CHAPTER 9

Public Debt

9.1 Introduction

The prime objective of public debt management is to ensure that the government's financing needs are met at the lowest possible cost over the medium to long term, consistent with a prudent degree of risk. Debt may well act as catalyst in the course of growth of an economy as long as the economic returns are higher than the cost of borrowed funds. Therefore, borrowed funds are bound to be properly utilized and should conform to the country's debt repayment capacity.

Historically, high debt economies have effectively responded with a wide variety of policy approaches. A brief analysis suggests three primary lessons[1]; First, a growth supporting policy mix is inevitable for debt reduction and fiscal consolidation. Second, fiscal consolidation must emphasize persistent structural reforms to public finances over temporary or short-lived fiscal measures. Third, reducing public debt is bound to be time taking, especially in the context of a weak external environment.

Government inherited extremely challenging macroeconomic situation marked by high fiscal deficits and debt levels. The situation was turned worse due to shortfall in foreign exchange reserves which contributed to a sharp devaluation of Pakistani Rupee and rising inflationary pressures which led to a tight monetary policy stance and a significant increase in domestic debt servicing cost.

Over the medium term, Government objective is to bring and maintain its Public Debt-to-GDP and Debt Service-to-Revenue ratios to sustainable levels through a combination of greater revenue mobilization, rationalization of current expenditure and efficient/productive utilization of debt. Government is committed to bring down Public Debt to GDP to 50 percent in fifteen years (2032/33) in accordance with the provision of Fiscal Responsibility and Debt Limitation Act.

9.2 Public Debt

Fiscal Responsibility and Debt Limitation (FRDL) 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. Whereas, "Total Debt and Liabilities" of the country include "Total Public Debt" (Government Debt) as well as debt of other sectors as presented in the table below:

Table-9.1: Pakistan's Debt and Liabilities

(Rs in billion)	2008	2013	2018 (P)	March 19 (P)
I. Government Domestic Debt	3,274.2	9,520.4	16,416.3	18,170.6
II. Government External Debt	2,761.6	4,336.4	7,795.8	9,625.7
III. Debt from IMF	91.3	434.8	740.8	811.2
IV. External Liabilities[1]	88.5	307.9	622.3	1,414.3
V. Private Sector External Debt	128.4	465.5	1,654.4	2,108.0
VI. PSEs External Debt	82.1	183.2	324.6	489.4
VII. PSEs Domestic Debt	137.2	312.2	1,068.2	1,378.4
VIII. Commodity Operations[2]	127.2	469.7	819.7	653.6
IX. Intercompany External Debt from Direct Investor abroad	-	308.2	437.2	443.3
A. Total Debt and Liabilities (sum I to IX)	**6,690.5**	**16,338.2**	**29,879.2**	**35,094.5**
C. Total Public Debt (sum I to III)	**6,127.1**	**14,291.7**	**24,952.9**	**28,607.5**
D. Total Debt of the Government[3]	**5,650.8**	**13,457.3**	**23,024.0**	**26,368.1**

[1] IMF: "The Good, the Bad, and the Ugly: 100 Years of Dealing with Public Debt Overhangs"

Table-9.1: Pakistan's Debt and Liabilities

(Rs in billion)	2008	2013	2018 (P)	March 19 (P)
Memorandum Items				
GDP (current market price)	10,637.8	22,385.7	34,618.6	38,558.8
Government Deposits with the banking system[4]	476.3	834.4	1,928.9	2,239.4
US Dollar, last day average exchange rates	68.3	99.1	121.5	140.7

P: Provisional
1 External liabilities include Central bank deposits, SWAPS, Allocation of Special Drawing Rights (SDR) and Non-resident LCY deposits with central bank.
2 Includes borrowings from banks by provincial governments and PSEs for commodity operations.
3 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 International Monetary Fund (IMF) less accumulated deposits of the Federal and Provincial Governments with the banking system.
4 Accumulated deposits of the Federal and Provincial Governments with the banking system.
Source: State Bank of Pakistan

Total public debt stood at Rs 28,607 billion at end March 2019, recorded an increase of Rs 3,655 billion during first nine months of current fiscal year. The explanation of this increase is as follows:

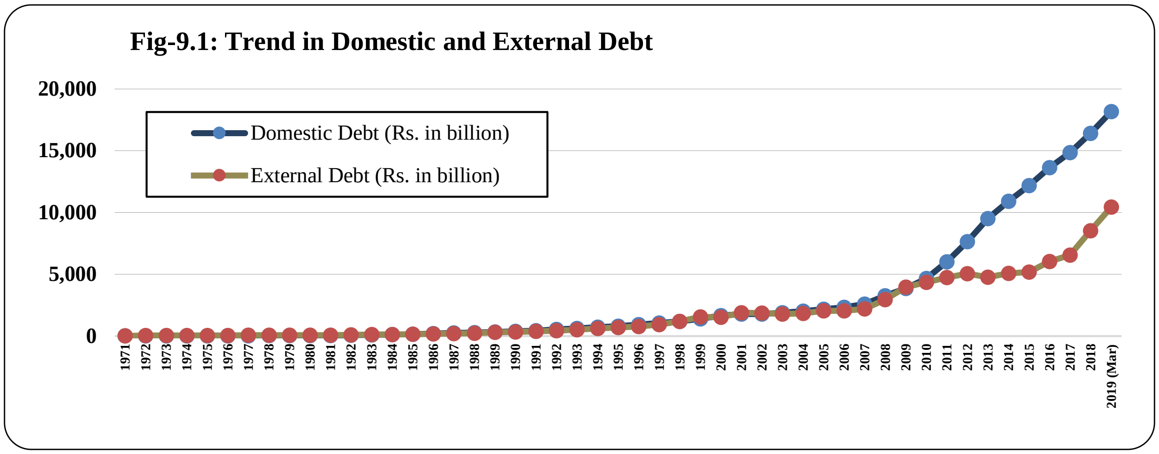
- Increase in debt stock cannot be termed as borrowing of the government. External loans are contracted in various currencies, however, disbursements are effectively converted into Pak Rupee. Thus, devaluation of Pak Rupee against international currencies can increase the value of external public debt portfolio when converted into Pak Rupee for reporting purposes. It is evident from the fact that increase in external public debt contributed Rs 1,900 billion to the public debt during first nine month of ongoing fiscal year while government borrowing for financing of fiscal deficit from external sources was Rs 524 billion during the said period. This differential was mainly on account of depreciation of Pak Rupee against US Dollar. It is worth noting that depreciation of Pak Rupee increases the rupee value of external public debt, however, any such negative impact is spread over many years depending on the life of any given loan and immediate cash flow impact is not significant
- Domestic debt registered an increase of Rs 1,754 billion while government borrowing for financing of fiscal deficit from domestic sources was Rs 1,398 billion. This differential is mainly attributed to an increase in credit balances of the government with the banking system.

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

Box-I: Trend in Public Debt

Table-9.2: 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**	3,274	2,853	6,127
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**	4,653	4,357	9,010
1979	52	77	130	**1995**	809	688	1,497	**2011**	6,014	4,756	10,771
1980	60	86	146	**1996**	920	784	1,704	**2012**	7,638	5,059	12,697
1981	58	87	145	**1997**	1,056	939	1,995	**2013**	9,520	4,771	14,292
1982	81	107	189	**1998**	1,199	1,193	2,392	**2014**	10,907	5,085	15,991
1983	104	123	227	**1999**	1,389	1,557	2,946	**2015**	12,193	5,188	17,380
1984	125	132	257	**2000**	1,645	1,527	3,172	**2016**	13,626	6,051	19,677
1985	153	156	309	**2001**	1,799	1,885	3,684	**2017**	14,849	6,559	21,409
1986	203	187	390	**2002**	1,775	1,862	3,636	**2018**	16,416	8,537	24,953
								2019 (March)	18,171	10,437	28,607



Similar to last year, composition of public debt witnessed changes during first nine months of ongoing fiscal year. On domestic debt front, government relied mainly on short-term floating debt while net mobilization from permanent debt and unfunded debt remained limited. Whereas, external inflows from bilateral development partners and commercial sources remained the main contributor in external public debt disbursements. Accordingly, the share of bilateral and commercial sources inched up in external public debt portfolio while share of multilateral sources relatively declined during first nine months of current fiscal year as compared with last fiscal year.

Government introduced Pakistan Banao Certificates (PBC) which is a US Dollar denominated retail level instrument, for Pakistanis having bank accounts overseas. The main objectives of issuance of PBC are:

i. Balance of payment support and build-up of foreign exchange reserves;
ii. Raise financing for critically important infrastructure projects including dams, road network, power generation, transmission projects etc.

PBC is the first sovereign retail instrument being offered by Government of Pakistan that allow overseas Pakistanis to contribute in their country's development while providing attractive investment opportunity to earn reasonable returns on investment. The detailed modalities pertaining to PBC are presented in Box-II:

Box-II: Pakistan Banao Certificates

Eligible Investors

The holders of any one or more of following documents and having own bank account abroad, are eligible to subscribe the PBC:

- Pakistani individual having Computerized National Identity Card (CNIC)
- Pakistani individual having National Identity Card for Overseas Pakistanis (NICOP)
- Holders of Pakistan Origin Card (POC).

Digital Subscription

PBC is being offered for subscription through a specially designed Web-Portal. The investors first register themselves on the portal and give their investment and bank account details on successful registration. The certificates are issued to the investors electronically on receipt of funds in State Bank of Pakistan Account. The investor receives confirmation of the issuance of the certificates both through email and update of their account on the portal. The investors can view the status of their application by accessing the web-portal through their respective User ID and Password.

Key Benefits to investors

- Profit payments on semi-annual basis
- Maturity in US Dollar as well as PKR
- PKR maturity has an added incentive of 1 percent on the final premium
- Can be encashed at any time, however, encashment in USD within one year of issuance entails 1 percent penalty
- Encashment application will also be submitted online by accessing the Redemption module of PBC portal (https://pakistanbanaocertificates.gov.pk)
- Periodic profit and redemption proceeds will be sent to the investors' accounts designated at the time of investment.

Minimum Investment Amount

Minimum investment amount is US$ 5,000 or higher in the integral multiple of US$ 1,000 with no maximum limit.

Profit Rates

- 6.25 percent for 3 years payable semi-annually
- 6.75 percent for 5 years payable semi-annually
- Profit payment shall be exempted from deduction of tax at source.

Type of Instrument

PBC is a scrip-less instrument registered in the Securities General Ledgers Account (SGLA) maintained at State Bank of Pakistan (SBP). Issued PBC will be residing in an Investor Portfolio Security Account (IPS) of the investor, so as to keep track of investment of each individual investor.

Development of debt capital 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-III).

Box-III: Steps Taken for The Development of Debt Capital Markets

In order to enhance the investors base, facilitate debt issues and provide additional investment avenues to corporates, mutual funds and employees funds, the Commission has notified the following persons as other persons to whom privately placed debt securities being instrument of redeemable capital can be issued:

(i) mutual funds, voluntary pension schemes, and private fund being managed by NBFC
(ii) insurer registered under the Insurance Ordinance, 2000 (XXXIX of 2000)
(iii) a security brokers
(iv) a fund and trust as defined in the Employees Contributory Funds (Investment in Listed Securities) Regulations, 2018
(v) a company and body corporate as defined in the Companies Act, 2017.

Government intends to review the Credit Rating Companies Regulations, 2016 to enhance the role of Credit Rating Agencies in promotion of the corporate bond market. In addition, the government is planning to introduce various new instruments with the objective to meet government financing in an efficient manner while providing more options to the investors in-line with their investment horizon and risk appetites/preferences.

Source: Securities and Exchange Commission of Pakistan & Debt Policy Coordination Office, Ministry of Finance

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 nine months of current fiscal year, the government issued fresh/rollover guarantees aggregating to Rs 168 billion or 0.4 percent of GDP. The outstanding stock of government guarantees at end March 2019 was Rs 1,265 billion.

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

In accordance with the Medium-Term Debt Management Strategy (2015/16-2018/19), the government was required 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	2018	2013	2018	2013	2018
Refinancing Risk	Average Time to Maturity (ATM) - Years	1.5 (minimum) and 2.5 - DD 3.0 (minimum) and 4.5 – PD	10.1	7.6	1.8	1.6	4.5	3.6
	Debt Maturing in 1 Year (% of total)	50% and 65% (maximum) - DD 35% and 50% (maximum) - PD	8.9	12.4	64.2	66.3	46.0	48.9
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	6.6	1.8	1.6	4.2	3.2
	Debt Re-Fixing in 1 year (% of total)	50% and 65% (maximum) - DD 40% and 55% (maximum) - PD	22.2	32.2	67.2	66.6	52.4	55.5
	Fixed Rate Debt (% of total)	**	83.4	72.5	39.6	44.3	54.0	53.4
Foreign Currency Risk (FX)	Foreign Currency Debt (% of total debt)	20% (minimum) and 35%					32.9	32.2
	Short Term FX Debt (% of reserves)	**					68.5	80.6

* 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

At end June 2018, three of the nine thresholds were breached ranging from 0.5 percent to 1.6 percent as per the following details:

Refinancing Risk

The upper range for the risk indicator "Domestic Debt Maturing Within a Year" was 65 percent while this indicator at end June 2018 reached at 66.3 percent. The banks opted to tilt their portfolio towards short term market treasury bills as expectation of a further rise in policy rate discouraged them to invest in long-term debt instruments, largely to manage market risk.

Interest Rate Risk

The upper range for "Domestic Debt Re-Fixing in 1 Year" and "Public Debt Re-Fixing in 1 Year" was envisaged at 65 percent and 55 percent respectively, while these indicators stood at 66.6 percent and 55.5 percent at end June 2018. As stated above, borrowing through short term domestic debt instruments (which requires interest rate re-fixing in short term) as well as borrowing contracted from foreign commercial banks on floating rates (mainly to fund external debt maturities and to finance the current account deficit) led these indicators to surpass the defined thresholds.

Foreign Currency Risk

Short term external public debt maturities were 80.6 percent of official liquid reserves at end June 2018 compared with 68.5 percent at end June 2013. The higher proportion of long term maturities falling within a year compared with the level of official liquid reserves resulted in deterioration of this risk indicator. Around 32 percent[2] of total public debt stock was denominated in foreign currencies exposing public debt portfolio to exchange rate risk.

Going forward, the government intends to update its Medium Term Debt Management Strategy on the basis of two broad principles to ensure sustainability i.e. keeping debt stock within manageable levels and maintaining a diversified debt portfolio comprising variety of instruments and tenors while providing flexibility and enhanced borrowing options.

9.4 Dynamics of Public Debt Burden

The analysis of various solvency and liquidity indicators provide clear insight into debt sustainability of the country. The debt burden can be expressed in terms of stock ratio (Debt to GDP) or flow ratios (Debt to revenue). It is a common practice to measure public debt burden as a percentage of GDP, however, debt burden in terms of flow ratios reflects more accurately on repayment capacity of the country.

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

	2013	2014	2015	2016	2017	2018
Revenue Balance* / GDP	(2.9)**	(0.7)	(1.7)	(0.8)	(0.7)	(1.7)
Primary Balance* / GDP	(3.6)**	(0.2)	(0.5)	(0.2)	(1.5)	(2.1)
Fiscal Balance / GDP	(8.2)**	(5.5)	(5.3)	(4.6)	(5.8)	(6.5)
Gross Public Debt / GDP	63.8	63.5	63.3	67.7	67.1	72.1
Total Government Debt / GDP	60.1	58.1	58.3	61.3	61.5	66.5
Gross Public Debt / Revenue	479.2	439.6	42.1	442.5	433.7	477.3
Total Government Debt / Revenue	451.2	402.1	406.7	400.8	397.7	440.4
Debt Service / Revenue	40.5	40.1	40.4	35.9	38.3	37.3
Interest Service / Revenue	33.2	31.6	33.2	28.4	27.3	28.7
Debt Service / GDP	5.4	5.8	5.8	5.5	5.9	5.6

*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

Fiscal deficit reached its highest level in last five years and recorded at 6.5 percent of GDP during 2017-18. The fiscal performance can also be assessed through analysis of revenue and primary balances as follow:

- The revenue deficit[3], which excludes development expenditure, recorded at 1.7 percent of GDP in 2017-18 compared with 0.7 percent during the preceding fiscal year. This growth in current expenditures (13 percent) outpaced the growth in revenue (6 percent) which led to increase in revenue deficit during 2017-18. On the other hand, development expenditures declined by around 4 percent during 2017-18 compared with last fiscal year indicating that fiscal deficit was mainly driven by increase in current expenditure
- Similarly, the primary deficit[4], which excludes interest payments, increased to 2.1 percent of GDP during 2017-18 from 1.5 percent during 2016-17, indicating a much faster increase in non-interest expenditure compared to revenue.

Fiscal indicators witnessed deterioration during first nine months of current fiscal year. The lower revenue collection and higher current expenditures (primarily driven by interest payments and defense expenditures) led to higher revenue deficit of 3.1 percent of GDP compared with 1.4 percent during the same period last year. Similarly, the primary deficit owing to shortfall in revenue

[2] As per modalities of MTDS

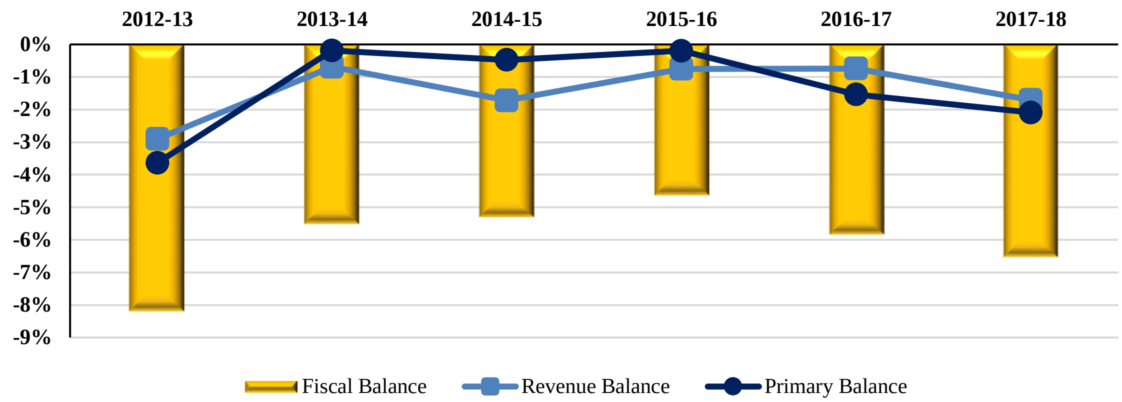
[3] Revenue balance is the total revenues minus current expenditure. The persistence of revenue deficit indicates that the government is not only borrowing to finance its development expenditure, but partially also financing its current expenditure.

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

collection and higher non-interest current expenditures, recorded at 1.2 percent of GDP compared with 0.8 percent during the same period last year. Thus, fiscal deficit increased to 5 percent of GDP during first nine months of current fiscal year compared to 4.3 percent during the same period last year.

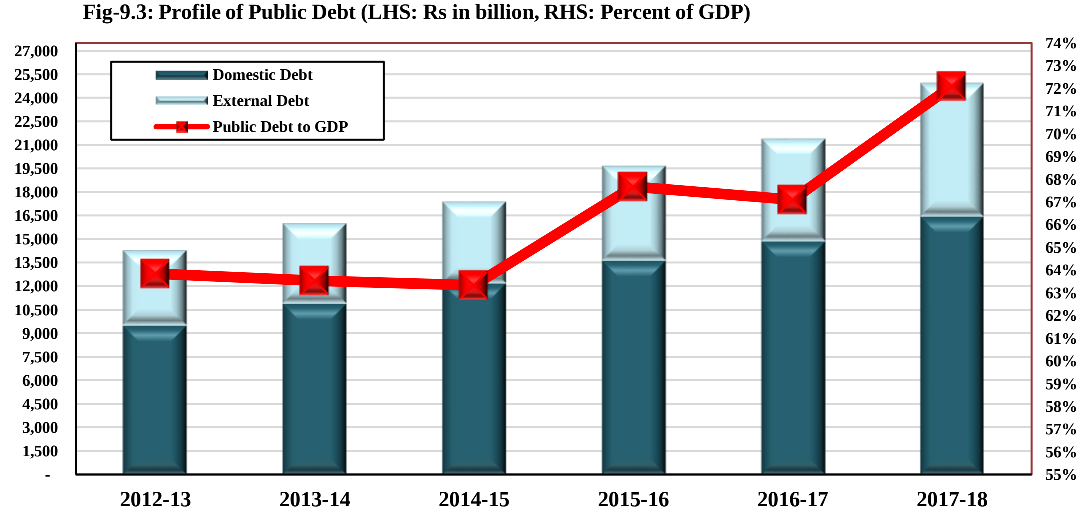
The trends in fiscal, revenue and primary balance are depicted in the graph below:

Fig-9.2: Trends in Fiscal, Revenue and Primary Balance (In Percent of GDP)



Total public debt as percentage of GDP stood at 72.1 percent while total debt of the government recorded at 66.5 percent at end June 2018. Thus, these indictors remained significantly higher than the 60 percent threshold as envisaged under FRDL Act, 2005. Total public debt to GDP ratio further increased and recorded at 74.2 percent of GDP at end March 2019. Apart from higher fiscal deficit, depreciation of Pak Rupee against US Dollar has contributed to this increase during first nine months of current fiscal year. Total public debt position since fiscal year 2013 (both in absolute and GDP terms) are depicted in the following graph:

Fig-9.3: Profile of Public Debt (LHS: Rs in billion, RHS: Percent of GDP)



Public debt levels against actual government revenues reveal important information about debt bearing capacity of the country. Total public debt as percentage of revenue stood at 477 percent in 2017-18 compared with 434 percent in 2016-17, indicating increase in government indebtedness and weakening debt affordability.

Interest payments were 29 percent of revenue during 2017-18 compared with 27 percent during

2016-17 while it was around 33 percent in 2012-13. Interest payments consumed 41 percent of revenue during first nine months of current fiscal year compared with 33 percent during the same period last year. This increase in interest payment is attributed to tight monetary policy stance[5]coupled with higher share of short term domestic debt[6] while revenue collection remained lower compared with last fiscal year.

9.5 Servicing of Public Debt

Public debt servicing was recorded at Rs 1,975 billion during first nine months of current fiscal year against the annual budgeted estimate of Rs 2,396 billion. Domestic interest payments constituted around 65 percent of total debt servicing due to higher volume of domestic debt in total public debt portfolio. Domestic interest payments were recorded at Rs 1,277 billion during first nine months of current fiscal year primarily driven by payments made against Market Related Treasury Bills (Rs 299 billion), Treasury Bills (Rs 290 billion), National Savings Schemes (Rs 272 billion) and Pakistan Investment Bonds (Rs 268 billion).

Table-9.5: Public Debt Servicing (Rs in billion)

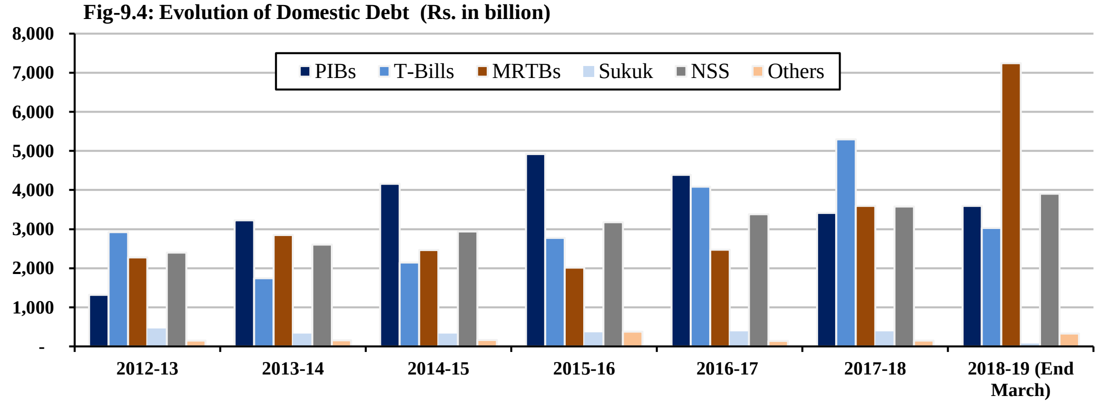
	2018-19*			
	Budgeted	**Actual**	**Percent of Revenue**	**Percent of Current Expenditure**
Total External Principal Repayment (A)	**775.9**	**515.5**	14.4	10.7
Servicing of External Debt	229.2	182.4	**5.1**	**3.8**
Servicing of Domestic Debt	1,391.0	1,276.8	35.6	26.6
Total Interest Servicing (B)	**1,620.2**	**1,459.2**	40.7	30.4
Total Servicing of Public Debt (A+B)	**2,396.1**	**1,974.7**	**55.1**	**41.2**

Source: Budget Wing and Debt Policy Coordination Office Staff Calculations, Ministry of Finance, *: July-March

9.6 Domestic Debt

Domestic debt is primarily obtained to finance fiscal deficit while also lending support to Public Sector Development Program (PSDP). 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 nine months 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 57 percent at end March 2019 compared with 54 percent at the end of last fiscal year, while share of permanent debt in total domestic debt reduced to 26 percent at end March 2019 compared with 28 percent at the end of last fiscal year.

Fig-9.4: Evolution of Domestic Debt (Rs. in billion)



[5] Policy rate increased by around 4.25 percent during first nine months of current fiscal year while global interest rates have also started to pick up during last few years.
[6] Domestic debt maturing within one year was around 70 percent at end March 2018.

9.6.1 Outstanding Domestic Debt

Domestic debt stock was recorded at Rs 18,171 billion at end March 2019. During first nine months of current fiscal year, the government relied mainly on domestic sources to finance its fiscal deficit. Consequently, domestic debt witnessed an increase of Rs 1,754 billion while government borrowing from domestic sources for financing fiscal deficit was Rs 1,398 billion. This differential is mainly attributed to increase in government credit balances with the banking system. Most of the increase in domestic debt came from short term floating debt while net mobilization from permanent debt and unfunded debt remained limited during first nine months of current fiscal year. Cumulatively, the government mostly borrowed from State Bank of Pakistan (SBP) and retired portion of its debt to commercial banks.

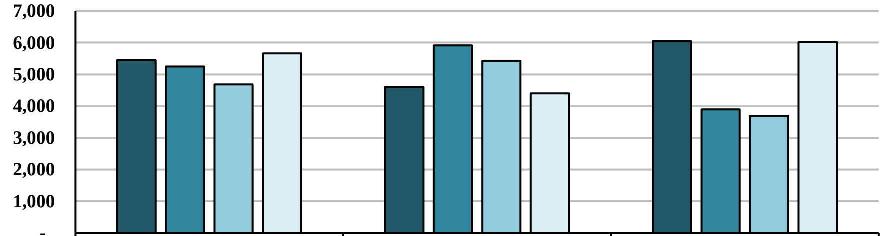
Quarterly domestic borrowing pattern

During first quarter of 2018-19, the bidding pattern of commercial banks was largely driven by the tightening of the monetary policy stance. Within government securities, the banks remained mainly interested in the 3-month treasury bills. In case of fixed rate PIBs, limited participation was observed as the offered amount was only 14 percent of the maturities during the quarter. In contrast, participation in 10-years floating rate PIBs was relatively better i.e. against the target of Rs 150 billion set for first quarter of 2018-19, offered amount was around Rs 152 billion and government accepted Rs 108 billion keeping in consideration cost risks trade-off. Overall, the government had to borrow from SBP to retire its ensuing maturities against treasury bills and fixed rate PIBs as both offered and accepted amount in these securities auctions fell short of their maturities and targets set for the said quarter i.e. the government borrowed Rs 1,750 billion from the SBP and retired Rs 1,488 billion to the commercial banks during first quarter of ongoing fiscal year.

During second quarter of 2018-19, the government borrowed more from scheduled banks and retired some of its borrowing from SBP. Continuing the trend observed during the second quarter, banks remained more interested in 3-month treasury bills during second quarter of 2018-19 and consequently the proportion of longer tenure treasury bills almost wiped out in the outstanding domestic debt. The participation in fixed rate PIBs remained subdued during second quarter of 2018-19 while all the bids in floating rate PIBs auction were rejected. Government also mobilized Rs 72.6 billion from the auction of outright purchase of GIS on deferred payment (Bai Muajjal) basis. Overall, 3-months treasury bills remained the main source for domestic financing of fiscal deficit and refinancing of existing maturities during second quarter of 2018-19.

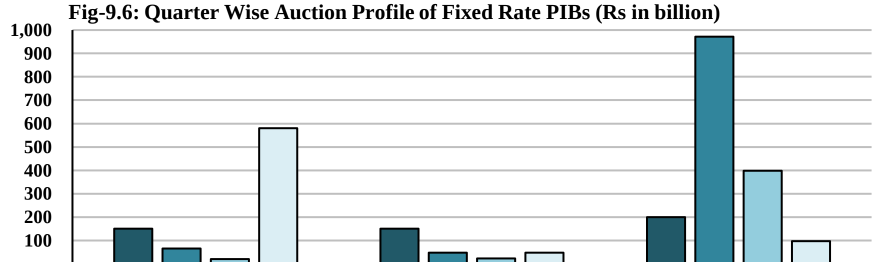
Commercial banks' appetite for medium to long term securities started to revive from January 2019 and healthy participation amounting to Rs 1,215 billion was observed during third quarter of 2018-19 out of which the government accepted Rs 496 billion keeping in view cost risks trade-off. On the other hand, participation and acceptance in treasury bills auctions fell well short of both the maturities and auction targets set for the said quarter and consequently government had to resort to SBP borrowing to meet its additional financing requirements and to cover existing short term maturities. Government also mobilized additional Rs 105 billion from the auction of outright purchase of GIS on deferred payment (Bai Muajjal) basis during the said quarter. Cumulatively, the government borrowed Rs 3,648 billion from the SBP and retired Rs 2,545 billion to the commercial banks during July - March 2019. The following graphs illustrate the auction profile of PIBs and T-bills:

Fig-9.5: Quarter Wise Auction Profile of Treasury Bills (Rs in billion)



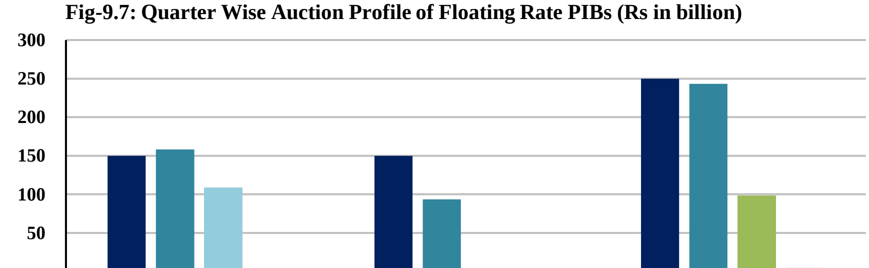
	Q1 (2018-19)	Q2 (2018-19)	Q3 (2018-19)
Target	5,450	4,600	6,050
Participation	5,250	5,913	3,895
Acceptance	4,687	5,431	3,691
Maturity (Principle + Coupon)	5,661	4,401	6,019

Fig-9.6: Quarter Wise Auction Profile of Fixed Rate PIBs (Rs in billion)



	Q1 (2018-19)	Q2 (2018-19)	Q3 (2018-19)
Target	150	150	200
Participation	65	48	972
Accepetance	21	22	398
Maturity (Principle + Coupon)	581	48	97

Fig-9.7: Quarter Wise Auction Profile of Floating Rate PIBs (Rs in billion)



	Q1 (2018-19)	Q2 (2018-19)	Q3 (2018-19)
Target	150	150	250
Participation	158	93	243
Accepetance	108	-	98
Maturity (Principle + Coupon)	-	-	5

The following section highlights the developments in various components of domestic debt during first nine 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 have 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. Government of Pakistan has also introduced a conventional long-term (10-year maturity) floating-rate PIBs. It has been a very good addition to domestic securities portfolio enabling the government to borrow for a longer period without locking itself into high fixed borrowing cost. This instrument is also useful for investors which prefer to avoid fluctuations in the market value of their investments.

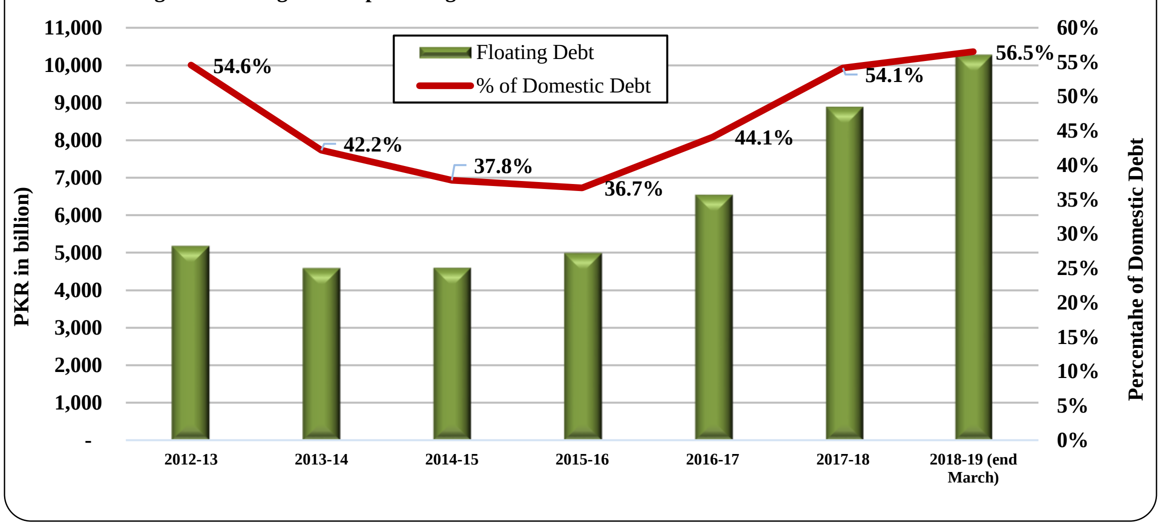
Permanent debt was recorded at Rs 4,804 billion at end March 2019, representing an increase of Rs 144 billion during first nine months of ongoing fiscal year. Net mobilization from PIBs stood at Rs 183 billion compared with the retirement of Rs 1,068 billion during the same period last year. Government also mobilized Rs 178 billion from the auction of outright purchase of GIS on deferred payment (Bai Muajjal) basis.

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 formed the largest part of domestic debt portfolio at end March 2019, recorded at Rs 10,271 billion or around 57 percent of total domestic debt portfolio. Floating debt recorded an increase of Rs 1,382 billion during first nine months of current fiscal year, thereby, around 79 percent of total increase in domestic debt portfolio was on account of mobilization from floating debt. The trend in floating debt stock is depicted through following graph:

Fig-9.8: Floating Debt as percentage of Domestic Debt



III. Unfunded Debt

The stock of unfunded debt (primarily made up of various instruments available under National Savings Schemes) stood at Rs 3,096 billion at end March 2019, constituted around 17 percent of domestic debt portfolio. The rates on National Savings Schemes revised four times during first nine months of current fiscal year to align with the market rates. Unfunded debt recorded net mobilization of Rs 228 billion during first nine months of current fiscal year compared with Rs 49 billion mobilized during the same period last year. Most of the incremental mobilization came from Regular Income Certificate (Rs 103 billion), Bahbood Savings Certificates (Rs 90 billion) and Pensioners' Benefit Account (Rs 31 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 addition, various initiatives are in process which are expected to bring further improvement in CDNS (Box-IV).

Box-IV: Initiatives for the Improvement of Central Directorate of National Savings (CDNS)

Sharia Product of National Savings: Keeping in view the increasing demand of sharia compliant instruments, CDNS has developed its first-ever Sharia Compliant Certificate called "Sarwa Islamic Savings Account (SISA)". In this reference, the draft rules have been printed in the Gazette of Pakistan and after approval of the CCLC and the Federal Cabinet, the proposed SISA Scheme will be introduced across the country.

Overseas Pakistanis Savings Certificates ("OPSCs"): Overseas Pakistanis Savings Certificates have been designed to mobilize the savings from Pakistani diaspora abroad. These certificates will be offered in PKR and US Dollar and are expected to be launched in fiscal year 2019-20.

Launch of Rs. 100,000 Premium Prize Bond (Registered): After successful launch of Premium Prize Bond (Registered) with Rs 40,000 denomination, CDNS is in a process of launching another registered prize bond with Rs 100,000 denomination.

Scrip-less Issuance and Introduction of Registered Prize Bonds amongst all Denominations of Bearer Bonds: In collaboration with SBP, CDNS is in a process of introduction of registered scrip-less prize bonds amongst all denominations. The registered prize bonds will be a step towards documentation of the economy while providing facility to the general public.

Debit Card Launch & Membership of 1-Link System: CDNS is also planning to launch ATM Debit Cards with the support of the Karandaaz Pakistan.

Source: Central Directorate of National Savings

Table-9.6: Outstanding Domestic Debt - (Rs in billion)

	2008	2013	2014	2015	2016	2017 (P)	2018 (P)	March 19 (P)
Permanent Debt	**616.9**	**2,179.0**	**4,003.6**	**5,012.8**	**5,940.6**	**5,533.1**	**4,659.2**	**4,803.6**
Market Loans	3.0	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Government Bonds*	9.9	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Prize Bonds**	182.8	389.6	446.6	522.5	646.4	747.1	851.0	948.2
Foreign Exchange Bearer Certificates	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Bearer National Fund Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Federal Investment Bonds	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Currency Bearer Certificates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
U.S. Dollar Bearer Certificates	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Special U.S. Dollar Bonds	8.3	4.3	4.2	4.4	4.5	4.5	5.1	5.9
Pakistan Investment Bonds (PIB)***	411.6	1,321.6	3,222.0	4,155.2	4,921.4	4,391.8	3,413.3	3,596.2
GOP Ijara Sukuk	-	459.2	326.4	326.4	363.9	385.4	385.4	71.0
Bai-Muajjal of Sukuk	-	-	-	-	-	-	-	177.8
Floating Debt	**1,636.9**	**5,194.9**	**4,599.1**	**4,609.4**	**5,001.7**	**6,550.9**	**8,889.0**	**10,270.6**
Market Treasury Bills***	536.5	2,919.7	1,746.8	2,148.9	2,771.4	4,082.0	5,294.8	3,029.7
MTBs for Replenishment****	1,100.4	2,275.2	2,852.3	2,460.5	2,017.6	2,468.9	3,594.2	7,240.8
Bai Muajjal*****	0.0	0.0	0.0	0.0	212.6	0.0	0.0	0.0
Unfunded Debt	**1,020.4**	**2,146.5**	**2,303.8**	**2,570.3**	**2,683.7**	**2,765.3**	**2,868.1**	**3,096.4**
Defense Saving Certificates	284.6	271.7	284.6	300.8	308.9	325.5	336.2	380.8
National Deposit Certificates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Khass Deposit Certificates	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Special Savings Certificates (Registered)	160.3	388.2	445.8	474.3	472.4	433.1	381.9	415.0
Special Savings Certificates (Bearer)	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Regular Income Certificates	51.0	262.6	325.4	376.0	359.8	338.8	347.5	450.4
Premium Saving Certificates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Behbood Savings Certificates	229.0	528.4	582.4	628.3	692.1	749.5	794.9	884.4

Table-9.6: Outstanding Domestic Debt - (Rs in billion)	2008	2013	2014	2015	2016	2017 (P)	2018 (P)	March 19 (P)
Short Term Savings Certificates	-	4.0	1.3	1.7	1.9	3.7	4.3	5.0
Khass Deposit Accounts	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Savings Accounts	27.7	22.3	22.6	26.4	30.2	34.9	38.3	37.2
Special Savings Accounts	67.0	346.2	292.7	392.9	423.8	489.0	549.0	473.6
Mahana Amdani Accounts	2.5	2.0	1.9	1.8	1.8	1.7	1.7	1.6
Pensioners' Benefit Account	87.7	179.9	198.4	214.1	234.7	253.4	274.9	306.0
Shuhadas Family Welfare Account	-	-	-	-	-	-	-	0.0
National Savings Bonds	-	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Postel Life Insurance Schemes	67.1	67.1	67.1	67.1	67.1	45.8	46.7	46.4
GP Fund	42.5	73.1	80.5	85.8	90.0	88.8	91.7	95.1
Total Domestic Debt	**3,274.2**	**9,520.4**	**10,906.5**	**12,192.5**	**13,625.9**	**14,849.2**	**16,416.3**	**18,170.6**

P: Provisional
*Special Government Bond for SLIC have been added into Government Bonds
**Includes Premium Prize Bonds (Registered)
***Govt. Securities held by non-residents deducted from PIB's and T Bills
****Includes outright sale of MRTBs to Commercial Banks and SBP (BSC) holding of MTB's i.e. Rs 0.509 billion
*****Includes Rs 0.013 billion of Treasury Bills on Tap

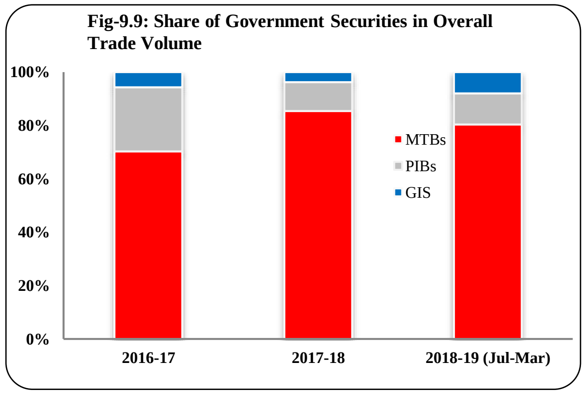
9.6.2 Secondary Market Activities in the Marketable Government Securities:

Pakistan has a developed and vibrant secondary market for marketable government debt securities. In the first nine months of 2018-19, the secondary market outright trading volumes of government securities increased to Rs 21,345 billion compared with Rs 20,375 billion during the same period of 2017-18. These trading numbers translate into an average daily trading volume of Rs 112.9 billion during July-March 2018-19 compared with Rs 110.2 billion and Rs 60.3 billion in 2017-18 and 2016-17, respectively. The increase in secondary market trading volumes over the last two years is explained primarily by higher issuances of liquid 03-month Market Treasury Bills and improved trading in Government Ijara Sukuk (GIS) in the Islamic debt market. Accordingly, the turnover ratio has also increased to 3.15 in 2018-19 (July-March) from 3.00 in 2017-18 and 1.64 in 2016-17.

Table 9.7: Secondary Market Trading Volumes — Rs billion

Government Security	2016-17	2017-18	2018-19 (July-March)
Treasury Bill - 3 Months	4,954	20,114	17,093
Treasury Bill - 6 Months	3,069	3,141	34
Treasury Bill - 12 Months	2,361	258	33
Sub Total	**10,384**	**23,513**	**17,160**
Pakistan Investment Bonds - 3 Years	1,480	1,057	1,105
Pakistan Investment Bonds - 5 Years	1,193	1,029	626
Pakistan Investment Bonds - 10 Years	853	900	763
Pakistan Investment Bonds - 15 Years	4	10	1
Pakistan Investment Bonds - 20 Years	19	11	1
Sub Total	**3,549**	**3,006**	**2,495**
Government Ijara Sukuk	846	1,022	1,690
Grand Total	**14,779**	**27,541**	**21,345**
Daily Average volume	**60.3**	**110.2**	**112.9**
End Period Stock	8,991	9,175	6,771
Turnover ratio	1.64	3.00	3.15

Source: State Bank of Pakistan



Among the securities, MTBs dominated the secondary market activity as nearly 80 percent (i.e. Rs 17,160 billion) of the trading volumes were in MTBs during the period July-March 2018-19. Further, among MTBs, almost entire trading i.e. 99.6 percent (or Rs 17,093 billion) was in 3-month MTBs as there was lack of issuances of longer tenor securities. Market activity in 6-month and 12-month MTBs stayed negligible. While still quite thin at Rs 1,690 billion, the share of GIS in overall trading volume doubled to 8 percent in 2018-19 (July-March) from 4 percent in 2017-18. Though the share of trading in PIBs remained almost same at around 12 percent, market activity was largely skewed in shorter tenors as 3-year PIBs witnessed an increase in its trading volume in 2018-19 (July-March) compared with 2017-18.

Repo Market

Repo market seems to dominate the secondary market trading volumes this year, as during the first nine months of 2018-19 share of repo market activity was 56 percent, as against 49 percent in 2017-18. The considerably large repo volumes indicate higher liquidity in the repo market that allowed investors to efficiently meet their temporary liquidity needs from the domestic market. On the other hand, the share of outright transactions dropped to 44 percent in the 2018-19 (July-March), compared with 51 percent in 2017-18, as the market was reluctant to take positions amidst rising interest rates.

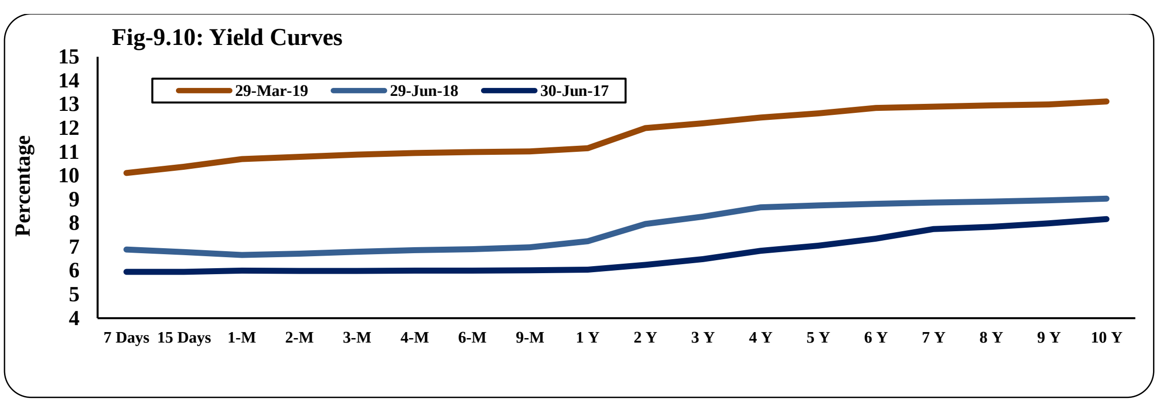
Table 9.8: Government Securities Based Transactions

Type	Volumes (PKR billion)			Market Share (%)		
	2016-17	2017-18	2018-19 (July-March)	2016-17	2017-18	2018-19 (July-March)
Repo	19,609	26,539	27,416	57	49	56
Outright	14,779	27,541	21,345	43	51	44
Total	34,388	54,080	48,761	100	100	100

Source: State Bank of Pakistan

Secondary Market Yield Curve:

Since the beginning of 2018-19, SBP increased its policy (target) rate by a cumulative 425 basis points from 6.50 percent to 10.75 percent. Accordingly, the increase in policy rate effectively translated into market interest rates across the yield curve. Yield curve of up to 10 years as of 29-Mar-2019 was comparatively steeper, as compared to those of end 2017-18 and 2016-17. The steepness of the current yield curve in 1-3 years' horizon reflects market's anticipation of increase in interest rates in the medium to long term.



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. The part of EDL which falls under government domain is debt which is serviced out of consolidated fund and owed to International Monetary Fund. Whereas, remaining includes liabilities of central bank, debt of public sector entities, private sector and banks.

During first nine month of current fiscal year, EDL recorded an increase of US$ 10.6 billion to stand at US$ 105.8 billion at end March 2019 out of which public debt was US$ 74.2 billion. External public debt increased by around US$ 3.9 billion during first nine months of current fiscal year compared with the increase of US$ 6.7 billion witnessed during the same period last year. Borrowing from commercial sources (foreign commercial banks and Eurobonds/Sukuks) have relatively increased during the last few years, however, external public debt still largely comprises multilateral and bilateral sources which cumulatively constituted 78 percent of external public debt portfolio at end March 2019. These multilateral and bilateral loans are contracted at concessional terms (low cost and longer tenor) and are primarily utilized to remove structural growth anomalies and promote reform in the areas of energy, taxation, business, trade and education. These development loans are, thus, deployed to the increase the total output of the country and in-turn the debt repayment capacity.

Table-9.9: Pakistan's External Debt and Liabilities

(US$ in million)	2008	2013	2014	2015	2016	2017 (P)	2018 (P)	Mar 19 (P)
A. Public External Debt (1+2)	**41,782**	**48,139**	**51,460**	**50,964**	**57,757**	**62,539**	**70,237**	**74,178**
1. Government External Debt	**40,445**	**43,752**	**48,440**	**46,861**	**51,714**	**56,430**	**64,142**	**68,412**
i) Long term(>1 year)	**39,722**	**43,488**	**47,709**	**45,849**	**50,026**	**55,547**	**62,525**	**67,301**
Paris Club	13,928	13,548	13,607	11,664	12,678	11,973	11,643	11,261
Multilateral	21,449	24,198	25,826	24,262	26,376	27,605	28,102	27,366
Other Bilateral	1,129	3,939	4,385	4,941	5,445	6,323	8,674	12,481
Euro/Sukuk Global Bonds	2,650	1,550	3,550	4,550	4,550	4,800	7,300	7,300
Military Debt	41	71	36	-	-	0	0	0
Commercial Loans/Credits	120	-	150	300	882	4,826	6,806	8,884
Local Currency Securities (PIBs)	5	2	16	32	35	0	0	0
Saudi Fund for Development (SFD)	-	180	140	100	60	20	0	0
NBP/BOC Deposits*	400	-	-	-	-	0	0	10
ii) Short term (<1 year)	**723**	**264**	**731**	**1,012**	**1,688**	**882**	**1,617**	**1,111**
Multilateral	713	256	443	983	1,112	832	961	625
Local Currency Securities (T-bills)	10	8	116	29	1	51	0	0
Commercial Loans/Credits	-	-	173	-	575	0	655	486
2. From IMF	**1,337**	**4,387**	**3,020**	**4,103**	**6,043**	**6,109**	**6,095**	**5,765**
i) Federal Government	-	1,519	655	52	-	0	0	0
ii) Central Bank	1,337	2,868	2,366	4,051	6,043	6,109	6,095	5,765
B. Foreign Exchange Liabilities	**1,296**	**3,106**	**3,281**	**3,709**	**3,600**	**3,564**	**5,121**	**10,052**
i) Central Bank Deposits	1,200	800	700	700	700	700	700	5,700
ii) Foreign Currency Bonds (NHA / NC)	66	-	-	-	-	0	0	0
iii) Other Liabilities (SWAP)	30	814	1,045	1,612	1,507	1,482	3,022	2,978
iv) Allocation of SDR	-	1,487	1,528	1,390	1,383	1,375	1,390	1,372
v) Nonresident LCY Deposits with Central Bank	-	6	8	7	10	8	9	1
C. Public Sector Enterprises (PSEs)	**1,203**	**1,848**	**2,063**	**2,482**	**2,807**	**2,719**	**2,671**	**3,478**
a. Guaranteed Debt	**196**	**598**	**537**	**970**	**1,265**	**1,214**	**1,384**	**2,175**
Paris Club	-	-	-	-	-	0	0	0
Multilateral	132	30	25	19	11	6	5	3

Table-9.9: Pakistan's External Debt and Liabilities

(US$ in million)	2008	2013	2014	2015	2016	2017 (P)	2018 (P)	Mar 19 (P)
Other Bilateral	60	568	512	951	1,254	1,208	1,179	1,972
Commercial Loans	4	-	-	-	-	0	200	200
Sandak Metal Bonds	-	-	-	-	-	0	0	0
b. Non-Guaranteed debt	**1,007**	**1,250**	**1,525**	**1,512**	**1,541**	**1,505**	**1,287**	**1,303**
i) Long Term(>1 year)	1,007	638	726	534	466	403	334	452
ii) Short Term (<1 year)	-	612	799	978	1,075	1,102	953	851
D. Banks	**-**	**1,554**	**1,989**	**2,286**	**2,695**	**4,522**	**4,416**	**4,846**
a. Borrowing	-	710	1,080	1,334	1,618	3,303	2,966	3,280
b. Nonresident Deposits (LCY & FCY)	-	843	909	952	1,078	1,220	1,450	1,566
E. Private Sector	**1,880**	**3,143**	**3,076**	**3,011**	**4,073**	**6,759**	**9,195**	**10,137**
F. Debt Liabilities to Direct Investors - Intercompany Debt	**-**	**3,110**	**3,400**	**2,717**	**3,013**	**3,375**	**3,597**	**3,151**
Total External Debt and Liabilities (A+B+C+D+E+F)	**46,161**	**60,899**	**65,268**	**65,170**	**73,945**	**83,477**	**95,236**	**105,841**

*:Pakistan Banao Certificates (PBC) issued by Government of Pakistan for overseas Pakistanis, effective from 4 February 2019.
Source: State Bank of Pakistan and Debt Policy Coordination Office, Ministry of Finance

9.7.1 Analysis of External Public Debt Inflows and Outflows

The source wise details of external public debt inflows and outflows over last few years are depicted in the table below:

Table-9.10: Source Wise External Inflows and Outflows

(US$ in million)	2013	2014	2015	2016	2017	2018	2018-19 (July-March)
DISBURSEMENTS							
Multilateral	1,332	3,096	2,824	3,757	3,064	2,813	1,150
Bilateral	889	887	867	1,040	1,941	1,971	4,004
Bonds	-	2,000	1,000	500	1,000	2,500	-
Commercial	-	323	150	1,387	4,426	3,716	3,108
IMF	-	1,656	2,611	2,009	102	-	-
Total Inflows (A)	**2,221**	**7,962**	**7,452**	**8,693**	**10,533**	**11,000**	**8,262**
REPAYMENTS							
Multilateral	1,155	1,324	1,181	1,221	1,255	1,317	1,123
Bilateral	299	435	407	440	1,200	793	644
Bonds	-	-	-	500	750	-	-
Commercial	-	-	-	225	489	489	745
IMF	2,899	3,130	1,226	53	-	86	251
Short Term Debt	390	256	612	735	1,393	1,486	1,377
Others	52	76	76	40	40	20	-
Total Repayments (B)	**4,795**	**5,220**	**3,500**	**3,213**	**5,127**	**4,190**	**4,139**
Net Inflows (A-B)	**(2,574)**	**2,742**	**3,952**	**5,480**	**5,406**	**6,809**	**4,123**
INTEREST PAYMENTS							
Multilateral	217	204	219	239	295	357	333
Bilateral	357	386	385	380	441	444	419
Bonds	111	111	300	354	366	423	284
Commercial	0	4	9	33	66	260	276
IMF	100	52	39	51	86	128	108
Short Term Government Debt	11	16	22	69	58	72	50
Others	4	3	1	0	0	0	0
Total Interest Payments (C)	**800**	**775**	**975**	**1,127**	**1,313**	**1,684**	**1,470**
Total Debt Servicing (B+C)	**5,595**	**5,995**	**4,475**	**4,340**	**6,440**	**5,874**	**5,608**

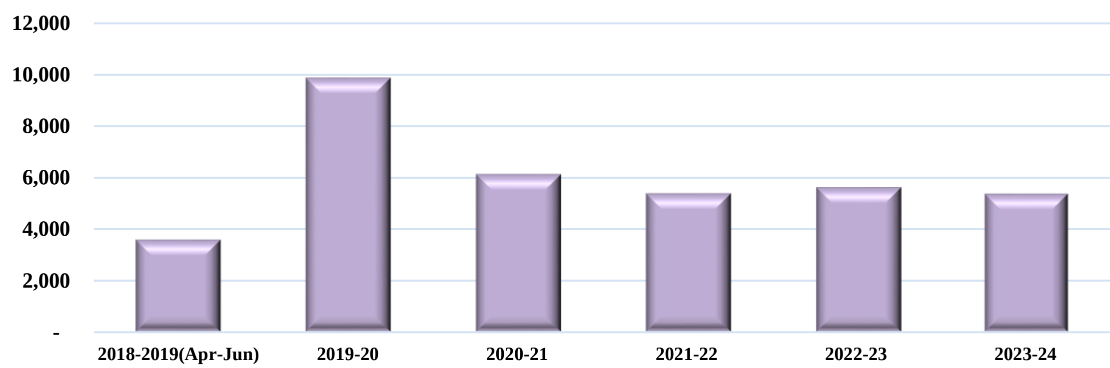
Source: Economic Affairs Division and State Bank of Pakistan

Gross external public debt disbursements were recorded at US$ 8,262 million during nine months of current fiscal year, the details of which are as follows:

- Disbursements from bilateral sources remained the main contributor in gross external public debt disbursements with a share of 48 percent or US$ 4,004 million. Out of this total, disbursements from China was US$ 3,885 million or 97 percent of total disbursement from bilateral sources
- Foreign commercial loans contributed US$ 3,108 million in total disbursements. These commercial loans were primarily obtained for balance of payment support
- Government mobilized US$ 1,150 million from multilateral sources largely for energy and infrastructure projects.

During first nine months of the current fiscal year, servicing of external public debt was recorded at US$ 5,608 million. Segregation of this aggregate number shows repayment of US$ 4,139 million towards maturing external public debt stock while interest payments were US$ 1,470 million. The projected external public debt repayment based on outstanding at March 31, 2019 is presented in the graph below:

Fig 9.11: External Public Debt Repayment Projections (US$ in million)
(Based on Outstanding at March 31, 2019)



9.7.2 External Debt Sustainability

A country can achieve debt sustainability if it can meet its current and future debt service obligations in a timely manner and has the capacity to withstand macroeconomic shocks. There are two principal indicators or ratios which assess the external debt sustainability; (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-9.11: External Debt Sustainability Indicators

(In percent)	2013	2014	2015	2016	2017	2018
ED/FEE (times)	1.0	1.0	1.0	1.1	1.2	1.3
ED/FER (times)	4.4	3.6	2.7	2.5	2.9	4.3
ED/GDP (Percentage)	20.8	21.0	18.8	20.7	20.5	22.3
ED Servicing/FEE (Percentage)	11.1	11.7	8.5	8.5	12.4	10.8

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 grew to 22.3 percent at end June 2018 compared with 20.5 percent at end June 2017, depicting increased external debt burden. This increase in external public debt may be attributed to net external public debt inflows as well as revaluation losses owing to depreciation of

US Dollar against other international currencies. At end March 2019, this ratio further increased and recorded at 25.8 percent. Apart from increase in external public debt stock, reduction in GDP size in US Dollar terms contributed towards increase in this ratio.

Some relief was realized from liquidity standpoint, where external debt servicing to foreign exchange earnings ratio decreased to 10.8 percent in 2017-18 from 12.4 percent in 2016-17 owing to lower principal payments while moderate growth witnesses in FEE during the year. However, relatively higher growth in external public debt stock pushed the ED/FEE ratio to 1.3 times during 2017-18 compared with 1.2 times during preceding fiscal year.

Assessment of external public debt in terms of country's foreign exchange reserves depicts a deteriorating external debt coverage as widening of current account deficit continues to deplete foreign exchange reserves. During 2017-18, ED/FER recorded at 4.3 times, registering a significant increase from 2.9 times during 2016-17. At end March 2019, this ratio was recorded at 4.3 times.

Over last few years, stagnation of exports primarily due to bottlenecks in the energy and infrastructure exerted pressure on the country's liquidity situation. Exports are predominant source of foreign exchange earnings which on one hand provide coverage towards interest servicing while also lending support towards building-up of foreign exchange reserves. Over last few years, negative trend has been observed in exports while imports have exhibited significant growth. Although other income including worker's remittances witnessed moderate growth, however, it could not keep pace with imports resulting in widening of the current account deficit and erosion of foreign exchange reserves. The incumbent government soon after assuming the charge took various corrective policy measures to arrest the widening external account gap as is evident from the fact that current account deficit reduced by 27 percent during July 2018 - April 2019 as compared with the same period last year.

9.8 Pakistan's Link with International Capital Market

In the second half of 2018, most Emerging Market (EM) assets came under pressure. The continued trade tensions, appreciation of the dollar and reduced economic growth forecasts caused significant capital outflows from emerging markets. Despite these challenging market conditions, Pakistan's 19s, 21s, 22s, 24s, 25s bonds continued to trade close to par or at a premium, indicating that the investor perception of the credit remained generally favorable.

Following a volatile second half of 2018, the beginning of 2019 brought a material shift in the investor sentiment. After a net outflow position for EM fund flows in 2018, the first quarter of 2019 brought fresh liquidity into EM markets due to a record high level of net inflows into emerging markets funds. Pakistan's bond spreads have shown a strong performance year-to-date, trading back to the same levels as in January 2018. In absolute terms, the Pakistan's curve has moved ~130 bps tighter on average across all tranches since early January 2019 and continues to outperform comparable assets in the Emerging Markets.

Table-9.12: Secondary Trading Levels:

Bond	Ratings			Maturity	Size	Coupon	Price	Yield (%)
	M	S&P	F		($ in million)	(%)		
EM Sovereign Bonds								
Pakistan (Sukuk)	B3	B-	B-	Dec-19	1,000	6.750	101.3	4.56
Pakistan (Sukuk)	B3	B-	B-	Oct-21	1,000	5.500	101.1	5.02
Pakistan(Sukuk)	B3	B-	B-	Dec-22	1,000	5.625	100.7	5.4
Eurobond	B3	B-	B-	Apr-24	1,000	8.250	108.2	6.29
Eurobond	B3	B-	B-	Sep-25	500	8.250	108.6	6.58
Eurobond	B3	B-	B-	Dec-27	1,500	6.875	99.4	6.98
Eurobond	B3	B-	B-	Mar-36	300	7.875	98.5	8.03

Source: Bloomberg – April 30, 2019

9.9 Conclusion

Government is committed to achieve the targets outlined in Fiscal Responsibility and Debt Limitation Act, 2005. Going forward, following are the main priorities with respect to public debt management:

i) Over the medium term, government objective is to bring and maintain its Public Debt-to-GDP and Debt Service-to-Revenue ratios to sustainable levels through a combination of greater revenue mobilization, rationalization of current expenditure and efficient/productive utilization of debt

ii) For domestic debt market development, government is planning to introduce various new instruments with the objective to meet government financing requirements at the lowest possible cost while providing additional avenue to investor in-line with their investment horizon and risk appetite/preference

iii) Government intends to broaden the universe of Shariah compliant securities (domestic as well as international)

iv) Lengthening of maturity profile of domestic debt through enhanced mobilization from medium to long term government securities will remain priority to reduce the re-financing and interest rate risks of domestic debt portfolio

v) Government is tapping new international markets as well as considering to introduce an international bond program instead of borrowing through stand-alone transactions. This is expected to increase investor base, lower borrowing cost and allow the government to optimize timing of issuance as well as save time in execution of debt transactions

vi) Government will continue to seek long term concessional loans for development purposes.