Public Debt

9.1 Introduction

Public debt management is the process of establishing and executing an effective policy for managing public debt portfolio in order to raise required amount of funding, achieve cost and risk objectives and to meet other goals such as developing and maintaining an efficient debt market. Prudent management of public debt can help countries reduce their borrowing cost, mitigate the risks of refinancing, exchange rate fluctuations and debt accumulation. The absence of such prudence has forced myriad countries to give priority to debt servicing instead of pursuing their social and development goals. Given Pakistan's developing status, the need for comprehensive, dynamic and rule based debt policy is of utmost importance which ensures the right choices among several options, addresses financial constraints and ensures intergenerational welfare impact.

Similar to the last year's trend, Pakistan's public debt dynamics continued to witness positive developments during first nine months of current fiscal year. An improvement was observed in most of the public debt sustainability indicators. In addition, composition of public debt further improved due to increased mobilization through medium to long term domestic debt instruments and higher disbursements from external sources. Some of the positive developments are as follow:

- Pakistan successfully returned to the International Islamic Bond market in November 2014 with the issuance of US$ 1 billion Pakistan International Sukuk. The success of this transaction highlights the growing confidence of the international investors towards the economic policies of the government being implemented to enhance the economic performance of the country.
- The health of economy could be gauged from the fact that Pakistan has crossed US$ 17 billion foreign exchange reserves mark and qualified for concessional IBRD funding which will be used to fund priority infrastructure / development projects.
- Government made progress in achieving the targets set under Pakistan's first Medium Term Debt Management Strategy (2013/14 - 2017/18) as the government was able to reduce its refinancing risk by re-profiling its domestic debt and increasing the external inflows.
- Government was able to rationalize the cost of domestic debt by aligning the rates on domestic debt instruments with the market yields.
- The government has started revamping its debt management function and taking advantage of numerous opportunities to diversify its public debt portfolio. It should lead to savings in, and more effective decision-making for government borrowing.

9.2 Public Debt

The portion of total debt which has a direct charge on government revenues as well as the debt obtained from the IMF is defined as public debt. Pakistan's public debt has two main components, namely domestic debt (which is incurred principally to finance fiscal deficit) and external debt (which is raised primarily to finance development expenditure). Each of these types of debt has its own benefits and drawbacks, with a trade-off between costs of borrowing and exposure to various types of risks that needs to be balanced in order to ensure

ample and timely access to cost efficient funding.

Public debt was recorded at Rs. 16,936 billion or 61.8 percent of GDP as at end-March 2015 compared with 62 percent during the same period last year. Public debt recorded an increase of Rs. 940 billion during first nine months of current fiscal year as compared with Rs. 1,272 billion during the same period last year. The primary source of increase in public debt was in domestic debt that positioned at Rs. 11,932 billion representing an increase of Rs. 1,012 billion, whereas, external debt posed at Rs. 5,004 billion representing a decrease of Rs. 72 billion as compared to end June 2014. The external debt declined despite net external inflows which is mainly attributed to huge translational gain of around US$ 4.3 billion on account of appreciation of US Dollar against other major currencies. The trend in public debt since 1971 is depicted in Box-1.

Box-1 - Trend in Public Debt

Table-9.1: Year Wise Public Debt Position

Year	Public Debt	Domestic Debt	External Debt	Year	Public Debt	Domestic Debt	External Debt	Year	Public Debt	Domestic Debt	External Debt
(Rs. in billion)											
1971	30	14	16	1986	390	203	187	2001	3,684	1,799	1,885
1972	55	17	38	1987	458	248	209	2002	3,636	1,775	1,862
1973	60	20	40	1988	523	290	233	2003	3,694	1,895	1,800
1974	62	19	44	1989	634	333	300	2004	3,866	2,028	1,839
1975	70	23	48	1990	711	381	330	2005	4,211	2,178	2,034
1976	85	28	57	1991	825	448	377	2006	4,359	2,322	2,038
1977	97	34	63	1992	969	532	437	2007	4,802	2,601	2,201
1978	112	41	71	1993	1,135	617	519	2008	6,126	3,275	2,852
1979	130	52	77	1994	1,340	716	624	2009	7,731	3,860	3,871
1980	146	60	86	1995	1,497	809	688	2010	9,006	4,654	4,352
1981	145	58	87	1996	1,704	920	784	2011	10,767	6,017	4,750
1982	189	81	107	1997	1,995	1,056	939	2012	12,695	7,638	5,057
1983	227	104	123	1998	2,392	1,199	1,193	2013	14,293	9,522	4,771
1984	257	125	132	1999	2,946	1,389	1,557	2014	15,996	10,920	5,076
1985	309	153	156	2000	3,172	1,645	1,527	2015 (Mar)	16,936	11,932	5,004

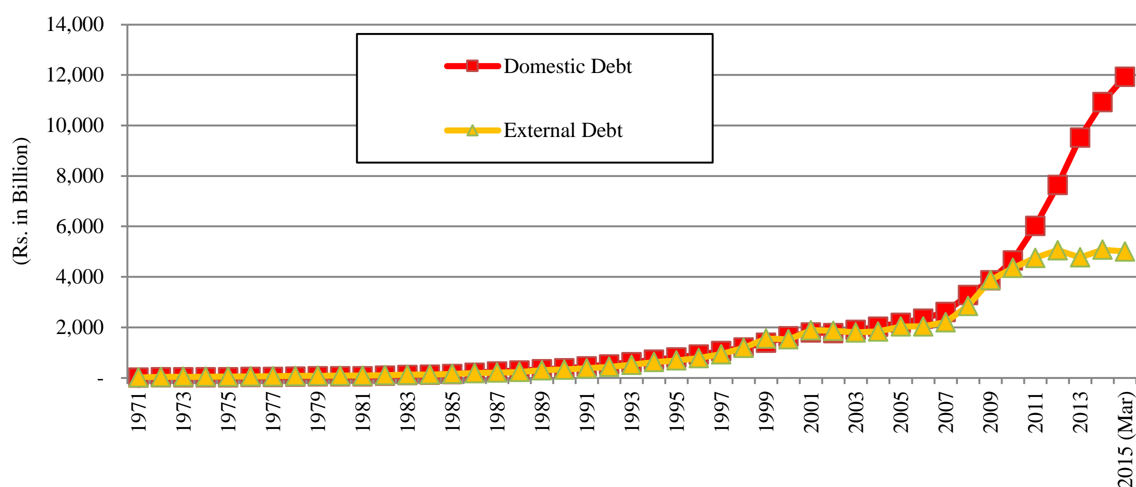


Fig-9.1: Trends in Domestic and External Debt

Table-9.2: Public Debt

	2010	2011	2012	2013(P)	2014(P)	2015(P)*
(Rs. in billion)						
Domestic Debt	4,654.3	6,016.5	7,638.1	9,521.9	10,920.0	11,932.2
External Debt	4,351.9	4,750.2	5,057.2	4,771.0	5,076.5	5,004.3
Total Public Debt	**9,006.2**	**10,766.9**	**12,695.3**	**14,292.9**	**15,996.5**	**16,936.5**

Table-9.2: Public Debt

	2010	2011	2012	2013(P)	2014(P)	2015(P)*
			(In percent of GDP)			
Domestic Debt	31.3	32.9	38.1	42.5	43.6	43.6
External Debt	29.3	26.0	25.2	21.3	20.3	18.3
Total Public Debt	**60.6**	**58.9**	**63.3**	**63.9**	**63.8**	**61.8**
			(In percent of revenues)			
Domestic Debt	224.0	267.1	297.6	319.3	300.2	---
External Debt	209.4	210.9	197.0	160.0	139.6	---
Total Public Debt	**433.4**	**477.9**	**494.7**	**479.2**	**439.8**	**---**
			(In percent of total debt)			
Domestic Debt	51.7	55.9	60.2	66.6	68.3	70.5
External Debt	48.3	44.1	39.8	33.4	31.7	29.5
Memo:						
Foreign Currency Debt (US$ in billion)	50.9	55.3	53.5	47.9	51.4	49.1
Exchange Rate (Rs./US$, End of Period)	85.5	86.0	94.5	99.7	98.8	101.9
GDP (Rs. in billion)	14,867	18,276	20,047	22,379	25,068	27,384
Total Revenue (Rs. in billion)	2,078	2,253	2,567	2,982	3,637	---

P:Provisional
*end-March, 2015
Source: State Bank of Pakistan, Economic Affairs Division, Budget Wing and Debt Policy Coordination Office Staff Calculations

As envisioned in Medium Term Debt Management Strategy (MTDS), the government was able to substantially improve the composition of public debt due to substitution of short term Treasury Bills (T-bills) with medium to long term Pakistan Investment Bonds (PIBs) and increase in external inflows during 2013-14 (Box-2). The composition of public debt further improved during first nine months of current fiscal year mainly due to increased mobilization through PIBs as share of permanent debt increased to 41 percent of total domestic debt as at end March 2015 as compared with 37 percent at the end of last fiscal year. Government was able to reduce its rollover / re-financing risk significantly through lengthening of maturity profile of its domestic debt i.e. share of short term floating debt decreased to around 38 percent of total domestic debt as at end March 2015 compared with around 55 percent at the end of 2012-13.

Box-2 - Progress on Medium Term Debt Management Strategy (2014-18)

Government developed its first Medium Term Debt Management Strategy (2013/14 - 2017/18) which contains policy advice on an appropriate mix of financing from different sources with the spirit to uphold the integrity of the Fiscal Responsibility & Debt Limitation (FRDL) Act, 2005. In accordance with the approved strategy, the government was required to lengthen the maturity profile of its domestic debt and mobilize sufficient external inflows.

Table-9.3: Public Debt Cost and Risk Indicators*

Risk Indicators		External Debt		Domestic Debt		Public Debt	
		2013	2014	2013	2014	2013	2014
Cost of Debt	Weighted Average IR (%)	1.7	2.1	10.7	11.3	7.7	8.4
Refinancing Risk	Average Time to Maturity (ATM) - Years	10.1	10.5	1.8	2.3	4.5	4.9
	Debt Maturing in 1 Year (% of total)	8.9	7.7	64.2	52.1	46.0	38.2
Interest Rate Risk	Average Time to Re-Fixing (ATR) - Years	9.2	9.7	1.8	2.3	4.2	4.6
	Debt Re-Fixing in 1 year (% of total)	22.2	20.3	67.2	53.4	52.4	43.1
	Fixed Rate Debt (% of total)	83.4	83.3	39.6	54.1	54.0	63.2
Foreign Currency Risk (FX)	Foreign Currency Debt (% of total debt)					32.9	31.3
	Short Term FX Debt (% of reserves)					68.5	42.8

* As per MTDS scope
Source: Debt Policy Coordination Office Staff Calculations, Finance Division

As depicted in the table above, almost all public debt indicators improved in 2013-14 as compared with 2012-13 except for weighted average cost of debt. The weighted average cost of debt increased owing to implicit borrowing strategy of the government to reduce the refinancing / rollover risk by lengthening the maturity profile of domestic debt and increasing the external inflows.

Refinancing risk was probably the most significant in Pakistan's public debt portfolio, driven primarily by the concentration of domestic debt in short maturities at the end of 2012-13. The refinancing risk of the domestic debt reduced significantly at the end of 2013-14 as indicated by percentage of debt maturing in one year reduced to 52 percent compared with 64 percent at the end of 2012-13. Accordingly, Average Time to Maturity of domestic debt increased to 2.3 years at the end of 2013-14 as compared with 1.8 years at the end of 2012-13. Similarly, Average Time to Maturity of external debt also increased to 10.5 years at the end of 2013-14 as compared with 10.1 years at the end of 2012-13. Overall, Average Time to Maturity of public debt increased to 4.9 years at the end of 2013-14 as compared with 4.5 a year earlier.

Exposure to interest rate risk reduced as percentage of debt re-fixing in one year decreased to 43 percent at the end of 2013-14 as compared with 52 percent a year earlier. Accordingly, Average Time to Re-fixing increased to 4.6 years at the end of 2013-14 as compared with 4.2 years at the end of 2012-13. This number is a combination of Average Time to Re-fixing of 9.7 years on external debt and around 2.3 years on domestic debt. Further, fixed rate debt as a percentage of total debt increased to 63 percent at the end of 2013-14 as compared with 54 percent at the end of 2012-13 indicating reduced exposure to interest rate changes i.e. while external debt having fixed rate slightly reduced in proportion at the end of 2013-14 compared with 2012-13, domestic debt carrying fixed rate increased to 54 percent at the end of 2013-14 as compared with 40 percent a year earlier as the government mobilized more through issuance of PIBs and retired some of its T-bills.

Around 31 percent of total public debt stock was denominated in foreign currencies, exposing Pakistan's debt portfolio to exchange rate risk. Adjusted for Special Drawing Rights (SDR), around 91 percent of total external public debt is contracted in 3 currencies i.e. main exposure of exchange rate risk comes from USD denominated loans (46 percent of total external debt), followed by Euro (23 percent) and Japanese Yen (22 percent). The amount of foreign loans maturing in 2014-15 was equal to 43 percent of official liquid reserves as compared with 69 percent a year earlier indicating reduction in exposure to exchange rate risk.

One of the objectives of MTDS was to facilitate the development of debt capital market. A well developed debt market for long term investment is essential for the growth of economy as it provides additional avenues for raising funds besides providing investment opportunities to the investors. In accordance with the commitment of the government to develop debt capital market, the government debt securities (T-bills, PIBs and Government Ijara Sukuk) are made available for trading at the stock exchanges. Further, the government is taking various steps to provide an efficient and liquid secondary debt market to the investors (Box-3).

Box-3 - Development of Debt Capital Market

Sukuk Regulations

The Securities and Exchange Commission of Pakistan (SECP) has notified issue of Sukuk Regulations, 2015 under Section 506A of the Companies Ordinance, 1984 which requires appointment of Shariah Advisor and Investment Agent. An efficient, broad-based and well-regulated Sukuk market will greatly help in the development of capital market. The purpose of making the Sukuk regulations is to facilitate the issuers for fund raising from the capital market and to provide Shariah compliant investment avenue to the prospective investors.

Future Plans With Regard to Development of Debt Capital Market

Following are some of the measures in pipeline for development of the domestic debt capital market:

Introduction of revised settlement model to promote trading in the government debt securities i.e. the current settlement system will be further refined through elimination of practical difficulties and regulatory changes which will facilitate retail investors in trading government securities at the stock exchanges;

- Integration of National Savings Scheme instruments into the mainstream capital market;
- Formulation of the regulations for listing of debt securities issued through public offer;
- Review of the regulations for listing of debt securities issued to the Qualified Institutional Buyers (QIBs);

- Regulations for issuance of Convertible Securities;
- Review of the companies (Asset Backed Securitization) Rules, 1999;
- Utilization of the stock exchanges for primary market/auction of the government debt securities to enable wider outreach and improve participation of retail segment.

The public debt may be understated without reporting contingent liabilities. Contingent liabilities are conditional obligations that arise from past events that may require an outflow of resources embodying economic benefits based on the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the government. Contingent liabilities are not added to the overall debt of the country, therefore, public disclosure of information about guarantees is an essential component of fiscal transparency.

Contingent liabilities of Pakistan include, explicit and implicit guarantees issued to Public Sector Enterprises (PSEs). During first nine months of current fiscal year, the government issued fresh/rollover guarantees aggregating to Rs.67 billion or 0.2 percent of GDP. The outstanding stock of government guarantees as at end March, 2015 was recorded at Rs.600 billion.

9.2.1 Dynamics of Public Debt Burden

The debt burden can be described with many parameters and there is no single threshold for debt ratios that can delineate the “bad” from the “good”. Debt burden can be expressed in terms of the stock ratio i.e. debt to GDP, external debt to GDP or flow ratios i.e. debt to revenue, external debt to foreign exchange earnings etc. The more important rule about limiting public debt growth must be expressed in relation to revenue growth. If the primary balance (fiscal deficit before interest payments) is zero and the growth in revenue is higher than the cost of invested funds, the debt burden will ease. Bridging the gap between revenues and non-interest expenditure and ensuring reduction (generation) in primary deficit (surplus) is an essential pre-requisite that facilitates debt management efforts. Similarly, if the growth in foreign exchange earnings exceeds the growth in external debt and liabilities, the ratio of external debt and liabilities to foreign exchange earnings will continue to decline.

Table-9.4: Selected Public Debt Indicators (in percentage)

	2010	2011	2012	2013	2014
Revenue Balance / GDP*	(1.7)	(3.3) [a]	(4.5) [b]	(2.9) [c]	(0.7)
Primary Balance / GDP*	(1.6)	(2.5) [a]	(4.2) [b]	(3.6) [c]	(0.2)
Fiscal Balance / GDP	(6.2)	(6.5) [a]	(8.8) [b]	(8.2) [c]	(5.5)
Public Debt / GDP	60.6	58.9	63.3	63.9	63.8
Public Debt / Revenue	433.4	477.9	494.7	479.2	439.8
Debt Service / Revenue	40.4	38.0	39.9	40.5	40.1
Debt Service / GDP	5.6	4.7	5.1	5.4	5.8

*Adjusted for grants
[a] includes arrears of electricity subsidies amounting to Rs.120 billion or 0.7 percent of GDP
[b] includes "one off" payment of Rs.391 billion on account of debt consolidation or 2 percent of GDP
[c] includes payment for the resolution of the circular debt amounting to Rs.322 billion or 1.4 percent of GDP
Source: Debt Policy Coordination Office Staff Calculations, Finance Division

Revenue balance is the total revenues minus current expenditure. The persistence of revenue deficit indicates that the government is not only borrowing to finance its development expenditure, but partially to finance its current expenditure. Revenue deficit reduced in 2013-14 and recorded at Rs.173 billion or 0.7 percent of GDP as compared with Rs.649 billion or 2.9 percent in 2012-13. During first nine months of current fiscal year, revenue deficit was recorded at Rs.497 billion or 1.8 percent of GDP. There is a need to bring revenue deficit to nil as envisaged under Fiscal Responsibility and Debt Limitation Act, 2005 so that borrowing is used to supplement development activities which will enhance repayment capacity of the country.

Primary balance is the total revenues minus non-interest expenditure or fiscal deficit before interest payments. Primary balance is an indicator of current fiscal efforts since interest

payments are predetermined by the size of previous deficits. Primary deficit improved significantly in 2013-14 and recorded at Rs.47 billion or 0.2 percent of GDP compared with Rs.814 billion or 3.6 percent in 2012-13. During first nine month of current fiscal year, primary deficit was recorded at Rs.55 billion or 0.2 percent of GDP. Achieving a primary surplus is normally viewed as important, being usually necessary for reduction in public debt to GDP ratio.

Pakistan's fiscal balance improved significantly in 2013-14 as compared with 2012-13. The actual fiscal deficit of 5.5 percent was not only lower than 8.2 percent last year but also lower than its budgeted target of 6.6 percent. This improvement in fiscal deficit slowed down the pace of public debt accumulation. Apart from this reduction in fiscal deficit, another positive development was shift in financing mix of fiscal deficit i.e. around 37 percent of fiscal deficit was financed from external sources which not only reduced the pressure on the banking system, but also left space for commercial banks to finance the private sector. During July-March, 2014-15, fiscal deficit was recorded at 3.8 percent of GDP. Government financed around 13 percent of its fiscal deficit from external sources during first nine months of current fiscal year as compared with net external retirement witnessed during the same period last year.

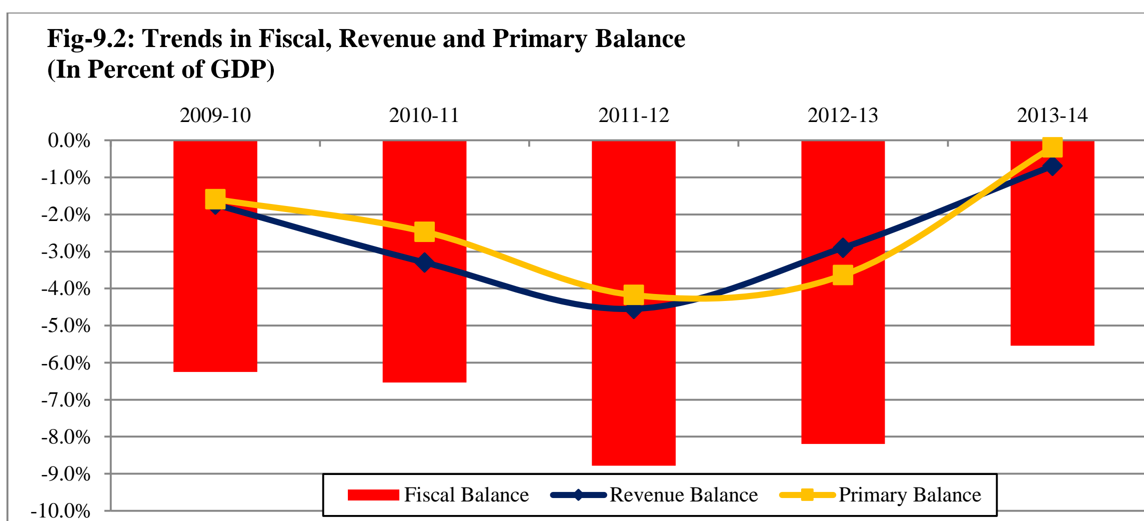


Fig-9.2: Trends in Fiscal, Revenue and Primary Balance (In Percent of GDP)

Public debt as a percent of GDP stood at 61.8 percent of GDP by end March 2015 compared with 62 percent during the same period last year. Government is committed to reduce its public debt to GDP ratio in the medium term to bring it below 60 percent as prescribed in Fiscal Responsibility and Debt Limitation Act, 2005.

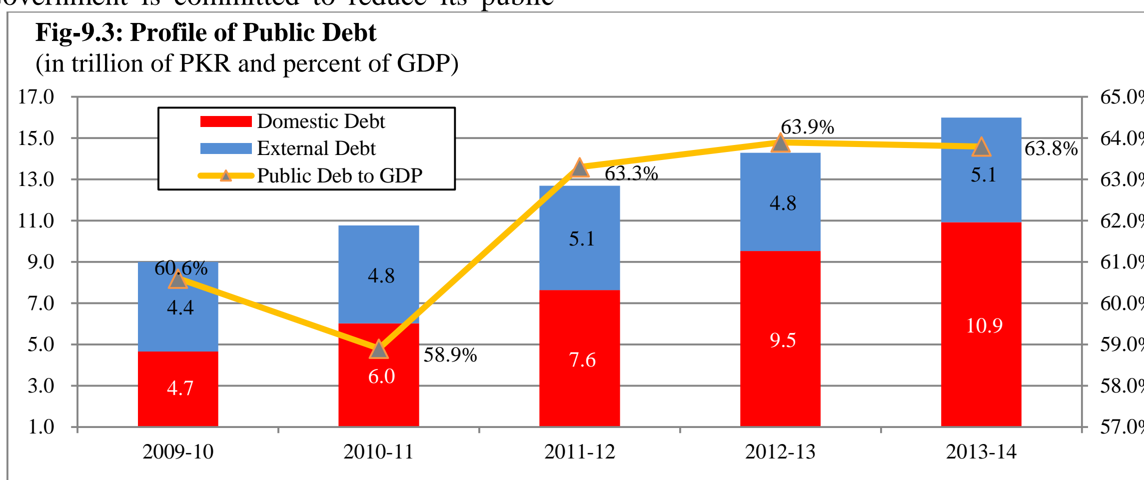


Fig-9.3: Profile of Public Debt
(in trillion of PKR and percent of GDP)

It is a common practice to measure the public debt burden as a percentage of GDP, a better approach is to scale public debt levels against actual government revenues as this ratio

measures debt repayment capacity of the country. The public debt to revenue ratio stood at 440 percent during 2013-14 and witnessed 39 percentage point improvement as compared with last fiscal year, indicating some easing in government indebtedness. Government is committed to reduce this ratio to a generally acceptable threshold of 350 percent by increasing its revenues and rationalizing current expenditures which will reduce the debt burden and improve the debt carrying capacity of the country to finance the growing development needs.

9.2.2 Servicing of Public Debt

A rising debt burden has implications for the economy in the shape of a greater amount of resource allocation towards debt servicing in the future. In order to meet debt servicing obligations, an extra burden is placed on limited government resources and may costs in the shape of foregone public investment or expenditure in other sectors of the economy. Comparing debt service to a country's repayment capacity yields the best indicator for analyzing whether a country is likely to face debt-servicing difficulties in a given period.

During July-March, 2014-15, public debt servicing was recorded at Rs.1,193 billion against the annual budgeted estimate of Rs.1,686 billion. Public debt servicing consumed nearly 44.5 percent of total revenues during first nine months of current fiscal year against a ratio of 47 percent during the same period last year. Ideally, this ratio should be below 30 percent to allow government to allocate more resources towards social and poverty related expenditures.

Table-9.5: Public Debt Servicing (Rs. in billion)

	2014-15*			
	Budgeted	**Actual**	**Percent of Revenue**	**Percent of Current Expenditure**
Servicing of External Debt	100.6	64.1	2.4	2.0
Repayment of External Debt	360.7	218.5	8.1	6.8
Servicing of Domestic Debt	1,224.6	910.5	33.9	28.5
Servicing of Public Debt	**1,685.9**	**1,193.0**	**44.5**	**37.3**

Source: Budget Wing and Debt Policy Coordination Office Staff Calculations, Finance Division
*: July-March

Domestic interest payments constituted around 76 percent of total debt servicing which is due to increasing volume of domestic debt in overall public debt portfolio. Domestic interest payments were recorded at Rs.911 billion during first nine months of current fiscal year as compared with Rs.855 billion during the same period last year. Further analysis of domestic debt servicing revealed that large portion was paid against PIBs (Rs.384 billion), Market Related Treasury Bills (Rs.227 billion), T-Bills (Rs.93 billion) etc.

9.3 Domestic Debt

Domestic debt has always been fundamental part of a government's borrowing strategy. Government borrowing through domestic sources is vital in stimulating investment and private savings, as well as strengthening domestic financial markets, since it provides depth and liquidity to the markets. The downside risks include higher interest rates which might stunt growth, the creation of inflationary pressure in an economy, and the possible crowding-out of the private sector. Therefore, any debt strategy should balance the risks to its debt stock by focusing on a mix of both domestic and external sources while borrowing funds.

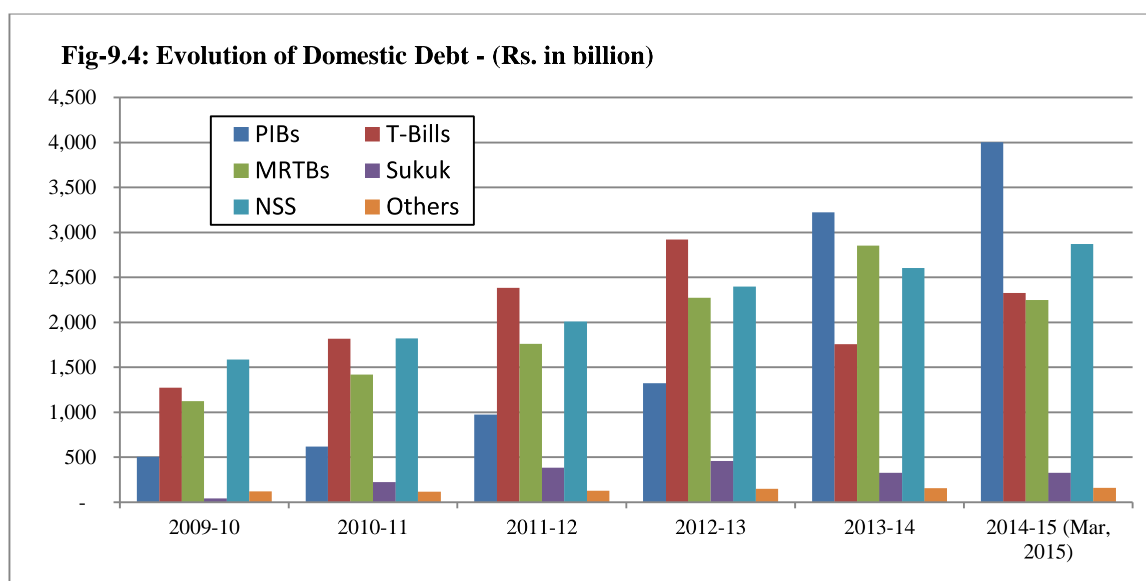
Pakistan's domestic debt comprises permanent debt (medium and long-term), floating debt (short-term) and unfunded debt (primarily made up of the various instruments available under the National Savings Schemes). Domestic debt represents a charge on Pakistan's budget and is serviced through government revenues and government borrowings. The pace of domestic debt accumulation slowed down during first nine months of current fiscal year as compared with the similar period last year as around 13 percent of the fiscal deficit was financed through external sources compared with last fiscal year where onus of entire financing fell on domestic sources i.e. government borrowing from domestic sources in first nine months of 2012-13 was actually higher than the overall

fiscal deficit as net external debt payments had to be paid from domestic sources owing to insufficient fresh external inflows.

The maturity profile of domestic debt improved further during first nine months of current fiscal year mainly due to increased mobilization through medium to long term PIBs. This lengthening of maturity profile of domestic debt was facilitated by declining interest rate environment as it is more practicable and cost effective for the government to lengthen the maturity profile of its domestic debt in declining interest rate environment. In rising interest rate environment, the lengthening of domestic debt maturities could be more difficult and costly owing to lower appetite for medium to longer duration maturities. Thus, re-profiling of domestic debt in downward sloping yield curve environment has actually helped the government in attaining a much lower cost than what the government would have incurred in an upward sloping market. This is evident from the fact that the term premium between one year T-bills and 3 Years PIBs which went to a high of 2.08 percent in June 2014 was subsided to around 0.99 percent in December 2014 and further reduced to 0.42 percent in March 2015 owing to effective and efficient execution of MTDS. The narrowing of the term premium to such a historic low reflects appreciatively on the part of the government and depicts that the government is in a much better position with respect to rollover/refinancing risk.

The share of permanent debt in total domestic debt increased significantly to 41 percent of total domestic debt at the end of March 2015 as compared with 23 percent at the end of 2012-13. Government was able to reduce its rollover / re-financing risk significantly through lengthening of maturity profile of its domestic debt i.e. share of short term floating debt decreased to around 38 percent of total domestic debt as compared with around 55 percent at the end of 2012-13. The trend in domestic debt are discussed in the following graph:

Fig-9.4: Evolution of Domestic Debt - (Rs. in billion)



9.3.1 Outstanding Domestic Debt

Domestic debt increased by Rs.1,012 billion during first nine months of current fiscal and recorded at Rs.11,932 billion at end March 2015. This increase mainly stems from net issuance of PIBs and T-bills amounting to Rs.781 billion and Rs.566 billion respectively, while the stock of Market Related Treasury Bills (MRTBs) amounting to Rs.605 billion was retired during first nine months of current fiscal year. In relation to GDP, the domestic debt stood at 43.6 percent as at end March 2015. The component wise detail of domestic debt is depicted through following graph:

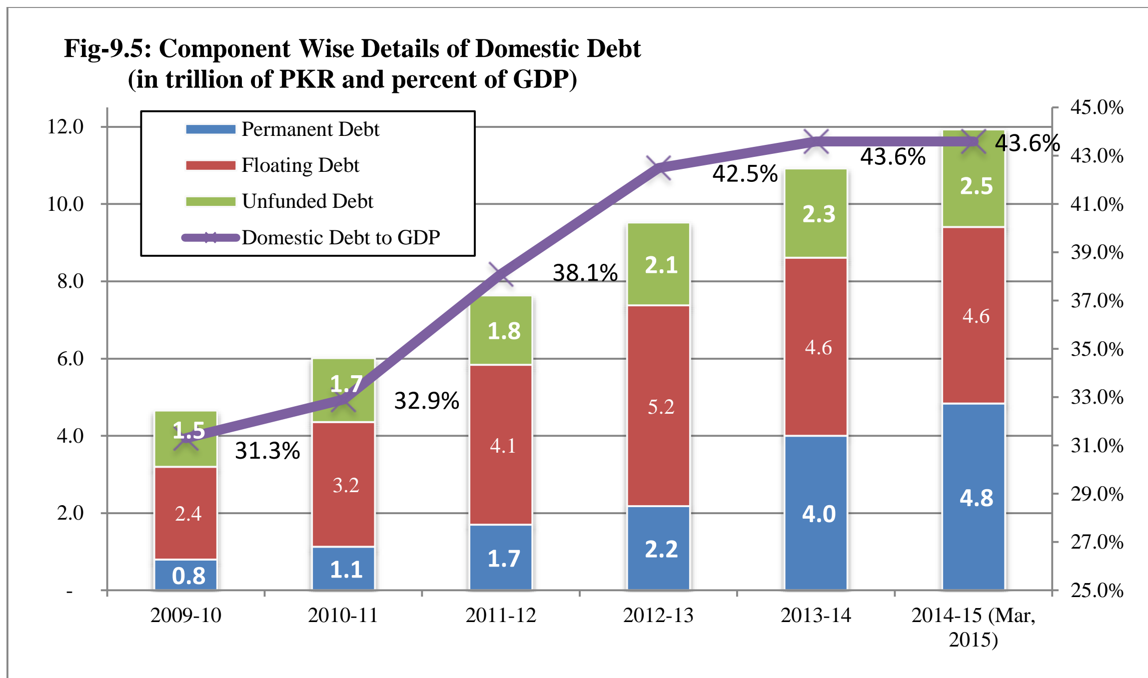


Fig-9.5: Component Wise Details of Domestic Debt (in trillion of PKR and percent of GDP)

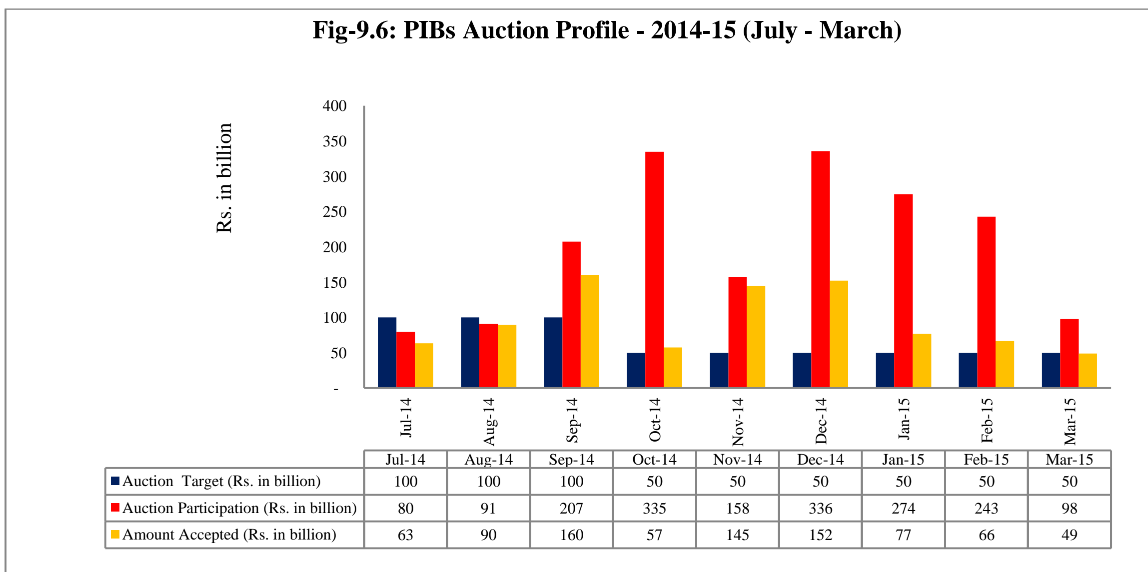
The following section highlights the developments in the various components of domestic debt during first nine months of outgoing fiscal year:

I. Permanent Debt

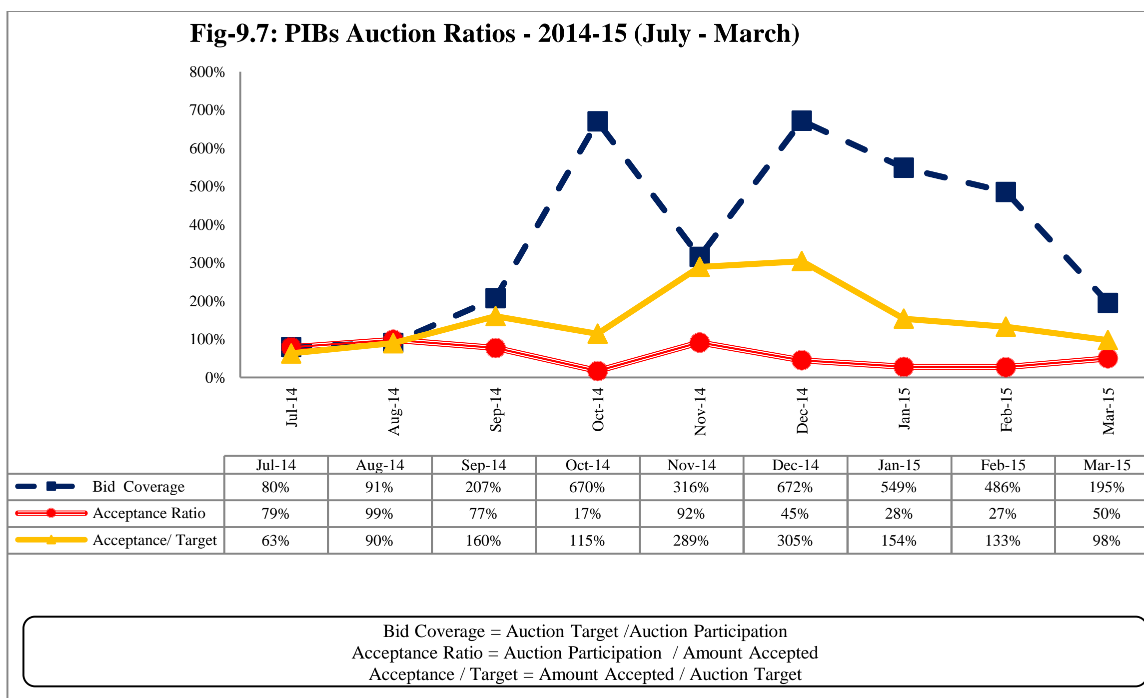
Permanent debt mainly consists of medium to long term instruments including PIBs, Government Ijara Sukuk, Prize Bond etc. PIBs are non-callable instruments with fixed and semi-annual coupon payment. PIBs are issued in tenors of 3, 5, 10 and 20 years maturity. The 3, 5 and 10 years tenors are most liquid. Government Ijara Sukuk are medium term Shariah compliant bonds currently issued in 3 years tenor. The purpose of issuance was to raise money from Islamic banking which has grown substantially in Pakistan in past few years.

The total amount of permanent debt in the total domestic debt stood at Rs. 4,836 billion as at end March 2015, representing an increase of Rs.830 billion or 21 percent higher than the stock at the end of last fiscal year. Around 82 percent of the total increase in domestic debt stock was contributed by permanent debt during July-March, 2014-15. Out of total mobilization of Rs. 830 billion through permanent debt, the government mopped up net of retirement Rs. 781 billion through successful auctions of PIBs in first nine months of current fiscal year. The auctions wise details and relevant ratios related to PIBs are depicted through following graphs:

Fig-9.6: PIBs Auction Profile - 2014-15 (July - March)

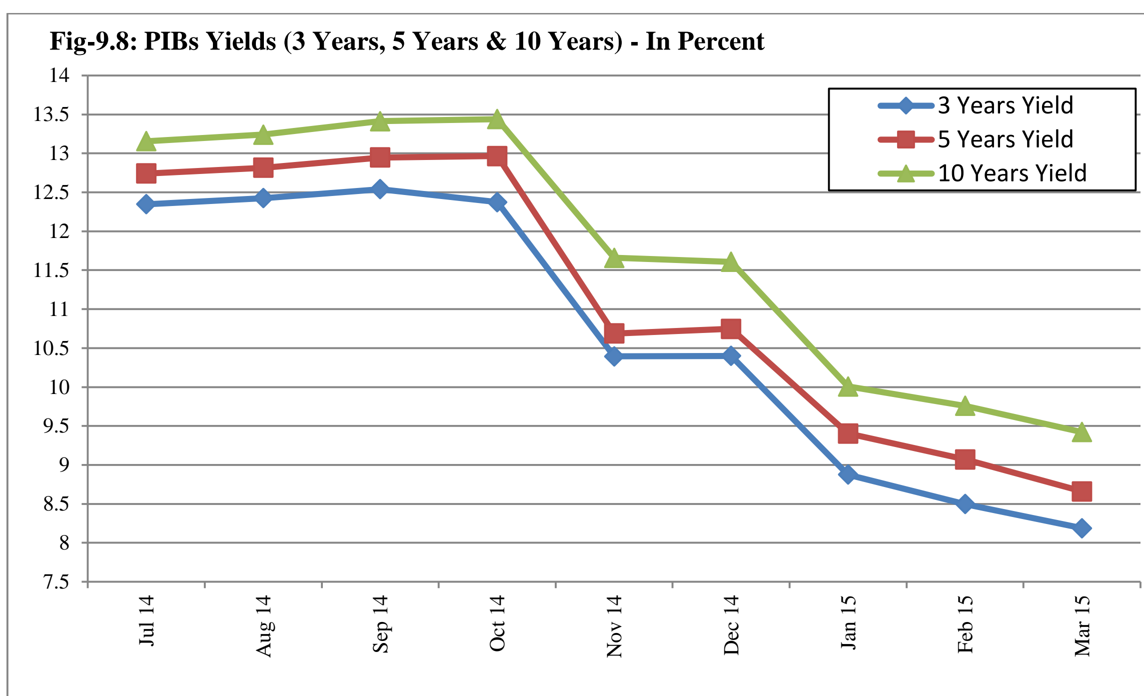


	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15
Auction Target (Rs. in billion)	100	100	100	50	50	50	50	50	50
Auction Participation (Rs. in billion)	80	91	207	335	158	336	274	243	98
Amount Accepted (Rs. in billion)	63	90	160	57	145	152	77	66	49



	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15
Bid Coverage	80%	91%	207%	670%	316%	672%	549%	486%	195%
Acceptance Ratio	79%	99%	77%	17%	92%	45%	28%	27%	50%
Acceptance/ Target	63%	90%	160%	115%	289%	305%	154%	133%	98%

As depicted in the graph above, against the target of Rs.600 billion, government received massive participation of Rs. 1,821 billion against which government accepted Rs.860 billion during first nine months of current fiscal year. The yields on PIBs started declining from October 2014 and accordingly for the first time since Aug 2008, PIBs coupon rates were cut by 2 percent to 2.25 percent in February 2015 to have an alignment in coupon rates and market yields. The conducive economic environment coupled with supportive monetary policy provided an ideal opportunity for the government to revise coupon rates on PIBs. The yields on 3, 5 and 10 years PIBs from July 2014 to March 2015 are depicted through following graphs:

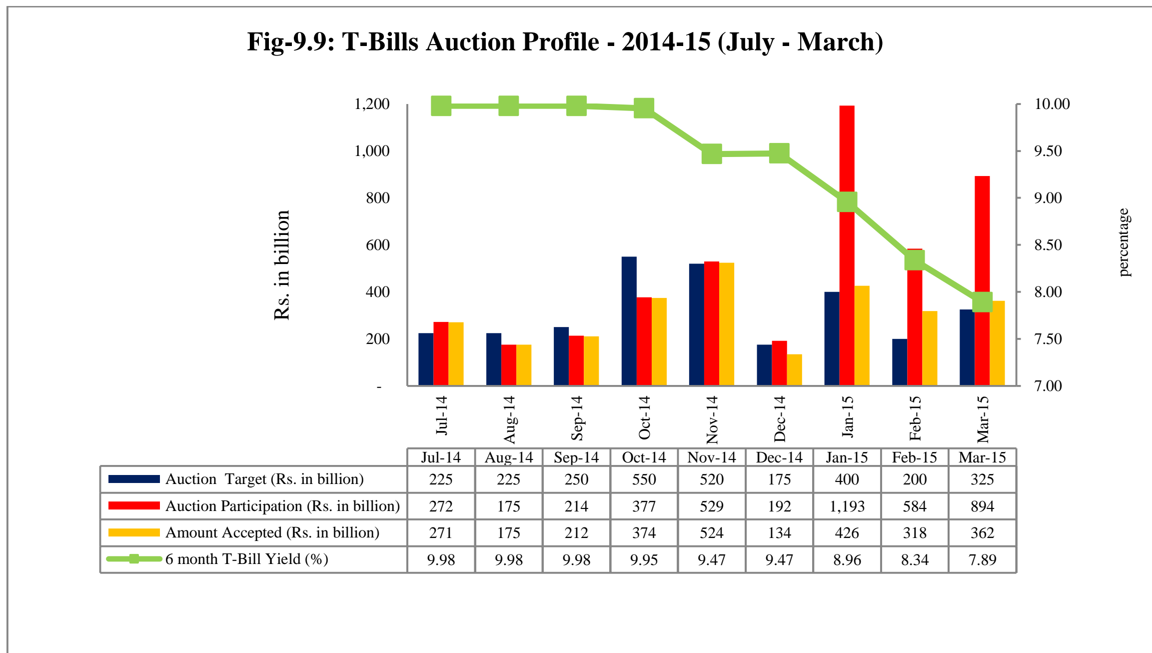


II. Floating Debt

Floating debt consists of short term domestic borrowing instruments such as Treasury Bills and State Bank borrowing through the purchase of Market Related Treasury Bills (MRTBs). Treasury Bills are zero coupon or discounted instruments issued in tenors of 3 months (introduced in 1997), 6 months (introduced in 1990) and 12 months (introduced in 1997). The share of 3 months, 6 months and 12 months maturity in total Treasury Bills portfolio was 5 percent, 32 percent and 64 percent respectively as at end March 2015. In order to raise short term liquidity, the government borrows from the domestic banks through auction in the form of Treasury Bills. The auction of Treasury Bills is arranged by the State Bank of Pakistan (SBP) twice a month.

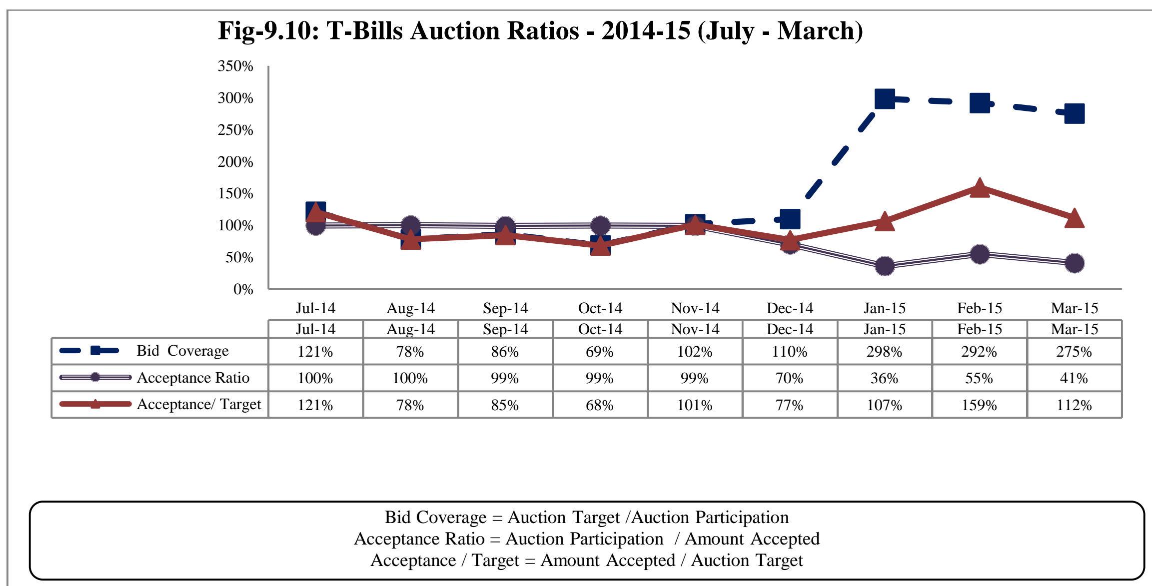
Floating debt recorded a decrease of Rs.38 billion during first nine months of current fiscal year and stood at Rs. 4,573 billion at end March 2015. The share of floating debt in overall public debt and domestic debt stood at 27 percent and 38 percent respectively at end March 2015, while, it was at 36 percent and 55 percent respectively at the end of 2012-13. During July-March, 2014-15, net mobilization through T-bills stood at Rs. 566 billion, whereas, the stock of MRTBs was retired by Rs. 605 billion. The auctions wise details and relevant ratios related to T-bills are depicted through following graphs:

Fig-9.9: T-Bills Auction Profile - 2014-15 (July - March)



	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15
Auction Target (Rs. in billion)	225	225	250	550	520	175	400	200	325
Auction Participation (Rs. in billion)	272	175	214	377	529	192	1,193	584	894
Amount Accepted (Rs. in billion)	271	175	212	374	524	134	426	318	362
6 month T-Bill Yield (%)	9.98	9.98	9.98	9.95	9.47	9.47	8.96	8.34	7.89

Fig-9.10: T-Bills Auction Ratios - 2014-15 (July - March)



	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15
Bid Coverage	121%	78%	86%	69%	102%	110%	298%	292%	275%
Acceptance Ratio	100%	100%	99%	99%	99%	70%	36%	55%	41%
Acceptance/ Target	121%	78%	85%	68%	101%	77%	107%	159%	112%

Bid Coverage = Auction Target /Auction Participation
Acceptance Ratio = Auction Participation / Amount Accepted
Acceptance / Target = Amount Accepted / Auction Target

III. Unfunded Debt

Pakistan's unfunded debt, primarily comprised of the National Savings Schemes (NSS), saw an expansion of Rs. 220 billion in first nine months of current fiscal year, which was almost double the increase seen in the same period last year. Most of the incremental mobilization went into Special Savings Certificates and Accounts (Rs. 107 billion), Regular Income Certificates (Rs. 47 billion) and Bahbood Savings Certificates (Rs.38 billion). The total share of unfunded debt in the government's domestic debt stood at Rs. 2,524 billion or 21 percent at end March, 2015. The rates on NSS revised three times during first nine months of current fiscal year to have them aligned with the market rates.

Over past few years, government took various measures to rationalize the NSS including linkage of profit rates on major NSS instruments with PIBs yield, levy of withholding tax on profits, service charges/penalty on early redemption and introduction of several new schemes to meet the diverse investor base demand. However, the rate setting on NSS should be more dynamic and closely aligned to the domestic market yield curve. Further, there is a need to weigh the cost of scheme in term of higher debt servicing and implication for the development of the financial sector especially the bond market. In this context, NSS instruments need to be integrated into mainstream capital markets by making them tradable and by withdrawing the implicit put option which is a potential source of liquidity problem for the government.

Table-9.6: Outstanding Domestic Debt - (Rs. in billion)

	2010	2011	2012	2013 (P)	2014 (P)	2015 (P)*
Permanent Debt	**797.7**	**1,125.6**	**1,696.9**	**2,179.2**	**4,005.3**	**4,835.7**
Market Loans	2.9	2.9	2.9	2.9	2.9	2.9
Government Bonds	7.2	0.7	0.7	0.7	0.7	0.7
Prize Bonds	236.0	277.1	333.4	389.6	446.6	496.5
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
Special National Fund Bonds	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Currency Bearer Certificates	0.0	0.0	0.0	0.0	0.0	0.0
U.S. Dollar Bearer Certificates	0.0	0.0	0.0	0.0	0.0	0.0
Special U.S. Dollar Bonds	2.7	1.0	0.9	4.2	4.4	4.4
Government Bonds Issued to SLIC	0.6	0.6	0.6	0.6	0.6	0.6
Pakistan Investment Bonds (PIBs)	505.9	618.5	974.7	1,321.8	3,223.5	4,004.1
Government Bonds issued to HBL	-	-	-	-	-	-
GOP Ijara Sukuk	42.2	224.6	383.5	459.2	326.4	326.4
Floating Debt	**2,399.1**	**3,235.4**	**4,143.1**	**5,196.2**	**4,610.9**	**4,572.5**
Treasury Bills through Auction	1,274.1	1,817.6	2,383.4	2,921.0	1,758.6	2,324.9
Rollover of Treasury Bills discounted SBP	0.5	0.5	0.5	0.5	0.5	0.5
Market Related Treasury Bills (MRTBs)	1,124.4	1,417.3	1,759.2	2,274.7	2,851.8	2,247.1
Unfunded Debt	**1,457.5**	**1,655.8**	**1,798.0**	**2,146.5**	**2,303.8**	**2,524.0**
Defence Savings Certificates	224.7	234.5	241.8	271.7	284.6	295.7
Khas Deposit Certificates and Accounts	0.6	0.6	0.6	0.6	0.6	0.6
National Deposit Certificates	0.0	0.0	0.0	0.0	0.0	0.0
Savings Accounts	17.8	17.2	21.2	22.3	22.6	25.1
Mahana Amdani Account	2.2	2.1	2.0	2.0	1.9	1.8
Postal Life Insurance	67.1	67.1	67.1	67.1	67.1	67.1
Special Savings Certificates and Accounts	470.9	529.1	537.4	734.6	738.8	845.6
Regular Income Scheme	135.6	182.6	226.6	262.6	325.4	372.7
Pensioners' Benefit Account	128.0	146.0	162.3	179.9	198.4	211.5
Bahbood Savings Certificates	366.8	428.5	480.8	528.4	582.4	620.6
National Savings Bonds	3.6	3.6	3.6	0.2	0.2	0.1
G.P. Fund	39.9	44.3	54.5	73.1	80.5	81.5
Short Term Savings Certificates	-	-	-	4.0	1.3	1.6
Total Domestic Debt	**4,654.3**	**6,016.7**	**7,638.1**	**9,521.9**	**10,920.0**	**11,932.2**

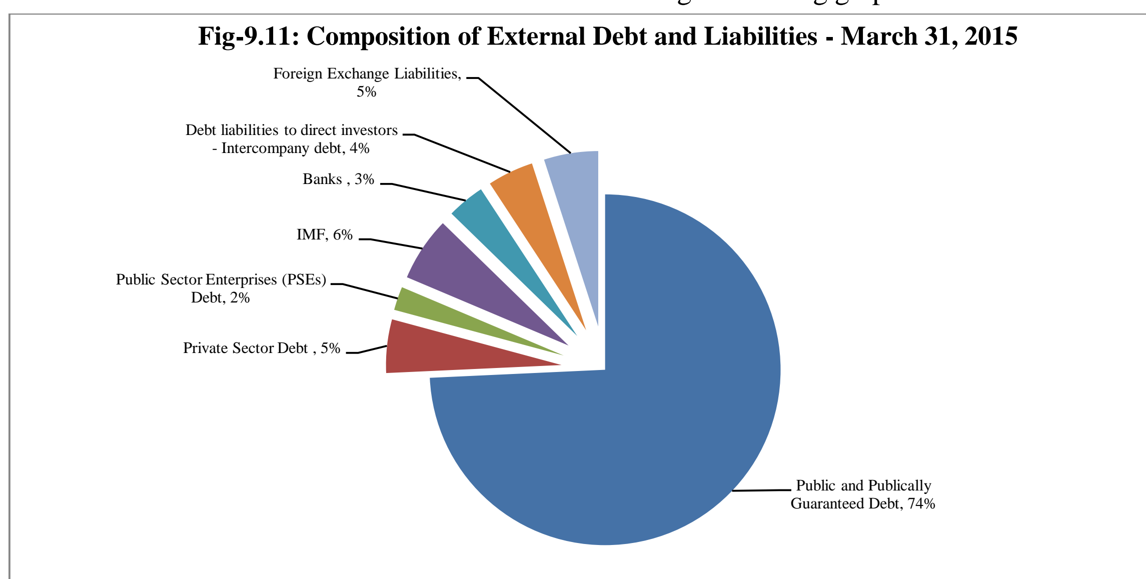
P:Provisional
*end-March, 2015
Source: Budget Wing, Finance Division

9.4 External Debt and Liabilities

Pakistan's External Debt and Liabilities (EDL) include all foreign currency debt contracted by the public and private sector as well as foreign exchange liabilities of SBP. EDL is serviced from foreign exchange earnings, drawdown from foreign exchange reserves and additional borrowings. There is an inherent capital loss associated with the debt denominated in foreign currency, however, it is mitigated by the strong concessionality element (low cost and long tenors). The impact of any currency shock should not be looked in isolation, but rather be analyzed in the context of interest rate differential.

As at end March 2015, EDL was dominated by Public and Publically Guaranteed (PPG) debt having share of around 74 percent. These loans were mainly obtained from multilateral and bilateral donors. Borrowing from IMF contributed 6 percent in EDL stock while debt obligations of the private sector was fairly limited and have been a minor proportion of EDL (5 percent). The composition and structure of EDL as at end March, 2015 is depicted through following graph:

Fig-9.11: Composition of External Debt and Liabilities - March 31, 2015



EDL stock was recorded at US$ 62.6 billion as at end March 2015 out of which external public debt was US$ 49.1 billion. Public external debt witnessed a decline of US$ 2.3 billion during first nine months of current fiscal year despite net positive disbursements. This reduction in external debt was mainly contributed by translational gain on account of appreciation of US Dollar against other major currencies by US$ 4.3 billion.

During first nine months of 2014-15, disbursements including loans and grants stood at US$ 4,001 million compared with US$ 2,301 million during the same period last year. Pakistan also received US$ 2,106 million from the IMF. Importantly, net inflows from the IMF stood at US$ 1,041 million during first nine months of current fiscal year compared with net outflow of US$ 861 million during the same period last year. The pace of external inflows is likely to continue in future as the government has signed number of fresh financing agreements with international development partners.

Table-9.7: Pakistan External Debt and Liabilities

	2010	2011	2012	2013(P)	2014(P)	2015(P)*
(US Dollar in billion)						
1. Public and Publically Guaranteed Debt	**43.1**	**46.5**	**46.4**	**44.4**	**49.0**	**46.5**
i) Public Debt	**42.9**	**46.4**	**46.2**	**43.5**	**48.5**	**45.5**
A. Medium and Long Term(>1 year)	**42.1**	**45.7**	**45.6**	**43.5**	**47.8**	**45.0**
Paris Club	14.0	15.5	15.0	13.5	13.6	11.6

Table-9.7: Pakistan External Debt and Liabilities

	2010	2011	2012	2013(P)	2014(P)	2015(P)*
Multilateral	23.7	25.8	25.3	24.2	25.8	23.2
Other Bilateral	1.8	1.9	2.5	2.9	3.5	4.2
Euro Bonds/Saindak Bonds	1.6	1.6	1.6	1.6	3.6	4.6
Military Debt	0.2	0.1	0.1	0.1	0.0	0.0
Commercial Loans/Credits	-	-	-	-	0.2	0.2
Local Currency Bonds	0.0	0.0	-	0.0	0.0	0.0
Saudi Fund for Development	0.2	0.2	0.2	0.2	0.1	0.1
SAFE China Deposits	0.5	0.5	1.0	1.0	1.0	1.0
NBP/BOC Deposits	0.2	0.1	-	-	-	-
B. Short Term (<1 year)	**0.9**	**0.6**	**0.5**	**0.0**	**0.7**	**0.4**
Commercial Loans/Credits	-	-	-	-	0.2	-
IDB	0.8	0.6	0.5	-	0.4	0.4
Local Currency Securities	0.1	0.0	0.0	0.0	0.1	0.1
ii) Publicly Guaranteed Debt	**0.2**	**0.1**	**0.2**	**0.9**	**0.5**	**1.1**
A. Medium and Long Term(>1 year)	**0.2**	**0.1**	**0.2**	**0.9**	**0.5**	**1.1**
Paris Club	-	-	-	-	-	-
Multilateral	0.1	0.0	0.0	0.3	0.1	0.6
Other Bilateral	0.0	0.0	0.2	0.6	0.4	0.4
Commercial Loans/Credits	0.1	-	-	-	-	-
Saindak Bonds	-	-	-	-	-	-
B. Short Term (<1 year)	-	-	-	-	-	-
2. Private Non-Guaranteed Debt (>1 year)	**3.8**	**4.4**	**3.6**	**3.1**	**3.0**	**3.1**
3. Public Sector Enterprises (PSEs Debt)	**1.4**	**1.3**	**1.3**	**1.2**	**1.7**	**1.4**
4. IMF	**8.1**	**8.9**	**7.3**	**4.4**	**3.0**	**3.7**
of which Central Government	1.1	2.0	1.9	1.7	0.7	0.1
Monetary Authorities	7.0	6.9	5.4	2.7	2.4	3.6
5. Banks	**0.7**	**1.1**	**1.8**	**1.6**	**2.0**	**2.2**
Borrowing	0.2	0.4	0.9	0.7	1.1	1.3
Nonresident Deposits (LCY & FCY)	0.6	0.7	1.0	0.8	0.9	0.9
6. Debt liabilities to direct investors - intercompany debt	**1.9**	**1.6**	**2.7**	**3.1**	**3.4**	**2.7**
Total External Debt (1 through 6)	**59.0**	**63.8**	**63.1**	**57.8**	**62.1**	**59.5**
7. Foreign Exchange Liabilities	**2.6**	**2.6**	**2.4**	**3.1**	**3.3**	**3.1**
Total External Debt & Liabilities (1 through 7)	**61.6**	**66.4**	**65.5**	**60.9**	**65.4**	**62.6**
(of which) Public Debt	**50.9**	**55.3**	**53.5**	**47.9**	**51.4**	**49.1**
Official Liquid Reserves	13.0	14.8	10.9	6.0	9.1	11.6
(In percent of GDP)						
Total External Debt (1 through 6)	**33.2**	**29.8**	**28.1**	**25.0**	**25.5**	**22.0**
1. Public and Publically Guaranteed Debt	24.3	21.7	20.6	19.2	20.1	17.2
A. Medium and Long Term(>1 year)	23.7	21.4	20.3	18.8	19.6	16.6
B. Short Term (<1 year)	0.5	0.3	0.2	0.0	0.3	0.2
2. Private Sector Debt	2.1	2.0	1.6	1.4	1.3	1.1
3. Public Sector Enterprises (PSEs) Debt	0.8	0.6	0.6	0.5	0.7	0.5
4. IMF	4.6	4.2	3.3	1.9	1.2	1.4
5. Banks	0.4	0.5	0.8	0.7	0.8	0.8
6. Debt liabilities to direct investors - Intercompany debt	1.1	0.8	1.2	1.3	1.4	1.0
7. Foreign Exchange Liabilities	1.5	1.2	1.1	1.3	1.3	1.2
Total External Debt & Liabilities (1 through 7)	**34.7**	**31.0**	**29.2**	**26.3**	**26.8**	**23.2**
Official Liquid Reserves	7.3	6.9	4.8	2.6	3.7	4.3
Memo:						
GDP (Rs. in billion)	14,867	18,276	20,047	22,379	25,068	27,384
Exchange Rate (Rs./US$, Period Average)	83.8	85.5	89.2	96.7	102.9	101.2

Table-9.7: Pakistan External Debt and Liabilities

	2010	2011	2012	2013(P)	2014(P)	2015(P)*
Exchange Rate (Rs./US$, End of Period)	85.5	86.0	94.5	99.7	98.8	101.9
GDP (US$ in billion)	177	214	225	231	244	271

P:Provisional
*end-March, 2015
Source: State Bank of Pakistan, Economic Affairs Division & Debt Policy Coordination Office Staff Calculations

9.4.1 Composition of Foreign Economic Assistance

The total amount of US$ 4,001 million was received in the first nine months of current fiscal year against foreign economic assistance. The composition of this assistance is as follows:

I. Commitments

The commitments of foreign economic assistance were US$ 14,957 million during 2013-14, while during July-March, 2014-15, total commitments amounted to US$ 3,220 million. About 46 percent of total commitments were in the shape of project aid while the remaining comprised non-project aid. In non-project aid, almost all commitments were against BOP/budgetary support.

II. Disbursements

During July-March, 2014-15, disbursements of US$ 4,001 million were for different purposes like Project Aid (US$ 1,760 million), Non-Food Aid (US$ 9 million), BOP/Budgetary Support (US$ 1,747 million) and relief (US$ 105 million). Project aid accounted for 44 percent of the total disbursements.

9.4.2 External Debt Servicing

Annual debt obligations have increased since 2008-09 and stood at US$ 8,697 million in 2013-14. An amount of US$ 1,528 million of multilateral debt, together with US$ 3,182 million of the IMF loans, accounted for most of these obligations. This was the first time Pakistan made such large repayments of debt in a single year.

Servicing of EDL fell by US$ 1,282 million in first nine months of current fiscal year as compared to the same period last year and recorded at US$ 5,303 million. Out of this total, principal repayments were US$ 3,291 million and interest payments were US$ 812 million, whereas an amount of US$ 1,200 million was rolled over. Among the principal repayments, US$ 935 million of multilateral debt and US$ 1040 million of IMF accounted for most of the share.

Table-9.8: Pakistan's Public External Debt Servicing (US Dollar in million)

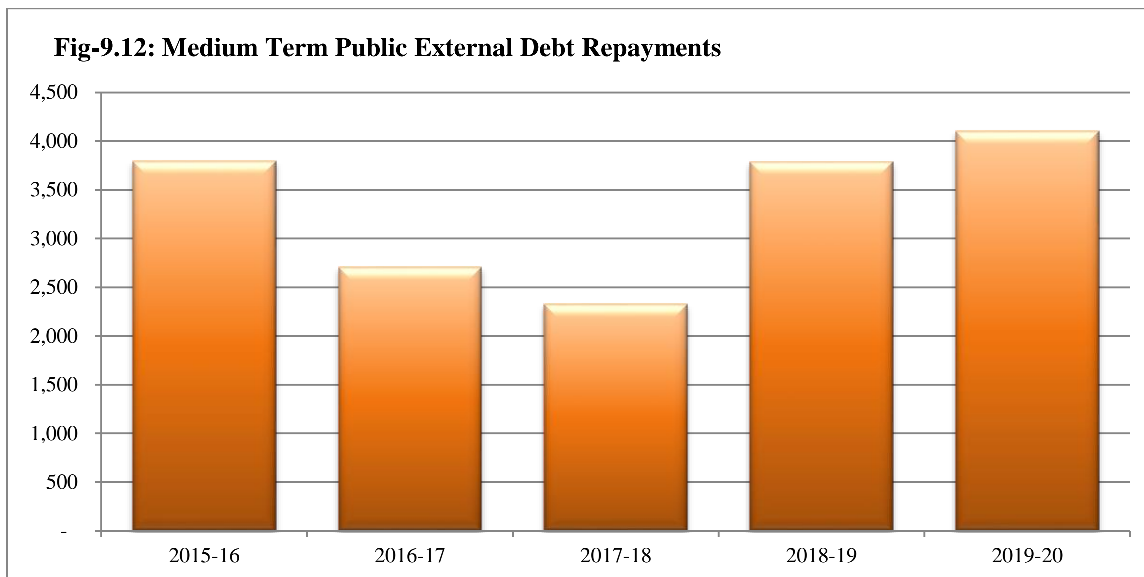
Years	Actual Amount Paid	Amount Rolled Over	Total
2008-09	4,747.2	1,600.0	6,347.2
2009-10	4,607.0	1,723.0	6,330.0
2010-11	3,947.7	1,488.0	5,435.7
2011-12	4507.7	1,543.0	6,050.7
2012-13	6,485.1	1,200.0	7,685.1
2013-14	6,996.5	1,700.0	8,696.5
2014-15*	4,102.9	1,200.0	5,302.9

Source: State Bank of Pakistan and Debt Policy Coordination Office Staff Calculations
*July-March

While the significant portion of the IMF loans has already been repaid, this decline will be somewhat offset by an increase in debt servicing costs over the medium-term, arising from:

- Maturity of 10 years Eurobonds issued in 2005-06 (US$ 500 million) and 2006-07 (US$ 750 million) is due in 2015-16 and 2016-17 respectively;
- Repayment of rescheduled Paris Club debt under Official Development Assistance (ODA) will start from 2016-17;
- The 5-year Eurobond issued in April 2014 (US$ 1 billion) will mature in 2018-19;

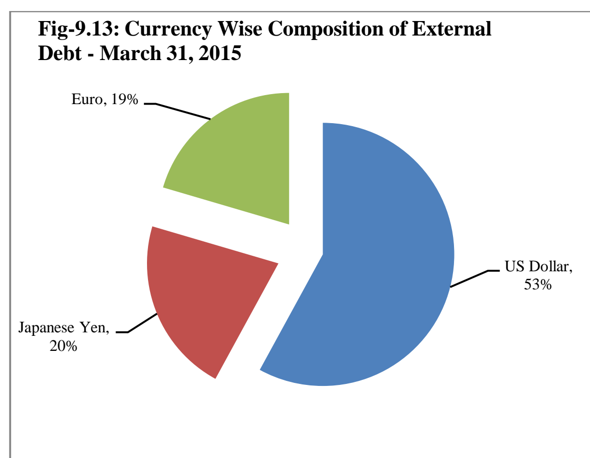
- The 5-years Pakistan International Sukuk issued in November 2014 (US$ 1 billion) will mature in 2019-20.



9.4.3 Impact of Exchange Rate Fluctuations

External loans are contracted by Pakistan in various currencies and disbursements are effectively converted into Pak Rupee. As the Pak Rupee is not an internationally traded currency, other currencies are bought and sold by buying and selling US Dollars. Hence, the currency exposure of foreign debt originates from two sources: US Dollar/other foreign currencies and Pak Rupee/US Dollar. This two-pronged exchange rate risk has been a major source of increase in the stock of EDL over a period of time in contrast to actual inflows.

The Pak Rupee depreciated against the US Dollar on average by 3.8 percent per annum between 2009-10 and 2013-14 which resulted in increase in Pakistan's external debt in local currency. Pakistan's loss on foreign currency debt is mitigated by the concessional terms (low cost and longer maturities) associated with its external loans i.e. the cost of adverse currency movements and existing external debt rates is still lower than the cost of domestic debt by approximately 5.3 percent over the last five years. Accordingly, policy of the government is to borrow more through these channels. The principal exchange rate risk for Pakistan is mainly from loans denominated in US Dollars, Euro and Japanese Yen. As at end March, 2015, 91 percent of total external debt is contracted in 3 major currencies (adjusted for Special Drawing Rights) as depicted in the following graph:



External public debt witnessed a huge translational gain of around US$ 4.3 billion during first nine months of current fiscal year on account of appreciation of US Dollar against other major currencies, however, depreciation of Pak Rupee against US Dollar by around 3 percent during the same period reduced this gain in rupee term. Appreciation of US Dollar against Euro and Japanese Yen contributed in translational gain of around US$ 2,539 million and US$ 1,808 million, respectively.

9.4.4 External Debt Sustainability

Managing the levels of external debt and the risks associated with them pose a different set of

challenges for policy makers. A key component of external debt sustainability analysis is to estimate the path of a country's external debt stock over time. The increase in interest rates, depreciation of exchange rate and higher external account deficit can increase stock of external debt. In crisis situations, countries can have recourse to debt restructuring or reduction, but such actions cannot be regular means of dealing with external financing problems, as these affect access to new financing. Thus, a good tracking system in the form of debt sustainability analysis based on key macroeconomic indicators can predict and prevent debt problems.

External debt and liabilities expressed as a percentage of GDP might be a common means of measuring the indebtedness of an economy, but repayment capacity is more accurately captured through expressing the levels of debt as a percentage of the economy's foreign exchange earnings and foreign exchange reserves. In this case, if the growth in FEE exceeds the growth in EDL, the ratio of EDL-to-FEE will continue to decline.

Table-9.9: External Debt Sustainability Indicators

(In percent)	2010	2011	2012	2013	2014	2015*
EDL/FEE (times)	1.6	1.4	1.4	1.2	1.3	1.6
EDL/FER (times)	3.7	3.6	4.3	5.5	4.6	3.8
EDL/GDP	34.7	31.0	29.2	26.3	26.8	23.2
EDL Servicing/FEE	16.6	11.4	12.5	14.3	15.0	10.9

*: end March, 2015
FEE: Foreign Exchange Earnings; **EDL:** External Debt and Liabilities; **FER:** Foreign Exchange Reserves
Source: Debt Policy Coordination Office Staff Calculations, Finance Division

EDL as a percentage of FEE gives a measure of a country's debt repayment capacity. EDL at 2 times of FEE and EDL servicing below 20 percent of FEE are generally believed to be within the bounds of sustainability. Pakistan's EDL and its servicing in terms of FEE stood at 1.3 times and 15 percent respectively during 2013-14 compared with 1.2 times and 14.3 percent respectively last year. The erosion in EDL to FEE ratio suggests that stock of EDL witnessed more growth than foreign exchange earnings during 2013-14. Further, EDL Servicing to FEE ratio also weakened primarily due to hefty repayments to the IMF during 2013-14. During first nine months of current fiscal year, EDL and its servicing in terms of FEE stood at 1.6 times and 10.9 percent respectively.

A decrease in EDL in relation to foreign exchange reserves reflects the consolidation of foreign exchange reserves and a general improvement of the country's repayment capacity or vice versa. On the onset of IMF-SBA, the ratio declined to 3.7 times in 2009-10 as EDL growth slowed and foreign exchange reserves shored up. The ratio improved slightly in 2010-11 mainly because of lower growth in EDL stock and improvement in reserves. However, it showed downward trend during 2011-12 and 2012-13 and recorded at 4.3 times and 5.5 times respectively, mainly because of drawdown on reserves owing to repayments of the IMF loans and other lower non-debt creating inflows. During 2013-14, this ratio improved and recorded at 4.6 times mainly due to increased external inflows (both debt and non-debt creating) and accordingly foreign exchange reserves shored up. During first nine months of current fiscal year, this ratio was further improved and recorded at 3.8 times owing to further increase in foreign exchange reserves and decrease in the stock of EDL.

EDL as a percent of GDP stood at 26.3 percent at end of June 2013 compared with 29.2 percent in 2011-12. This improvement was mainly due to hefty repayments against the IMF loans and translational gain on account of US Dollar appreciation against other major currencies. By end June 2014, this ratio marginally increased and stood at 26.8 percent mainly due to successful launching of Eurobonds, fresh financing from World Bank, ADB and some bilateral inflows along with translational loss on account of US Dollar depreciation against other major currencies. By end March 2015, this ratio reduced and stood at 23.2 percent mainly due to translational gain of US$ 4.3 billion on account

of appreciation of US Dollar against other major currencies.

9.5 Pakistan's Link with International Capital Market

Pakistan successfully returned to the international Islamic bond market in November 2014 with the issuance of Sukuk for US$ 1 billion. Similar to Eurobonds issued in April 2014, investors' response was overwhelming as order-books oversubscribed by almost five times i.e. against the initial expectations of raising US$ 500 million, there were offers worth US$ 2.3 billion. The success of this Sukuk transaction highlights the growing confidence of the international investors towards the economic policies of the government being implemented to enhance the economic performance of the country. Encouragingly, the government was able to get even a lower rate compared to Eurobonds i.e. 6.75 percent for 5 year Sukuk compared with 7.25 percent on the same tenor Eurobonds issued in April 2014. This profit rate of 6.75 percent on the Sukuk also marks the lowest pricing achieved by Pakistan in the international conventional and Islamic bond market in last 7 years.

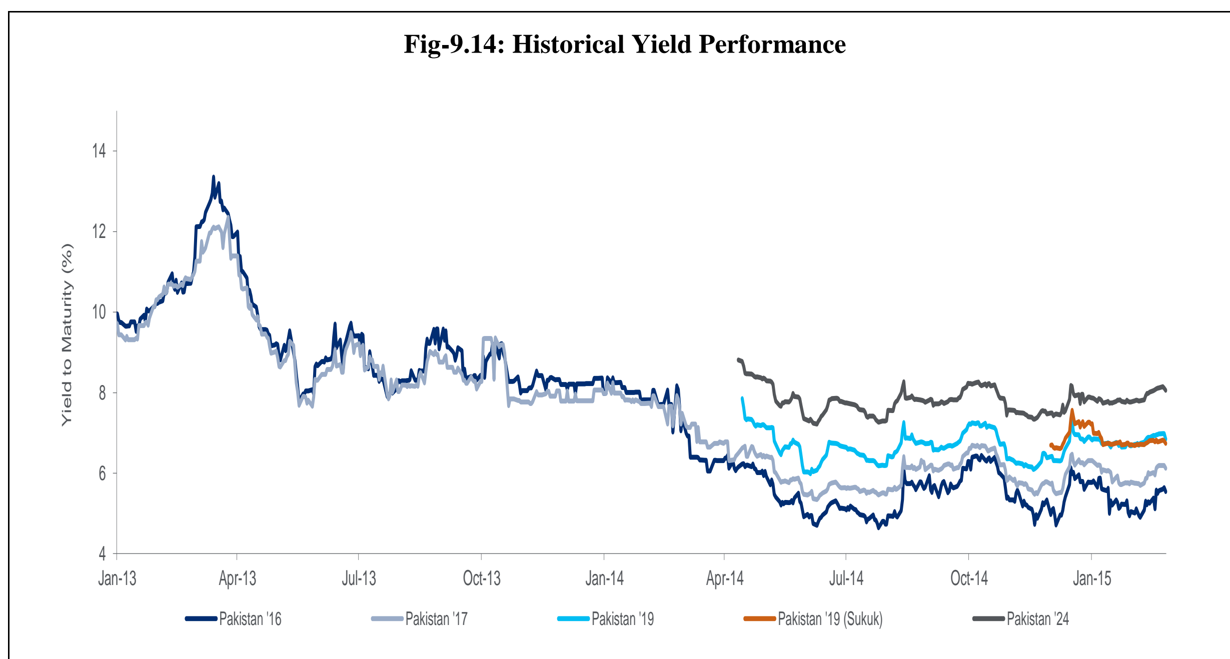
Pakistan's international Eurobonds have performed well since issuance and levels have remained relatively stable since the start of 2015. The 2016s, 2017s, 2019s and 2024s Eurobonds broadly traded at a premium since May 2014 with yields dropping significantly to 3.5 percent range for 2016s, 4.7 percent range for 2017s, 5.6 percent range for 2019s and 7 percent range for 2024s as of mid-April 2015.

Table-9.10: Selected Secondary Market Benchmarks

Issuer	Ratings (Moody's/S&P)	Maturity	Issue Size (US$ in million)	Coupon (%)	Yield (%)	Bid Spread Vs. BM	Bid Spread Vs. MS
Pakistan	Caa1/B-	March 2016	500	7.125	3.57	337 bps	315 bps
Pakistan	Caa1/B-	June 2017	750	6.875	4.73	420 bps	397 bps
Pakistan	Caa1/B-	April 2019	1,000	7.250	5.68	462 bps	447 bps
Pakistan	Caa1/B-	April 2024	1,000	8.250	7.07	525 bps	529 bps
Pakistan	Caa1/B-	March 2036	300	7.875	8.18	593 bps	606 bps

Source: Bloomberg, as of April 17, 2015

Fig-9.14: Historical Yield Performance



9.6 Conclusion

Pakistan's public debt dynamics witnessed various positive developments during first nine months of current fiscal year. The composition of public debt further improved and the cost and risks of public debt portfolio reduced. The government is committed to accomplish objectives outlined in Fiscal Responsibility and Debt Limitation Act, 2005. Going forward, the prime objectives of public debt management include: (i) fulfilling the financing needs of the government keeping in view cost-risk tradeoffs; (ii) development of domestic debt capital market (iii) lengthening of maturities of domestic debt instruments at a reasonable cost; and (iv) stimulation of concessional external financing with reference to its impact on macroeconomic stability and debt sustainability.