DEBT POLICY STATEMENT

January 2024

Debt Management Office
Ministry of Finance

This page is left intentionally blank.

Table of Contents

Lists of Tables

Acknowledgements

This policy statement has been prepared to fulfil the requirement laid out under Section 7 of the Fiscal Responsibility and Debt Limitation Act 2005 as amended from time to time. I would like to acknowledge the strategic input and policy guidance provided by Minister for Finance, Revenue and Economic Affairs, Dr Shamshad Akhtar.

I would also like to acknowledge the input of various Ministries, Departments, Divisions and Agencies especially Ministry of Economic Affairs, Budget Wing of Finance Division and State Bank of Pakistan. I recognize the efforts put in by Mr. Mohsin Mushtaq Chandna, Director General Debt, Eraj Hashmi, Director Debt, Syed Haroon Qidwai, Market and Financial Risk Specialist, Mr. Muhammad Abdullah, Debt Analyst, Arsalan Ahmed, Public Debt Management Specialist, Mr. Nawaz Aalam, Joint Secretary, Faraz Inayat, Assistant Director Risk Management and Mr. Zaheer Abbasi, Section Officer in the realization of this document.

Imdad Ullah Bosal
Finance Secretary
Finance Division

1.0 Introduction

1.1 Debt Policy Statement (DPS) is prepared to provide information and analysis pertaining to both domestic and external public debt, and government guarantees. It is one of the three economic policy statements that are to be laid before the National Assembly each year in terms of Section 4 of the Fiscal Responsibility and Debt Limitation Act, 2005, as amended from time to time. The DPS outlines the assessment of the Federal Government's debt policies against the principles of sound fiscal and debt management and debt reduction path.

1.2 During FY23 Pakistan's economy faced multiple challenges largely due to domestic and global supply shocks. Domestically, widespread flooding in large parts of the country led to supply chain disruptions, thus driving up the prices of essential commodities. Internationally, amid the fallout of Russia-Ukraine conflict, high global commodity prices were witnessed along with high interest rate environment. However, FY24 started on a positive note with the approval of the IMF board for a 9-month Stand-by Arrangement (SBA) for around USD 3 billion. Based on fiscal consolidation measures, government was able to post an overall primary surplus of 0.4 percent of GDP during Jul-Sep FY24.

1.3 Following points describe the developments in relation to borrowing operations during FY23:

- The net financing of federal fiscal deficit was solely carried out through domestic market government securities;
- Stock of short-term debt i.e., T-bills, increased by around PKR 2.5 trillion. This was mainly attributed to high borrowing requirements of federal government and extra dependence on domestic debt markets due to non-realization of part of budgeted external inflows during FY23;
- Owing to the rising interest rate environment, higher participation was witnessed in short-to-medium tenor floating-rate instruments. Government carried out gross issuance of around PKR 6.3 trillion of Pakistan Investment Bonds (PKR 1.1 trillion of fixed rate PIBs and PKR 5.2 trillion of floating rate PIBs) against the repayment of PKR 2.4 trillion (PKR 1.4 trillion of fixed rate PIBs and PKR 1.0 trillion of floating rate PIBs);
- In addition to existing 5-year Ijara Sukuk instrument, government introduced 3-year and 1-year Ijara Sukuk instruments (fixed rate and variable rate) in January and February 2023 respectively with target to diversify shariah-compliant instrument base and give more options to investors with appetite towards Islamic investments. Government successfully issued shariah-compliant Sukuk instruments amounting to around PKR 867 billion;
- The retail debt instruments i.e., National Saving Schemes (NSS) witnessed a net outflow of PKR 391 billion. In order to diversify the investment opportunities for the retail investors, government introduced shariah-compliant SARWA Islamic Term Account (SITA) and SARWA Islamic Saving Account (SISA);
- As regard external debt, inflows were recorded from multilateral, bilateral and commercial source. However, the external outflows remained higher than the external inflows which led to a net negative financing of federal fiscal deficit;

- Within external financing, major multilateral inflows were recorded as; USD 2.3 billon from ADB; USD 2.0 billion from World Bank; USD 1.2 billion from IMF (Extended Fund Facility); and USD 0.6 billion from AIIB. Total bilateral inflows were USD 1.4 billion, out of which, USD 1.2 billion was attributed to Saudi Oil Facility;
- Bilateral deposits from China and Saudi Arabia amounting USD 7.0 billion were rolled over for one year;
- Government has repaid international commercial bank loans to the tune of USD 5.9 billion. The inflows from international commercial banks, which mainly represented refinancing of maturities, amounted to USD 3.5 billion. Out of the gross inflow of USD 3.5 billion, USD 1.3 billion was recorded as foreign currency denominated domestic debt, owing to the transaction nature of the inflow; and
- Government has repaid international Sukuk amounting to USD 1.0 billion.

1.4 Following points describe the developments in relation to borrowing operations during Jul-Sep FY24:

- Around 58 percent of financing of federal fiscal deficit was carried out through domestic sources and 42 percent from external sources;
- Within domestic debt, government relied mainly on medium to long term debt securities. Resultantly, government retired around PKR 452 billion of T-bills and issued PKR 2.2 trillion of PIBs against the maturity of PKR 1.6 trillion and PKR 657 billion of Ijara Sukuks against zero maturity;
- The inflows from external sources were mainly recorded from multilateral and bilateral sources, of which the major transaction being the USD 2.0 billion new inflow from Saudi Arabia;
- SAFE China deposit of USD 1.0 billion was rolled over in July 2023; and
- In addition, government also received USD 1.2 billion under the IMF's SBA and USD 1.0 billion from UAE as bilateral deposit. These inflows were only utilized for balance of payment support.

2.0 Review of Public Debt

2.1 Fiscal Responsibility and Debt Limitation Act, 2005, as amended from time to time, 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.

2.2 Total public debt was recorded as PKR 62,881 billion at end June 2023. Out of this total public debt, domestic debt was PKR 38,810 billion and external debt was PKR 24,071 billion. Pakistan's Debt to GDP ratio stood at 74.8 percent at end June 2023 compared with 73.9 percent a year earlier.

Table 1: Total Public Debt **(PKR billion)**

	Jun-22	Jun-23	Sep-23
Domestic Debt	31,085	38,810	39,698
External Debt	18,157	24,071	24,851
Total Public Debt	**49,242**	**62,881**	**64,549**
Total Debt of Government[1]	**44,361**	**57,779**	**59,183**
(As percentage of GDP)			
Total Public Debt	73.9	74.8	-
Total Debt of Government	66.6	68.7	-
Memorandum Items			
GDP (current market price)*	**66,639**	**84,069**	**-**
Government deposits with the banking system[2]	4,881	5,102	5,366
US Dollar, last day average exchange rates	204.4	286.4	287.8

1. 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.
2. Accumulated deposits of the Federal and Provincial Governments with the banking system.
3. *The revised GDP numbers released in Quarterly National Account Committee Meeting in November 2023.

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

2.3 The increase in total public debt during FY23 is mainly attributed to: (i) higher government borrowing needs to finance federal fiscal deficit; and (ii) depreciation of PKR against USD. During FY23, the total increase in public debt was PKR 13.6 trillion, of which federal fiscal deficit was PKR 6.7 trillion, accounting for around 49 percent of increase in total public debt, whereas the remaining increase was mainly attributed to PKR depreciation against USD.

2.4 Furthermore, federal primary deficit stood at PKR 980 billion in FY23, compared with PKR 2,428 billion in FY22. However, interest expense for FY23 was PKR 5,696 billion, as compared to PKR 3,182 billion for FY22.

Table 2: Reasons for increase in Total Public Debt **(PKR billion)**

	Jun-21	Jun-22	Jun-23
Total Public Debt	**39,866**	**49,242**	**62,881**
Change in Public Debt		9,376	13,639
Reasons for change in Public Debt (I+II)		**9,376**	**13,639**
(I) Effect of Transactions		**5,561**	**6,392**
Federal Primary Deficit / (Surplus)		2,428	980
Interest Expense		3,182	5,696
Cash Balance Increase / (Decrease)		(49)	(284)
(II) Effect of Other Economic Flows (Exchange Rate / Other)		**3,815**	**7,247**

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

3.0 Domestic Debt

3.1 Domestic debt was recorded at PKR 38,810 billion at end June 2023 accounting for 62 percent of the total public debt. Following table describes the instrument-wise domestic debt stock position:

Table-3: Domestic Debt Stock **(PKR billion)**

	Jun-22	Jun-23	Sep-23
(1) Permanent Debt	**20,369**	**25,546**	**26,918**
Prize Bonds	374.6	382.5	383
Pakistan Investment Bonds (PIB)	17,687	22,009	22,722
Government Ijara Sukuk	2,280	3,151	3,809
Bai-Muajjal of Sukuk	23.2	-	-
Other	4	4	4
(2) Floating Debt	**6,804**	**9,335**	**8,883**
Market Treasury Bills	6,752	9,269	8,808
MTBs for Replenishment	52	66	75
(3) Unfunded Debt	**3,336**	**2,927**	**2,915**
National Savings Schemes	3,208	2,819	2,813
Postal Life Insurance Schemes	47	47	47
GP Fund	81	61	55
(4) Naya Pakistan Certificates	**93**	**143**	**121**
(5) SBP Loan to GOP against SDRs allocation	**475**	**475**	**475**
(6) Foreign Currency Loans*	**9**	**384**	**386**
Total Domestic Debt (1+2+3+4+5)	**31,085**	**38,810**	**39,698**

* Includes FEBCs, FCBCs, DBCs, Special US Dollar Bonds and other domestic FC borrowings

Source: State Bank of Pakistan

Table-4: Domestic Debt Flows FY23 **(PKR billion)**

	Opening Stock (June 2022)	Inflows	Outflows	Net flows	Closing Stock (June 2023)
T-Bills*	6,804	25,164	(22,633)	2,531	9,335
PIBs**	17,687	6,739	(2,417)	4,322	22,009
Sukuk	2,303	871	(23)	848	3,151
NSS***	3,711	8	(409)	(402)	3,309
Other****	581	435	(10)	425	1,006
Total	**31,085**	**32,781**	**(25,492)**	**7,724**	**38,810**

* Including MTBs for Replenishment and adjusted for non-resident investment in government securities
** Adjusted for non-resident investment in government securities
*** Including Prize bonds, PLI, and GP Fund
**** Other includes Naya Pakistan Certificates, SBP SDR loan to GoP, Foreign Currency domestic debt and government's other legacy loans

Source: State Bank of Pakistan

4.0 External Debt

4.1 External debt was recorded at USD 84.1 billion at end June 2023 accounting for 38 percent of the total public debt. Following table describes the creditor-wise external debt stock position:

Table-5: External Public Debt (USD million)

	Jun -22	Jun-23	Sep-23
External Public Debt	**88,838**	**84,050**	**86,357**
a- Long term (>1 year)	**87,489**	**83,890**	**86,197**
- Paris Club	9,232	7,901	7,703
- Multilateral	40,920	44,487	44,937
- Other Bilateral	18,053	17,572	19,615
- Euro/Sukuk Global Bonds	8,800	7,800	7,800
- Commercial Loans	9,481	5,564	5,554
- Naya Pakistan Certificates	953	534	560
- Local Currency Securities (PIBs)	5	3	3
- NBP/BOC deposits/PBC	45	28	25
b- Short term (<1 year)	**1,349**	**160**	**159**
- Multilateral	1,327	160	159
- Local Currency Securities (T-bills)	22	0	0
- Commercial Loans	-	-	-

Source: Economic Affairs Division and State Bank of Pakistan

4.2 During FY23, total disbursements from external sources amounted to USD 9,889 million[1] against the repayment of USD 14,732[2] million. The details of inflows are presented below:

- Disbursements came from multilateral institutions amounted to USD 6.3 billion (around 64 percent) with most of the inflows coming from Asian Development Bank (USD 2.3 billion), World Bank (USD 2.0 billion), and IMF (USD 1.2 billion);
- Bilateral inflows were USD 1.4 billion (around 14 percent), of which USD 1.2 billion was attributed to Saudi Oil Facility; and
- Inflows from foreign commercial banks were USD 2.2 billion[3] (around 22 percent).

[1] In addition to this, the gross inflows from Naya Pakistan Certificates amounted USD 788 million.
[2] This includes the repayment against the IMF balance of payment loans.
[3] In addition to this, USD 1.3 billion was also received which was recorded as foreign currency denominated domestic debt.

Table-6: Source Wise External Inflows and Outflows (USD in million)

	FY22	FY23	Jul-Sep FY24
DISBURSEMENTS			
Multilateral	5,794	6,309	474
Bilateral	3,597	1,380	2,306
Bonds	2,000	-	-
Commercial/Other	4,863	2,200	-
Total Inflows (A)	**16,255**	**9,889**	**2,781**
REPAYMENTS			
Multilateral	3,201	3,995	920
Bilateral	1,004	2,689	531
Bonds	1,000	1,000	-
Commercial/Other	5,797	7,047	176
Total Repayments (B)	**11,002**	**14,732**	**1,627**
Net Inflows (A-B)	**5,252**	**(4,843)**	**1,154**
INTEREST PAYMENTS			
Multilateral	614	1,209	359
Bilateral	358	772	270
Bonds	587	611	40
Commercial/Other	430	497	81
Total Interest Payments (C)	**1,988**	**3,088**	**749**
Total Debt Servicing (B+C)	**12,990**	**17,820**	**2,376**

Note: (1) Above data excludes disbursements from NPC, PBC and non-resident investment in government domestic securities.
(2) Multilateral repayment also includes repayment against IMF balance of payment loan.

Source: Economic Affairs Division and State Bank of Pakistan

5.0 Progress on Medium-Term Debt Management Strategy (FY23 - FY26)

5.1 Certain indicative ranges were defined in Pakistan's Medium-Term Debt Management Strategy (MTDS) (FY23 – FY26) to monitor the risks of total public debt portfolio and ensure its sustainability. The indicative targets along with progress are depicted in the table below:

Table 7: Indicative Targets for Key Risk Indicators

Risk Exposure	Indicators	Benchmarks	FY23 Target	FY23 Actual	FY24 Target	FY25 Target	FY26 Target
Currency Risk	Share of External Debt in Total Public Debt (%)	40% (Max)	-	38			
Refinancing Risk	ATM of DD (Years)	3.0 Years (Min)	3.0	2.8	3.1	3.2	3.3
	ATM of ED (Years)	6.0 Years (Min)	6.0	6.4	6.1	6.2	6.3
	Share of Shariah Compliant Debt in GS (%)	-	8.0	9.1	10	12	15
Interest Rate Risk	Share of Fixed Rate Debt in GS* (%)	20% (Min)	20	20.4	22	24	25

ATM: Average Time to Maturity; * Government securities held by market and SBP; GS: Government Securities

5.2 Ministry of Finance has updated the MTDS for period FY23 to FY26, keeping in view the medium-term national macro fiscal framework, as mentioned in table above. The movement in the risk indicators at end June 2023 along with strategies adopted is explained through the following:

Share of External Debt in total Public Debt

5.3 A high share of external debt in a country's total public debt exposes it to exchange rate shocks. Effectively managing and monitoring foreign currency borrowings is crucial to mitigate this risk. As of June 2023, external debt constitutes 38% of total public debt, mainly sourced from multilateral and bilateral channels. The vulnerability lies in the depreciation of the Pakistani Rupee against other currencies, leading to an increased burden of external debt and higher debt servicing costs. Despite net reduction in the stock of external debt (in USD) during FY23, the share of external debt in total public debt increased from 37 percent at end June 2022 to 38 percent at end June 2023. The increase is attributed to PKR depreciation against international currencies. Nevertheless, the external debt exposure is still within the maximum limit of 40 percent as envisaged in MTDS but remains sensitive to exchange rate movement.

Average Time to Maturity (ATM)

5.4 An important objective of debt management is to reduce the refinancing risk of the debt portfolio through lengthening of maturity profile of public debt. Over the period, Ministry of Finance has introduced various new instruments with different tenors to attract the diversified funding base and better meet the appetite of the investors.

5.5 During FY23, lower than budgeted external inflows exerted pressure on borrowing from domestic market. Furthermore, rising interest rate environment has increased the demand for short-to-medium tenor debt instruments in domestic market. Resultantly, the ATM of domestic debt decreased to 2.8 years at the end June 2023 from 3.6 years at end June 2022. The indicator is also below the minimum threshold of 3 years as per MTDS, however, Ministry of Finance aims to improve the ATM of domestic debt through the issuance of long-term debt while ensuring that the financing requirements are met. During Jul-Sep FY24, stock of short-term debt (T-Bills) was reduced by around PKR 452 billion and financing of fiscal deficit from domestic markets was mainly carried out through medium-to-long term debt securities. This has helped to improve the ATM of domestic debt.

5.6 External debt is mostly concentrated with multilateral and bilateral loans, however in the recent years, the loans obtained from foreign commercial banks and deposits from friendly countries, which are short-term, remained an important source of funding for the government. ATM of external debt increased to 6.4 years at end June 2023 from 6.2 years at end June 2022. The improvement was mainly due to: (i) retirement of short-term commercial loans; (ii) realization of new external inflows at longer tenor (mainly multilaterals); and (iii) running-off of external debt portfolio. Over the period of medium-term, government intends to improve the average maturity of its external debt portfolio in line with the MTDS targets.

Share of Fixed-Rate Debt in Government Securities

5.7 The Ministry of Finance has established a minimum limit of 20 percent for the share of fixed-rate debt instruments in domestic government securities. This lower benchmark is due to the prevailing preference for floating-rate debt among domestic investors, particularly financial institutions with predominantly floating-rate liabilities. As of end June 2023, the share of fixed rate debt in government securities was 20.4 percent.

5.8 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 in FY23, favored short-to-medium term debt instruments, especially floating-rate Pakistan Investment Bonds (PIBs) with quarterly coupon payments. The Ministry of Finance plans to consider strategic benchmarks, economic developments and outlook while setting monthly auction targets and issuing long-term fixed-rate domestic government securities through public auctions.

5.9 Collaborating with the State Bank of Pakistan (SBP), Pakistan Stock Exchange (PSX), and Securities and Exchange Commission of Pakistan (SECP), the Ministry aims to encourage market competition and increase participation from investors such as asset management companies, insurance companies and pension funds.

Share of Shariah Compliant Debt in Government Securities

5.10 Increasing the share of shariah-compliant government securities is an important part of the diversification of investor base. Due to high growth and rising market share of shariah compliant financial institutions in the country, the rationale for this strategy is even stronger. In line with targets, share of shariah-compliant debt in government securities has increased to 9.1 percent at end June 2023 as compared to 8.6 percent at end June 2022. Ministry of Finance intends to further support the shariah-compliant investors through introduction of new instruments with new profit intervals.

6.0 Guarantees

6.1 Government guarantees are generally extended to Public Sector Enterprises (PSEs) to improve financial viability of projects or activities undertaken by the government entities with significant social and economic benefits. Fiscal Responsibility and Debt Limitation Act, 2005, as amended from time to time, under sub-section 3, clause (d) imposes the following two ceilings related to government guarantees: (i) Flow ceiling: 2 percent of GDP on the issuance of government guarantees, with renewal of existing guarantees being considered as issuing new guarantees; and (ii) Stock ceiling: 10 percent of GDP on the total stock of outstanding government guarantees. Following table contains details of government guarantees stock:

Table-8: Government Guarantees Stock **(PKR billion)**

	Jun-22	Jun-23	Sep-23
Outstanding guarantees extended to PSEs	**2,983**	**3,519**	**3,603**
- Domestic Currency	1,533	1,621	1,585
- Foreign Currency	1,450	1,898	2,018
Memo:			
Foreign Currency (USD billion)	7.1	6.6	7.0

Source: Relevant Public Sector Enterprises and Debt Management Office, Ministry of Finance

6.2 During Jul-Sep FY24, the government issued new guarantees including rollovers amounting to PKR 26 billion or 0.02 percent of GDP while stock of guarantee stood at 3.4 percent of GDP at end September 2023.

Table-9: Details of Government Guarantees

	Jun-22		Jun-23		Sep-23	
	PKR bn	**USD bn**	**PKR bn**	**USD bn**	**PKR bn**	**USD bn**
(Sector Wise Breakup)						
Total Guarantees Stock	**2,983**	**14.6**	**3,519**	**12.3**	**3,603**	**12.6**
- Power Sector	2,238	10.9	2,545	8.9	2,526	8.8
- Aviation	241	1.2	249	0.9	256	0.9
- Financial	110	0.5	110	0.4	110	0.4
- Manufacturing	99	0.5	102	0.4	101	0.4
- Oil & Gas	52	0.3	166	0.6	130	0.5
- Others	243	1.2	348	1.2	480	1.7
(Interest Rate Type)						
Total Guarantees Stock	**2,983**	**14.6**	**3,519**	**12.3**	**3,603**	**12.6**
- Floating Rate	1,574	7.7	1,683	5.9	1,639	5.7
- Fixed Rate	1,409	6.9	1,836	6.4	1,964	6.9

Note: The original maturities of major portion of Guaranteed Debt Stock were 5-years and above

Source: Debt Management Office

6.3 Guarantees issued against commodity operations are 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 1,486 billion at end June 2023 and stood at Rs 1,309 billion at end September 2023.

7.0. Conclusion

7.1 The government is committed to achieve the objectives outlined in the Fiscal Responsibility and Debt Limitation Act, 2005, as amended from time to time. Moving forward, the key goals of public debt management include: (i) meeting the government's financing needs at the lowest possible cost, balancing with a prudent level of risk; (ii) reducing "Gross Financing Needs (GFN)" through various measures; (iii) expanding the investor base and ensuring a well-functioning domestic debt capital market; (iv) extending the maturity profile of the domestic debt portfolio to mitigate refinancing and interest rate risks; and (v) mobilizing maximum available concessional external financing to boost the economy's potential output by enhancing efficiency and productivity, simultaneously improving the country's debt repayment capacity.

finance.gov.pk