debt to GDP, external debt to GDP or flow ratios i.e. debt to revenue, external debt to foreign exchange earnings etc. The economic rationale for debt creation is that borrower can earn a higher economic return than the cost of invested funds and those economic returns can be translated into financial returns. Debt problems for governments arise if debt servicing capacity does not keep pace with growth of debt. This may also be expressed as debt exceeding sustainable levels.

Table-2: Selected Public Debt Indicators (in percentage)

	2011	2012	2013	2014	2015	2016
Revenue Balance* / GDP	(3.3)[a]	(4.5)[b]	(2.9)[c]	(0.7)	(1.7)	(0.7)
Primary Balance* / GDP	(2.5)[a]	(4.2)[b]	(3.6)[c]	(0.2)	(0.5)	(0.2)
Fiscal Balance / GDP	(6.5)[a]	(8.8)[b]	(8.2)[c]	(5.5)	(5.3)	(4.6)
Gross Public Debt / GDP	58.9	63.3	64.0	63.5	63.2	66.5
Net Public Debt / GDP	54.3	59.3	60.2	58.1	58.1	60.2
Gross Public Debt / Revenue	477.9	494.7	480.1	439.7	442.1	442.5
Net Public Debt / Revenue	440.5	463.2	452.1	402.0	406.7	400.8
Debt Service / Revenue	38.0	39.9	40.5	40.1	40.4	35.9
Interest Service / Revenue	31.0	34.6	33.2	31.6	33.2	28.4
Debt Service / GDP	4.7	5.1	5.4	5.8	5.8	5.4

*Adjusted for grants

[a]includes arrears of electricity subsidies amounting to Rs.120 billion or 0.7 percent of GDP

[b]includes "one off" payment of Rs.391 billion on account of debt consolidation or 2 percent of GDP

[c] includes payment for the resolution of the circular debt amounting to Rs.322 billion or 1.4 percent of GDP

Source: Debt Policy Coordination Office Staff Calculations, Ministry of Finance

5.2 Significant reduction was observed in primary and revenue deficits[1] during 2015-16 as the government adhered strictly to its objective of fiscal consolidation. Revenue deficit was reduced to 0.7 percent of GDP during 2015-16 from 1.7 percent during 2014-15 as the growth in total revenue (13 percent) outpaced the growth in current expenditure (6 percent) during 2015-16. Similarly, primary deficit was reduced to 0.2 percent of GDP during 2015-16 from 0.5 percent during 2014-15 as the growth in total revenue overshadowed the growth in non-interest expenditure during 2015-16.

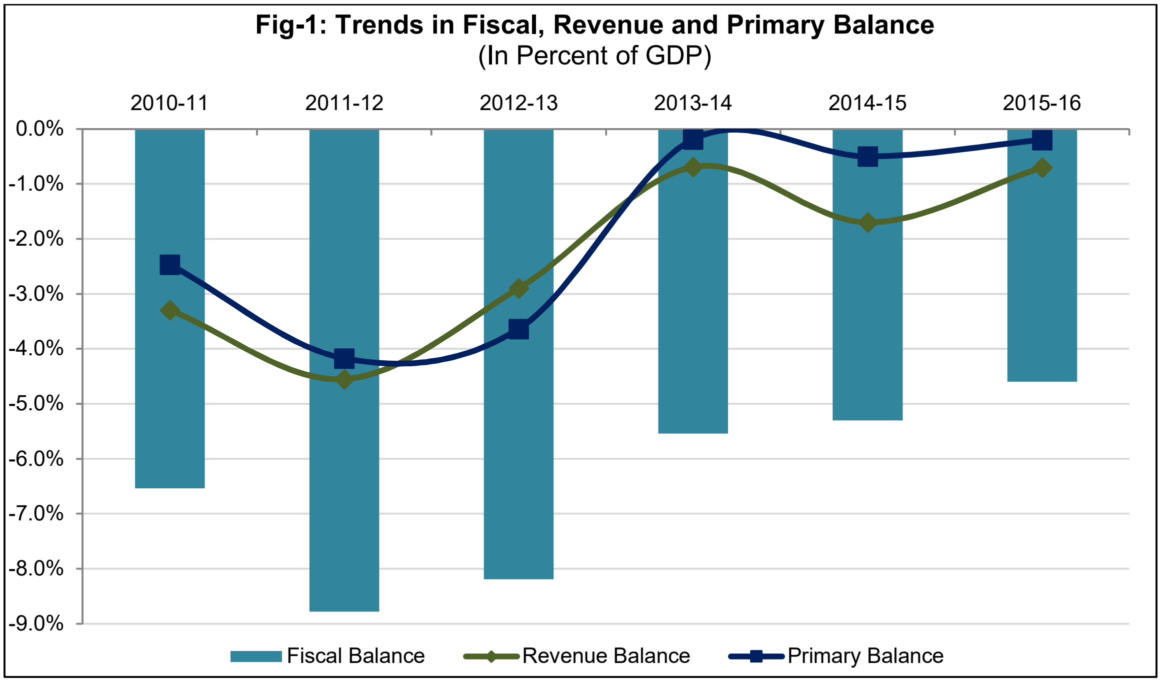
5.3 Fiscal consolidation remained on track as fiscal deficit continued to fall for the fourth year in a row. Fiscal deficit was contained at 8.2 percent in 2012-13 (down from a projected 8.8 percent), due to the concerted efforts by the government soon after assuming the office. Fiscal deficit was reduced significantly in 2013-14 and recorded at 5.5 percent of GDP (lower than its budgeted target of 6.6 percent) and recorded at 5.3 percent of GDP in 2014-15. Fiscal deficit was reduced further at 4.6 percent of GDP during 2015-16 mainly owing to the following:

- FBR tax collections witnessed growth of over 20 percent during 2015-16;
- Interest payments recorded a significant decline and stood at 28 percent of government revenue during 2015-16 as compared with 33 percent in 2014-15 mainly due to low interest rate environment, downward revision of coupon rates of PIBs during last two fiscal year and higher growth in revenue as mentioned above;
- While deficit reduction was already visible at the federal level, surpluses in provincial accounts further consolidated the fiscal position.

Apart from reduction in fiscal deficit, another positive development was shift in financing mix of fiscal deficit i.e. around 27 percent of fiscal deficit was financed

[1] Revenue balance is the total revenues minus current expenditure. The persistence of revenue deficit indicates that the government is not only borrowing to finance its development expenditure, but partially to finance its current expenditure.
Primary balance is the total revenues minus non-interest expenditure or fiscal deficit before interest payments. Primary balance is an indicator of current fiscal efforts since interest payments are predetermined by the size of previous deficits.

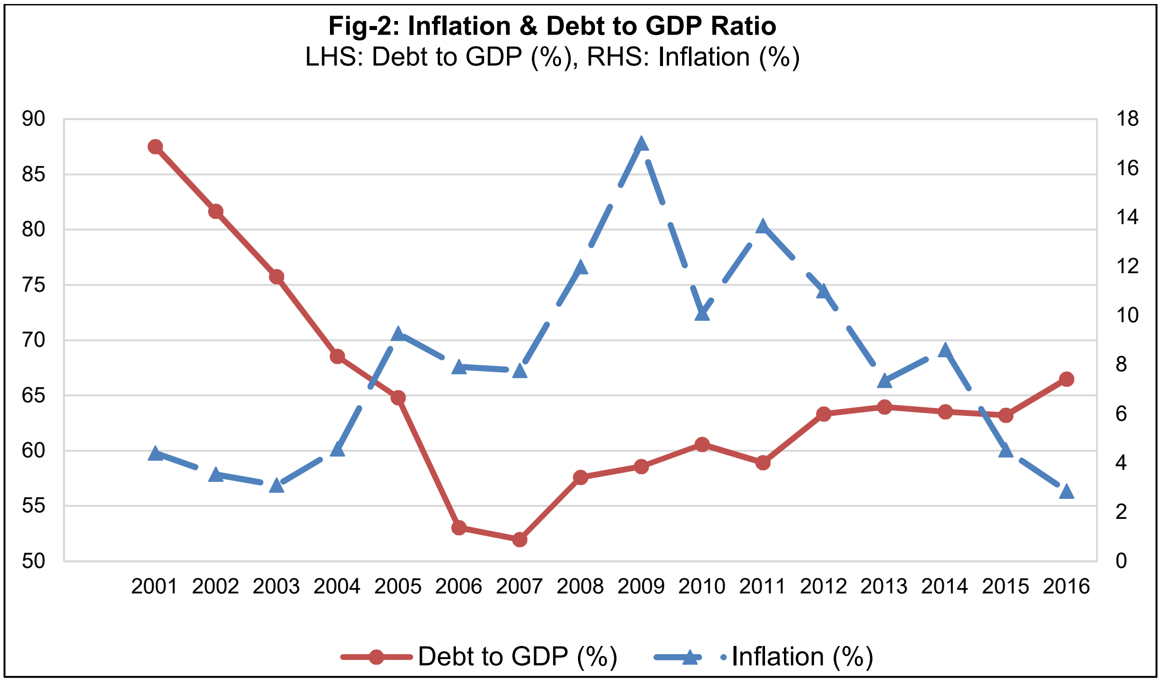
from external sources during 2015-16 as compared with only 12 percent during 2014-15, which reduced the pressure on the domestic resources.



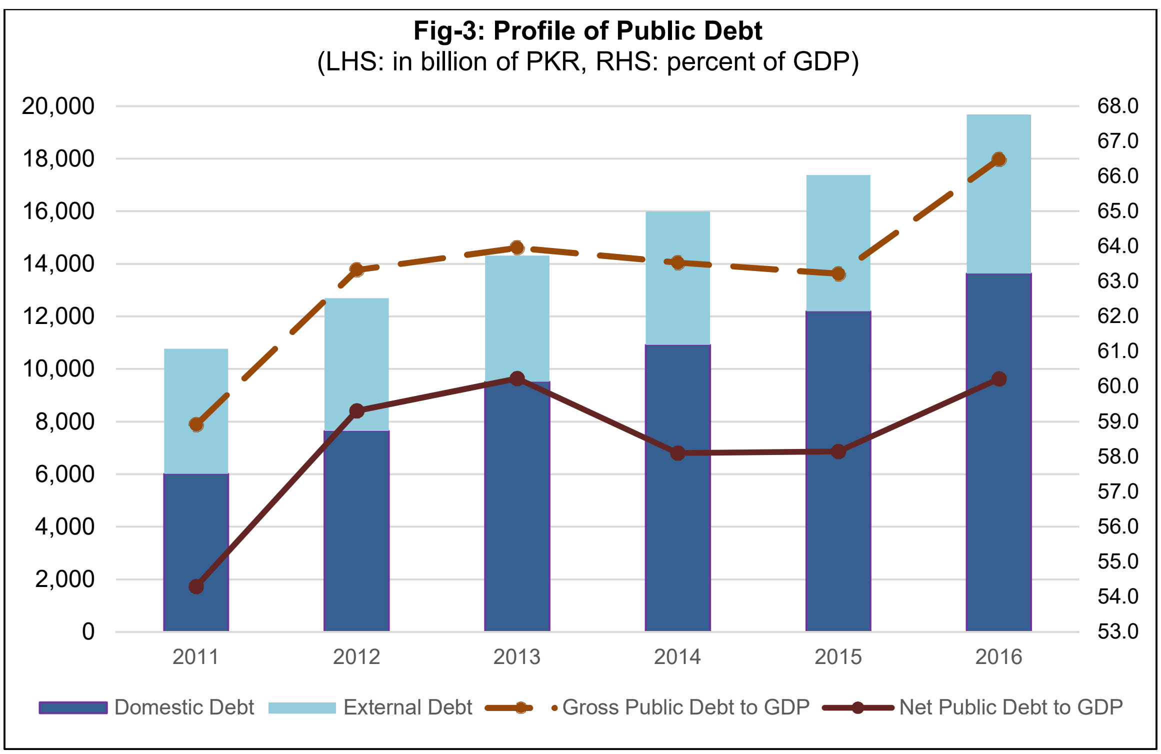
5.4 The debt burden is only understood in comparison to its relation with the GDP[2]. The analysis of public debt to GDP ratio during last 15 years reveals that in the period of high inflation, public debt to GDP ratio performed relatively better as the denominator becomes larger and this ratio mostly hovered close to 60 percent even when real GDP growth was merely half a percent. For instance during the tenure of previous government (2009-2013), the average inflation remained around 12 percent while real GDP was 2.8 percent. Whereas, during the tenure of present government, the average inflation remained around 5 percent while real GDP was over 4 percent. The higher inflation could help reducing the public debt-to-GDP ratio yet it has other adverse repercussions for the economy. Therefore,

[2] Another way to gauge the increase in public debt burden of the country is to compare that with relevant global public debt statistics. There was no increase in Pakistan's net public debt to GDP ratio during last three years while global debt to GDP ratio increased by 6.8 percent during the said period (IMF World Economic Outlook, October 2016).

economic managers would always prefer high real GDP growth coupled with low inflation rather than low real GDP growth coupled with high inflation.



The gross and net public debt position since fiscal year 2011 (both in absolute and GDP term) are depicted in the following graph:



5.5 It may be noted that net public debt to GDP ratio (60.2 percent as at end June, 2016) remained at the same level of end June 2013 despite reduction in fiscal deficits during last three years. The non-fiscal deficits factors like revaluation losses on account of cross currency movements and loans from IMF contributed to this increase. The IMF loans are only applied towards Pakistan's balance of payments, add to foreign currency reserves and do not come as an extra resource in the budget. In 2015-16, the IMF loans of over Rs.200 billion were disbursed and unlike previous two years, negligible repayments were made to the IMF.

5.6 Public debt levels against actual government revenues measures debt repayment capacity of the country. There was around 6 percentage point reduction in net public debt to government revenues ratio which stood at 401 percent in 2015-16 as compared with 407 percent in 2014-15, indicating some easing in government indebtedness. Whereas, gross public debt to government revenues increased slightly by 0.4 percentage point during 2015-16 as compared with previous fiscal year. Government is committed to reduce this ratio to a generally acceptable threshold of 350 percent by increasing its revenues and rationalizing current expenditures which will reduce the debt burden and improve the debt carrying capacity of the country to finance the growing development needs.

6.0 Servicing of Public Debt

6.1 During 2015-16, public debt servicing was recorded at Rs.1,599 billion against the annual budgeted estimate of Rs.1,686 billion. Public debt servicing consumed nearly 36 percent of total revenues during 2015-16 against 40 percent during last year. This improvement was contributed by low domestic interest rates on account of conducive economic environment and supportive monetary policy. Following factors contributed towards reduction in domestic interest cost:

- Coupon rate on PIBs was revised downwards during last two fiscal years;
- Yields on Treasury Bills (T-Bills) and PIBs also fell sharply due to low interest rate environment and smooth execution of MTDS which also supported extension in maturity profile of domestic bond portfolio.

Since interest rates on retail debt instruments are linked with the yields of T-Bills and PIBs, rates on retail debt instruments was also revised downward accordingly;

Table-3: Public Debt Servicing - (2015-16)

	Budgeted	Actual (P)	Percent of Revenue	Percent of Current Expenditure
(Rs. in billion)				
Servicing of External Debt	111.2	112.6	2.5	2.4
Repayment of External Debt	405.8	335.3	7.5	7.1
Servicing of Domestic Debt	1,168.7	1,150.8	25.9	24.5
Servicing of Public Debt	1,685.7	1,598.7	35.9	34.1

P: Provisional

Source: Budget Wing and Debt Policy Coordination Office Staff Calculations, Ministry of Finance

6.2 Domestic interest payments constituted around 72 percent of total debt servicing which is due to increasing volume of domestic debt in overall public debt portfolio. Domestic interest payments witnessed decline of 5 percent during 2015-16 as compared with the last fiscal year due to the above mentioned reasons. Further analysis of domestic debt servicing revealed that large portion was paid against PIBs (Rs.483 billion), followed by T-Bills (Rs.175 billion), Market Related Treasury Bills (Rs.163 billion), Bahbood Saving Certificates (Rs.93 billion) and Special Savings Certificates and Accounts (Rs.71 billion).

7.0 Domestic Debt

7.1 Gross domestic debt was Rs.13,627 billion while net domestic debt was Rs.11,773 billion as at end June 2016. Gross domestic debt registered an increase of Rs.1,428 billion during the year while government borrowing from domestic sources for financing of fiscal deficit was Rs.979 billion. This differential is mainly attributed to increase in government credit balances with State Bank of Pakistan/commercial banks. Most of the incremental mobilization was recorded in permanent debt which resulted in further lengthening of maturity profile of PIBs. Similar to last year, the government continued to retire its borrowing from SBP by an amount of Rs.475 billion during 2015-16 which enabled the government to meet the IMF ceiling on borrowing from SBP and zero quarterly limit under the amended SBP Act 1956 during the year.

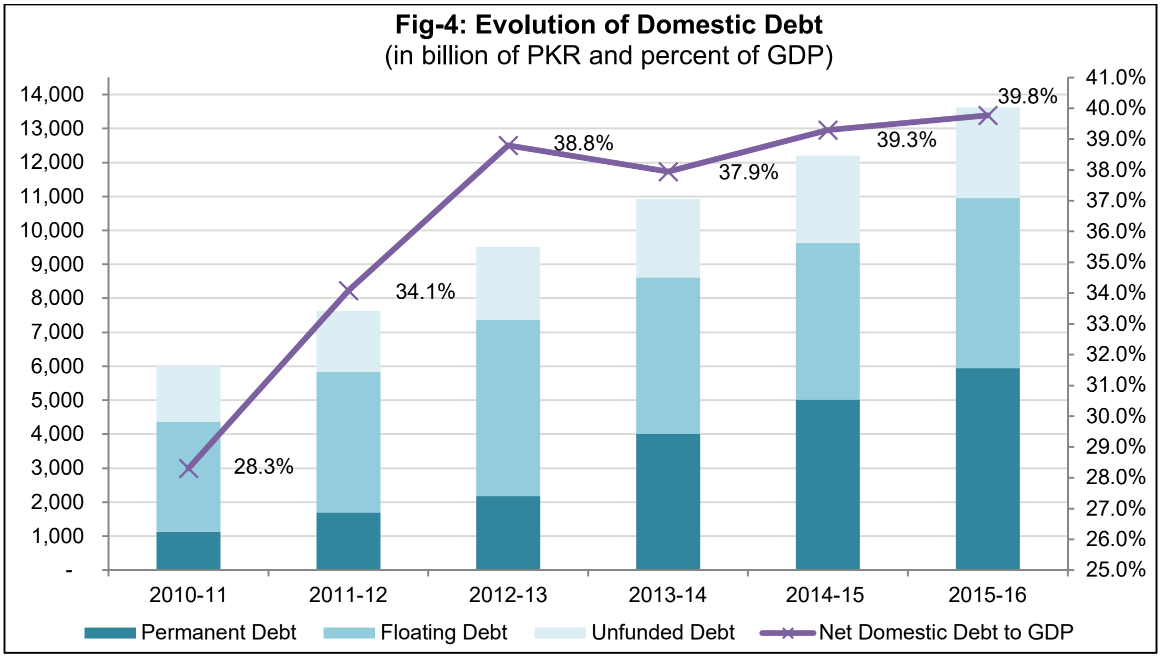


Table-4: Outstanding Domestic Debt - (Rs. in billion)

	2011	2012	2013	2014	2015(P)	2016(P)	2017(P) *
Permanent Debt	**1,125.6**	**1,696.9**	**2,179.2**	**4,005.3**	**5,016.0**	**5,944.2**	**5,198.0**
Market Loans	2.9	2.9	2.9	2.9	2.8	2.8	2.8
Government Bonds	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Prize Bonds	277.1	333.4	389.6	446.6	522.5	646.4	681.2
Foreign Exchange Bearer Certificates	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Bearer National Fund Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Federal Investment Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Special National Fund Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Currency Bearer Certificates	0.0	0.0	0.0	0.0	0.0	0.0	0.0
U.S. Dollar Bearer Certificates	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Special U.S. Dollar Bonds	1.0	0.9	4.2	4.4	4.4	4.5	4.5
Government Bonds Issued to SLIC	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Pakistan Investment Bonds (PIBs)	618.5	974.7	1,321.8	3,223.5	4,158.3	4,925.0	4,144.1
Government Bonds issued to HBL	-	-	-	-	-	-	-
GOP Ijara Sukuk	224.6	383.5	459.2	326.4	326.4	363.9	363.9
Floating Debt	**3,235.4**	**4,143.1**	**5,196.2**	**4,610.9**	**4,612.6**	**5,001.8**	**6,491.3**
Treasury Bills through Auction	1,817.6	2,383.4	2,921.0	1,758.6	2,331.3	2,771.6	3,349.2
Rollover of Treasury Bills discounted SBP	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Market Related Treasury Bills (MRTBs)	1,417.3	1,759.2	2,274.7	2,851.8	2,280.9	2,017.1	2,929.0

Table-4: Outstanding Domestic Debt - (Rs. in billion)

	2011	2012	2013	2014	2015(P)	2016(P)	2017(P) *
Bai Muajjal	-	-	-	-	-	212.6	212.6
Unfunded Debt	**1,655.8**	**1,798.0**	**2,146.5**	**2,303.8**	**2,570.3**	**2,680.9**	**2,709.7**
Defence Savings Certificates	234.5	241.8	271.7	284.6	300.8	308.9	313.2
Khas Deposit Certificates and Accounts	0.6	0.6	0.6	0.6	0.6	0.6	0.6
National Deposit Certificates	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Savings Accounts	17.2	21.2	22.3	22.6	26.4	29.2	30.4
Mahana Amdani Account	2.1	2.0	2.0	1.9	1.8	1.8	1.7
Postal Life Insurance	67.1	67.1	67.1	67.1	67.1	67.1	67.1
Special Savings Certificates and Accounts	529.1	537.4	734.6	738.8	867.5	896.5	904.0
Regular Income Scheme	182.6	226.6	262.6	325.4	376.0	359.8	350.1
Pensioners' Benefit Account	146.0	162.3	179.9	198.4	214.1	234.7	240.4
Bahbood Savings Certificates	428.5	480.8	528.4	582.4	628.3	692.1	710.7
National Savings Bonds	3.6	3.6	0.2	0.2	0.1	0.1	0.1
G.P. Fund	44.3	54.6	73.1	80.5	85.8	88.3	89.3
Short Term Savings Certificates			4.0	1.3	1.7	1.9	2.0
Total Domestic Debt	**6,016.7**	**7,638.1**	**9,521.9**	**10,920.0**	**12,198.9**	**13,626.9**	**14,399.0**

P: Provisional *end-September,2016

Source: Budget Wing, Finance Division

7(i) Auction Profile of Government Securities

7.2 Auction profile of government securities showed different pattern of investment by the commercial banks during 2015-16, depending on their perception of changes in interest rates, inflation, liquidity conditions, and external sector developments. Supportive market conditions allowed the government to borrow more through PIBs as compared with T-Bills. Government strictly adhered to its MTDS which is evident from the fact that mobilization from PIBs stood at Rs.964 billion during 2015-16 against the massive participation of Rs.2,560 billion. The term premium between 3 years PIBs and 6-month T-bills started to decline after October 2014 owing to effective and efficient execution of MTDS. The term premium between 6 months T-bills and 3 Years PIBs which went to a high of 2.56 percent in September 2014, subsided to a negligible level of around 0.07 percent in February 2016. The narrowing of the term premium to such a low level reflects appreciatively on the part of the government and depicts that the government is in a much better position with respect to rollover/refinancing risk. Given the consistent decline in the yields, PIBs coupon rates were cut by 1 percent to 1.75 percent in April 2016 to align them with the market yields.

7.3 It is worth mentioning that recent re-profiling was done at around 5 percent lower interest rate along with higher duration by over 1 year. This is expected to bring ample savings on account of debt servicing in the coming years. Effectively, declining interest rates scenario made it more practical and cost-effective for the government to further lengthen the maturity profile of its bond portfolio in 2015-16.

7.4 Government also successfully conducted three auctions of GIS. Similar to the trends witnessed in auctions of the PIBs, government received participation of Rs.717 billion against which Rs.314 billion was mobilized. Out of this total, government mobilized Rs.197 billion on fixed rate basis at weighted average rate of around 5.9 percent. Government capitalized on low interest rate environment and fixed its interest payment liability on these GISs. Further, the government mobilized Rs.213 billion through outright purchase of GIS on deferred payment basis (Bai Muajjal) in November 2015.

7.5 Government also received massive participation of Rs.9,256 billion in the auctions of T-Bills against the target of Rs.5,100 billion including maturity of Rs.4,283 billion. However, government mobilized Rs.4,909 billion resulting in additional mobilization of Rs.626 billion (net of maturity) against the targeted additional requirement of Rs.817 billion. Encouragingly, yields on T-Bills generally declined throughout the year owing to effective market management.

The yields (6 months T-bills, 3, 5 and 10 years PIBs) and auction wise details from July 2015 to June 2016 are depicted through following graph:

Fig-5: T-Bills PIBs Yields (6 Months, 3, 5 & 10 Years) - In Percent

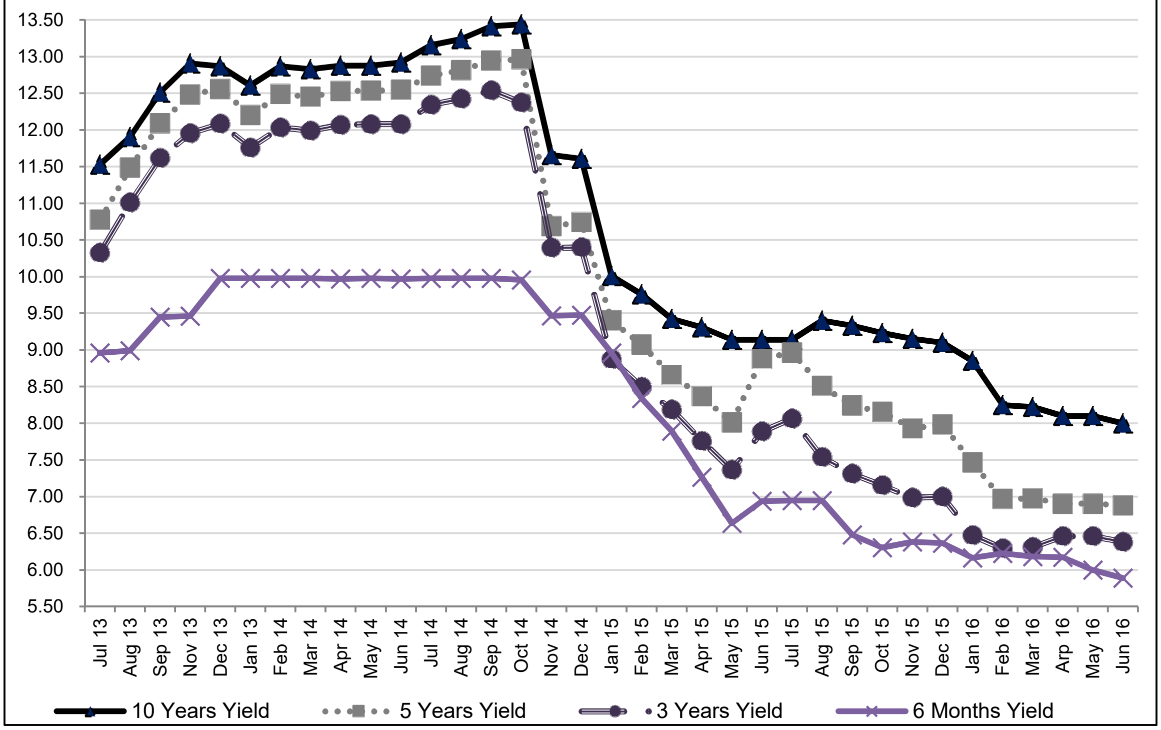
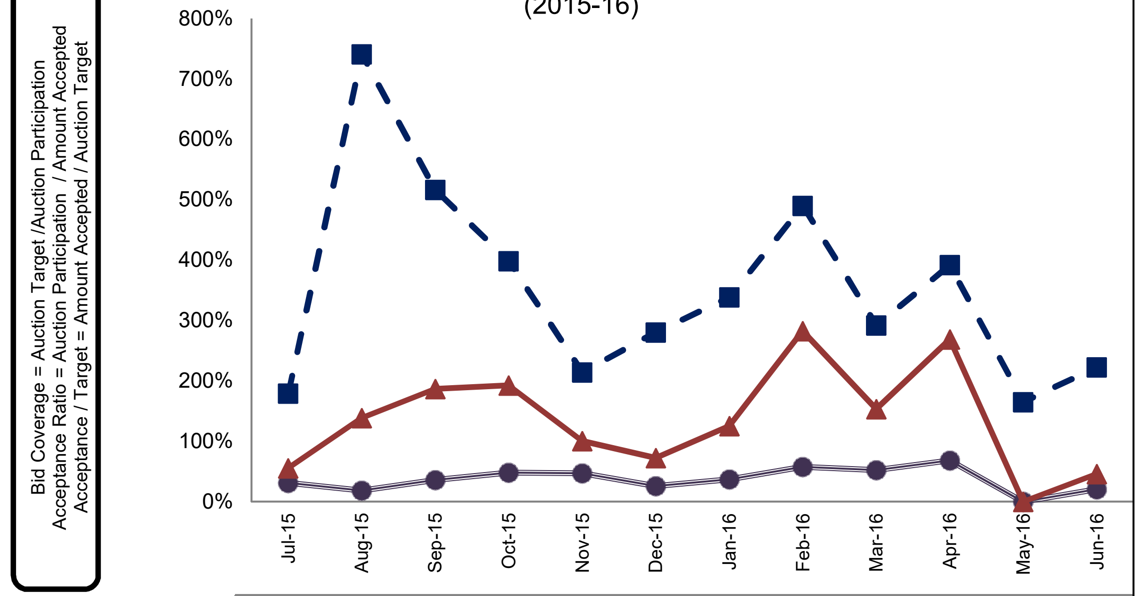
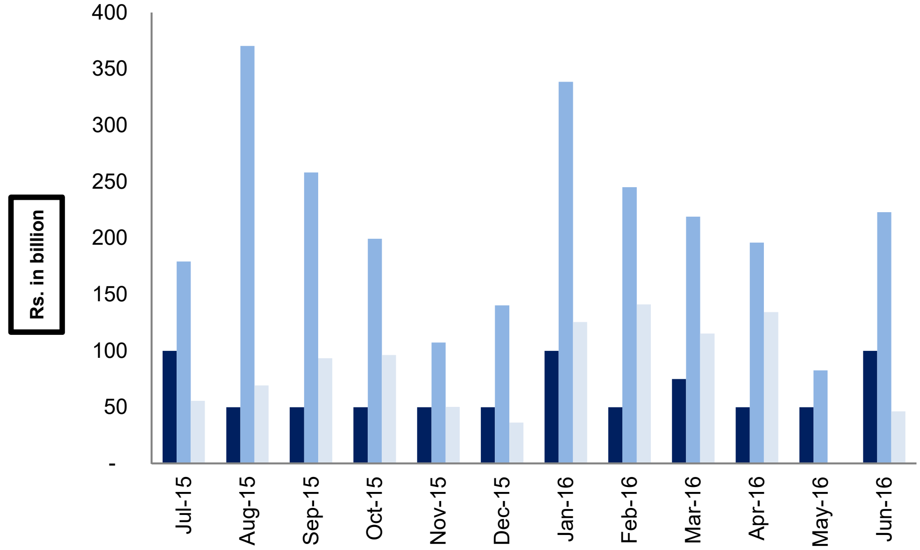


Fig-6: PIBs Auction Ratios
(2015-16)



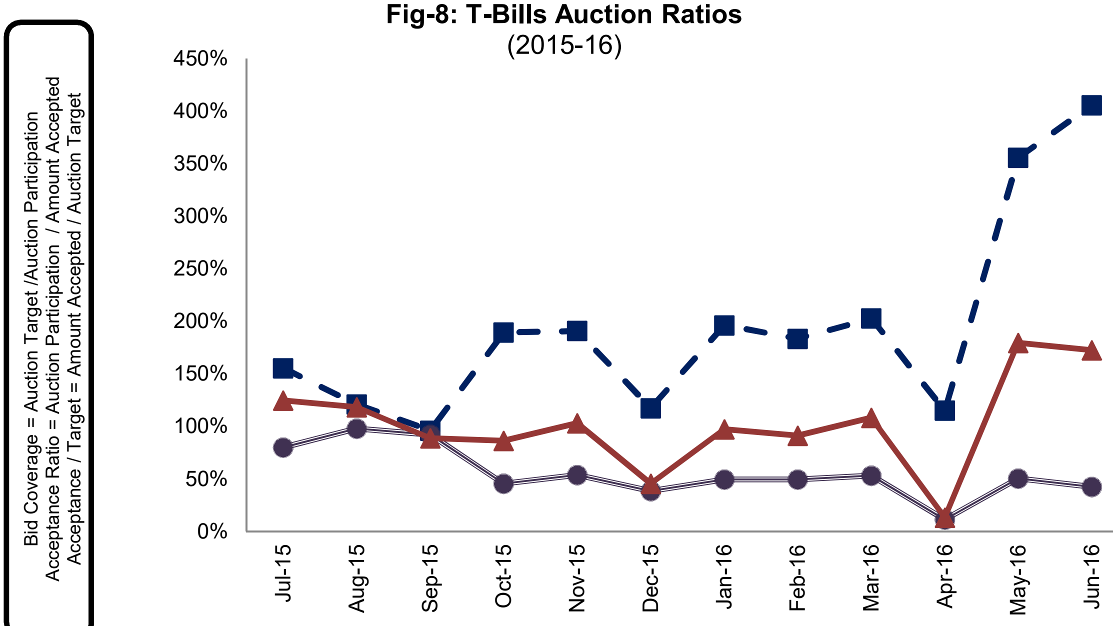
	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16
Bid Coverage	179%	741%	516%	399%	215%	281%	339%	490%	292%	392%	165%	223%
Acceptance Ratio	31%	19%	36%	48%	47%	26%	37%	58%	53%	69%	0%	21%
Acceptance/ Target	56%	139%	187%	193%	101%	72%	125%	283%	154%	269%	0%	46%

Fig-7: PIBs Auction Profile
(2015-16)



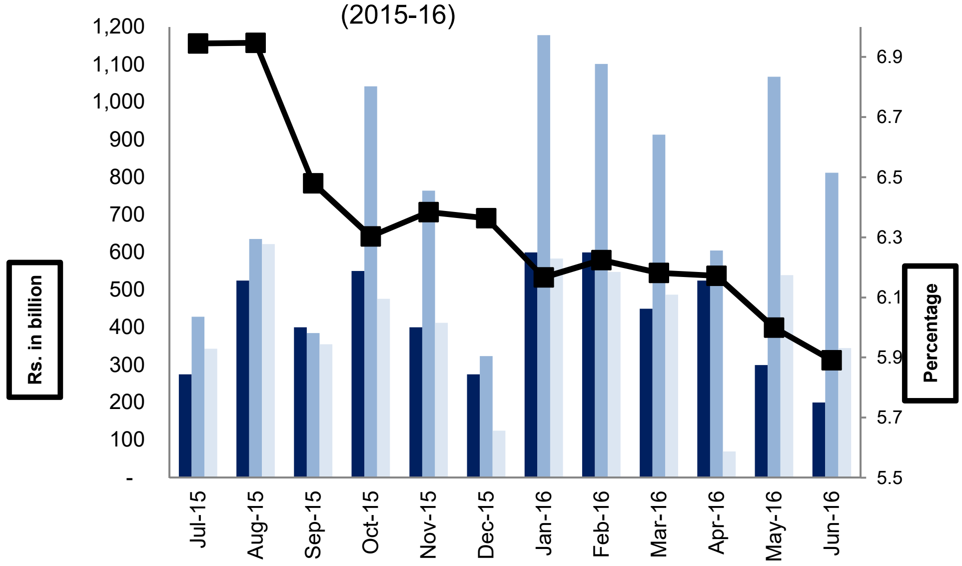
	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16
Auction Target (Rs. in billion)	100	50	50	50	50	50	100	50	75	50	50	100
Auction Participation (Rs. in billion)	179	371	258	199	107	140	339	245	219	196	83	223
Amount Accepted (Rs. in billion)	56	69	93	96	50	36	125	141	115	134	-	46

Fig-8: T-Bills Auction Ratios
(2015-16)



	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16
Bid Coverage	156%	121%	96%	190%	191%	118%	196%	184%	203%	115%	356%	406%
Acceptance Ratio	80%	98%	92%	46%	54%	39%	50%	50%	53%	12%	50%	43%
Acceptance/ Target	125%	119%	89%	87%	103%	46%	97%	91%	108%	13%	180%	173%

Fig-9: T-Bills Auction Profile
(2015-16)



	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16
Auction Target (Rs. in billion)	275	525	400	550	400	275	600	600	450	525	300	200
Auction Participation (Rs. in billion)	428	635	385	1,042	765	323	1,178	1,102	913	605	1,068	812
Amount Accepted (Rs. in billion)	343	622	355	476	412	125	584	548	488	70	539	345
6 month T-Bill Yield (%)	6.95	6.95	6.48	6.30	6.38	6.36	6.17	6.22	6.18	6.17	6.00	5.89

7(ii) Secondary Market Activities of Government Securities

7.6 In Pakistan, both primary and secondary markets of the government securities, particularly for tenors up to 10 year maturity, are considerably liquid, efficient and deep. Government securities worth Rs.11,261 trillion (i.e. Rs.44.86 billion per day average) were traded in the secondary market; showing an increase compared to Rs.10,690 trillion in 2015. Further, if repo volumes are added, the total trading volume increases to Rs.24.7 trillion in 2016. Encouragingly, the share of outright trading in the overall trading volumes, which include repo and outright trades, has increased from 43 percent in 2015 to 46 percent in 2016.

Table-5: Secondary Market Outright Trading Volume

(Rs. in billion)

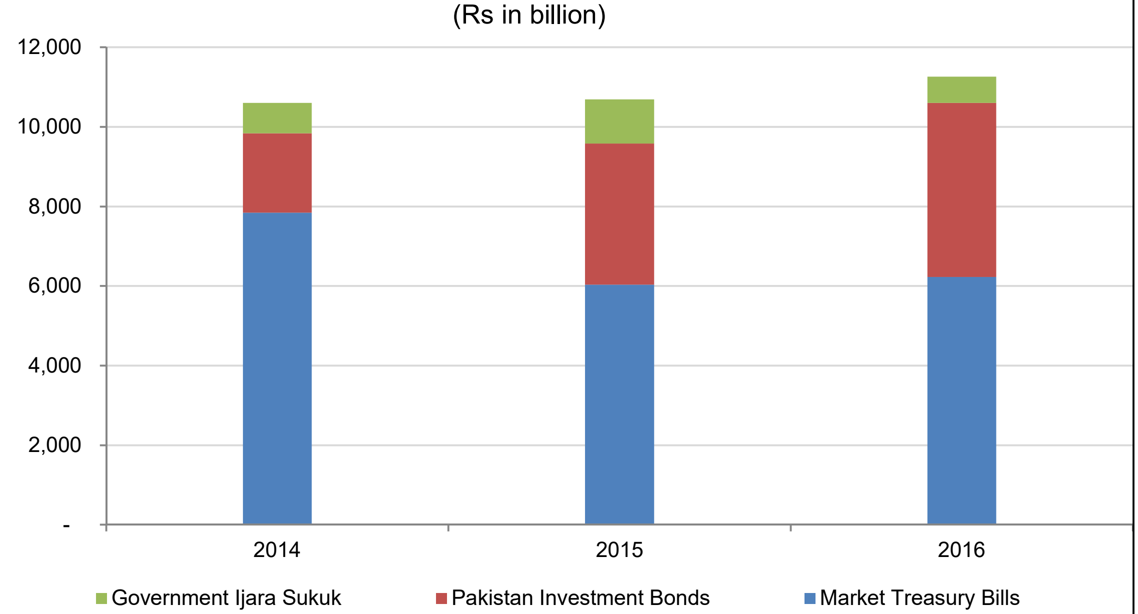
Security	2014	2015	2016
Treasury Bill - 3 Months	5,057	1,550	1,369
Treasury Bill - 6 Months	1,128	2,156	2,142
Treasury Bill - 12 Months	1,657	2,325	2,720
Pakistan Investment Bonds - 3 Years	1,030	1,751	2,387

Pakistan Investment Bonds - 5 Years	430	742	959
Pakistan Investment Bonds - 7 Years	0	2	1
Pakistan Investment Bonds - 10 Years	506	1,014	1,018
Pakistan Investment Bonds - 15 Years	0	6	3
Pakistan Investment Bonds - 20 Years	35	34	10
Pakistan Investment Bonds - 30 Years	0	0	0
Sukuk	761	1,110	653
Total	**10,604**	**10,690**	**11,261**
End Period Stock	**5,429**	**6,955**	**8,199**
Turnover	**1.95**	**1.54**	**1.37**

Source: State Bank of Pakistan

7.7 The trading turnover (represented by ratio of trading volume to outstanding stock of Government securities) declined to 1.37 in 2016 compared to 1.54 in 2015. This is explained by higher outstanding stock of government securities, primarily PIBs and GIS, which generate greater buy-and-hold behavior by the investors. Further, this also suggests that market's interest in medium-to-longer term government securities remained strong in 2016 which was in line with increasing the maturity profile of government securities as envisaged in the MTDS.

Fig-10: Share of Government Securities in Overall Trading Volume
(Rs in billion)



7.8 Banks are the dominant players in the trading of government securities in secondary market followed by corporate and mutual funds. Among banks, primary dealers[3], which act as market makers in the secondary market played an important role in the distribution of government securities and thus significantly contributed to generating liquidity in government securities market. Accordingly, the distribution of government securities, particularly of the longer-tenors, to non-bank sector (i.e. Funds, Corporate and Insurance companies) have witnessed growth during the past couple of years. For instance, during 2014-2016, non-banks holding of PIBs increased by around Rs.644 billion to reach at Rs.1,238 billion.

Repo Market:

7.9 The repo market in Pakistan continued to dominate secondary market trading of government securities (Table 6). However, it is encouraging to note that the share of outright trading volume has increased to 46 percent in 2016 from 42 percent and 43 percent in 2014 and 2015, respectively. This bodes well for the financial market development and shows that traders are willing to take longer-term view on the interest rates of government securities and not just utilizing the secondary market for short-term liquidity management.

Table-6: Government Security based Transactions

Type	Volume (Rs. in billion)				Percentage Share		
	2013	2014	2015	2016	2014	2015	2016
Repo	12,980	14,374	14,138	13,469	58	57	54
Outright	10,644	10,604	10,682	11,261	42	43	46
Total	23,624	24,978	24,820	24,730	100	100	100

Source: State Bank of Pakistan

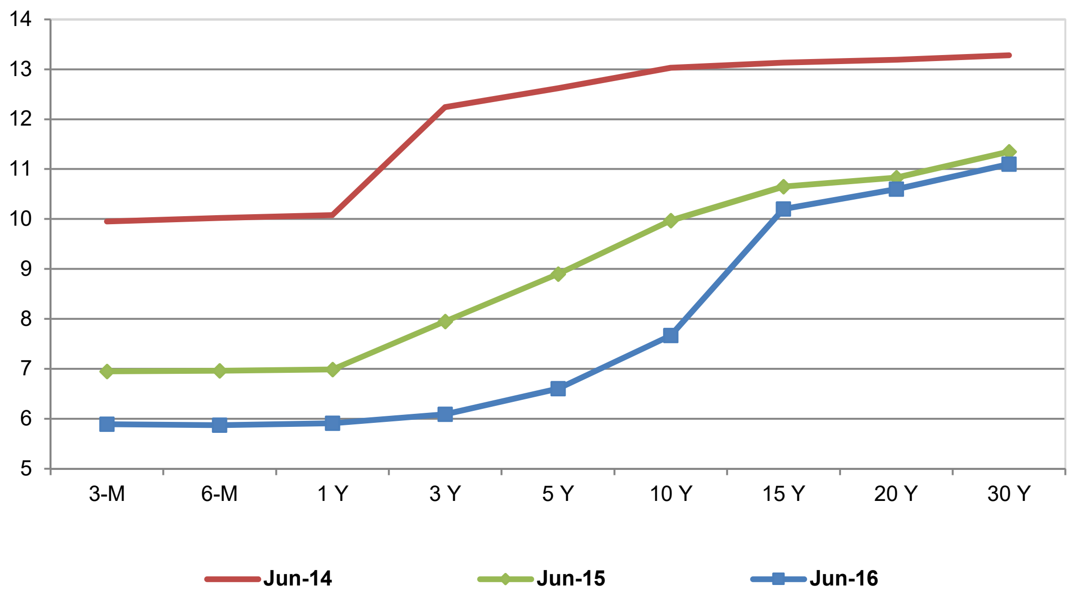
Yield Curve Trend:

7.10 Downward shift in secondary market yield curve of government securities corresponds to effective transmission of SBP's easing monetary policy stance. The yield curve largely remained flat up to the 3-year tenor; reflecting a negligible

[3] There are 12 Primary Dealers (11 banks and 1 non-bank) appointed by State Bank of Pakistan each year.

premium between short and medium terms (see Fig:11). The flattening of the yield curve suggests market's expectations of a stable inflation outlook in the medium-term and effective translation of short-term rates and monetary policy stance to longer-tenors market yields.

Fig-11: Secondary Market Yield Curve (Percentage)



7(iii) Development in Domestic Debt During 2015-16

The following sections highlight the developments in the various components of domestic debt during 2015-16:

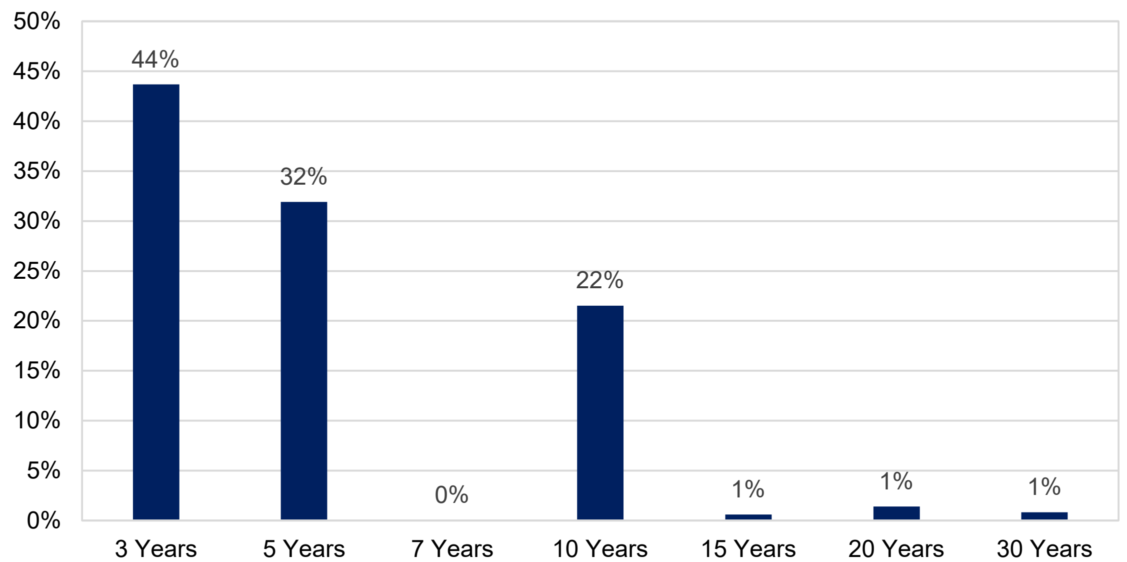
I. Permanent Debt

7.11 The amount of permanent debt in the total domestic debt stood at Rs.5,944 billion as at end June 2016, representing an increase of Rs.928 billion during the year. Out of total mobilization through permanent debt, the government mopped up (net of retirement) Rs.767 billion through successful auctions of PIBs followed by Prize Bond (Rs.124 billion) and GIS (Rs.38 billion). Accordingly, the share of permanent debt increased to 44 percent in 2015-16 from 41 percent in 2014-15 which was only 23 percent as at end June, 2013. Around 65 percent of the total increase in domestic debt stock was contributed by permanent debt during 2015-16. Government issued Rs.485 billion with a maturity of three years, Rs.408 billion with a maturity of five years and Rs.71 billion with a maturity of ten years during 2015-

16. Further, the government successfully conducted three auctions of GIS and mobilized Rs.314 billion.

The maturity wise composition of PIBs portfolio is depicted through graph below:

Fig-12: Maturity Wise Percentage Share in PIBs Portfolio
As on June 30, 2016



II. Floating Debt

7.12 Floating debt was recorded at Rs.5,002 billion at end June 2016. The share of floating debt has decreased considerably during last three fiscal year as it stood at 25 percent and 37 percent in overall public debt and domestic debt at end June 2016, respectively, while it was 36 percent and 55 percent at the end of 2012-13 respectively. During 2015-16, net mobilization through T-bills stood at Rs.440 billion, whereas, the stock of MRTBs was retired by Rs.264 billion. The share of 3 months, 6 months and 12 months maturity in total T-Bills portfolio was 62 percent, 29 percent and 9 percent respectively as at end-June 2016. Government also mobilized Rs.213 billion through outright purchase of GIS on deferred payment basis (Bai Muajjal) in November 2015.

III. Unfunded Debt

7.13 Following the cut in policy rate, the profit rates on National Savings Schemes (NSS) were also revised downward which mainly contributed towards decrease in net mobilization of Rs.111 billion from NSS during 2015-16 as compared with

Rs.267 billion during the preceding fiscal year. Most of the incremental mobilization went into Bahbood Savings Certificates (Rs.64 billion), Special Savings Certificates and Accounts (Rs.29 billion) and Pensioner Benefit Account (Rs.21 billion). Apart from Bahbood Savings Certificates and Pensioner Benefit Account which accounted for around 76 percent of net inflows in NSS during the year, most of the other schemes either witnessed a decline in inflows, or net retirements. The total share of unfunded debt in the government's domestic debt stood at Rs.2,681 billion or 20 percent at end June 2016. The rates on NSS revised six times during 2015-16 to align with the market rates.

7.14 Retail debt instruments are effective source of enhancing savings in the developing countries like Pakistan. These instruments also help government to reduce its reliance on commercial banks and external sources. Over past few years, government took various measures to rationalize the NSS including linkage of profit rates on major NSS instruments with comparable wholesales market instrument yields, levy of withholding tax on profits, service charges/penalty on early redemption and introduction of several new schemes to meet the diverse investor base demand. However, complete automation of CDNS operations along with catering to the implicit put option through integration into mainstream capital markets will help reducing the cost and risks for the government.

Table-7: Causative Factors in Change in Stock of Domestic Debt (Rs. in billion)

	Stock	Stock	Receipts	Repayments	Net Investment
	2014-15	2015-16	(in 2015-16)		
Permanent Debt	**5,016.0**	**5,944.2**	**1,458.2**	**530.0**	**928.2**
Market Loan	2.8	2.8	-	-	-
Government Bonds	0.7	0.7	-	-	-
Prize Bonds	522.5	646.4	180.2	56.3	123.9
Foreign Exchange Bearer Certificates	0.1	0.1	-	-	-
Bearer National Fund Bonds	0.0	0.0	-	-	-
Federal Investment Bonds	0.0	0.0	-	-	-
Special National Fund Bonds	0.0	0.0	-	-	-
Foreign Currency Bearer Certificates	0.0	0.0	-	-	-
U.S. Dollar Bearer Certificates	0.1	0.1	-	-	-
Special U.S. Dollar Bonds	4.4	4.5	0.0	-	0.0
Government Bonds Issued to SLIC	0.6	0.6	-	-	-

Table-7: Causative Factors in Change in Stock of Domestic Debt (Rs. in billion)

	Stock	Stock	Receipts	Repayments	Net Investment
	2014-15	2015-16	(in 2015-16)		
Pakistan Investment Bonds (PIBs)	4,158.3	4,925.0	963.6	196.9	766.7
Government Bonds issued to HBL	-	-	-	-	-
GOP Ijara Sukuk	326.4	363.9	314.4	276.8	37.6
Floating Debt	**4,612.6**	**5,001.8**	**10,082.2**	**9,693.0**	**389.2**
Treasury Bills through Auction	2,331.3	2,771.6	5,396.2	4,956.0	440.2
Rollover of Treasury Bills discounted SBP	0.5	0.5	0.0	0.0	0.0
Treasury Bills purchased by SBP (MRTBs)	2,280.9	2,017.1	4,473.2	4,737.0	(263.8)
Bai Muajjal	-	212.6	212.6	-	212.6
Unfunded Debt	**2,570.3**	**2,680.9**	**780.0**	**669.4**	**110.6**
Defence Savings Certificates	300.8	308.9	32.3	24.3	8.1
Khas Deposit Certificates and Accounts	0.6	0.6	-	-	-
National Deposit Certificates	0.0	0.0	-	0.0	(0.0)
Savings Accounts	26.4	29.2	202.2	199.4	2.8
Mahana Amdani Account	1.8	1.8	0.0	0.1	(0.1)
Postal Life Insurance	67.1	67.1	-	-	-
Special Savings Certificates and Accounts	867.5	896.5	237.9	208.9	29.0
Regular Income Scheme	376.0	359.8	69.8	86.1	(16.2)
Pensioners' Benefit Account	214.1	234.7	45.1	24.4	20.6
Bahbood Savings Certificates	628.3	692.1	152.6	88.8	63.8
National Savings Bonds	0.1	0.1	-	-	-
G. P. Fund	85.8	88.3	34.6	32.2	2.4
Short Term Savings Certificates	1.7	1.9	5.6	5.4	0.2
Total Domestic Debt	**12,198.9**	**13,626.9**	**12,320.3**	**10,892.4**	**1,427.9**

Source: Budget Wing, Finance Division

8.0 External Debt and Liabilities

8.1 Pakistan's External Debt and Liabilities (EDL) include all foreign currency debt contracted by the public and private sector as well as foreign exchange liabilities of SBP. Out of EDL, external public debt of the government is defined as debt which is serviced out of consolidated fund and debt owed to the International Monetary Fund. External public debt is obtained to supplement the domestic resources required to accelerate the pace of economic development and make positive contribution towards developing the country's infrastructure base. The receipts are used for balance of payment support, reducing domestic borrowing and covering the repayment obligations. The external inflows, altogether, help in building foreign exchange reserves, provides stability to exchange rate vis-à-vis other currencies and help in achieving accelerated economic growth.

8.2 EDL stock was US$ 73.1 billion as at end June 2016 compared with US$ 60.9 billion as at end June 2013 out of which external public debt was US$ 57.7 billion as at end June 2016 as compared with US$ 48.1 billion as at end June 2013. Apart from net external inflows, public external debt witnessed an increase on account of revaluation loss due to depreciation of US Dollar against other major currencies. Within external debt, the largest component is the multilateral debt and bilateral debt, constituting around 88 percent of the public external debt as at end June, 2016. The loans from multilateral and bilateral development partners are primarily aimed at removing structural bottlenecks from Pakistan's economy. These concessional loans also primarily utilized towards implementing structural reforms in the areas of energy, taxation, doing businesses, trade facilitation, education and promotion of small and medium enterprises (SMEs). Such concessional lending programs are instrumental in enhancing Pakistan's potential output by promoting efficiency and productivity. These loans are, thus, simultaneously adding to the debt repayment capacity of the country.

8.3 During 2015-16, disbursements against external public debt stood at US$ 8,922 million while US$ 3,212 million were repaid. Most of the external inflow was received from multilateral development partners amounting to US$ 5,793 million for the financing of various public projects primarily in the areas of education, energy, infrastructure development, social spending and for public sector management. Within bilateral external inflows amounting to US$ 1,247 million, China had the major share of US$ 1,042 million largely received against infrastructure and energy related projects. Government borrowed US$ 1,381 million from commercial lenders and also mobilized US$ 500 million from proceeds of the Eurobond issued in September 2015.

Table-8: Pakistan External Debt and Liabilities

	2011	2012	2013	2014	2015(P)	2016(P)	2017(P)*
	(US Dollar in billion)						
PUBLIC EXTERNAL DEBT							
1. Public Debt (i+ii+iii)**	**55.3**	**53.5**	**48.1**	**51.3**	**50.9**	**57.7**	**58.7**
i). Medium and Long Term(>1 year)	**45.7**	**45.6**	**43.5**	**47.7**	**45.8**	**50.0**	**50.9**
Paris Club	15.5	15.0	13.5	13.6	11.7	12.7	12.8
Multilateral	25.8	25.3	24.2	25.8	24.3	26.4	26.2
Other Bilateral	1.9	2.5	2.9	3.4	3.9	4.4	4.8
Euro Bonds/Saindak Bonds	1.6	1.6	1.6	3.6	4.6	4.6	4.6
Military Debt	0.1	0.1	0.1	0.0	-	-	-
Commercial Loans/Credits	-	-	-	0.2	0.3	0.9	1.6
Local Currency Bonds**	0.0	-	0.0	0.0	0.0	0.0	0.0
Saudi Fund for Development	0.2	0.2	0.2	0.1	0.1	0.1	0.1
SAFE China Deposits	0.5	1.0	1.0	1.0	1.0	1.0	1.0
NBP/BOC Deposits	0.1	-	-	-	-	-	-
ii). Short Term (<1 year)	**0.6**	**0.5**	**0.3**	**0.7**	**1.0**	**1.7**	**1.7**
Commercial Loans/Credits			-	0.2	-	0.6	0.3
Multilateral	0.6	0.5	0.3	0.4	1.0	1.1	1.4
Local Currency Securities**	0.0	0.0	0.0	0.1	0.0	0.0	0.1
iii). IMF	**8.9**	**7.3**	**4.4**	**3.0**	**4.1**	**6.0**	**6.1**
of which Central Government	2.0	1.9	1.5	0.9	0.1	-	-
Monetary Authorities	6.9	5.4	2.9	2.1	4.1	6.0	6.1
PUBLICLY GUARANTEED DEBT							
2) Publicly Guaranteed Debt	**0.1**	**0.2**	**0.6**	**0.5**	**1.0**	**1.3**	**1.2**
i). Medium and Long Term(>1 year)	**0.1**	**0.2**	**0.6**	**0.5**	**1.0**	**1.3**	**1.2**
Paris Club	-	-	-	-	-	-	-
Multilateral	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Bilateral	0.0	0.2	0.6	0.5	1.0	1.3	1.2
Commercial Loans/Credits	-	-	-	-	-	-	-
Saindak Bonds	-	-	-	-	-	-	-
ii). Short Term (<1 year)	-	-	-	-	-	-	-
NON PUBLIC DEBT							
3. Private Sector Debt	**4.4**	**3.6**	**3.1**	**3.0**	**3.0**	**3.3**	**3.6**
4. Public Sector Enterprises (PSEs Debt)	**1.3**	**1.3**	**1.2**	**1.7**	**1.5**	**1.5**	**1.5**
5. Banks	**1.1**	**1.8**	**1.6**	**2.0**	**2.3**	**2.7**	**3.0**
Borrowing	0.4	0.9	0.7	1.1	1.3	1.6	1.9
Nonresident Deposits (LCY & FCY)	0.7	1.0	0.8	0.9	1.0	1.1	1.0
6. Debt liabilities to direct investors - intercompany debt	**1.6**	**2.7**	**3.1**	**3.4**	**2.7**	**2.9**	**3.0**
Total External Debt (1 through 6)	**63.8**	**63.1**	**57.8**	**62.1**	**61.4**	**69.5**	**71.0**
FOREIGN EXCHANGE LIABILITIES							
7. Foreign Exchange Liabilities	**2.6**	**2.4**	**3.1**	**3.3**	**3.7**	**3.6**	**3.6**
Total External Debt & Liabilities (1 through 7)	**66.4**	**65.5**	**60.9**	**65.4**	**65.1**	**73.1**	**74.6**
Memo:							
GDP (Rs. in billion)	18,276.4	20,046.5	22,385.7	25,168.8	27,493.1	29,597.9	33,509.0
Exchange Rate (Rs./US$, End of Period)	86.0	94.5	99.7	98.8	101.8	104.8	104.6
GDP (US$ in billion)	213.8	224.6	231.4	244.7	271.5	283.6	319.9

P: Provisional *end-September,2016 **excluding local currency bonds/securities since they are already included in domestic debt

Source: State Bank of Pakistan, Economic Affairs Division & Debt Policy Coordination Office

8(i) External Public Debt Servicing

8.4 External public debt servicing declined for the second consecutive year and recorded at US$ 4,340 million during 2015-16 as compared with US$ 4,475 million during the preceding fiscal year. This decline in public debt servicing was mainly due to lower principal repayments made to the IMF. A segregation of this aggregate number shows a repayment of US$ 3,213 million in respect of maturing external public debt stock, interest payments were US$ 1,127 million while US$ 1,248 million was rolled-over. Among the principal repayments, US$ 1,955 million of multilateral debt and US$ 500 million of Eurobond accounted for most of the share. Servicing of public external debt was recorded at US$ 1,301 million during the first quarter of 2016-17.

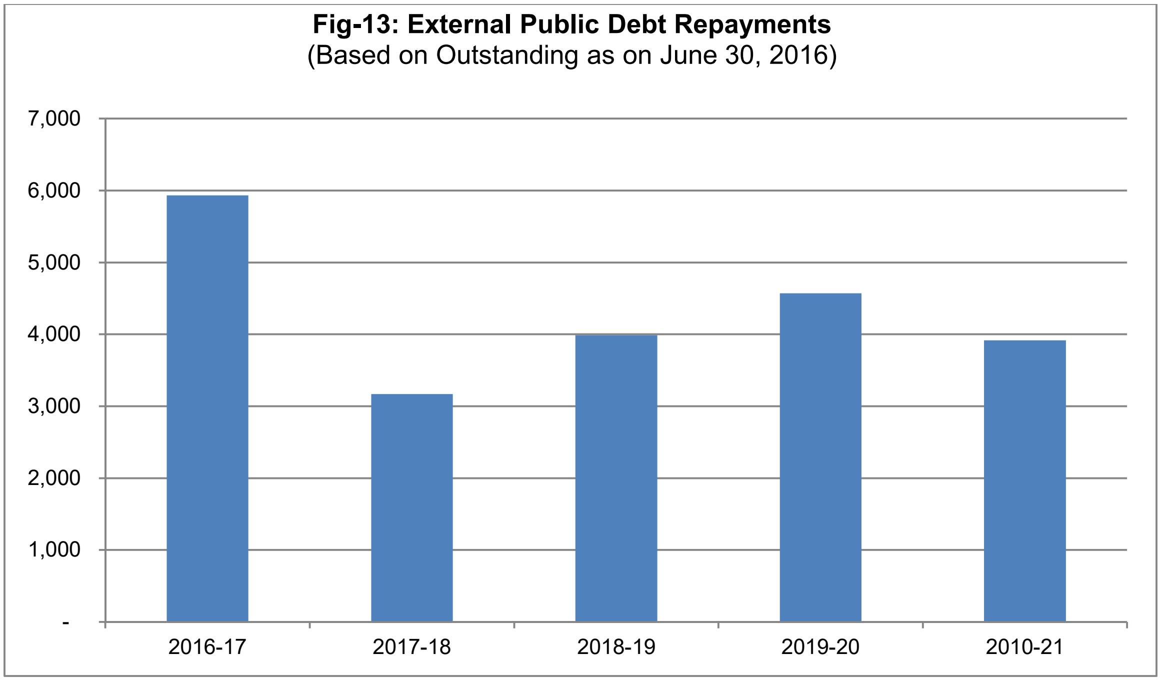
Table-9: External Public Debt Servicing

Years	Actual Amount Paid	Interest	Amount Rolled Over	Total
(US Dollar in million)				
2010-11	2,084.7	930.0	488.0	3,502.7
2011-12	2,700.0	880.9	543.0	4,123.9
2012-13	4,794.6	800.4	500.0	6,095.1
2013-14	5,220.0	774.6	1,000.0	6,994.5
2014-15	3,500.3	974.5	1,000.0	5,474.8
2015-16	3,213.1	1,126.7	1,248.3	5,588.1
2016-17*	1,077.3	223.3	1,000.0	2,300.7

*July-September, 2016

Source: Source: State Bank of Pakistan and Debt Policy Coordination Office , Ministry of Finance

8.5 Going forward, there is limited pressure from external debt repayments in the medium term. Projected principal repayments to the IMF against Extended Fund Facility (EFF) are stretched over a longer timeframe, starting at US$ 0.2 billion in 2018 and rising to US$ 0.8 billion in 2020, with the final payment due in 2025. An amount of US$ 0.75 billion due in June 2017 is the only Eurobond maturing until 2019. Repayments for Official Development Assistance from the Paris Club began in 2016, but over a 23-year period. The projected external public debt repayments based on outstanding as on June 30, 2016 is presented through the graph below:



8 (ii) Performance of Pakistan Eurobonds

8.6 The issuance of Eurobonds has great significance for Pakistan as it not only introduced Pakistan back in the international capital market but also allowed access to foreign resources for building country's reserves that paved the way for exchange rate stability. The issuance of Eurobonds provided much needed support to foreign exchange reserves of the country and prevented exchange rate instability. Further, the proceeds from Eurobonds were utilized to retire the expensive domestic debt.

8.7 Pakistan successfully returned to international capital markets in September, 2015 through the issuance of US$ 500 million Eurobonds, for which there were offers worth US$ 2.3 billion. Around 87 percent of the subscription for bond came from investment funds, 12 percent from banks and financial institutions and 1 percent from pension funds. In terms of geographical spread, 38 percent of subscription is from North America, 38 percent from UK, 12 percent from Europe and 12 percent from Asia. The new bond was a substitution of domestic borrowing with lower cost of around 108 basis points compared with the yield of PIBs at that time. In October 2016, the government also successfully priced a 5-year US$ 1,000 million Sukuk at the rate of 5.5 percent, the lowest rate ever achieved by the government in the international capital market. The investor response was overwhelmingly strong as order-books witnessed solid momentum from the start with strong demand from international investor community and reached over US$ 2,400 million.

8.8 Pakistan's international Eurobonds have traded well after issuance and levels have remained relatively stable since the start of 2015, other than impact from broad based market wide volatility. The Pakistan 16s, 17s, 19s, 21s, 24s and 25s have mostly traded at a premium since May 2014 and CDS levels, though volatile, have been on a downward trajectory. While yields in secondary market have increased somewhat in November 2016 due to external factors, markets remain accessible for an emerging market credit like Pakistan as illustrated by 7 successful issuances since April-2014.

Table-10: Secondary Trading Levels:

Bond	Ratings			Maturity	Size ($ in million)	Coupon (%)	Price	Yield (%)
	M	S&P	F					
EM Sovereign Bonds								
Pakistan	B3	B	--	Jun-17	750	6.875	104.7	3.85
Pakistan	B3	B	--	Apr-19	1,000	7.250	105.6	4.93
Pakistan (Sukuk)	B3	B	--	Dec-19	1,000	6.750	105.3	4.93
Pakistan (Sukuk)	B3	B	B	Oct-21	1,000	5.500	101.0	5.35
Pakistan	B3	B	--	Apr-24	1,000	8.250	109.2	6.75
Pakistan	B3	B	B	Sep-25	500	8.250	109.4	6.87
Pakistan	B3	B	--	Mar-36	300	7.875	98.1	8.17

Source: Bloomberg, November 23, 2016

International Yield Environment:

8.9 In United States, GDP growth is expected to be around 1.5 percent in 2016 rising to above 2 percent in 2017. The recent Presidential Elections have changed the expectation of inflation in the US along with a repercussion on US treasuries. The long end of the treasury curve is seen to have been oversold following the election result. The Fed is expected to hike its benchmark rate in December, and gradually thereafter. Nonetheless, UST rates are still near all-time lows.

8.10 In CEEMEA, new issuances have picked up significantly in 2016 compared to the last 2 years, driven by sovereign issues from the Middle East which peaked in October 2016. Tenor bucket under 5-years saw the most activity in the region.

8 (iii) - Currency Movements and Revaluation Impact

8.11 In Pakistan, external loans are contracted in various currencies but disbursements are effectively converted into Pak Rupee. As Pak Rupee is not an internationally traded currency, the other currencies are bought and sold via selling and buying of US Dollar. Hence, the currency exposure of foreign debt originates from two sources: US Dollar/other foreign currencies and Pak Rupee/US Dollar. This two pronged exchange rate risk has been a major source of fluctuation in the stock of public external debt over a period of time in contrast to actual inflows.

8.12 During 2015-16, depreciation of US Dollar against other major currencies resulted in increase in foreign currency component of public debt mainly driven by Japanese Yen which posted an appreciation of around 20 percent against the US dollar during the year. Further, depreciation of Pak Rupee against US Dollar by 3 percent led to further increase in external public debt in Pak Rupee terms. During the first quarter of 2016-17, slight depreciation of US Dollar against other international currencies resulted in increase in external public debt in US Dollar terms, however, appreciation of Pak Rupee against US Dollar more or less offset that increase.

8.13 The Pak Rupee depreciated against the US Dollar on average by 4.1 percent per annum from 2011-12 to 2015-16, resulting in an increase in Pakistan's external debt in local currency. Pakistan's loss on foreign currency debt is mitigated by the concessional terms (low servicing costs and extended maturities) associated with its external loans such that the cost of adverse currency movements and existing external debt rates is still lower than the cost of domestic debt. Accordingly, the Government's policy is to increase the share of external debt in public debt portfolio as envisaged in MTDS. Further, the government undertook hedging on limited scale during 2015-16 to minimize the risk of its short term external public debt portfolio emanating from adverse movement of other foreign currencies against US Dollar.

8 (iv) - External Debt Sustainability

8.14 The external debt sustainability can be assessed with two types of indicators; (i) solvency indicators and (ii) liquidity indicators. Solvency indicator such as external debt-to-GDP ratio shows debt bearing capacity while liquidity indicators such as external debt servicing to foreign exchange earnings ratio shows debt servicing capacity of the country.

Table-11: External Debt Sustainability Indicators

(In percent)	2011	2012	2013	2014	2015	2016
ED/FEE (times)	1.2	1.1	1.0	1.0	1.0	1.1
ED/FER (times)	3.0	3.5	4.4	3.6	2.7	2.5
ED/GDP (Percentage)	25.9	23.8	20.8	21.0	18.8	20.4
ED Servicing/FEE (Percentage)	6.3	7.4	11.1	11.7	8.5	8.4

FEE: Foreign Exchange Earnings; ED: External Public Debt; FER: Foreign Exchange Reserves
Source: Debt Policy Coordination Office, Ministry of Finance

8.15 External public debt to GDP ratio increased from 18.8 percent at the end of 2014-15 to 20.4 percent at the end of 2015-16. Apart from next external inflows, translational losses on account of depreciation of US Dollar against other foreign currencies contributed to increase in this ratio. However, external debt to GDP ratio of 20.4 percent is still lower when compared with 20.8 percent recorded at the end of June 2013. Similarly, ED to FEE ratio increased slightly and recorded at 1.1 times at the end of June, 2016 as compared with 1 times at the end of preceding fiscal year.

8.16 A decrease in external debt in relation to foreign exchange reserves reflects the consolidation of foreign exchange reserves and a general improvement of the country's repayment capacity or vice versa. This ratio started improving since

2013-14 and recorded at 2.7 times in 2014-15 as compared with 4.4 times at the end of 2012-13. This ratio improved further and recorded at 2.5 times as at end June, 2016 despite increase in external public debt which shows that growth in foreign exchange reserves outpaced the growth in external public debt in 2015-16.

8.17 A pragmatic and realistic approach is to measure the net external indebtedness of the country which is the difference between external public debt and official FX reserves. As at end June 2013, the SBP FX reserves were around US$ 6 billion, out of which US$ 2 billion were through short term FX swap with a friendly country maturing in less than 60 days. Therefore, practically SBP FX reserves were US$ 4 billion as at end June 2013 against which external public debt stood at US$ 48.1 billion, thus net external indebtedness on June 30, 2013 was US$ 44.1 billion. As at end June 2016, the FX reserves of SBP were US$ 18.1 billion and external public debt stood at US$ 57.7 billion, thus net external indebtedness was US$ 39.60 billion. Therefore, net external indebtedness of the country improved by US$ 4.50 billion as compared with end June 2013.

8.18 External public debt servicing to foreign exchange earnings ratio dropped to 8.5 percent in 2014-15, from 11.7 percent in 2013-14 due to decline in external debt repayments coupled with strong growth in the remittance. This ratio improved further and recorded at 8.4 percent during 2015-16 mainly on account of decline in external public debt servicing while foreign exchange earnings slightly dropped.

8.19 IMF recent debt sustainability analysis shows that external debt would remain on a downward trajectory over the medium term, with the peak in external financing needs under the most stressed scenario (3.7 percent of GDP) staying well below the IMF risk assessment benchmark of 5 percent of GDP. Further, credit rating agencies in their recent reports acknowledged this fact that Pakistan external debt is on sustainable path and there is very little exposure to medium term vulnerabilities.

9.0 Progress on Medium Term Debt Management Strategy (2015/16 - 2018/19)

9.1 It is imperative to have a comprehensive debt management strategy aiming at debt sustainability and enhancing the debt servicing capacity of the country. Owing to its vital importance and indispensable nature, the government updated its MTDS (2015/16-2018/19) which contains a policy advice on an appropriate mix of financing from different sources with the spirit to uphold the integrity of the FRDL Act, 2005. In accordance with the approved strategy, the government was required to lengthen the maturity profile of its domestic debt and mobilize sufficient external inflows in the medium term.

Table-12: Public Debt Cost and Risk Indicators*

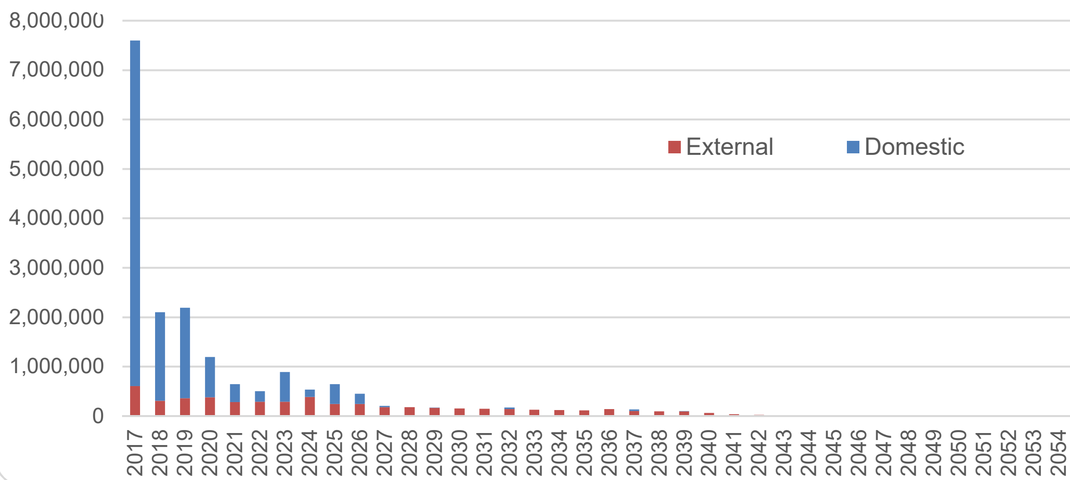
Risk Indicators		Indicative Ranges (MTDS 2015/16 - 2018/19)	External Debt		Domestic Debt		Public Debt	
			2013	2016	2013	2016	2013	2016
Refinancing Risk	Average Time to Maturity (ATM) - Years	1.5 (minimum) and 2.5 - DD 3.0 (minimum) and 4.5 – PD	10.1	8.9	1.8	2.1	4.5	4.1
	Debt Maturing in 1 Year (% of total)	50% and 65% (maximum) - DD 35% and 50% (maximum) – PD	8.9	11.3	64.2	51.9	46.0	40.3
Interest Rate Risk	Average Time to Re-Fixing (ATR) - Years	1.5 (minimum) and 2.5 - DD 3.0 (minimum) and 4.5 – PD	9.2	8.2	1.8	2.1	4.2	3.8
	Debt Re-Fixing in 1 year (% of total)	50% and 65% (maximum) - DD 40% and 55% (maximum) - PD	22.2	23.4	67.2	52.8	52.4	44.4
	Fixed Rate Debt (% of total)	**	83.4	82.6	39.6	61.6	54.0	67.6
Foreign Currency Risk (FX)	Foreign Currency Debt (% of total debt)	20% (minimum) and 35%					32.9	28.6
	Short Term FX Debt (% of reserves)	**					68.5	31.9

* As per modalities of MTDS (2015/16 - 2018/19)
**Not Applicable
PD: Public Debt, DD: Domestic Debt
Source: Debt Policy Coordination Office, Ministry of Finance

9.2 The public debt risk indicators have improved during all four quarters of 2015-16 as well as over the medium term of three years (2013/14-2015/16) and are on track to achieve the targets set under MTDS. Refinancing, interest rate and foreign currency risks of public debt portfolio have been significantly reduced at the end of June, 2016 as compared with end-June, 2013.

9.3 The refinancing risk of the domestic debt was reduced at the end of 2015-16 as domestic debt maturing in one year reduced to 51.9 percent compared with 64.2 percent at the end of 2012-13. This improvement has contributed towards improvement in average time to maturity of domestic debt to 2.1 years at the end of 2015-16 as compared with 1.8 years at the end of 2012-13. However, average time to maturity of external debt decreased to 8.9 years at the end of 2015-16 as compared with 10.1 years at the end of 2012-13. This reduction in average time to maturity of external debt may be mainly attributed to running off the existing long term external debt portfolio over the last three years. The redemption profile of domestic and external debt as at end June 2016 is shown in the graph below:

Fig-14: Redemption Profile of Public Debt at end June 2016 (Rs. in million)



9.4 Government has been able to reduce refinancing risk of its domestic debt as compared with end June 2013, still concentration of repayments over the short term are evident in the redemption profile. Government is making concerted efforts to further reduce the refinancing risk of its domestic debt portfolio through more mobilization in the form of medium to long term domestic debt instruments.

9.5 Exposure to interest rate risk reduced as percentage of debt re-fixing in one year decreased to 44.4 percent at the end of 2015-16 as compared with 52.4 percent at the end of 2012-13. Average time to re-fixing decreased to 3.8 years at the end of 2015-16 as compared with 4.2 years at the end of 2012-13. Fixed rate debt as a percentage of total debt increased to 67.6 percent at the end of 2015-16 as compared with 54 percent at the end of 2012-13 indicating reduced exposure to interest rate changes.

9.6 Around 28.6 percent of total public debt stock was denominated in foreign currency exposing public debt portfolio to exchange rate risk. Currency wise composition of public debt portfolio is depicted through table below:

Table-13: Currency Wise Public Debt[a] (in US$)

Currencies	Percentage
Pak Rupee	71.4
US Dollar	10.8
Special Drawing Right	9.0
Japanese Yen	5.4
Euro	2.1
Others	1.3
Total	**100.0**

[a]As per modalities of MTDS

9.7 The improvement in foreign exchange stability and repayment capacity is evident from the fact that share of external loans maturing within one year was equal to around 31.9 percent of official liquid reserves at the end of 2015-16 as compared with around 68.5 percent at the end of 2012-13.

10.0 Guarantees

10.1 Contingent liabilities of Pakistan are guarantees issued to Public Sector Enterprises (PSEs). The sovereign guarantee is normally extended to improve financial viability of projects or activities undertaken by the government entities with significant social and economic benefits. It allows public sector companies to borrow money at lower costs or on more favorable terms and in some cases allows to fulfill the requirement where sovereign guarantee is a precondition for concessional loans from bilateral/multilateral agencies to sub-sovereign borrowers.

10.2 During 2015-16, the government issued fresh/rollover guarantees aggregating to Rs.191 billion, while, outstanding stock of government guarantees as at end June, 2016 amounted to Rs.721 billion. The share of rupee guarantees increased during past few years and accounted for 87 percent of the total guarantees stock as at end June 2016.

Table-14: Guarantees Outstanding as on June 30, 2016 (Rs. in billion)

Outstanding guarantees extended to PSEs	**721.2**
-Domestic Currency	626.6
-Foreign Currency	94.7
Memo:	
Foreign Currency (US$ in million)	903.1

Source: Debt Policy Coordination Office, Ministry of Finance

Table-15: Entity Wise New Guarantees Issued (2015-16) - (Rs. in billion)

Name of Organization	Amount
SECMC	52.0
NPGCL	35.6
PHPL	32.5
National Power Park Management	20.2
PIA	18.7
NTDC	17.0
SNGPL	15.0
Total	**190.9**
In percent of GDP	**0.6**

Source: Debt Policy Coordination Office, Ministry of Finance

10.3 Guarantees issued against commodity operations are secured against the underlying commodity which are essentially self-liquidating and thus should not create a long term liability for the government. The quantum of these guarantees depends on the supply-demand gap of various commodities, their price stabilization objectives, volume procured, and domestic and international prices. The guarantees were issued against the commodity financing operations undertaken by TCP, PASSCO and provincial governments. As on 30th June 2016, the outstanding stock against commodity operations was Rs.729 billion.

11.0 Report on Compliance with FRDL Act 2005

11.1 The FRDL Act, 2005 requires that the federal government take measures to reduce total public debt and maintain it within prudent limits thereof. Government made amendments in FRDL Act during 2015-16 to provide better operational guidance for fiscal policy making and safeguard debt sustainability over the medium term by imposing certain limits on the federal government budget deficit and public debt to GDP ratio. With these limits, fiscal policy is expected to anchor at a prudent stance, leading to additional gradual consolidation and strengthening long-term debt sustainability.

The following sections identifies the various limits prescribed by the FRDL Act, and reports on progress thereof.

(1) limiting of Federal fiscal deficit excluding foreign grants to four percent of gross domestic product during the three years, beginning from the financial year 2017-18 and maintaining it at a maximum of three and a half percent of the gross domestic product thereafter;

The above clause related to limiting the federal fiscal deficit (excluding grants) to four percent is effective from 2017/18.

(2) ensuring that within a period of two financial years, beginning from the financial year 2016-17, the total public debt shall be reduced to sixty percent of the estimated gross domestic product;

The above clause related to reducing the total public debt to GDP to 60 percent by 2017-18. Gross public debt was recorded at 66.5 percent of GDP while net public debt stood at 60.2 percent of GDP as at end June, 2016. Public debt to GDP ratio witnessed increase in 2015-16 despite reduction in fiscal deficit which was contributed by other non-deficit factors as per the following details:

- Dual revaluation losses on account of depreciation of US Dollar against other foreign currencies and appreciation of US Dollar against Pak Rupee;
- Inflows from the IMF contributed towards increase in public debt despite not being utilized for fiscal deficit financing;

- Increase in credit balances of the government with SBP/commercial banks.

Government is committed to reduce public debt to GDP ratio to 60 percent by 2017-18 as envisaged through amended FRDL Act.

(3) ensuring that within a period of five financial years, beginning from the financial year 2018-19 total public debt shall be reduced by 0.5 percent every year and from 2023-24 and going upto financial year 2032-33 a reduction of 0.75 percent every year to reduce the total public debt to fifty percent of the estimated gross domestic product and thereafter maintaining it to fifty percent or less of the estimated gross domestic product; and";

The debt reduction path in terms of GDP has been envisaged after 2017-18 to reduce the public debt to GDP ratio to 50 percent by 2032-33 and thereafter maintaining it at or below that level.

(4) Not issue "new guarantees, including those for rupee lending, bonds, rates of return, output purchase agreements and all other claims and commitments that may be prescribed, from time to time, for any amount exceeding two percent of the estimated gross domestic product in any financial year: Provided that the renewal of existing guarantees shall be considered as issuing a new guarantee."

During 2015-16, the government issued new guarantees including rollovers amounted to Rs.191 billion or 0.6 percent of GDP.

12.0 Conclusion

12.1 Over the past three years, the government has been able to significantly reduce economic vulnerabilities and implemented various growth-supporting structural reforms under home-grown economic reform program. Economy continues to maintain its growth momentum for the 3rd year in a row with real GDP growing at 4.71 percent in 2015-16 which is the highest in eight years. Government has rebuilt external buffers, contained inflation, and reduced fiscal imbalances while strengthening social safety nets to protect the most vulnerable segment of society. Government also strengthened the resilience and stability of the financial sector and enabled the recovery of credit to the private sector. In parallel, the government strengthened public financial management and tax administration, reduced tax concessions and exemptions and untargeted energy subsidies and began implementing strategies to improve the business climate. Encouragingly, the government successfully completed IMF EFF program which is indicative of government's strong commitment in implementing difficult structural reforms in the areas of taxation, energy, monetary/financial sectors, public sector enterprises etc.

12.2 On public debt management front, critical consideration for the government is to ensure the sustainability of its debt portfolio. In this context, various positive developments were witnessed during last three years which are as follow:

- Necessary amendments in FRDL Act have been incorporated to provide better operational guidance for fiscal policy making and safeguard debt sustainability;
- Government updated its MTDS during 2015-16 to ensure that both the level and rate of growth in public debt is fundamentally sustainable and can be serviced under different circumstances while meeting cost and risks objectives;
- Conducive economic environment coupled with supportive monetary policy provided opportunity for the government to reduce the interest rates on its wholesales debt instruments along with aligning the rates on retail debt instruments with the wholesale market yields;
- Government domestic interest expenditure reduced to 26 percent of total revenue during 2015-16 as compared with 31 percent during last year;
- Cost of domestic debt reduced to single digit while cost of the external debt contracted by present government is not only economical but is also dominated by long term funding;
- Government was able to mostly comply with the IMF ceiling on borrowing from SBP and zero quarterly borrowing limit under the amended SBP Act 1956. Encouragingly, the government was able to fully adhere to these target during 2015-16;

- Government introduced risk reports on debt management to ensure effective monitoring for implementation of its MTDS. Accordingly, main debt sustainability indicators have improved during last three fiscal years, a fact that is acknowledged by global stakeholders.

    - "Refinancing Risk of the Domestic Debt Portfolio" was reduced through lengthening of the maturity profile at the end of June 2016. Percentage of domestic debt maturing in one year was reduced to 51.9 percent compared with 64.2 percent at the end of June 2013;
    - "Exposure to Interest Rate Risk" was also reduced, as the percentage of debt re-fixing in one year decreased to 44.4 percent at the end of June 2016 compared to 52.4 percent at the end of June 2013;
    - "Share of External Loans Maturing within One Year" is equal to around 31.9 percent of official liquid reserves at the end of June 2016 as compared with around 68.5 percent at the end of June 2013 indicating improvement in foreign exchange stability and repayment capacity;

12.3 Government is committed to accomplish objectives outlined in FRDL Act, 2005. Going forward, the prime objectives of public debt management include: (i) fulfilling the financing needs of the government at the lowest possible cost, consistent with prudent degree of risk; (ii) broadening the investor base and have a well-functioning domestic debt capital market; (iii) lengthening of maturity profile of its domestic debt portfolio to reduce the re-financing and interest rate risks; and (iv) mobilization of concessional external financing to enhance potential output by promoting efficiency and productivity, thus, simultaneously adding to the debt repayment capacity of the country. Further, it is important for the government to adopt an integrated approach for economic revival and debt reduction which will require trade-offs in the short-term, thus implementing structural reforms that boost potential growth which is a key to ensure public debt sustainability.