

Public Debt

9.1 Introduction

Developing prudent and sound debt management strategy is paramount especially when debt flows are being channeled to pursue accelerated development goals. Over long term horizon, efforts are geared towards increasing the country's economic footprint in-line with macro-economic objectives which eventually provide support towards debt re-payment capacity through modernized infrastructure. Given the current paradigm, Pakistan has to maintain a delicate balance – it needs to borrow in order to facilitate its development process while ensuring that debt level is prudently managed keeping in view the country's repayment capacity.

Pakistan's public debt dynamics witnessed various positive developments during the ongoing fiscal year, some of them are highlighted below:

- Government continued to adhere to the targets set forth in Medium Term Debt Management Strategy (MTDS) to ensure public debt sustainability;
- Weighted average interest rate on the domestic debt portfolio has reduced further while cost of external loans contracted by the government are mostly concessional as well as dominated by long term funding;
- Government successfully raised US\$ 2.5 billion in December 2017 through a 5-year Sukuk and 10-year conventional bond with the latter issued at the lowest rate for a Pakistan bond;
- In order to facilitate the investors, Central Directorate of National Savings (CDNS) has launched a non-financial version of mobile application called “Qoumi Bachat Digital” which enable customers to view their profits, investments in the certificates and accounts, receive notifications on

transactions, transaction history and also save prize bond numbers to be searched in the Prize Bond draws. CDNS is also in the process of launching a financial version of the mobile application along with the Card Management System and Mobile Wallet for investors.

9.2 Public Debt

Total public debt is defined as debt of the government (including Federal Government and Provincial Governments) serviced out of consolidated fund and debts owed to the International Monetary Fund. Total Debt of the Government is public debt less accumulated deposits of the Federal and Provincial Governments with the banking system. Public debt has two main components, namely domestic debt (incurred principally to finance fiscal deficit) and external debt (raised primarily to finance development expenditures).

Total public debt stood at Rs 22,820 billion at end December 2017 while Total Debt of the Government was Rs 20,878 billion. Total public debt recorded an increase of Rs 1,413 billion during first six months of current fiscal year. The bifurcation of this increase is explained below:

- Domestic debt registered an increase of Rs 582 billion while government borrowing for financing of fiscal deficit from domestic sources was Rs 412 billion, indicating an increase in government credit balances with the banking system during the period under review; and
- Increase in external debt contributed Rs 830 billion to the public debt while government borrowing for financing of fiscal deficit from external sources was Rs 384 billion. Therefore, the increase in external debt signifies both borrowings for financing of fiscal deficit as well as revaluation losses due to Pak Rupee depreciation against US

Dollar as well as appreciation of other currencies against US Dollar. It is worth noting that depreciation of Pak Rupee increases the rupee value of external debt, but does not add much to foreign currency liability of the country i.e. any negative

revaluation impact is spread over many years depending on the life of any given loan, therefore, immediate cash flow impact is limited.

The trend in total public debt since 1971 is depicted in Box-I.

Box-I: Trend in Public Debt

Table-9.1: Year Wise Public Debt Position

Year	Domestic Debt	External Debt	Public Debt	Year	Domestic Debt	External Debt	Public Debt	Year	Domestic Debt	External Debt	Public Debt
(Rs billion)											
1971	14	16	30	1987	248	209	458	2003	1,895	1,800	3,694
1972	17	38	55	1988	290	233	523	2004	2,028	1,839	3,866
1973	20	40	60	1989	333	300	634	2005	2,178	2,034	4,211
1974	19	44	62	1990	381	330	711	2006	2,322	2,038	4,359
1975	23	48	70	1991	448	377	825	2007	2,601	2,201	4,802
1976	28	57	85	1992	532	437	969	2008	3,275	2,852	6,126
1977	34	63	97	1993	617	519	1,135	2009	3,860	3,871	7,731
1978	41	71	112	1994	716	624	1,340	2010	4,654	4,352	9,006
1979	52	77	130	1995	809	688	1,497	2011	6,017	4,750	10,767
1980	60	86	146	1996	920	784	1,704	2012	7,638	5,057	12,695
1981	58	87	145	1997	1,056	939	1,995	2013	9,522	4,797	14,318
1982	81	107	189	1998	1,199	1,193	2,392	2014	10,920	5,071	15,991
1983	104	123	227	1999	1,389	1,557	2,946	2015	12,199	5,182	17,381
1984	125	132	257	2000	1,645	1,527	3,172	2016	13,627	6,051	19,678
1985	153	156	309	2001	1,799	1,885	3,684	2017	14,855	6,552	21,407
1986	203	187	390	2002	1,775	1,862	3,636	2018 (Dec)	15,437	7,382	22,820

Fig-9.1: Trend in Domestic and External Debt (Rs in billion)

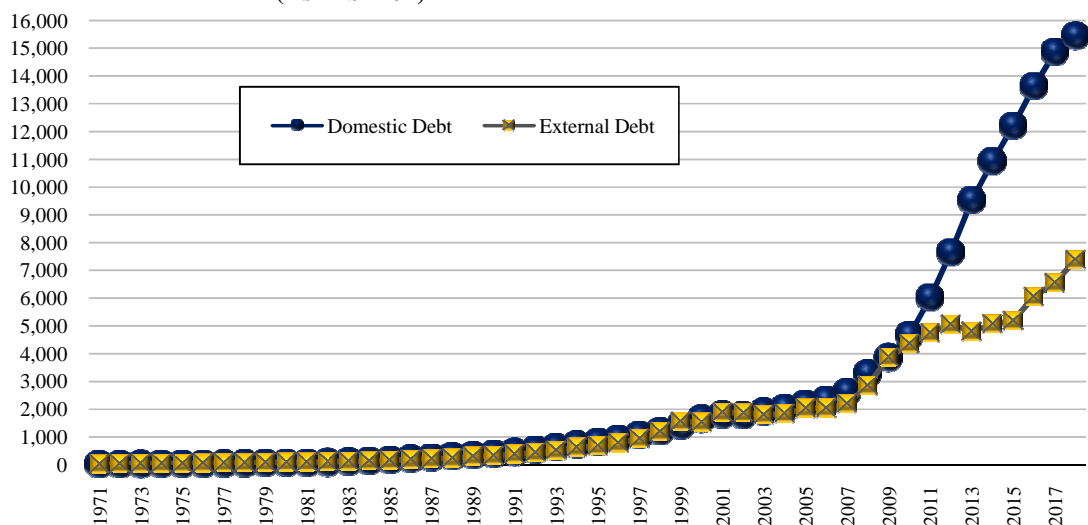


Table-9.2: Public Debt

	2013	2014	2015	2016	2017(P)	2018(P)**
(Rs in billion)						
Gross Domestic Debt	9,521.9	10,920.0	12,198.9	13,626.9	14,855.0	15,437.4
*Net Domestic Debt	8,686.2	9,551.3	10,804.8	11,773.5	13,081.7	13,495.8
External Public Debt	4,796.5	5,071.5	5,181.8	6,051.1	6,552.1	7,382.4
Total Public Debt	14,318.4	15,991.5	17,380.7	19,678.1	21,407.1	22,819.8
*Total Government Debt	13,482.7	14,622.8	15,986.6	17,824.6	19,633.8	20,878.2
(In percent of GDP)						
Gross Domestic Debt	42.5	43.4	44.5	46.9	46.5	44.9
*Net Domestic Debt	38.8	37.9	39.4	40.5	40.9	39.2
External Public Debt	21.4	20.1	18.9	20.8	20.5	21.5
Total Public Debt	64.0	63.5	63.3	67.7	67.0	66.3
*Total Government Debt	60.2	58.1	58.3	61.3	61.4	60.7
Memo:						
External Public Debt (US\$ in billion)	48.1	51.3	50.9	57.7	62.5	66.9
Exchange Rate (Rs /US\$, End of Period)	99.7	98.8	101.8	104.8	104.9	110.4
GDP (Rs in billion)	22,385.7	25,168.8	27,443.0	29,075.6	31,962.6	34,396.5
*Net of government deposits with the banking system						
P: Provisional, **: end-December, 2017						

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

The composition of public debt in terms of maturity profile continued to witness changes during first half of current fiscal year. Both demand and supply factors contributed towards the change in composition of public debt. Demand for medium to long term government securities was relatively lower in anticipation of change in the interest rates, inflation and liquidity conditions while the government was cautious about the cost-risk trade off as market participants were seeking higher than usual rates on long-term securities.

Encouragingly, cost and most of the risk indicators of public debt portfolio improved over last four years. Average cost of gross public debt reduced by over 100 basis points owing to smooth execution of the Medium Term Debt Management Strategy. Refinancing Risk of domestic debt portfolio reduced from 64.2 percent in 2013 to 55.6 percent in 2017.

Exposure to interest rate risk also reduced, as the percentage of debt re-fixing in one year decreased to 47.8 percent in 2017 compared to 52.4 percent in 2013. Similarly, share of external loans maturing within one year was equal to around 27.7 percent of official liquid reserves in 2017 compared with around 68.5 percent in 2013, indicating improvement in foreign exchange stability and repayment capacity.

One of the objectives of MTDS is to facilitate development of debt capital markets. A well-developed debt market is essential to reduce financial risks of the overall economy, provide the government with a non-inflationary source of finance, create a well-balanced financial environment and promote economic growth. Government is taking various steps to provide an efficient and liquid secondary debt markets to the investors (Box-II).

Box-II: STEPS TAKEN FOR THE DEVELOPMENT OF DEBT CAPITAL MARKETS

Sukuk (Privately Placed) Regulations, 2017: In order to facilitate issuance of Sukuk through private placement, SECP has notified the Sukuk (Privately Placed) Regulations, 2017 thereby replacing the issue of Sukuk Regulations, 2015. Part of 2015 Sukuk Regulations relating to public offerings has been covered in the SECP's Public Offering Regulations, 2017, through amendments therein.

Accounting and Shariah Standards: To bring harmonization and standardization in the business practices of Islamic financial institutions, SECP has been gradually adopting Accounting and Shariah Standards issued by

Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). In February 2018, SECP has notified three Shariah Standards of AAOIFI for adoption in Pakistan, i.e.

Shariah Standard No. 17 - Investment Sukuk, Shariah Standard;
 Shariah Standard No. 18- Possession (Qabd); and
 Shariah Standard No. 23 - Agency and the Act of an un-commissioned agent (Fodooli).

Introduction and implementation of centralized E-IPO System (CES): In order to facilitate general public during IPOs, Centralized E-IPO System (CES) has been developed through CDC, in collaboration with I-Link (G) Limited. Through CES, investors can submit applications electronically via internet, ATMs and mobile phones for subscription of securities of companies offered to the public. The main objectives of CES are to:

- (i) bring efficiency in IPOs;
- (ii) reduce cost of IPOs;
- (iii) increase outreach of IPOs;
- (iv) make investment through IPOs hassle free;
- (v) promote culture of holding securities in book-entry form; and
- (vi) increase investor base.

So far, eight (08) banks have been integrated with CES whereas 03 banks are providing E-IPO services through their own independent E-IPO facilities.

Future plans with regard to development of debt capital markets:

Revamping of the Companies (Asset Backed Securitization) Rules, 1999;
 Formulation of regulations for listing and trading privately placed debt securities; and
 Facilitation of Pakistan Mortgage Refinance Company (PMRC) in fund raising from debt capital markets.

Source: Securities and Exchange Commission of Pakistan

Comprehensive public debt analysis may fall short of full disclosure without review of government’s contingent liabilities. These liabilities originate out of guarantees issued on behalf of Public Sector Enterprises (PSEs) and by their contingent nature, do not form part of country’s overall debt. Therefore, to ensure utmost fiscal transparency, information regarding these contingent liabilities remains an essential component of public disclosure. During first half of current fiscal year, the government issued fresh/rollover guarantees aggregating to Rs 66 billion or 0.2 percent of GDP. The outstanding stock of government guarantees at end December 2017 was Rs 1,004 billion.

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

Government has updated its Medium Term Debt Management Strategy (2015/16-2018/19) which contains a policy advice on appropriate mix of financing from different sources with the spirit to uphold the integrity of the Fiscal Responsibility and Debt Limitation Act, 2005. Accordingly, the government needs to lengthen the maturity profile of its domestic debt and mobilize sufficient external inflows in the medium term keeping in view cost risks trade-off while remaining within the indicative risk ranges.

Table-9.3: Public Debt Cost and Risk Indicators*

Risk Indicators		Indicative Ranges (MTDS 2015/16 - 2018/19)	External Debt		Domestic Debt		Public Debt	
			2013	2017	2013	2017	2013	2017
Refinancing Risk	Average Time to Maturity (ATM) - Years	1.5 (minimum) and 2.5 - DD 3.0 (minimum) and 4.5 – PD	10.1	8.4	1.8	2.0	4.5	3.8
	Debt Maturing in 1 Year (% of total)	50% and 65% (maximum) - DD 35% and 50% (maximum) - PD	8.9	8.0	64.2	55.6	46.0	42.1
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	7.5	1.8	2.0	4.2	3.5

Table-9.3: Public Debt Cost and Risk Indicators*

Risk Indicators		Indicative Ranges (MTDS 2015/16 - 2018/19)	External Debt		Domestic Debt		Public Debt	
			2013	2017	2013	2017	2013	2017
	Debt Re-Fixing in 1 year (% of total)	50% and 65% (maximum) - DD 40% and 55% (maximum) - PD	22.2	26.0	67.2	56.4	52.4	47.8
	Fixed Rate Debt (% of total)	**	83.4	77.7	39.6	54.6	54.0	61.2
Foreign Currency Risk (FX)	Foreign Currency Debt (% of total debt)	20% (minimum) and 35%					32.9	28.4
	Short Term FX Debt (% of reserves)	**					68.5	27.7

* 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

It is evident from the above table that all public debt risk indicators were within the indicative ranges as specified under MTDS at end June 2017. Importantly, cost and most of the debt risks indicators have significantly improved when compared with fiscal year 2013 as illustrated below:

Cost of Public Debt Portfolio

Average cost of gross public debt reduced by over 100 basis points owing to smooth execution of the MTDS and yet the indicators have witnessed improvement over the medium term. It is important to note that interest cost over last two years has remained broadly constant despite increase in the absolute quantum of public debt.

Refinancing Risk

Refinancing risk of domestic debt reduced at the end of 2016-17 as domestic debt maturing in one year reduced to 55.6 percent compared with 64.2 percent at the end of 2012-13. This improvement contributed towards improvement in average time to maturity of domestic debt to 2 years at the end of 2016-17 compared with 1.8 years at the end of 2012-13 while average time to maturity of external debt decreased to 8.4 years at the end of 2016-17 compared with 10.1 years at the end of 2012-13, primarily due to running off the existing long term external debt portfolio over last four years.

Interest Rate Risk

Exposure to interest rate risk reduced as evident from the fact that the percentage of debt re-fixing in one year decreased to 47.8 percent at the end of 2016-17 compared with 52.4 percent at the end of 2012-13, which reduced the average time to re-fixing to 3.5 years at the end of 2016-17 compared with 4.2 years at the end of 2012-13. The reduction in interest rate exposure can also be gauged from the fact that fixed rate debt as a percentage of total debt increased to 61.2 percent at the end of 2016-17 compared with 54 percent at the end of 2012-13.

Foreign Currency Risk

Share of external loans maturing within one year was around 27.7 percent of official liquid reserves at the end of 2016-17 compared with around 68.5 percent at the end of 2012-13, indicating improvement in foreign exchange stability and repayment capacity of the country.

9.4 Dynamics of Public Debt Burden

Debt burden of a country can be assessed through multiple parameters while one dimensional approach may not be suitable for delineating the “bad” from the “good”. Therefore, various solvency and liquidity indicators are employed to assess the debt burden of the country.

Table-9.4: Selected Public Debt Indicators (in percentage)

	2013	2014	2015	2016	2017
Revenue Balance* / GDP	(2.9)**	(0.7)	(1.7)	(0.8)	(0.7)
Primary Balance* / GDP	(3.6)**	(0.2)	(0.5)	(0.2)	(1.5)
Fiscal Balance / GDP	(8.2)**	(5.5)	(5.3)	(4.6)	(5.8)

Table-9.4: Selected Public Debt Indicators (in percentage)

	2013	2014	2015	2016	2017
Gross Public Debt / GDP	64.0	63.5	63.3	67.7	67.0
Total Government Debt / GDP	60.2	58.1	58.3	61.3	61.4
Gross Public Debt / Revenue	480.1	439.7	442.1	442.5	433.6
Total Government Debt / Revenue	452.1	402.0	406.7	400.8	397.7
Debt Service / Revenue	40.5	40.1	40.4	35.9	38.3
Interest Service / Revenue	33.2	31.6	33.2	28.4	27.3
Debt Service / GDP	5.4	5.8	5.8	5.5	5.9

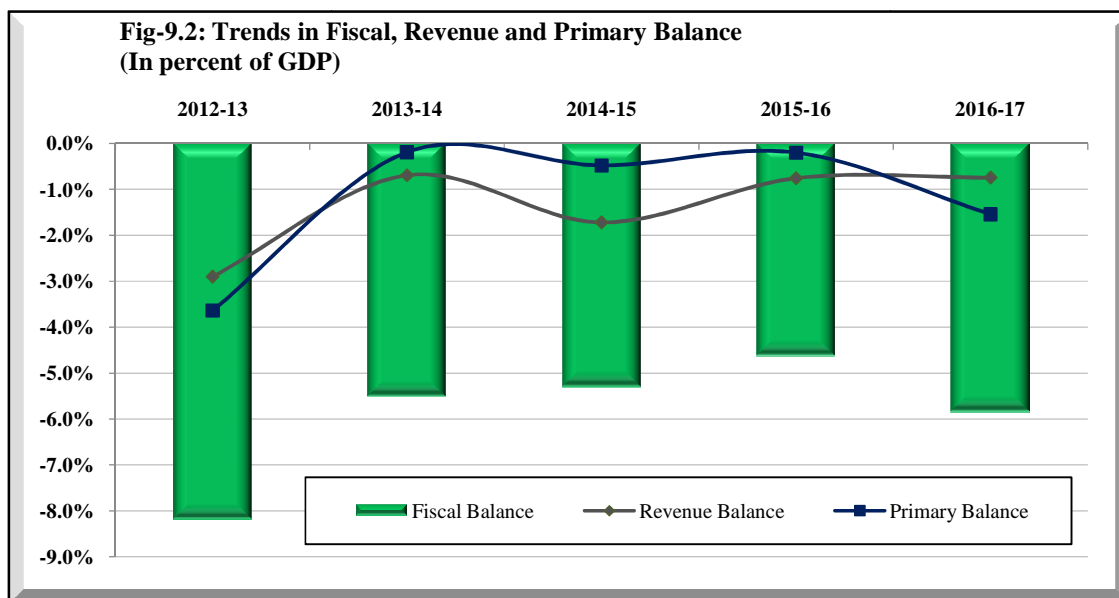
*Adjusted for grants

** 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

The revenue deficit¹, which excludes development expenditure, recorded at 0.7 percent of GDP during 2016-17 compared with 0.8 percent during 2015-16. This improvement was supported by higher growth in revenues which outpaced growth in current expenditures during 2016-17. Thus, from expenditure side, fiscal deficit was driven largely by increase in development expenditures and recorded at 5.8 percent of GDP during 2016-17 compared with 4.6 percent during 2015-16. Similarly, the primary deficit², which excludes interest payments, increased to 1.5 percent of GDP during 2016-17 from 0.2 percent during 2015-16 owing to the same reason. The consolidated development expenditures increased

significantly during last few years owing to number of ongoing infrastructure projects. Accordingly, actual PSDP spending at federal level and annual development plan at provincial level cumulatively grew from Rs 695 billion in 2012-13 to Rs 1,577 billion in 2016-17. This increase in development expenditures was also supported by relatively contained interest payments during last few years which created additional fiscal space for development spending. During first half of current fiscal year, revenue deficit was recorded at 0.4 percent of GDP while primary deficit was recorded at 0.1 percent of GDP. The trends in fiscal, revenue and primary balance are depicted in the graph below:

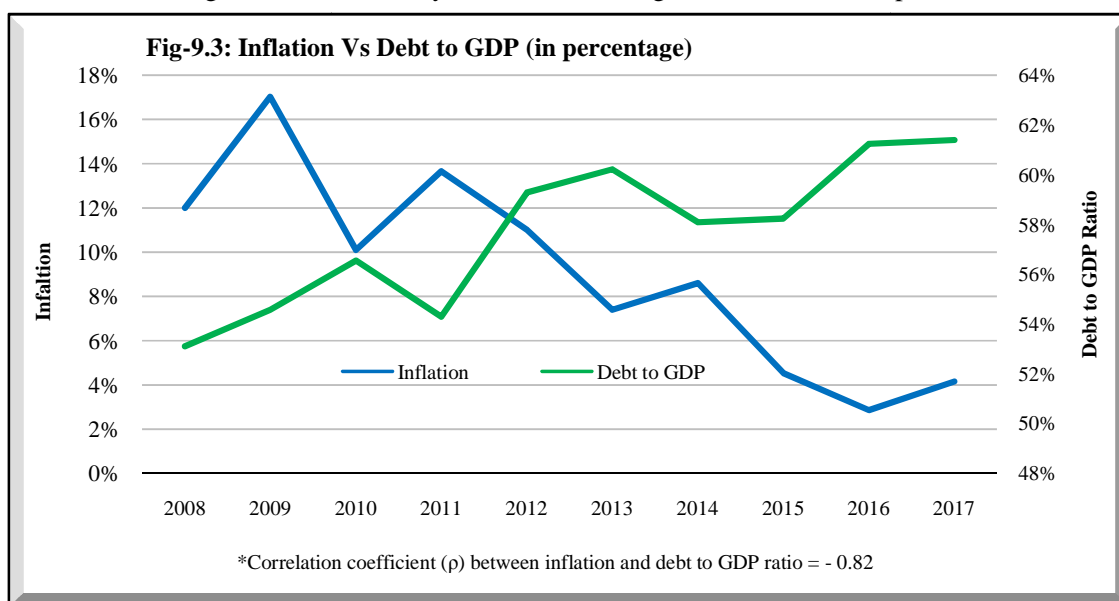


¹Revenue balance is the total revenues minus current expenditure. The persistence of revenue deficit indicates that the government is not only borrowing to finance its development expenditure, but partially to finance its current expenditure.

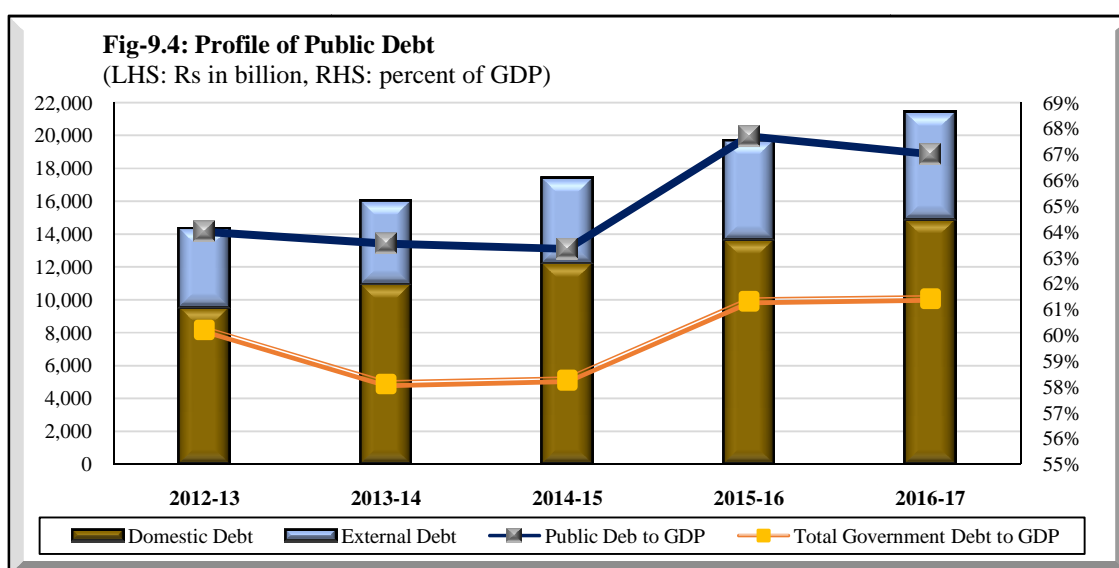
²Primary balance is the total revenues minus non-interest expenditure or fiscal deficit before interest payments. Primary balance is an indicator of current fiscal efforts since interest payments are predetermined by the size of previous deficits.

Pakistan witnessed a marginal increase of 1.2 percent (from 60.2 percent in 2013 to 61.4 percent in 2017) in its Total Government Debt to GDP ratio during last four years while during the same period, global debt to GDP ratio went up by about 8 percent³. The analysis of debt to GDP ratio over past few years reveals that during periods of high inflation, debt to GDP ratio performs relatively better as the denominator becomes larger and this ratio was accordingly contained below 60 percent even when real GDP growth was merely half a

percent e.g. 2008-09. While higher inflation could help reduce debt-to-GDP ratio, yet it has other repercussions for the economy. Therefore, economic managers would always prefer high real GDP growth coupled with low inflation rather than low real GDP growth with high inflation. During 2016-17, actual inflation stood at around 4 percent against target of 6 percent, causing nominal GDP at Rs 31,963 billion against target of Rs 33,509 billion. Therefore, debt to GDP ratio inched slightly up mainly owing to lower than anticipated inflation.



The public debt position since fiscal year 2013 (both in absolute and GDP terms) are depicted in the following graph:



³Source IMF World Economic Outlook

Pakistan Economic Survey 2017-18

The table below shows summary of debt to GDP ratio of few developed and developing economies:

Table-9.5: Country Wise Total Government Debt to GDP Ratio (in percentage)

Country	2013	2014	2015	2016	2017
United States	81.5	80.9	80.5	81.4	82.4
United Kingdom	77.7	79.6	80.4	80.7	80.4
Japan	117.3	118.9	118.3	119.7	119.9
India	68.5	68.5	69.5	69.5	67.7
Srilanka	70.8	70.7	76.0	77.3	79.5
Egypt	73.7	77.1	78.8	88.1	93.6
Pakistan	60.2	58.1	58.3	61.3	61.4

Source: IMF World Economic Outlook

It is evident from the table above that developed countries like USA, UK and Japan also carry significant debt and maintain levels as high as 80 to over 100 percent of their GDPs, well over Pakistan's debt to GDP levels. Even in the developing country peer group, Egypt, Srilanka and India carry higher debt to GDP levels than that of Pakistan.

Comparing debt service to a country's repayment capacity yields the best indicator for analyzing whether a country is likely to face debt servicing difficulties in a given period. Public debt servicing consumed nearly 38 percent of total revenues out of which interest servicing consumed around 27 percent of the same during 2016-17 compared with 33 percent during 2012-13.

Public debt levels against actual government revenues provide important insight into debt repayment capacity of the country. There was around 9 percentage point reduction in public debt to government revenues ratio which stands

at 434 percent in 2016-17 compared with 443 percent in 2015-16, while total government debt to government revenues reduced by around 3 percentage point during 2016-17 as compared with previous fiscal year, indicating some easing in government indebtedness. Encouragingly, growth in revenues outstripped growth in public debt and accordingly debt repayment capacity improved during 2016-17. Government is committed to reduce this ratio to generally acceptable threshold of 350 percent to further improve debt carrying capacity of the country.

9.5 Servicing of Public Debt

Public debt servicing was recorded at Rs 980 billion during first half of current fiscal year against the annual budgeted estimate of Rs 1,689 billion. Public debt servicing consumed nearly 41 percent of total revenues during first half of current fiscal year, remaining at the same level recorded during the corresponding period last year.

Table-9.6: Public Debt Servicing (Rs in billion)

	2017-18*			
	Budgeted	Actual	Percent of Revenue	Percent of Current Expenditure
Repayment of External Debt	326.4	228.2	9.6	9.0
Total External Principal Repayment (A)	326.4	228.2	9.6	9.0
Servicing of External Debt	132.0	73.5	3.1	2.9
Servicing of Domestic Debt	1,231.0	678.0	28.4	26.6
Total Interest Servicing (B)	1,363.0	751.4	31.5	29.5
Total Servicing of Public Debt (A+B)	1,689.4	979.7	41.1	38.5

*: July-December

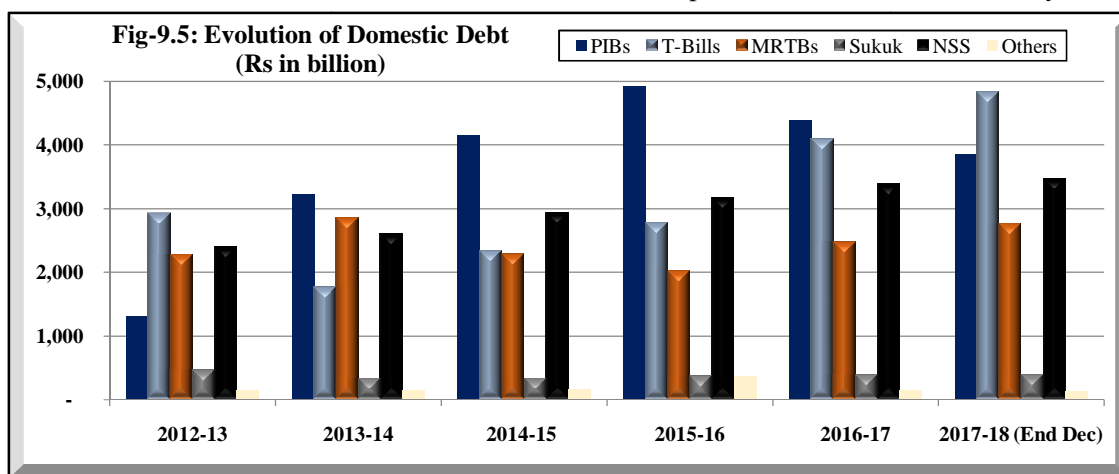
Source: Budget Wing and Debt Policy Coordination Office Staff Calculations, Ministry of Finance

Domestic interest payments constituted around 69 percent of total debt servicing due to higher volume of domestic debt in total public debt portfolio. Domestic interest payments were recorded at Rs 678 billion during first half of the current fiscal year primarily driven by payments made against Pakistan Investment Bonds (Rs 229 billion), National Savings Schemes (Rs 169 billion), Market Treasury Bills (Rs 151 billion) and Market Related Treasury Bills (Rs 87 billion).

9.6 Domestic Debt

Pakistan’s domestic debt comprises permanent debt (medium and long-term), floating debt

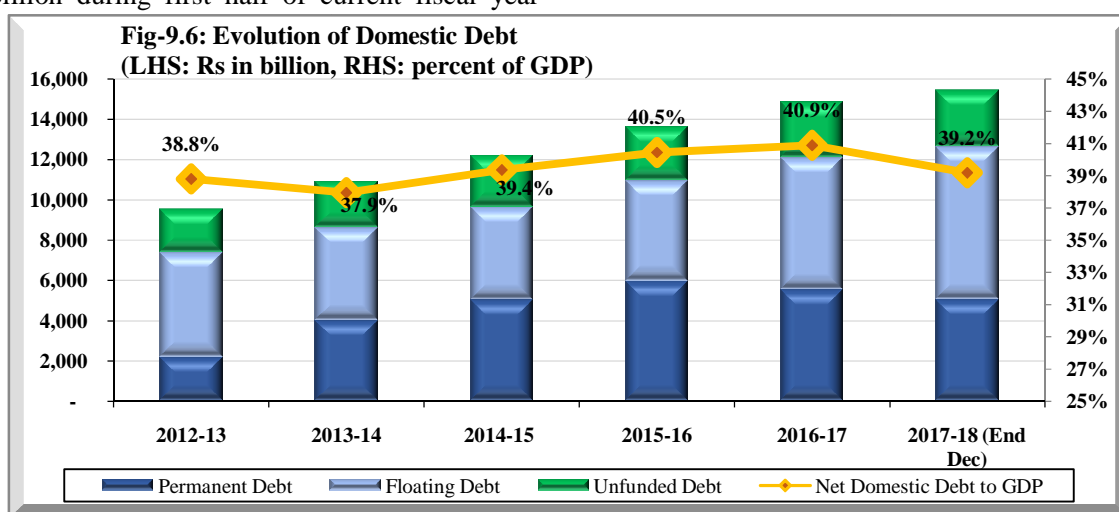
(short-term) and unfunded debt (primarily made up of various instruments available under National Savings Schemes). During first half of the current fiscal year, composition of domestic debt continued to witness changes as most of the domestic borrowing was mobilized from short-term sources while net retirement was witnessed in medium to long term debt. Accordingly, share of floating debt in total domestic debt increased to 49 percent at end December 2017 compared with 44 percent at the end of last fiscal year, while share of permanent debt in total domestic debt reduced to 33 percent at end December 2017 compared with 37 percent at the end of last fiscal year.



9.6.1 Outstanding Domestic Debt

Gross domestic debt was recorded at Rs 15,437 billion while net domestic debt remained at Rs 13,496 billion at end December 2017. Gross domestic debt registered an increase of Rs 582 billion during first half of current fiscal year

while government borrowing from domestic sources for financing of fiscal deficit was Rs 412 billion during the said period. This differential is mainly attributed to increase in government credit balances with the banking system.



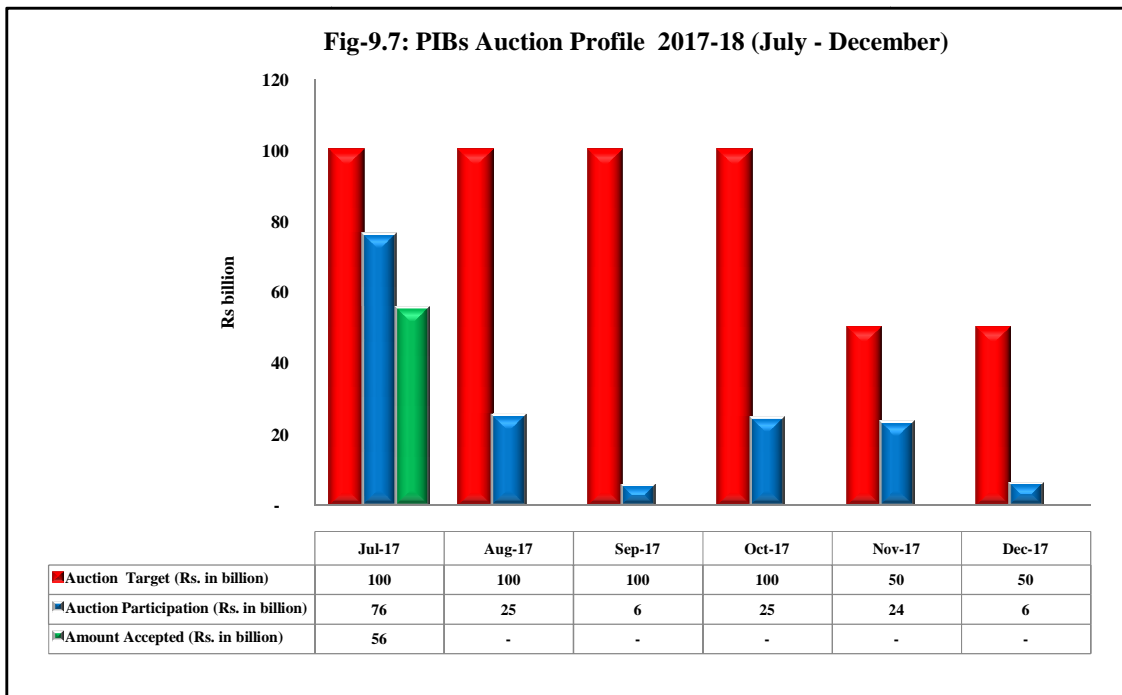
The following section highlights the developments in various components of domestic debt during first six months of current fiscal year:

I. Permanent Debt

Permanent debt mainly consists of medium to long term instruments (Pakistan Investment Bonds (PIBs), Government Ijara Sukuk (GIS), Prize Bond etc.). PIBs are non-callable instruments with fixed and semi-annual coupon payment with tenors of 3, 5, 10 and 20 years. Whereas, Government Ijara Sukuk are medium term Shariah compliant bonds currently issued in 3 years’ tenor to raise money from Islamic financial institutions which have grown substantially in Pakistan in the past few years.

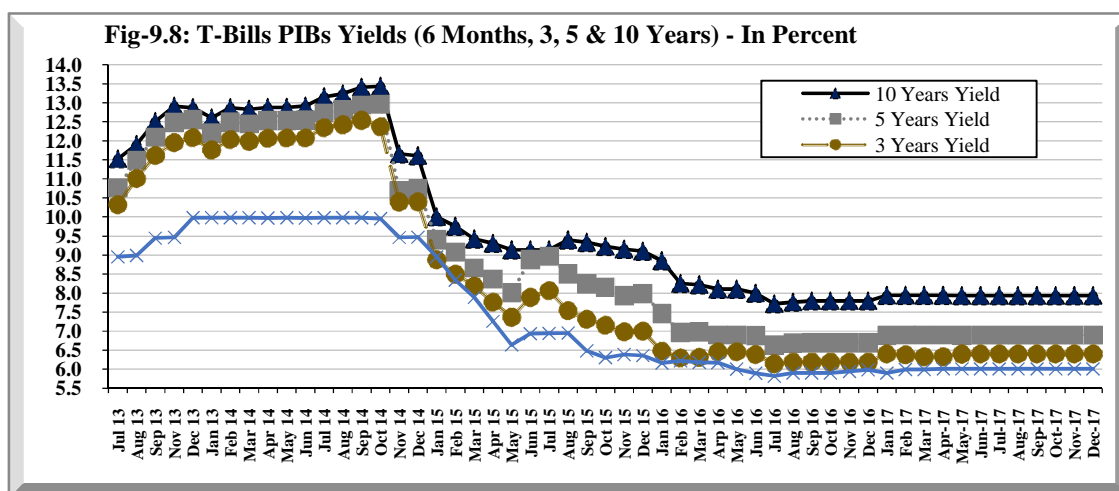
Permanent debt was recorded at Rs 5,038 billion at end December 2017, representing a

decrease of Rs 495 billion during first half of ongoing fiscal year. Over this period, the government set the auction target of Rs 500 billion against the sale of PIBs in anticipation of upcoming maturities. These auctions attracted subdued response from market participants as the market was expecting monetary tightening, however, policy rate remained unchanged during the said period i.e. except for July 2017, all bids received against PIBs auctions during first half of the ongoing fiscal year were rejected as the rates quoted by commercial banks were on a higher side as well as amounts were not substantial. Any acceptance in these PIBs auctions may have signaled reversal in long term interest rates, which, in turn, would have had implications for the market’s short term interest rate expectations.



As depicted in the graph above, against the target of Rs 500 billion, government received participation of Rs 162 billion out of which government accepted only Rs 56 billion during

first half of the current fiscal year. The yields (6 months T-bills, 3, 5 and 10 year PIBs) from July 2013 to December 2017 are depicted through following Graph:



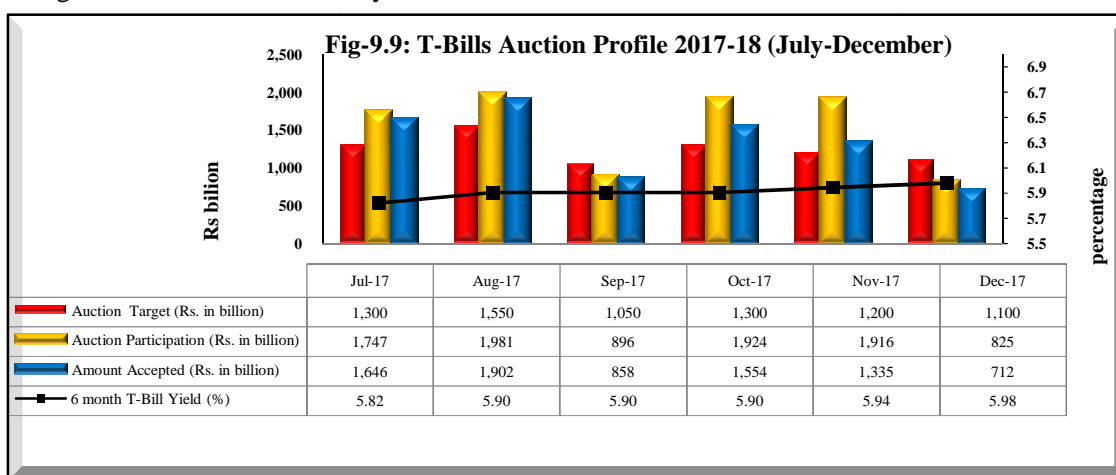
II. Floating Debt

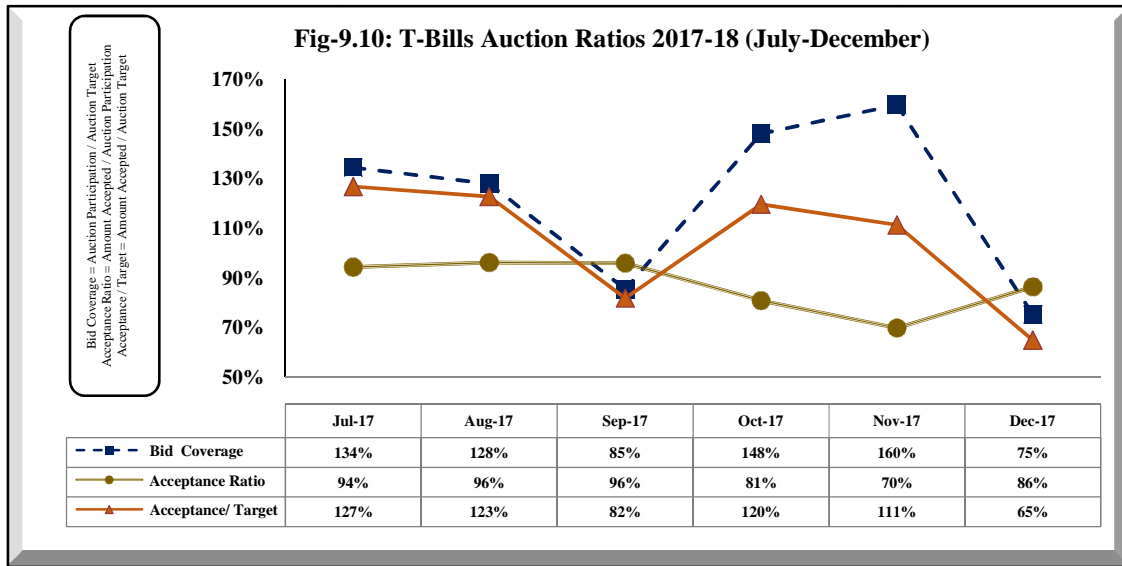
Floating debt comprises short term domestic borrowing instruments such as Market Treasury Bills (MTBs) and State Bank borrowing through purchase of Market Related Treasury Bills (MRTBs). MTBs are zero coupon or discounted instruments issued in tenors of 3 months (introduced in 1997), 6 months (introduced in 1990) and 12 months (introduced in 1997). In order to raise short term liquidity, the government borrows from the domestic banks through auction of MTBs which is arranged by SBP twice a month.

Floating debt recorded an increase of Rs 1,032 billion during first half of current fiscal year and stood at Rs 7,589 billion at end December 2017. The increase in floating debt was higher than the overall change in domestic debt as the government retired medium to long-term debt during first half of current fiscal year. The share

of floating debt in overall public debt and domestic debt stood at 33 percent and 49 percent respectively at end December 2017 while it was 36 percent and 55 percent respectively at the end of 2012-13.

The interest rate cycle exhibited some reversal after bottoming out of policy rates and flattening of the yield curve which led the banks to reduce the duration of their fixed income portfolio to contain the effects of repricing risk while keeping intact their preference to invest at higher rates. Therefore, banks opted to tilt their portfolio towards short term MTBs. Government received significant participation of Rs 9,288 billion in the auctions of MTBs against the target of Rs 7,500 billion, however, the government mobilized Rs 8,007 billion. The auction wise details and relevant ratios related to MTBs are depicted through following graphs:





III. Unfunded Debt

The stock of unfunded debt (primarily made up of various instruments available under National Savings Schemes) stood at Rs 2,810 billion at end December 2017, constituting around 18 percent of domestic debt portfolio. The profit rates on National Savings Scheme (NSS) have remained unchanged since February 2017. Unfunded debt recorded net mobilization of Rs 45 billion during first six months of current fiscal year compared with Rs 53 billion mobilized during the same period last year. Most of the incremental mobilization came from Bahbood Savings Certificates (Rs 21 billion) and Pensioners' Benefit Account (Rs 9 billion).

Over period of time, the government has taken various measures to transform CDNS from merely a retail debt raising arm of the government to an effective vehicle for financial inclusion and provider of social safety net to the vulnerable sections of the society. In this regard, following measures are worth mentioning:

- CDNS is planning to introduce innovative products in order to increase financial inclusion of small savers and contribute towards social safety net of deserving segments of the society. In this respect, extension of Bahbood Savings Certificates (“BSCs”) to disabled persons, launch of

Shuhadas’ Family Welfare Accounts (“SFWAs”) for family members of martyrs and introduction of Overseas Pakistanis Certificates (“OPCs”), an exclusive scheme for non-resident Pakistanis are under consideration.

- Shariah compliant products are taking firm roots in Pakistani society and accordingly CDNS is working on the possibility of launching Shariah Compliant Savings Certificates.
- CDNS also became the only non-banking member of National Institutional Facilitation Technologies (Pvt.) Limited (“NIFT”) – the Banking Clearinghouse. With this initiative, profits can be credited directly into investor’s bank accounts, thereby offering safety and security along with access to other banking services.
- A non-financial mobile application “Qoumi Bachat Digital” has been launched which enable customers to view their profits, investments, transaction history and also save prize bond numbers to be searched in the Prize Bond draws. CDNS also entered into an agreement with the World Bank to roll-out Core Bank System, Enterprise Resource Planning (ERP), Data Warehouse and Business Intelligence tools to streamline operations going forward.

Table-9.7: Outstanding Domestic Debt		(Rs billion)				
	2013	2014	2015	2016	2017(P)	2018(P) *
Permanent Debt	2,179.2	4,005.3	5,016.0	5,944.2	5,533.1	5,038.0
Market Loans	2.9	2.9	2.8	2.8	2.8	2.8
Government Bonds	0.7	0.7	0.7	0.7	0.7	0.7
Prize Bonds	389.6	446.6	522.5	646.4	747.1	792.7
Foreign Exchange Bearer Certificates	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
Federal Investment Bonds	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
Foreign Currency Bearer Certificates	0.0	0.0	0.0	0.0	0.0	0.0
U.S. Dollar Bearer Certificates	0.0	0.0	0.1	0.1	0.1	0.1
Special U.S. Dollar Bonds	4.2	4.4	4.4	4.5	4.5	4.7
Government Bonds Issued to SLIC	0.6	0.6	0.6	0.6	0.6	0.6
Pakistan Investment Bonds (PIBs)	1,321.8	3,223.5	4,158.3	4,925.0	4,391.8	3,850.8
GOP Ijara Sukuk	459.2	326.4	326.4	363.9	385.4	385.4
Floating Debt	5,196.2	4,610.9	4,612.6	5,001.8	6,556.6	7,589.1
Treasury Bills through Auction	2,921.0	1,758.6	2,331.3	2,771.6	4,087.7	4,829.7
Rollover of Treasury Bills discounted SBP	0.5	0.5	0.5	0.5	0.5	0.5
Market Related Treasury Bills (MRTBs)	2,274.7	2,851.8	2,280.9	2,017.1	2,468.4	2,551.6
Outright Sale of MRTBs to Banks	-	-	-	-	-	207.3
Bai Muajjal	-	-	-	212.6	-	-
Unfunded Debt	2,146.5	2,303.8	2,570.3	2,680.9	2,765.3	2,810.4
Defence Savings Certificates	271.7	284.6	300.8	308.9	325.5	331.6
Khas Deposit Certificates and Accounts	0.6	0.6	0.6	0.6	0.5	0.5
National Deposit Certificates	0.0	0.0	0.0	0.0	0.0	0.0
Savings Accounts	22.3	22.6	26.4	29.2	34.9	35.9
Mahana Amdani Account	2.0	1.9	1.8	1.8	1.7	1.7
Postal Life Insurance	67.1	67.1	67.1	67.1	45.8	46.1
Special Savings Certificates and Accounts	734.6	738.8	867.5	896.5	922.4	926.3
Regular Income Scheme	262.6	325.4	376.0	359.8	338.8	343.9
Pensioners' Benefit Account	179.9	198.4	214.1	234.7	253.4	262.7
Bahbood Savings Certificates	528.4	582.4	628.3	692.1	749.5	770.7
National Savings Bonds	0.2	0.2	0.1	0.1	0.1	0.1
G.P. Fund	73.1	80.5	85.8	88.3	88.8	87.2
Short Term Savings Certificates	4.0	1.3	1.7	1.9	3.7	3.6
Total Domestic Debt	9,521.9	10,920.0	12,198.9	13,626.9	14,855.0	15,437.4

P: Provisional, *end-December, 2017

Source: Budget Wing, Finance Division and State Bank of Pakistan

9.6.2 Secondary Market Activities in the Marketable Government Securities:

Pakistan has a mature and vibrant secondary market for marketable government debt securities. During first eight months of 2017-18, the secondary market trading volumes witnessed significant increase. Overall, trading volume of government securities was Rs 18,612 billion during July-February, 2017-18 as against Rs 14,779 billion during complete year

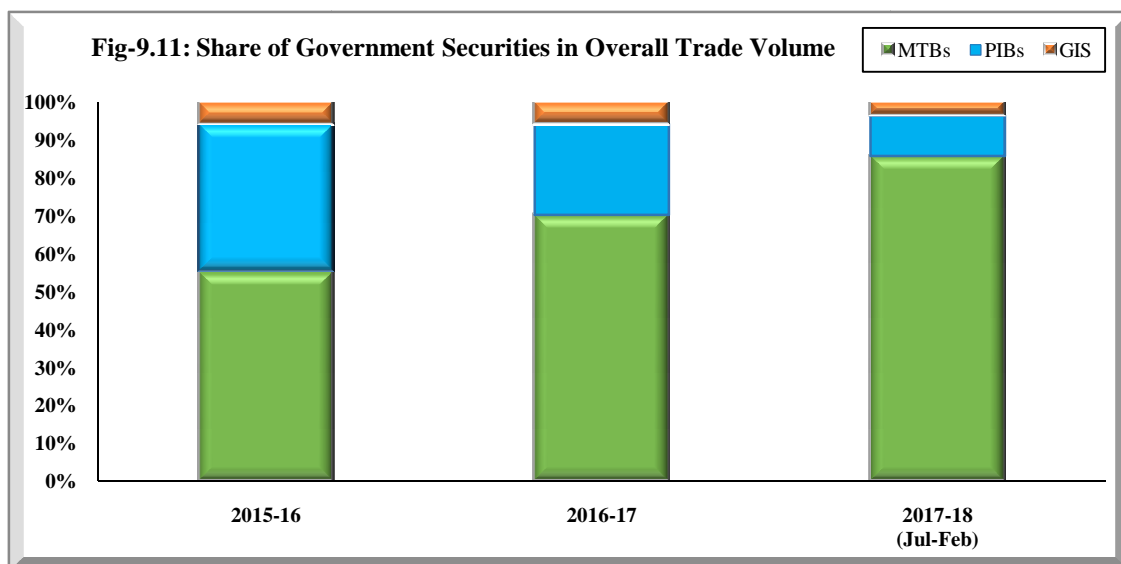
in 2016-17. Consequently, average daily trading volume increased to Rs 113 billion in July-February 2017-18 from Rs 60 billion in 2016-17. Accordingly, the turnover ratio also surged to 2.01 in 2017-18 (July-February) from 1.64 in 2016-17. The significant increase in secondary market trading volumes and turnover ratio is explained primarily by higher issuances of liquid 03-months MTBs and lower issuances of PIBs and GIS, which exhibits greater buy-and-hold behavior of long-horizon investors.

Table 9.8: Secondary Market Trading Volumes			Rs billion
Government Security	2015-16	2016-17	2017-18 (Jul-Feb)
Treasury Bill - 3 Months	1,369	4,954	12,974
Treasury Bill - 6 Months	2,142	3,069	2,769
Treasury Bill - 12 Months	2,720	2,361	232
Sub Total	6,230	10,384	15,975
Pakistan Investment Bonds - 3 Years	2,387	1,480	755
Pakistan Investment Bonds - 5 Years	959	1,193	621
Pakistan Investment Bonds - 10 Years	1,018	853	588
Pakistan Investment Bonds - 15 Years	3	4	10
Pakistan Investment Bonds - 20 Years	10	19	11
Sub Total	4,378	3,549	1,986
Government Ijara Sukuk	653	846	651
Grand Total	11,261	14,779	18,612
Daily Average volume	44.9	60.3	112.8
End Period Stock	8,199	8,991	9,281
Turnover ratio	1.37	1.64	2.01

Source: State Bank of Pakistan

Encouragingly, the share of outright trading in the overall trading volumes, which include repo and outright trades has increased to 55 percent in 2017-18 (July-February) from 43 percent in 2016-17. Among the securities, MTBs comprised of about 86 percent (Rs 15,975 billion) of the overall secondary market trading in marketable government securities during July-February, 2017-18. It is worth noticing

that nearly 81 percent (Rs 12,974 billion) of trading in MTBs was in 3-month alone. On the other hand, the secondary market trading in both PIBs and GIS recorded at Rs 1,986 billion and Rs 651 billion in 2017-18 (July-February) compared with Rs 2,528 billion and Rs 615 billion respectively in corresponding period of 2016-17. This fall in trading volumes in PIBs is mainly attributed to lack of fresh issuances.



Repo Market

The trend of rising trade volumes of repo in the secondary market continued in 2017-18 (July-February) as Rs 14,950 billion were traded for

liquidity management in the interbank market compared with Rs 12,450 billion during the same period of 2016-17. Among the repo trades, 77 percent of the volume was generated

in the overnight repo market. The significantly large trade volumes and high liquidity in the repo market for government securities mean

that investors can efficiently meet their temporary liquidity needs from domestic money market.

Table 9.9: Government Securities Based Transactions

Type	Volumes (PKR billion)			Market Share (%)		
	2015-16	2016-17	2017-18 (Jul-Feb)	2015-16	2016-17	2017-18 (Jul-Feb)
Repo	13,469	19,609*	14,950	54	57	45
Outright	11,261	14,779	18,612	46	43	55
Total	24,730	34,388	33,562	100	100	100

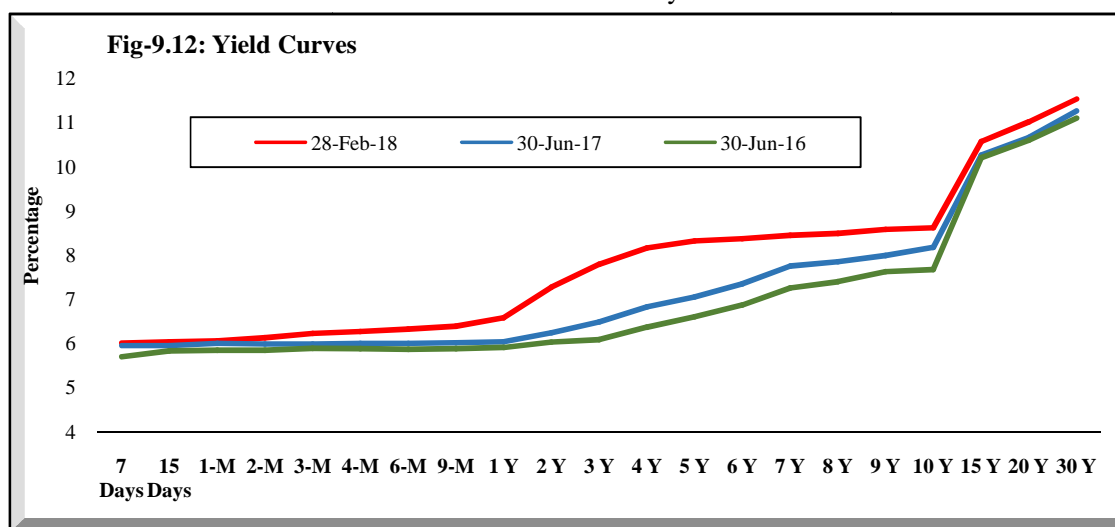
*The table provides full year data for 2016-17. Please note that in 2016-17 (Jul-Feb), Rs 12,450 billion were traded in repo market.

Source: State Bank of Pakistan

Secondary Market Yield Curve:

The market views that the interest rates have bottomed out and the 25 basis points policy rate hike by SBP in January 2018 led to an overall upward shift in the yield curve in February 2018 compared with the yield curves as of end-

June 2015-16 and 2016-17. While the yield curves at end-June 2015-16 and 2016-17 were largely similar, the slight upward shift, particularly up to one-year horizon, in the end-February, 2017-18 yield curve indicates effective translation of 25 basis points policy hike by SBP.



9.7 External Debt and Liabilities

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 is defined as debt which is serviced out of consolidated fund and owed to the International Monetary Fund.

EDL stock stood at US\$ 88.9 billion at end December 2017 out of which external public debt was US\$ 66.9 billion. External public debt increased by US\$ 4.4 billion during first half of the current fiscal year. In addition to net

external inflows, translational losses on account of depreciation of US Dollar against other international currencies contributed towards increase in external public debt during the said period.

Encouragingly, within external public debt, the largest component is multilateral and bilateral debt, constituting around 81 percent. The loans from multilateral and bilateral development partners are primarily aimed at removing structural bottlenecks from Pakistan's economy. These concessional and long term loans are primarily utilized towards implementing

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structural reforms in areas of energy, taxation, doing business, 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 development loans are, thus, simultaneously adding to the debt repayment capacity of the country.

Table-9.10: Pakistan External Debt and Liabilities (US Dollar in billion)

	2013	2014	2015	2016	2017 (P)	2018 (P)*
PUBLIC EXTERNAL DEBT						
1. Public Debt (i+ii+iii)**	48.1	51.3	50.9	57.7	62.5	66.9
i). Medium and Long Term(>1 year)	43.5	47.7	45.8	50.0	55.5	59.4
Paris Club	13.5	13.6	11.7	12.7	12.0	11.9
Multilateral	24.2	25.8	24.3	26.4	27.6	27.9
Other Bilateral	2.9	3.4	3.9	4.4	5.8	6.5
Euro Bonds/Saindak Bonds	1.6	3.6	4.6	4.6	4.8	7.3
Military Debt	0.1	0.0	-	-	-	-
Commercial Loans/Credits	-	0.2	0.3	0.9	4.8	5.3
Local Currency Bonds**	0.0	0.0	0.0	0.0	-	-
Saudi Fund for Development	0.2	0.1	0.1	0.1	0.0	0.0
SAFE China Deposits	1.0	1.0	1.0	1.0	0.5	0.5
NBP/BOC Deposits	-	-	-	-	-	-
ii). Short Term (<1 year)	0.3	0.7	1.0	1.7	0.9	1.2
Commercial Loans/Credits	-	0.2	-	0.6	-	0.3
Multilateral	0.3	0.4	1.0	1.1	0.8	0.9
Local Currency Securities**	0.0	0.1	0.0	0.0	0.1	-
iii). IMF	4.4	3.0	4.1	6.0	6.1	6.3
of which Central Government	1.5	0.7	0.1	-	-	-
Monetary Authorities	2.9	2.4	4.1	6.0	6.1	6.3
PUBLICLY GUARANTEED DEBT						
2) Publicly Guaranteed Debt	0.6	0.5	1.0	1.3	1.2	1.4
i). Medium and Long Term(>1 year)	0.6	0.5	1.0	1.3	1.2	1.4
Paris Club	-	-	-	-	-	-
Multilateral	0.0	0.0	0.0	0.0	0.0	0.0
Other Bilateral	0.6	0.5	1.0	1.3	1.2	1.2
Commercial Loans/Credits	-	-	-	-	-	0.2
Saindak Bonds	-	-	-	-	-	-
ii). Short Term (<1 year)	-	-	-	-	-	-
NON PUBLIC DEBT						
3. Private Sector Debt	3.1	3.1	3.0	4.1	6.5	7.2
4. Public Sector Enterprises (PSEs Debt)	1.2	1.5	1.5	1.5	1.5	1.5
5. Banks	1.6	2.0	2.3	2.7	4.5	4.7
Borrowing	0.7	1.1	1.3	1.6	3.3	3.5
Non-resident Deposits (LCY & FCY)	0.8	0.9	1.0	1.1	1.2	1.2
6. Debt liabilities to direct investors - intercompany debt	3.1	3.4	2.7	3.0	3.3	3.5
Total External Debt (1 through 6)	57.8	62.0	61.5	70.3	79.5	85.2
FOREIGN EXCHANGE LIABILITIES						
7. Foreign Exchange Liabilities	3.1	3.3	3.7	3.6	3.6	3.7
Total External Debt & Liabilities (1 through 7)	60.9	65.3	65.2	73.9	83.1	88.9

P: Provisional *end-December, 2017 **excluding local currency bonds/securities since they are already included in domestic debt

Source: Economic Affairs Division & State Bank of Pakistan

Gross external loan disbursements recorded at US \$5,692 million during first half of the current fiscal year, registered an increase of 44 percent compared with corresponding period of last year. The details of gross external inflows

from main creditors during first half of 2017-18 are as follows:

- Disbursements from multilateral and bilateral development partners were US\$

2,028 million. Within multilateral loans, inflows were largely for the purpose of energy and infrastructure projects while inflows from bilateral loans were mainly received from China against CPEC projects.

- Government raised US\$ 2,500 million in

December 2017 through a 5-year Sukuk and 10-year conventional bond;

- Remaining funds were mobilized from commercial banks aimed at diversifying avenues for future funding needs.

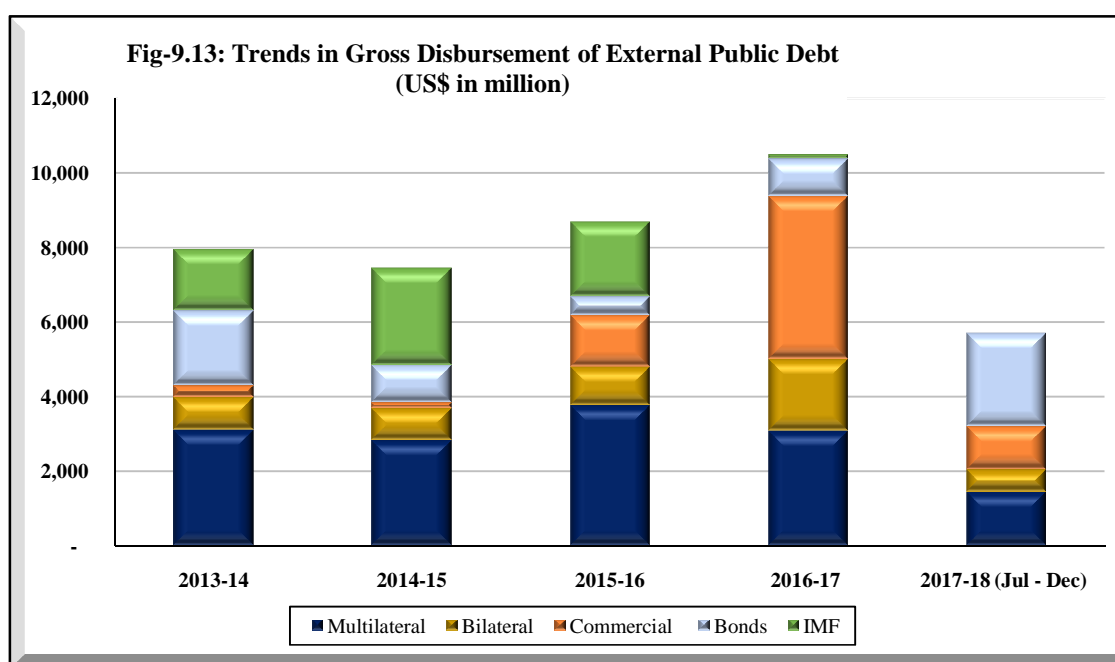
The creditor wise disbursements are presented in the table below:

Table-9.11: Creditor Wise Disbursements Details (July-December, 2017-18)

Financing Source	Donor	Disbursements (US\$ in million)
Multilateral	Islamic Development Bank	750
	Asian Development Bank	443
	International Development Association	132
	International Bank for Reconstruction and Development	87
	Others	25
Multilateral Total (A)		1,437
Bilateral	China	507
	Japan	47
	Saudi Arabia	23
	Others	14
Bilateral Total (B)		591
Eurobonds/Sukuk (C)	Eurobond/Pakistan International Sukuk	2,500
Commercial Banks	ICBC-China	500
	Citi Bank	267
	SUISSE AG,UBL,ABL	255
	SCB (London)	142
Commercial Banks Total (D)		1,164
Grand Total (A+B+C+D)		5,692

Source: Economic Affairs Division

The trends in gross disbursement of external loans from 2014 are shown in the graph below:



9.7.1 External Debt Servicing

External public debt servicing went up by 48 percent to settle at US\$ 6,440 million during 2016-17 compared with US\$ 4,340 million during the preceding fiscal year. The higher

repayments against multilateral loans, Eurobonds, Paris Club Countries and commercial loans mainly led to this increase. In addition, the government repaid Safe China Deposits amounting US\$ 500 million.

Table-9.12: External Public Debt Servicing

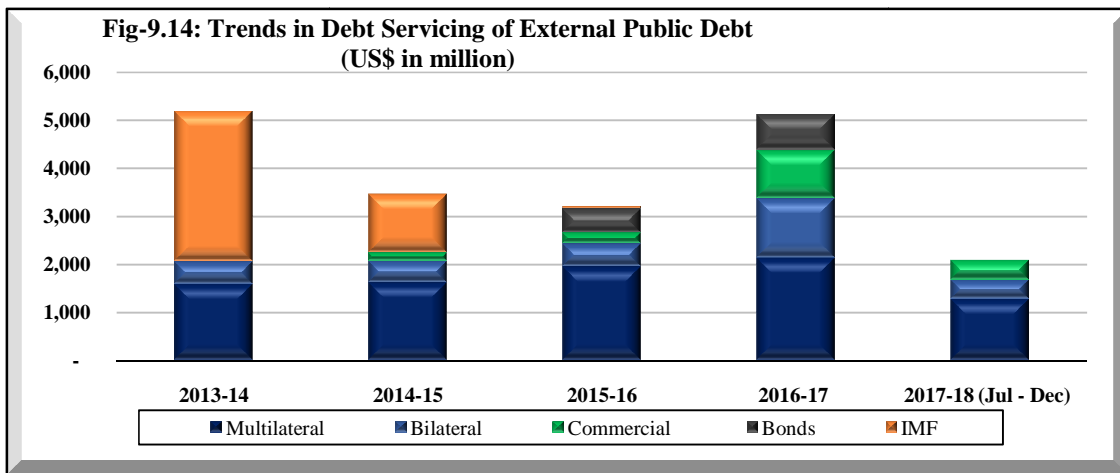
Years	Principal	Interest	Amount Rolled Over	Total
(US Dollar in million)				
2012-13	4,794.6	800.4	500.0	6,095.1
2013-14	5,220.0	774.6	1,000.0	6,994.5
2014-15	3,500.3	974.5	1,000.0	5,474.8
2015-16	3,213.1	1,126.7	1,248.3	5,588.1
2016-17	5,126.7	1,313.2	500.0	6,939.9
2017-18*	2,082.5	782.6	-	2,865.1

*July-December, 2017

Source: Source: SBP, Economic Affairs Division and Debt Policy Coordination Office , M/o of Finance

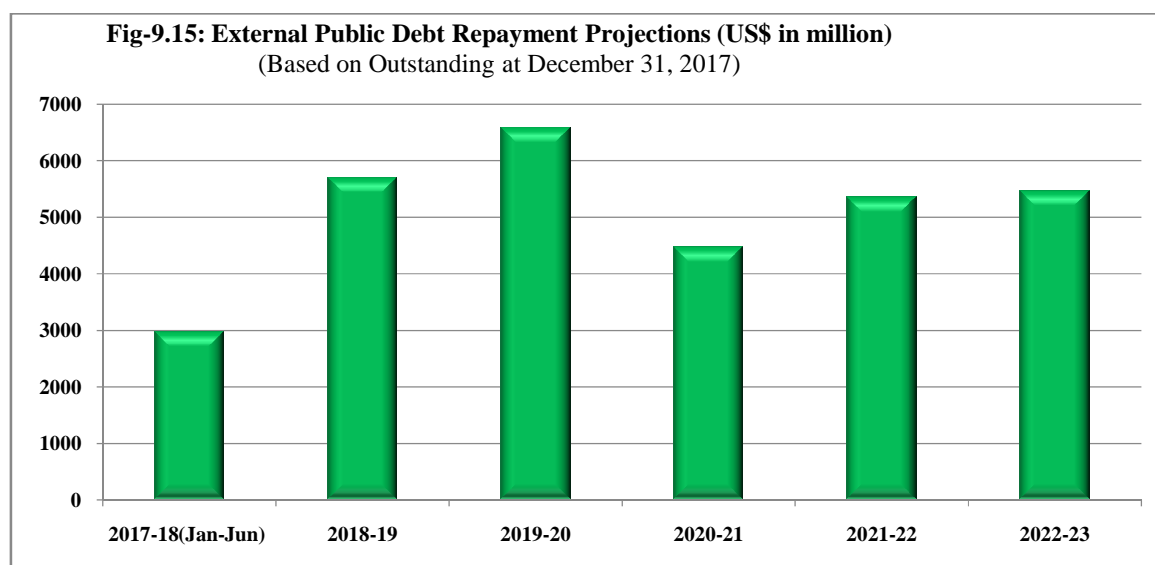
During first half of the current fiscal year, servicing of external public debt was recorded at US\$ 2,865 million. Segregation of this aggregate number shows repayment of US\$ 2,083 million towards maturing external public debt stock while interest payments were US\$

783 million. The main components of debt servicing were repayment against multilateral and bilateral loans which amounted to US\$ 1,069 million during the period. The trends in external debt servicing from 2014 are shown in the graph below:



A country can achieve external debt sustainability if it can meet its current and future external debt service obligations, without debt rescheduling or accumulation of arrears and without compromising growth. External public debt repayment obligations of Pakistan are not more than an average of US\$ 5.5 billion per annum until 2023. Keeping in view the track record of the country, the repayments should not raise any concern as Pakistan has successfully met higher repayment obligations

even with much lower volume of foreign exchange reserves. Furthermore, external inflows are expected to be sufficient to meet these repayment obligations. Government is cognizant of developing trends in balance of payments and has taken several remedial measures to keep current account deficit within manageable limits. The projected external public debt repayment based on outstanding at December 31, 2017 is presented through the graph below:



9.7.2 Impact of Exchange Rate Fluctuations

In Pakistan, external loans are contracted in various currencies, however, disbursements are effectively converted into Pak Rupee. Since Pak Rupee is not an internationally traded currency, other international 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. Thus, any movement in international currencies (in which debt is contracted) and PKR vis-à-vis US Dollar can change the dollar and Pak Rupee value of external debt respectively. While it must be taken into account that domestic debt does not carry currency risk since it is denominated in Pak Rupee.

In addition to net external inflows, depreciation of US Dollar against other international currencies resulted in increase in US Dollar value of external public debt, primarily driven

by depreciation of US Dollar against Euro and SDR by 4.9 percent and 2.3 percent respectively. In Dollar terms, external public debt recorded at US\$ 66.9 billion at end December 2017, registering a growth of 6.9 percent over June 2017 while in Pak Rupee terms, the external public debt increased by 12.6 percent to reach at Rs 7,382 billion at end December 2017. This difference in growth is primarily attributed to Pak Rupee depreciation against US Dollar during first half of current fiscal year.

9.7.3 External Debt Sustainability

The external debt sustainability can be assessed through 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-9.13: External Debt Sustainability Indicators

(In percent)	2013	2014	2015	2016	2017
ED/FEE (times)	1.0	1.0	1.0	1.1	1.2
ED/FER (times)	4.4	3.6	2.7	2.5	2.9
ED/GDP (Percentage)	20.8	21.0	18.8	20.7	20.5
ED Servicing/FEE (Percentage)	11.1	11.7	8.5	8.5	12.4

FEE: Foreign Exchange Earnings; ED: External Public Debt; FER: Foreign Exchange Reserves
Note: The above ratios are calculated based on US Dollar amounts.

Source: Debt Policy Coordination Office, Ministry of Finance

External public debt to GDP ratio decreased to 20.5 percent at the end of 2016-17 from 20.7 percent at the end of 2015-16 while it was 20.8 percent at the end of 2012-13, indicating relative reduction in external debt burden of the country. Higher repayments coupled with translational gain on account of appreciation of US Dollar against other international currencies resulted in reduction of this ratio at the end of 2016-17. By end December 2017, this ratio stood at 21.4 percent.

ED to FEE ratio increased marginally and settled at 1.2 times during 2016-17 compared with 1.1 times during 2015-16. Similarly, ED Servicing to FEE ratio increased to 12.4 percent in 2016-17 from 8.5 percent in 2015-16 while this ratio stood at around 10.7 percent during first half of current fiscal year. The lower growth in FEE during 2016-17 led to increase in these ratios which can be mainly attributed to:

- Stagnation in exports largely due to global economic conditions, low commodity prices and bottlenecks in the energy and infrastructure sectors of the economy; and
- Workers' remittances remained marginally lower than the preceding fiscal year due to adverse economic conditions in the Middle East, stringent USA regulations and impact of Brexit.

Reduction in external debt in relation to foreign exchange reserves reflects consolidation of foreign exchange reserves and general improvement in country's repayment capacity. This ratio started improving since 2012-13 from 4.4 times towards 2.9 times at the end of 2016-17. While moderate decline in foreign exchange reserves on account of increase in current account deficit during 2016-17 led to a slight decline in this ratio during the said period. It is important to note that increase in current account deficit was mainly due to increase in imports of machinery, industrial raw material and petroleum products. These imports are enhancing the productive capacity of the economy for higher output and exports in future. At end December 2017, this ratio

increased and recorded at 3.3 times.

9.8 Pakistan's Link with International Capital Market

The issuance of Eurobonds has had great significance for Pakistan as it not only introduced Pakistan back into international capital market but has also allowed access to foreign sources for building country's reserves that paved the way for exchange rate stability. Further, the proceeds from Eurobonds were utilized to retire the expensive domestic debt.

Pakistan tapped the international capital markets in December 2017, raising US\$2.5 billion via a dual tranche issuance which included a US\$1 billion 5-year Sukuk and a landmark US\$1.5 billion 10-year conventional bond. The conventional issuance was important, being the largest single tranche ever raised by Pakistan at the lowest coupon rate of 6.875 percent for a 10-year bond. The order book for Pakistan's sovereign paper was over US\$ 8 billion. However, the government decided to pick up only US\$ 2.5 billion in order to ensure low final yields on Sukuk and Eurobond. Such oversubscription and overwhelming response of global investors is evidence of trust and confidence of international capital markets in the economic policies of the government. The orders were placed by numerous blue chip institutional international investors from all across the globe. Around 44 percent of the orders were placed by investors from Europe, 24 percent from Asia, 20 percent from North America, 8 percent Middle East and 12 percent from other regions.

Pakistan's international Eurobonds and Sukuk have generally traded well since 2015 till end 2017, with Pakistan 2016, 2017, 2019, 2024 and 2036 bonds broadly trading at a premium during this period. Since February 2018, there has been a change in global markets, with 10-year UST benchmark briefly touching a 4-year high and subsequent increase in rates by the US Fed adding to the volatility. As a result of contractionary monetary policy environment and other market factors coupled with macro-economic developments, there has been an increase in yields of Pakistan bonds and Sukuk in the secondary market with all instruments apart from Pakistan 2024 and 2025 are

currently trading at a discount. However, Pakistan Eurobond market is moving towards stability after witnessing some volatility both from domestic and international fundamentals. It is evident from the fact that the yield on 10-year bond with a maturity of 2027 has reduced by 75 basis points after incorporating recent impact of FED rate hike and PKR depreciation.

International Yield Environment:

The US Federal Reserve raised rates in March

2018 for the sixth time since the policy making Federal Open Market Committee began raising interest rates in December 2015. This was accompanied by a more bullish economic forecast for the US economy. Despite increase in benchmark rates, EM issuances have continued to remain strong with several sovereigns in the single B rating category accessing markets in first quarter of 2018.

Table-9.14: Secondary Trading Levels:

Bond	Ratings			Maturity	Size (\$ in million)	Coupon (%)	Price	Yield (%)
	M	S&P	F					
EM Sovereign Bonds								
Pakistan	B3	B	--	Apr-19	1,000	7.25	101.9	5.4
Pakistan (Sukuk)	B3	B	--	Dec-19	1,000	6.75	101.9	5.6
Pakistan (Sukuk)	B3	B	B	Oct-21	1,000	5.50	98.1	6.1
Pakistan	B3	B	--	Apr-24	1,000	8.25	105.0	7.2
Pakistan	B3	B	B	Sep-25	500	8.25	105.1	7.3
Pakistan	B3	B	--	Mar-36	300	7.875	96.4	8.3
Pakistan (Sukuk)	B3	B	--	Dec-22	1,000	5.625	95.6	6.7
Pakistan	B3	B	--	Dec-27	1,500	6.875	95.1	7.6

Source: Reuters, 13th March 2018

9.9 Recent Developments in Public Debt

Total public debt provisionally stood at Rs 23,608 billion at end February 2018 while Total Debt of the Government was Rs 21,552 billion. Gross Domestic debt recorded an increase of Rs 1,093 billion during first eight months of current fiscal year while external debt increased by Rs 1,107 billion. In addition to financing of fiscal deficit, (i) increase in credit balances of the government with banking system; (ii) depreciation of Pak Rupee against US Dollar; and (iii) depreciation of US Dollar against other international currencies contributed towards the increase in debt.

In-line with trends witnessed during first half of current fiscal year, increase in domestic debt was dominated by mobilization from short term floating debt while permanent debt and unfunded debt continued the same trajectory during January-February, 2018. EDL stock provisionally stood at US\$ 91 billion at end

February 2018 out of which external public debt was US\$ 69.3 billion. Disbursements against external public debt were cumulatively recorded at around US\$ 7,300 million during first eight months of current fiscal year while external public debt servicing was US\$ 3,338 million during the said period. Segregation of this aggregate external debt servicing number shows repayment of US\$ 2,420 million in respect of maturing external public debt stock and interest payments of US\$ 918 million.

9.10 Conclusion

Government is committed to accomplish objectives outlined in the Fiscal Responsibility and Debt Limitation 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) broadening the investor base and having well-functioning domestic debt capital markets; (iii)

lengthening of maturity profile of its domestic debt portfolio to reduce re-financing and interest rate risks; and (iv) 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. Further, it is important for the government to adopt an integrated approach for economic revival and debt reduction. Thus, implementing structural reforms that boost potential growth remain key to ensure public debt sustainability.
