Annual Debt Review & Public Debt Bulletin (FY 2023-24)

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Acknowledgements

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Executive Summary

Public debt management is an important function of the Ministry of Finance. This task is overseen by the Debt Management Office (DMO) in coordination with various internal and external stakeholders. The DMO is committed to proactive debt management as part of its broader economic policy, aiming to minimize the costs of meeting the government's borrowing requirements while managing associated risks by maintaining an optimal debt portfolio balance. Prudent debt management policies and strategies, anchored on a sound Medium-Term Debt Strategy (MTDS) 2023-2026, guides debt management going forward. As part of the Ministry of Finance's commitment in providing accurate and timely debt information to the public, the Debt Bulletin & Annual Debt Review for the last fiscal year (2023-24) has been published which provide details and analysis of debt management operations and progress made against the MTDS.

In FY-24, Pakistan's economy made notable progress toward macroeconomic stabilization with the help of the implementation of fiscal consolidation measures and effective management of key economic challenges. A significant challenge faced by the country was ensuring debt sustainability. Total public debt increased by 12% to PKR 71.3 trillion during the fiscal year under review, although the public debt-to-GDP ratio declined to 67.2%, the lowest level in the past five years. The primary driver of the rise in debt stock was the federal fiscal deficit, which stood at PKR 7.7 trillion. Nonetheless, this was partially offset by the generation of a federal primary surplus, a notable accomplishment in a difficult economic environment. Key debt risk indicators showed that the Average Time to Maturity (ATM) for domestic debt stood at 2.9 years, while for external debt, it was 6.2 years, aligning with the MTDS targets. External debt accounted for less than 40% of total public debt, allowing the government to limit exposure to adverse exchange rate movements. The federal fiscal deficit was primarily financed through domestic borrowing, particularly via net issuances of medium-to-long-term Pakistan Investment Bonds (PIBs) and Government Ijarah Sukuks (GIS). On the external front, the majority of inflows came from multilateral and bilateral sources, with a slight increase in short-term borrowing from commercial banks. Overall, FY-24 witnessed stabilization in both the economy and the federal government's debt position. Looking ahead, the DMO would continue to closely monitor the MTDS indicators and remain focused on implementing a proactive debt management approach.

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1.0 Introduction

In accordance with clause (i) and (r) of Section 13 of the Fiscal Responsibility and Debt Limitation Act (Amended 2022), Ministry of Finance annually publishes 'Public Debt Bulletin & Annual Debt Review' to provide details and analysis of debt management operations, and progress made against the Medium-Term Debt Management Strategy (MTDS 2023-26).

The public debt has remained manageable with the Government implementing a fiscal consolidation path to reduce the rate of debt accumulation along with the decline in debt-to-GDP ratio. Debt transparency and accountability are imperative to promote confidence in fiscal operations. The Government has demonstrated its commitment in providing accurate and timely debt information to the public, and as such, the contents of this report will provide insights into the management of public debt portfolio in Pakistan.

1.2 Macroeconomic Developments During FY-24

The FY-24 saw improvement in the major macro-economic indicators, as the government's reforms-led stabilization policies have resulted in modest growth in GDP, declining inflation, a primary fiscal surplus, reduced current account deficit, and a stable exchange rate.

In FY-24, the real GDP grew by 2.4% mainly due to the significant contribution of the agriculture sector. The fiscal situation also improved with a primary surplus (consolidated basis) of PKR 952 billion (0.9% of GDP) compared to primary deficit of PKR 690 billion in FY-23. This also led to a decrease in fiscal deficit to GDP ratio to 6.8% in FY-24 from 7.8% in FY-23. Headline inflation declined from 29.4% (Jun-23) to 12.6% (Jun-24). FY-24 average inflation stood at 23.4% compared to 29.2% in FY23. On the external front, FY-24 witnessed a significant decline in the Current Account Deficit (CAD) to 0.2% of GDP from 1.0% of GDP in FY-23. This was mainly due to healthy growth of approximately 10% in exports and remittances. SBP reserves also increased from $4.4 billion (Jun-23) to $9.4 billion (Jun-24). The FY-24 also saw the successful review and conclusion of IMF's 9-month Standby Arrangement (SBA) facility of around $3 billion. The program's major focus was on the necessary fiscal adjustment and maintenance of debt sustainability via FY24 budget implementation.

Table 1: Macroeconomic Overview

	FY-22	FY-23	FY-24
Real GDP Growth Rate	6.2%	-0.2%	2.4%
CPI (FY average YoY)	12.2%	29.2%	23.4%
Primary Balance (PKR billion)	(2,077)	(690)	953
as % of GDP	-3.1%	-0.8%	0.9%
Fiscal Balance (PKR billion)	(5,260)	(6,251)	(7,207)
as % of GDP	-7.9%	-7.8%	-6.8%
Current Account (USD billion)	(17.5)	(3.3)	(0.7)
as % of GDP	-4.7%	-1.0%	-0.2%

Source: State Bank of Pakistan

2.0 Overview of Total Public Debt

Fiscal Responsibility and Debt Limitation (FRDL) Act, 2005, defines 'Total Public Debt' as debt owed by the government (including Federal Government and Provincial Governments) serviced out of the consolidated fund and debt owed to the International Monetary Fund. The following table provides composition of Pakistan's total public debt portfolio:

Table 2: Pakistan's Total Public Debt Summary

	Jun-22	Jun-23	Jun-24
(PKR billion)			
Domestic Debt	31,085	38,810	47,160
External Debt	18,157	24,071	24,086
Total Public Debt	**49,242**	**62,881**	**71,246**
Total Debt of the Government*	**44,361**	**57,779**	**65,079**
GDP (Nominal)	**66,640**	**84,069**	**106,045**
(Percentage of GDP)			
Domestic Debt	46.6	46.2	44.5
External Debt	27.2	28.6	22.7
Total Public Debt	**73.9**	**74.8**	**67.2**
Total Debt of the Government*	**66.6**	**68.7**	**61.4**
(Percentage of Total Public Debt)			
Domestic Debt	63.1	61.7	66.2
External Debt	36.9	38.3	33.8
(USD billion)			
Domestic Debt	152.1	135.5	169.4
External Debt	88.8	84.1	86.5
Total Public Debt	**240.9**	**219.6**	**256.0**
Exchange Rate (PKR/USD) (End of Period)	204.4	286.4	278.3
* As per Fiscal Responsibility and Debt Limitation Act, 2005, (as amended from time to time) "Total Debt of the Government" means the debt of the government (including the Federal Government and the Provincial Governments) serviced out of the consolidated fund and debts owed to the IMF less accumulated deposits of the Federal and Provincial Governments with the banking system.			

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

The major reasons which generally contribute towards the change in debt stock are the fiscal deficit, exchange rate movement and variation in cash balance maintained with the central bank. The size of the fiscal deficit is determined by the primary balance and interest payments.

The trend for the past two fiscal years (FY-22 & FY-23) shows that the federal primary deficit has been on the decline and the FY-24 year generated a federal primary surplus. However, interest costs have continued to increase, primarily due to the high-interest rate environment, as SBP policy rate reached a high point of 22% during FY-24. In USD terms, external debt increased by almost USD 2.4 billion, but the rupee impact has been lower due to appreciation of the PKR against USD during FY-24. Though the Debt Stock of the country has increased, it is pertinent to note that Debt-to-GDP ratio has declined to its lowest point in the past five years.

Table 3: Reasons for increase in Total Public Debt (PKR billion)

	Jun-22	Jun-23	Jun-24
Total Public Debt	**49,242**	**62,881**	**71,246**
Increase/(Decrease) in Total Public Debt (I+II)	**9,376**	**13,638**	**8,365**
(I) Effect of Transactions	**5,561**	**6,392**	**7,898**
Federal Primary Deficit / (Surplus)	2,428	1,005	(435)
Interest Expense	3,182	5,671	8,160
Cash Balance Increase / (Decrease)	(49)	(284)	173
(II) Effect of Exchange Rate Impact/Others	**3,815**	**7,246**	**467**
USD Last day average exchange rates	204.4	286.4	278.4

Note: Other include changes in IMF's BoP loans & effects of accounting policies

Source: Budget Wing and Debt Management Office, Ministry of Finance

Financing of the federal fiscal deficit is primarily done through domestic sources of borrowing. This is also in line with the Medium-Term Debt Management Strategy (MTDS), which caps external financing at 40% of total borrowing. Furthermore, commercial sources of external borrowing are influenced by global macro-economic factors which can make it challenging for emerging markets like Pakistan.

Table 4: Financing of Federal Fiscal Deficit (PKR Billion)

		FY-22	FY-23	FY-24
	Federal Fiscal Deficit	**5,562**	**6,676**	**7,725**
FINANCING SUMMARY				
I-II	**Net Financing**	**5,562**	**6,676**	**7,725**
	- External Debt	1,178	-680	321
	- Domestic Debt	4,384	7,356	7,404
I	**Gross Financing – Inflows**	**28,747**	**36,924**	**36,873**
	- External Debt	2,996	2,408	2,759
	- Domestic Debt	25,751	34,516	34,204
II	**Repayments - (Outflows)**	**(23,185)**	**(30,247)**	**(29,238)**
	- External Debt	(1,818)	(3,087)	(2,439)
	- Domestic Debt	(21,367)	(27,160)	(26,800)

3.0 Debt Management Strategy

Public debt management is based on the fundamental principle of meeting the government's debt obligations by minimizing costs to reasonable levels, using relevant risk exposure benchmarks projected over the medium-term. These benchmarks, set forth in the Medium-Term Debt Management Strategy (MTDS) 2023-26, aim to address risk benchmarks related to the composition of the debt portfolio by identifying risk parameters that may affect the debt stock's vulnerability to various risks.

Based on risk indicator benchmarks mentioned in MTDS for the period FY-23 to FY-26, the movement/trend in the risk indicators as of Jun-24, is shown in Table-4.

Table 5: Indicative Benchmarks and Targets for Key Risk Indicators

Risk Exposure	Indicators	Indicative Benchmarks	FY-23		FY-24		FY-25	FY-26
			Target	Actual	Target	Actual	Target	Target
Currency Risk	Share of External Debt in Total Public Debt	40% (Maximum)	-	38	-	34	-	-
Refinancing Risk	ATM of Domestic Debt (Years)	3.0 (Minimum)	3	2.8	3.1	**2.9**	3.2	3.3
	ATM of External Debt (Years)	6.0 (Minimum)	6	6.4	6.1	**6.2**	6.2	6.3
Interest Rate Risk	Share of Fixed Rate Debt in Govt Securities (%)	20% (Minimum)	20	19	22	**19**	24	25
Diversification	Share of Shariah Compliant Debt in Govt Securities (%)	-	8	9.1	10	11	12	15

ATM: Average Time to Maturity

3.1 Share of External Debt in Total Public Debt

It is important to manage and limit the share of external debt in the total public debt of a country, as it is susceptible to exchange rate fluctuations leading to higher debt servicing costs than what had been budgeted. This aspect was particularly highlighted in the previous two fiscal years, where a major reason for the increase in debt stock (in PKR) was the significant devaluation of PKR against USD. Subsequently, any movement in local currency against international currencies directly impacts the quantum of public debt reported in local currency.

Major portion of the external debt has been financed through multilateral and bilateral sources having concessional rates and higher tenor compared with commercial sources. During FY-24, PKR/USD remained relatively stable, with average rate appreciating to PKR.278 compared with PKR.286 for the same period previous fiscal year.

Table 6: Currency Composition of Total Public Debt (% of Total Public Debt)

Currencies	Jun-22	Jun-23	Jun-24
Pak Rupee	63	62	66
US Dollar	21	24	21
Special Drawing Right (SDR)	11	9	8
Japanese Yen	2	2	2
Others	3	3	3
Total	**100**	**100**	**100**

During FY24, the stock of external debt (in USD) witnessed a net increase of 3% YoY, while the share of external debt in total public debt decreased from 38 percent (June-23) to 34 percent (June-24). However, the external debt exposure is still within the maximum limit of 40 percent as envisaged in MTDS but remains sensitive to exchange rate movement.

3.2 Average Time to Maturity (ATM)

One of the important objectives of the debt management strategy is to reduce the refinancing risk through lengthening of the maturity profile. Over the years, the government has strived to introduce various new types of debt instruments with higher tenors to not only increase the ATM but also to diversify the investor-base.

The average time to maturity (ATM) of domestic debt has decreased from 3.10 (Jun-23) years to 2.88 years (June-24). This indicates reliance on short-term borrowing, largely driven by an increase in Market Treasury Bills (MTBs) issuance. This shift can be explained by the increasing reliance of the government on domestic debt markets, where investors prefer the short-term MTBs. As external financing conditions evolve, the government tapped more into the domestic debt market, where investor participation remains significant in short-term debt instruments due to high liquidity and low-risk. At the same time, it is pertinent to note that, as FY-24 progressed, investor participation in long-term debt instruments began to increase in anticipation of decline in interest rates.

External debt mostly consists of multilateral and bilateral loans. However, in recent years, the loans obtained from foreign commercial banks and deposits from friendly countries, which are short-term in nature, remained an important source of funding for the Government. ATM of external debt was 6.2 years at end June 2024 as compared 6.4 years at end June 2023. This slight decrease in ATM was primarily attributed to the increase in short-term commercial loans.

3.3 Share of Shariah Compliant Financing in Govt Securities

Increasing the share of shariah-compliant government securities is an important part of the diversification of the investor base. There is also a growing market demand for shariah compliant investment instruments. In line with targets, share of shariah-compliant financing in government securities increased to 11% percent (June-24) as compared to 9 percent (June-23). Government further intends to support the Shariah Compliant investors through introduction of new shariah structure instruments with multiple profit frequencies.

3.4 Share of Fixed Rate Debt in Government Securities

The MTDS has established a minimum limit of 20 percent for the share of fixed-rate debt instruments in domestic government securities portfolio. During FY-24, market’s interest remained towards floating rate due to anticipation of further interest rate movement. Whereas the government strategized to optimize floating-rate long term issuances to capitalize on expected decline in interest rates in FY-25 on account of economic recovery. The Finance Division has also planned issuance of new fixed-rate structure securities in FY-25.

In recent years, the share of fixed-rate debt in government securities has declined, primarily driven by increased issuance of floating-rate debt. Market participants, influenced by a rising interest rate environment during FY-23, continued to favor short-to-medium term debt instruments, especially floating-rate Pakistan Investment Bonds (PIBs) with coupon payments initially during FY-24 also. However, as the year progressed, there was significant interest in fixed-rate PIB with Semi-Annual Coupons, as market participants anticipated that interest rates had peaked and there would be gradual reduction in SBP policy rates in FY25 on account of signs of economic recovery and lower inflation.

4.0 Domestic Debt

Domestic debt has been the major source of financing fiscal deficit. At June-24, it comprised 66% of total debt. Domestic debt can be further bifurcated into three major sources: permanent debt, floating debt and non-funded. Permanent debt represents government borrowing using instruments of greater than one-year maturity. Floating debt is short-term borrowing (up to one year) through market treasury bills. Unfunded debt refers to funds contributed by National Savings Schemes (NSS) instruments that are administered by the Central Directorate of National Savings. Pakistan Investment Bonds (PIB), followed by Treasury Bills, are the major sources of domestic borrowing instruments. The share of Government Ijarah Sukuk is rising steadily and has increased to 10% of total domestic borrowing. Contribution of Unfunded debt is declining, and stands at 6%.

Table 7: Instrument-Wise Composition of Domestic Debt

	Jun-22		Jun-23		Jun-24	
	PKR bn	%	PKR bn	%	PKR bn	%
Domestic Debt	**31,085**	**100**	**38,809**	**100**	**47,241**	**100**
Permanent Debt	**20,377**	**66**	**25,547**	**66**	**33,178**	**70**
- PIBs	17,687	57	22,009	57	28,026	59
- Prize Bonds	375	1	383	1	385	1
- Sukuk / Bai-Muajjal	2,303	7	3,151	8	4,766	10
- Others	13	0	4	0	1	0
Floating Debt	**6,804**	**22**	**9,335**	**24**	**10,247**	**22**
- T-Bills	6,752	22	9,269	24	10,167	22
- MTBs for Replenishment	52	0	66	0	80	0
Unfunded Debt	**3,336**	**11**	**2,926**	**8**	**2,883**	**6**
- NSS	3,208	10	2,818	7	2,708	6
- Others	128	0	108	0	91	0
Naya Pakistan Certificate	**93**	**0**	**143**	**0**	**84**	**0**
SBP loan to GOP against SDRs allocation	**475**	**2**	**475**	**1**	**475**	**1**
Foreign Currency Loans*	**9**	**0**	**383.8**	**1**	**374**	**1**

*Includes FEBCs, FCBCs, DBCs, Special US Dollar Bonds and other domestic FC borrowings
Source: State Bank of Pakistan and Debt Management Office, Ministry of Finance

The banking sector continues to be the major investor in the government domestic debt securities. Their share increased to 62% in FY-24, which is a reflection of the high-interest rate environment amidst significant macro-economic challenges, where investment in government debt securities is preferred due to the high-interest rate environment that would transpire to adverse impact on credit offtake.

Table 8: Creditor-Wise Composition of Domestic Debt **(PKR billion)**

		Jun-22	%	Jun-23	%	Jun-24	%
I+II	**Domestic Debt**	**31,085**	**100**	**38,809**	**100**	**47,160**	**100**
I	**Tradable Government Securities**	**26,793**	**86**	**34,496**	**89**	**43,043**	**91**
	- Held by Scheduled Banks	16,573	53	20,620	53	29,184	62
	- Held by SBP	6,146	20	5,850	15	5,551	12
	- Held by non-Banks	4,074	13	8,026	21	8,309	18
II	**Others**	**4,292**	**14**	**4,314**	**11**	**4,117**	**9**
	- NSS (including Prize Bonds)	3,583	12	3,200	8	3,093	7
	- Naya Pakistan Certificate	93	**0**	143	**0**	84	0
	- SBP loan to GOP against SDRs allocation	475	**2**	475	**1**	475	1
	- Foreign Currency Loans	9	**0**	384	**1**	374	1
	- Other	132	**0**	112	**0**	91	0

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

The maturity profile indicates short-term market treasury bills declining slightly given the governments efforts to increase issuance in medium-to-long term tenor in order to lengthen the maturity profile.

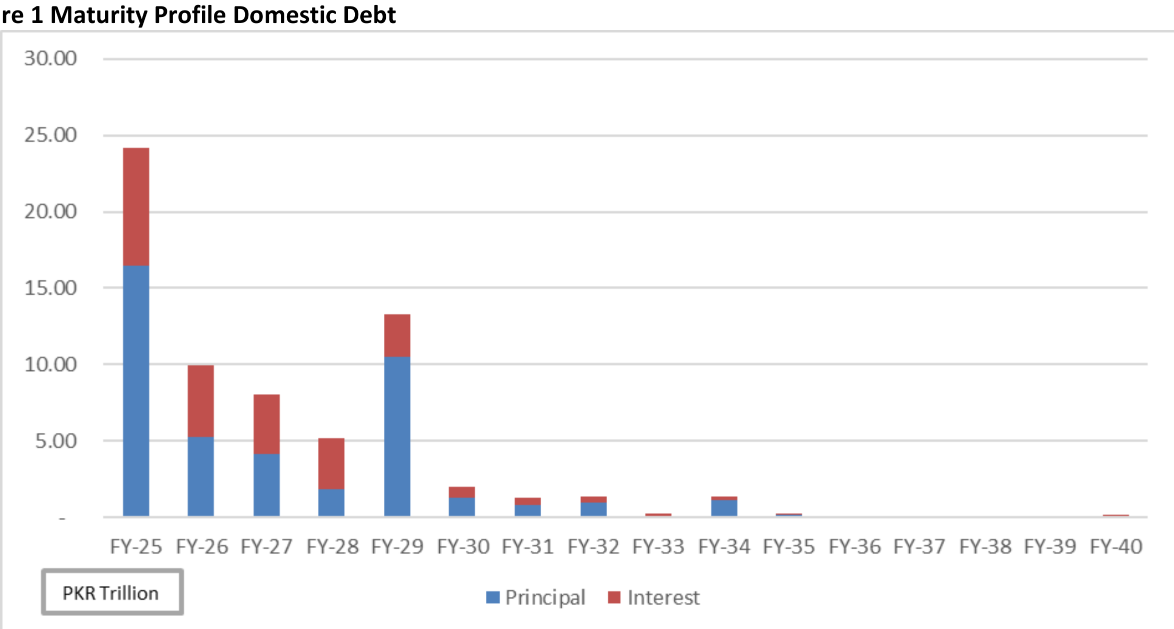
Table 9: Maturity Profile of Domestic Debt **(PKR billion)**

		Jun-22	%	Jun-23	%	Jun-24	%
I+II	**Domestic Debt**	**31,085**	**100**	**38,809**	**100**	**47,160**	**100**
I	**Short-Term Debt (< 1 Year)**	**10,085**	**32**	**13,944**	**36**	**16,323**	**35**
	- T-Bills	6,804	22	9,326	24	10,390	22
	- Medium & Long-Term Debt*	3,282	10	4,618	12	5,933	13
II	**Medium & Long-Term Debt (> 1 Year)**	**21,000**	**68**	**24,865**	**64**	**30,837**	**65**

*Remaining Maturity of less than 1 year

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

Figure 1 Maturity Profile Domestic Debt



The share of Floating rate debt continues to increase, as investors aim to capitalize on the movements of interest rate. Furthermore, in the floating rate bonds category, the 5-Year PIB with semi-annual coupon payment has the highest share.

Table 10: Interest Rate Type of Domestic Debt **(PKR billion)**

		Jun-22	%	Jun-23	%	Jun-24	%
I+II	**Domestic Debt**	**31,036**	**100**	**38,809**	**100**	**47,160**	**100**
I	**Floating Rate**	**19,757**	**64**	**27,455**	**71**	**35,445**	**75**
	- T-Bills	6,803	22	9,326	24	10,390	22
	- Floating Rate Bonds	12,954	42	18,129	47	25,055	53
II	**Fixed Rate**	**11,279**	**36**	**11,354**	**29**	**11,715**	**25**

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

4.2 Highlights of Domestic Borrowing Operations During FY-24

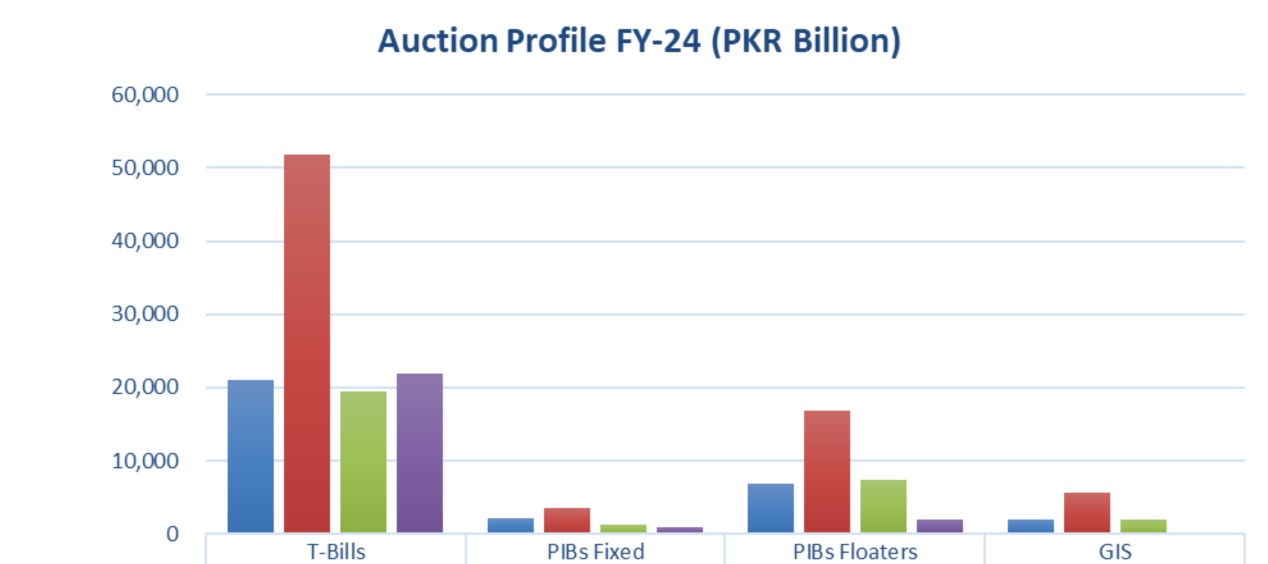
- The government relied primarily on domestic government debt securities for the financing of the federal fiscal deficit, with only 4% financed by external debt;
- Expenditure rationalization and fiscal consolidation measures taken by the government resulted in a federal primary surplus of PKR 435 billion.
- Gross issuance of fixed rate Pakistan Investment Bonds (PIBs) amounted to PKR 1.3 trillion against maturity of PKR 0.87 trillion. Gross issuance of floating rate PIBs amounted to PKR 7.4 trillion against maturities of PKR 2.0 trillion
- In December 2023, the government conducted its first auction of Ijarah Sukuk on the Pakistan Stock Exchange (PSX). This initiative is aimed at facilitating maximum participation of diverse investor-base, particularly retail investors. A total of 10 auctions have successfully been held on PSX in the FY-24. Overall, gross issuance of Government Ijarah Sukuk (GIS) was PKR 1.8 trillion against maturity of PKR 275 billion.
- Breakdown of gross GIS issuances is; 59% (PKR 1.1 trillion) in the Variable Rental Rate (VRR), and 30% (PKR 572 billion) against the Fixed Rental Rate instruments. This fiscal year, the government introduced a new short-term discount Ijarah instrument, which saw gross issuance of Rs.205 billion, almost 11% of total gross GIS issuances
- The major unfunded debt source is the retail debt instruments from National Saving Schemes (NSS). Ever since the discontinuation of National Prize Bonds (Bearer) instruments and Institutional Investments, the NSS has been seeing net outflows. In FY-24, a net outflow of

PKR 110 billion was recorded, which was lower than the PKR 383 billion net outflow in FY-23. In order to address this, CDNS has strived to diversify their product portfolio and retail outreach by introducing Shariah Compliant SARWA Islamic Term Account (SITA) and SARWA Islamic Saving Account (SISA). The portfolio grew quickly to PKR 75 billion in FY-24.

4.3 Auction Operations:

In FY24, the majority of the market participation was witnessed in the Market Treasury Bills (MTBs), as financial institutions, the primary investors in government debt securities, tended to favor short-term instruments. The second highest participation was seen in the PIB Floater category, as investors aimed to capitalize on any possible increase in interest rates.

Figure 2 Auction Profile FY-24



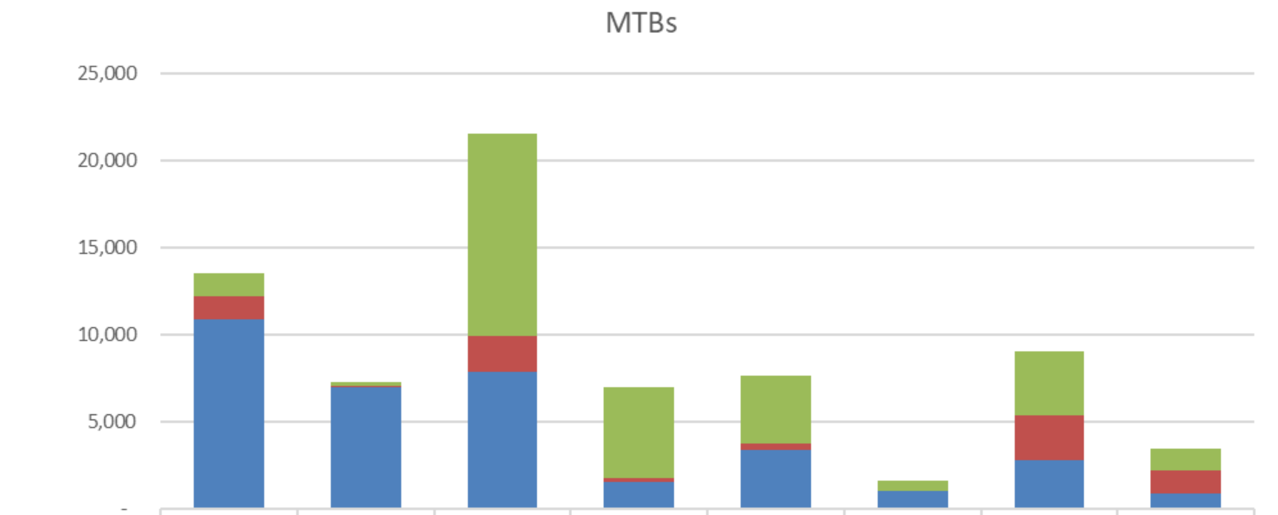
	T-Bills	PIBs Fixed	PIBs Floaters	GIS
Target	21,095	2,065	6,780	2,020
Participation	51,777	3,523	16,740	5,701
Acceptance	19,368	1,182	7,404	1,927
Maturity	21,894	866	1,991	275

Note: All values are exclusive Non-competitive bids & short selling accommodation; PIBs amount based on Face Value & MTBs amount based on Realized Value.
Source: Debt Management Office and State Bank of Pakistan

Market Treasury Bills (MTB) – FY 24 Auctions Overview

In the beginning of FY-24, major market participation was seen in the 3-month MTBs, as investors were expecting the rising interest rate scenario to continue. However, a noticeable shift was seen in Oct-Dec 23 (Q2), as interest in the 12-month MTB increased significantly given the market sentiment that interest rate had peaked.

Figure 3 Market Treasury Bills - Auction Trend

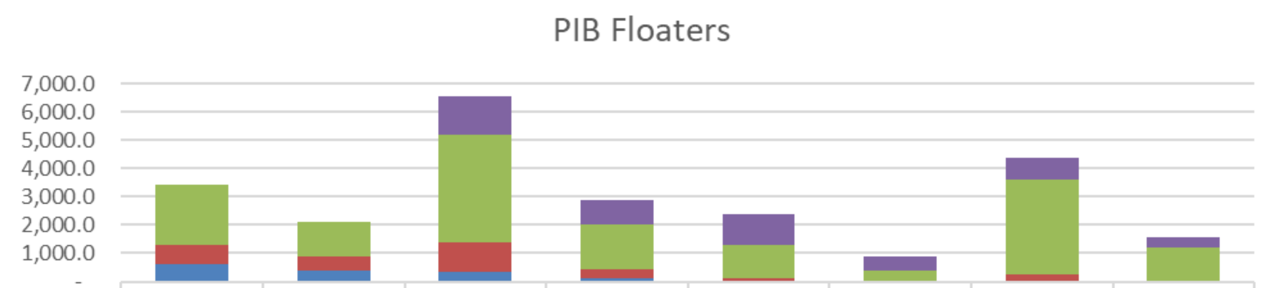


	Q1 Participation	Q1 Acceptance	Q2 Participation	Q2 Acceptance	Q3 Participation	Q3 Acceptance	Q4 Participation	Q4 Acceptance
12-month	1,345	245.6	11,656	5260.4	3,875	604.5	3,653	1291.3
6-month	1,307	47.6	2,057	178	399	9.1	2,576	1344.3
3-month	10,901	6980.2	7,847	1557	3,372	1002.3	2,790	847.3

Pakistan Investment Bonds (PIB) – FY 24 Auctions Overview

Regarding Auction profile of PIB floaters, the maximum amount of participation and acceptance was seen in the 5-Year PIB floating bond with semi-annual coupon payment.

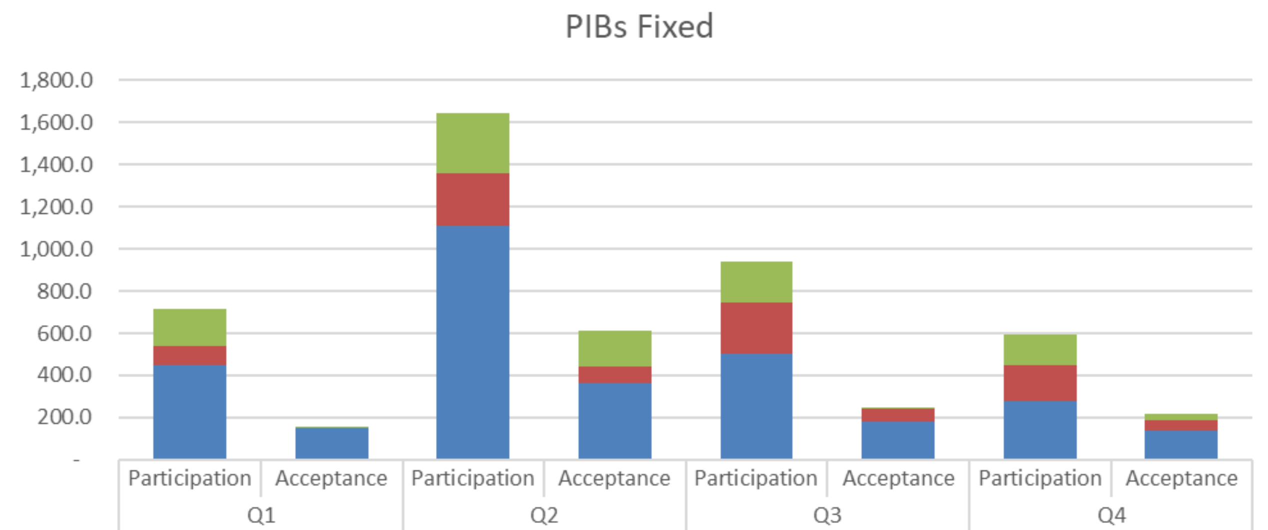
Figure 4 Pakistan Investment Bonds (Floaters) – Auction Trend



	Q1 Participation	Q1 Acceptance	Q2 Participation	Q2 Acceptance	Q3 Participation	Q3 Acceptance	Q4 Participation	Q4 Acceptance
10-Y	-	-	1,343.3	850.5	1,091.9	471.8	769.6	353.2
5-Y	2,125.4	1,258.0	3,846.9	1,586.6	1,176.8	357.4	3,335.5	1,195.6
3-Y	650.3	460.0	1,029.2	296.5	112.7	35.5	256.0	-
2-Y	632.2	405.4	337.4	133.0	19.3		13.5	-

In the case of PIB fixed-income instruments, market participants showed significant interest in the 3-year PIB during Q2, driven by the expectation that interest rates had peaked, prompting investors to lock in the high rates. The government on the other hand was cognizant of the high interest cost and preferred to accept lower amounts with a view to increase the maturity profile of domestic debt.

Figure 5 Pakistan Investment Bonds (Fixed) - Auction Trend



	Q1 Participation	Q1 Acceptance	Q2 Participation	Q2 Acceptance	Q3 Participation	Q3 Acceptance	Q4 Participation	Q4 Acceptance
10-Y	174.8	0.1	286.4	168.6	191.8	2.6	149.3	29.1
5-Y	92.2	0.3	247.0	76.5	240.8	64.2	167.3	47.0
3-Y	449.6	148.9	1,111.3	364.5	504.3	178.1	278.9	139.3

5.0 External Public Debt

Pakistan's External public debt was recorded at US$ 86.5 billion on June-24. Amount-wise breakdown of external debt composition is shown in the following table:

Table 11: Composition of External Public Debt

		Jun-22		Jun-23		Jun-24	
		PKR bn	US$ mn	PKR bn	US$ mn	PKR bn	US$ mn
I+II	**External Public Debt**	**18,157**	**88,838**	**24,071**	**84,050**	**24,084**	**86,526**
I	**Government External Debt (a+b)**	**16,747**	**81,941**	**22,031**	**76,926**	**21,752**	**78,148**
	a- Long term (>1 year)	**16,471**	**80,592**	**21,985**	**76,766**	**21,540**	**77,388**
	- Paris Club	1,887	9,232	2,263	7,901	1,802	6,474
	- Multilateral	6,954	34,023	10,700	37,363	10,924	39,248
	- Other Bilateral	3,690	18,053	5,033	17,572	5,164	18,552
	- Euro/Sukuk Global Bonds	1,799	8,800	2,234	7,800	1,893	6,800
	- Commercial Loans	1,938	9,481	1,593	5,564	1,528	5,490
	- Naya Pakistan Certificates	195	953	153	534	218	784
	- Local Currency Sec (PIBs)	1	5	1	3	7	24
	- NBP/BOC deposits/PBC	9	45	8	28	4	15
	b- Short term (<1 year)	**276**	**1,349**	**46**	**160**	**212**	**760**
	- Multilateral	271	1,327	46	160	70	250
	- Local Currency Sec (T-bills)	4	22	0	0	142	510
	- Commercial Loans	-	-	-	-	-	-
II	**From IMF**	**1,410**	**6,897**	**2,040**	**7,124**	**2,332**	**8,378**
	- Federal Government	857	4,195	1,538	5,369	1,257	4,516
	- Central Bank	552	2,702	503	1,755	1,075	3,862

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

5.1 Source-wise composition of External Debt

External debt is obtained from the following major sources;

- Loans from multilateral development partners (including IMF) and bilaterals constitute **55 percent** and **29 percent**, respectively. These loans are mostly concessional in nature i.e., long tenor and low interest rate in comparison to commercial sources.
- Bilateral deposits (China and Saudi Arabia) account for **10 percent**. These loans are short-term in nature (1-year) and are obtained mostly for budgetary support.
- Loans from foreign commercial banks constitute around **6 percent**. These loans are mostly short to medium term (i.e., 1-3 years) with market-based interest rate.

- Government of Pakistan's international capital market transactions in the form of Eurobonds and international sukuk constitute **8 percent**. These transactions represent the long-term nature of debt with market-based interest rates.
- Other foreign inflows in terms of Naya Pakistan Certificates, non-resident investment in government securities, and Pakistan Banao Certificates etc. constitute around **2 percent**. This category falls under the medium to long-term nature of debt with fixed interest rates.

Source-wise composition of external public debt is depicted in the following table:

Table 12: Source Wise External Public Debt

		Jun-22		Jun-23		Jun-24	
		USD mn	**% age**	**USD mn**	**% age**	**USD mn**	**% age**
I+II+III	**External Public Debt**	**88,838**	**100**	**84,050**	**100**	**86,525**	**100**
I	**Multilateral**	**42,247**	**48**	**44,647**	**53**	**47,876**	**55**
	- World Bank	17,851	20	19,220	23	20,431	24
	- Asian Development Bank	13,772	16	15,183	18	15,571	18
	- IMF	6,897	8	7,124	8	8,378	10
	- Others	3,727	4	3,121	4	3,496	4
II	**Bilateral**	**27,285**	**31**	**25,473**	**30**	**25,027**	**29**
	- Paris Club	9,232	10	7,901	9	6,474	7
	- Non-Paris Club	18,053	20	17,572	21	18,552	21
III	**Commercial**	**19,306**	**22**	**13,929**	**17**	**13,623**	**16**
	- Commercial Loans	9,481	11	5,564	7	5,490	6
	- Euro/Sukuk Global Bonds	8,800	10	7800	9	6,800	8
	- Naya Pakistan Certificates	953	1	534	1	784	1
	- Local Currency (T-Bills & PIBs)	27	0	3	0	534	1
	- NBP/BOC deposits/PBC	45	0	28	0	15	0

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

5.2 Highlights of External Borrowing Operations During FY-24

- Within external debt, major inflows were recorded from multilateral, and bilateral sources. Overall, net external flows contributed PKR 321 billion towards financing of federal fiscal deficit

- Key multilateral inflows were; US$ 1.3 bn from ADB; US$ 2.2bn from World Bank; US$ 1.2 bn from IMF (EFF facility); and US$ 0.345 bn from AIIB.
- Total bilateral inflows were US$ 2.8 bn, out of which, US$ 2 bn was attributed to SFD Time Deposits;
- Bilateral deposits from China and Saudi Arabia amounting US$ 9.0 bn were rolled over for one year;
- Government repaid international commercial bank loans and bilateral loans to the tune of US$ 4.98 bn. The inflows from commercial banks and bilateral sources stood at US$ 5.7bn;
- Government repaid international Eurobond amounting US$ 1.0 bn in April-2024

Table 13: Federal and Provincial Government's External Public Debt **(USD million)**

		Jun-24	% of Total
I+II	**External Public Debt**	**86,525**	**100**
I	**Provincial Govts/Sub-National Govts**	**12,809**	**15**
	- Punjab	6,026	7
	- Sindh	3,777	4
	- Khyber Pakhtunkhwa (KP)	2,378	3
	- Baluchistan	357	0
	- Gilgit-Baltistan	62	0
	- Azad Jammu & Kashmir	209	0
II	**Federal Government**	**73,716**	**85**

Source: Ministry of Economic Affairs

Table 14: Maturity Profile of External Public Debt **(USD million)**

		Jun-22		Jun-23		Jun-24	
		US$ mn	%	US$ mn	%	US$ mn	%
I+II	**External Public Debt**	**88,838**	**100**	**84,050**	**100**	**86,525**	**100**
I	**Short-Term Debt (< 1 Year)**	**21,355**	**24**	**16,612**	**20**	**16,453**	**21**
	- Bilateral Deposits	7,000	8	7,000	8	9,000	10
	- IDB Short-Term	1,327	1	160	0	250	0
	- LC Securities (T-Bills)	22	0	0	0	510	1
	- Other (Remaining Maturity < 1)*	13,006	15	9,752	12	8,586	10
II	**Medium & Long-Term Debt (> 1 Year)**	**67,483**	**76**	**67,138**	**80**	**68,179**	**79**

* Including Commercial Bank loans

Source Ministry of Economic Affairs, State Bank of Pakistan and Debt Management Office, Ministry of Finance

Figure 6 Maturity Profile - External Debt

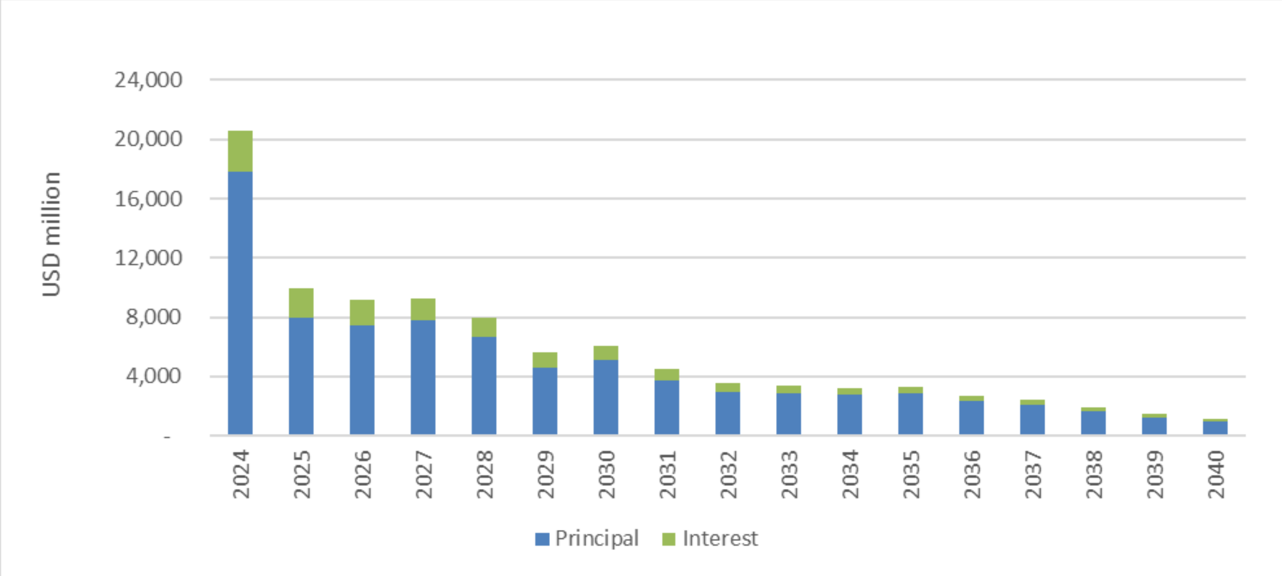


Table 15: Interest Rate Type of External Public Debt **(USD million)**

		Jun-22		Jun-23		Jun-24	
		US$ mn	%	US$ mn	%	US$ mn	%
I+II	**External Public Debt**	**88,838**	**100**	**84,050**	**100**	**86,525**	**100**
I	Floating Rate	34,381	39	31,288	39	33,986	39
II	Fixed Rate	54,457	61	52,762	61	52,540	61

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

Table 16: External Public Debt Inflows/(Outflows) **(USD million)**

	2021-22	2022-23	2023-24
Inflows (A)	**16,255**	**9,889**	**9,912**
- Multilateral	5,794	6,309	4,199
- Bilateral	3,597	1,380	2,805
- Euro/Sukuk Global Bonds	2,000	-	0
- Commercial Banks/Short-Term	4,863	2,200	2,908
Repayment (B)	**11,002**	**14,732**	**8,760**
- Multilateral	2,663	2,668	2,780
- Bilateral	1,010	2,689	2,872
- Euro/Sukuk Global Bonds	1,000	1,000	1,000
- Commercial Banks/Short-Term	6,329	8,375	2,108
Net Inflows/(Outflows) - (A-B)	**5,253**	**(4,843)**	**1,152**
- Multilateral	3,131	3,641	1,419
- Bilateral	2,588	(1,309)	(67)
- Euro/Sukuk Global Bonds	1,000	(1,000)	(1,000)
- Commercial Banks/Short-Term	(1,466)	(6,175)	800

Interest Servicing (C)		**1,988**	**3,088**	**3,447**
-	Multilateral	578	1,165	1,501
-	Bilateral	366	772	939
-	Euro/Sukuk Global Bonds	587	611	582
-	Commercial Banks/Short-Term	457	541	425
Total Debt Servicing (B+C)		**12,990**	**17,820**	**12,207**
-	Multilateral	3,242	3,832	4,281
-	Bilateral	1,375	3,461	3,811
-	Euro/Sukuk Global Bonds	1,587	1,611	1,582
-	Commercial Banks/Short-Term	6,786	8,916	2,533

* Above data excludes disbursements from non-resident investment in Government Securities, Naya Pakistan Certificates and Pakistan Banao Certificates

Pakistan successfully made the repayment of USD 1 billion Pakistan’s Euro Bond on April 12, 2024. After the repayment, the Country has seven Eurobonds and Sukuk listed on global debt markets, totaling USD 6.80 billion, with maturities spanning from September 2025 to April 2051. Yields on Pakistan's US dollar-denominated Eurobonds and Sukuks showed significant improvement in FY24 compared to FY23. Positive developments in the economy, including a sustained increase in foreign exchange reserves, have supported higher Eurobond prices. As on end June-23, yields were considerably elevated, ranging from 19.41% to 40.86%. However, during FY24, yields fell sharply, ranging from 11.80% to 12.42%, signaling increased investor confidence. During FY-25, with a new loan program and improved credit rating, the government intends to return to international capital markets to raise additional funds through instruments like Panda bonds and sustainable bonds.

Table 17: Pakistan’s International Bonds

Sr. No	Issuer Name	Issue Date	Maturity Date	Tenor (Years)	Face Value USD mn	Coupon % p.a.
I	Eurobond	30-Sep-15	30-Sep-25	10	500	8.25
II	Eurobond	8-Apr-21	8-Apr-26	5	1,300	6
III	Eurobond	5-Dec-17	5-Dec-27	10	1,500	6.875
IV	International Sukuk	31-Jan-22	31-Jan-29	7	1,000	7.95
V	Eurobond	8-Apr-21	8-Apr-31	10	1,400	7.375
VI	Eurobond	30-Mar-06	31-Mar-36	30	300	7.875
VII	Eurobond	8-Apr-21	8-Apr-51	30	800	8.875
					6,800	

Source: Bloomberg

6.0 Government Guarantees Portfolio

Clause (d) of sub-section (3) of section 3 of The Fiscal Responsibility and Debt Limitation Act 2005 (amended 2022), imposes the following two ceilings related to government guarantees:

i. **Flow ceiling:** 2 percent of the estimated GDP on the issuance of new government guarantees, with renewal of existing guarantees being considered as issuing new guarantees.

ii. **Stock ceiling:** 10 percent of the estimated GDP on the total stock of outstanding government guarantees.

Table 18: Government Guarantees Stock **(PKR billion)**

	Jun-22	Jun-23	Jun-24
Outstanding Guarantees (Extended to PSEs)	**2,983**	**3,519**	**3,387**
-Domestic Currency	1,533	1,622	1,460
-Foreign Currency	1,451	1,898	1,927
Memo: Foreign Currency (US$ in billion)	7.1	6.6	6.9

Source: Debt Management Office, Ministry of Finance

During FY24, the government issued new guarantees, including roll-overs of existing guarantees, aggregating to PKR 274 billion. This constitutes 0.26 percent of GDP which is well below the flow ceiling of 2% imposed by the Fiscal Responsibility and Debt Limitation Act, 2005.

Table 19: Government Guarantees (Sector Wise & Interest Rate Type Wise)

	Jun-22		Jun-23		Jun-24	
	PKR bn	**US$ bn**	**PKR bn**	**US$ bn**	**PKR bn**	**US$ bn**
(Sector Wise Breakup)						
Total Guarantees Stock	**2,983**	**14.6**	**3,519**	**12.3**	**3,387**	**12.2**
- Power Sector	2,238	10.9	2,545	8.9	2,353	8.5
- Aviation	241	1.2	249	0.9	247	0.9
- Financial	110	0.5	110	0.4	114	0.4
- Manufacturing	99	0.5	102	0.4	45	0.2
- Oil & Gas	52	0.3	166	0.6	170	0.6
PPP Projects					7	0.0
- Others	243	1.2	348	1.2	452	1.6
(Interest Rate Type)						
Total Guarantees Stock	**2,983**	**14.6**	**3,519**	**12.3**	**3,387.0**	**12.2**
- Floating Rate	1,628	7.9	1,737	6.1	1,498	5.4
- Fixed Rate	1,355	6.7	1,782	6.2	1,889	6.8

Source: Debt Management Office, Ministry of Finance

Approximately 70% of the Guarantees are issued for the power sector entities followed by the Aviation sector, where PIAC is the sole entity. The above table is also separately showing Federal

Government Guarantees for PPP projects involving SOEs. Presently, there is one project in implementation; Sialkot – Kharian Motorway, for which there is a sovereign guarantee of PKR 6.9 billion, issued against the operational VGF of this project. Federal government also provides Guarantees issued against commodity operations that are historically not included in the stipulated limit of 2 percent of GDP as the loans are secured against the underlying commodity and are essentially self-liquidating. These guarantees are issued against the commodity financing operations undertaken by TCP, PASSCO, and provincial governments. The outstanding stock of commodity operations was Rs 1,461 billion at June-24.

7.0 Annexures

Annex 1 Financing of Federal Fiscal Deficit

		FY-23	FY-24
			PKR billion
	Federal Fiscal Deficit	**6,676**	**7,725**
	FINANCING SUMMARY		
I-II	**Net Financing**	**6,676**	**7,725**
	- External Debt	(680)	321
	- Domestic Debt	7,356	7,404
I	**Gross Financing - Inflows**	**36,920**	**36,873**
	- External Debt	2,404	2,759
	- Domestic Debt	34,516	34,114
II	**Repayments - (Outflows)**	**(30,243)**	**(29,148)**
	- External Debt	(3,083)	(2,439)
	- Domestic Debt	(27,160)	(26,709)
	FINANCING DETAILS		
I + II	**Net Financing - Inflow/(Outflows)**	**6,676**	**7,725**
I	**External Debt**	**(680)**	**321**
	- Multilateral	762	395
	- Bilateral	(341)	(19)
	- Eurobonds	(224)	(278)
	- Commercial Sources & Others	(877)	223
II	**Domestic Debt**	**7,356**	**7,404**
	Government Securities	**7,270**	**7,275**
	-Treasury Bills	2,517	(211)
	-Pakistan Investment Bonds	3,909	5,884
	-Sukuk	844	1,602
	National Savings Schemes & Others	**86**	**130**
I + II	**Gross Summary - Inflows**	**36,920**	**36,963**
I	**External Debt**	**2,404**	**2,759**
	- Multilateral[1]	1,503	1,169
	- Bilateral	343	781
	- Eurobonds	-	-
	- Commercial Sources & Others[2]	558	809
II	**Domestic Debt**	**34,516**	**34,204**
	Government Securities	**32,344**	**32,301**
	-Treasury Bills	25,150	21,683
	-Pakistan Investment Bonds	6,326	8,741
	-Sukuk	868	1,877
	National Savings Schemes & Others[3]	**2,172**	1,903

I + II	**Repayments - (Outflows)**	(30,243)	(29,238)
I	**External Debt**	(3,083)	(2,439)
	- Multilateral[4]	(741)	(773.86)
	- Bilateral	(684)	(799.56)
	- Eurobonds	(224)	(278.37)
	- Commercial Sources & Others[5]	(1,435)	(586.80)
II	**Domestic Debt**	**(27,160)**	**(26,800)**
	Government Securities	**(25,074)**	**(25,026)**
	-Treasury Bills	(22,633)	(21,894)
	-Pakistan Investment Bonds	(2,417)	(2,857)
	-Sukuk	(24)	(275)
	National Savings Schemes & Others	**(2,086)**	**(1,774)**

Notes:

[1] Include short-term multilateral inflows.[2] Includes foreign commercial bank loans, grants, and net inflows of Non-Resident investment in Govt. Securities and Naya Pakistan Certificates.[3] Include net impact of change in cash balance of federal government.[4] Include short-term multilateral outflow and exclude IMF BoP repayments.[5] Represent repayment against foreign commercial bank loans.

Source: State Bank of Pakistan, Economic Affairs Division, Budget Office and Debt Management Office, Ministry of Finance

Annex 2: Domestic Debt Outstanding Stock

(PKR in billion)	Jun-22	Jun-23	Jun-24
Permanent Debt (I)	**20,369**	**25,547**	**33,182**
Market Loans	3	3	3
Government Bonds	1	1	1
Prize Bonds	375	383	386
Pakistan Investment Bonds (PIB)	17,687	22,009	28,026
GOP Ijara Sukuk	2,280	3,151	4,766
Bai-Muajjal of Sukuk	23	-	0
Floating Debt (II)	**6,804**	**9,335**	**10,248**
Market Treasury Bills	6,752	9,269	10,167
MTBs for Replenishment	52	66	80
Unfunded Debt (III)	**3,336**	**2,926**	**2,797**
Defense Saving Certificates	467	428	400
National Deposit Certificates	0	0	0
Khass Deposit Certificates	0	0	0
Special Savings Certificates (Registered)	377	298	286
Special Savings Certificates (Bearer)	0	0	0
Regular Income Certificates	589	462	264
Premium Saving Certificates	0	0	0
Behbood Savings Certificates	1,017	1,001	1,040
Short Term Savings Certificates (3M, 6M,12M)	5	35	56
Digital Savings Certificate	0	0	2
Khass Deposit Accounts	0	0	0
Savings Accounts	54	68	85

Special Savings Accounts	307	115	62
Mahana Amdani Accounts	2	1	1
Pensioners' Benefit Account	391	404	434
Shuhadas Family Welfare Account	0	0	0
SARWA Islamic	-	5	75
Postal Life Insurance Schemes	47	47	47
GP Fund	81	61	44
Naya Pakistan Certificates (IV)	**93**	**143**	**84**
SBP loan to GOP against SDRs allocation (V)	**475**	**475**	**475**
Foreign Currency Loans (VI)	**9**	**384**	**374**
Total Domestic Debt (I+II+III+IV+V+VI)	**31,085**	**38,809**	**47,160**

Source: State Bank of Pakistan