

Public Debt

9.1 Introduction

The primary objective of public debt management is to establish and execute a multi-pronged debt strategy to efficiently bridge the gap between the Government's revenues and expenditures at the lowest possible cost while ensuring a sustainable level of risk. In addition, the development of efficient and liquid domestic debt capital market is also a key objective of public debt management.

The conduct of public debt management varies from country to country due to different institutional setup, macro-dynamics, behaviour of economic fundamentals, legal frameworks, and governance structures. Nevertheless, the objective is to ensure that both the level and rate of growth in public debt is fundamentally sustainable while safeguarding that the debt portfolios are efficiently structured in terms of currency composition, maturity profile, interest rates, and prudent levels of contingent liabilities.

Public debt portfolio witnessed various developments during first nine months of ongoing fiscal year (Jul-Mar 2021-22), some of them are highlighted as follows:

- Within domestic debt, the Government relied entirely on long-term domestic debt securities for the financing of its fiscal deficit and repayment of debt maturities. Infact, Government retired Treasury Bills amounting to Rs 1.5 trillion which led to a reduction of short-term maturities in-line with the Government's commitment to reduce its Gross Financing Needs (GFN);
- The Government re paid Rs 569 billion against its debt owed to SBP. The cumulative debt retirement against SBP debt stood at Rs 2.3 trillion from July 2019 to March 2022;
- The Government successfully issued Shariah Compliant Sukuk instruments amounting to around Rs 1.1 trillion, in line with the target specified in Medium Term Debt Management Strategy of Pakistan (2019/20 - 2022/23), to increase the share of Shariah compliant securities within domestic debt stock;
- Debt from multilateral and bilateral sources cumulatively constituted around 79 percent of the external public debt portfolio at end-March 2022. A set of reforms initiated by the Government to improve the economy has brought strong support from multilateral development partners. This is expected to strengthen confidence and catalyse additional support from development partners in the coming years which will also help in reducing the pressure on domestic sources;

- ⊙ Successful completion of the 6th review of the IMF Extended Fund Facility (EFF) led to the disbursement of US\$ 1,053 million;
- ⊙ Government received US\$ 3,000 million deposit from Saudi Arabia which was utilized towards budgetary support;
- ⊙ Within external debt, inflows from multilateral and bilateral development partners remained major sources of funding. In addition, Pakistan successfully raised US\$ 1 billion in July 2021 through multi-tranche tap issuance of 5-, 10- and 30-year Eurobonds and at a premium;
- ⊙ In January 2022, the Government of Pakistan successfully raised US\$ 1 billion through the issuance of International Sukuk under the ‘Trust Certificate Issuance Program’. This was the first time that Government has issued International Sukuk with 7 Year maturity and at market-clearing price i.e., zero issuance premium. The transaction was very successful as healthy participation was witnessed from Middle Eastern and European investors and as the books were oversubscribed 2.7 times;
- ⊙ Government repaid US\$ 1 billion against maturing International Sukuks in October 2021;
- ⊙ Government utilized IMF allocated SDR equivalent to Rs 475 billion to support its budgetary operations.

Over the medium-term, the Government objective is to reduce its Gross Financing Needs (GFN) through various measures mainly including (i) better cash flow management; (ii) lengthening of debt maturity profile; (iii) development of regular Islamic based lending programs; and (iv) availing maximum concessional financing from bilateral and multilateral development partners.

9.2 Public Debt

Fiscal Responsibility and Debt Limitation (FRDL) Act 2005 defines “Total Public Debt” as debt owed by Government (including Federal Government and Provincial Governments) serviced out of consolidated fund and debts owed to the International Monetary Fund.

(Rs in billion)	Jun-13	Jun-18	Jun-19	Jun-20	Jun-21	Mar-22
Domestic Debt	9,520	16,416	20,732	23,283	26,265	28,076
External Debt	4,771	8,537	11,976	13,116	13,601	16,290
Total Public Debt	14,292	24,953	32,708	36,399	39,866	44,366
Total Debt of the Government¹	13,457	23,024	29,521	33,235	35,669	39,882
(In percent of GDP)						
Domestic Debt	42.5	41.9	47.3	49.0	47.1	-
External Debt	21.3	21.8	27.3	27.6	24.4	-
Total Public Debt	63.8	63.7	74.7	76.6	71.5	-
Total Debt of the Government¹	60.1	58.7	67.4	69.9	63.9	-
(Memorandum Items)						
GDP (current market price)	22,386	39,190	43,798	47,540	55,796	66,950
US Dollar, last day average exchange rates	99.1	121.5	163.1	168.2	157.3	183.5

¹ As per Fiscal Responsibility and Debt Limitation Act, 2005 amended in June 2017, "Total Debt of the Government" means the debt of the Government (including the Federal Government and the Provincial Governments) serviced out of the consolidated fund and debts owed to the International Monetary Fund (IMF) less accumulated deposits of the Federal and Provincial Governments with the banking system.
 Note: PBS has changed the National Accounts base year from 2005/06 to 2015/16. The new GDP numbers are available from 2015/16

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

Total public debt was recorded at Rs 44,366 billion at the end-March 2022 (Table 9.1), registering an increase of Rs 4,500 billion during first nine months of current fiscal year. Apart from financing of Federal fiscal deficit, the depreciation of Pak Rupee against US Dollar by around 26 percentage points led to significant increase in the value of external public debt when converted into Pak Rupees. The main reasons for increase in total public debt during first nine months of ongoing fiscal year vis-à-vis corresponding period of last year are presented in table 9.2.

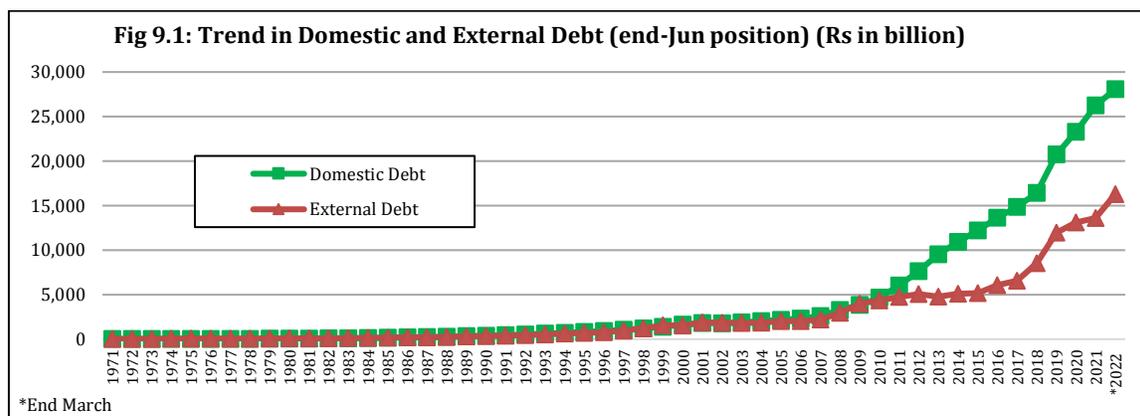
	Jul-Mar FY21	Jul-Mar FY22
Increase / (Decrease) in Total Public Debt	1,607	4,500
of which:		
Federal Primary Deficit / (Surplus)	(39)	1,047
Interest on Debt	2,104	2,118
Currency Depreciation / (Appreciation)	(1,133)	1,744
Increase / (Decrease) in Government Cash Balance	675	(409)

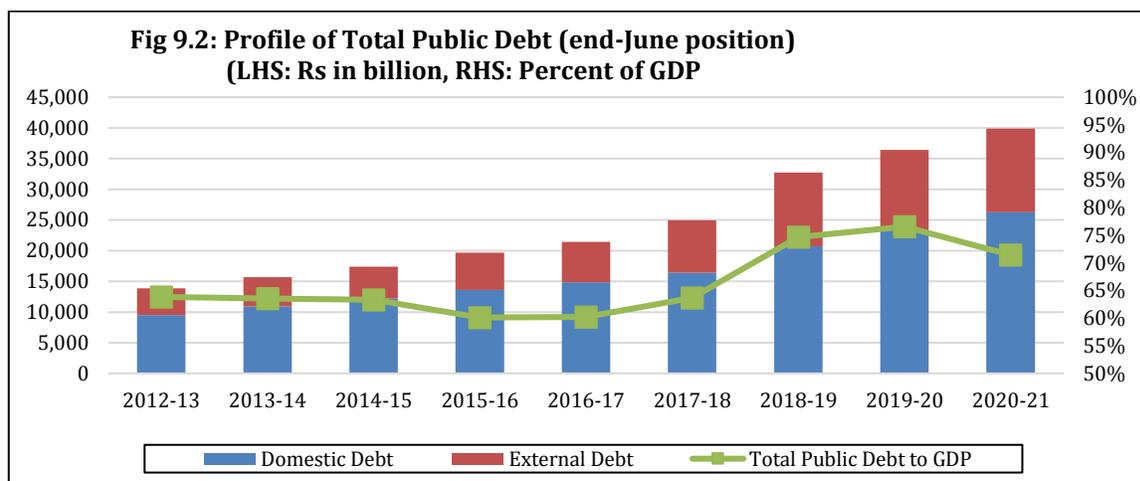
Source: Budget Wing and Debt Policy Coordination Office, Ministry of Finance

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

Year	Domestic Debt	External Debt	Public Debt	Year	Domestic Debt	External Debt	Public Debt	Year	Domestic Debt	External Debt	Public Debt
(Rs in billion)											
1971	14	16	30	1989	333	300	634	2007	2,601	2,201	4,802
1972	17	38	55	1990	381	330	711	2008	3,274	2,853	6,127
1973	20	40	60	1991	448	377	825	2009	3,860	3,871	7,731
1974	19	44	62	1992	532	437	969	2010	4,653	4,357	9,010
1975	23	48	70	1993	617	519	1,135	2011	6,014	4,756	10,771
1976	28	57	85	1994	716	624	1,340	2012	7,638	5,059	12,697
1977	34	63	97	1995	809	688	1,497	2013	9,520	4,771	14,292
1978	41	71	112	1996	920	784	1,704	2014	10,907	5,085	15,991
1979	52	77	130	1997	1,056	939	1,995	2015	12,193	5,188	17,380
1980	60	86	146	1998	1,199	1,193	2,392	2016	13,626	6,051	19,677
1981	58	87	145	1999	1,389	1,557	2,946	2017	14,849	6,559	21,409
1982	81	107	189	2000	1,645	1,527	3,172	2018	16,416	8,537	24,953
1983	104	123	227	2001	1,799	1,885	3,684	2019	20,732	11,976	32,708
1984	125	132	257	2002	1,775	1,862	3,636	2020	23,283	13,116	36,399
1985	153	156	309	2003	1,895	1,800	3,694	2021	26,265	13,601	39,866
1986	203	187	390	2004	2,028	1,839	3,866	2022	28,076	16,290	44,366
1987	248	209	458	2005	2,178	2,034	4,211	(end March)			
1988	290	233	523	2006	2,322	2,038	4,359				

Source: State Bank of Pakistan, Debt Policy Coordination Office





9.3 Progress on Medium Term Debt Management Strategy (2019/20 - 2022/23)

Government remained within the benchmarks and thresholds defined in the Medium-Term Debt Management Strategy (MTDS)¹ at end-December 2021 as depicted in the table 9.3.

Table 9.3: Key Debt Risk Indicators

Risk Exposure	Indicators	End Dec-2020	End Dec-2021
Currency Risk	Share of External Debt in Total Public Debt (%)	35.1	37.4
Refinancing Risk	ATM of Domestic Debt (Years)	4.1	4.0
	ATM of External Debt (Years)	7.0	6.7
	Share of Debt Maturing within 1 Year (% of GDP)	21.4	19.0
Refixing Risk	ATR of Domestic Debt (Years)	1.7	1.9
	ATR of External Debt (Years)	6.1	5.7
Share of Shariah Compliant Instruments in Government Securities (%)		3.8	6.4
Share of Fixed Rate Debt in Government Securities (%)		32.4	25.5

ATM: Average Time to Maturity; ATR: Average time to Refix;

Source: Debt Policy Coordination Office, Ministry of Finance

9.4 Servicing of Public Debt

Interest servicing was recorded at Rs 2,118 billion during the first nine months of the current fiscal year against its annual budgeted estimate of Rs 3,060 billion. Domestic interest payments were recorded at Rs 1,897 billion and constituted around 90 percent of total interest servicing which is mainly attributable to a higher volume of domestic debt in the total public debt portfolio.

Table 9.4: Public Debt Servicing FY2021-22 (Rs billion)

	Budgeted (2021-22)	Actual (Jul-Mar 2021-22)	Percent of Revenue	Percent of Current Expenditure
Servicing of External Debt	303	221	3.8	3.0
Servicing of Domestic Debt	2,757	1,897	32.3	25.7
Total Interest Servicing	3,060	2,118	36.1	28.7

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

¹ https://www.finance.gov.pk/publications/MTDS_FY20_FY23.pdf

9.5 Domestic Debt

Domestic debt comprises of three main categories; (i) permanent debt (medium and long-term); (ii) floating debt (short-term); and (iii) unfunded debt (primarily made up of various instruments available under National Savings Schemes).

Inline with the Public Debt Act 1944, the Government issues three broad types of marketable securities to raise debt i.e., Treasury Bills (T-bills), Pakistan Investment Bonds (PIBs), and Government Ijara Sukuk (GIS).

- ⊙ T-bills are short-term securities and have maturities of 12-Months or less at the time of issuance.
- ⊙ PIBs are longer-term securities and have maturities of more than 12-Months at the time of issuance. PIBs pay the entire face value on maturity and also pay profits at regular intervals until maturity. PIBs can be further categorized as Fixed-rate PIBs and Floating-rate PIBs.
 - Fixed-rate PIBs pay a fixed amount of profit on each profit payment date.
 - Floating-rate PIBs pay a variable amount of profit on each profit payment date. The profit rate is determined by adding a spread to an underlying reference rate such as 3- or 6- Month T-bills yield.
- ⊙ Shariah-compliant Government securities program has also been in place since 2008-09. However, it still constitutes a small proportion of overall Government domestic securities portfolio. Government is aiming to increase the share of Shariah-compliant securities to at-least 10 percent in total Government securities portfolio by the end-June 2023 as stipulated in Medium Term Debt Strategy of Pakistan. Government has issued ample amount of Sukuks during the ongoing fiscal year, which led to increase in share of Sukuk in total Government securities portfolio to 8 percent at end-March 2022, while it was only 4 percent at end-June 2021.

9.5.1 Domestic Borrowing Operations

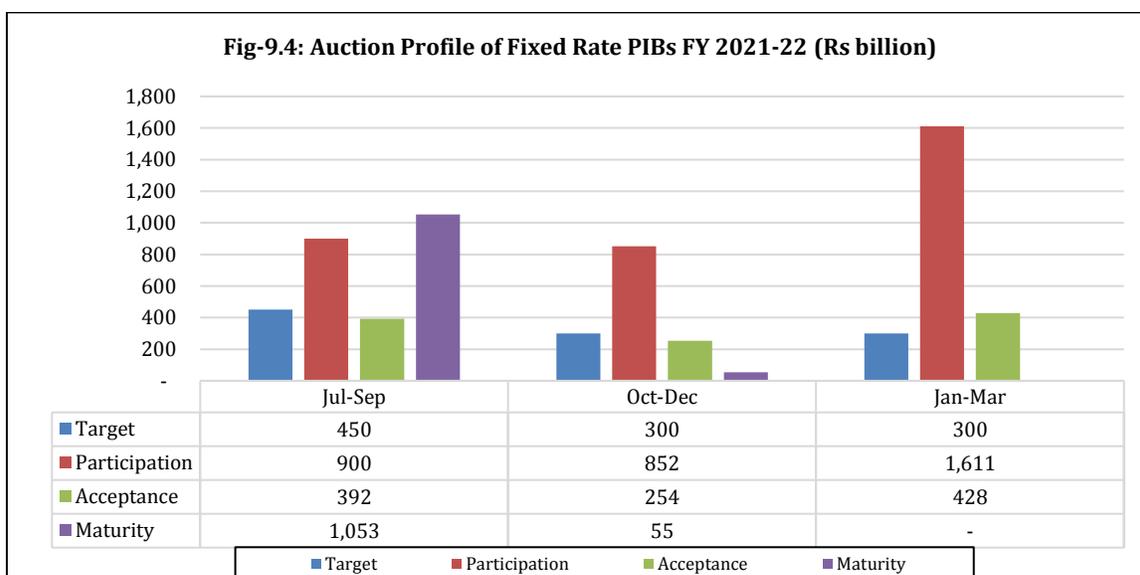
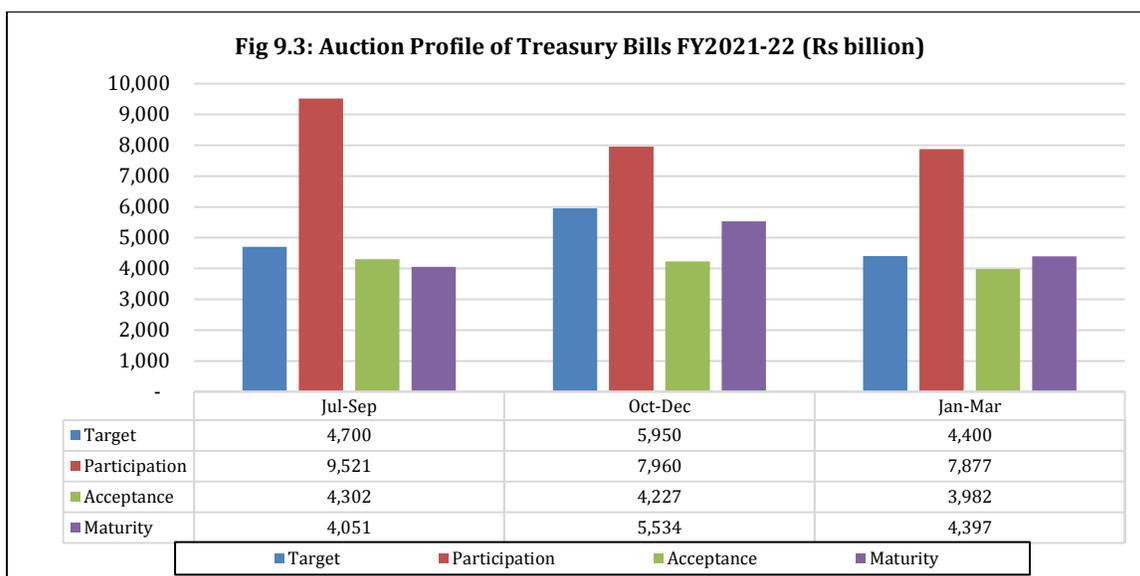
Domestic debt was recorded at Rs 28,076 billion at end-March 2022, registering an increase of Rs 1,811 billion during the first nine months of the current fiscal year. Following are the highlights of domestic borrowing operations during the ongoing fiscal year:

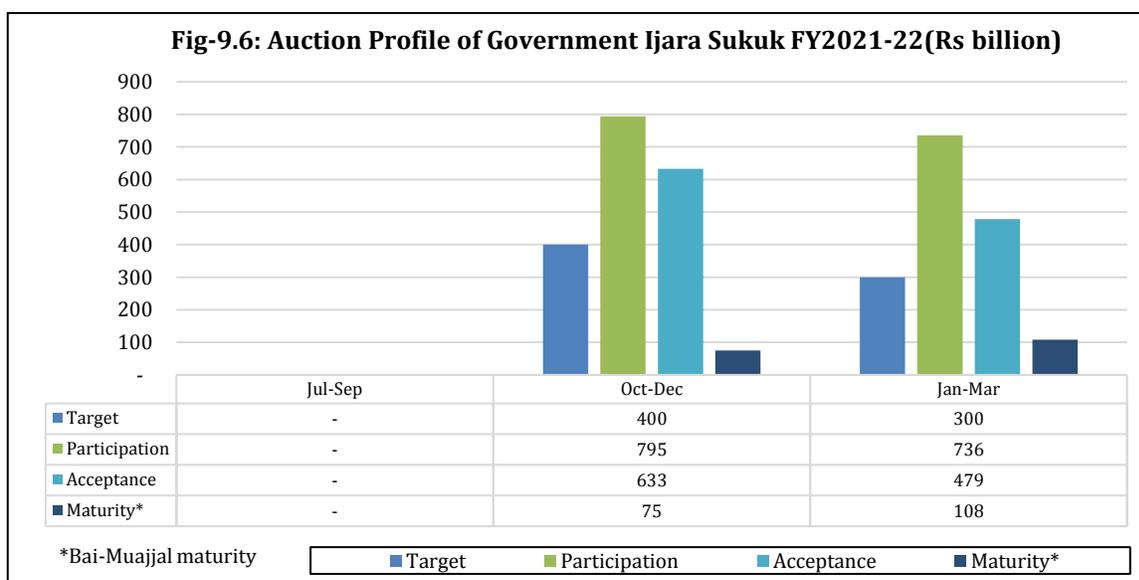
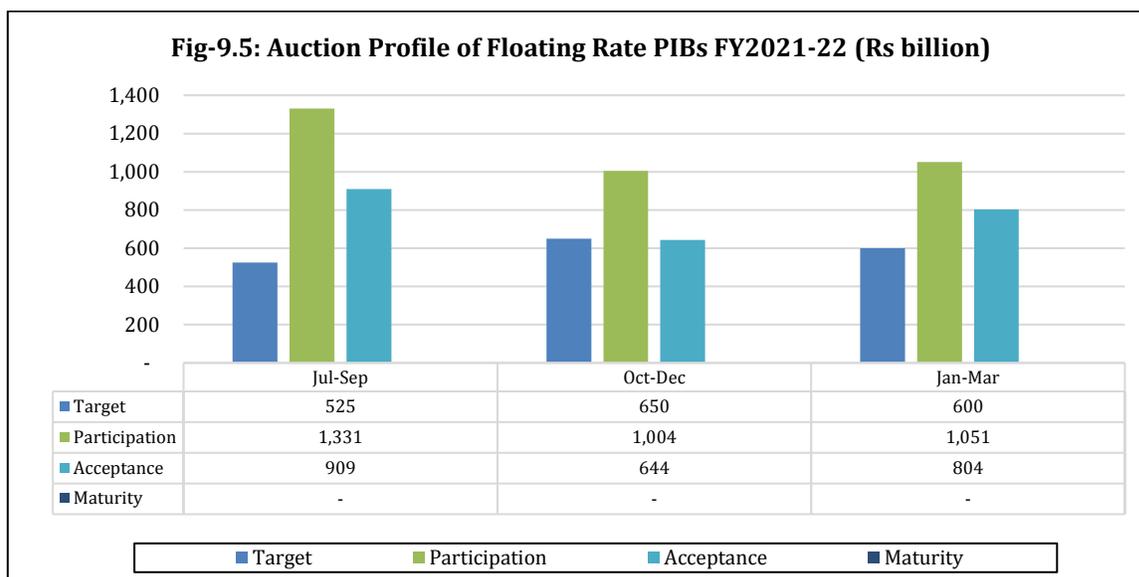
- ⊙ Domestic borrowing was made entirely from the financial markets;
- ⊙ Government borrowed entirely through medium-to-long-term domestic debt instruments for financing of its fiscal deficit and retirement of short-term debt maturities i.e., the Government retired a portion of Treasury Bills stock amounting to Rs 1.5 trillion which led to a reduction of short-term maturities in-line with the Government's commitment to reduce its Gross Financing Needs;
- ⊙ An amount of Rs 569 billion was repaid to SBP; and
- ⊙ Government successfully issued Shariah Compliant Sukuks amounting to around Rs 1.1 trillion. This was the highest ever issuance of Shariah Compliant Securities in any

financial year. Government has further issued around Rs 0.4trillion worth of Sukuks during April and May 2022 and total issuance of Sukuk accordingly stood at around Rs 1.5trillion during first eleven months of ongoing fiscal year.

9.5.2 Domestic Borrowing Pattern

Medium-to-long-term domestic debt securities remained the main source of funding during first nine months of ongoing fiscal year. Healthy participation was witnessed in the auction of Government securities during the first nine months of FY2021-22, as depicted in figures 9.3-9.6.





9.5.3 Component-Wise Analysis of Domestic Debt

This section highlights the developments in various components of domestic debt during the first nine months of the current fiscal year:

I. Permanent Debt

Permanent debt mainly comprises medium to long-term instruments like PIBs, Government Ijara Sukuks, and Prize Bonds. Permanent debt constituted 67 percent of the domestic debt portfolio and was recorded at Rs 18,714 billion at end-March 2022, representing an increase of Rs 2,803 billion during the first nine months of the ongoing fiscal year. The bifurcation of this increase reveals that Government net mobilization through the issuance of PIBs and GIS was Rs 1,939 billion² and Rs 1,111 billion

²excluding PIBs held by non-residents amounting to Rs 20 billion, which are recorded as external public debt.

respectively, whereas a net retirement amounting to Rs 178 billion and Rs 70 billion was observed in stock of Bai-Muajjal Sukuk and Prize Bonds, respectively.

II. Floating Debt

Floating debt was recorded at Rs 5,241 billion or around 19 percent of the total domestic debt portfolio at the end-March 2022. During the first nine months of the ongoing fiscal year, a reduction of Rs 1,486 billion was witnessed in the stock of T-bills³.

III. Unfunded Debt

The stock of unfunded debt stood at Rs 3,609 billion at end-March 2022, constituting around 13 percent of the total domestic debt portfolio. Unfunded debt recorded a net reduction of Rs 37 billion during the first nine months of the current fiscal year.

In addition to the above, the domestic debt also comprises of; (i) Naya Pakistan Certificates (held by residents only), which amounted to Rs 37 billion at the end-March 2022; and (ii) SBP on-lending to Federal Government against IMF SDR allocation, which amounted to Rs 475 billion at the end-March 2022.

Figure 9.7 summarizes the source wise break-up of domestic debt stock:

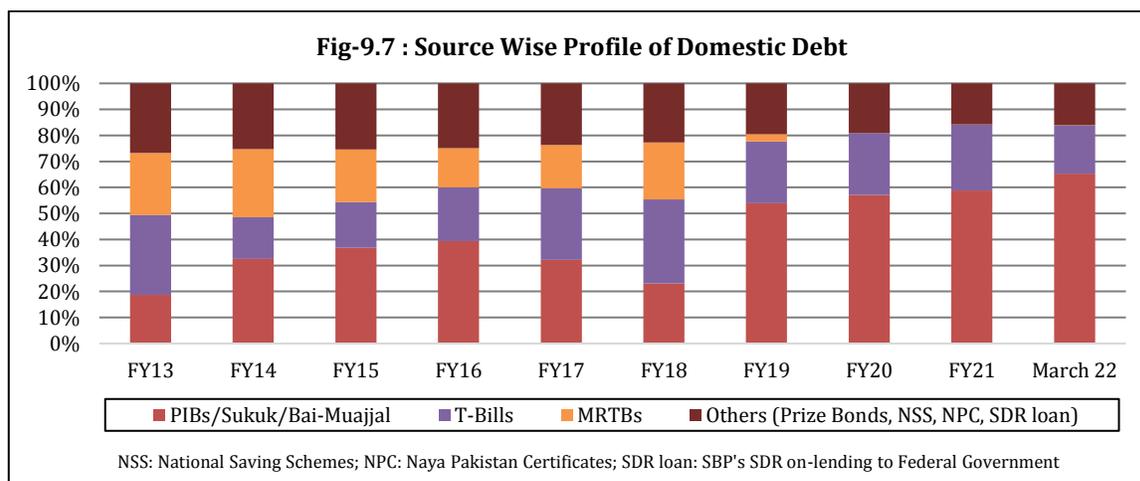


Table 9.5: Outstanding Domestic Debt

	(Rs billion)					
	Jun-13	Jun-18	Jun-19	Jun-20	Jun-21	Mar-22
Permanent Debt	2,179.0	4,659.2	12,087.0	14,030.7	15,910.8	18,714.0
Market Loans	2.8	2.8	2.8	2.8	2.8	2.8
Government Bonds	1.3	1.3	1.3	1.3	1.3	1.3
Prize Bonds	389.6	851.0	893.9	734.1	443.7	373.5
Foreign Exchange Bearer Certificates	0.1	0.1	0.1	0.1	0.1	0.1
Bearer National Fund Bonds	0.0	0.0	0.0	0.0	0.0	0.0
Federal Investment Bonds	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Currency Bearer Certificates	0.0	0.0	0.1	0.1	0.1	0.1
U.S. Dollar Bearer Certificates	0.1	0.1	0.1	0.1	0.1	0.1
Special U.S. Dollar Bonds	4.3	5.1	6.7	6.9	6.5	7.5
Pakistan Investment Bonds (PIBs)*	1,321.6	3,413.3	10,933.2	12,886.0	14,590.0	16,529.1
GOP Ijara Sukuk	459.2	385.4	71.0	198.2	665.3	1,776.3
Bai-Muajjal of Sukuk	-	-	177.8	201.0	201.0	23.2

³excluding T-bills held by non-residents amounting to Rs 24 billion, which are recorded as external public debt.

	Jun-13	Jun-18	Jun-19	Jun-20	Jun-21	Mar-22
Floating Debt	5,194.9	8,889.0	5,500.6	5,578.3	6,680.4	5,241.6
Market Treasury Bills*	2,919.7	5,294.8	4,930.5	5,575.5	6,676.9	5,190.6
MTBs for Replenishment	2,275.2	3,594.2	570.2	2.8	3.5	50.9
Bai Muajjal	0.0	0.0	-	-	0.0	0.0
Unfunded Debt	2,146.5	2,868.1	3,144.1	3,673.6	3,645.9	3,608.5
Defence Saving Certificates	271.7	336.2	393.4	486.2	477.2	470.4
National Deposit Certificates	0.0	0.0	0.0	0.0	0.0	0.0
Khass Deposit Certificates	0.3	0.2	0.2	0.2	0.2	0.2
Special Savings Certificates (Reg.)	388.2	381.9	413.7	427.7	421.4	398.7
Special Savings Certificates (Bearer)	0.3	0.3	0.3	0.3	0.3	0.3
Regular Income Certificates	262.6	347.5	489.6	572.9	599.6	619.4
Premium Saving Certificates	0.0	0.0	0.0	0.0	0.0	0.0
Bahhood Savings Certificates	528.4	794.9	914.5	997.8	1,000.4	1,009.2
Short Term Savings Certificates	4.0	4.3	5.1	24.3	4.0	3.9
Khass Deposit Accounts	0.3	0.3	0.3	0.3	0.3	0.3
Savings Accounts	22.3	38.3	38.2	42.7	43.2	50.8
Special Savings Accounts	346.2	549.0	416.6	617.3	581.4	542.8
MahanaAmdani Accounts	2.0	1.7	1.6	1.5	1.5	1.5
Pensioners' Benefit Account	179.9	274.9	318.3	352.2	368.5	384.2
Shuhadas Family Welfare Account	-	-	0.0	0.1	0.1	0.1
National Savings Bonds	0.2	0.1	0.1	-	-	-
Postal Life Insurance Schemes	67.1	46.7	47.9	48.5	47.2	47.2
GP Fund	73.1	91.7	104.3	101.5	100.8	79.5
Naya Pakistan Certificate	-	-	-	-	28.2	37.2
SBP SDR on-lending to GOP	-	-	-	-	-	474.9
Total Domestic Debt	9,520.4	16,416.3	20,731.8	23,282.5	26,265.4	28,076.3

*Government Securities held by non-residents are deducted from PIBs and T-bills and are reflected in External Public Debt due to remain consistent with international reporting standard.

Source: State Bank of Pakistan

9.5.4 Secondary Market Activities in the Marketable Government Securities

The secondary market of Government domestic securities is liquid and well developed. During the first nine months of FY2021-22, outright trading volumes clocked in at around Rs 32 trillion, showing a marginal decrease of 1 percent compared to the corresponding period of last year. This translates into the average daily trading volume of Rs 171.1 billion (Table 9.6).

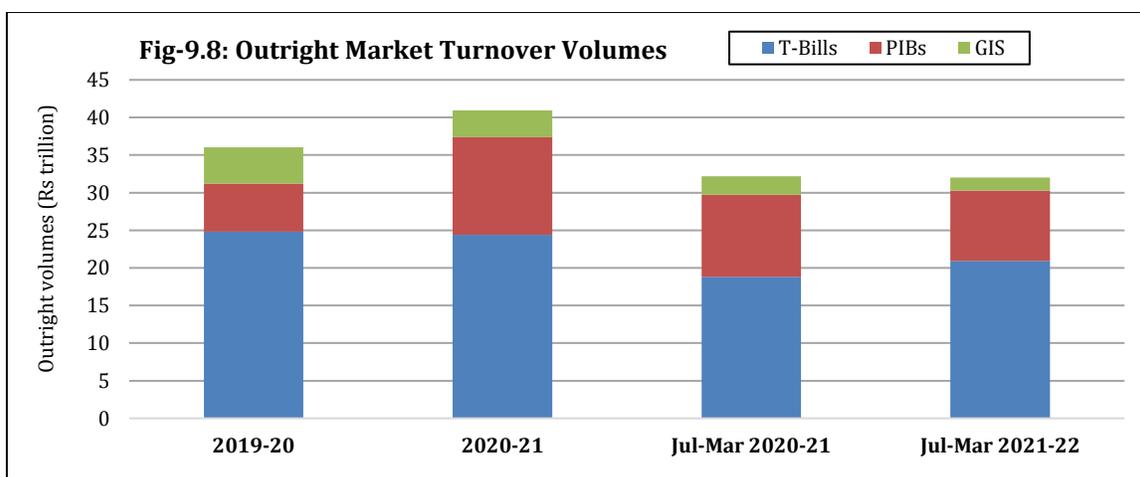
Security	2019-20	2020-21	Jul-Mar 2020-21	Jul-Mar 2021-22
3 Month T-Bills	14,260	11,942	8,305	9,749
6 Month T-Bills	3,660	7,080	5,389	10,514
12 Month T-Bills	6,914	5,400	5,129	686
Sub Total (A)	24,835	24,421	18,823	20,948
2 Year PIBs	-	39	28	473
3 Year PIBs	3,024	8,527	7,122	7,006
5 Year PIBs	1,430	2,626	2,221	996
10 Year PIBs	1,910	1,692	1,479	829
15 Year PIBs	15	40	25	45
20 Year PIBs	17	44	32	4
Sub Total (B)	6,396	12,968	10,908	9,354
Govt. Ijara Sukuk (C)	4,817	3,542	2,469	1,694
Grand Total (A+B+C)	36,047	40,932	32,199	31,996
Daily Average volume	146.5	165.7	171.3	171.1

Source: State Bank of Pakistan

Due to a significant increase in the interest rate during FY2021-22, notable changes in security-wise outright volumes were witnessed. The volume of T-Bills increased, while overall volumes of PIBs (fixed and floating) declined. Among PIBs, floating-rate PIBs witnessed a robust increase as outright trade of 2-year floating-rate PIBs increased on the back of strong primary issuance. Out of Rs 7 trillion outright trades in 3-year PIBs, Rs 4.9 trillion (70 percent) was in floating-rate instruments. Higher primary market issuance and large outstanding stocks contributed to high trading volumes. On the longer end, secondary market trading volume of 5- and 10-year PIBs decreased by 55 percent and 44 percent, respectively. Among 5-Year and 10-Year PIBs, primary issuance of floaters remained minimum, while consistent issuance of fixed-rate PIBs contributed to relatively higher outright volumes in the fixed-rate instruments;

T-Bills outright volume during the first nine months of FY2021-22 continued to constitute a major share (65 percent) of total outright volume. T-Bills outright trade volume clocked in at Rs 21 trillion during the period, exhibiting an increase of 11 percent compared to that of the same period of the preceding year. Tenor-wise outright volumes, however, changed drastically during the period under review as 3- and 6-Month T Bills outright volumes increased by around 17 percent and 95 percent, while that of 12-Month decreased by 87 percent.

Outright trade-in GoP Ijara Sukuks (GISs) continue to decline despite strong primary market issuances during the current fiscal year. GIS worth Rs 1.7 trillion were outright traded during the first nine months of FY2021-22, reflecting a decline of 31 percent compared to volumes registered during the same period of the preceding year. The significant drop in GIS outright volume indicates Islamic banks' preference to buy and hold securities.



9.5.5 Repo Market and Secondary Market Yield

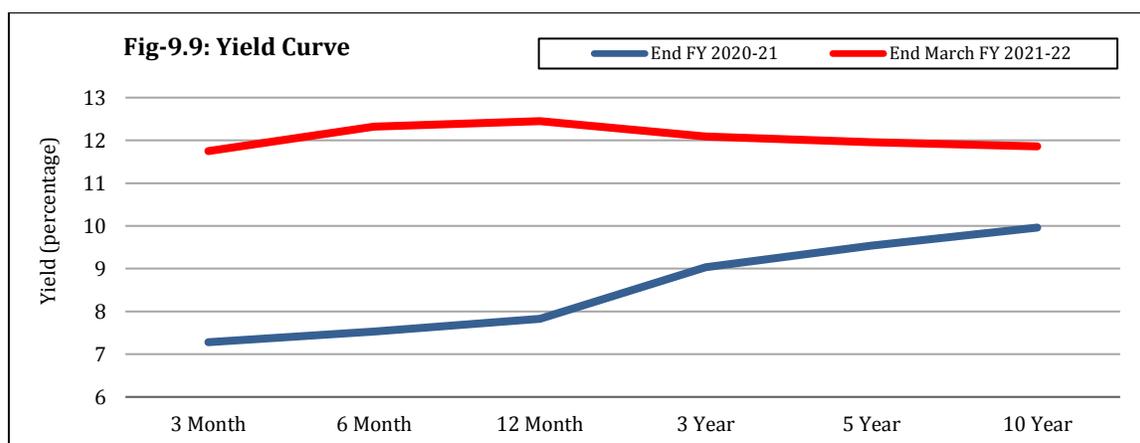
During the first nine months of FY2021-22, repo market volumes averaged Rs 33 trillion showing a growth of 40 percent compared to the corresponding period of the preceding year. Banks heavily rely on the repo market to manage their short-term liquidity. Overnight repo deals accounted for 81 percent of total repo trade volumes, while 1- and 2-week tenor deals accounted for 12 percent and 4 percent of the volumes, respectively.

Table-9.7: Government Security-Based Transactions

Type	Volume (Rs in billion)				Market Share (Percentage)			
	2019-20	2020-21	Jul-Mar 2020-21	Jul-Mar 2021-22	2019-20	2020-21	Jul-Mar 2020-21	Jul-Mar 2021-22
Repo	35,182	32,111	23,743	33,306	49	44	42	51
Outright	36,047	40,932	32,199	31,996	51	56	58	49
Total	71,229	73,043	55,942	65,302	100	100	100	100

Source: State Bank of Pakistan

At the beginning of FY2021-22, the yield curve was upward sloping. SBP policy rate had anchored the left end of the yield curve (short-term rates) to around 7 percent while the term structure of long-term rates was normal with a 10-year rate at 10 percent. During the first nine months of FY2021-22, SBP increased the policy rate by a cumulative 275 bps. This resulted in an upward shift in the yield curve with an increase more pronounced in short-term rates and long-term rates being flat at around 12 percent. However, short-term rates (up to 1 year) continue to be positively sloped.



9.6 External Public Debt

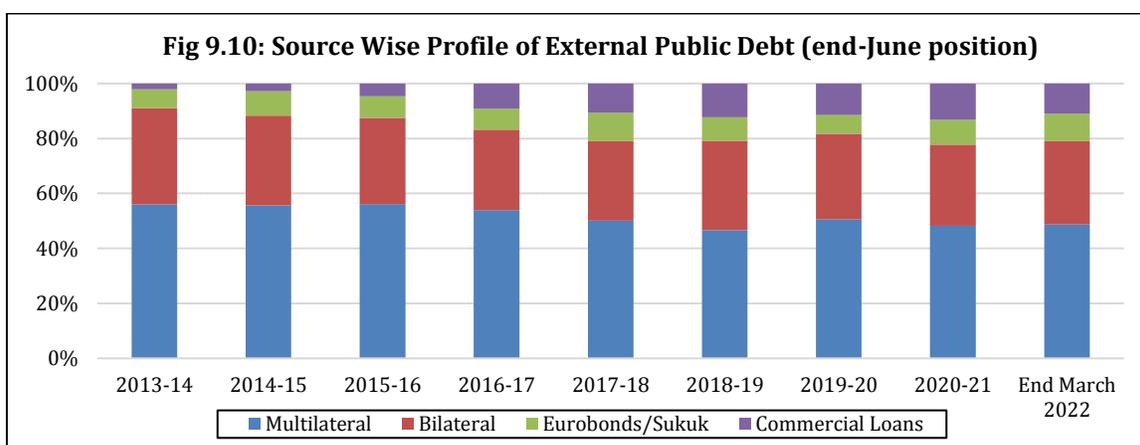
External public debt was recorded at US\$ 88.8 billion at end-March 2022, increasing by around US\$ 2.3 billion during the first nine months of the current fiscal year. This increase reveals the following:

- ⦿ The debt stock of multilateral and bilateral sources increased by US\$ 2.9 billion. Gross inflows of around US\$ 1 billion were recorded from the IMF under the Extended Fund Facility (EFF), US\$ 0.8 billion from Development Bank (IDB), and US\$ 3 billion in form of Saudi time deposits. Overall, multilateral and bilateral loans are mostly contracted on concessional terms (low cost and longer tenor);
- ⦿ The debt stock of commercial loans registered a net decrease of around US\$ 1.5 billion. It was mainly due to repayment of maturity from Chinese commercial banks amounting of US\$ 2.3 billion in March 2022. However, this amount is expected to be received in June 2022;
- ⦿ The Government raised US\$ 2 billion through international bond issuances (US\$ 1 billion Eurobonds in July 2021 and US\$ 1 billion Sukuk in January 2022) while it also repaid US\$ 1 billion against maturing Sukuk. Therefore, stock of Eurobonds/Sukuks

witnessed net increase of US\$ 1 billion during first nine months of ongoing fiscal year;

- ⊙ The stock of Pakistan Banao Certificates and Naya Pakistan Certificates cumulatively increased by US\$ 0.5 billion; and
- ⊙ The stock of non-resident investment in Government securities (T-bills & PIBs) decreased by US\$ 0.6 billion.

Pakistan’s external public debt is derived from four key sources, with around 49 percent coming from multilateral loans, 30 percent from bilateral loans, 11 percent from commercial loans⁴, and 10 percent from Eurobonds/Sukuk. Figure 9.10 summarizes the component-wise break-up of external public debt stock:



(US\$ in million)	Jun-13	Jun-18	Jun-19	Jun-20	Jun-21	Mar-22
A. External Public Debt (1+2)	48,139	70,237	73,449	77,994	86,457	88,765
1. Government External Debt (i+ii)	43,752	64,142	67,800	70,314	79,073	81,294
i) Long term (>1 year)	43,488	62,525	66,536	68,773	78,215	79,863
Paris Club	13,548	11,643	11,235	10,924	10,726	9,708
Multilateral	24,198	28,102	27,788	30,898	33,836	34,513
Other Bilateral	3,939	8,674	12,717	13,428	14,821	17,151
Euro/Sukuk Global Bonds	1,550	7,300	6,300	5,300	7,800	8,800
Military Debt	71	-	-	-	-	-
Commercial Loans/Credits	0	6,806	8,470	8,068	9,696	8,210
Local Currency Securities (PIBs)	2	-	-	96	463	96
Saudi Fund for Development (SFD)	180	-	-	-	-	-
NBP/BOC deposits/PBC*	0	-	26	59	65	58
Naya Pakistan Certificate*	0	-	-	-	809	1,327
ii) Short term (<1 year)	264	1,617	1,264	1,542	858	1,431
Multilateral	256	961	778	814	506	1,301
Local Currency Securities (T-bills)	8	0	0	586	352	130
Commercial Loans/Credits	0	655	486	141	-	-
2. From IMF	4,387	6,095	5,648	7,680	7,384	7,471
i) Federal Government	1,519	-	-	2,833	3,437	4,368
ii) Central Bank	2,868	6,095	5,648	4,847	3,947	3,103

*: Naya Pakistan Certificate and Pakistan Banao Certificates (PBC) are issued by Government of Pakistan for overseas Pakistanis.

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

⁴ Including non-resident investments in domestic Government securities, Naya Pakistan Certificates and Pakistan Banao Certificates.

9.6.1 External Public Debt Inflows and Outflows

(a) Inflows

Gross external loan disbursements were recorded at US\$ 12,779 million⁵ during the first nine months of FY2021-22, the details of which are as follows:

- ⊙ Disbursements from multilateral sources amounted to US\$ 4,929 million and accounted for 39 percent of the total disbursements. The main contributors were Asian Development Bank (ADB), Islamic Development Bank (IDB), World Bank, and IMF. The disbursements from the IMF were part of the ongoing EFF program while inflows from ADB and World Bank were targeted towards energy, finance, and infrastructure development and to address the pandemic repercussions;
- ⊙ Bilateral sources contributed US\$ 3,228 million or 25 percent in total disbursements. Out of this, the Saudi deposits amounted to US\$ 3,000 million;
- ⊙ Disbursements through international bonds amounted to US\$ 2,000 million; and
- ⊙ Commercial loans contributed US\$ 2,623 million in total disbursements. These inflows were mostly taken for refinancing the existing commercial maturities.

(b) Outflows

External public debt repayments were recorded at US\$ 8,139 million during the first nine months of FY2021-22 as compared with US\$ 5,148 million during the same period last year. This increase in repayments is primarily due to; (i) resumption of debt repayment to bilateral creditors in the third quarter of FY2021-22, which were deferred under Debt Service Suspension Initiative (DSSI); (ii) US\$ 1,000 million International Sukuk maturity in October 2021; and (iii) higher repayment of commercial loans maturities as stated above.

Interest payments were recorded at US\$ 1,297 million during the first nine months of FY2021-22 as compared to US\$ 1,080 million during the same period of the preceding year. The main factors which increased the external interest servicing during the ongoing fiscal year were (i) resumption of interest payments to bilateral creditors in the third quarter of FY2021-22, which were deferred under DSSI; (ii) increase in global interest rates; and (iii) higher interest servicing against commercial loan portfolio and Eurobonds. The source wise details of external public debt inflows and outflows over the last few years are depicted in table 9.11.

(US\$ in million)	2015	2016	2017	2018	2019	2020	2021	Jul-Mar 22
DISBURSEMENTS								
Multilateral	5,435	5,766	3,166	2,813	2,021	8,329	4,810	4,929
Bilateral	867	1,040	1,941	1,971	4,377	1,398	1,275	3,228
Bonds	1,000	500	1,000	2,500	-	-	2,500	2,000
Commercial / Other	150	1,387	4,426	3,716	4,098	3,347	4,721	2,623
Total Inflows (A)	7,452	8,693	10,533	11,000	10,496	13,074	13,306	12,779
REPAYMENTS								
Multilateral	2,407	1,274	1,255	1,403	1,750	2,199	3,391	2,482
Bilateral	407	440	1,200	793	970	783	100	497

⁵ Excluding disbursement from Pakistan Banao Certificates, NPCs and non-resident investment in Government securities.

Table 9.9: Source Wise External Public Debt Inflows and Outflows (Fiscal Year-wise)

(US\$ in million)	2015	2016	2017	2018	2019	2020	2021	Jul-Mar 22
Bonds	-	500	750	-	1,000	1,000	0	1,000
Commercial / Other	686	1000	1922	1995	3634	5061	3,444	4,160
Total Repayments (B)	3,500	3,213	5,127	4,190	7,355	9,043	6,936	8,139
Net Inflows (A-B)	3,952	5,480	5,406	6,809	3,140	4,031	6,370	4,640
INTEREST PAYMENTS								
Multilateral	258	290	381	485	584	637	639	446
Bilateral	385	380	441	444	541	484	115	230
Bonds	300	354	366	423	503	396	362	340
Commercial / Other	32	102	124	332	475	515	337	282
Total Interest Payments (C)	975	1,127	1,313	1,684	2,103	2,032	1,453	1,297
Total Debt Servicing (B+C)	4,475	4,340	6,440	5,874	9,458	11,075	8,389	9,436

Note: Above data excludes disbursements from Naya Pakistan Certificate, Pakistan Banao Certificates, and non-resident investment in Government domestic securities

Source: Ministry of Economic Affairs and State Bank of Pakistan

9.6.2 Impact of Exchange Rate Fluctuations

External loans are contracted in various currencies; however, disbursements are effectively converted into Pak Rupee. Since Pak Rupee is not an internationally traded currency, other international currencies are bought and sold via selling and buying of the US Dollar. Hence, the currency exposure of foreign debt originates from two sources: US Dollar/other foreign currencies and Pak Rupee/US Dollar. Thus, any movement in international currencies (in which debt is contracted) and PKR vis-à-vis US Dollar can change the dollar and Pak Rupee value of external debt respectively. It must, however, be taken into account that domestic debt does not carry currency risk since it is denominated in Pak Rupee.

In addition to net external inflows, the following factors influenced the movement in external public debt stock during the first nine months of the current fiscal year:

- ⊙ In US Dollar terms, revaluation gain owing to appreciation of the US Dollar against other international currencies decreased the external public debt stock by around US\$ 1.6billion. This decrease was mainly driven by an appreciation of the US Dollar against the Japanese Yen by 10 percent, the Euro by 7 percent, the Pound Sterling by 6 percent, and Special Drawing Right (SDR) by 3 percent;
- ⊙ The above-mentioned translational gain on account of the appreciation of the US Dollar against other international currencies was offset by the depreciation of the Pak Rupee against the US Dollar by around 17 percent which led to increasing the Rupee value of external debt by around Rs 2.3 trillion.

9.6.3 International Capital Markets Issuances

In July 2021, Pakistan successfully raised US\$ 1 billion through multi-tranche tap issuance of 5-, 10- and 30-year Eurobonds under the 'Euro Medium Term Note Program'.

Furthermore, in January 2022, the Government of Pakistan raised US\$ 1 billion through the issuance of International Sukuk under the 'Trust Certificate Issuance Program. This is the first time that Government has issued International Sukuk with 7 Year maturity and at market-clearing price i.e., zero issuance premium. The transaction was a success

as healthy participation was witnessed from Middle Eastern and European investors as the books were oversubscribed 2.7 times.

Government plans to diversify its International Capital Market instrument base through issuance of various bonds under its Environmental, Social, and Governance (ESG) Framework and also would like to tap the Chinese Capital Market through issuance of Panda Bonds.

Table 9.10 depicts the outstanding position of GoP's international bonds:

Table 9.10: Pakistan Sovereign Bonds

Bond	Issue	Maturity	Size	Tenor	Coupon
			(US\$ Mn)	Years	(%)
Sukuk	05-Dec-17	05-Dec-22	1,000	5	5.625
Sukuk	31-Jan-22	31-Jan-29	1,000	7	7.950
Eurobond	30-Mar-06	31-Mar-36	300	30	7.875
Eurobond	15-Apr-14	15-Apr-24	1,000	10	8.250
Eurobond	30-Sept-15	30-Sept-25	500	10	8.250
Eurobond	05-Dec-17	05-Dec-27	1,500	10	6.875
Eurobond	08-Apr-21	08-Apr-26	1,300	5	6.000
Eurobond	08-Apr-21	08-Apr-31	1,400	10	7.375
Eurobond	08-Apr-21	08-Apr-51	800	30	8.875
Total			8,800		

Source: Bloomberg, May24, 2022

9.7 Conclusion

The Government's strategy to reduce its debt burden to a sustainable level includes adherence to run primary budget surpluses, maintain low and stable inflation, promote measures that support long-term sustainable economic growth and follow an exchange rate regime based on economic fundamentals. In addition, the Government is committed to ensuring fiscal discipline through revenue mobilization and expenditure rationalization. With a narrower fiscal deficit, public debt is projected to enter a firm downward path while the Government's efforts to improve maturity structure will enhance public debt sustainability.