

# **DEBT POLICY STATEMENT**

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## **JANUARY 2022**



Debt Policy Coordination Office  
Ministry of Finance



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### 1.0 Introduction

- 1.1 Government borrowing remains a vital part of financing mechanism for developing countries like Pakistan. Most sovereigns across the globe and most economies world-wide rely on debt inflows to fulfill the shortfall in available resources to fund government's spending requirements. Borrowed funds are at times also required for resource-intensive infrastructure projects, which are geared towards facilitating economic growth and achieving social development goals.
- 1.2 During FY 2020-21, the fallout from COVID-19 continued to exert pressure on finances of the government. However, despite challenging macroeconomic environment, Pakistan's Debt to GDP ratio witnessed a reduction of 4.7 percentage points and stood at 71.8 percent at end-Jun 21 compared with 76.5 percent a year earlier. This improvement was mainly due to continued fiscal consolidation efforts of the government and exchange rate gain on account of appreciation of Pak Rupee against US Dollar. Despite significant improvement, this ratio still remained higher than the threshold of 59 percent to be achieved by FY 2020-21 as stipulated in Fiscal Responsibility and Debt Limitation (FRDL) Act. Going forward, this ratio is expected to reduce further on the back of government commitment to run primary surpluses and promote measures that support higher long-term economic growth. With narrower fiscal deficit, public debt is projected to enter a firm downward path towards envisioned levels.
- 1.3 International comparison also shows that Pakistan has performed much better in terms of managing its debt burden during pandemic as Debt to GDP ratio is projected to increase by 18 percentage points for advanced economies, 10 percentage points for emerging markets and 6 percentage points for low-income developing countries from their pre-pandemic levels<sup>1</sup> while Pakistan's Debt to GDP ratio witnessed an overall decline of 2.8 percentage points from its pre-pandemic levels.
- 1.4 During FY 2020-21, various positive developments were witnessed with respect to debt management, some of them are highlighted below:
- Around 73 percent of the net borrowing from domestic sources was through long-term domestic debt (Pakistan Investment Bonds and Government Ijara Sukuks);
  - Short-term debt as percentage of total domestic debt has decreased to around 25 percent at end-June 2021 compared with 54 percent at end-June 2018, leading to significant improvement in maturity profile of domestic debt during last few years;

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<sup>1</sup> <https://www.imf.org/-/media/Files/Publications/fiscal-monitor/2021/October/English/ch2.aspx>

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- In-line with the government's commitment, no new borrowing was made from State Bank of Pakistan (SBP). In fact, government repaid Rs 569 billion during the year against its debt owed to SBP;
- Prize bonds of denominations Rs 25,000, Rs 15,000 and Rs 7,500 were withdrawn from circulation in order to improve the documentation of the economy. The holders have been given options to (i) convert to premium prize bonds; or (ii) replace them with eligible National Savings Certificates; or (iii) encash at face value into their bank accounts;
- All institutional investors were barred from investing in National Savings Schemes (NSS) with the objective to deepen the financial markets and lower the government's borrowing costs by creating more competition for long-term government debt;
- Debt from multilateral and bilateral sources cumulatively constituted around 78 percent of external public debt portfolio at end-June 2021. A set of reforms initiated by the government to improve the economy has brought strong support from multilateral development partners during last two years. This is expected to strengthen confidence and catalyse additional support from development partners in the coming years which will also help in reducing the pressure on domestic sources;
- Pakistan entered the international capital market after a gap of over three years by successfully raising USD 2.5 billion through a multi-tranche transaction of 5-, 10- and 30-year Eurobonds. The transaction generated great interest as leading global investors from Asia, Middle East, Europe and the US participated in the global investor calls and the order book. This was for the first time that Pakistan has adopted a program-based approach with registration of Global Medium-Term Note (GMTN) program. The program will allow Pakistan to tap the market at short notice. Government intends to make full use of this program and become a regular issuer in the International Capital Markets;
- Pakistan is availing the G-20 Debt Service Suspension Initiative (DSSI) for a period of 20-months (May 2020 - December 2021) which will help to defer the debt servicing to the tune of around USD 3.7 billion during this period;
- Government introduced various new instruments to further develop the domestic securities market, attract more diversified investor base and to provide more flexibility and options to the investors as well as to the government;
  - Government started issuance of 5-Year Sukuk with fixed rate rental payments from July 2020;

- Similar to conventional bond, government introduced re-opening mechanism in Sukuk auctions in July 2020 to increase liquidity of the Sukuk;
- Government started issuance of 3-, 5- and 10-Year floating rate PIBs with quarterly coupon payment frequency from October 2020; and
- Government introduced 2-Year floating rate PIBs in November 2020 with quarterly coupon payment frequency and fortnightly interest rate re-setting.

### 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:

(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 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 Review of Public Debt

3.1 Fiscal Responsibility and Debt Limitation Act 2005 defines "Total Public Debt" as debt owed by government (including Federal Government and Provincial Governments) serviced out of consolidated fund and debts owed to the International Monetary Fund.

**Table-1: Total Public Debt** (Rs in billion)

|  | Jun-2020      | Jun-2021      | Sep-2021      |
|--|---------------|---------------|---------------|
| Domestic Debt  | 23,283        | 26,265        | 26,444        |
| External Debt  | 13,116        | 13,595        | 15,022        |
| <b>Total Public Debt</b>                                 | <b>36,399</b> | <b>39,861</b> | <b>41,466</b> |
| <b>Total Debt of Government<sup>1</sup></b>              | <b>33,235</b> | <b>35,753</b> | <b>37,160</b> |
| <b>Debt Ratios</b>                                       |               |               |               |
| Total Public Debt as percentage of GDP                   | 76.6          | 71.8          | -             |
| Total Debt of Government as percentage of GDP            | 69.9          | 64.4          | -             |
| <b>Memorandum Items</b>                                  |               |               |               |
| GDP (current market price)                               | 47,522        | 55,488        | -             |
| Government deposits with the banking system <sup>2</sup> | 3,153         | 4,108         | 4,306         |
| US Dollar, last day average exchange rates               | 168.2         | 157.3         | 170.7         |

1. As per Fiscal Responsibility and Debt Limitation Act, 2005 amended in June 2017, "Total Debt of the Government" means the debt of the government (including the Federal Government and the Provincial Governments) serviced out of the consolidated fund and debts owed to the IMF less accumulated deposits of the Federal and Provincial Governments with the banking system.

2. Accumulated deposits of the Federal and Provincial Governments with the banking system.

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

**Table-2: Component Wise Increase in Total Public Debt** (Rs in billion)

|                                      | Jun-2020      | Jun-2021      | Change       |
|--------------------------------------|---------------|---------------|--------------|
| <b>Total Public Debt</b>             | <b>36,395</b> | <b>39,861</b> | <b>3,462</b> |
| <b>Reasons for Increase:</b>         |               |               |              |
| Financing of Federal Primary Deficit |               |               | 967          |
| Interest on Debt                     |               |               | 2,750        |
| Exchange Rate Devaluation Effect     |               |               | (665)        |
| Cash Buffer / Other Reasons          |               |               | 409          |

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

3.2 Total public debt was Rs 39,861 billion at end-June 2021, recording an increase of Rs 3,462 billion during FY 2020-21. Component wise break-up of this increase was as follows:

- Government borrowing for financing of federal primary deficit was Rs 967 billion, which is lower than the federal primary deficit of last fiscal year. This improvement was supported by increase in tax collection and slowdown in growth of non-interest current spending. The slowdown in non-interest spending was primarily driven by expenditure rationalization measures taken by the government. These measures have also helped to create the fiscal space for undertaking spending on targeted subsidies, additional

spending on health sector, providing social safety nets to protect the vulnerable segments of the society and created additional room for fiscal stimulus package in wake of downturn witnessed as a result of the pandemic;

- The other main reason for accumulation of debt was interest payments amounting to Rs 2,750 billion. Interest servicing remained lower than its budgeted allocation of Rs 2,946 billion, primarily due to reduction in domestic and international interest rates and relief availed in the form of Debt Service Suspension Initiative;
- The impact of exchange rate was favourable which reduced the rupee value of external public debt by Rs 665 billion; and
- Rest of the increase in public debt was mainly due to increase in cash balances of the Federal Government. In wake of government's commitment to zero borrowing from SBP, a cash buffer was being maintained to meet the short-term liquidity needs. The size of the cash buffer varied as per the liquidity requirements.

#### 4.0 Domestic Debt

4.1 Domestic debt was recorded at Rs 26,265 billion at end-June 2021. Despite challenging macroeconomic situation, domestic borrowing operations remained quite successful as highlighted below:

- Around 73 percent of the net borrowing from domestic sources was through medium-to-long-term domestic debt. This was in-line with Medium Term Debt Strategy of the country whereby it was envisaged to lengthen the maturity profile of public debt and reduce the gross financing needs;
- Government diversified its funding sources by introducing several new instruments during the year as highlighted in section 1;
- Various reforms were undertaken in Central Directorate of National Savings (CDNS) including:
  - Institutional Investors were barred from investing in National Savings Schemes;
  - Prize Bonds of various denominations were withdrawn from the circulation.
- Entire borrowing from domestic sources was made from the financial markets, with no new borrowing from SBP; and
- Apart from meeting government funding needs, re-introduction of Sharia compliant domestic Sukuk program also helped to support the Islamic

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Banking Industry while providing additional avenue to the investors preferring Shariah compliant investments.

**Table-3: Domestic Debt Stock** (Rs in billion)

|                                       | Jun-2020      | Jun-2021      | Sep-2021      |
|---------------------------------------|---------------|---------------|---------------|
| <b>(1) Permanent Debt</b>             | <b>14,031</b> | <b>15,911</b> | <b>15,844</b> |
| Prize Bonds                           | 734           | 444           | 385           |
| Pakistan Investment Bonds (PIB)       | 12,886        | 14,590        | 14,581        |
| Government Ijara Sukuk                | 198           | 665           | 665           |
| Bai-Muajjal of Sukuk                  | 201           | 201           | 201           |
| Other                                 | 11            | 11            | 11            |
| <b>(2) Floating Debt</b>              | <b>5,578</b>  | <b>6,680</b>  | <b>6,931</b>  |
| Market Treasury Bills                 | 5,576         | 6,677         | 6,928         |
| MTBs for Replenishment                | 3             | 3             | 3             |
| <b>(3) Unfunded Debt</b>              | <b>3,674</b>  | <b>3,646</b>  | <b>3,632</b>  |
| Defense Saving Certificates           | 486           | 477           | 475           |
| Special Savings Certificates          | 428           | 421           | 403           |
| Regular Income Certificates           | 573           | 600           | 605           |
| Behbood Savings Certificates          | 998           | 1,000         | 1,003         |
| Special Savings Accounts              | 617           | 581           | 571           |
| Pensioners' Benefit Account           | 352           | 369           | 373           |
| Postal Life Insurance Schemes         | 49            | 47            | 47            |
| GP Fund                               | 102           | 101           | 100           |
| Other                                 | 69            | 50            | 53            |
| <b>(4) Naya Pakistan Certificates</b> | <b>-</b>      | <b>28</b>     | <b>37</b>     |
| <b>Total Domestic Debt (1+2+3+4)</b>  | <b>23,283</b> | <b>26,265</b> | <b>26,444</b> |

Source: State Bank of Pakistan

**Table-4: Domestic Debt Flows (FY 2020-21)** (Rs in billion)

|                            | Opening Stock<br>(01-07-2020) | Inflows       | Outflows        | Net Flows    | Closing Stock<br>(30-06-2021) |
|----------------------------|-------------------------------|---------------|-----------------|--------------|-------------------------------|
| Treasury Bills*            | 5,576                         | 14,525        | (13,423)        | 1,101        | 6,677                         |
| Pakistan Investment Bonds* | 12,886                        | 2,661         | (957)           | 1,704        | 14,590                        |
| GOP Ijara Sukuk            | 399                           | 467           | -               | 467          | 866                           |
| National Saving Schemes**  | 4,408                         | 973           | (1,291)         | (318)        | 4,090                         |
| Other***                   | 14                            | 34            | (5.8)           | 28           | 42                            |
| <b>Total</b>               | <b>23,283</b>                 | <b>18,660</b> | <b>(15,677)</b> | <b>2,982</b> | <b>26,265</b>                 |

\* Inflows for T-Bills and PIBs have been adjusted for the Non-Resident Investment which are reflected in External Public Debt

\*\* Including Prize bonds

\*\*\* Includes Naya Pakistan Certificates, Special U.S. Dollar Bonds, Market Loans, Government Bonds and Others

Source: State Bank of Pakistan, Central Directorate of National Savings and Debt Policy Coordination Office

### 5.0 External Debt

5.1 External public debt was USD 86.4 billion at end-June 2021, witnessing a net increase of around USD 8.4 billion during the year. Apart from net external inflows, the increase in external public debt was explained by revaluation losses due to the depreciation of US Dollar against other international currencies, which inflated the value of external debt in Dollar terms (please refer section

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5(iii) for details). Overall, bifurcation of increase in external public debt reveals following information:

- Debt from multilateral and bilateral sources increased by USD 3.5 billion. These loans were obtained primarily to support the spending on infrastructure projects and social sector. These loans were mostly contracted on favorable terms (low cost and longer tenor);
- Pakistan raised USD 2.5 billion through a multi-tranche transaction of 5-, 10- and 30-year Eurobonds under its first ever Global Medium-Term Note Program;
- Commercial loans increased by USD 1.5 billion, which were obtained from foreign commercial banks;
- Net amount of USD 0.9 billion was added through non-resident investments in Government Securities, Naya Pakistan Certificates, and Pakistan Banao Certificates.

**Table-5: External Public Debt** (USD in million)

|                                    | Jun-2020      | Jun-2021      | Sep-2021      |
|------------------------------------|---------------|---------------|---------------|
| <b>External Public Debt (i+ii)</b> | <b>77,994</b> | <b>86,424</b> | <b>88,023</b> |
| <b>i) Long term (&gt;1 year)</b>   | <b>76,453</b> | <b>85,566</b> | <b>86,733</b> |
| Paris Club                         | 10,924        | 10,726        | 10,344        |
| Multilateral                       | 38,578        | 41,220        | 41,273        |
| Other Bilateral                    | 13,428        | 14,821        | 14,887        |
| Euro/Sukuk Global Bonds            | 5,300         | 7,800         | 8,800         |
| Commercial Loans/Credits           | 8,068         | 9,696         | 9,836         |
| Local Currency Securities (PIBs)   | 96            | 465           | 409           |
| NBP/BOC deposits/PBC/NPC*          | 59            | 840           | 1,184         |
| <b>ii) Short term (&lt;1 year)</b> | <b>1,542</b>  | <b>858</b>    | <b>1,289</b>  |
| Multilateral                       | 814           | 506           | 979           |
| Local Currency Securities          | 586           | 352           | 311           |
| Commercial Loans/Credits           | 141           | -             | -             |

\* PBC: Pakistan Banao Certificates, NPC: Naya Pakistan Certificates

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

5.2 Pakistan's external debt is derived from four key sources, with around 48 percent coming from multilateral loans, 30 percent from bilateral loans, 9 percent from Eurobonds/Sukuk and 13 percent from commercial loans. Although borrowing from commercial sources has relatively increased during the last few years, multilateral and bilateral sources still cumulatively constituted 78 percent of external public debt portfolio at end-June 2021.

### 5 (i) Debt Service Suspension Initiative (DSSI)

- 5.3 Pakistan continued to avail the DSSI during FY 2020-21. This time-bound suspension of debt service was approved in April 2020 by G20 countries to minimize economic and social damage caused by the Pandemic, restore economic growth, maintain market stability and strengthen resilience of developing countries.
- 5.4 During FY 2020-21, the restructuring amount was around USD 2.3 billion. In April 2021, G20 extended the DSSI for third time till end-Dec 2021, whereby all relevant bilateral countries agreed to suspend principal and interest payments for another 6-month period starting from 1st July 2021 till 31st December 2021. The repayment period for this restructuring is six years including one year grace period. In DSSI-III, Pakistan would be able to defer around USD 1.05 billion through this arrangement, resulting in total rescheduling of USD 3.7 billion under this initiative for a period of May 2020 - December 2021.

### 5 (ii) - Analysis of External Public Debt Inflows and Outflows

- 5.5 Gross external disbursements were USD 13.3 billion during FY 2020-21. The details of gross external inflows from main sources were as follows:
- Disbursements from multilateral sources were recorded at USD 4.8 billion. Out of this, USD 2.0 billion were received from World Bank, USD 1.3 billion from Asian Development Bank (ADB), USD 0.6 billion from Islamic Development Bank (IDB) and USD 0.5 billion from IMF after completion of 2<sup>nd</sup> to 5<sup>th</sup> review on account of ongoing Extended Fund Facility, whereas, USD 0.3 billion was disbursed from other multilateral development partners. Within multilateral sources, disbursements from ADB, WB and IMF constituted 81 percent of total disbursements;
  - Disbursements from bilateral sources were USD 1.3 billion. Out of this, USD 1.0 billion was received against SAFE Chir'a Deposits;
  - Gross inflows from International Capital Markets were recorded at USD 2.5 billion which were raised in April 2021 through a multi-tranche transaction of 5-year (USD 1.0 billion), 10-year (USD 1.0 billion) and 30-year (USD 0.5 billion) Eurobonds;
  - Government received USD 4.7 billion from commercial banks. These commercial loans were mostly obtained to refinance the existing maturities while incremental flows were mainly for balance of payments support.

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- 5.6 External public debt repayments were recorded at USD 6.9 billion during FY 2020-21 compared with USD 9.0 billion in the preceding fiscal year. This decrease was mainly on the back of DSSI debt deferment and no repayments against Eurobonds/International Sukuks. The source wise details of external public debt inflows and outflows are depicted in the table below:

**Table-6: Source Wise External Inflows and Outflows** (USD in million)

|                                    | Jul 19 - Jun 20 | Jul 20 - Jun 21 | Jul 21 - Sep 21 |
|------------------------------------|-----------------|-----------------|-----------------|
| <b>DISBURSEMENTS</b>               |                 |                 |                 |
| Multilateral                       | 8,329           | 4,809           | 1,565           |
| Bilateral                          | 1,398           | 1,275           | 78              |
| Bonds                              | -               | 2,500           | 1,000           |
| Commercial/Short Term              | 3,347           | 4,717           | 458             |
| <b>Total Inflows (A)</b>           | <b>13,074</b>   | <b>13,301</b>   | <b>3,101</b>    |
| <b>REPAYMENTS</b>                  |                 |                 |                 |
| Multilateral                       | 2,199           | 2,634           | 711             |
| Bilateral                          | 783             | 100             | 16              |
| Bonds                              | 1,000           | -               | -               |
| Commercial/Short Term              | 5,061           | 4,201           | 315             |
| <b>Total Repayments (B)</b>        | <b>9,043</b>    | <b>6,935</b>    | <b>1,042</b>    |
| <b>Net Inflows (A-B)</b>           | <b>4,031</b>    | <b>6,366</b>    | <b>2,059</b>    |
| <b>INTEREST PAYMENTS</b>           |                 |                 |                 |
| Multilateral                       | 637             | 598             | 141             |
| Bilateral                          | 484             | 115             | 30              |
| Bonds                              | 396             | 362             | 32              |
| Commercial/Short term              | 515             | 378             | 115             |
| <b>Total Interest Payments (C)</b> | <b>2,032</b>    | <b>1,453</b>    | <b>318</b>      |
| <b>Total Debt Servicing (B+C)</b>  | <b>11,075</b>   | <b>8,388</b>    | <b>1,360</b>    |

Above data excludes disbursements from NPC, PBC and non-resident investment in government domestic securities

Source: Economic Affairs Division and State Bank of Pakistan

### 5 (iii) - Currency Movements and Revaluation Impact

- 5.7 Following factors influenced the movement in external public debt stock during FY 2020-21 apart from net inflows:
- In US Dollar terms, revaluation loss owing to depreciation of US Dollar against other international currencies increased the external public debt. More than one-half of the revaluation losses were due to the appreciation of the SDR against the US Dollar.
  - Pak Rupee appreciated by 6 percent against US Dollar during the year which led to decrease in external public debt when reported in Pak Rupee terms.

**6.0 Progress on Medium-Term Debt Management Strategy (2020 - 2023)**

6.1 Certain indicative ranges were defined in Pakistan's Medium-Term Debt Management Strategy (MTDS) (2019/20 - 2022/23) to monitor the risks of total public debt portfolio and ensure its sustainability. The progress on MTDS during FY 2019-20 and FY 2020-21 are depicted in the table below:

**Table-7: Indicative Benchmarks and Targets for Key Risk Indicators**

| Risk Exposure    | Indicators  | Indicative Benchmarks (FY20-FY23) | (2019-20) |        | (2020-21) |        |
|------------------|---|-----------------------------------|-----------|--------|-----------|--------|
|                  |   |                                   | Target    | Actual | Target    | Actual |
| Currency Risk    | Share of External Debt in Total Public Debt                   | 40% (Maximum)                     | -         | 36     | -         | 34     |
| Refinancing Risk | ATM of Domestic Debt (Years)                                  | 3.5 (Minimum)                     | 4.0       | 4.1    | 4.0       | 3.6    |
|                  | ATM of External Debt (Years)                                  | 6.5 (Minimum)                     | 7.0       | 7.0    | 7.0       | 6.8    |
|                  | Gross Financing Needs (% of Total)                            | 35% (Maximum)                     | 32        | 31     | 30        | 28     |
|                  | Share of Shariah Compliant Instruments in Govt Securities (%) | -                                 | 2.0       | 2.0    | 5.0       | 3.9    |
|                  | Share of Fixed Rate Debt in Govt Securities (%)               | 25% (Minimum)                     | 30        | 34     | 30        | 30     |

Source: Debt Policy Coordination Office, Ministry of Finance

6.2 As evident from the table above, the government remained within the stated benchmarks of risk indicators during FY 2020-21. However, few annual targets set for FY 2020-21 with respect to debt risk indicators were slightly missed mainly due to the following reasons:

- Higher than envisaged federal fiscal deficit;
- Lower than planned issuance of Sukuks;
- Net retirement in NSS stock mainly due to encashments of prize bonds;
- Non-materialization of envisaged privatization proceeds;
- Running-off of existing external public debt portfolio and slightly higher mobilization from commercial sources (Foreign Commercial Banks/Eurobonds); and
- The need to build the cash-buffer in anticipation of upcoming maturities.

**7.0 Guarantees**

7.1 Government guarantees are generally extended to Public Sector Enterprises (PSEs) to improve financial viability of projects or activities undertaken by the government entities with significant social and economic benefits. Following table contains details of government guarantees stock:

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**Table-8: Government Guarantees Stock** (Rs in billion)

|  | Jun-2020 | Jun-2021 | Sep-2021 |
|--|----------|----------|----------|
| <b>Outstanding guarantees extended to PSEs</b> | 2,344    | 2,407    | 2,472    |
| - Domestic Currency                            | 1,631    | 1,564    | 1,564    |
| - Foreign Currency                             | 713      | 843      | 908      |
| <b>Memo:</b>                                   |          |          |          |
| Foreign Currency (US\$ in billion)             | 4.2      | 5.4      | 5.3      |

Source: Relevant Public Sector Enterprises and Debt Policy Coordination Office, Ministry of Finance

7.2 The volume of new government guarantees issued during a financial year is limited under Fiscal Responsibility and Debt Limitation Act at 2 percent of GDP. This limit is applicable on guarantees issued both in local and foreign currencies. During FY 2020-21, the government issued new guarantees including rollovers amounting to Rs 105 billion or 0.2 percent of GDP.

**Table-9: Details of Government Guarantees** (Rs in billion)

|                            | Jun-20     |            | Jun-21     |            | Sep-21     |            |
|----------------------------|------------|------------|------------|------------|------------|------------|
|                            | Rs billion | \$ billion | Rs billion | \$ billion | Rs billion | \$ billion |
| <b>Sector Wise Breakup</b> |            |            |            |            |            |            |
| <b>Outstanding Stock</b>   | 2,344      | 13.95      | 2,407      | 15.28      | 2,472      | 14.49      |
| - Power Sector             | 1,961      | 11.67      | 1,999      | 12.69      | 2,055      | 12.04      |
| - Aviation                 | 204        | 1.21       | 210        | 1.33       | 214        | 1.26       |
| - Financial                | 66         | 0.39       | 66         | 0.42       | 66         | 0.38       |
| - Manufacturing            | 45         | 0.27       | 45         | 0.29       | 45         | 0.27       |
| - Oil & Gas                | 60         | 0.36       | 50         | 0.32       | 50         | 0.29       |
| - Others                   | 8          | 0.05       | 37         | 0.23       | 42         | 0.25       |
| <b>Entity Wise Breakup</b> |            |            |            |            |            |            |
| <b>Outstanding Stock</b>   | 2,344      | 13.95      | 2,407      | 15.28      | 2,472      | 14.49      |
| - PHL                      | 1,004      | 5.97       | 930        | 5.90       | 915        | 5.36       |
| - PAEC                     | 630        | 3.75       | 772        | 4.90       | 829        | 4.86       |
| - PIACL                    | 204        | 1.21       | 210        | 1.33       | 214        | 1.26       |
| - Sindh Engro              | 66         | 0.39       | 63         | 0.40       | 69         | 0.41       |
| - NTDC                     | 54         | 0.32       | 59         | 0.37       | 58         | 0.34       |
| - Others                   | 386        | 2.30       | 373        | 2.37       | 388        | 2.27       |
| <b>Interest Rate Type</b>  |            |            |            |            |            |            |
| <b>Outstanding Stock</b>   | 2,344      | 13.95      | 2,407      | 15.28      | 2,472      | 14.49      |
| - Floating Rate            | 1,724      | 10.26      | 1,649      | 10.47      | 1,653      | 9.68       |
| - Fixed Rate               | 620        | 3.69       | 757        | 4.81       | 820        | 4.80       |

Note: The original maturities of major portion of government guaranteed loans were 5 years and above.

Source: Relevant Public Sector Enterprises and Debt Policy Coordination Office, Ministry of Finance

### 8.0 Recent Updates / Developments

8.1 Following were the highlights of borrowing operations during first half (July - December 2021) of ongoing fiscal year:



- Government retired/repaid portion of T-Bills amounting to Rs 1.0 trillion leading to reduction of short-term maturities in-line with government's commitment to reduce the Gross Financing Needs;
- Government repaid Rs 569 billion against SEP Debt. Cumulative debt retirement to SBP stood at Rs 1.7 trillion from July 2019 to December 2021;
- Within domestic debt, government relied on long-term domestic debt securities for financing of its fiscal deficit and repayment of domestic maturities;
- Within external debt, inflows from multilateral and bilateral development partners remained major sources of funding. In addition, Pakistan re-entered the International Capital Markets and successfully raised USD 1 billion in July 2021 through multi-tranche tap issuance of 5-, 10- and 30-year Eurobonds. These bonds were issued at premium;
- Government repaid USD 1 billion against maturing International Sukuks in October 2021; and
- Government utilized IMF allocated SDR equivalent to Rs 475 billion to support its budgetary operations.

### 9.0 Conclusion

- 9.1 Over the medium-term, Pakistan's strategy to reduce its debt burden to a sustainable level includes commitment to run primary surpluses, promote measures that support higher long-term economic growth and efficient/productive utilization of debt. With narrower fiscal deficit, public debt is projected to enter a firm downward path while government's efforts to improve maturity structure will enhance public debt sustainability.
- 9.2 Government is committed to accomplish objectives outlined in FRDL Act, 2005. Going forward, the prime objectives of public debt management remain: (i) fulfilling the financing needs of the government at the lowest possible cost, consistent with prudent degree of risk; (ii) reduce its "Gross Financing Needs (GFN)" through various measures; (iii) broadening the investor base and have a well-functioning domestic debt capital market; (iv) lengthening of maturity profile of its domestic debt portfolio to reduce the re-financing and interest rate risks; and (v) mobilization of maximum available concessional external financing to enhance potential output of the economy by promoting efficiency and productivity, thus, simultaneously adding to the debt repayment capacity of the country.

**ANNEXURES**

## Debt Policy Statement - January 2022

### PUBLIC DEBT

#### Currency Composition of Total Public Debt

| Currencies            | Percentage of Total Public Debt |
|-----------------------|---------------------------------|
| Pak Rupee             | 66                              |
| US Dollar             | 18                              |
| Special Drawing Right | 11                              |
| Japanese Yen          | 2                               |
| Others                | 3                               |
| <b>Total</b>          | <b>100</b>                      |

Source: Debt Policy Coordination Office, Ministry of Finance

### DOMESTIC DEBT

#### Instrument-Wise Composition of Domestic Debt

|                 |                       | Jun-19        |              | Jun-20        |              | Jun-21        |              |
|-----------------|-----------------------|---------------|--------------|---------------|--------------|---------------|--------------|
|                 |                       | Rs billion    | \$ billion   | Rs billion    | \$ billion   | Rs billion    | \$ billion   |
| <b>I+II+III</b> | <b>Domestic Debt</b>  | <b>20,732</b> | <b>127.1</b> | <b>23,283</b> | <b>138.5</b> | <b>26,265</b> | <b>167.0</b> |
| <b>I</b>        | <b>Permanent Debt</b> | <b>12,087</b> | <b>74.1</b>  | <b>14,031</b> | <b>83.4</b>  | <b>15,911</b> | <b>101.1</b> |
|                 | - PIBs                | 10,933        | 67.1         | 12,886        | 76.6         | 14,590        | 92.7         |
|                 | - Prize Bonds         | 894           | 5.5          | 734           | 4.4          | 444           | 2.8          |
|                 | - Sukuk               | 249           | 1.5          | 399           | 2.4          | 866           | 5.5          |
|                 | - Others              | 11            | 0.1          | 11            | 0.1          | 11            | 0.1          |
| <b>II</b>       | <b>Floating Debt</b>  | <b>5,501</b>  | <b>33.7</b>  | <b>5,578</b>  | <b>33.2</b>  | <b>6,680</b>  | <b>42.5</b>  |
|                 | - T-Bills             | 5,501         | 33.7         | 5,578         | 33.2         | 6,680         | 42.5         |
| <b>II</b>       | <b>Unfunded Debt</b>  | <b>3,144</b>  | <b>19.3</b>  | <b>3,674</b>  | <b>21.8</b>  | <b>3,674</b>  | <b>23.4</b>  |
|                 | - NSS                 | 2,992         | 18.3         | 3,524         | 21.0         | 3,498         | 22.2         |
|                 | - Others              | 152           | 0.9          | 150           | 0.9          | 176           | 1.1          |

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

#### Creditor-Wise Composition of Domestic Debt

(Rs in billion)

|           |                              | Jun-19        | % of Total           | Jun-20        | % of Total | Jun-21        | % of Total |
|-----------|------------------------------|---------------|----------------------|---------------|------------|---------------|------------|
|           |                              | <b>I+II</b>   | <b>Domestic Debt</b> | <b>20,732</b> | <b>100</b> | <b>23,283</b> | <b>100</b> |
| <b>I</b>  | <b>Government Securities</b> | <b>16,683</b> | <b>80</b>            | <b>18,864</b> | <b>81</b>  | <b>22,137</b> | <b>84</b>  |
|           | - Held by Banks              | 6,931         | 33                   | 9,398         | 40         | 12,770        | 49         |
|           | - Held by SBP                | 7,761         | 37                   | 7,193         | 31         | 6,624         | 25         |
|           | - Held by Non-Banks          | 1,991         | 10                   | 2,273         | 10         | 2,742         | 10         |
| <b>II</b> | <b>Non-Bank Debt</b>         | <b>4,049</b>  | <b>20</b>            | <b>4,419</b>  | <b>19</b>  | <b>4,128</b>  | <b>16</b>  |
|           | - NSS (incl. Prize Bonds)    | 3,886         | 19                   | 4,258         | 18         | 3,942         | 15         |
|           | - Other                      | 63            | 1                    | 161           | 1          | 187           | 1          |

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

## Debt Policy Statement - January 2022

### Maturity Profile of Domestic Debt (Rs in billion)

|                           | Jun-19        | % of Total | Jun-20        | % of Total | Jun-21        | % of Total |
|---------------------------|---------------|------------|---------------|------------|---------------|------------|
| <b>I+II Domestic Debt</b> | <b>20,732</b> | <b>100</b> | <b>23,283</b> | <b>100</b> | <b>26,265</b> | <b>100</b> |
| <b>I Short-Term Debt</b>  | <b>7,565</b>  | <b>36</b>  | <b>6,765</b>  | <b>29</b>  | <b>9,439</b>  | <b>36</b>  |
| - T-Bills                 | 5,501         | 27         | 5,578         | 24         | 6,680         | 25         |
| - Long-Term Debt*         | 2,064         | 10         | 1,187         | 5          | 2,759         | 11         |
| <b>II Long-Term Debt</b>  | <b>13,167</b> | <b>64</b>  | <b>16,518</b> | <b>71</b>  | <b>16,826</b> | <b>64</b>  |

\*Remaining Maturity of less than 1 year

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

### Interest Rate Type of Domestic Debt (Rs in billion)

|                           | Jun-19        | % of Total | Jun-20        | % of Total | Jun-21        | % of Total |
|---------------------------|---------------|------------|---------------|------------|---------------|------------|
| <b>I+II Domestic Debt</b> | <b>20,732</b> | <b>100</b> | <b>23,283</b> | <b>100</b> | <b>26,265</b> | <b>100</b> |
| <b>I Floating Rate</b>    | <b>11,285</b> | <b>54</b>  | <b>12,381</b> | <b>53</b>  | <b>15,558</b> | <b>60</b>  |
| - T-Bills                 | 5,501         | 27         | 5,578         | 24         | 6,680         | 26         |
| - Floating Rate Bonds     | 5,784         | 28         | 6,803         | 29         | 8,878         | 34         |
| <b>II Fixed Rate</b>      | <b>9,447</b>  | <b>46</b>  | <b>10,902</b> | <b>47</b>  | <b>10,707</b> | <b>40</b>  |

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

## EXTERNAL DEBT

### Source Wise External Public Debt

|                                      | Jun-2019      |            | Jun-2020      |            | Jun-2021      |            |
|--------------------------------------|---------------|------------|---------------|------------|---------------|------------|
|                                      | \$ millio     | % of Total | \$ millio     | % of Total | \$ millio     | % of Total |
| <b>I+II+III External Public Debt</b> | <b>73,449</b> | <b>100</b> | <b>77,994</b> | <b>100</b> | <b>86,415</b> | <b>100</b> |
| <b>I Multilateral</b>                | <b>34,214</b> | <b>47</b>  | <b>39,392</b> | <b>51</b>  | <b>41,726</b> | <b>48</b>  |
| - World Bank                         | 15,547        | 21         | 16,184        | 21         | 18,135        | 21         |
| - Asian Development Bank             | 10,770        | 15         | 12,741        | 16         | 13,423        | 16         |
| - IMF                                | 5,648         | 8          | 7,680         | 10         | 7,384         | 8          |
| - Others                             | 2,249         | 3          | 2,787         | 4          | 2,783         | 3          |
| <b>II Bilateral</b>                  | <b>23,952</b> | <b>32</b>  | <b>24,352</b> | <b>31</b>  | <b>25,547</b> | <b>30</b>  |
| - Paris Club                         | 11,235        | 15         | 10,924        | 14         | 10,726        | 13         |
| - Non-Paris Club                     | 12,717        | 17         | 13,428        | 17         | 14,821        | 17         |
| <b>III Commercial</b>                | <b>15,282</b> | <b>21</b>  | <b>14,250</b> | <b>18</b>  | <b>19,142</b> | <b>22</b>  |
| - Eurobonds /Sukuk                   | 6,300         | 9          | 5,300         | 7          | 7,800         | 9          |
| - Loans from Banks/Others            | 8,982         | 12         | 8,950         | 11         | 11,342        | 13         |

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

## Debt Policy Statement - January 2022

| Bifurcation of External Public Debt (Federal and Provincial Governments) |                                     | (USD in million) |            |
|--|-------------------------------------|------------------|------------|
|  |                                     | Jun-21           | % of Total |
| I+II   | External Public Debt                | 86,415           | 100        |
| I  | Provincial Govts/Sub-National Govts | 11,054           | 13         |
|  | - Punjab                            | 6,060            | 7          |
|  | - Sindh                             | 2,677            | 3          |
|  | - Khyber Pakhtunkhwa (KP)           | 1,757            | 2          |
|  | - Baluchistan                       | 299              | 0          |
|  | - Gilgit-Baltistan                  | 40               | 0          |
|  | - Azad Jammu & Kashmir              | 220              | 0          |
| II   | Federal Government                  | 75,361           | 87         |

Source: Ministry of Economic Affairs

| Maturity Profile of External Public Debt |                             | (USD in million) |            |        |            |        |            |
|--|-----------------------------|------------------|------------|--------|------------|--------|------------|
|  |                             | Jun-19           | % of Total | Jun-20 | % of Total | Jun-21 | % of Total |
| I+II                                     | External Public Debt        | 73,449           | 100        | 77,994 | 100        | 86,415 | 100        |
| I  | Short-Term Debt             | 11,910           | 16         | 12,382 | 16         | 14,295 | 17         |
|  | - Safe China Deposit        | 3,000            | 4          | 3,000  | 4          | 4,000  | 5          |
|  | - Commercial & Others       | 486              | 1          | 141    | 0          | -      | 0          |
|  | - IDB Short-Term            | 778              | 1          | 814    | 1          | 506    | 1          |
|  | - Local Currency Securities | -                | 0          | 586    | 1          | 352    | 0          |
|  | - Long-Term Debt*           | 7,646            | 10         | 7,841  | 10         | 9,437  | 11         |
| II                                       | Long-Term Debt              | 61,539           | 84         | 65,612 | 84         | 72,120 | 83         |

\*Remaining Maturity of less than a year

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

| Interest Rate Type of External Public Debt |                      | (USD in million) |            |        |            |        |            |
|--|----------------------|------------------|------------|--------|------------|--------|------------|
|  |                      | Jun-19           | % of Total | Jun-20 | % of Total | Jun-21 | % of Total |
| I+II                                       | External Public Debt | 73,449           | 100        | 77,994 | 100        | 86,415 | 100        |
| I  | Floating Rate        | 21,875           | 30         | 23,348 | 30         | 26,462 | 31         |
| II   | Fixed Rate           | 51,574           | 70         | 54,546 | 70         | 59,952 | 69         |

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

### Note:

For further details on public debt statistics, "Annual Debt Bulletin FY 2020-21" at [https://www.finance.gov.pk/dpco/Debt\\_Bulletin\\_June\\_2021.pdf](https://www.finance.gov.pk/dpco/Debt_Bulletin_June_2021.pdf) may please be referred.

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