



MEDIUM TERM DEBT MANAGEMENT STRATEGY

FY 2026-28

*Debt Management Office
Finance Division*

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1. Executive Summary

1. The Medium-Term Debt Management Strategy (MTDS) for Fiscal Year 2026 – FY 2028 prioritizes meeting the Government's financing needs at the lowest possible cost while maintaining prudent risk levels and supporting the development of the domestic bond market. Although, recent efforts have transpired into extending the maturity profile and contain currency risk, the MTDS FY26-28 further shifts toward rebalancing the debt portfolio by increasing reliance on longer-term, fixed-rate domestic instruments and reducing exposure to short-term, high-cost borrowing.

2. To achieve these goals, the efforts will be made to expand net issuances of fixed-rate Pakistan Investment Bonds (PIBs), including newly introduced zero-coupon bonds in both conventional and sharia markets, which have been designed to attract long-term institutional investors. Floating-rate issuance will be limited to longer tenor, while the share of Treasury Bills (T-bills) will be limited to avoid further short-term debt accumulation. A significant emphasis is also placed on deepening the domestic capital market through a targeted increase in Shariah-compliant instruments, aiming to exceed 20 percent of total domestic securities.

3. On the external front, financing will continue to rely on concessional multilateral and bilateral sources. However, to diversify funding sources and reduce rollover risk, it is planned to re-enter international capital markets through instruments such as Panda Bonds, Eurobonds, and Sustainable Bonds based on global market dynamics. The forthcoming Sustainable Financing Framework, currently under cabinet review, will guide future sustainable bond issuances. These combined efforts aim to extend the maturity of debt, reduce exposure to interest rate and exchange rate risks, and broaden the investor base.

2. Debt Management Objectives & Scope

4. The DMS has been prepared by the Debt Management Office (DMO) in line with the mandate assigned by the Fiscal Responsibility and Debt Limitations Act, 2005 (FRDLA 2005), as last amended in 2022. The DMO has consulted various stakeholders during the preparation of the DMS, including the State Bank of Pakistan (SBP), the Economic Affairs Division (EAD), the Central Directorate of National Savings (CDNS), the External Finance Wing (EFW), and the Budget Wing (BW) of the Finance Division.

5. The DMS is based on two key debt management objectives, as defined in the Fiscal Responsibility and Debt Management Rules, 2023:

- The **primary objective** is to meet the government's financing needs and payment obligations at the lowest possible cost, consistent with a prudent level of risk.
- The **secondary objective** is to develop the domestic bond market.

6. The scope of the strategy comprises total public debt¹, which includes debt obligations of the federal government, provinces, and debt owed to the International Monetary Fund (IMF). Guaranteed debt of state-owned enterprises (SOEs) and the has been excluded from the debt perimeter. External debt has been defined based on the currency of denomination rather than the residency of the creditor.

7. The MTDS covers a time horizon of three years, from FY2026–FY2028. The MTDS will be reviewed and updated on an annual basis on account of major shift in then prevailing macroeconomic and market conditions.

3. Cost and Risk Indicators of the Portfolio

3.1. Current Cost and Risk Indicators

8. Total public debt as of end-FY2025 is estimated at PKR 78.2 trillion (USD 275.9 billion), equivalent to around 68percent of estimated GDP.² Over the past years, financing has increasingly been obtained from domestic sources. Consequently, the share of domestic debt increased from around 62 percent of total public debt in FY2023 to around 68 percent of total public debt in FY2025 (**Table 1**).

9. External debt mainly consists of multilateral and bilateral medium to long term loans whereas, short-term commercial borrowings and friendly countries' deposits have remained important funding sources. Domestically, PIBs and T-bills remain the principal financing sources, with the share of shariah compliant government securities increased to over 12 percent whereas unfunded debt³ declining to 6 percent.

- **Cost of debt** inFY2025 remains elevated, particularly for domestic borrowing. The overall weighted average interest rate stands at 11.9 percent, driven largely by the significantly higher cost of domestic debt relative to external sources. While external debt carries a much lower weighted average interest rate of 4.4 percent, reflecting the high shares of concessional and semi-concessional financing, domestic debt bears a substantially higher average rate of 15.82 percent, underscoring the high cost of domestic financing. As a result, interest payments have consumed nearly 6 percent of GDP in FY2025.
- **Refinancing risk** has declined as the Average Time to Maturity (ATM) of domestic debt improved from 2.7 years in June 2024 to 3.8 years in June 2025. The ATM for external debt remains over 6.1 years, resulting in an overall ATM of approximately 4.5 years.

¹ Total public debt as defined in FRDLA 2005, i.e. "total public debt" 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; and excludes external liabilities of the SBP (including the UAE and Kuwait BOP Deposits).

² Actual debt numbers have been available until end-March 2025. Debt dynamics between end-March and end-June 2025, including new borrowing, repayments, and interest payments have been estimated.

³ Unfunded debt refers to mobilization from NSS instruments that are encashable on demand (source: SBP)

- **Interest rate risk** is high for domestic debt, reflecting a shift to floating rate domestic debt instruments due to market demand over the past years, primarily due to a growing reliance on floating-rate instruments in response to market preferences. This trend was particularly evident in FY2023, when investors showed a strong preference for short- to medium-term floating-rate Pakistan Investment Bonds (PIBs), notably the 5-year tenor with semi-annual coupons. This shift was driven by expectations of continued interest rate hikes and a high policy rate environment, which peaked at 22 percent during FY2023.

Nearly 80 percent of domestic debt is subject to an interest rate refixing in FY2026, with an average time to refixing (ATR) of only 1.2 years. ATR for external debt is higher at 4.5 percent, reflecting a higher share of fixed rate debt.

- **Foreign currency risk** remains manageable regarding the share of foreign currency denominated debt in total public debt, which is expected to be moderate 32 percent as of end-FY2025. The share of short-term external debt relative to reserves, however, remains high, reflecting both increased short-term external borrowing and the low level of reserves.

Debt Stock & Risk Indicators of Total Public Debt Portfolio - FY2025*				
Risk Indicators		External Debt	Domestic Debt	Total Debt
Amount (PKR Bn)		25,201	53,500	78,701
Amount (USD Bn)		88.9	189	277.6
Public Debt (% of GDP)		22.0	46.6	68.6
Cost of Debt	Interest Payment (% of GDP)	0.87	6.87	7.74
	Weighted avg. Interest Rate (%)	4.14	15.82	11.9
Refinancing Risk	ATM (Years)	6.1	3.8	4.5
Interest Rate Risk	ATR (Years)	4.5	1.2	2.3
FX Risk	External Debt (% of Total Debt)	-	-	32.2

*based on provisional estimated numbers for end-Jun'25. PKR/USD 283.5

Source: DMO, Ministry of Finance.

3.2. Performance of the FY2023-26 MTDS

10. The targets set in the previous MTDS, covering FY2023 – FY2026, have broadly been achieved, with notable progress in several areas. Table 2 provides an overview of the performance against the strategic targets defined in the previous DMS:

- **Refinancing risk** has improved during the implementation period of the previous strategy, with the ATM of domestic debt exceeding the target by FY2025, owing to the successful, yet gradual lengthening of domestic maturities. Slow progress on the ATM of external debt

reflects decreasing net-financing from multilateral and bilateral sources and a higher reliance on short-term deposits from friendly creditors.

- **Interest rate risk** is roughly in line with the strategic target set in the previous strategy, yet did not decrease sufficiently. The main reason for this has been record high inflation and the resulting increase in the policy rate to a high of 22 percent in FY2023, which led to investors demanding more short-term floating rate instruments. This was mitigated somewhat by the Government successfully taking advantage of the declining interest rate environment in FY2025 by issuing longer-term Sukuk and more fixed-rate debt.
- **Currency risk** has been managed effectively with the share of foreign currency debt in total public debt reaching 32 percent, well below the 40 percent ceiling.
- **Market development** has been in line with expectations, with Shariah-compliant debt instruments accounting for around 12.7 percent of outstanding Government securities in FY2025.

Table 2: Cost and Risk Indicator Comparison

Risk Indicators		Indicative Benchmarks	FY2025 Target	FY2025 Outcome
Refinancing Risk	ATM of domestic debt	> 3 yrs.	3.2 yrs.	3.8 yrs.
	ATM of external debt	> 6 yrs.	6.2 yrs.	6.1 yrs.
Interest Rate Risk	Share of fixed rate debt in government securities portfolio	> 20%	24%	20%
Currency Risk	Share of external debt in total public debt	< 40%	-	32%
Diversification	Share of Shariah-compliant instruments in government securities portfolio	12.0%	12.0%	12.7%

Source: DMO, Ministry of Finance.

4. Macro and market assumptions

11. The macroeconomic assumptions underlying the DMS are aligned with the FY2026-FY2028 Medium-Term Fiscal Framework (MTFF, Table 3).

- **Nominal GDP** is projected to increase from PKR 114.7 trillion in FY2025 to PKR 162.5 trillion by FY2028, reflecting an expected broad-based economic recovery. Commodity producing sectors are expected to expand, driven by agriculture and manufacturing.
- **Fiscal consolidation** is expected to result in an average primary surplus of around 1 percent of GDP during the strategy period, in line with IMF program targets.

Table 3: Macroeconomic Indicators (As percentage of GDP, unless otherwise indicated).			
	FY26 (P)	FY27 (P)	FY28 (P)
Inflation (Annual Percentage Change)	7.5%	6.8%	6.5%
Real GDP Growth (Annual Percentage Change)	4.2%	5.1%	5.7%
Nominal GDP (PKR Billion)	129,567	144,913	162,513
Federal Primary Surplus (% of GDP)	1.3%	1.0%	1.0%
Federal Fiscal Deficit (% of GDP)	5.0%	4.5%	3.9%

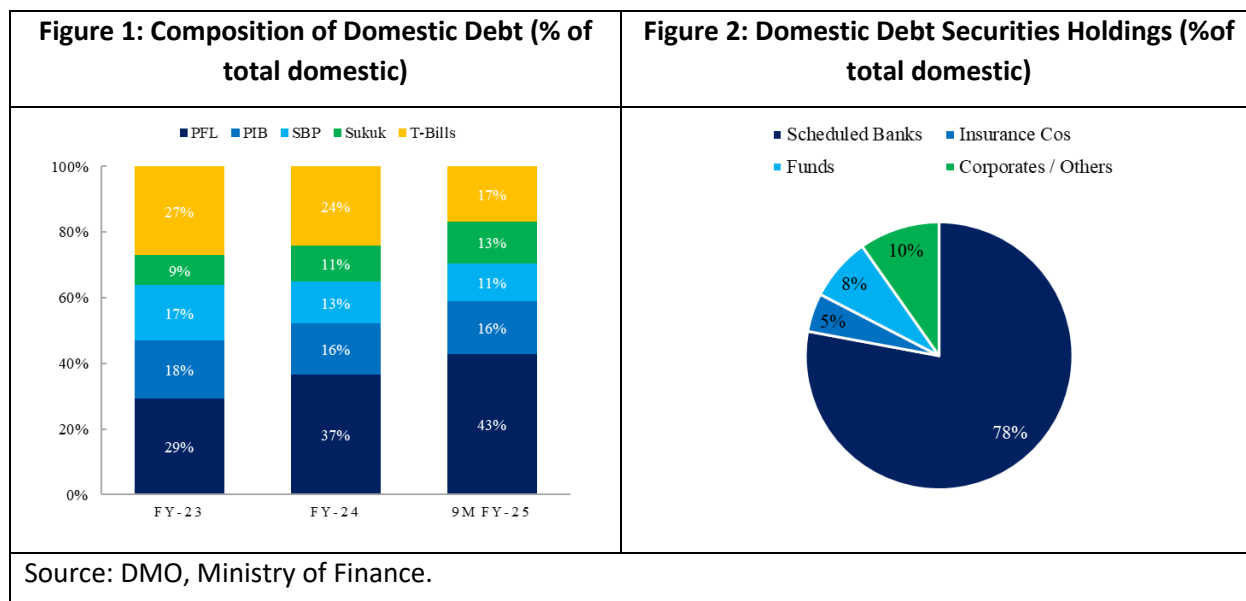
Source: Medium Term Fiscal Framework FY2026 – FY2028

5. Financing Sources

5.1. Existing financing sources.

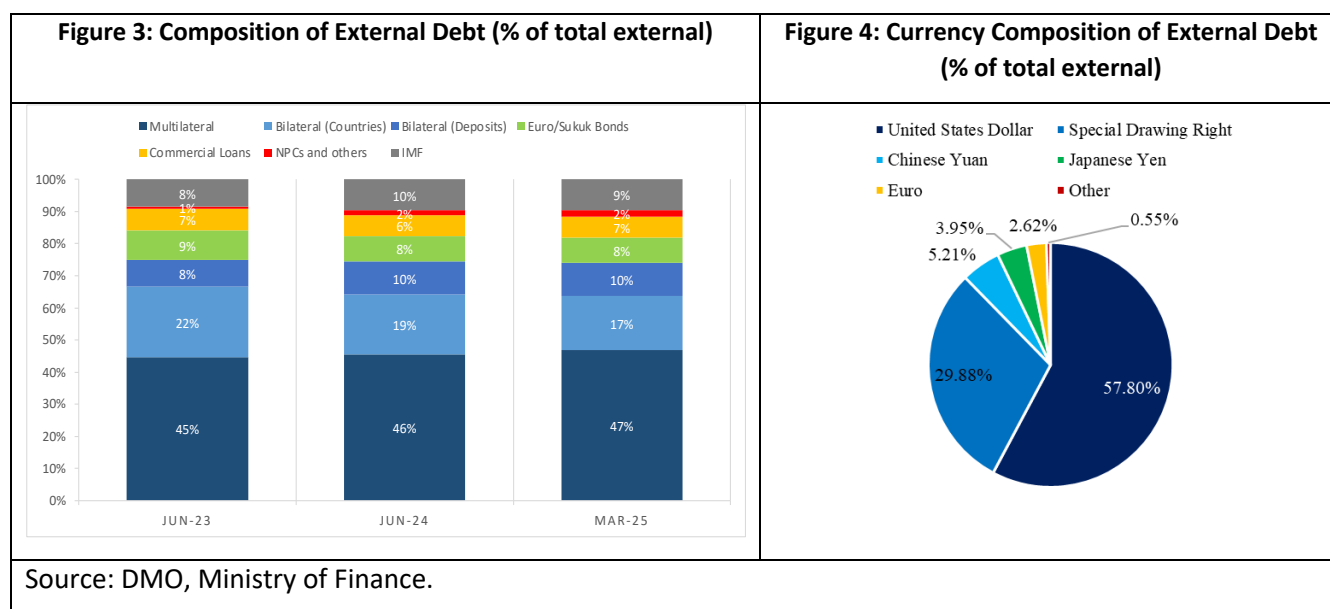
12. The Government has strategically shifted its domestic financing focus toward medium to long-term instruments, such as PIBs and Sukuks (Islamic bonds).

- Despite this intention, investor behavior during the past years reflected a clear preference for short-term and variable-rate instruments, driven by evolving market conditions and macroeconomic uncertainty. The composition of domestic debt over the past two fiscal years indicates a significant reduction in T-bill holdings. This decrease is largely the result of the government's proactive decision to retire a substantial portion of short-term debt through buybacks, thereby extending the overall debt maturity profile. At the same time, investment in floating-rate instruments has increased, reflecting investor demand for protection against interest rate fluctuations.
- The share of Government Ijarah Sukuk (GIS) rose to around 12.7 percent of domestic securities (Figure 1). To support this expansion and attract a broader investor base, the government introduced new offerings, including the 1-Year Ijarah Discount Sukuk and a long-term 10-Year Sukuk with both fixed and variable rates. These instruments were designed to appeal to investors with diverse maturity preferences, from short- to long-term horizons. Their introduction played a pivotal role in boosting the share of Sharia-compliant securities within the overall government debt portfolio. This deliberate diversification has contributed to a more balanced, inclusive, and resilient debt structure.
- Approximately 78 percent of domestic debt securities are held by domestic commercial banks, underscoring their central role in domestic financing (Figure 2). Non-bank investors play a smaller role, with insurance companies holding around 5 percent of domestic debt, investment funds comprise around 8 percent, and corporates and other entities around 10 percent. The concentration of domestic securities with banks highlights the need for investor diversification and the deeper development of the domestic debt securities market.



13. External financing has largely been obtained from bilateral and multilateral sources, as well as shorter-term commercial bank loans (Figure 3).

- Multilateral debt accounts for the largest share of external debt (around 47 percent), followed by bilateral loans and deposits (17 and 10 percent, respectively). Loans from foreign commercial banks accounts for around 7 percent of external debt. These loans are of shorter maturities, between 1 and 3 years, with market-based interest rates. The Government's outstanding Eurobonds and Sukuks, which are longer-term with market-based interest rates, amounted to 8 percent of external debt.
- The rising share of bilateral deposits and shorter-term commercial bank loans has increased refinancing and rollover risks. Limited access to long-term market-based instruments, evident from the decline in the share of Eurobonds and Sukuks from 11 percent to 8 percent of the external debt, has further constrained financing options. Debt owed to the IMF increased to US\$ 8.4 billion by end FY2025, in line with IMF program disbursements.
- The external debt portfolio is predominantly denominated in a few major currencies. The top five currencies account for most of the outstanding external debt. The United States Dollar leads with a 57.8 percent share, followed by Special Drawing Rights (SDRs) 29.88 percent, Chinese Yuan 5.21 percent, Japanese Yen 3.95 percent, and the Euro 2.62 percent (Figure 4).



5.2. Financing sources going forward

14. Domestic debt is expected to remain the primary source of government financing during the strategy period. The composition of domestic instruments will be optimized to improve the maturity profile and reduce refinancing risk. In this regard, the strategy prioritizes greater net issuance of fixed-rate securities including zero-coupon bonds, as well as conventional fixed-rate PIBs. Zero-coupon bonds will be issued in response to non-bank investor demand, whose liabilities align with the tenor of the long-term bond, and who prefer discounts over regular interest payments due to their liquidity positions.

15. For floating-rate instruments, the 10-year tenor will remain the sole option available. While efforts will be made to reduce reliance on net issuance of T-bills, their overall share in domestic government debt securities will be maintained without further increase. To further support the development and diversification of the domestic capital market, a key objective will be to increase the share of Shariah-compliant instruments within the government securities portfolio.

16. External financing will continue to focus primarily on multilateral and bilateral sources, offering concessional terms and longer maturities. To diversify its external financing portfolio, the Government plans to re-enter international capital markets through instruments such as Panda Bonds, Sustainable Bonds, and Eurobonds. These efforts aim to broaden market access and mobilize financing on more flexible terms, subject to favorable global interest rate conditions and overall macroeconomic stability.

17. Pakistan has established a USD 1 billion Panda Bond program, with an inaugural issuance of USD 200–250 million in FY2026 and additional tranches are planned, under this program, in the medium-term. Preparatory work is also underway for the issuance of Sustainable Bonds in international capital markets. To support these initiatives, a Sustainable Financing Framework

has been finalized and is currently under Cabinet review. This framework will serve as the foundation for all upcoming sustainable bond issuances. The structure of these instruments, including maturity, interest rate type, and repayment terms, will be aligned with investors' demand.

6. Debt Management Strategy

18. The DMS for FY2026–FY2028 has been formulated in line with the two core debt management objectives of meeting the government's financing needs at the lowest possible cost with a prudent level of risk and supporting the development of the domestic bond market. Beyond these objectives, the strategy addresses key risks in the current public debt portfolio, particularly refinancing, interest rate, and exchange rate risks.

19. A key focus of the strategy is to reduce reliance on short-term, high-cost external commercial borrowing while rebalancing the domestic debt portfolio toward longer-term, fixed-rate instruments.

20. On the domestic side, the strategy emphasizes on increasing net issuances of PIBs, fixed rate and zero-coupon bonds. These instruments are expected to help lower refinancing and interest rate risks, especially in a declining interest rate environment that is likely to draw investors toward medium- and long-term fixed-income products. The DMS also incorporates the gradual repayment of the securities held by the State Bank of Pakistan to reduce refinancing risk in FY2029. This will be supported by utilizing any windfall from SBP dividends exceeding 1.0 percent of GDP for the retirement of SBP debt.

21. Demand from long-term institutional investors is also anticipated to support this shift, with longer dated zero-coupon bond offering a suitable duration to match their liabilities. Similarly, the recently introduced 2-year zero-coupon bond has attracted strong interest from both commercial banks and insurers, and the strategy envisions increased issuance of this instrument during the period.

22. Efforts will also be made to reduce reliance on floating-rate debt instruments to limit exposure to interest rate volatility. Net issuance of T-bills will be scaled down to curb the proportion of short-term borrowing.

23. In parallel, the government remains committed to expanding the availability of Shariah-compliant instruments to meet growing investor demand and further the Islamization of the financial system. The issuance of such instruments remains subject to the availability of underlying assets, and in this regard, efforts are underway to adopt asset-light Sukuk structures. Recent initiatives to broaden the range of Islamic instruments across various maturities are intended to attract a more diverse group of non-bank investors and promote healthy competition in the domestic debt market.

24. For external debt, the strategy aims to gradually reduce reliance on short-term commercial borrowing by shifting away from high-cost, short-duration market-based debt with elevated rollover risk. Instead, the focus is on securing medium- to long-term financing at more favorable terms. The government also intends to maximize funding from multilateral and bilateral sources, which typically offer concessional terms and extended maturities.

25. Although access to Eurobond markets has been constrained since 2022, the strategy includes a planned re-entry into international capital markets as conditions permit. Meanwhile, Panda Bonds, Renminbi-denominated instruments issued in the Chinese market, offer a promising alternative source of financing. The planned issuance of a Panda Bond aligns with the broader objective of diversifying funding sources, lower borrowing costs, reducing refinancing risk, and strengthening financial integration with the Chinese capital market.

26. The government is committed to actively manage foreign exchange (FX) risk. There are plans to use hedging instruments to mitigate exchange rate volatility risks. Additionally, efforts are underway to develop domestic futures and interest rate swap markets. Innovative instruments, such as debt-for-nature swaps, are also being explored to manage external debt while reducing associated risks.

27. The strategic targets highlighted in Table 4 aim at facilitating the implementation of the FY2026–FY2028 DMS and the evaluation of progress against reducing key risks:

Table 4: Strategic Targets for the FY2026 - FY2028 DMS

Strategic Targets	Implementation	Benchmark
<i>Reduce refinancing risk</i>	Increase share of fixed-rate longer-term domestic securities, including Shariah-compliant instruments. Reduce external short-term commercial financing, return to international capital markets, and issue Panda bonds.	Dom. ATM > 4.25 yrs. Ext. ATM > 6.2 yrs.
<i>Reduce interest rate risk</i>	Gradually shift from domestic variable-rate to fixed-rate debt instruments.	Share of domestic fixed rate debt in total domestic securities > 30% Dom. ATR > 2 yrs.
<i>Broaden investor base</i>	Increase issuance of Shariah-compliant instruments and broaden participation by non-bank investors.	Share of Shariah-compliant instruments

	Returning to the Eurobond market and issuing Panda bonds, as conditions permit.	> 20% of total domestic securities.
<i>Maintain low currency risk</i>	Maintain the ratio of domestic vs. external debt.	FX debt < 40%

7. Government Guarantees and Contingent Liabilities

28. The DMO manages the issuance and monitors the portfolio of existing government guarantees to State Owned Enterprises (SOEs). To strengthen this function, the DMO adopted a Credit Risk Assessment Framework to evaluate the creditworthiness of beneficiaries. The framework combines quantitative and qualitative risk indicators assessing financial health, governance structures, regulatory environment, and industry risks, and assigns risk ratings to beneficiaries. Going forward, these ratings will inform the design of targeted risk mitigation measures.

29. The FRDLA 2005 imposes two ceilings related to Government guarantees:

- A flow ceiling of 2 percent of GDP on the issuance of Government guarantees, with renewal of existing guarantees being considered as issuing new guarantees.
- A stock ceiling of 10 percent of estimated GDP on the total stock of outstanding Government guarantees.

Under the IMF Program, the ceiling of PKR 5,600 billion (as of end-June 2025) on government guarantees applies to the total stock of publicly guaranteed debt issued by the central government. This includes both domestic guarantees—such as those extended to SOEs for commodity operations—and external guarantees.

30. During July-March FY2025, the Government issued guarantees amounting to Rs 405 billion, equivalent to 0.35 percent of GDP. The outstanding stock of guarantees was Rs 4,548 billion at end March 2025, which also includes guarantees issued for SOEs (TCP & PASSCO) for financing availed against commodity operations.

8. Conclusion

31. The DMS for FY2026–FY2028 has outlined a robust approach to further reduce key risks underlying the total public debt portfolio, while also minimizing costs. Developing the domestic debt market by lengthening maturities, increasing the share of fixed rate debt instruments, and the share of Shariah-compliant instruments is central to the strategy.

32. The DMO will implement the DMS through an annual borrowing plan, which will be published alongside this DMS document. The annual borrowing plan will guide the issuance of monthly auction calendars, which will specify tenure-wise target amounts for the securities the Government intends to issue.

33. The DMO will continue to actively engage with domestic and external investors through periodic meetings, conference calls, and investor presentations. The DMO will also hold regular meetings with mutual fund managers, insurance companies, and regulators, including the State Bank of Pakistan and the Securities and Exchange Commission.

34. To broaden the investor base, the DMO is working in close coordination with the SBP, which is launching a new portal, Invest Pak, designed to facilitate retail investment in government securities. The Government also intends to attract international real money investors into the domestic bond market, helping to diversify funding sources and lower borrowing costs through enhanced demand channels.

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