Chapter No. 9

External and Domestic Debt

9.1 INTRODUCTION

The debt tolerance and debt carrying capacity vary across regions and countries. Developing countries like Pakistan are more vulnerable to economic fluctuations because of relatively weaker macroeconomic fundamentals. There is a need to analyze debt sustainability of such countries on periodic basis to determine shock absorbing capacity of the economy. Therefore, developments in both external and domestic debt are of key concern to debt management. Excessive increases in debt have caused problems for Pakistan in the past, while imprudent domestic borrowing plagued the economy during 2007-08. Vigilant debt management is required not only to ensure that present debt levels are kept under restraint, but also to project consequences of future repayment obligations. Prudent debt management practices could not undermine the importance of prudent fiscal and monetary policy. Even best debt management may not by itself avert any upheaval in case of poor macroeconomic policy sequencing.

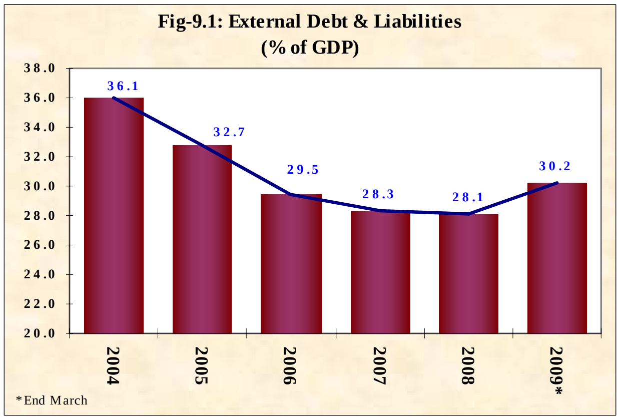
The current fiscal year carried the legacy of high fiscal and current account deficits. Large twin deficits, high inflation, a depreciating currency and dwindling reserves were all lingering problems carried over from the previous fiscal year. Depreciation of the Rupee against the US dollar has caused substantial rise in foreign currency denominated public debt. On the internal front, borrowing from the State Bank of Pakistan continues to fuel increases not only in domestic inflation but also adding to the short-run domestic debt. The government embarked upon a plan of Economic Stabilization to regain macroeconomic stability. The measures taken under this program by the government have placed the economy on the path to recovery. Net zero borrowing from the SBP at the end of every quarter put restraint on the government’s borrowing appetite from the SBP and the government successfully met this target in the last two quarters (October-March).

The support from the International Monetary Fund is a key impetus to this stabilization process. The effects of the stabilization started accruing as the current account has recovered substantially and hemorrhage to foreign exchange reserves not only arrested but around $3.4 billion have been added to the reserves.

9.2 EXTERNAL DEBT AND LIABILITIES

Gross external debt at a given point of time is the amount of disbursed and outstanding liabilities of residents of a country to non-residents. Countries use external debt in order to fill the gap between desired expenditure levels and domestically available resources. Governments also issue foreign currency debt in order to signal their commitment to stable exchange rates and prices. A key incentive for governments to use foreign debt heavily is that it minimizes current interest costs, but doing so leaves the country vulnerable to certain risks.

The government manages its debt in order to raise the required amount of resources subject to the lowest possible medium to long-term cost and consistent with a prudent degree of risk. Poor debt management poses risks for both the public and private sectors in the form of economic instability, insolvency, debt distress, and fiscal crisis. In order to prevent such eventuality, a government needs to identify the various risks to its debt stock, and formulate strategies to counter or minimize these risks. Risks can be classified into two main categories; market risk, and country specific risk. The stock of outstanding debt of any country is vulnerable to market risks regardless of the origin, size, average tenure, and other characteristics of the debt. Market risk is measured in terms of potential increases in debt servicing costs associated with changes in market conditions such as interest rate risk, exchange rate risk, and credit risk. Country specific factors include the economic, social, and political stability of the country, and general investor sentiment about the economy.



In addition to risk management, governments need to constantly monitor, sustain, and even enhance their debt carrying capacity. Furthermore, the borrowed resources must be utilized effectively and productively so that they generate economic activity. Prudent debt management is therefore, essential for preventing debt crisis. Empirical evidence suggests that external debt slows growth only if it crosses the threshold level of 50 percent of GDP or in net present value terms, 20-25 percent of GDP. Pakistan has experienced serious debt problems in the recent past and accordingly witnessed deterioration in the macroeconomic environment, leading to deceleration in investment rate and economic growth and the associated rise in the incidence of poverty.

The beginning of the current decade saw a sustained reduction of Pakistan's external debt burden. Even though total External Debt & Liabilities (EDL) was rising throughout the period, the growth of the economy was far greater than growth of the debt stock, leading to a reduction in the debt burden. In absolute terms, EDL increased from US $ 37.9 billion at end-June 2000, to $ 46.3 billion by the end of June 2008. During the same period, EDL as a percentage of GDP decreased by 24 percentage points of GDP, falling from 51.7 percent to 28.1 percent by end-June 2007 as shown in Fig-9.1. However, the last two years have seen an increase in the rate of growth of EDL, as external debt and liabilities have been increasing not only in absolute terms, but also as a percentage of some major economic indicators. This shift in momentum has highlighted the crucial role played by current account deficit and exchange rate stability on a country's debt burden. Pakistan benefited from fiscal discipline imposed in the beginning of the decade as well as a relatively stable rupee and significant foreign inflows all of which facilitated a reduction in the debt burden. However, deterioration of these same fundamentals is responsible for the increasing debt burden seen in the last two years. Measures taken in order to steer Pakistan towards economic recovery have meant that the country's stock of outstanding EDL has taken a hit. Entering into the International Monetary Fund Stand By Arrangement (IMF SBA) program has enabled Pakistan to shore up foreign exchange reserves and prevent the economy from any further depreciation, but it has also translated into a significant increase in outstanding external debt. Focusing on the absolute increase in the outstanding stock of EDL can be misleading for two main reasons. Firstly, the outstanding stock of debt must be analyzed in relation to the size of the economy and its repayment capacity (in terms of GDP and other macroeconomic indicators). Secondly, the absolute change in EDL neglects classification between an actual increase in stock and increases caused by fluctuations in international exchange rates.

Table-9.1: Pakistan: External Debt and Liabilities						
	End-June					
	2004	2005	2006	2007	2008	2009*
	(In billions of U.S. dollars)					
1. Public and Publically Guaranteed debt	29.94	31.08	32.90	35.35	40.24	40.48
A. Medium and long term(>1 year)	29.91	30.81	32.73	35.32	39.53	39.75
Paris club	13.63	13.01	12.79	12.69	13.93	13.66
Multilateral	14.35	15.36	16.82	18.69	21.58	21.84
Other bilateral	0.69	0.81	0.92	1.00	1.19	1.94
Euro bonds/Saindak Bonds	0.82	1.27	1.91	2.71	2.67	2.15
Military debt	0.20	0.19	0.13	0.08	0.04	0.01
Commercial Loans/credits	0.22	0.18	0.17	0.15	0.12	0.17
B. Short Term (<1 year)	0.02	0.27	0.17	0.03	0.71	0.73
2. Private Non-guaranteed Debt (>1 yr)	1.67	1.34	1.59	2.25	2.89	3.30
3. IMF	1.76	1.61	1.49	1.41	1.34	4.19
Total External Debt (1 through 3)	33.4	34.0	36.0	39.0	44.5	48.0
Of Which Public	*31.3*	*32.1*	*33.9*	*36.5*	*40.7*	*43.8*
4. Foreign Exchange Liabilities	2.0	1.8	1.6	1.5	1.8	2.2
Total External Debt & Liabilities (1 through 4)	35.3	35.8	37.6	40.5	46.3	50.1
	(In percent of GDP)					
Total External Debt (1 through 3)	34.1	31.1	28.2	27.3	27.0	28.9
1. Public and Publically Guaranteed debt	30.6	28.4	25.8	24.7	24.5	24.4
A. Medium and long term(>1 year)	30.5	28.1	25.7	24.7	24.0	23.9
B. Short Term (<1 year)	0.0	0.2	0.1	0.0	0.4	0.4
3. IMF	1.8	1.5	1.2	1.0	0.8	2.5
Total External Debt	34.1	31.1	28.2	27.3	27.0	28.9
4. Foreign Exchange Liabilities	2.0	1.6	1.2	1.0	1.1	1.3
Total External Debt & Liabilities (1 through 4)	36.1	32.7	29.5	28.3	28.1	30.2
Memo:						
GDP (in billions of U.S. dollars)	98.0	109.5	127.4	143.0	164.4	166.1

** End March* *Source: State Bank of Pakistan*

9.2.1 Outstanding External Debt and Liabilities

During the first nine months of the current fiscal year 2008-09, Pakistan's total external debt increased from $ 46.3 billion at end-June 2008 to $ 50.1 billion by end-March 2009 — an increase of US $ 3.8 billion or 8.2 percent. A high and persistent current account deficit implies greater financing requirement by the economy. A global environment plagued by the economic slowdown has hampered non-debt creating inflows like FDI and in constricted availability of the non-debt creating inflows; the government has to resort to multilateral and bilateral sources for its financing requirement and thus leading to the stock of outstanding external debt. In relative terms, EDL as percentage of GDP increased from 28.1 percent at end-June 2008 to 30.2 percent by end-March 2009— an increase of 2.1 percentage points. This is the highest ever rise in a single year for almost one decade [See Table-9.1**]**. A significantly depressed economic growth and massive depreciation of rupee against dollar partially explains this increase in EDL as a percentage of GDP.

The big chunk of Pakistan's outstanding external debt is classified as public and publically guaranteed debt and accounts for 78.9 percent of the total outstanding EDL stock [See Table 9.2]. Out of the remaining amount 8.4 percent debt is owed to the IMF which is a leap forward from last year's stake of 3.1 percent of total EDL mainly due to disbursement of the first two trenches of the Stand By Arrangement (SBA). Private non-guaranteed debt contributes 6.6 percent to the stock of EDL and another 4.3 percent contribution came from foreign exchange liabilities.

Table 9.2: Structure of EDL (End-March 2009)	
Component	**Percent**
Public and Publicly Guaranteed	78.9
Paris club	27.2
Multilateral	43.5
Other bilateral	3.9
Short Term	4.3
Private Non-Guaranteed	6.6
IMF	8.4
Foreign Exchange Liabilities	4.3
Memo:	
Total EDLs	100.0
** EDL: External Debt and Liabilities*	*Source: SBP*

The following section highlights the developments in the various components of EDL during the first nine months of the outgoing fiscal year.

9.2.1.i Public and Publicly Guaranteed Debt

Public and publicly guaranteed debt accounts for the largest share of 78.9 percent in EDL. This component is further classified into medium to long-term debt and short term debt. During the first nine months of 2008-09, public and publicly guaranteed debt has increased by 0.6 percent or $ 233 million, rising from $ 40.2 billion at end-June 2008 to $ 40.5 billion by end-March 2009. Medium and long-term debt increased marginally by $ 54 million during the same period. Out of multilateral debt, Paris club debt registered a slight reduction of $ 273 million, and the stock of outstanding Paris club debt is currently at $ 13.6 billion. Repayment of $ 500 million on account of a Eurobond issued by the government in 2004 caused a reduction in the outstanding stock of Eurobond debt. Military debt also registered a slight decrease of $ 34 million. The stock of multilateral debt increased by $ 252 million, rising from $ 21.6 billion at the end-June 2008 to $ 2I.8 billion by end-March 2009. Short term debt increased from $ 713 million at end-June 2008 to $ 728 by end-March 2009. This increase of $ 15 million is on account of short term financing provided by the Islamic Development Bank (IDB). The first nine months of the current fiscal year have seen a very limited amount of new disbursements of Public and publicly guaranteed debt, and most of the changes in outstanding stock are due to movements in international exchange rates or disbursement from the IMF.

9.2.1.ii IMF Debt

In November 2008, Pakistan entered into a 23-month stand-by loan agreement with the IMF. The total financing approved by the IMF is approximately $ 7.6 billion. The objective of the agreement is to support the stabilization program of the government. The first tranche of $ 3.1 billion was released in November 2008, and after a successful first review of the program, a second tranche of approximately $ 847 million was disbursed by the end of March 2009. In the absence of non-debt creating inflows the SBA has provided much needed funds required to stabilize the economy by bridging the financing gap. However, the financing provided by the IMF is also the major reason behind the increase in the stock of outstanding EDL. Between June 2008 and March 2009, the outstanding IMF debt stock piled up from $ 1.34 billion to $ 4.19 billion. This implies a whopping net addition of $ 2.85 billion. The increase in the stock of IMF debt is responsible for 78 percent of the total increase in outstanding EDLs.

9.2.1.iii Private non-guaranteed debt and Foreign Exchange Liabilities

The share of private non-guaranteed debt in Pakistan's total EDLs has historically been very small. Continuing with this trend, private non-guaranteed debt accounted for 6.9 percent of the outstanding stock of EDL by March 2009. The stock of private non-guaranteed debt increased by $ 412 million; rising from $ 2.89 billion in June 2008 to $3.3 billion by end-March 2009. This category consists of private non-guaranteed loans worth $ 3 billion and non-guaranteed private sector bonds worth $ 275 million.

9.2.1.iv Foreign exchange liabilities are persistently declining since 1999 but witnessed a slight increase in 2008-09 on account of higher level of Central Bank Deposits received from friendly countries which are increasing for a second consecutive year. The outstanding stock of foreign exchange liabilities increased from $ 1.8 billion at end-June 2008 to $ 2.2 billion by end-March 2009. The increase is solely because of receipt of $ 500 million from China in the Central Bank Deposits. The rise in Central Bank Deposits has more than offset a decrease in Special $ Bonds and Foreign Currency Bonds. Foreign exchange liabilities now account for 4.3 percent of total EDL as compared to a share of 3.9 percent in 2007-08.

9.3 Composition of Foreign Economic Assistance

The total amount of foreign economic assistance received in the first nine months of 2008-09 stood at $ 7,193 million. The composition of this assistance is as follows:

9.3.i Commitments

The commitments of foreign economic assistance were $3,570 million during 2007-08, while during the first nine months of the current fiscal year i.e., July-March 2008-09, total commitments amounted to $3,896 million. About 45.4 percent of the total commitments during July-March 2008-09 were in the shape of project aid and 54.6 percent non-project aid. The share of BOP/budgetary support in total non-project aid was 90 percent, Non-food (5 percent) and Afghan Refugees & earthquake relief assistance (4 percent).

9.3.ii Disbursements

Disbursement of foreign economic assistance during 2007-08 stood at $3,580 million but decreased to $3,297 million during July-March, 2008–09. During this period, disbursement for the project aid amounted to $ 623 million or about 18.9 percent of the total disbursements. An amount of $2,674 million was disbursed for non-project aid, claiming about 81.1 percent of total disbursements, comprising $ 308 million for Non-Food aid, $2,306 million for BOP/budgetary support and $59 million for Afghan Refugees & earthquake relief assistance.

9.3.iii Sources of Aid

The major sources of foreign economic assistance to Pakistan are Bilateral and Multilateral donors. Bilateral sources provided 37.8 percent during 2007-08 and multilateral 62.2 percent of the total commitments. Contribution of bilateral and multilateral sources was 25.1 percent and 74.9 percent of total commitments, respectively during July-March 2008-09. An amount of $735.9 million was disbursed from the bilateral sources and $2,844.6 million from multilateral sources during 2007-08. Disbursement from the bilateral and multilateral sources amounted to $981.5 million and $2,315.8 million, respectively during July-March, 2008-09.

9.3.iv Project Vs Non-Project Aid

There has been a significant change in the pattern of commitments for the project and non-project aid. The share of project aid was 55.6 percent during 2007-08 which reduced to 45.4 percent by July-March 2008-09. The share of project aid in the total commitments has declined as compared to non-project aid after 1990’s. Project aid was 71.5 percent and 71.7percent during the1980’s and the 1990’s respectively, compared to 42.8 percent during 2001-09.

9.3.v Grants and Loans

The composition of foreign economic assistance has considerably changed over the years from grants and grant-like assistance to hard-term loans. The share of grants and grant-like foreign assistance in total commitments dropped from 80 percent during the First Five Year Plan (1955-60) to 9 percent only during the year 2000-01. It, however, surged again to 20 percent of total foreign aid contracted during 2001-02 but declined to 10.6 percent in July-March 2008-09

9.3.vi **Debt Servicing during 2008-09**

Debt inflows are useful in supporting a country’s balance of payments position and financing current account deficits. However, they pose an obligation to make payments in the future, thus producing a strain on the economy. The annual debt servicing payments made during the period 1999-2000 to 2003-04 on average hovered around $ 5 billion per annum. Owing largely to a combination of re-profiling of Paris Club bilateral debt on a long-term horizon, the substantial write-off of the US bilateral debt stock, the prepayment of expensive debt and the relative shift in contracting new loans on concessional terms, this amount was drastically reduced to around $ 3 billion by 2007-08. As the debt burden of an economy rises, so do the obligations to make debt service payments. An amount of $ 3.65 billion has been paid during July-March 2008-09 which implies an increase of $ 650 million in one year. Out of this amount, $ 2.83 billion was paid on account of repayment of principal amounts. A significant proportion of this increase is due to repayment of Eurobond amounting to $ 500 million made in February 2009 while $ 818 million were paid on account of interest payments. The amount rolled over increased from $ 1.2 billion in 2007-08 to $ 1.65 billion in July-March 2008-09 [See Table 9.3]

Table-9.3: Pakistan's External Debt and Liabilities Servicing

($ Million)

Years	Actual Amount Paid	Amount Rolled Over	Total
1999-00	3756	4081	7837
2000-01	5101	2795	7896
2001-02	6327	2243	8570
2002-03	4349	1908	6257
2003-04	5274	1300	6574
2004-05	2965	1300	4265
2005-06	3115	1300	4415
2006-07	2977	1300	4277
2007-08	3161	1200	4361
2008-09*	3654	1650	5304

** July-March* *Source: State Bank of Pakistan*

9.4 External Debt Sustainability

The idea of debt sustainability links the debt stock of a country to its repayment ability as gauged by various macroeconomic indicators. The difference between the total financing needs on the balance of payments and the projected capital inflows is known as the financing gap. In crude terms, if the financing gap is approaching zero in the long-term, debt is considered to be sustainable. Whereas if a financing gap exists, it can be filled by resorting to additional borrowing, rescheduling and debt reduction, or by accumulating arrears. Such measures lead to an escalating debt burden and eventual un-sustainability of debt.

In order to ensure sustainability, developing countries can place limits on debt obligations, given the level of capital inflows. These limits are set by assigning threshold levels to the debt stock as a ratio of economic indicators that represent the repayment capacity of the economy, such as GDP, foreign exchange reserves and foreign exchange earnings. Calculation of these indicators and subsequent comparison with international thresholds provides insight into a country's debt position. They can be used to monitor the sustainability of debt as well as an early warning system for debt distress and sustainability issues. The indicators can be divided into two groups, nominal indicators which are useful in analyzing the debt position at any given time as well as historical trends, and present value indicators which are useful in measuring current and future debt payments. By using present value indicators, it is possible to analyze future debt obligations in current terms, and project the impact they will have on the country's debt burden and sustainability.

Table-9.4: External Debt Sustainability Indicators

Year	EDL/ GDP	EDL/ FEE	EDL/ FER	STD/EDL
	(Percent)		Ratio	(Percent)
FY00	51.7	297.2	19.3	3.2
FY01	52.1	259.5	11.5	3.7
FY02	50.9	236.8	5.8	1.4
FY03	43.1	181.2	3.3	1.2
FY04	36.7	165.0	3.0	0.6
FY05	32.7	134.3	2.7	0.8
FY06	29.4	121.6	2.9	0.4
FY07	28.3	122.6	3.0	0.1
FY08	28.1	124.3	4.2	1.5
FY09*	30.2	144.3	5.1	1.5

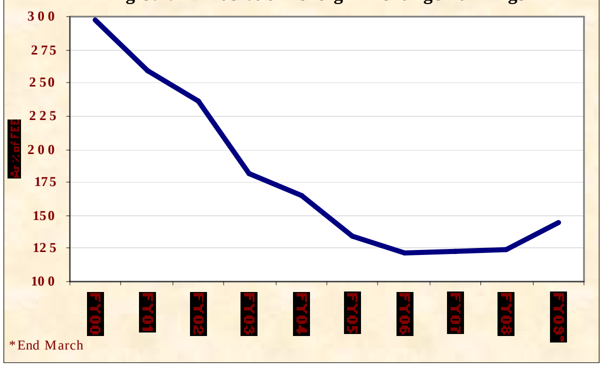
Source: EA Wing and SBP Bulletins

*** End March 2009**

EDL: External Debt and Liabilities, FEE: Foreing Exchange Earnings, FER: Foreign Exchange Reserves, STD: Short-term Debt.

Most of the indicators of Pakistan's debt have been exhibiting a declining trend since 2001-02 onwards, with a trivial u-turn in the most difficult year of recent economic history i.e. 2007-08, especially indicators that analyze debt in relation to foreign exchange reserves. Due to sustainable debt policies and favorable rescheduling of debt, external debt and liabilities (EDL) as a percentage of GDP declined from 51.7 percent in end-June 2000 to 28.3 percent by the end of June 2007; a decline of 23.4 percentage points. Substantial external debt inflows in 2007-08, magnified by depreciation of the US dollar caused EDL to remain at 28.1 percent of GDP in the previous fiscal year. By end-March 2009, EDL as a percent of GDP stood at 30.2 percent, increasing by 2.1 percentage points.

Fig-9.2: EDL as % of Foreign Exchange Earnings



EDL as a percentage of Foreign Exchange Earnings (FEE) gives a measure of a country's debt repayment capacity by comparing levels of external debt to the sum of exports, services receipts, and private unrequited transfers. EDL as a percent of FEE stood at 297.2 percent by the end of 1999-2000, and witnessed a sustained decline till end-June 2006 where it reached 121.6 percent; a reduction of 60 percentage points in 6 years. The pendulum swung to other side and EDL in relation to FEE surged gradually in 2006-07 and 2007-08 with EDL increased to 122.6 percent by end-June 2007 and further to 124.3 percent by end-June 2008. The abrupt rise came in the period July-March 2008-09, when it escalated to 144.3 percent mainly because of very weak growth in foreign exchange earnings and substantially higher net debt inflows. The deterioration of this ratio suggests that Pakistan's stock of external debt and liabilities is growing at a faster rate than its foreign exchange earnings [See Table 9.4].

As a proportion of Foreign Exchange Reserves (FER), EDL witnessed a sustained decrease from 1750 percent in 1999-2000 to 267.5 percent by end-June 2006-07. The improvement of this ratio was due to a reduction in the stock of external debt from 1999-2000 to 2003-04 coupled with a significant increase in reserves. However, EDL as a percentage of FER has increased from 267.5 percent by the end of 2006-07 to 407.3 percent in 2007-08 and further to 510 percent by end-March 2009. This increase in debt as a ratio of foreign exchange reserves can be primarily attributed to a sharp decline in the latter rather than an increase in the stock of debt. Even though financing provided by the IMF has assisted in stabilizing Pakistan's reserve position, foreign exchange reserves are significantly lower than 2007-08 while the stock of debt has been increasing at considerable pace. Regardless of the origins of the increase, it must be taken as a warning sign. Given the current domestic and international financial environment, any sustained increase in debt of the magnitude observed during 2007-08 and 2008-09 needs to be in conjunction with a growth of reserves which guarantees the country's capacity to repay the debt. Failure to match further increases in debt stock with higher reserves will bring Pakistan's level of external debt close to unsustainable levels.

Pakistan's level of Short Term Debt (STD) as a percentage of EDL has historically been lower than most other developing countries. The previous fiscal year 2007-08 has seen an increase in STD as a percentage of EDL to 1.5 percent as compared to historical value of around 0.5 percent. This was due to an increase of $ 688 million in short-term financing provided by the Islamic Development Bank. STD-to-EDL ratio remains unchanged for the first nine months of 2008-09. STD as a percentage of FER stood at 6.9 percent in March 2009 as against 6.2 percent at end-June 2008. This sustained increase is mostly due to a drawdown of reserves as increase in short term debt (short-term financing provided by the IDB) has been marginal.

Debt service as a percentage of GDP measures the extent to which a country's output is absorbed by payment of interest and principal on debt obligations. This ratio has been steadily declining, with the exception of 2003-04 where larger than usual repayments including a $ 1.17 billion repaid to the Asian Development Bank (ADB) caused the ratio to increase from 5.2 percent to 5.4 percent of GDP for the past five years. Debt Service-to-GDP ratio declined from 8.6 percent in 2001-02 to 1.9 percent by 2007-08. However, it reached 2.1 percent of GDP during July-March 2008-09. This slight increase can be attributed to repayment of $

500 million Eurobond in February 2009. As a percentage of FER, debt service declined from 173.8 percent of FER in 1999-2000 to 19.7 percent of FER by 2006-07, but registered an increase to 26.7 percent of FER in 2007-08. This ratio has significantly increased to 34.7 percent in the first nine months of 2008-09 due to depletion of foreign exchange reserves and higher debt service payments. An increasing ratio implies a growing strain on the economy's resources to make payments on its debt obligations. Keeping in mind the maturity profile of additions to the debt stock, the foreign exchange reserve position of Pakistan needs to be strengthened in order to prevent repayment difficulties in the future.

9.5 Pakistan's Link with International Capital Market

The crisis gripping financial markets worldwide has meant that capital flows have all but dried up. As uncertainty about risk prevails and investors look to shore up their losses, capital flows to emerging markets have been curtailed. Sovereigns have, in most cases, been deterred from new issuances by market sentiment and the increase in costs. Global bond issuances in 2008 totaled $ 106 billion as compared to $ 184 billion in the previous year. Sovereign issuances in Asia are also down by 40 percent as Asian countries have been forced to seek alternative methods of financing. Spreads on emerging market sovereign bonds have also widened substantially, making access to financing through capital markets, if available at all, very costly. The Emerging Market Bond Index, a benchmark index for measuring the total return performance of international government bonds issued by emerging market countries, has increased by 400 bps in one year, implying an increase in costs for tapping international debt capital markets. As negative sentiments prevail, the situation for Pakistan is compounded by weaker economic performance in 2008-09 and a highly volatile domestic security situation. The spread on Pakistani sovereign bonds as given by the EMBI have gone up by 1550 bps and have a rating of B3/CCC+. Given the severity of the crisis in international markets, and hesitance with respect to investor confidence, Pakistan has not issued any new instruments in 2008-09. However, following the government's stabilization program and a restoration of economic fundamentals, signs of recovery are visible, just as the global economy has exhibited momentum in the revival process. The government plans to continue to tap the global capital markets, when conditions are more favorable, with the aim of establishing a benchmark for Pakistan and to assure global investors of Pakistan's commitment to the development of its capital market. By regaining investor confidence and being active in international debt capital markets, spreads on Pakistani paper can be narrowed, providing the government with greater financing options.

9.5.i Recent Performance of 2017 and 2036 Eurobonds

In line with developments in global debt capital markets, Pakistan has witnessed an increase in spreads on its 2016, 2017 and 2036 Eurobonds in the first nine months of FY09. Though some stability has been regained due to initiatives taken by the government and financing provided by the IMF, it has not been enough to overcome the negative sentiment surrounding markets in general and the socio-political risk associated with Pakistan. In the absence of a credit rating upgrade for Pakistan, as compared to the issue spread of UST + 200bps, the 2017 bond is trading currently at a spread of UST +1504 bps, with the spread widening by 875 bps since 2007-08 [Table 9.5].

The 2036 bond, as compared to the issue spread of UST + 302bps and a spread of 507 bps last year, is trading currently at a spread of UST + 1361 bps. The 2036 bond was the longest ever tenor achieved by Pakistan. Both the 10 and 30 year offerings were debut offerings for Pakistan which extended the yield curve to 30 years in just 2 years. Most emerging market sovereign issuers have taken longer time to extend their yield curve from 5 to 30 years. It took Philippines 4 years and Brazil and Turkey 3 years to lengthen their yield curve to 30 years.

Table-9.5: Selected Secondary Market Benchmarks (as of May 2009)				
Issuer	**Ratings (Moody's/S&P)**	**Details (Coupon/Maturity)**	**Spread over UST (bps)**	**Bid - Yield (%)**
Pakistan	**B3/CCC+**	**7.125%/Oct 2016**	**+1519**	**18.360**
Pakistan	**B3/CCC+**	**6.875%/Jan 2017**	**+1504**	**18.210**
Pakistan	**B3/CCC+**	**7.875%/Jun 2036**	**+1361**	**17.720**
Colombia	Ba1/BBB-	7.375%/Jan 2017	+461	6.08
Turkey	Ba3/BB-	7.000%/Sept2016	423	6.61
Indonesia	Ba3/BB-	6.875%/Mar 2017	411	8.03
Venezuela	B2/BB-	8.500%/Oct 2014	639	17.45
				Source: Bloomberg

9.5.ii Repayment of 2009 Eurobond

On the 19th of February 2009, the Government of Pakistan successfully repaid the maturing $ 500 million eurobond as well as $17 million on account of interest payments. This successful payment laid to rest any fears of Pakistan debt repayment capacity, and shored up investor confidence about Pakistan's ability to successfully manage its outstanding external debt obligations. The ability to make successful repayments even under adverse conditions both domestically and in international markets is testament to the resilience of the Pakistani economy.

9.6 PUBLIC DEBT

Public debt refers to all debt owed directly by the government originating from domestic and external sources. It consists of debt denominated in Rupees as well as foreign currency. Public debt is directly linked to the government's fiscal operations through the domestic component. The gap between a government's resources, i.e. tax and non-tax revenues, and its expenditure is mostly financed by mobilizing domestic debt instruments. The external position of an economy also influences the stock of public debt outstanding. External debt creating inflows acquired to finance current account deficits are reflected in the foreign currency component of public debt.

Management of public debt poses policymakers with key challenges and trade-offs. Debt is an essential tool in ensuring required levels of investment and expenditure on programs aimed at boosting productivity, economic growth, economic and social development, and the alleviation of poverty. However, accruing an excessive amount of debt has dire consequences for any economy not least of which is the future obligation to make repayments. Increases in public debt can lead to inflationary pressures on the economy if the source of the increase is domestic borrowing. Excessive public sector borrowing may squeeze available credit in the economy and have a crowding out effect on the private sector which may lead to a fall in productivity. Additionally, increasing proportions of government resources directed towards debt servicing in the future hinder allocation of funds to other sectors of the economy.

Prudent management of public debt requires that fiscal operations be carefully planned, placing a limit on present and future fiscal deficits in order to reduce borrowing requirements. Similarly, non-debt creating foreign inflows need to be encouraged to keep the foreign currency component of public debt in check. Additionally, exchange rate stability is crucial as depreciation of domestic currency increases the foreign currency component of public debt significantly.

In the midst of the financial crisis and global economic slowdown, public debt burdens of most countries have been increasing at a rapid pace. Slowdown in economic activity has reduced the amount of funds available on the one hand, while unprecedented fiscal stimuli and recovery packages have increased government expenditures exponentially on the other. According to a recent study by the IMF, "The increase in government debt ratios will be even more sizable. The debt-to-GDP ratio of advanced countries is expected to rise by 14½ percentage points over 2008–09, the most pronounced upturn in the last few decades. The one-year increase in government debt in 2009 is twice as large as that experienced during the 1993 recession. A third of this increase is due to financial sector support packages. The debt ratio for the average of the emerging economies also shows a sizable increase in 2009, the first since 2002." The majority of responses taken by advanced economies around the world to the current crisis have involved an increase in expenditure, which has led to an increase in the stock of public debt. In such cases, where the increase in debt is thought to be a temporary or one-off phenomenon, there is little cause for alarm. Debt sustainability can be maintained as long as governments are not on an explosive debt path, i.e. borrowing additional funds in order to fund debt service obligations [see Table 9.6].

Table-9.6: Trends in Public Debt

	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09*
	(In billions of Rs.)							
Domestic Currency Debt	1715	1852	1979	2152	2322	2600	3209	3749
Foreign Currency Debt	1795	1766	1810	1913	2041	2213	2692	3519
Total Public Debt	3510	3618	3789	4064	4363	4814	5901	7268
	(In percent of GDP)							
Rupees Debt	39.0	38.4	35.1	33.1	30.5	30.0	31.2	28.6
Foreign Currency Debt	40.8	36.6	32.1	29.4	26.8	25.5	26.2	26.9
Total Public Debt	79.8	75.0	67.2	62.5	57.2	55.5	57.4	55.5
	(In percent of Revenue)							
Rupees Debt	275	257	246	239	212	200	214	188
Foreign Currency Debt	288	245	225	212	186	170	180	176
Total Public Debt	562	502	470	452	398	371	394	364
	(In percent of Total Debt)							
Rupees Debt	48.9	51.2	52.2	52.9	53.2	54.0	54.4	51.6
Foreign Currency Debt	51.1	48.8	47.8	47.1	46.8	46.0	45.6	48.4
Memo:								
Foreign Currency Debt ($ Billion)	29.9	30.6	31.3	32.1	33.9	36.5	40.7	43.8
Exchange Rate (Rs./U.S.$, E.O.P)	60.1	57.7	57.9	59.7	60.2	60.6	66.1	80.4
GDP (in Rs. Billion)	4402	4823	5641	6500	7623	8673	10284	13095
Total Revenue (in Rs. Billion)	624	721	806	900	1095	1298	1499	1995

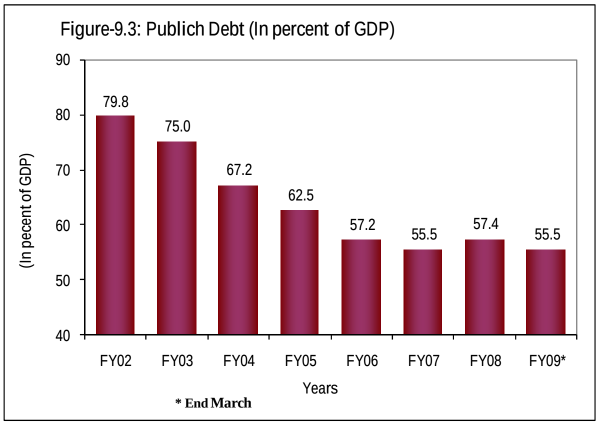
*** End-March** *Source: SBP and EA Wing Calculations.*

Pakistan has been spared from the gravity of the current global crisis, and the impact on the financial sector has been limited, waiving any need for a stimulus package or large fiscal outlay. However, the previous fiscal year 2007-08 saw massive increases in the public debt. A deteriorating current account balance, rapidly depreciating currency and large subsidies in the face of oil and other commodity price shocks resulting in substantial spike in the fiscal deficit translated to an increase in public debt. The stabilization program implemented by the government in the current fiscal year 2008-09 and the support lent by the IMF has arrested further widening of the current account deficit, shored up foreign exchange reserves, and prevented the rapid currency depreciation. These positive developments have, however, taken time in materializing, and the persistent gap between resources and expenditure, along with the depreciation of the rupee throughout the year has translated to an increase in public debt.

9.6.i Total Outstanding Public Debt

Total public debt increased by Rs 1367 billion in the first nine months of 2008-09, reaching a total outstanding amount of Rs. 7268 billion; an increase of 23.2 percent in nominal terms. Total public debt has been growing at an average of 12 percent per year since the fiscal year 1999-2000.

The increase in total public debt is shared between rupee and foreign currency debt in the ratio of 40:60. The rise in foreign currency debt is mainly because of massive depreciation of the Pak rupee in the first quarter of the fiscal year. In absolute terms $3.1 billion are added to the public external debt in the period July-March 2009, however, big chunk of Rs. 246 billion has come from depreciation. In the first nine months of 2008-09, the depreciation of the rupee against the dollar has been responsible for approximately 18 percent addition to total increase in public debt and 30 percent to public external component. The rupee has lost 20 percent of its value against the dollar in just nine months.



The structure of public debt has also experienced subtle changes since 2001-02. The focus has been shifted more towards domestic borrowings which inched up its share from 48.9 percent in 2001-02 to 54.4 percent in 2007-08. The massive borrowing from the SBP has not only fueled inflationary pressures in the economy but also responsible for fiscal indiscipline resulting in dire consequences for debt management. The government has placed a restraint of net zero quarterly borrowing from the State Bank of Pakistan (SBP).

9.6.ii Dynamics of Public Debt Burden

In order to view debt burden in relation to the resources of an economy and the government, it is useful to analyze the debt burden in the context of other macroeconomic indicators. Changes in the public debt burden of an economy are influenced by the cost associated with borrowing funds, the rate of inflation, and the real growth rates of pubic debt and government revenues. Periods of higher cost of borrowing coupled with higher growth rates of public debt in periods where growth of revenues was relatively stagnant have yielded an increase in the public debt burden.

A look at some of the main factors behind the surge in public debt over the last two decades reveals some important structural follies. The rise appears to be largely contributed by the high real cost of borrowing and stagnant government revenue. Total public debt consists of debt payable in rupees and debt payable in foreign exchange. The real cost of borrowing for these two components of public debt is measured differently. [as shown in Table-9.7], the real cost of Pakistan's domestic debt has varied substantially over time. The inflation is a crucial component in the determinant of real cost of borrowing while depreciation affects positively to real cost of borrowing on external debt. During the first five years of the decade (2000-05), the real cost of borrowing for domestic debt was 4. 2 percent owing to lower inflation but in the last four years (2005-09) the real cost of borrowing declined to negative 0.3 percent partly due to rising inflationary pressures in the economy as well as the declining nominal cost of borrowing.

Table 9.7: Real Cost of Borrowing

(Percent)

	External Debt	Domestic Debt	Public Debt
1980s	3.4	1.0	2.3
1990s	2.7	3.2	2.9
1990-I	-3.0	-1.9	-2.4
1990-II	-5.5	5.7	5.6
2000-05	0.2	4.2	2.9
2005-2009*	-2.7	-0.3	-0.9

Source: EA Wing calculations

*** Jul. 2005 - end Mar. 2009**

During the first five years of the current decade (2000-05), the real cost of borrowing for foreign exchange denominated loan increased to 0.2 percent mainly because of lower inflation and rupee appreciation. However, it turned to negative 2.7 percent in the last four years (2005-09). During 2004-09, the depreciation of rupee along-with higher inflation contributed to negative incidence of real cost of borrowing. The low implied cost of external borrowing has contributed to overall declining trend in real cost of borrowing during the last nine years.

As a result of the sharp fluctuation in the real cost of borrowing for both domestic and foreign debt, the dynamics of the growth in public debt also changed over the last two decades. The changing dynamics of public debt is well-documented in Table-9.8. The economy generated primary fiscal surplus in the first five years (2000-05) owing to lower interest payments in the period. However, it turned into deficit in the period (2005-09). The encouraging thing is that during 2008-09, the economy is going to generate modest primary surplus of 0.5 percent of GDP. The real growth of debt registered an increase of 0.3 percent in 2000-05 which accelerated to 1.4 percent in 2005-09. The revenues kept healthy average growth rate of 5.8 and 5.9 percent in these two time periods. The combined effect of healthy growth in revenues and modest growth in real debt growth resulted in a sharp decline in the country's debt burden during the last nine years. In order to assess the cost of borrowing, an implied interest rate is calculated as interest payments in 2007-08 divided by the stock at the end of previous financial year. In the 2007-08 the real revenue witnessed modest growth of 2.5 percent against 5.5 percent real growth in public debt. Both revenue and public debt grew fractionally by 0.4 and 0.7 percent in 2008-09. An analysis of the dynamics of the public debt burden provides useful lessons for policy-makers to manage the country's public debt. First, every effort should be made to maintain a primary surplus in the budget. Second, the interest rate and inflation environment should remain benign. Third, the pace of revenue growth must continue to rise to increase the debt carrying capacity of the country. Center to all these lessons is the pursuance of prudent monetary, fiscal and exchange rate policies which are complementary in nature for prudent debt management in any country.

Table-9.8: Dynamics of Public Debt Burden

	Primary Fiscal Balance	Real Cost of Borrowing	Real Growth of Debt	Real Growth of Revenues	Real Growth of Debt Burden
	(Percent of GDP)	(Percent per year)			
1980s	-3.7	2.3	10.6	7.6	3.0
1990s	-0.3	2.9	4.9	2.9	2.0
1990-I	-1.8	-2.4	3.6	3.2	0.4
1990-II	1.1	5.6	6.2	2.5	3.7
2000-05	1.0	2.9	0.3	5.8	-5.5
2005-09*	-1.1	-0.9	1.4	4.9	-4.5

Source: EA Wing calculations

*** Jul. 2005 - end Mar 2009.**

In order for the public debt to GDP ratio to increase, the growth in public debt needs to exceed the nominal growth of GDP. This implies that inflation is a key factor in determining the movements of this ratio. If the price level is high, nominal GDP is inflated, and the accumulation of debt is outpaced by the nominal growth rate of GDP. In inflationary times, real interest rates are also lower, leading to a further reduction in the debt burden. For 2008-09, the nominal growth rate of GDP has been 28 percent, whereas growth in the stock of public debt was 16.5 percent, leading to a reduction in the public debt-to-GDP ratio by 1.9 percentage points.

9.7 Domestic Debt

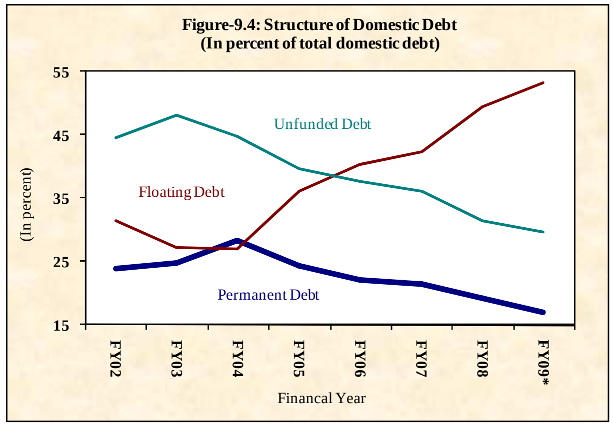
Domestic debt has always been fundamental part of a government's borrowing strategy. A government faces an inter-temporal trade-off between short-term and long-term costs that should be managed carefully. Excessive reliance on short-term paper may leave a government vulnerable to volatile debt service costs in the event of rising interest rates, and the risk of default in case a government cannot roll over its debts at any cost. It may also constrain the central bank from raising interest rates to address inflation or support the exchange rate because of concerns about the short-term impact on the government's financial position. As in the case of Pakistan the SBP exercises its independence and hiked the interest rates several times which proved too costly for servicing debt. On the other hand, over reliance on longer-term fixed rate financing also carries risks, because it tempts governments to deflate the value of such debt in real terms by initiating surprise inflation. The government in the current fiscal year benefited from enormous surge in inflation as debt-to-GDP ratio went down instead of absolute nominal borrowing of just below half a trillion.

Over the medium term, a strategy for developing the market for government securities can relieve constraints and permit the issuance of a less risky debt structure, and this should be reflected in the overall debt management strategy. In the 2007-08, the failure of the debt management compelled to borrow excessively from the SBP. The diversification of domestic debt may also lessen pressure on external borrowing as well. In this context, gradual increases in the maturity of new fixed rate domestic currency debt issues may raise cost in the short run, but they reduce rollover risk and often constitute important steps in developing domestic debt markets.

In Pakistan, borrowing from domestic and external sources account for almost same stake in overall debt. In fact, government has increasingly focused on the domestic part over the last few years. This tendency is portrayed by a growing contribution of domestic debt mainly because of non-availability of the external financing. The outstanding stock of domestic debt accounts for 51.6 percent of total public debt by end-March 2008-09.

9.7.1 Outstanding Domestic Debt

The total domestic debt is positioned at Rs 3758.6 billion at end-March 2009 which implies net addition of Rs.541.4 billion in the nine months of the current fiscal year. In relation to GDP the domestic debt stood at 28.7 percent of GDP which is lower than end-June 2008 level at 31.3 percent. The domestic debt grew by 16.8 percent which lower than last years' growth of 23.3 percent. The increase in domestic debt is lower than nominal GDP growth which helped reduction of 2.6 percentage points of GDP and augurs well in order to foster private investment, maintain fiscal sustainability and ultimately promote economic growth.



The composition of major components shaping the domestic debt portfolio has undergone a complete transformation from a high dominance of unfunded debt to an increasing dependence on floating component of domestic debt. Since 2004, the unfunded category comprising about 45 percent of the aggregate debt stock has declined to 31.2 percent of the total. The share of permanent debt has also decreased over the same period and it stood at 17.1 percent by end-March 2009 (See Fig -9.4). Contrary to this, the share of floating debt increased by a whopping 26.2 percentage points in the period 2004 to March 2009. A detailed explanation of each section follows:

9.7.1.i Permanent Debt

The stock of permanent debt consists of various medium to long term instruments at the government's disposal outside the National Savings Scheme. These include Pakistan Investment Bonds (PIBs), Prize Bonds, and *Ijara Sukuk* apart from such discontinued schemes as Federal Investment Bonds. At the end of March 2009, permanent debt stood at Rs 660.4 billion, exhibiting an increase of Rs. 43.7 billion or 7.1 percent up from the previous fiscal year [See Table-9.9].

A large volume of the government's permanent debt originates from PIBs. The outstanding stock of PIBs stood at Rs 411.6

billion at the end-June 2008 and increased slightly by Rs 9.7 billion or just above 2 percent to reach Rs 421.3 billion by end-March 2009. PIBs now represent 64 percent of the outstanding stock of permanent debt and 11 percent of total domestic debt. The stock of PIBs also witnessed the largest increase out of all the instruments classified under permanent debt (with the exception of the *Ijara Sukuk* which was introduced in 2009), followed by Prize Bonds which increased by Rs 6.9 billion to reach Rs 189.7 billion during the same period.

Table 9.9. Trends in Domestic Debt

	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09*
	(In billions of Rs.)							
Permanent Debt	424.8	468.8	570.0	526.2	514.9	562.5	616.7	660.4
Floating Debt	557.8	516.3	542.9	778.2	940.2	1107.7	1589.6	1923.5
Unfunded Debt	792.1	909.5	899.2	854.0	881.7	940.0	1010.9	1174.7
Total	**1774.7**	**1894.5**	**2012.2**	**2158.4**	**2336.8**	**2610.2**	**3217.2**	**3758.6**
	(In percent of GDP)							
Permanent Debt	9.7	9.7	10.1	8.1	6.8	6.5	6.0	5.0
Floating Debt	12.7	10.7	9.6	12.0	12.3	12.8	15.5	14.7
Unfunded Debt	18.0	18.9	15.9	13.1	11.6	10.8	9.8	9.0
Total	40.3	39.3	35.7	33.2	30.7	30.1	31.3	28.7
	(In percent of Total Debt)							
Permanent Debt	23.9	24.7	28.3	24.4	22.0	21.5	19.2	17.6
Floating Debt	31.4	27.3	27.0	36.1	40.2	42.4	49.4	51.2
Unfunded Debt	44.6	48.0	44.7	39.6	37.7	36.0	31.4	31.2
Memo:								
GDP (in billion of RS.)	**4401.7**	**4822.8**	**5641**	**6500**	**7623**	**8673**	**10284**	**13095**

*** Jul-March** *Source: Budget Wing, Ministry of Finance*

In 2009, the PIB market took off in the month of August 2008. Despite the addition of some new features including a newly-issued 7-years paper with coupon rates revisited, a dull market response prevailed in the first auction of the fiscal year, obvious by offers of as low as Rs 6 billion against the target of Rs 20 billion. The short term nature of the interest rate perceptions surrounding the market in addition to credit crunch confronting the banking sector did not let banks opt for long-term government securities. Nonetheless, the second auction held in February 2009 following the announcement of two percent discount rate hike in November 2008 revived the PIBs. As per expectation, overwhelming participation was witnessed in view of the likely cut in the interest rates. A somewhat equal amount of Rs 20.0 billion out of the total offers of Rs 56 billion was mopped up against the target of Rs 20 billion. The easing private sector demand pressures accompanied by the associated progress in macroeconomic variables also had implications for high-quality, risk-free sovereign credit. In contrast to these issuances, the government retired the scheduled maturity of Rs. 16.2 billion in October 2008.

The Government of Pakistan issued its first 3-Year *Ijara Sukuk* Bond in the month of September 2008 in order to diversify the investor base and tape enormous potential of Islamic finance. The purpose of issuance was to raise money from Islamic banking which has grown substantially in Pakistan in recent years. Moreover, issuance of *Sukuk* has emerged out as an acceptable addition to limited investment avenues for Islamic banks to meet their SLR eligibility. So far, three auctions, one in each quarter, have been conducted by the SBP. Collectively, Rs 27.8 billion was mopped up against the total target of Rs. 30 billion. On aggregate, Rs 38.3 billion was offered which is evident of profound interest exhibited by the market.

9.7.1.ii Floating Debt

Floating debt consists of short term domestic borrowing instruments such as Treasury Bills and central bank borrowing through the purchase of Market Related Treasury Bills (MRTBs). The high fiscal deficit incurred by the government in 2007-08 led to an unprecedented increase in the stock of floating debt, with borrowing from the SBP being the instrument of choice to finance the significant gap between government expenditure and revenues. The fiscal year 2007-08 saw floating debt to increase to Rs 1589 6 billion; more than double the amount outstanding five years ago. At the end of March 2009, floating debt increased to Rs 1923.5 billion, registering an enlargement of Rs 286 billion or 17.4 percent in nine months. The slowdown in the rate of increase of floating debt can be credited to the policy of zero quarterly borrowing from the SBP followed by the government on top of successful Treasury Bills auctions in the third quarter of 2008-09. The reduction in this type of borrowing is advantageous as it not only halts the massive increase in the stock of domestic debt, but also reduces inflationary pressures on the economy.

The outstanding stock of MRTBs grew from Rs 1052.6 billion at the end of 2007-08 to Rs 1227.3 billion by end-March 2009 — an increase of Rs 175 billion or 14 percent in nine months. By comparing this growth rate to an increase of 133 percent last year, the impact of the zero quarterly borrowing strategy is clearly visible. The T-bills increased by Rs 159.2 billion or 30 percent during the first nine months of the current fiscal year and the stock as of March 31, 2009 rested at Rs 695.6 billion as against Rs 536.4 billion at end-June 2008. This positive position is a complete reversal of the negative growth of 18 percent in the T-bills stock witnessed previous year.

Persistent monetary tightening to curtail skyrocketing inflation resulted in a shift to short-term views of the market, more so post-May 2008. Banks, in anticipation of further raise in interest rates, displayed complete concentration of bids in 3-months T-bills. Another factor supplementing subdued auction results was the liquidity constraints faced by banks due to foreign exchange outflows, increase in reserve requirements, and slower growth in their deposit base. Put it another way, it was the slump in external financing and inability of the government to mop up ample money from non-SBP sources, that explicate the higher dependence on borrowings from the central bank.

However in the second quarter of 2008-09, the policy discount rate was sharply moved up by 200 bps on November 12, 2008 as part of the prior action under IMF macroeconomic stabilization program. This measure boosted interest in government papers in the latter part of the year. Enhanced liquidity and declining credit demand are reasons for better input to these auctions. Banks' inclination to government papers over private sector lending truly echoes their shift towards quality, given the thorny problem of mounting non-performing loans. In order to lock-in higher rates on the back of expectations of a peak-out in the interest rate cycle, banks switched to a long view and offered huge bids in longer-tenor MTBs. This profound interest, consecutively, allowed the government to restrain its borrowings from the central bank through MRTBs.

9.7.1.iii Unfunded Debt

The wide array of instruments that fall under the National Savings Scheme is referred to as unfunded debt. The stock of unfunded debt stood at Rs 1174.7 billion on end-March 2009, having increased by Rs 163.8 billion or 16.2 percent in nine months. This huge magnitude of accrual depicted a rise in retail investors' interest in the non-marketable funding source to reap optimal return in uncertain environment. A quarterly review of the profit rates on various schemes augmented to this trend.

The largest investment was in Special Saving Certificates and Accounts which increased by Rs 82 billion or 36 percent to reach a total amount outstanding of Rs 310 billion by end-March 2009. Significant investments were made in *Bahbood* Savings Certificates as well, with the outstanding stock increasing by Rs 57.6 billion or 25 percent to reach a total of Rs 286.6 billion. Significant increases were also seen in Pensioners Benefit

Accounts and Regular Income Scheme whereas the stock of Defence Savings Certificates and Savings Accounts both witnessed reductions.

9.7.2 Domestic Debt Burden

During 1999-2000 to 2005-06, fiscal control and soaring growth rates surfaced out to be prime reasons behind shrinkage in interest payments as a percentage of major macro-economic indicators analogous to a cut in the external debt. Since 2006-07, domestic debt witnessed a sharp rise along with the related interest payments. Higher fiscal deficits and enormous slippages in the revenue and expenditure targets remained key problems. Supplementing to the intensity of the situation was a policy overhang and the monetization of the deficit through central bank borrowings.

Table-9.10: Domestic Debt & Domestic Interest Payments Burden

Year	Domestic Outstanding Debt	Interest Payments	Domestic Interest Payment (in percent of) Tax Revenue	Total Revenue	Total Expen-diture	Current Expenditure	GDP
	(In billions of Rs.)		(Percent)				
1990-91	448.2	35.7	27.5	20.8	13.7	18.2	3.5
1994-95	807.7	77.9	30.2	24.1	18.2	22.5	4.2
1999-2000	1642.4	210.2	51.8	41.0	29.6	33.5	5.5
2001-02	1774.7	189.5	39.6	30.4	22.9	27.1	4.3
2002-03	1894.5	166.9	30.0	23.2	18.6	21.1	3.4
2003-04	2012.2	161.5	26.4	20.3	16.9	20.8	2.9
2004-05	2158.4	176.3	26.7	19.6	15.8	20.4	2.7
2005-06	2336.8	191.4†	25.2	18.8	14.4	19.6	2.7
2006-07	2610.2	287.5	32.3	22.1	16.0	20.9	3.3
2007-08	3217.2	443.1	42.2	29.6	19.5	23.9	4.3
2008-09*	3758.6	551.0	41.8	30.5	23.0	29.4	4.2

*** End March** *Source: Budget Wing (MoF) and EA Wing*

Interest payments as a percentage of revenue (tax as well as total revenue) gauge the absorbing capacity of government revenues in terms of interest payments on domestic debt. The growth in revenues outperformed that of interest obligations, resulting in a diminution of interest payment as a percent of tax revenue from 51.8 percent in 1999-2000, to 25.2 percent in 2005-06. In the same spell, interest payments as a percentage of total revenues attenuated from 41 percent to 18.8 percent. As a percentage of total expenditure, interest payments decreased from 29.6 percent in 1999-2000, to 14.4 percent in 2005-06. However, interest payments have grown rapidly in the previous two fiscal years, amounting to 32.3 percent of tax revenue and 22.1 percent of total revenue in 2006-07. Interest payments grew by 19 percent in 2007-08, reaching Rs. 443.1 billion which was 42.6 percent of tax revenue and 29.6 percent of total revenues. Interest payments on domestic debt accounted for 16.0 percent of total expenditure in 2006-07, and 19.5 percent in 2007-08. Interest payments as a percentage of GDP observed a parallel turnaround of trends. The afore-mentioned ratio in percentage terms decreased from 5.5 percent in 1999-2000 to 2.7 percent in 2005-06, then increased in 2006-07 to 3.3 percent and increased to 4.3 percent in 2007-08 [See Table 9.10].

For the first nine months of the current fiscal year 2008-09, interest payments stood at Rs 551 billion which sums to 41.8 percent of tax revenues and 30.5 percent of total revenues estimated for 2008-09. As a percentage of total expenditure budgeted for 2008-09, interest payments are currently 23.0 percent. The interest payments on domestic debt stood at 4.2 percent of the projected GDP for 2008-09.

TABLE 9.1

PUBLIC AND PUBLICLY GUARANTEED MEDIUM AND LONG TERM EXTERNAL DEBT DISBURSED AND OUTSTANDING As on 31-03-2009

(US $ million)

S.No.	Country/Creditor	Debt Outstanding as on 31-03-2009
I.	Bilateral	
	a. Paris Club Countries	
1	Austria	70.620
2	Belgium	34.900
3	Canada	450.290
4	Finland	5.940
5	France	2,180.600
6	Germany	1,808.520
7	Italy	104.620
8	Japan	6,377.240
9	Korea	484.370
10	Netherlands	116.560
11	Norway	23.220
12	Russia	123.180
13	Spain	80.120
14	Sweden	155.450
15	Switzerland	100.030
16	United Kingdom	9.110
17	USA	1,530.370
	Sub-Total I.a. Paris Club Countries	13,655.140
	b. Non-Paris Club Countries	
19	China (including Defense)	1,456.500
20	Kuwait	97.500
21	Libya	5.000
22	Saudi Arabia	262.000
23	United Arab Emirates	121.000
	Sub-Total I.b. Non-Paris Club Countries	1,942.000
	Total I. (a+b)	15,597.140
II.	Multilateral & Others	
24	ADB	10,261.000
25	EIB	67.000
26	IBRD	1,888.000
27	IDA	9,244.000
28	IDB	160.000
29	IFAD	165.000
30	NORDIC Development Fund	16.000
31	NORDIC Investment Bank	9.200
32	OPEC Fund	25.100
	Total II: Multilateral & Others	21,835.300
III.	Bonds	
33	Eurobonds	2,150.000
	Total III: Bonds	2,150.000
IV.	Commercial Banks	166.500
	Grand Total (I+II+III+IV)	39,748.940

Source:Economic Affairs Division

TABLE 9.2

COMMITMENTS AND DISBURSEMENTS OF LOANS AND GRANTS (BY TYPE)

(US $ million)

	Project Aid		Non-Project Aid								Total	Total
			Non-Food		Food		BOP		Relief	Relief		
Plan/ Fiscal Year	Commit- ments	Disburse- ments	Commit- ments	Disburse- ments	Commit- ments	Disburse- ments	Commit- ments	Disburse- ments	Commit- ments	Disburse- ments	Commit- ments	Disburse- ments
VI. 5th Plan												
1978-79	1,064	599	190	213	55	50	86	86	-	-	1,395	948
1979-80	1,002	808	121	161	55	21	419	419	61	61	1,658	1,470
1980-81	591	676	182	103	73	66	16	16	111	111	973	972
1981-82	887	536	320	174	110	89	10	10	293	293	1,620	1,102
1982-83	1,115	744	174	299	120	80	-	-	178	178	1,587	1,301
Sub-Total	4,659	3,363	987	950	413	306	531	531	643	643	7,233	5,793
VII. 6th Plan												
1983-84	1,580	695	166	149	88	177	-	-	155	155	1,989	1,176
1984-85	1,804	903	161	125	196	79	-	-	150	150	2,311	1,257
1985-86	1,810	1,055	186	93	163	245	-	-	135	135	2,294	1,528
1986-87	2,035	1,006	331	205	130	57	-	-	130	130	2,626	1,398
1987-88	1,903	1,223	390	219	230	218	-	-	164	164	2,687	1,824
Sub-Total	9,132	4,882	1,234	791	807	776	-	-	734	734	11,907	7,183
VIII. 7th Plan												
1988-89	1,979	1,262	663	537	392	542	146 @	146 @	132	132	3,312	2,619
1989-90	2,623	1,312	201	386	258	287	217 @	217 @	140	140	3,439	2,342
1990-91	1,935	1,408	346	451	134	136	50	50	111	111	2,576	2,156
1991-92	2,219	1,766	43	316	322	284	-	-	105	105	2,689	2,471
1992-93	1,204	1,895	182	232	454	309	-	-	57	57	1,897	2,493
Sub-Total	9,960	7,643	1,435	1,922	1,560	1,558	413	413	545	545	13,913	12,081
IX. 8th Plan												
1993-94	1,822	1,961	-	15	329	251	411	303	19	19	2,581	2,549
1994-95	2,714	2,079	3	23	279	258	-	211	29	29	3,025	2,600
1995-96	2,219	2,151	57	21	395	383	-	-	10	10	2,681	2,565
1996-97	1,351	1,821	1	1	405	409	-	-	2	2	1,759	2,233
1997-98	776	1,552	1	1	578	622	750	625	1	1	2,106	2,801
Sub-Total	8,882	9,564	62	61	1,986	1,923	1,161	1,139	61	61	12,152	12,748
1998-99	1,382	1,620	-	-	185	270	650	550	2	2	2,219	2,442
1999-00	456	2,045	284	130	564	64	0	0	0.2	2	1,305	2,241
2000-01	433	1,042	469	340	0	13	658	687	2	3	1,562	2,083
2001-02	1,013	825	332	333	40	31	2,259	1,546	0	21	3,644	2,755
2002-03	811	845	47	192	22	9	1,085	867	8	8	1,973	1,921
2003-04	1,176	575	350	8	12	0	913	743	0	3	2,451	1,330
2004-05	2,379	880	115	296	0	0	1,087	1,531	0	2	3,581	2,709
2005-06	1,213	878	25	169	22	10	1,186	1,069	1,949	1,040	4,395	3,167
2006-07	923	865	225	25	0	12	2,152	2,007	550	388	3,850	3,297
2007-08	1,710	697	353	500	0	0	957	1,512	550	871	3,570	3,580
2008-09 July-Mar	1,770	623	100	308	18	0	1,913	2,306	95	59	3,896	3,297

Source: Economic Affairs Division

\- nil

@ IMF Loan.

TABLE 9.3

ANNUAL COMMITMENTS, DISBURSEMENTS, SERVICE PAYMENTS AND EXTERNAL DEBT OUTSTANDING (Medium and Long Term)

(US $ million)

Fiscal Year	Debt outstanding (end of period)		Transactions during period					Debt Servicing as % of		
	Dis-bursed	Undis-bursed*	Commit-ments	Disburse-ments**	Service Payments** Principal	Interest	Total	Export Receipts	Foreign Exchange Earnings	GDP
1960-61	171	..	479	342	11	6	17	15	..	0.4
1961-62	225	..	429	304	20	11	31	27	..	0.7
1962-63	408	..	645	501	34	13	47	22	..	1.0
1963-64	661	..	526	541	44	18	62	27	..	1.2
1964-65	1021	..	832	706	37	25	62	26	..	1.1
1965-66	1325	..	537	533	41	33	74	29	..	1.1
1966-67	1696	..	628	623	52	44	96	35	..	1.3
1967-68	2099	..	561	729	62	46	108	31	..	1.3
1968-69	2532	..	656	594	93	65	158	44	..	1.8
1969-70	2959	..	555	564	105	71	176	52	..	1.8
1970-71	3425	..	873	612	101	81	182	43	..	1.7
1971-72	3766	..	143	409	71	51	122	21	..	1.3
1972-73	4022	..	543	355	107	86	193	24	18	3.0
1973-74	4427	..	1268	498	118	79	197	19	14	2.2
1974-75	4796	1854	1115	976	144	104	248	24	16	2.2
1975-76	5755	1811	951	1051	141	108	249	22	14	1.9
1976-77	6341	1914	1111	960	175	136	311	27	15	2.1
1977-78	7189	2041	963	856	165	162	327	25	11	1.8
1978-79	7792	2514	1395	948	234	203	437	26	12	2.2
1979-80	8658	2586	1658	1470	350	234	584	25	12	2.5
1980-81	8765	2579	973	972	360	243	603	20	11	2.1
1981-82	8799	2921	1620	1102	288	203	491	20	9	1.6
1982-83	9312	3087	1587	1301	390	244	634	24	10	2.2
1983-84	9469	3436	1989	1176	453	274	727	26	11	2.3
1984-85	9732	4321	2311	1257	513	275	788	32	13	2.5
1985-86	11108	5242	2294	1528	603	303	906	30	14	2.8
1986-87	12023	6113	2626	1399	723	378	1101	30	16	3.3
1987-88	12913	7070	2687	1824	691	426	1117	25	15	2.9
1988-89	14190	7372	3312 @	2619 @	685	440	1125	24	14	2.8
1989-90	14730	8279	3439 @	2342 @	741	491	1232	25	14	3.1
1990-91	15471	9232	2576	2156	782	534	1316	22	14	2.9
1991-92	17361	9461	2689	2471	921	592	1513	22	13	3.1
1992-93	19044	9178	1897	2493	999	649	1648	24	15	3.2
1993-94	20322	9014	2581	2549	1105	673	1778	26	16	3.4
1994-95	22117	9806	3025	2600	1323	752	2075	25	17	3.4
1995-96	22292	7761	2681	2565	1346	791	2137	25	17	3.4
1996-97	22509	8583	1759	2233	1510	741	2251	27	18	3.6
1997-98	22844	6164	2106	2801	1600	723	2323	27	18	3.8
1998-99	25423	5076	2219	2442	955	399	1354	20	14	2.6
1999-00	25359	3421	724	1189	893	508	1401	18	12	2.1
2000-01	25608	2860	903	1538	974	583	1557	21	14	2.8
2001-02	27215	3504	2372	1420	745	462	1207	13	8	1.7
2002-03	28301	3811	1469	1328	793	546	1339	12	7	1.6
2003-04	28900	5392	1726	1035	2336	659	2995	24	14	3.1
2004-05	30813	4975	2545	1946	871	600	1471	10	6	1.3
2005-06	32407	5838	3077	2080	982	599	1581	10	5	1.2
2006-07	35182	6277	3034	2644	968	644	1612	9	5	1.1
2007-08	39530	6540	2725	3080	1062	704	1766	9	5	1.1
2008-09 P	39749	7451	3385	2926	815	505	1320	7	4	0.8

.. Not available, * Excluding grants, @ Inclusive of IMF(SAF) Loan

Source: Economic Affairs Division

** Excluding short term credits, commercial credits, bonds and the IMF.

TABLE 9.4

DEBT SERVICE PAYMENTS OF FOREIGN MEDIUM AND LONG TERM LOANS (Paid in foreign exchange)

(US $ million)

Fiscal Year	Kind	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
I. PARIS CLUB COUNTRIES												
1 Australia	Principal	147.880	147.891	105.534	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-
	Interest	5.431	6.692	4.680	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-
2 Austria	Principal	0.000	0.000	0.030	0.000	0.000	0.695	0.376	1.223	1.145	2.680	1.698
	Interest	0.000	0.656	0.703	0.353	2.072	3.207	4.212	3.637	3.634	4.483	2.153
3 Belgium	Principal	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	4.623	10.326	0.281
	Interest	0.000	1.267	1.654	0.864	3.102	1.413	1.767	1.859	2.003	2.266	0.952
4 Canada	Principal	15.947	15.318	8.097	0.000	0.000	0.000	0.302	0.841	1.289	1.662	0.833
	Interest	2.360	1.302	1.073	0.740	1.317	1.438	2.766	4.436	5.584	5.359	4.257
5 Denmark	Principal	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
	Interest	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
6 France	Principal	7.018	0.000	0.203	0.034	0.000	28.766	10.636	24.921	31.366	35.983	14.355
	Interest	4.477	8.767	15.315	16.508	47.516	61.557	82.615	81.489	87.430	99.483	42.720
7 Finland	Principal	0.000	0.000	0.000	0.000	0.000	0.000	0.024	0.055	0.084	0.108	0.041
	Interest	0.000	0.131	0.307	0.157	0.111	0.088	0.164	0.286	0.364	0.360	0.104
8 Germany	Principal	38.726	9.551	5.741	0.854	3.834	7.925	2.64	12.749	15.294	16.202	6.846
	Interest	11.406	6.532	7.493	7.403	18.903	17.575	20.981	29.826	32.225	36.354	15.070
9 Italy	Principal	0.512	3.121	2.262	1.115	2.136	0.316	0.541	0.642	21.415	24.039	0.205
	Interest	0.270	0.620	1.778	0.982	2.718	2.753	3.605	2.331	1.168	1.294	0.465
10 Japan	Principal	14.796	0.538	38.689	46.279	70.319	396.646	48.114	65.577	49.280	46.528	42.547
	Interest	11.725	59.970	73.006	28.445	36.224	129.721	149.982	86.805	91.573	103.564	137.479
11 Korea	Principal	0.000	0.000	0.123	0.000	0.000	44.834	45.272	96.485	55.725	56.254	29.886
	Interest	0.000	5.063	13.040	5.232	0.000	24.884	23.787	38.168	40.759	22.623	9.770
12 Norway	Principal	0.401	1.874	2.938	0.000	2.125	2.124	3.877	4.064	12.124	12.124	1.251
	Interest	0.287	1.314	2.577	0.543	1.797	1.537	1.321	2.196	0.598	0.460	0.580
13 Netherlands	Principal	0.000	0.936	1.016	0.710	1.102	0.000	0.221	0.528	0.679	0.654	0.275
	Interest	0.043	0.630	0.952	0.637	1.337	2.419	1.894	3.050	3.223	3.656	3.130
14 Russia	Principal	0.000	0.000	0.000	0.000	0.000	0.000	0.937	18.958	2.751	2.859	1.364
	Interest	0.000	0.000	3.098	3.457	0.000	0.000	3.367	23.375	6.566	6.436	3.165
15 Sweden	Principal	0.591	0.000	1.737	0.000	0.000	0.000	0.412	0.957	1.862	2.768	1.434
	Interest	1.689	2.207	3.407	4.693	1.987	1.962	3.553	7.063	9.262	9.042	2.711
16 Spain	Principal	0.000	0.000	0.000	0.000	0.000	0.098	0.580	1.369	1.051	0.857	0.392
	Interest	0.041	0.659	1.185	0.860	1.681	1.753	2.372	2.911	3.222	3.149	1.249
17 Switzerland	Principal	4.790	0.000	0.000	0.000	0.000	0.000	0.253	0.555	0.943	1.467	0.725
	Interest	1.081	0.000	1.541	0.867	0.941	0.803	1.319	1.530	2.244	3.363	1.631
18 USA	Principal	275.138	125.515	43.244	7.839	11.402	1.721	10.492	19.645	28.396	20.261	9.500
	Interest	24.907	17.825	59.906	33.115	61.619	56.098	64.334	61.191	63.618	62.136	27.542
19 UK	Principal	0.000	2.644	6.470	3.845	5.643	36.203	0.959	1.916	1.076	0.110	0.072
	Interest	0.000	1.129	8.954	2.153	2.552	6.537	0.545	0.598	0.655	0.382	0.256
TOTAL (I)	Principal	505.799	307.388	216.084	60.676	96.561	519.328	125.636	250.485	229.103	234.882	111.705
	Interest	63.717	114.764	200.669	107.009	183.877	313.745	368.584	350.751	354.128	364.410	253.234

Contd..

TABLE 9.4

DEBT SERVICE PAYMENTS OF FOREIGN MEDIUM AND LONG TERM LOANS (Paid in foreign exchange)

(US $ million)

Fiscal Year	Kind	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
II. NON-PARIS CLUB COUNTRIES												
1 China	Principal	0.958	11.932	163.019	90.810	35.228	14.798	13.868	18.967	14.148	14.148	13.074
	Interest	0.000	8.136	29.702	20.699	25.661	13.980	13.310	7.377	11.623	10.060	8.473
2 Czecho - slovakia	Principal	0.000	0.000	3.767	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
	Interest	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
3 Kuwait	Principal	0.262	0.000	1.478	1.226	3.030	5.395	5.733	7.054	7.079	7.408	5.355
	Interest	0.058	0.000	0.000	0.000	0.900	2.195	2.032	2.203	2.369	2.438	1.800
4 Libya	Principal	1.156	0.000	0.000	0.000	0.000	0.000	0.000	0.000	14.229	1.823	0.100
	Interest	0.185	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.789	0.060	0.029
5 Saudi Arabia	Principal	1.230	0.000	0.000	0.000	13.079	5.424	5.373	3.383	0.000	0.000	0.833
	Interest	0.037	0.000	0.466	0.057	2.900	1.285	1.122	1.162	1.168	1.171	0.584
6 UAE	Principal	3.606	0.000	0.000	0.000	1.000	1.000	0.000	0.000	0.000	0.000	0.000
	Interest	2.297	0.000	0.000	0.336	0.824	0.824	0.678	1.015	1.784	2.122	2.123
TOTAL (II)	Principal	7.212	11.932	168.264	92.036	52.337	26.617	24.974	29.404	35.456	23.379	19.362
	Interest	2.577	8.136	30.168	21.092	30.285	18.284	17.142	11.757	18.733	15.851	13.009
III. MULTILATERAL												
1 ADB	Principal	198.963	237.655	247.044	241.442	265.981	1370.429	245.272	236.757	261.303	330.746	290.259
	Interest	142.195	156.565	151.188	151.668	172.738	179.919	75.061	74.020	89.089	119.058	97.158
2 IBRD	Principal	169.766	222.773	227.914	233.789	249.499	287.173	322.704	294.377	273.293	296.781	243.627
	Interest	156.640	182.812	153.780	132.161	110.541	94.797	77.419	99.280	110.839	111.589	64.652
3 IDA	Principal	53.737	62.631	66.534	72.592	83.452	97.926	112.724	118.566	127.293	143.618	126.149
	Interest	28.138	28.850	27.935	30.054	39.885	45.063	51.049	50.918	59.761	73.878	64.170
4 IFAD	Principal	6.300	8.245	7.685	7.354	7.504	7.712	7.962	7.468	8.362	8.413	7.188
	Interest	2.457	2.376	2.206	1.996	1.751	2.106	2.043	1.802	1.827	1.951	1.433
5 IDB	Principal	4.090	23.213	23.246	23.083	9.679	3.208	2.956	3.504	4.066	6.942	4.544
	Interest	0.363	5.040	3.955	2.061	1.046	0.731	0.612	0.795	1.690	3.726	4.126
7 IDB (ST)	Principal	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	25.000	791.501
	Interest	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	22.866	28.026
TOTAL (III)	Principal	432.856	554.517	572.423	578.260	616.115	1766.448	691.618	660.672	674.317	811.500	1463.268
	Interest	329.793	375.643	339.064	317.940	325.961	322.616	206.184	226.815	263.206	333.068	259.565
IV. DEVELOPMENT FUNDS												
1 NORDIC	Principal	0.914	1.755	1.918	2.023	2.232	2.375	2.519	2.442	2.482	2.562	1.281
	Interest	1.594	1.806	2.087	1.065	0.723	0.565	0.685	0.917	1.007	0.875	0.281
2 OPEC Fund	Principal	8.417	8.098	8.003	6.597	6.504	5.178	4.800	4.561	4.204	4.935	2.849
	Interest	0.919	0.804	0.749	0.754	0.707	0.595	0.546	0.591	0.571	0.495	0.387
3 Turkey (EXIM Bank)	Principal	0.000	0.000	0.000	0.000	9.959	0.000	12.900	25.800	12.900	0.000	0.000
	Interest	0.000	4.797	5.981	2.514	0.388	0.000	1.875	2.776	0.648	0.000	0.000
4 E.I. Bank	Principal	0.000	0.000	0.000	0.000	0.000	0.637	0.679	1.345	2.094	2.600	1.583
	Interest	0.000	0.118	0.254	0.234	0.939	1.722	2.592	3.324	4.262	3.847	1.626
TOTAL (IV)	Principal	9.331	9.853	9.921	8.620	18.695	8.190	20.898	34.148	21.680	10.097	5.713
	Interest	2.513	7.525	9.071	4.567	2.757	2.882	5.698	7.608	6.488	5.217	2.294
V. GLOBAL BONDS												
1 Euro Bonds	Principal	17.650	0.000	0.200	0.000	155.458	155.459	155.458	155.459	0.000	0.000	500.000
	Interest	56.619	62.237	62.685	62.340	62.023	39.181	57.644	91.561	145.000	207.667	151.439
2 Saindak Bonds	Principal	0.000	0.000	0.000	7.716	4.526	0.000	0.000	0.000	0.000	4.527	0.000
	Interest	0.000	0.000	0.000	1.533	6.544	0.000	0.000	0.000	0.000	0.282	0.000
3 US Dollar Bonds	Principal	0.000	0.000	0.000	21.903	21.903	21.903	21.903	21.903	0.000	21.903	21.963
	Interest	0.000	0.000	0.000	16.573	7.118	4.594	3.326	4.414	0.000	5.684	3.680
TOTAL (I+II+III+IV+V)	Principal	17.650	0.000	0.200	29.619	181.887	177.362	177.361	177.362	0.000	26.430	521.963
	Interest	56.619	62.237	62.685	80.446	75.685	43.775	60.970	95.975	145.000	213.633	155.119
	Total	74.269	62.237	62.885	110.065	257.572	221.137	238.331	273.337	145.000	240.063	677.082

Contd..

TABLE 9.4

DEBT SERVICE PAYMENTS OF FOREIGN MEDIUM AND LONG TERM LOANS (Paid in foreign exchange)

(US $ million)

Fiscal Year		Kind	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
V.	OTHERS												
1	NBP's	Principal	0.000	0.000	0.000	0.000	0.000	0.000	3.111	2.945	2.979	3.016	2.988
		Interest	0.000	0.000	0.000	0.000	0.870	0.866	0.981	1.118	1.077	0.804	0.335
2	Bank of Indosuez	Principal	0.000	3.810	5.130	3.195	9.585	6.245	0.000	0.000	0.000	0.000	0.000
		Interest	0.000	0.473	2.262	0.975	1.012	0.213	0.000	0.000	0.000	0.000	0.000
3	NBP Bahrain	Principal	0.000	5.000	0.000	0.000	0.000	9.286	4.286	0.000	0.000	4.286	3.571
		Interest	0.000	1.240	0.000	8.500	1.410	0.621	0.983	0.469	0.000	0.474	0.111
4	ANZ Bank	Principal	0.000	0.000	2.500	2.500	0.000	0.000	0.000	4.286	4.286	0.000	0.021
		Interest	0.000	0.000	1.392	1.535	0.000	0.000	0.000	0.552	0.856	6.657	4.048
5	Cash (ST)	Principal							16.280	16.280	17.280	16.280	66.280
		Interest							7.416	10.370	11.370	9.105	5.766
TOTAL (V)		Principal	0.000	8.810	7.630	5.695	9.585	15.531	23.677	23.511	24.545	23.582	72.860
		Interest	0.000	1.713	3.654	11.010	3.292	1.700	9.380	12.509	13.303	17.040	10.260
TOTAL (I+II+III+IV+V)		Principal	955.198	892.500	974.322	745.287	793.293	2336.114	886.803	998.220	985.101	1103.440	2194.871
		Interest	398.600	507.781	582.626	461.618	546.172	659.227	606.988	609.440	655.858	735.586	693.481
Grand Total (P+I)			1353.798	1400.281	1556.948	1206.905	1339.465	2995.341	1493.791	1607.660	1640.959	1839.026	2888.352

Source: Economic Affairs Division

TABLE 9.5

TERMS OF FOREIGN LOANS/CREDITS CONTRACTED BY PAKISTAN

Lending Country/Agency	2005-06 Amount (US $ Million)	2005-06 Interest Rate/ Commission(%)	2005-06 Amortization (years)	2006-07 Amount (US $ Million)	2006-07 Interest Rate/ Commission(%)	2006-07 Amortization (years)
A. Paris Club Countries						
1. Germany				5.8	0.75	40
2. Korea	17.3	2	30	-	-	30
3. Japan	244.7	1.3	30	198.2	1.3	30
4.France				50.2	LiborEuro months-200bps	20
Sub-Total (A):	262.0			254.2		
B. Non-Paris Club						
1. China	322.3	1.5	5_20			
2. Kuwait				38.1	2.5	24
3.Saudi Arabia				133.1	Libor6month+60bps	2
4.U.A.E						
Sub-Total (B):	322.3			171.2		
C Multilateral						
1. Islamic Development Bank	146.0	1.25 & 5.1	15-25	425.0	LIBOR 6 months '+ 60 bps	2
2. IDA	1165.8	0.75	35	912.1	0.75	35
3. ADB	832.8	1 & 1.5	15-40	1386.1	1 & 1.5	15-32
4.OPEC	-	-	-	10	1.25	20
5. IBRD	319.2	LIBOR+50bps	15-20	100.0	LIBOR6months+60bps	20
6. IFAD	53.6	0.8	35.0	-	0.75	35
Sub-Total (C):	2517.4			2833.2		
Total (A+B+C)	3101.7			3258.6		

Lending Country/Agency	2007-08 Amount (US $ Million)	2007-08 Interest Rate/ Commission(%)	2007-08 Amortization (years)	2008-09 Amount (US $ Million)	2008-09 Interest Rate/ Commission(%)	2008-09 Amortization (years)
A. Paris Club Countries						
1. Germany	460.4	0.2-1.3	30-40	262.1	0.75	40
2.Japan	12.1	0	39			
Sub-Total (A)	472.5			262.1		
B. Non-Paris Club						
1. Saudi Arabia	40.0	2	26	125.0	3.25	3
2. China	327.7	3	15	-	-	-
3. Korea	20.0	1	30	205.0	0.1	30-40
Sub-Total (B)	387.7			330.0		
C Multilateral						
1. IDA	259.3	0.75+4.9	35	605.7	0.75	35
2. ADB	1436.0	1-1.5&Libor+60bps	15-24	1259.1	Libor+0.6	24
3. OPEC	5.3	2.5	20	15.0	Libor+1.85	20
4. Islamic Development Bank	127.1	3.8	15	243.2	Libor+0.55&3.825	
5. IDB Stort-term	352.8	5.8	1	596.5	LIBOR+2.5&1	1
6. IBRD				173.6	0.75	30
7.IFAD	36.3	0.75	40			
Sub-Total (C)	2,216.8			2,893.1		
Total (A+B+C)	3077.0			3485.2		

Source: Economic Affairs Division

TABLE 9.6

GRANT ASSISTANCE AGREEMENTS SIGNED

(US $ million)

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09 Jul-Mar
I. Paris Club Countries										
1. Australia							0.1			
2. Austria							0.7			
3. Canada	4.7	5.7			13.8	4.5				5.5
4. Germany		3.5	3.7			21.0	13.5	37.3		
5. Japan	1.9		65.1	50.7	46.0	113.5	67.8		6.72	41.6
6. Netherlands			15.7			0.7				
7. Norway				6.1	10.4	2.4				
8. Korea	0.2									
9. Switzerland				8.5			1.5			
10. UK	90.5	16.5	45.7	145.7	67.1	45.3	189.1		136.87	142.5
11. USA	147.0	80.8	630.6	87.1	141.8	647.5	514.3	269.4	45.93	194.6
12. Italy	2.6	-	-	-	-	-	-	-		
Sub-Total (I)	246.8	106.6	760.7	298.2	279.1	834.9	786.9	306.7	189.5	384.2
II Non Paris Club Countries										
1. China	7.7	6.6	43.1		0.2	12.1	-			
2. Iran	-	-	-	-	-	-	-	-		
3. UAE	-	-	-	-	-	-	-	-		
4. Oman		50.0								
5. Saudi Arabia				100.0	50.0		200.0		300.0	
Sub-Total (II)	7.7	56.6	43.1	100.0	50.2	12.1	200.0	-	300.0	-
III Multilateral										
1. ADB	2.8	1.5								
2. EEC / EU		9.0	70.4	22.1	1.2			58.1		25.2
3. Islamic Development Bank	0.4	0.3		0.3						
4. IDA	75.2		1.1	0.5	12.4	1.5		1.7		
5. IBRD	0.5	1.0	1.0	10.1			0.5			
6. UN and Specialised Agencies	-			-	-	-	-	-		
7. UNDP Special Grant	38.1	11.8	27.4	11.5	31.7	4.2	1.9			
8. World Food Programme			26.6			68.7	11.4			
9. UNFPA		3.2	5.9							
Sub-Total (III)	117.0	26.8	132.3	44.4	45.3	74.4	13.8	59.8	-	25.2
IV Relief Assistance for										
A. Afghan Refugees			-	7.8			1.5	3.4	1.98	1.8
B. Earthquake										
1. AFGHANISTAN	-	-	-	-	-	-	0.5	-		
2. ALGERIA	-	-	-	-	-	-	1.0	-		
3. AUSTRIA	-	-	-	-	-	-	0.7	-		
4. AZERBAIJAN	-	-	-	-	-	-	1.5	-		
5. BHUTAN	-	-	-	-	-	-	0.1	-		
6. BRUNEI	-	-	-	-	-	-	0.6	-		
7. CHINA	-	-	3.6	6.0		-	24.3	10.2		
8 .CYPRUS	-	-	-	-	-	-	0.1	-		
9. INDONESIA	-	-	-	-	-	-	1.0	-		
10. JORDAN	-	-	-	-	-	-	1.0	-		
11. MALAYSIA	-	-	-	-	-	-	1.0	-		
12. MOROCCO	-	-	-	-	-	-	1.5	-		
13. OMAN	-	-	-	-	-	-	5.0	-		
14. PAK-TURK FOUNDATION	-	-	-	-	-	-	4.0	-		
15. SAUDI ARABIA	-	-	-	-	-	-	-	133.3		
16. SOUTH KOREA	-	-	-	-	-	-	0.5	-		
17. THAILAND	-	-	-	-	-	-	0.5	-		
18. TURKEY	-	-	-	-	-	-	150.0	-		
19. UK	-	-	-	-	-	-	-	67.7		
20. ADB	-	-	-	-	-	-	80.0	-	0.22	
21. WB (IDA)										
22. Germany							18.0			
23. IDB	-	-	-	-	-	-	0.3	-		
24. MAURITIUS							0.0			
Sub-Total (IV)	-	-	3.6	13.8	-	-	291.6	211.2	0.22	-
Grand Total (I+II+III+IV)	371.5	190.0	939.7	456.4	374.6	921.4	1,292.3	581.1	491.7	411.2

Source: Economic Affairs Division

TABLE 9.7

TOTAL LOANS AND CREDITS CONTRACTED

(US $ million)

Lending Country/Agency	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09 (Jul-Mar)
A. Paris Club Countries										
1. Austria		-	16.0	-	-	-		-		
2. Australia	63.7	-	-	-	-	-		-		
3. Belgium	-	-	-	-	-	-		-		
4. Canada	-	-	-	-	-	-		-		
5. France (Regular))										
(Earthquake)	-	-	-	-	-	-		50.2		
6. Germany			4.4			102.6		6.0		262.1
7. Japan (Regular)			32.6	26.0			245.0	198.0	460.4	596.5
	-	-	-	-	-	-		-		
8. Netherlands	-	-	-	-	-	-		-		
9. Norway	-	-	-	-	-	-		-		
10. Spain			1.9							
11. Sweden	2.0	-	-	-	-	-		-		
12. UK	-	-	-	-	-	-		-		
13. USA	500.0	-	9.0	-	-	-		-		
14. Italy									12.1	
Sub-Total (A)	565.7	0.0	63.8	26.0	0.0	102.6	245.0	254.2	472.5	858.6
B. Non-Paris Club Countries:										
1. China (Regular)	18.1	44.4	280.0	118.2		683.1	322.0		328.0	
(Earthquake)	-	-	-	-	-	-		-		
2. Korea (Earthquake)							17.0		20.0	205.0
3. Kuwait	-	-	-	-	-	34.0		38.1		
4. Saudi Arabia	-	-	-	-	25.0	-		133.1	40.0	125.0
5. Turkey (EXIM Bank)	-	-	-	-	-	-		-		
6. Abu Dhabi Fund	-	-	265.0	-	-	-				
Sub-Total (B)	18.1	44.4	545.0	118.2	25.0	717.1	339.0	171.2	388.0	330.0
C. Multilateral:										
1. IBRD (Regular)	-	-	-	-	53.0	349.3	319.0	100.0		173.6
(Earthquake)	-	-	-	-		-		-		
2. IDA (Regular)	88.5	347.6	833.5	269.4	690.7	601.8	1166.0	772.1	259.1	605.7
(Earthquake)								139.9		
3. ADB (Regular)	51.8	411.9	876.1	1040.9	885.3	765.4	832.9	1386.0	1436.4	1259.1
(Earthquake)	-	-	-	-	-	-		-		
4. IFAD (Regular)		17.4	14.2		22.3		54.0		36.3	
(Earthquake)	-	-	-	-	-	-		-		
5. European Investment Bank					50.0					
6. OPEC Fund		10.0	15.0	15.0				10.0	5.1	15.0
7. IDB (Regular)	284.3	502.6	356.3	47.3	350.0	123.4	146.0	200.0	127.1	243.2
(Earthquake)								225.1		
8. KPC		38.0								
9. IDB (ST)									352.5	
Sub-Total (C)	424.6	1917.8	3185.9	1372.6	2051.3	1839.8	2517.9	2833.1	2216.5	2296.6
Grand-Total (A+B+C)	1008	1962	3795	1517	2076	2660	3102	3259	3077.0	3485.2

Source: Economic Affairs Division