Chapter 9

Public Debt

9.1 Introduction

Public debt management is a process of formulating and executing a multi-pronged debt strategy to ensure that both the level and rate of growth in public debt is fundamentally sustainable while ensuring that the government financing needs and its payment obligations are met at the lowest possible cost over the medium to long term, consistent with a prudent degree of risk.

Public debt portfolio witnessed various developments during ongoing fiscal year, some of them are highlighted as follows:

- Over 80 percent of the net borrowing from domestic sources was through medium-to-long-term domestic debt instruments (Pakistan Investment Bonds and Government Ijara Sukuks) during first nine months of current fiscal year;
- Profile of domestic debt has improved significantly during the tenure of present government. Short-term debt as percentage of total domestic debt has decreased to around 23 percent at end March 2021 compared with 54 percent at end June 2018;
- In-line with the government's commitment, no new borrowing was made from State Bank of Pakistan (SBP). In fact, government repaid Rs 569 billion during the ongoing fiscal year against its debt owed to SBP. The cumulative debt retirement against SBP debt stood over Rs 1.1 trillion during last two fiscal years;
- The Rs 25,000, Rs 15,000 and Rs 7,500 denominations prize bonds were withdrawn from circulation in order to improve the documentation of the economy. The holders have been given options to (i) convert to premium prize bonds; or (ii) replace them with eligible National Savings Certificates; or (iii) encash at face value into their bank accounts;
- Pakistan entered the international capital market after a gap of over three years by successfully raising US$ 2.5 billion through a multi-tranche transaction of 5-, 10- and 30-year Eurobonds under its first-ever Global Medium Term Note Programme;
- Debt from multilateral and bilateral sources cumulatively constituted over 80 percent of external public debt portfolio at end March 2021. A set of reforms initiated by the government to improve the economy has brought strong support from multilateral development partners during last two years. This is expected to strengthen confidence and catalyze additional support from development partners

in the coming years which will also help in reducing the pressure on domestic sources;

- Pakistan is availing the G-20 Debt Service Suspension Initiative (DSSI) for a period of 20-months (May 2020 - December 2021) which will help to defer the debt servicing impact to the tune of around US$ 3.7 billion during this period.

Over the medium-term, government objective is to reduce its "Gross Financing Needs (GFN)" through various measures mainly including (i) better cash flow management through a treasury single account; (ii) lengthening of maturities in the domestic market keeping in view cost and risks trade-off; (iii) developing regular Islamic based lending program; and (iv) avail maximum available concessional external financing from bilateral and multilateral development partners to benefit from concessional terms and conditions.

9.2 Public Debt

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

Table-9.1: Total Public Debt

(Rs in billion)	**Jun-13**	**Jun-18**	**Jun-19**	**Jun-20**	**Mar-21**
Domestic Debt	9,520	16,416	20,732	23,283	25,552
External Debt	4,771	8,537	11,976	13,116	12,454
Total Public Debt	**14,292**	**24,953**	**32,708**	**36,399**	**38,006**
Total Debt of the Government[1]	**13,457**	**23,024**	**29,521**	**33,235**	**33,724**
(In percent of GDP)					
Domestic Debt	42.5	47.4	54.4	56.0	53.6
External Debt	21.3	24.7	31.4	31.6	26.1
Total Public Debt	**63.8**	**72.1**	**85.9**	**87.6**	**79.7**
Total Debt of the Government[1]	**60.1**	**66.5**	**77.5**	**80.0**	**70.7**
(Memorandum Items)					
GDP (current market price)	22,386	34,616	38,086	41,556	47,709
Government Deposits with the banking system[2]	834	1,929	3,187	3,163	4,281
US Dollar, last day average exchange rates	99.1	121.5	163.1	168.2	152.6

[1] As per Fiscal Responsibility and Debt Limitation Act, 2005 amended in June 2017, "Total Debt of the Government" means the debt of the Government (including the Federal Government and the Provincial Governments) serviced out of the consolidated fund and debts owed to the International Monetary Fund (IMF) less accumulated deposits of the Federal and Provincial Governments with the banking system.

[2] Accumulated deposits of the Federal and Provincial Governments with the banking system.

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

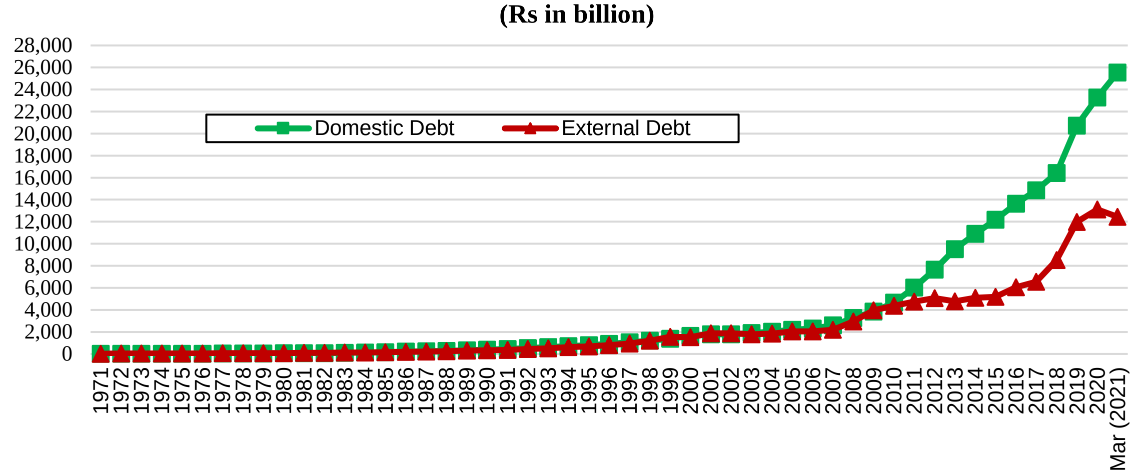
Total public debt was recorded at Rs 38,006 billion at end March 2021, registering an increase of Rs 1,607 billion during first nine months of current fiscal year which was much less when compared with the increase of Rs 2,499 billion witnessed during the same period last year. The increase in total public debt during first nine months of current fiscal year was even lower than Federal Government borrowing of Rs 2,065 billion for financing of its fiscal deficit. The differential is primarily attributable to appreciation of Pak Rupee against US Dollar by around 9 percent which led to decrease in the value of external public debt when converted into Pak Rupees. The trend in total public debt since 1971 is depicted in Box-I.

Box-I: Trend in Total Public Debt

Table-9.2: Year Wise Total Public Debt Position

Year	Domestic Debt	External Debt	Public Debt	Year	Domestic Debt	External Debt	Public Debt	Year	Domestic Debt	External Debt	Public Debt
(Rs in billion)											
1971	14	16	30	**1988**	290	233	523	**2005**	2,178	2,034	4,211
1972	17	38	55	**1989**	333	300	634	**2006**	2,322	2,038	4,359
1973	20	40	60	**1990**	381	330	711	**2007**	2,601	2,201	4,802
1974	19	44	62	**1991**	448	377	825	**2008**	3,274	2,853	6,127
1975	23	48	70	**1992**	532	437	969	**2009**	3,860	3,871	7,731
1976	28	57	85	**1993**	617	519	1,135	**2010**	4,653	4,357	9,010
1977	34	63	97	**1994**	716	624	1,340	**2011**	6,014	4,756	10,771
1978	41	71	112	**1995**	809	688	1,497	**2012**	7,638	5,059	12,697
1979	52	77	130	**1996**	920	784	1,704	**2013**	9,520	4,771	14,292
1980	60	86	146	**1997**	1,056	939	1,995	**2014**	10,907	5,085	15,991
1981	58	87	145	**1998**	1,199	1,193	2,392	**2015**	12,193	5,188	17,380
1982	81	107	189	**1999**	1,389	1,557	2,946	**2016**	13,626	6,051	19,677
1983	104	123	227	**2000**	1,645	1,527	3,172	**2017**	14,849	6,559	21,409
1984	125	132	257	**2001**	1,799	1,885	3,684	**2018**	16,416	8,537	24,953
1985	153	156	309	**2002**	1,775	1,862	3,636	**2019**	20,732	11,976	32,708
1986	203	187	390	**2003**	1,895	1,800	3,694	**2020**	23,283	13,116	36,399
1987	248	209	458	**2004**	2,028	1,839	3,866	**Mar-21**	25,552	12,454	38,006

Fig-9.1: Trend in Domestic and External Debt
(Rs in billion)



In order to provide investment opportunities to oversees Pakistanis, Government of Pakistan introduced the Naya Pakistan Certificates Rules, 2020. The investors can invest digitally in Naya Pakistan Certificates (NPCs) through their Roshan Digital Accounts (RDA). The key highlights of the NPCs are presented in below box:

Box-II: Naya Pakistan Certificates

Naya Pakistan Certificates is a fixed income security issued by the Government of Pakistan under Public Debt Act, 1944 and NPC Rules 2020.

Eligible Investors

Following investors, either individually or jointly, are eligible to invest in NPCs through Roshan Digital Accounts, provided that their assets abroad have been duly declared in their latest tax returns filed with the Federal Board of Revenue (FBR):

- Pakistanis having National Identity Card for Overseas Pakistanis (NICOP).
- Foreigners having Pakistan Origin Card (POC).
- Members of Overseas Pakistanis Foundation.
- An employee or official of Federal or a Provincial Government posted abroad.

Form

The certificates are issued in scrip-less form.

Types

The NPCs are issued both is Shariah compliant and conventional structures.

Tenor

The certificates are issued for 3-Month, 6-Month, 12-Month, 3-year and 5-year tenor.

Currency

The certificates are issued in PKR, USD, EURO and GBP.

Deduction of Tax

The returns on NPCs are subject to 10% withholding tax as per existing provisions of Income Tax Ordinance 2001. There shall however, be no tax applicable on the principal amount.

Applicability of Zakat

The NPCs are exempt from zakat deduction.

Premature Encashment

Premature encashment is allowed, provided that rate of return shall be calculated as per rate of return of the nearest shorter tenor of the certificate. No profit shall be paid in case of encashment before completion of three months.

Pledging

The NPCs are pledgeable as security for raising financing in Pakistan subject to such conditions as may be prescribed by SBP.

Rate of Return

Tenor-wise, currency wise rate of return on both shariah compliant and conventional structure certificates are as under:

Tenor	Rate of return (%)			
	USD	GBP	EUR	PKR
3-Month	5.50	5.25	4.75	9.50
6-Month	6.00	5.50	5.00	10.00
12-Month	6.50	5.75	5.25	10.50
3-Year	6.75	6.25	5.50	10.75
5-Year	7.00	6.50	5.75	11.00

Minimum and Maximum Limit of Investment				
Limits	**Currency**			
	USD	**GBP**	**EUR**	**PKR**
Minimum limit	USD 5,000 and integral multiples of USD 1,000	GBP 5,000 and integral multiples of GBP 1,000	EUR 5,000 and integral multiples of EUR 1,000	PKR 100,000 and integral multiples of PKR 10,000
Maximum limit	No Limit	No Limit	No Limit	No Limit

Source: State Bank of Pakistan

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

Government remained within the benchmarks and thresholds defined in the Medium-Term Debt Management Strategy (MTDS)[1] at end December 2020 as depicted in the table below:

Table-9.3: Key Risk Indicators

Risk Exposure	Indicators	End Dec-20
Currency Risk	Share of External Debt in Total Public Debt	35.1
Refinancing Risk	Average Time to Maturity of Domestic Debt (Years)	4.1
	Average Time to Maturity of External Debt (Years)	7.0
	Amortization of Total Public Debt within 1 year (% of GDP)	21.4
Share of Shariah Compliant Instruments in Government Securities (%)		3.8
Share of Fixed Rate Debt in Government Securities (%)		32.4

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

9.4 Dynamics of Public Debt Burden

The analysis of various solvency and liquidity indicators provides clear insight into debt sustainability of the country.

Table 9.4: Selected Public Debt Indicators (in percentage)

	2012-13	2017-18	2018-19	2019-20
Primary Balance / GDP	(3.6)	(2.1)	(3.5)	(1.7)
Fiscal Balance / GDP	(8.2)	(6.5)	(9.0)	(8.1)
Total Public Debt / GDP	63.8	72.1	85.9	87.6
Total Debt of the Government / GDP	60.1	66.5	77.5	80.0
Interest Service / Revenue	33.2	28.7	42.7	41.8

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

Aggressive expenditure management along with impressive growth in revenues yielded a visible improvement in the fiscal position in the first eight months of 2019-20. These improvements, however, were challenged by the outbreak of COVID-19 during the last four months of the year. Nevertheless, earlier gains had created enough fiscal space to deal with COVID-19 shock and kept the full year budget deficit lower than the last fiscal year i.e. the government registered a primary deficit of 1.7 percent and an overall deficit

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

of 8.1 percent of GDP during 2019-20 compared with 3.5 percent and 9.0 percent of GDP respectively, during last fiscal year. The fiscal performance during 2019-20 can be mainly evaluated through analysis of developments in revenue and current expenditures as highlighted below:

- Total revenues grew by 28 percent during 2019-20 compared with the last fiscal year. This improvement was mainly due to multiple policy measures targeted to enhance FBR's tax collections while non-tax revenue collections posted a substantial increase on account of higher SBP profits and GSM license renewal fees; and
- Current expenditures grew by around 20 percent during 2019-20 mainly due to higher interest payments on debts and additional spending on COVID related expenditures. Government announced a fiscal stimulus package of Rs 1.2 trillion amid COVID-19. The purpose of the package was to provide relief to small businesses and economically vulnerable low-income groups whose livelihood was badly affected by the pandemic-related lockdown. Therefore, significant spending was recorded towards health care, social transfers and grants after the pandemic during last four months of 2019-20. Resultantly, the expenditure-control measures taken by the government prior to pandemic could not be fully implemented due to additional spending requirements following the pandemic outbreak.

Despite additional expenses carried out due to ongoing pandemic, further improvement in fiscal position was witnessed during first nine months of current fiscal year. Fiscal deficit was recorded at 3.5 percent of GDP, as compared to 4.1 percent during same period of last year. In particular, the primary surplus of 0.9 percent of GDP was recorded compared with the primary surplus of 0.5 percent of GDP recorded during the same period last year. This improvement is primarily attributable to significant increase in revenue collection that outpaced the expenditure growth. While the increase in revenues emanated from both tax and non-tax segments, the overall expenditures rose mainly on the back of higher interest payments and development expenditures.

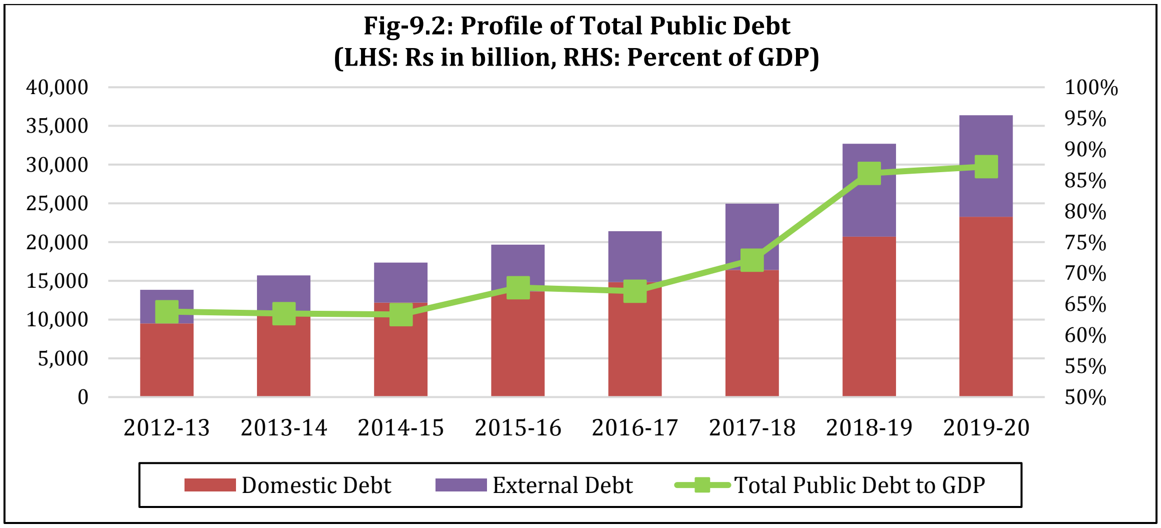
It is important to highlight that Pakistan has witnessed one of the smallest increases in its public debt during pandemic. Global public debt to GDP Ratio increased by 13 percentage points, from 84 percent in 2019 to 97 percent in 2020, whereas, Pakistan's Debt-to-GDP ratio witnessed minimal increase of 1.7 percentage points and stood at 87.6 percent at end June 2020 compared with 85.9 percent at end June 2019.

Table-9.5: Debt-to-GDP Ratio (In Percentage) – International Comparison (Pre & Post COVID)

	Pre-COVID (2019)	Post-COVID (2020)	Increase
Pakistan	85.9	87.6	1.7
Bangladesh	35.7	38.9	3.2
India	73.9	89.6	15.7
Sri Lanka	86.8	100.1	13.3
Global	84.3	97.3	13.0

Source: IMF Fiscal Monitor, 2021

The Debt-to-GDP ratio of Pakistan is expected to reduce and will remain below 84 percent at the end of current fiscal year. The historical path of Debt-to-GDP ratio is depicted through following graph:



9.5 Servicing of Public Debt

Interest servicing was recorded at Rs 2,104 billion during first nine months of current fiscal year against its annual budgeted estimate of Rs 2,946 billion. Domestic interest payments were recorded at Rs 1,934 billion and constituted around 92 percent of total interest servicing during first nine months of current fiscal which is mainly attributable to higher volume of domestic debt in total public debt portfolio.

Table-9.6: Public Debt Servicing **(Rs in billion)**

	2020-21*			
	Budgeted (2020-21)	**Actual**	**Percent of Revenue**	**Percent of Current Expenditure**
Servicing of Domestic Debt	2,631	1,934	38.7	31.8
Servicing of External Debt	315	170	3.4	2.8
Total Interest Servicing	**2,946**	**2,104**	**42.1**	**34.6**

***:** July-March

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

On a full year basis (2020-21), interest servicing is expected to remain below the budgeted estimates primarily due to extension of DSSI from January to June 2021, appreciation of Pak Rupee against US Dollar and lower interest servicing on account of National Savings Schemes due to withdrawals against discontinued prize bonds.

9.6 Domestic Debt

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

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

- T-bills are considered short-term securities and have maturities of 12-Month or less at the time of issuance.
- PIBs are considered longer-term securities and have maturities of more than 12-Month at the time of issuance. PIBs pay the entire face value on maturity and also pay profits at regular intervals until maturity. PIBs can be further categorized as Fixed-rate PIBs and Floating-rate PIBs.
  - Fixed-rate PIBs pay a fixed amount of profit on each profit payment date.
  - Floating-rate PIBs pay a variable amount of profit on each profit payment date. The profit rate is determined by adding a spread to an underlying reference rate such as 3- or 6- Month T-bills yield.
- Shariah compliant government securities program has also been in place since 2008-09, however, it still constitutes a small proportion of government domestic securities portfolio. Government is aiming to increase the share of Shariah compliant securities to 10 percent in total government securities by end June 2023 compared with 2 percent at end June 2020.

Following table illustrates the details and auction mechanism of government securities:

Table-9.7: Details of Domestic Market Debt Instruments

Instrument	Tenor	Coupon Payment	Coupon Reset	Auction Mechanism
T-bills	3-Month	-	-	Multiple Price
	6-Month	-	-	Multiple Price
	12-Month	-	-	Multiple Price
PIBs (Fixed)	3-Year	Semi-Annual	-	Multiple Price
	5-Year	Semi-Annual	-	Multiple Price
	10-Year	Semi-Annual	-	Multiple Price
	15-Year	Semi-Annual	-	Multiple Price
	20-Year	Semi-Annual	-	Multiple Price
	30-Year	Semi-Annual	-	Multiple Price
PIBs (Floating)	2-Year	Quarterly	Fortnightly	Multiple Price
	3-Year	Quarterly	Quarterly	Multiple Price
	5-Year	Quarterly	Quarterly	Multiple Price
	10-Year	Quarterly	Quarterly	Multiple Price
	3-Year	Semi-Annual	Semi-Annual	Multiple Price
	5-Year	Semi-Annual	Semi-Annual	Multiple Price
	10-Year	Semi-Annual	Semi-Annual	Multiple Price
GIS	5-Year (FRR)	Semi-Annual	Semi-Annual	Single Price
	5-Year (VRR)	Semi-Annual	Semi-Annual	Single Price

FRR: Fixed Rental Rate; VRR: Variable Rental Rate
Source: Debt Policy Coordination Office, Ministry of Finance

- Within the retail debt market, multiple schemes are being offered under National Savings Schemes (NSS) having the investment horizon of 3-Month to 10-Year.

9.6.1 Domestic Borrowing Operations

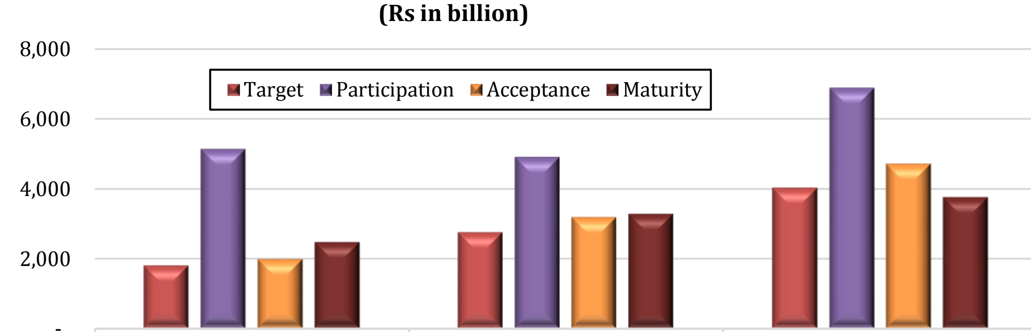
Domestic debt was recorded at Rs 25,552 billion at end March 2021, registering an increase of Rs 2,270 billion during first nine months of current fiscal year. Following are the highlights of domestic borrowing operations during ongoing fiscal year:

- Domestic borrowing was made entirely from the financial markets;
- Over 80 percent of the net borrowing from domestic sources was through medium-to-long-term domestic debt instruments;
- An amount of Rs 569 billion was repaid to SBP;
- Various new instruments were introduced to further develop the government securities market, attract more diversified investor base and to provide more flexibility to the investors as well as to the government;
  - Government started issuance of 5-Year Sukuk with fixed rate rental payments from July 2020;
  - Similar to conventional bond, government introduced re-opening mechanism in Sukuk auctions in July 2020 to increase its liquidity;
  - Government started issuance of 3, 5 and 10-year floating rate PIBs with quarterly coupon payment frequency from October 2020; and
  - Government introduced 2-year floating rate PIBs in November 2020 with quarterly coupon payment frequency and fortnightly interest rate re-setting.
- With effect from 1st July 2020, all institutional investors have been barred from investing in National Saving Schemes (NSS) with the objective to deepen the financial markets and lower the Government's long-term borrowing costs by creating more competition for long-term government debt;
- The Rs 25,000, Rs 15,000 and Rs 7,500 denominations prize bonds were withdrawn from circulation in order to improve the documentation of the economy.

9.6.2 Domestic borrowing pattern

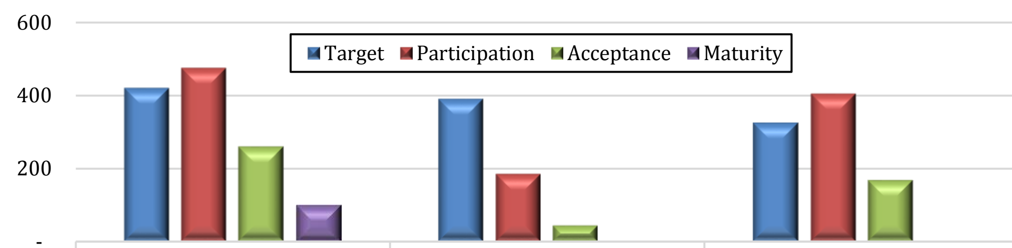
Government securities remained the preferred choice of borrowing within domestic debt. Healthy participation was witnessed in the auction of government securities as depicted in the following graphs:

Fig-9.3: Quarter Wise Auction Profile of Treasury Bills (2020-21)
(Rs in billion)



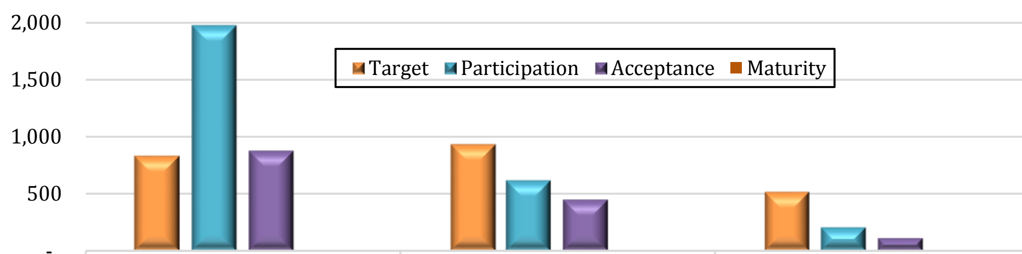
	Q1	Q2	Q3
Target	1,800	2,750	4,025
Participation	5,143	4,910	6,888
Acceptance	1,981	3,188	4,712
Maturity	2,469	3,279	3,751

Fig-9.4: Quarter Wise Auction Profile of Fixed Rate PIBs (2020-21)
(Rs in billion)



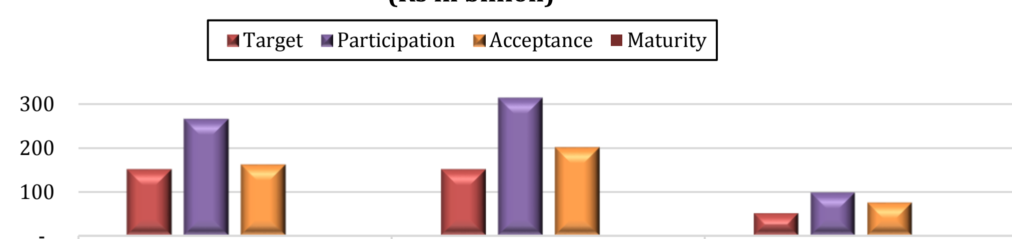
	Q1	Q2	Q3
Target	420	390	325
Participation	475	184	404
Acceptance	258	44	167
Maturity	101	-	-

Fig-9.5: Quarter Wise Auction Profile of Floating Rate PIBs (2020-21)
(Rs in billion)



	Q1	Q2	Q3
Target	830	930	515
Participation	1,976	619	207
Acceptance	874	448	111
Maturity	-	-	-

Fig-9.6: Quarter Wise Auction Profile of Sukuks (2020-21)
(Rs in billion)



	Q1	Q2	Q3
Target	150	150	50
Participation	265	314	98
Acceptance	162	201	75
Maturity	-	-	-

9.6.3 Component Wise Analysis of Domestic Debt

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

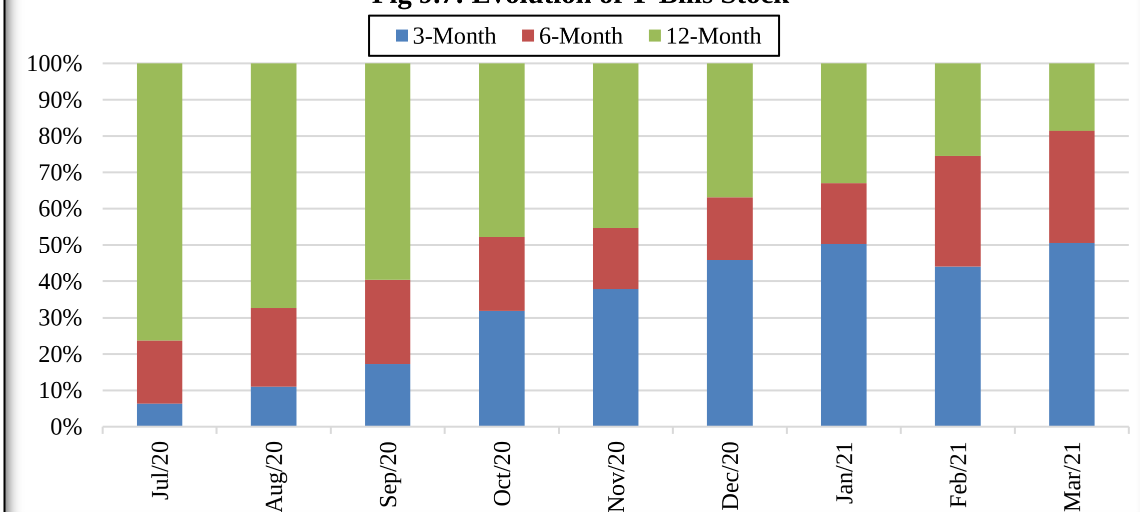
I. Permanent Debt

Permanent debt mainly comprises medium to long-term instruments such as PIBs, GIS and Prize Bonds. Permanent debt constituted 62 percent of domestic debt portfolio and recorded at Rs 15,882 billion at end March 2021, representing an increase of Rs 1,852 billion during first nine months of ongoing fiscal year. The bifurcation of this increase reveals that government net mobilization through issuance of PIBs and GIS was Rs 1,488 billion[2] and Rs 439 billion respectively, whereas a net retirement amounting to Rs 74 billion was observed in Prize Bonds due to discontinuation of prize bonds of various denominations.

II. Floating Debt

Floating debt was recorded at Rs 6,000 billion or around 24 percent of total domestic debt portfolio at end March 2021. During first nine months of ongoing fiscal year, net mobilization through issuance of T-bills was Rs 421 billion[3]. The following graph shows tenor wise changes in the T-bills stock during first nine months of current fiscal year:

Fig 9.7: Evolution of T-Bills Stock



III. Unfunded Debt

The stock of unfunded debt stood at Rs 3,652 billion at end March 2021, constituted around 14 percent of total domestic debt portfolio. Unfunded debt recorded net reduction of Rs 22 billion during first nine months of current fiscal year. The following

[2] excluding PIBs held by non-residents amounting to Rs 53 billion, which are recorded as external public debt.

[3] excluding T-bills held by non-residents amounting to Rs 58 billion which are recorded as external public debt.

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

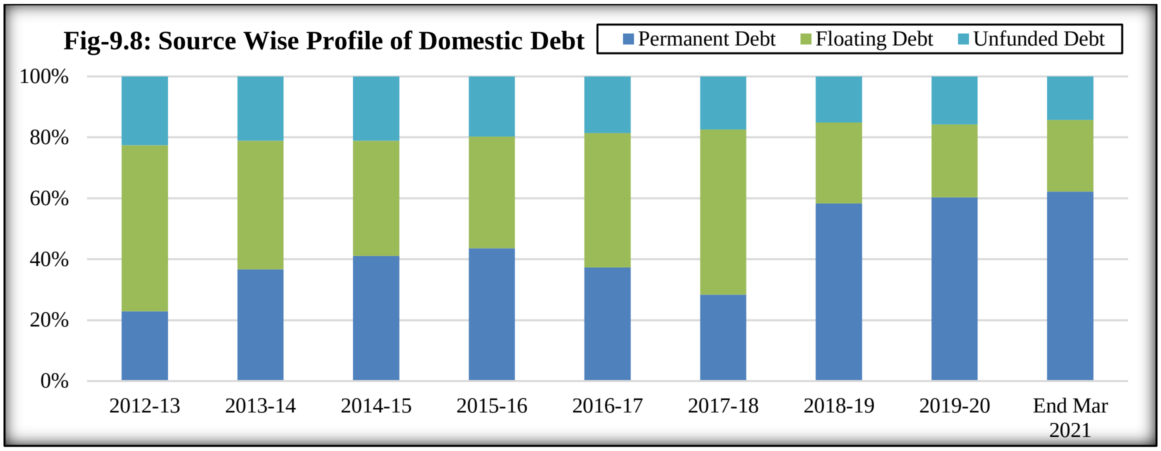


Table-9.8: Outstanding Domestic Debt (Rs in billion)

	Jun-13	Jun-18	Jun-19	Jun-20	Mar-21
Permanent Debt	**2,179.0**	**4,659.2**	**12,087.0**	**14,030.7**	**15,882.4**
Market Loans	2.8	2.8	2.8	2.8	2.8
Government Bonds	1.3	1.3	1.3	1.3	1.3
Prize Bonds	389.6	851.0	893.9	734.1	659.9
Foreign Exchange Bearer Certificates	0.1	0.1	0.1	0.1	0.1
Bearer National Fund Bonds	0.0	0.0	0.0	0.0	0.0
Federal Investment Bonds	0.0	0.0	0.0	0.0	0.0
Foreign Currency Bearer Certificates	0.0	0.0	0.1	0.1	0.1
U.S. Dollar Bearer Certificates	0.1	0.1	0.1	0.1	0.1
Special U.S. Dollar Bonds	4.3	5.1	6.7	6.9	6.3
Pakistan Investment Bonds (PIBs)*	1,321.6	3,413.3	10,933.2	12,886.0	14,374.5
GOP Ijara Sukuk	459.2	385.4	71.0	198.2	636.3
Bai-Muajjal of Sukuk	-	-	177.8	201.0	201.0
Floating Debt	**5,194.9**	**8,889.0**	**5,500.6**	**5,578.3**	**6,000.0**
Market Treasury Bills*	2,919.7	5,294.8	4,930.5	5,575.5	5,996.8
MTBs for Replenishment	2,275.2	3,594.2	570.2	2.8	3.2
Bai Muajjal	0.0	0.0	-	-	-
Unfunded Debt	**2,146.5**	**2,868.1**	**3,144.1**	**3,673.6**	**3,651.6**
Defence Saving Certificates	271.7	336.2	393.4	486.2	478.9
National Deposit Certificates	0.0	0.0	0.0	0.0	0.0
Khass Deposit Certificates	0.3	0.2	0.2	0.2	0.2
Special Savings Certificates (Registered)	388.2	381.9	413.7	427.7	432.6
Special Savings Certificates (Bearer)	0.3	0.3	0.3	0.3	0.3
Regular Income Certificates	262.6	347.5	489.6	572.9	589.1
Premium Saving Certificates	0.0	0.0	0.0	0.0	0.0
Bahbood Savings Certificates	528.4	794.9	914.5	997.8	998.3
Short Term Savings Certificates	4.0	4.3	5.1	24.3	5.3
Khass Deposit Accounts	0.3	0.3	0.3	0.3	0.3
Savings Accounts	22.3	38.3	38.2	42.7	41.9
Special Savings Accounts	346.2	549.0	416.6	617.3	600.2
Mahana Amdani Accounts	2.0	1.7	1.6	1.5	1.5
Pensioners' Benefit Account	179.9	274.9	318.3	352.2	363.4
Shuhadas Family Welfare Account	-	-	0.0	0.1	0.1
National Savings Bonds	0.2	0.1	0.1	-	-
Postal Life Insurance Schemes	67.1	46.7	47.9	48.5	47.9
GP Fund	73.1	91.7	104.3	101.5	91.7
Naya Pakistan Certificate	**-**	**-**	**-**	**-**	**18.2**
Total Domestic Debt	**9,520.4**	**16,416.3**	**20,731.8**	**23,282.5**	**25,552.2**

*Government Securities held by non-residents are deducted from PIB's and T-bills.

Source: State Bank of Pakistan

9.6.4 Secondary Market Activities in the Marketable Government Securities

The liquidity in the secondary market of government securities improved further during 2020-21. During first nine months, outright trading volumes witnessed considerable increase on the back of healthy primary issuances of T-Bills, PIBs and GIS. The outright trade amounted to Rs 32 trillion, compared with Rs 28 trillion recorded during the same period of preceding year. This translates into average daily trade volume of Rs 171 billion during July 2020 - March 2021, compared with Rs 150 billion during the same period last year.

Table-9.9: Secondary Market Outright Trading Volume (Rs in billion)

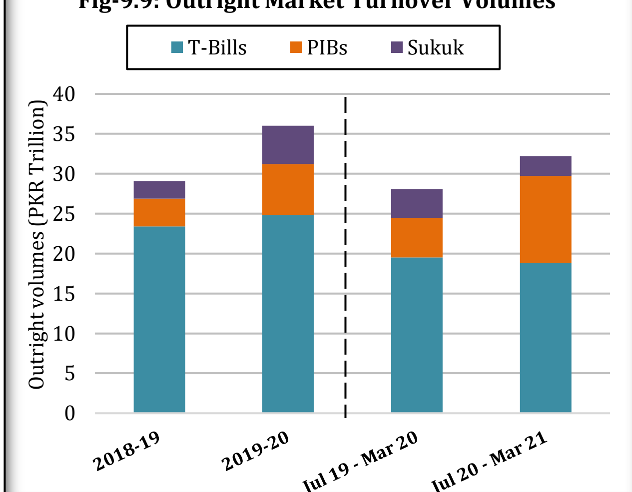
Security	2019	2020	2020 (Q1-Q3)	2021 (Q1-Q3)
3 Month T-Bills	23,330	14,260	12,452	8,305
6 Month T-Bills	41	3,660	2,314	5,389
12 Month T-Bills	33	6,914	4,741	5,129
Sub Total (A)	**23,404**	**24,835**	**19,507**	**18,823**
2 Year PIBs	-	-	-	28
3 Year PIBs	1,596	3,024	2,713	7,122
5 Year PIBs	889	1,430	973	2,221
10 Year PIBs	1,017	1,910	1,266	1,479
15 Year PIBs	0.6	15	0.1	25
20 Year PIBs	0.9	17	9	32
Sub Total (B)	**3,503**	**6,396**	**4,961**	**10,908**
GIS (C)	**2,202**	**4,817**	**3,635**	**2,469**
Grand Total (A+B+C)	**29,109**	**36,047**	**28,103**	**32,199**
Daily Average volume	**117.8**	**146.5**	**150.3**	**171.3**

Source: State Bank of Pakistan

Increased outright volumes is mainly attributed to higher outright volumes in 3 and 5-year fixed and floating-rate PIBs and 6-month T-Bills. On the other hand, outright trade in 3-month T-bills decreased by about one-third to Rs 8.3 trillion. Further, trade in GIS also witnessed a considerable dip during first nine months of 2020-21, despite significant primary issuance till January 2021. GIS worth Rs 2.5 trillion were traded during the period under consideration, compared to Rs 3.6 trillion during same period last year. The drop in GIS trade may be attributed to:

- Buy-and-hold behaviour of the Islamic Financial Institutions (IFIs) due to uncertainty regarding regular future GIS issuances;
- No issuance since January 2021; and
- Removal of holding limits for GIS that allowed individual banks to hold more securities depending upon their book-size and requirements.

Fig-9.9: Outright Market Turnover Volumes



9.6.5 Repo Market and Secondary Market Yield

During first nine months of current fiscal year, repo trades worth Rs 24 trillion were undertaken, a decline of 13 percent compared to similar period of last year. Banks mainly rely on repo market to meet their whole-sale short-term liquidity needs and a drop in repo trade indicates that the banks had sufficient liquidity to meet their daily funding needs (with relatively lower access to the repo market), which may be attributed to lower economic and banking activity in the midst of pandemic. Evidently, 74 percent of total repo volumes were in the overnight tenor. While 1- and 2-week tenor deals accounted for 12 percent and 10 percent of the total volumes, respectively. Cumulative volume of secondary market activities remained almost unchanged. However, repo volumes decreased 13 percent and outright volumes increased 14 percent during first nine months of current fiscal year compared with the same period last year.

Table-9.10: Government Security Based Transactions

Type	Volume (Rs in billion)				Market Share (Percentage)			
	2019	2020	2020 (Q1-Q3)	2021 (Q1-Q3)	2019	2020	2020 (Q1-Q3)	2021 (Q1-Q3)
Repo	35,879	35,182	27,221	23,743	55	53	49	43
Outright	29,109	31,483	28,103	32,119	45	47	51	57
Total	**64,988**	**66,665**	**55,324**	**55,862**	**100**	**100**	**100**	**100**

Source: State Bank of Pakistan

9.7 External Public Debt

External public debt was recorded at US$ 81.6 billion at end March 2021 increasing by around US$ 3.6 billion during first nine months of current fiscal year. This increase reveals the following:

- Debt from multilateral and bilateral sources increased by US$ 2.2 billion. This amount also includes US$ 0.5 billion received from the IMF under Extended Fund Facility (EFF). Overall, loans from multilateral and bilateral loans are mostly contracted on concessional terms (low cost and longer tenor);
- The stock of commercial loans registered increased by US$ 1.0 billion. Fresh loans from middle eastern commercial banks primarily contributed towards this increase;
- The stock of Pakistan Banao Certificates and Naya Pakistan Certificates cumulatively registered an increase of US$ 0.4 billion;

Pakistan's external public debt is derived from four key sources, with around 49 percent coming from multilateral loans, 31 percent from bilateral loans, 13 percent from commercial loans[4] and 7 percent from Eurobonds/Sukuk. The following graph summarizes the component wise break-up of external public debt stock:

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

Fig-9.10: Source Wise Profile of External Public Debt

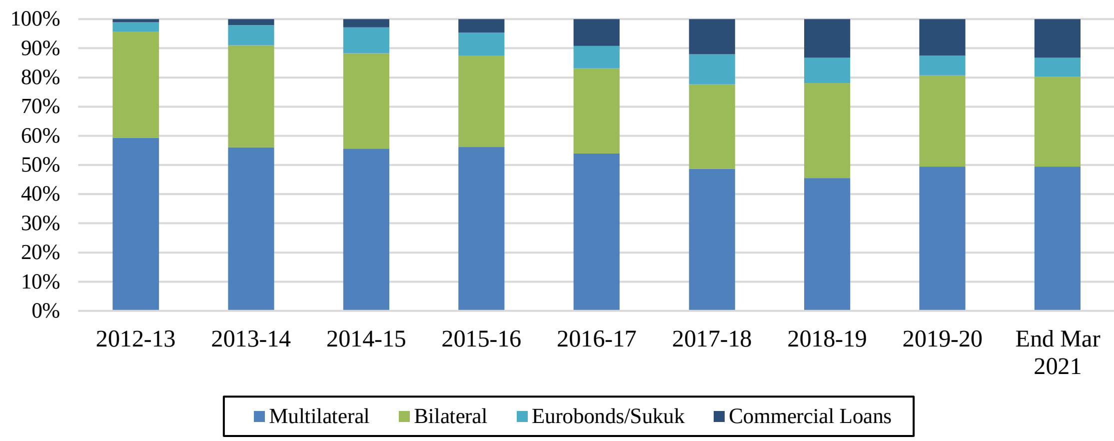


Table-9.11: External Public Debt

(US$ in million)	Jun-13	Jun-18	Jun-19	Jun-20	Mar-21
A. External Public Debt (1+2)	**48,139**	**70,237**	**73,449**	**77,994**	**81,606**
1. Government External Debt (i+ii)	**43,752**	**64,142**	**67,800**	**70,314**	**73,972**
i) Long term (>1 year)	**43,488**	**62,525**	**66,536**	**68,773**	**73,139**
Paris Club	13,548	11,643	11,235	10,924	10,438
Multilateral	24,198	28,102	27,788	30,898	32,721
Other Bilateral	3,939	8,674	12,717	13,428	14,722
Euro/Sukuk Global Bonds	1,550	7,300	6,300	5,300	5,300
Military Debt	71	-	-	-	-
Commercial Loans/Credits	-	6,806	8,470	8,068	9,161
Local Currency Securities (PIBs)	2	-	-	96	348
Saudi Fund for Development (SFD)	180	-	-	-	-
NBP/BOC deposits/PBC*	-	-	26	59	68
Naya Pakistan Certificate*	-	-	-	-	382
ii) Short term (<1 year)	**264**	**1,617**	**1,264**	**1,542**	**833**
Multilateral	256	961	778	814	451
Local Currency Securities (T-bills)	8	0	0	586	382
Commercial Loans/Credits	-	655	486	141	-
2. From IMF	**4,387**	**6,095**	**5,648**	**7,680**	**7,634**
i) Federal Government	1,519	-	-	2,833	3,415
ii) Central Bank	2,868	6,095	5,648	4,847	4,219

*: Naya Pakistan Certificate and Pakistan Banao Certificates (PBC) are issued by Government of Pakistan for overseas Pakistanis.
Source: Ministry of Economic Affairs, State Bank of Pakistan and Debt Policy Coordination Office, Ministry of Finance

9.7.1 External Public Debt Inflows and Outflows

(a) Inflows

Gross external loan disbursements were recorded at US$ 7,724 million[5] during first nine months of 2020-21, the details of which are as follows:

- Disbursements from multilateral sources amounted US$ 3,397 million and accounted for 44 percent of the total disbursements. The main contributors were Asian Development Bank (ADB), World Bank and the IMF. The disbursements from the IMF were part of ongoing EFF program while inflows from ADB and World Bank

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

were targeted towards energy, finance and infrastructure development and to address the pandemic repercussions;

- Bilateral sources contributed US$ 1,207 million or 16 percent in total disbursements. Out of this, SAFE Deposits from China amounted to US$ 1,000 million; and
- Commercial loans contributed US$ 3,120 million or 40 percent in total disbursements. These commercial loans were mostly obtained to refinance the existing maturities while incremental flows were for balance of payments support.

(b) Outflows

External public debt repayments were recorded at US$ 5,147 million during first nine months of current fiscal year compared with US$ 5,537 million during the same period last year. This reduction in repayments is primarily due to DSSI initiative and no repayment of Eurobonds/Sukuks during the current fiscal year.

Interest payments were recorded at US$ 1,080 million during first nine months of current fiscal year as compared to US$ 1,580 million during same period of preceding year. The factors which reduced the external interest servicing during the ongoing fiscal year were (i) significant reduction in global interest rates due to the pandemic which led to lower interest payments on floating rate external debt; and (ii) interest servicing deferment under DSSI.

The source wise details of external public debt inflows and outflows over last few years are depicted in the table below:

Table-9.12: Source Wise External Public Debt Inflows and Outflows

(US$ in million)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	Jul 20 - Mar 21
DISBURSEMENTS							
Multilateral	5,435	5,766	3166	2813	2021	8,329	3397
Bilateral	867	1,040	1,941	1,971	4,377	1,398	1,207
Bonds	1,000	500	1,000	2,500	-	-	-
Commercial / Other	150	1,387	4,426	3,716	4,098	3,347	3,120
Total Inflows (A)	**7,452**	**8,693**	**10,533**	**11,000**	**10,496**	**13,074**	**7,724**
REPAYMENTS							
Multilateral	2,407	1274	1255	1403	1750	2199	1994
Bilateral	407	440	1,200	793	970	783	90
Bonds	-	500	750	-	1,000	1,000	-
Commercial / Other	686	1000	1922	1995	3634	5061	3063
Total Repayments (B)	**3,500**	**3,213**	**5,127**	**4,190**	**7,355**	**9,043**	**5,147**
Net Inflows (A-B)	**3,952**	**5,480**	**5,406**	**6,809**	**3,140**	**4,031**	**2,577**
INTEREST PAYMENTS							
Multilateral	258	290	381	485	584	637	449
Bilateral	385	380	441	444	541	484	106
Bonds	300	354	366	423	503	396	213
Commercial / Other	32	102	124	332	475	515	312
Total Interest Payments (C)	**975**	**1,127**	**1,313**	**1,684**	**2,103**	**2,032**	**1,080**
Total Debt Servicing (B+C)	**4,475**	**4,340**	**6,440**	**5,874**	**9,458**	**11,075**	**6,227**

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

Source: Ministry of Economic Affairs and State Bank of Pakistan

9.7.2 Impact of Exchange Rate Fluctuations

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

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

- In US Dollar terms, revaluation loss owing to depreciation of US Dollar against other international currencies increased the external public debt stock by around US$ 1.1 billion. This increase was mainly driven by depreciation of US Dollar against Chinese Yuan by 8 percent, Euro by 5 percent and Special Drawing Right (SDR) by 3 percent;
- The above-mentioned translational loss on account of depreciation of US Dollar against other international currencies was more than offset by the appreciation of Pak Rupee against US Dollar by 9 percent which led to reduce the Rupee value of external public debt.

9.7.3 External Debt Sustainability

A country can achieve debt sustainability if it can meet its current and future debt service obligations in a timely manner without exceptional financial assistance.

Table-9.13: External Public Debt Sustainability Indicators

(In percent)	2012-13	2017-18	2018-19	2019-20
Current Account Deficit/GDP	1.1	6.1	4.8	1.7
ED/FEE (times)	1.0	1.3	1.3	1.4
ED/FER (times)	4.4	4.3	5.1	4.1
ED/GDP (Percentage)	20.8	22.3	26.2	29.7
ED Servicing/FEE (Percentage)	11.1	10.8	17.2	20.4

FEE: Foreign Exchange Earnings; ED: External Public Debt; FER: Foreign Exchange Reserves
Note: The above ratios are calculated based on US Dollar amounts.
Source: Debt Policy Coordination Office, Ministry of Finance

Misaligned economic policies of the past, including large fiscal deficits, loose monetary policy and defence of an overvalued exchange rate, fuelled consumption and short-term growth but steadily eroded macroeconomic buffers, increased external debt, inflated current account deficit and depleted international reserves. Current account deficit was recorded at historic high of US$ 19.2 billion during 2017-18.

The external account improved significantly during the tenure of present government. In 2019-20, Current Account Deficit (CAD) stood at US$ 4.4 billion. The lower CAD significantly reduced the country's need to arrange external financing. The external sector continues to strengthen and after remaining positive for all 10 months of ongoing fiscal year, the cumulative current account balance was recorded at a surplus of US$ 0.8 billion during July 2020 - April 2021. This turnaround was supported by an improvement in the trade balance and surge in remittances.

External public debt to foreign exchange reserves ratio improved and recorded at 4.1 times during 2019-20 compared with 5.1 times during last fiscal year, on the back of slowdown in fresh accumulation of debt and the rise in the country's foreign exchange reserves.

Growth in external public debt servicing mainly driven by repayments of Eurobonds and commercial loans which outpaced the growth in FEE and accordingly external public debt servicing to foreign exchange earnings ratio increased to 20.4 percent in 2019-20 compared with 17.2 percent in 2018-19.

Pakistan's external debt remains on sustainable path, which has also been endorsed by the IMF. With improved balance of payment situation, external debt sustainability is expected to improve further going forward.

9.7.4 Pakistan's return to International Capital Markets

Pakistan entered the international capital market in April 2021 after a gap of over three years by successfully raising US$ 2.5 billion through a multi-tranche transaction of 5-, 10- and 30-year Eurobonds. The transaction generated great interest as leading global investors from Asia, Middle East, Europe and the US participated in the global investor calls and the order book. It was the largest conventional bond issuance by Pakistan with high quality diversified order book of US$ 5.3 billion (2.1 times over subscription). This transaction also includes first ever benchmark size 30-year issuance by Pakistan.

This is for the first time that Pakistan has adopted a program-based approach with registration of Global Medium-Term Note (GMTN) program. The program will allow Pakistan to tap the market at short notice. The Government intends to make full use of this program and become a regular issuer in the International Capital Markets.

Currently, all of the Pakistan's outstanding bonds are being traded at premium, representing international market's high demand for these sovereign bonds as depicted in the table below:

Table-9.14: Pakistan Sovereign Bonds - Secondary Trading Levels

Bond	Ratings			Issue Date	Maturity Date	Size (US$ Mn)	Tenor Years	Coupon (%)	Yield (%)
	M	S&P	F						
Sukuk	B3	-	B-	13-Oct-16	13-Oct-21	1,000	5	5.500	2.425
Sukuk	B3	B-	-	05-Dec-17	05-Dec-22	1,000	5	5.625	3.532
Eurobond	B3	B-	B-	30-Mar-06	31-Mar-36	300	30	7.875	7.453
Eurobond	B3	B-	B-	15-Apr-14	15-Apr-24	1,000	10	8.250	4.669
Eurobond	B3	-	B-	30-Sep-15	30-Sep-25	500	10	8.250	5.275
Eurobond	B3	B-	-	05-Dec-17	05-Dec-27	1,500	10	6.875	5.989
Eurobond	B3	-	B-	08-Apr-21	08-Apr-26	1,000	5	6.000	5.381
Eurobond	B3	-	B-	08-Apr-21	08-Apr-31	1,000	10	7.375	6.699
Eurobond	B3	-	B-	08-Apr-21	08-Apr-51	500	30	8.875	8.179

Source: Bloomberg, June 02, 2021

9.8 Conclusion

Pakistan's strategy to reduce its debt burden to a sustainable level includes commitment to run primary surpluses, maintain low and stable inflation, promote measures that support higher long-term economic growth and follow an exchange rate regime based on economic fundamentals. With narrower fiscal deficit, public debt is projected to enter a firm downward path while government's efforts to improve maturity structure will enhance public debt sustainability.