



# Medium Term Debt Strategy

2013/14 - 2017/18



Government of Pakistan  
Finance Division  
Debt Policy Coordination Office  
Islamabad

# **Medium Term Debt Management Strategy (MTDS)**

**(2014-18)**



**Debt Policy Coordination Office  
Ministry of Finance  
Government of Pakistan**

Islamabad, April 2014

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## **Abbreviations**

ADB	Asian Development Bank
ATM	Average Time to Maturity
ATR	Average Time to Re-fixing
CDNS	Central Directorate of National Savings
DPCO	Debt Policy Coordination Office
EAD	Economic Affairs Division
EDL	External Debt and Liabilities
FRDLA	Fiscal Responsibility and Debt Limitation Act, 2005
GDP	Gross Domestic Product
GP Fund	General Provident Fund
GIS	Government Ijara Sukuk
IDB	Islamic Development Bank
IMF	International Monetary Fund
JPY	Japanese Yen
MoF	Ministry of Finance
MRTBs	Market Related Treasury Bills
MTDS	Medium Term Debt Management Strategy
NSS	National Saving Schemes
PIBs	Pakistan Investment Bonds
PLI	Postal Life Insurance
PPG	Public and Publically Guaranteed
SBA	Stand by Arrangements
SBP	State Bank of Pakistan
SDR	Special Drawing Rights
T-Bills	Treasury Bills

## **Foreword**

The present government took office in June 2013 and immediately initiated actions for restoring economic sustainability and growth. It articulated its economic vision based on trade and investment, market considerations, enhancing private sector involvement, limiting itself within the broader limits imposed by the available resources and broadening the base of resource mobilization for running the government. It also accorded high priority to resolve energy crisis, up-gradation of infrastructure base, building up foreign exchange reserves and correcting fiscal and external imbalances. Such developmental plans/reforms require borrowings from external and domestic markets. To guide the borrowing activities, the Government of Pakistan has developed a Medium Term Debt Management Strategy (MTDS) that is closely linked to its fiscal framework.

The MTDS is a plan that the government intends to implement over the medium term in order to achieve desired composition of the government debt portfolio, which captures the government's preference with regards to cost-risk tradeoff. It contains a policy advice on an appropriate mix of financing from different sources with the spirit to uphold the integrity of the Fiscal Responsibility & Debt Limitation (FRDL) Act, 2005. It will provide a policy framework and enable the government to take informed decisions based on the evaluation of cost-risk tradeoffs. It will also enhance the coordination with fiscal and monetary management while helping to achieve greater clarity and accountability for public debt management.

I sincerely appreciate the Finance Secretary and his team for their determined efforts in preparation of Medium Term Debt Management Strategy.

**Muhammad Ishaq Dar**  
**Minister for Finance, Revenue, Economic**  
**Affairs, Statistics and Privatization**  
**Government of Pakistan**

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I would like to recognize the efforts put in by Mr. Sajjad Ahmad Shaikh, Joint Secretary, Mr. Muhammad Ikram, Deputy Secretary, Mr. Muhammad Umar Zahid, Financial Analyst, Mr. Arsalan Ahmed, Financial Analyst, Ms. Saadiya Razzaq, Consultant, Mr. Arslan Shahid, Consultant, Ms. Myra Qazi, Consultant in preparation and execution of Medium Term Debt Management Strategy. I would also like to take this opportunity to express gratitude to IMF/World Bank Team for their technical input.

**Waqar Masood Khan  
Secretary Finance  
Government of Pakistan**



## **Executive Summary**

It is imperative to have a comprehensive debt management strategy aiming at debt sustainability and enhancing the debt servicing capacity of the country. Owing to its vital importance and indispensable nature, Government of Pakistan has developed its first Medium Term Debt Management Strategy (MTDS) for the year 2014-18. The prime objective of MTDS is to provide the financing for the government at low cost over the medium to long term by giving due consideration to the risks.

The analysis of public debt reveals that the debt to GDP ratio stood at 62.7 percent in 2012-13, consequently the debt servicing consumed around 41 percent of the total revenues. Over the past few years, the composition of public debt has shifted towards domestic debt and furthermore into shorter duration instruments which is a source of vulnerability and entails high rollover and refinancing risk. As on June 30, 2013, around 34 percent of total public debt stock was denominated in foreign currencies which exposes debt portfolio to exchange rate risk.

The MTDS provides alternative strategies to meet the financing requirements of the government. The four different borrowing strategies have been assessed with associated costs and risks analysis under the alternative interest and exchange rates scenarios. The cost and risk trade-off analysis is based on the existing debt cash flows, market and macroeconomic projections and alternative borrowing strategies. The robustness of alternative debt management strategies was evaluated by applying stress/shock scenarios for interest rates and exchange rates.

Pakistan needs to follow the strategy which results in lengthening of its maturity profile to reduce the refinancing risk along with providing sufficient external inflows in the medium term to reduce the pressure on domestic resources keeping in view cost-risk tradeoffs. A strategy with an increased reliance on domestic short term sources is the least attractive. MTDS also provides strategic guidelines for comprehensive debt management which include: (i) widening of investor base; (ii) development of domestic debt markets (iii) lengthening of maturities of debt instruments; and (iv) stimulation of external finance.

## 1.0 **INTRODUCTION**

- 1.1 The developing countries need to borrow in order to facilitate their development process. Debt may well act as catalyst in the course of growth of an economy if it is undertaken to facilitate the well thought out road map devised with due diligence. Unsustainable level of debt coupled with absence of prudent debt management strategy plagues economic growth by lowering the development expenditure due to heavy debt servicing requirement. This intricate scenario calls for comprehensive and prudent debt management strategy which ensures the right choices among several options keeping in view cost and risk tradeoffs, addresses financial constraints and ensures intergenerational welfare impact.
- 1.2 Government has developed its first Medium Term Debt Management Strategy (MTDS) to ensure that both the level and rate of growth in public debt is fundamentally sustainable and can be serviced under different circumstances while meeting cost and risk objectives. The MTDS contains a policy advice on an appropriate mix of financing from different sources with the spirit to uphold the integrity of the Fiscal Responsibility & Debt Limitation (FRDL) Act, 2005.

### **Objectives & Scope of Medium Term Debt Management Strategy**

- 1.3 The prime objective of MTDS is to provide financing at the lowest possible cost while giving due consideration to the risks. The MTDS has the following main objectives:
- Fulfil the financing needs of the government.
  - Minimize the cost of debt while maintaining the acceptable level of risks.
  - Facilitate the development of domestic debt market.
- 1.4 Time horizon of the debt management strategy is medium term i.e. till 2017/18. Starting point for the analysis is the debt portfolio as of end-June, 2013.
- 1.5 The scope of MTDS analysis in this report covers debt contracted by the federal government which includes on-lending to the provinces. Federal

government debt consists of external debt from multilateral and bilateral sources as well as Eurobonds, domestic wholesale instruments such as PIBs, T-Bills, GIS), domestic retail instruments (National Savings Schemes), as well as borrowing from State Bank of Pakistan through MRTBs. The analysis also includes the portion of IMF debt which was utilized towards budgetary support. The remaining portion of IMF debt is not included as it was only utilized towards balance of payment support and reflected in foreign currency reserves of the country.

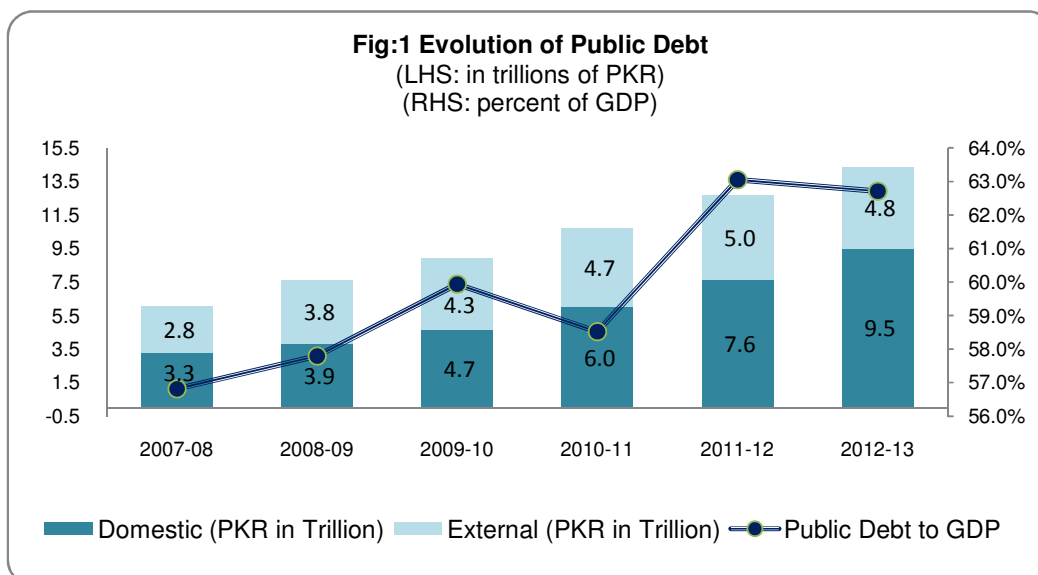
## 2.0 OVERVIEW OF PUBLIC DEBT PORTFOLIO (2012-13)

- 2.1 The portion of total debt which has a direct charge on government revenues as well as the debt obtained from IMF is taken as public debt. Public debt stock recorded at Rs.14,366 billion as on June 30, 2013 (table 1) representing an increase of Rs.1,699 billion or 13 percent higher as compared with last fiscal year. This increase in public debt is attributed to financing of fiscal deficit which was recorded at 8 percent of GDP against the budgeted estimate of 4.7 percent.
- 2.2 Over the past few years, government relied mainly on the domestic borrowing which resulted in gradual increase of its share to around 66 percent of the total public debt in 2012-13 compared to 51 percent in 2008-09. Government borrowings from domestic sources were actually higher than the overall fiscal deficit in 2012-13 as net external debt payment had to be paid owing to insufficient fresh external inflows which apart from putting pressure on domestic resources also resulted in a fall in SBP's foreign exchange reserves during 2012-13.

<b>Table 1: Public Debt</b>						
	2008	2009	2010	2011	2012(P)	2013(P)
<b>(Rs. in billion)</b>						
Domestic Debt	3,266	3,852	4,651	6,016	7,637	9,517
External Debt	2,778	3,776	4,260	4,685	5,016	4,849
<b>Total Public Debt</b>	<b>6,044</b>	<b>7,629</b>	<b>8,911</b>	<b>10,700</b>	<b>12,653</b>	<b>14,366</b>
<b>(In percent of GDP)</b>						
Domestic Debt	30.7	29.2	31.3	32.9	38.0	41.5
External Debt	26.1	28.6	28.7	25.6	25.0	21.2
<b>Total Public Debt</b>	<b>56.8</b>	<b>57.8</b>	<b>59.9</b>	<b>58.5</b>	<b>63.0</b>	<b>62.7</b>
<b>(In percent of Total Debt)</b>						
Domestic Debt	54.0	50.5	52.2	56.2	60.4	66.2
External Debt	46.0	49.5	47.8	43.8	39.6	33.8
<b>(In percent of revenues)</b>						
Domestic Debt	217.8	208.1	223.8	267.0	297.6	319.1
External Debt	185.3	204.0	205.0	208.0	195.4	162.6
<b>Total Public Debt</b>	<b>403.1</b>	<b>412.2</b>	<b>428.8</b>	<b>475.0</b>	<b>493.0</b>	<b>481.7</b>
P:Provisional						
- The base of Pakistan's GDP has been changed from 1999-00 to 2005-06						
<b>Source: State Bank of Pakistan, Economic Affairs Division, Budget Wing and Debt Policy Coordination Office Staff Calculations</b>						

- 2.2 The debt to GDP ratio has remained below 60 percent since 2005-06 until 2010-11. It increased to 63 percent in 2011-12. In 2012-13, the debt to

GDP ratio was 62.7 percent. The evolution of public debt along with debt to GDP ratio is depicted through Fig-1.



2.3 In 2012-13, debt servicing comprised around 41 percent of the total revenues whereas the debt servicing below 30 percent of the government revenues is generally considered to be a sustainable level. Public debt servicing reached at Rs.1,209 billion against the budgeted estimate of Rs.1,178 billion (table 2). The variation is explained by increased quantum of domestic borrowing which exceeded the budgeted amount by approximately Rs.75 billion. Further, analysis reveals that the deviation from budgeted amount was mainly witnessed in T-Bills and PIBs for the amount of Rs.48 billion and Rs.21 billion respectively.

**Table 2: Public Debt Servicing - (2012-13)**

	Budgeted	Actual (P)	Percent of Revenue	Percent of Current Expenditure
	(Rs. in billion)			
Servicing of External Debt	80.2	70.6	2.4	1.9
Repayment of External Debt	252.0	217.9	7.3	6.0
Servicing of Domestic Debt	845.6	920.4	30.9	25.1
Servicing of Public Debt	1,177.8	1,208.9	40.5	33.0

P: Provisional

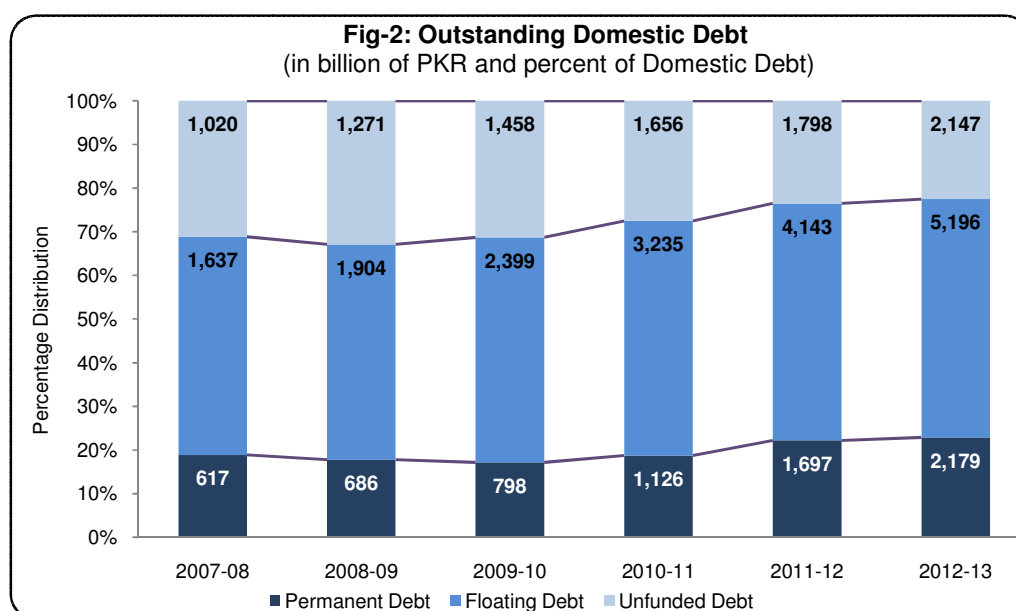
Source: Budget Wing and Debt Policy Coordination Office Staff Calculations, Finance Division

## 2 (i) Domestic Debt

2.4 Pakistan's domestic debt comprises permanent debt (medium and long-term), floating debt (short-term) and unfunded debt (made up of the various instruments available under the National Savings Scheme).

2.5 The analysis of domestic debt reveals that the government relied more on short term borrowing especially from the banking system in 2012-13 despite the mobilization through National Savings Schemes doubled which is a predominant source of non-bank borrowing. This increased reliance on bank borrowing led to inflationary pressure and translated into higher debt servicing in view of higher domestic interest rates. The domestic debt was increased by Rs.1,880 billion in 2012-13 as compared to last year and recorded at Rs.9,517 billion constituting 41 percent of GDP (Annex-I for component wise details of domestic debt).

2.6 The composition of domestic debt has witnessed a shift from a high dominance of unfunded debt to floating debt over past few years. The unfunded debt comprised 23 percent of total domestic debt in 2012-13 compared with 31 percent in 2007-08 (Fig-2). Whereas, the share of floating debt to total domestic debt stood at 55 percent at end-June 2013. This trend shows the government dependence on shorter duration instruments over past few years which can be source of vulnerability as shorter maturities involve high refinancing and interest rate risk.

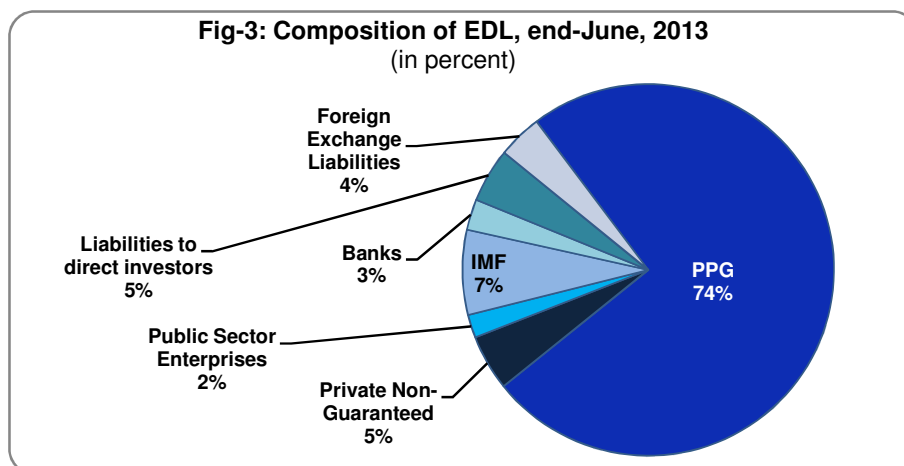


- 2.7 In 2012-13, the floating debt increased by Rs.1,053 billion. Most of the proceeds accrued through T-Bills as Rs.538 billion was added in the stock of June 30, 2012. On the other hand, government borrowed Rs.516 billion through MRTBs. Government could only adhere to keep its net quarterly borrowing from the State Bank of Pakistan at zero during the first quarter of 2012-13 as market conditions were more supportive and government mopped up more than targeted amount from the commercial banks. However, the government was unable to finance its maturing amount from commercial banks especially in second quarter of 2012-13 as market dynamics changed and banks were sensing higher interest rates in view of large funding needs of the government.
- 2.8 The amount of permanent debt in the government's total domestic debt stood at Rs. 2,179 billion as at end-June 2013, registering an increase of Rs.482 billion compared with that of last fiscal year. The stock of permanent debt recorded a 28 percent increase, mainly on account of higher mobilization through PIBs i.e. Government mopped up net of retirement Rs.347 billion through PIBs. Government also mobilized net of retirement Rs.76 billion through GIS and Rs. 56 billion through prize bonds.
- 2.9 Mobilization through unfunded debt witnessed a sizeable growth as the government raised Rs.349 billion during 2012-13 compared with Rs.142 billion during the same period last year. In terms of composition, more than half of the incremental mobilization went into Special Savings Certificates and Accounts.

## **2 (ii) External Debt and Liabilities (EDL)**

- 2.10 External Debt and Liabilities (EDL) stock was recorded at US\$ 59.8 billion at end-June 2013 compared with US\$ 65.5 billion in 2011-12. Out of EDL, external public debt amounted to US\$ 48.7 billion as at end-June, 2013. EDL stock witnessed a decline of approximately US\$ 5.7 billion during 2012-13 which is a largest ever drop in a single year mainly due to around US\$ 3 billion repayment to the IMF and translation gain of US\$ 2.7 billion on account of appreciation of US Dollar against Japanese Yen. As at end-June, 2013, EDL is dominated by Public and Publically Guaranteed (PPG) Debt having share of 74 percent followed by IMF having share of 7 percent

(Annex-II for components wise details of external debt). This composition of EDL is depicted through Fig-3:



### 2 (iii) Cost and Risk Indicators of Public Debt - End June, 2013

Risk Indicators		External Debt	Domestic Debt	Public Debt
Amount (Rs. in billion)		4,849	9,517	14,366
Nominal Debt as Percentage of GDP		21.2	41.5	62.7
Cost of Debt	Weighted Average IR (%)	1.8	10.7	7.6
Refinancing Risk	Average Time to Maturity (ATM) – Years	9.5	1.8	4.5
	Debt Maturing in 1 Year (% of total)	12.8	64.2	46.6
Interest Rate Risk	Average Time to Re-Fixing (ATR) – Years	8.7	1.8	4.2
	Debt Re-Fixing in 1 year (% of total)	25.3	67.2	52.8
	Fixed Rate Debt (% of total)	84.4	39.6	54.9
Foreign Currency Risk (FX)	Foreign Currency Debt (% of total debt)			34.2
Other Public Debt Indicators	Public Debt to Revenue (Percentage)			482
	Revenue Balance / GDP			2.8
	Primary Balance / GDP			3.6

\* Adjusted for grants

Source: Debt Policy Coordination Office Staff Calculations, Finance Division

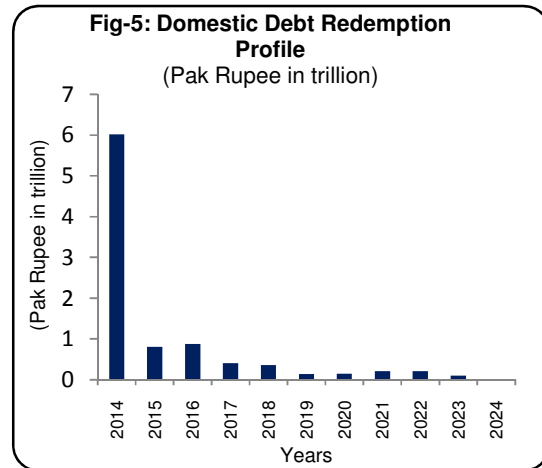
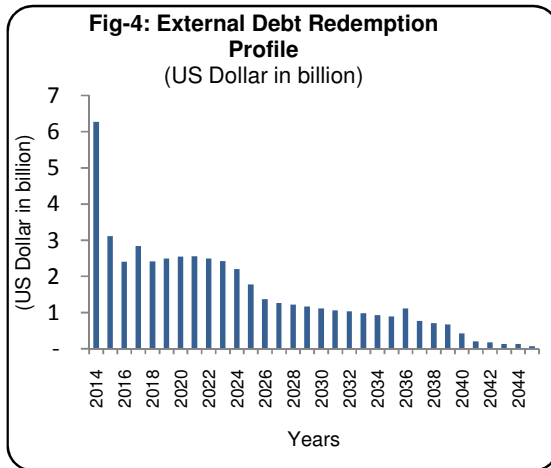
2.11 The cost and especially risks of the debt portfolio can be described with a few key parameters. However it is better to consider more than one indicator as risks to debt composition have several dimensions. Normally, three kinds of indicators are used for analyzing public debt’s risk level – measurement of risk that current economic conditions generate over public debt (foreign currency risk); evaluation of government’s ability to face



upcoming contingencies considering certain expected circumstances (refinancing risk); financial indicators which show the liabilities of market performance (interest rate risk).

- 2.12 Pakistan's total public debt as a percentage of revenues stood at 482 percent during 2012-13, whereas, public debt around 350 percent of government revenues is generally believed to be within the bounds of sustainability. Revenue deficit stood at Rs.649 billion or 2.8 percent of GDP in 2012-13 which reflects the non-availability of fiscal space for undertaking development spending. Primary deficit stood at Rs.814 billion or 3.6 percent of GDP in 2012-13 which essentially implies that the government is borrowing to pay interest on the debt stock.
- 2.13 The cost of current debt portfolio of Pakistan is determined by the weighted average interest rate which stands at 7.6 percent including National Savings Schemes (NSS). This number is a combination of average interest rate of 1.8 percent on external debt and about 10.7 percent on domestic debt. While interest rates on domestic debt are almost 6 times higher than those on external debt, this differential fluctuates with the changes in the exchange rate. For instance, Pak Rupee depreciated against US Dollar on average by 8 percent in the past 5 years which resulted in increase in external debt in local currency. This capital loss on foreign currency debt, however, is mitigated by the strong concessionality element associated with Pakistan's external loans. Hence, the cumulative cost of adverse currency movement and existing external debt rate is still lower than the cost of domestic debt by 0.9 points.
- 2.14 Refinancing risk is probably the most significant in Pakistan's debt portfolio, driven primarily by the concentration of domestic debt in short maturities. The Average Time to Maturity (ATM) of total public debt is 4.5 years, with payment of about Rs.6 trillion of domestic debt is due in 2013-14. Therefore, in the absence of sufficient external financing inflows and the current unfavorable Balance of Payment position, refinancing of such a huge amount will further accentuate the economic situation, thus compelling the Government to revert to SBP. The ATM of domestic debt is 1.8 years with NSS instruments further compounding the refinancing risk

owing to embedded put option. In contrast, ATM of external debt is 9.5 years, indicating limited exposure. Nonetheless, the unfavorable balance of payment situation and pressure mounting on foreign exchange reserves, payment of USD 6.2 billion due in 2013-14 may become a challenge if external position further tightens.



- 2.15 Around 34 percent of total public debt stock is denominated in foreign currencies, exposing Pakistan's debt portfolio to exchange rate risk. Adjusted for Special Drawing Rights (SDR), the main exposure of exchange rate risk comes from USD denominated loans (14 percent of total debt), followed by Japanese Yen (9 percent) and loans denominated in Euro (7 percent). Depreciation of Pak Rupee would affect both the stock of government debt as well as debt servicing flows.
- 2.16 Exposure to interest rate changes is a substantial risk given the short term nature of domestic securities and external borrowing in floating rates. Around 67 percent of total domestic debt is exposed to interest rate re-fixing within 1 year as compared to 25 percent of external debt. Average time to Re-Fixing (ATR) for domestic debt stands at 1.8 years, comparable to ATM for domestic debt, while ATR on external debt is significantly longer at 8.7 years.

### 3.0 MEDIUM TERM MACROECONOMIC FRAMEWORK

#### 3 (i) Macroeconomic Assumptions

3.1 Government estimated set of macro-economic projections as part of its medium term budgetary framework. These projections are consistent with the macro-economic assumptions outlined in the first review of the IMF's Extended Fund Facility (EFF) program. The EFF arrangement is expected to have the support of additional annual US\$ 5-6 billion on average from other development partners during the program period. In addition, the government aims economic restructuring through measures such as revenue mobilization, rationalizing expenditure, revitalizing the key public sector enterprises and resolving energy sector issues to ensure sustainable growth. The resultant economic growth is expected to contain the future fiscal deficits. The expected increased external financing along with curtailed current account deficit will reduce pressure on SBP reserves over the medium term.

**Table 4: Macro-Economic Indicators**

Macro-Economic Projections	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
GDP growth percent (fc)	3.6	2.8	3.6	3.9	4.7	5.0
Consumer price index (period average) percent	7.4	11.0*	9.0	7.0	6.0	6.0
Current account deficit (US \$ billion)	(2.5)	(2.3)	(2.0)	(2.6)	(4.5)	(5.6)
Gross official reserves (US \$ billion)	6.0	9.4	12.3	16.7	16.8	16.7
- in month of imports	1.4	2.1	2.5	3.2	2.9	2.8
	<b>(In percent of GDP)</b>					
External Debt	24.9	27.7	26.6	25.5	23.9	22.5
Revenues including grants	13.2	14.9	14.9	15.4	15.3	15.2
- Tax revenues	9.7	10.6	11.6	12.2	12.8	12.8
Expenditure	21.0	20.4	19.4	18.8	18.7	18.7
- Current	16.3	16.8	16.3	15.6	15.4	15.2
- Development	4.6	3.6	3.1	3.2	3.4	3.5
Primary Balance	(3.5)	(0.8)	0.7	1.0	0.8	0.7
Fiscal Balance	(7.8)	(5.5)	(4.4)	(3.5)	(3.5)	(3.5)

\*The IMF projection for inflation rate was 7.9 percent for 2013-14, however, in consultation with all stakeholders, it was unanimously decided to keep it at 11 percent to make it more realistic for MTDS purpose.

Source: Government of Pakistan and IMF Staff Estimates and Projections

**Economic Growth**

3.2 Over the last few years, Pakistan's economy has been marred with a deepening security and energy crises, crippling policy inactions and natural disasters in the shape of floods and torrential rains. These factors have culminated in economic slowdown with GDP growth rates averaging around 3 percent during the last five years. However, economic restructuring as envisaged by the government would improve economic growth to 5 percent by 2017-18. The steady economic growth would mainly stem from macro-economic reforms adopted by the government to tackle the energy crises and revitalize the public sector enterprises; stimulating economic activity and controlling the resource drainage in the forthcoming years.

**Fiscal Policy**

3.3 Fiscal policy is an important component of macroeconomic management. The government is responding to the current fiscal predicaments through adopting measures to mobilize tax revenues, expansion of tax base in the medium term along with raising non-tax revenue. It is expected to progressively raise the total revenue from 13.2 percent of GDP in 2012-13 to 15.2 percent in 2017-18. Revenue mobilization efforts would be followed by measures to rationalize non-developmental expenditure through reforms in the energy sector and public sector enterprises, phasing out subsidies to curb the drainage of government resources. The government's fiscal policy measures are projected to yield a gradual improvement in the fiscal deficit from its current level of 8 percent to 3.5 percent in 2017-18. Moreover, the primary balance is expected to be revitalized as the primary deficit of 3.5 percent is forecasted to reach a surplus of 0.7 percent by 2017-18. The improving fiscal outlook would help contain the government's financing needs over the medium term.

**Balance of Payments**

3.4 Current account deficit stems from imports surpassing exports owing to economic slowdown and deteriorating exchange rate. During the last few years, worker remittances have emerged as the key source of foreign exchange earnings. The launch of Pakistan Remittances Initiative (PRI) has been instrumental in raising the remittances through official sources

from 75 percent in 2009-10 to 90 percent in 2012-13; this trend is expected to continue in the medium term, enabling the government to stabilize the current account balance. However, the current account deficit is set to be poised at 1 percent for 2013-14 before widening to 2 percent by 2017-18. On the other hand, the capital flows are set to improve through the issuance of Pakistan Sovereign Bonds and the disbursement of other program loans hinged with the successful implementation of structural reforms as envisaged by the government. The improved economic outlook would lead to a progressive rise in the foreign direct investment from US \$ 2.6 billion in 2013-14 to US \$ 4 billion in 2017-18. The rise in the foreign direct investment along with the rising net capital inflows and a sustainable current account balance is projected to stabilize the balance of payments over the medium term.

### ***Monetary policy***

- 3.5 In the near term, inflation may rise to 11 percent for the year 2013-14 based on the consultation held with various stakeholders. However, prudent setting of interest rates and a reduction in the funding of deficit financing through the central bank is projected to account for a reduction in the inflation rate to 9 percent by 2014-15. The government aims to reduce inflation to 6 percent by the year 2017-18 providing stability to the overall macroeconomic outlook of the country.
- 3.6 Owing to weaker growth in exports, deteriorating exchange rates and drying external inflows, the foreign exchange reserves with the State Bank of Pakistan have substantially declined. The external deficit financing amounting to US\$ 2 billion and IMF SBA repayments of US\$ 2.5 billion executed through liquid foreign exchange reserves resulted in decline in SBP reserves from US\$ 10.8 billion at the start of the year to around US\$ 6 billion at the end of 2012-13. However, the official foreign reserves are projected to rise to US \$ 9.4 billion in 2013-14 and US \$ 16.7 billion by 2017-18. The growth in the foreign exchange reserves is hinged with positive capital inflows and a rise in direct foreign investment. The exchange rate is expected to stabilize over the period owing to sustained economic growths, reduction in fiscal deficits and easing pressure on balance of payments.

**3 (ii) Risks Associated with the Macroeconomic Indicators**

- 3.7 The above mentioned estimates are exposed to certain risks and vulnerabilities that could cause deviations from the projections. The adverse security situation along with impeding energy crises, high fiscal deficits, rising inflation and inefficient public sector enterprises could peg back the growth projections.
- 3.8 A stifled economy could slow down revenue mobilization, create pressure on the government's resources through increased subsidies, thereby widening the fiscal deficits. The rising fiscal deficits could increase the country's borrowing requirements, thereby raising the public debt which can be translated into higher debt servicing. Moreover, inefficient Public Sector Entities could further expose the economy to rising contingent liabilities carrying the impediment for such liabilities to be consolidated into the public debt stock.
- 3.9 Reduction in external inflows could depreciate the rupee leading to rising import bills and increasing inflation. This could also cause a shift in the funding strategies from external to the domestic markets carrying the risk of crowding out of private sector credit and rising domestic interest rates. The lack of structural reforms to the economy could slow down the exports causing a widening current account deficit which may hamper the growth and accumulation of the foreign exchange reserves and create pressure on the country's exchange rates. In addition, reduction in foreign direct investment and a potential curtailment of the donors' loans could pose balance of payments crises.

#### **4.0 POTENTIAL FUNDING SOURCES**

4.1 Government meets its financing requirements from both domestic and external sources. Local sources mainly include issuance of government securities and receipt of deposits through National Savings Schemes (NSS). The external sources include loans from multilateral, bilateral creditors, issuance of bonds in the international capital markets and raising of short term foreign currency loans.

##### **4 (i) Domestic Wholesale Market**

4.2 The MTBs, PIBs, MRTBs and GIS are the main instruments for domestic debt. PIBs and MTBs are issued through auction in primary market whereas MRTBs are purchased and held by SBP. The PIBs and GIS are medium and long term securities, whereas, MTBs are short term instruments having maturity up to one year. MRTBs are issued for a period of six months. The issuance of MTBs, PIBs and GIS will continue to be a source of funding for the government. Government has already listed these securities on the stock exchanges which will help in strengthening the debt capital market, creating a competitive environment, widening the investor base through taping the retail investor.

4.3 Government will focus on the Islamic and long term financial instruments to augment the absorption capacity of the market. The growth in Islamic securities and PIBs since 2009 suggests that these instruments may absorb the increasing demand to the tune of over Rs.500 billion each in nominal terms in the entire financial market.

##### **4 (ii) Domestic Retail Market - National Saving Schemes**

4.4 National Saving Schemes (NSS) are designed to collect savings mainly from retail investors which was 26 percent of total domestic debt at end-June, 2013. They grew continuously in real terms due to the attractive rates of return combined with the option for early redemption. NSS seems supportive to absorb growing need for financing.

4.5 The future trend of existing instruments depict that the average share of Prize Bonds, Regular Income Certificates (RIC), and Pensioners Benefit Account (PBA) & Behbood Savings Certificates (BSC) in NSS during the last 5 years remained 15%, 8.5%, 7.5% & 21% respectively. Similar trend

is also expected in coming years in the light of response of investors during last 5 years.

- 4.6 Government has already introduced unconventional schemes to cater social & ethnic dimension of the country i.e. PBA & BSC. Moreover, proposals like Sharia Compliant Paper and Registered Prize Bonds are in process. In the recent past, CDNS introduced Student Welfare Prize Bond having denomination of Rs.100/-. CDNS has also successfully launched prize bond of Rs.25,000/- denomination and Short Term Savings Certificates (03 Month, 06 Months and 12 Month maturity) during last two years to attract the potential investment and to diversify the basket of retail government securities.
- 4.7 CDNS has also taken measures to enhance its coverage through developing secondary domestic market. Efforts are also underway to facilitate Non-Resident Pakistanis (NRPs) to invest in NSS through an online investment portal in coordination with sophisticated banking channels.

#### **4 (iii) External Market**

- 4.8 External debt is mainly obtained through loans from multilateral and bilateral donors with medium and long term maturity. Disbursement of project based loans is dependent on the implementation capacity and efficiency of the implementing entity. It is expected that as a result of special attention to enhance the project implementation process, project based disbursements would increase in the medium term. Policy based funding is linked with the macroeconomic stability. The structural changes initiated by the government would result in macroeconomic stability augmenting the path for policy lending from multilateral partners during the coming years. Government is also planning to obtain loans from IDB to fulfill short term financing requirements. Besides, the government plan to secure external financing from the international financial markets which is expected to reduce pressure on the domestic liquidity. The estimates of external flows are given in table 5.



**Table 5: External Inflow**

	2013-14	2014-15	2015-16	2016-17
Euro Bond	2,000	500-750	500-750	500-750
Commercial	400	-	-	-
IDB	782	500	500	500
<b>Program Loans</b>				
- World Bank	<b>2,400</b>	<b>2,500</b>	<b>2,000</b>	<b>2,000</b>
- ADB	1000	1,000	500	500
- SAFE China Deposits	400	500	500	500
	1,000	1,000	1,000	1,000
Project Loans	2,978	2,200	2,300	2,400

Source: External Finance Wing, Finance Division

### Multilateral and Bilateral

4.9 With improved macroeconomic indicators coupled with enhancing the pace of project implementation process, disbursement from multilateral and bilateral creditors would increase during the next few years. It is anticipated that average yearly financial support from these partners would be around US\$ 6 billion during the program period.

### Eurobonds

4.10 Pakistan had earlier issued three Eurobonds that mature in 2016, 2017, and 2036. Government recently tapped International Bond and was received with a overwhelming response i.e. government was able to raise US\$ 2,000 million against the target of US\$ 500 in 2013-14. It is envisaged that Pakistan Sovereign Bond amounting US\$ 500 million will be issued every year until 2017-18.

## 5.0 **MEDIUM TERM DEBT MANAGEMENT STRATEGY (MTDS)**

- 5.1 The MTDS is developed for the period 2014-18 based on the public debt outstanding as on June 30, 2013 in accordance with the scope defined in section 1.
- 5.2 Under the alternative interest rates and exchange rates scenarios, the four different borrowing strategies have been assessed with associated cost/risk analysis. These alternative strategies are evaluated using the MTDS analytical tool. The cost and risk trade off analysis is based on the existing debt cash flows, market and macroeconomic projections and alternative borrowing strategies under different scenarios.

### 5 (i) **Funding Instruments and Baseline Assumptions**

- 5.3 For future borrowing strategies, the MTDS analysis considers fourteen stylized instruments (table 6) consisting six instruments reflecting external sources of financing and eight instruments in domestic currency. Further details of these instruments include interest rate type (fix or variable), degree of concessionality (concessional, semi concessional or market rate).

**Table 6: Stylized Instruments**

#	Instrument Type / Name	DX / FX	Interest Type	Concessionality	Maturity (years)	Grace Period (years)
1	Concessional_USD_Fixed_40	External	Fixed	Concessional	40	10
2	Concessional_EUR_Fixed_40	External	Fixed	Concessional	40	10
3	Semiconc_USD_Fixed_25	External	Fixed	Semi-Concessional	25	10
4	Semiconc_USD_Var_25	External	Variable	Semi-Concessional	25	10
5	Semiconc_JPY_Fixed_25	External	Fixed	Semi-Concessional	25	10
6	Eurobond_USD_Fixed_10	External	Fixed	Market	10	9
7	Bonds_PKR_Fixed_10	Domestic	Fixed	Market	10	9
8	Bonds_PKR_Fixed_5	Domestic	Fixed	Market	5	4
9	Bonds_PKR_Var_3	Domestic	Variable	Market	3	2
10	Retail_PKR_Fixed_10	Domestic	Fixed	Market	10	9
11	Retail_PKR_Fixed_3	Domestic	Fixed	Market	3	2
12	T-bills_PKR_Fixed_1	Domestic	Variable	Market	1	0
13	MR T-bills_PKR_Fixed_1	Domestic	Variable	Market	1	0
14	Bonds_PKR_Var_10	Domestic	Variable	Market	10	9

Source: Debt Policy Coordination Office Staff Calculations, Finance Division

- 5.4 The loans from multilateral sources are labeled as “Concessional” and aggregated under two similar stylized instruments i.e. one in US Dollar (with an average interest rate of 0.8 percent) and other in Euro (with an average interest rate of 1.5 percent).
- 5.5 “Semi-Concessional” loans include budget support and project loans from bilateral sources. These loans are categorized in three instruments; two in US Dollar (one with fixed interest rate and other with floating rate) and one in JPY with fixed interest rate. The US Dollar instruments are priced on the forward swap curve and the 6 month JPY LIBOR plus the historic premia, whereas, the JPY instrument is priced at current ADB premium i.e. this premium represents the degree of concessionality at which the creditors are providing loans to Pakistan.
- 5.6 For Eurobonds, 10 years interest rate projections are based on US treasury forward rate and the risk premium taken from the implied risk premium from current Eurobonds in the secondary market.
- 5.7 Wholesale domestic market instrument are categorized as one year T-Bill, MRTBs, 3 year GIS, 5 year and 10 year PIBs. The T-Bills (3, 6 and 12 months) are categorized in one year instrument given the functionality of analytical tool. Projected short-term interest rates are based on the expected future real SBP policy rate plus the projected inflation. Yield curve is constructed by adding a term premia to the nominal policy rate with the term premia derived from the spot yield curve and assumed to be constant over time in the baseline scenario.
- 5.8 The retail NSS instruments are categorized by two stylized instruments of 3 and 10 years which reflect the assumption of likelihood of realizing these maturities. The NSS instruments are priced at 95 percent of the rates used for PIBs of the respective tenors.
- 5.9 As the government envisages extending the maturities in the domestic market, a 10 year maturity floating rate PIB has been added to the analysis. The reference interest rate is one year treasury bill rate.
- 5.10 The forward rates of US\$, JPY and Euro are used to project the future exchange rates for Pak Rupee which include the adjustments expected by the government for 2014 and 2015. Future exchange rates of the Pak Rupee against the JPY and Euro are based on US Dollar vs. Pak Rupee

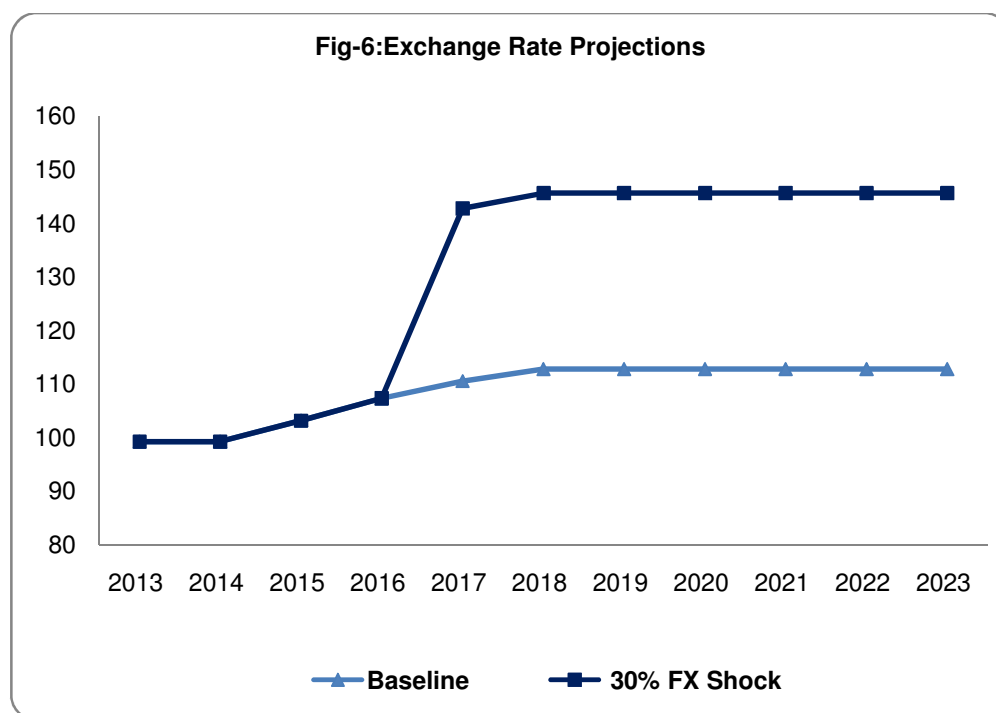
exchange rate projections and forward cross currency rates between the US Dollar and the JPY and Euro respectively.

## 5 (ii) Shock Scenarios

5.11 The robustness of alternative debt management strategies was evaluated by applying four stress/shock scenarios for exchange rates and interest rates. These shocks to market variable are assumed not to affect other macroeconomic parameters such as inflation, GDP and primary deficit. In addition, the probability of the shocks happening is assumed to be same for all strategies.

### I. Exchange Rate Shock

5.12 A 30 percent depreciation of Pak Rupee against US Dollar and Euro, and 50 percent depreciation against JPY in the fourth year of analysis i.e. 2017 has been assumed. This estimation is based on the maximum annual changes recorded between 2005 and 2013.



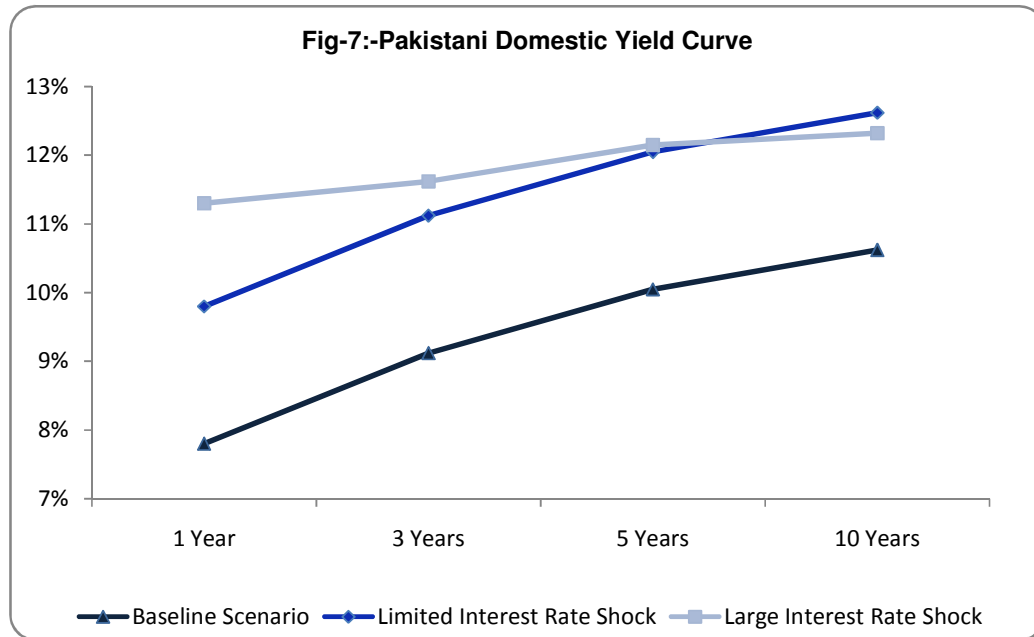
### II. Large Interest Rate Shock

5.13 For the domestic interest rate flattening of the yield curve is assumed i.e. an increase of 350 bps for MTBs and 170 bps for 10 year PIBs. This shock is taken according to the historic trend of increase in the policy rate

coincided with a reduction in term spread between MTBs and PIBs. The foreign currency reference rates are assumed to increase in-line with their maximum annual increase over last 18 years. Additionally, Pakistani credit spread is assumed to increase by 400 bps which is still less than the extreme point observed historically.

**III. Limited Interest Rate Shock**

5.14 For this stress scenario, an increase in Pakistani credit spread over US treasury rates of 200 bps is assumed which will also affect the Eurobond yield. The domestic yield curve is shocked by a parallel upward shift of 200 bps. The US treasury rates are assumed at 1 percent and increase in Japanese government rate is assumed at 0.5 percent which is half of the historic observation in last 18 years.



**IV. Combined Shock**

5.15 Under this scenario, both exchange rate and interest rate are changed simultaneously i.e. 15 percent depreciation of Pak Rupee against the US\$ and Euro and 25 percent depreciation against JPY has been assumed in 2017. The interest rate sock is assumed according to the limited interest rate shock scenario.

### 5 (iii) Alternative Financing Strategies

5.16 The MTDS provides alternative strategies to meet the financing requirements for Pakistan. The strategies are shown by the breakdown of funding mix (domestic vs. external debt) and within the broad categories of domestic and external, the share of each stylized instrument has also been illustrated. While designing these strategies, the refinancing and exchange rate risk was given more importance. Following four strategies are assessed by the government:

#### ***I. Strategy 1 (S1: Planned Strategy)***

5.17 This strategy represents the borrowing from external and domestic sources as planned by the government for 2014 onwards. Gross external borrowing accounts on average 7 percent mainly through Eurobonds, commercial sources and project loans. The remaining 93 percent borrowing need is expected to be met by MTBs, PIBs, 3 year GIS, NSS instruments, and MRTBs. The MTBs is expected to contribute on an average over half of the gross domestic funding and the rest absorbed by the longer tenor instruments. The strategy represents a scenario where new external borrowing is projected to be more than 20 percent of net borrowings over the MTDS period.

#### ***II. Strategy 2 (S2: Lengthening of Maturity Profile - Fixed Rate Instruments)***

5.18 This strategy represents the cost and risk scenario of debt portfolio by shifting part of MTBs to 10 year PIBs and increasing the external funding slightly at the same time. The additional external financing will be sought as per official estimate i.e. the higher project loans as compared to S1. The share of stylized instruments under external debt has been slightly changed compared with S1. The domestic financing will be available from PIBs, GIS, NSS instruments and MTBs which will be rolled over with slight growth.

#### ***III. Strategy 3 (S3: Reliance on Short Term Domestic Instruments)***

5.19 S3 assumes more reliance on domestic market and reduced external funding. Under this strategy, it is assumed that on an average, 97 percent of financing requirements would be derived from domestic sources mainly

by issuance of MTBs and MRTBs. This scenario assumed the unavailability of the projected disbursements from multilateral, bilateral and international capital market. However, this strategy can complicate the domestic market by creating high demand for short term maturity instruments.

**IV. Strategy 4 (S4: Lengthening of Maturity Profile - Floating Rate Instruments)**

- 5.20 This strategy is similar to S2 in terms of share of domestic and external financing except a new instrument having 10 year maturity with floating rate is included i.e. the instrument accounts for almost 9 percent of the domestic borrowing on an average basis over the MTDS period. This strategy aims to lengthen the maturity profile while reducing refinancing risk. The said instrument can be PIBs or GIS.

**Table 7: Pakistan Financing Strategies (in percent of gross borrowing over 2014-18)**

New debt		S1	S2	S3	S4
Concessional_USD_Fixed_40	External	0.6	0.8	0.3	0.8
Concessional_EUR_Fixed_40	External	0.6	0.8	0.3	0.8
Semiconc_USD_Fixed_25	External	1.9	2.4	1.1	2.4
Semiconc_USD_Var_25	External	1.9	2.4	1.1	2.4
Semiconc_JPY_Fixed_25	External	0.8	1.0	0.4	1.0
Eurobond_USD_Fixed_10	External	1.1	1.3	0.0	1.3
Bonds_PKR_Fixed_10	Domestic	2.3	9.1	1.1	1.0
Bonds_PKR_Fixed_5	Domestic	1.9	0.9	0.9	0.8
Bonds_PKR_Var_3	Domestic	2.6	2.0	2.7	1.9
Retail_PKR_Fixed_10	Domestic	1.9	1.8	1.0	1.8
Retail_PKR_Fixed_3	Domestic	9.1	9.0	7.0	9.0
T-bills_PKR_Fixed_1	Domestic	48.3	41.1	57.0	41.1
MR T-bills_PKR_Fixed_1	Domestic	27.0	27.4	27.2	27.4
Bonds_PKR_Var_10	Domestic	0.0	0.0	0.0	8.2
External		6.9	8.6	3.2	8.7
Domestic		93.1	91.4	96.8	91.3
Total		100.0	100.0	100.0	100.0

Source: Debt Policy Coordination Office Staff Calculations, Finance Division

Outstanding by instrument (in percent of Total)	2012-13	As at end of 2017-18			
	Current	S1	S2	S3	S4
Concessional_USD_Fixed_40	5.4	4.6	4.7	4.0	4.7
Concessional_EUR_Fixed_40	8.5	7.0	7.1	6.4	7.2
Semiconc_USD_Fixed_25	3.8	6.1	6.6	4.7	6.6
Semiconc_USD_Var_25	5.4	6.3	6.8	5.0	6.9
Semiconc_JPY_Fixed_25	8.6	7.4	7.5	6.5	7.6
Eurobond_USD_Fixed_10	1.1	2.5	2.7	0.2	2.7
Bonds_PKR_Fixed_10	4.1	6.9	18.7	4.6	4.0
Bonds_PKR_Fixed_5	5.4	3.8	1.7	2.0	1.5
Bonds_PKR_Var_3	3.3	3.0	2.5	4.2	2.5
Retail_PKR_Fixed_10	3.2	5.1	4.5	3.5	4.6
Retail_PKR_Fixed_3	13.9	13.4	11.4	11.8	11.3
T-bills_PKR_Fixed_1	21.0	23.0	16.3	33.0	16.0
MR T-bills_PKR_Fixed_1	16.3	10.9	9.7	14.1	9.5
Bonds_PKR_Var_10	0.0	0.0	0.0	0.0	15.0
External	32.9	33.9	35.3	26.8	35.7
Domestic	67.1	66.1	64.7	73.2	64.3
Total	100.0	100.0	100.0	100.0	100.0

Source: Debt Policy Coordination Office Staff Calculations, Finance Division

### 5 (iv) Cost - Risk Analysis of Alternative Strategies

- 5.21 The cost indicators (ratios) selected for the analysis are debt to GDP and interest payment to GDP. The performance of each strategy is reviewed to evaluate the variations in these cost indicators. Exchange rate variations can have an impact on the debt stock, accordingly, the debt to GDP ratio is critical to analyze in this context. Similarly, interest payments to GDP evaluate the impact on budget balance in case of each strategy.
- 5.22 To evaluate the strategies, the number of risk indicators have been examined such as ATM and ATR which reflect rollover and interest rate risk respectively. The methodology and analysis of cost-risk indicators will assist in obtaining the desired portfolio mix for debt effective management. The risk has been computed by taking the maximum deviation from the

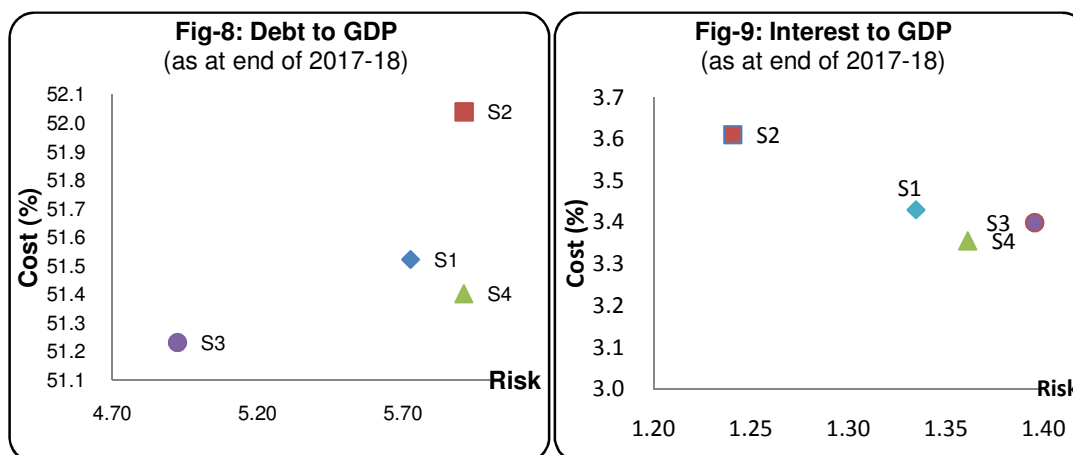


baseline scenario. The outcome at the end of 2017-18 is used and the cost and risks comparison of the alternative strategies under the shock scenario is discussed in detail.

Risk Indicators		2012-13 Current	As at end of 2017-18			
			S1	S2	S3	S4
Nominal debt as percent of GDP		60.9*	51.5	52.0	51.2	51.4
Implied interest rate (percent)		7.7	7.1	7.4	7.1	7.0
Refinancing risk	ATM External Portfolio (years)	10.1	12.8	13.0	12.1	13.0
	ATM Domestic Portfolio (years)	1.8	2.5	3.6	1.9	3.6
	ATM Total Portfolio (years)	4.5	6.2	7.1	4.8	7.1
	Debt maturing in 1 year percent of total	46.0	40.0	31.6	53.3	31.2
	Domestic debt maturing in 1 year percent of total	64.2	59.8	47.9	71.9	47.5
Interest rate risk	ATR (years)	4.2	5.4	6.3	4.2	5.3
	Debt Re-fixing in 1yr (percent of total)	52.4	49.1	40.6	61.6	55.2
	Fixed rate debt (percent of total)	54.0	56.7	64.8	43.8	50.2
Foreign Currency Risk	FX debt as percent of total	32.9	33.9	35.3	26.8	35.7
	FX debt (payable in one year) as percent of reserves	68.5	15.5	15.5	15.5	15.5
*Based on the MTDS Scope						
Source: Debt Policy Coordination Office Staff Calculations, Finance Division						

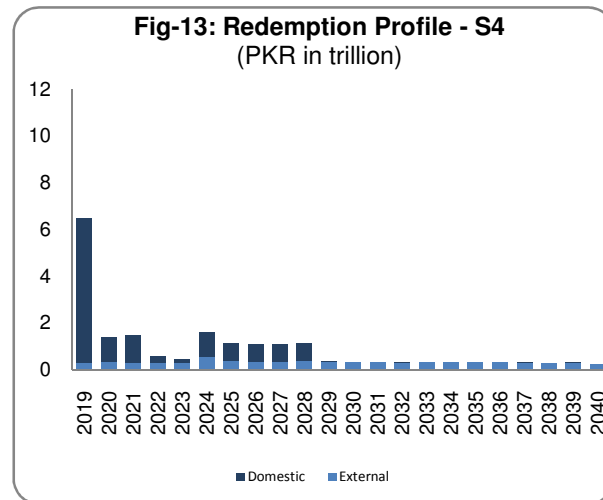
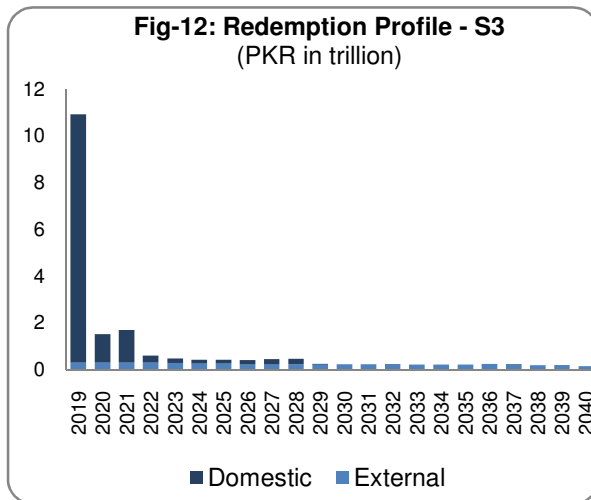
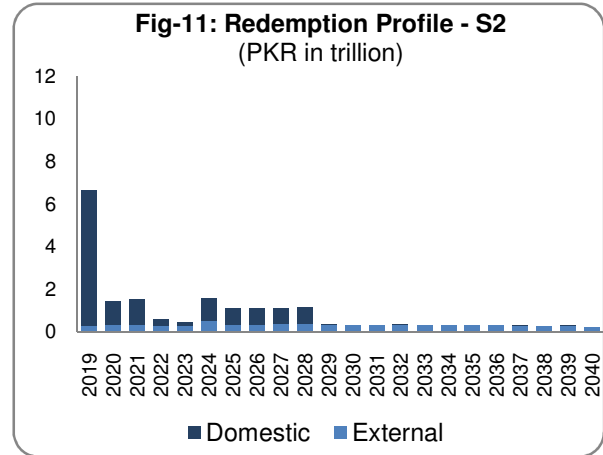
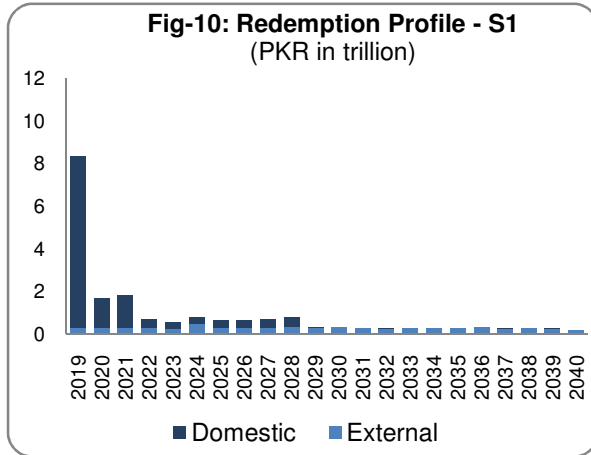
5.23 For the baseline scenario, the estimation shows a decrease in debt to GDP ratio (60.9 percent in 2012-13) in the range of 51.2 percent to 52 percent by end of 2017-18, depending upon the selection of strategy. The decrease in debt to GDP ratio is mainly due to the primary surplus expected to realize from 2014-15 onwards.

5.24 In terms of cost, strategies follow almost the same order for both indicators. In terms of risk, they show substantial variation. The trade-offs between cost and risk need to be made to arrive at the preferred strategy. There is a large deviation from baseline scenario for all strategies for debt to GDP ratio when exchange rate shock is applied. The interest rate shock also generated high variations for all the strategies.



- 5.25 As depicted above, S3 seems to perform well in terms of debt to GDP ratio as lower proportion of financing from external sources are assumed i.e. there is non-issuance of expensive Eurobonds which appear to compensate the lower than expected disbursement of the cheaper multilateral debt. The foreign exchange risk in S3 is also less due to lower proportion of external debt. However, a caution is needed while making any conclusion as the S3 represents the scenario where macroeconomic indicators would not be the same as projected and higher funding would be required from domestic sources at higher cost.
- 5.26 S3 seems to perform well in terms of foreign exchange risk due to lesser external financing, however, it will result in increasing the refinancing risk with total repayment reaching around 72 percent of domestic debt portfolio by the end of 2018. Keeping in view the market absorption capacity, such strategy may not be practical and feasible. Identification of relevant strategy needs a meticulous appraisal of the cost and risk keeping in view the debt portfolio's exposure to different risks.
- 5.27 Both S2 and S4 are targeting the reduction of refinancing risk. From cost perspective, S4 has the lowest interest cost which can be attributed to the introduction of 10 year floating instrument along with the increased external financing. S2 seems a costly alternative due to the higher rate of 10 year instrument with fixed interest rate as compared with floating one.
- 5.28 From the risk perspective, S2 and S4 perform well as compared with S3 due to the fact that S3 have higher share of domestic debt with short term

maturities and thus entails higher refinancing risk. S2 and S4 have similar risk trend for debt to GDP as both have same share of external funding and thus foreign exchange risk is similar. But in terms of interest rate risk, S2 seems better than S4 owing to the 10 year fixed instrument.



5.29 The S1, the planned strategy is somewhere at the middle in terms of cost and risk. It is a strategy which aims to manage the refinancing risk as well as foreign exchange risk at the same time assuming the realized disbursement of project loans and utilizing all the domestic instruments of different maturities.

5.30 The average time to maturity is improving for all the strategies even for the domestic debt. Whereas, the share of domestic debt maturing in 1 year is more than 50 percent in S1 and S3. The redemption profile reflects a

higher refinancing risk in the short term even if the government is able to attract all external funding sources as envisaged under S2 and S4.

- 5.31 Average time to re-fixing is higher in S2 as compared to S4 while the refinancing risk is similar for both the strategies. S2 has highest ATR as it assumes the instant shifting to the longer maturity instruments with fixed rate.

### **5 (v) Recommended Strategy**

- 5.32 An important consideration when comparing alternative debt management strategies is a strategy which would best satisfy government's stated debt management objectives to insure its financing at minimum cost and risk while developing domestic debt market. Government needs to follow the strategy which results in lengthening of its maturity profile to reduce the refinancing risk along with providing sufficient external inflows in the medium term to reduce the pressure on domestic resources keeping in view cost-risk tradeoffs.
- 5.33 On the basis of cost and risk analysis of alternative strategies, a strategy, such as S3, with an increased reliance on domestic short term sources is least attractive. S2 and S4 assume lengthening of maturity profile by issuing fixed and floating rate instruments, respectively. Moreover, S2 and S4 have similar risk trend for debt to GDP as both have same share of external funding and thus foreign exchange risk is similar. Both S2 and S4 are targeting the reduction in refinancing risk. However, S2 is expected to result in greater average time to re-fixing i.e. there is less interest rate risk in case of S2 as compared with S4 owing to more financing through issuance of fixed interest rate instruments. The implementation of S2 seems feasible than others considering the current appetite for the fixed rate longer tenor instruments. This is further supported by the fact that the Government of Pakistan was able to raise substantial amount during 2013-14 through PIBs. In the light of above mentioned facts, S2 seems to be a preferential strategy for the government.

## 6.0 **CONCLUSION AND WAY FORWARD**

6.1 Medium Term Debt Strategy is suggestive in nature which guides the government to meet its financing requirements taking into consideration cost and risk objectives. The MTDS estimation shows a decrease in debt to GDP ratio in the range of 51.2 percent to 52 percent by end of 2017-18, depending upon the selection of strategy.

### **Proposed Short Term Actions**

6.2 To start with, debt management function within the Ministry of Finance could be centralized with DPCO assuming enhanced responsibilities. However, this would only be possible after its capacity building through hiring of qualified staff on permanent basis. Currently, there is a ban on recruitment which could delay this process.

6.3 The MTDS guidelines could be translated into annual borrowing plan which may specify types of instruments, volume and distribution of financing throughout the year. A detailed borrowing plan is especially important for domestic borrowing, where transparency and predictability are essential for the well-functioning of auctions and also for the secondary market.

### **Proposed Medium to Long Term Actions**

6.4 Government intends to strengthen public debt management functions as the debt management operations are fragmented across several agencies and presently the DPCO has a limited role in public debt management. In the medium term, the government plans to convert DPCO into a Debt Management Unit with enhanced responsibilities to administer the government's financial obligations and cash flows. The unit will ensure the government's financing at the lowest possible cost given risk exposure parameters, and will seek to improve the benchmarking of issues to develop a deeper financial market. As a prerequisite,

- DPCO needs recruitment of additional qualified professional staff on permanent basis.
- There is a need to revisit the FRDL Act, 2005.

Under this vision, the DPCO will become a pool of financial expertise with prime focus on public debt management.

## Annex:I - Domestic Debt

Rs.in billion	2008 - 2013					
	2008	2009	2010	2011 (P)	2012 (P)	2013 (P)
<b>Permanent Debt</b>	<b>616.8</b>	<b>685.9</b>	<b>797.7</b>	<b>1125.6</b>	<b>1,697</b>	<b>2,179.2</b>
Market Loans	2.9	2.9	2.9	2.9	2.9	2.9
Government Bonds	9.4	7.3	7.2	0.7	0.7	0.7
Prize Bonds	182.8	197.4	236.0	277.1	333.4	389.6
Foreign Exchange Bearer Certificates	0.2	0.2	0.1	0.1	0.1	0.1
Bearer National Fund Bonds	0.0	0.0	0.0	0.0	0.0	0.0
Federal Investment Bonds	1.0	1.0	0.0	0.0	0.0	0.0
Special National Fund Bonds	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
U.S. Dollar Bearer Certificates	0.0	0.0	0.0	0.0	0.0	0.0
Special U.S. Dollar Bonds	8.3	7.7	2.7	1.0	0.9	4.2
Government Bonds Issued to SLIC	0.6	0.6	0.6	0.6	0.6	0.6
Pakistan Investment Bonds (PIB)	411.6	441.0	505.9	618.5	974.7	1,321.8
Government Bonds issued to HBL	0.0	0.0	0.0	0.0	-	-
GOP Ijara Sukuk	0.0	27.8	42.2	224.6	383.5	459.2
<b>Floating Debt</b>	<b>1,637.4</b>	<b>1,904.0</b>	<b>2,399.1</b>	<b>3,235.4</b>	<b>4,143.1</b>	<b>5,196.2</b>
Treasury Bills through Auction	536.4	796.1	1,274.1	1,817.6	2,383.4	2,921.0
Rollover of Treasury Bills discounted SBP	0.6	0.5	0.5	0.5	0.5	0.5
Treasury Bills purchased by SBP (MRTBs)	1,100.4	1,107.3	1,124.4	1,417.3	1,759.2	2,274.7
Outright Sale of MTBs						
<b>Unfunded Debt</b>	<b>1,020.4</b>	<b>1,270.5</b>	<b>1,457.5</b>	<b>1,655.8</b>	<b>1,798.0</b>	<b>2,146.5</b>
Defence Savings Certificates	284.6	257.2	224.7	234.5	241.8	271.7
Khas Deposit Certificates and Accounts	0.6	0.6	0.6	0.6	0.6	0.6
National Deposit Certificates	0.0	0.0	0.0	0.0	0.0	0.0
Savings Accounts	27.7	16.8	17.8	17.2	21.2	22.3
Mahana Amadni Account	2.5	2.4	2.2	2.1	2.0	2.0
Postal Life Insurance	67.1	67.1	67.1	67.1	67.1	67.1
Special Savings Certificates and Accounts	227.6	377.7	470.9	529.1	537	734.6
Regular Income Scheme	51.0	91.1	135.6	182.6	226.6	262.6
Pensioners' Benefit Account	87.7	109.9	128.0	146.0	162.3	179.9
Bahbood Savings Certificates	229.0	307.5	366.8	428.5	480.8	528.4
National Savings Bonds	-	-	3.6	3.6	3.6	0.2
G.P. Fund	42.5	40.1	39.9	44.3	54.5	73.1
Short Term Saving Certificate						4.0
<b>Total Domestic Debt</b>	<b>3274.5</b>	<b>3860.4</b>	<b>4654.3</b>	<b>6016.7</b>	<b>7638.1</b>	<b>9,521.9</b>
<b>Total Domestic Debt (Excluding Foreign Currency Debt included in External Debt)</b>	<b>3,266.0</b>	<b>3,852.5</b>	<b>4,651.4</b>	<b>6,015.5</b>	<b>7,637.0</b>	<b>9,517.4</b>
P: Provisional						

**Annex:II - External Debt and Liabilities (EDL)**

(US\$ in billion)	(2008-2013)					
	2008	2009	2010	2011 (P)	2012 (P)	2013 (P)
<b>1. Public and Publically Guaranteed Debt</b>	<b>40.6</b>	<b>42.6</b>	<b>43.1</b>	<b>46.5</b>	<b>46.4</b>	<b>44.4</b>
<b>i) Public Debt</b>	<b>40.4</b>	<b>42.4</b>	<b>42.9</b>	<b>46.4</b>	<b>46.2</b>	<b>43.5</b>
<b>A. Medium and Long Term(&gt;1 year)</b>	<b>39.7</b>	<b>41.8</b>	<b>42.1</b>	<b>45.7</b>	<b>45.6</b>	<b>43.5</b>
Paris Club	13.9	14.0	14.0	15.5	15.0	13.5
Multilateral	21.4	23.0	23.7	25.8	25.3	24.2
Other Bilateral	1.1	1.4	1.8	1.9	2.5	2.9
Euro Bonds/Saindak Bonds	2.7	2.2	1.6	1.6	1.6	1.6
Military Debt	0.0	0.2	0.2	0.1	0.1	0.1
Commercial Loans/Credits	0.1	0.2	-	-	-	-
Local Currency Bond (PIBs)	0.0	-	0.0	0.0	-	0.0
Saudi Fund for Development (SFD)	-	-	0.2	0.2	0.2	0.2
SAFE China Deposits	-	0.5	0.5	0.5	1.0	1.0
NBP/BOC Deposits	0.4	0.3	0.2	0.1	-	-
<b>B. Short Term (&lt;1 year)</b>	<b>0.7</b>	<b>0.7</b>	<b>0.9</b>	<b>0.6</b>	<b>0.5</b>	<b>0.0</b>
Commercial Loans/Credits						
IDB	0.7	0.7	0.8	0.6	0.5	-
Local Currency Securities (T-Bills)	0.0	-	0.1	0.0	0.0	0.0
<b>ii) Publicly Guaranteed Debt</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.1</b>	<b>0.2</b>	<b>0.9</b>
<b>A. Medium and Long Term(&gt;1 year)</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.1</b>	<b>0.2</b>	<b>0.9</b>
Paris Club	-	-	-	-	-	-
Multilateral	0.1	0.1	0.1	0.0	0.0	0.3
Other Bilateral	0.1	0.1	0.0	0.0	0.2	0.6
Commercial Loans/Credits	0.0	-	0.1	-	-	-
Saindak Bonds	-	-	-	-	-	-
<b>B. Short Term (&lt;1 year)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
IDB	-	-	-	-	-	-
<b>2. Private Sector Debt</b>	<b>1.9</b>	<b>2.4</b>	<b>3.8</b>	<b>4.4</b>	<b>3.6</b>	<b>3.1</b>
<b>3. Public Sector Enterprises (PSEs) Debt</b>	<b>1.0</b>	<b>0.9</b>	<b>1.4</b>	<b>1.3</b>	<b>1.3</b>	<b>1.2</b>
<b>4. IMF</b>	<b>1.3</b>	<b>5.1</b>	<b>8.1</b>	<b>8.9</b>	<b>7.3</b>	<b>4.4</b>
of which						
Central Govt.	-	-	1.1	2.0	1.9	1.7
Monetary Authorities	1.3	5.1	7.0	6.9	5.4	2.7
<b>5. Banks</b>	<b>-</b>	<b>-</b>	<b>0.7</b>	<b>1.1</b>	<b>1.8</b>	<b>1.6</b>
Borrowing	-	-	0.2	0.4	0.9	0.7
Nonresident Deposits (LCY & FCY)	-	-	0.6	0.7	1.0	0.8
<b>6. Debt liabilities to direct investors - Intercompany debt</b>	<b>-</b>	<b>-</b>	<b>1.9</b>	<b>1.6</b>	<b>2.7</b>	<b>2.8</b>
<b>Total External Debt (1 through 6)</b>	<b>44.9</b>	<b>51.1</b>	<b>59.0</b>	<b>63.8</b>	<b>63.1</b>	<b>57.5</b>
<b>7. Foreign Exchange Liabilities</b>	<b>1.3</b>	<b>1.3</b>	<b>2.6</b>	<b>2.6</b>	<b>2.4</b>	<b>2.3</b>
SBP Deposits	1.2	1.2	1.1	1.0	0.9	0.8
SDR Allocation	-	-	1.5	1.6	1.5	1.5
Others	0.1	0.1	0.0	0.0	0.0	0.0
<b>Total External Debt &amp; Liabilities (1 through 7)</b>	<b>46.2</b>	<b>52.3</b>	<b>61.6</b>	<b>66.4</b>	<b>65.5</b>	<b>59.8</b>
<b>(of which) Public Debt</b>	<b>40.7</b>	<b>46.4</b>	<b>49.8</b>	<b>54.5</b>	<b>53.1</b>	<b>48.7</b>
Official Liquid Reserves	8.6	9.1	13.0	14.8	10.9	6.0

P: Provisional

Source: State Bank of Pakistan, Economic Affairs Division and Debt Policy Coordination Office Staff Calculations

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