MINISTRY OF FINANCE

Rebuttal of Bloomberg Report on Debt situation

Islamabad: February 16, 2016

Bloomberg News Agency has carried a misleading report on the debt situation of Pakistan. It is unfortunate that despite repeated interaction to correct the factual errors in their report, the agency choose to ignore the clarification and write a report not based on facts. Thus creating an impression about Pakistan debt profile i.e. conjectural and contrary to the actual situation.

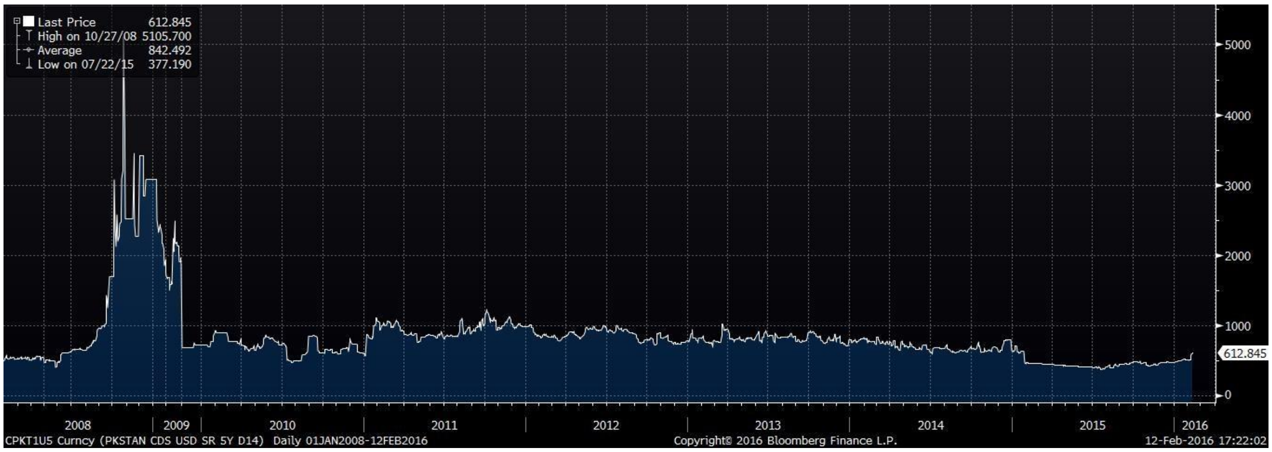
In continuation of our earlier clarification, following factual information may be noted:

- The headline implies that Pakistan's External debt of $50 billion is maturing in one year, which is factually not correct.
- Pakistan's total external public debt was $50.9 billion as on End-June, 2015, maturing over next 40 years.
- Out of this, around $4.0 billion is maturing in 2016 and $2.8 billion in 2017.
- External public debt also includes Eurobonds of $4.6 billion out of which only $500 million is maturing in March 2016 and $750 million in June 2017.
- The default risk is never on domestic debt but only on external debt therefore the headline number of $50 billionis highly misleading. Such a statement from a highly respected news agency is disconcerting. The obligations maturing during the year are fully covered by reserves as well as the planned build up during the year.
- Pakistan has successfully tapped international capital markets three times during the last 30 months and each time it has received oversubscriptions to its offers. It should also be noted that Pakistan returned during this year to the international capital market after 7 years and is now a regular issuer of its debt.
- During this period its credit rating has been enhanced.
- Pakistan has only accumulated an additional $3.8 billion of external debt during the tenure of this Government middle of 2013. On the other hand it has accumulated reserves of nearly $21 billion from a dismal level of $7.5 billion

as on End-February 2014. Thus it is fallacious to claim that Pakistan has built reserves on the back of short-term borrowings.

- Having recently completed the 10th Review under the IMF program, it has been repeatedly emphasized by the Fund that the risks associated with Pakistan's external account have been greatly reduced.
- Pakistan's Euro Bonds maturing in 2016s, 2017s, 2019s, 2024s have traded mostlyat a premium since May 2014 and CDS levelshave been on a downward trajectory as depicted in the following graph taken from Bloomberg itself :

CDS Level for Pakistan - 5 Years



Source: Bloomberg

- The domestic debt is perpetual in nature and is constantly refinanced through new issues.It would be novel to consider domestic debts maturing in the near future as posing any risk of default as a sovereign owes these debts in the local currency. We conduct three auctions in the domestic market per month, one for investment bondsof various maturities (3 years or more) and two auctions for treasury bills (of maturities of 3, 6, and 12 months. Participation in each auction ranges from Rs.100 billion to Rs.500 billion and accordingly government refinances its domestic debt from domestic market as a standard practice prevailing in all jurisdictions having competitive debt markets. Domestic market (both primary and secondary) are very well developed and established in Pakistan and as such the government does not feel any cause for concern with regard to refinancing its domestic debt which is also evident from the fact that the yield curve of short term and long term debt have both been declining steadily for past one year and the yield curve is flattening across the maturity profile which again is a sign of stability. Further, interest payments on domestic debt as percentage of GDP are moderate at around 4%.

- It is also important to mention here that the public debt risk indicators have in fact improved during the last two years i.e. the refinancing risk of the domestic debt reduced at the end of 2014-15 as indicated by percentage of domestic debt maturing in one year reduced to 47 percent compared with 64 percent at the end of 2012-13. Exposure to interest rate risk has also reduced as the percentage of debt re-fixing within one year decreased to 40 percent at the end of 2014-15 as compared with 52 percent at the end of 2012-13. Share of external loans maturing within one year was equal to around 28 percent of official liquid reserves at the end of 2014-15 as compared with around 69 percent at the end of 2012-13 indicating improvement in foreign exchange stability and repayment capacity.

Evidently, the above position establishes that Pakistan’s external account does not face any difficulty in respect of its debt servicing obligations. Therefore the headline needs to be realistic rather than hyperbolic. We would be too happy to respond any further queries you may have in this matter.