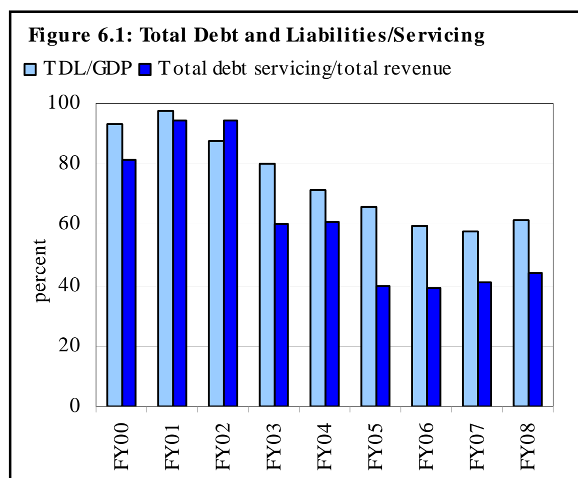
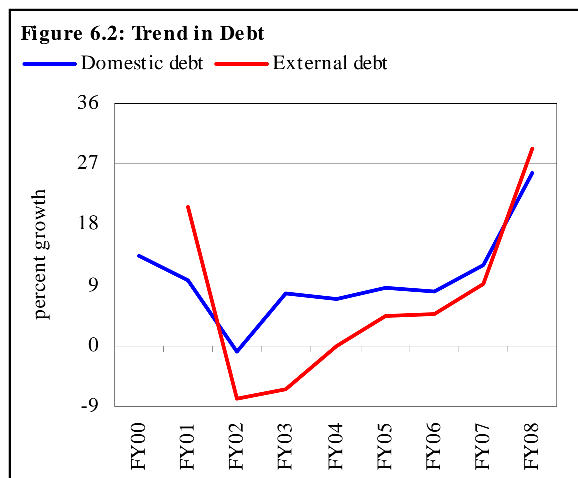
6 Domestic and External Debt

6.1 Overview

After consistent improvement from FY01 to FY07, Pakistan's debt position deteriorated sharply in FY08, reflecting the country's large fiscal and current account deficits, as well as slowing economic growth. The stock of Pakistan's total debt and liabilities (TDL) increased by 27.3 percent YoY to Rs 6426.4 billion, with a commensurate deterioration in the debt sustainability indicators (see **Figure 6.1** & **Table 6.1).** In particular, the ratio of TDL to GDP a broad measure of the country's capacity to sustain debt saw an end to seven years declining trend, rising in FY08 to 61.3 percent (see **Figure 6.2**). Also, some of the targets set under the Fiscal and Debt Responsibility Act were not met in FY08 (see **Box 6.1**).



The sharp increase in TDL stock during FY08 was contributed almost equally by domestic and external debt; growth in both categories accelerated sharply. The growth in explicit liabilities however was only slightly higher than FY07. Acceleration in the growth of domestic debt, not only reflected the larger FY08 fiscal deficit relative to the previous year, but also the relatively lower availability of external financing receipts. The accelerated growth in the rupee value of external debt in FY08, on the other hand, reflected not only a larger current account deficit, but also a decline in non-debt external flows as well as the depreciation of the rupee.



Another important development was increasing reliance on short-term debt, relative to preceding years. Debt with initial maturity of less than one year accounted for approximately 43 percent of total debt raised in FY08, compared to a share of approximately 33 percent in FY07. This increase mainly reflects the extraordinary increase in government borrowings from SBP; these borrowings totaled Rs 1056.3 billion in FY08, nearly 132.1 percent to the outstanding stock in FY07.

6.2 Domestic Debt

A large budget deficit, less than projected external inflows and virtual halt in privatization process resulted in a massive accumulation of domestic debt in FY08. Pakistan's domestic debt amassed at Rs 3.26 trillion at end-June 2008, up from Rs 2.6 trillion in FY07, registering an unprecedented growth of 25.6 percent. This large rise in domestic debt has reversed the falling trend of domestic debt to GDP ratio alarmingly (see **Figure 6.3**).

Table 6.1: Profile of Total Debt and Liabilities

billion rupees

	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Total debt & liabilities	**3,553.90**	**4,113.30**	**3,911.60**	**3,904.00**	**4,030.50**	**4,288.90**	**4,564.10**	**5,046.4**	**6,426.4**
Total debt (TD)	**3,258.40**	**3,791.80**	**3,723.50**	**3,781.40**	**3,917.00**	**4,181.60**	**4,468.60**	**4,957.5**	**6,302.4**
Growth rate	*4.3*	*16.6*	*-2.6*	*1.1*	*3.3*	*6.1*	*6.3*	*10.9*	*27.1*
1. Domestic debt	**1,578.80**	**1,731.00**	**1,717.90**	**1,853.70**	**1,979.50**	**2,149.90**	**2,321.70**	**2,601.1**	**3,266.1**
Growth rate	*13.4*	*9.6*	*-0.8*	*7.9*	*6.8*	*8.6*	*8*	*12.0*	*25.6*
Share in TD	(48.5)	(45.7)	(46.1)	(49.0)	(50.5)	(51.4)	(52.0)	(52.5)	(51.8)
2. External debt	**1,679.60**	**2,060.80**	**2,005.60**	**1,927.70**	**1,937.50**	**2,031.70**	**2,146.90**	**2,356.3**	**3,036.2**
Growth rate		*22.7*	*-2.7*	*-3.9*	*0.5*	*4.9*	*5.7*	*9.8*	*28.9*
Share in TD	(51.5)	(54.3)	(53.9)	(51.0)	(49.5)	(48.6)	(48.0)	(47.5)	(48.2)
3. Explicit liabilities [a]	**295.5**	**321.5**	**188.1**	**122.6**	**113.5**	**107.3**	**95.5**	**89.0**	**124.0**
Growth rate		*8.8*	*-41.5*	*-34.8*	*-7.4*	*-5.5*	*-11.0*	*-6.8*	*39.4*
Share in TD	(9.1)	(8.5)	(5.1)	(3.2)	(2.9)	(2.6)	(2.1)	(1.8)	(2.0)
Total debt servicing	**418**	**522.3**	**588.7**	**436.4**	**491.9**	**358.8**	**424.4**	**531.6**	**670.7**
Total interest payment	292.8	280.9	289	253.1	241.8	236.2	294	425.5	549.9
Domestic	222	195.4	212.5	189	185.3	181.9	237.1	358.6	474.5
Foreign	54.2	64	51.3	48.1	51.2	49.1	50.5	61.1	70.7
Explicit liabilities	16.6	21.5	25.2	16	5.3	5.2	6.4	5.8	4.7
Repayment of principal (foreign)	125.2	241.4	299.7	183.3	250.1	122.6	130.4	106.1	120.8
Debt as percent of GDP									
Total debt	92.9	97.7	87.8	80.1	71.5	66.0	59.9	57.9	61.3
Domestic debt	41.3	41.1	38.6	38.0	35.1	33.1	30.5	29.8	31.2
External debt	43.9	49.0	45.0	39.5	34.3	31.3	28.2	27.0	29.0
Explicit liabilities	7.7	7.6	4.2	2.5	2.0	1.7	1.3	1.0	1.2
Debt servicing as percent of									
Tax revenue	103.1	118.3	123.1	78.5	79.6	56.7	56.4	59.8	63.5
Total revenue	81.6	94.4	94.3	60.5	61.0	39.9	39.4	41.0	44.4
Total expenditure	58.9	72.8	71.2	48.6	52.3	32.1	30.3	31.7	29.9
Current expenditure	66.7	80.9	84.1	55.1	64.5	38.0	37.9	38.7	36.5
GDP	10.9	12.4	13.2	9.0	8.7	5.5	5.6	6.1	6.4

a) Explicit liabilities include all foreign liabilities owned by the country.

Rupee value of external debt for each year computed by applying the corresponding end period exchange rate to the end-June stock.

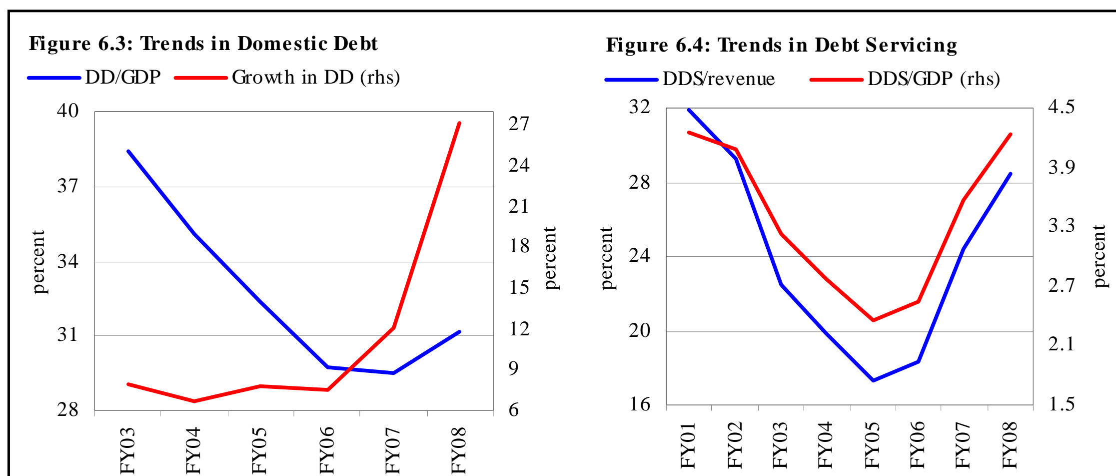
Sources: i) SBP, ii) DM Section, Finance Division

Box 6.1: Fiscal Responsibility and Debt Limitation (FRDL) Act 2005: A Progress Report
Government of Pakistan promulgated the Fiscal Responsibility and Debt Limitation (FRDL) Act 2005 on June 13, 2005 for elimination of revenue deficit and reduction of public debt to a prudent level by effective debt management. The preparation of debt reduction path/strategy is the responsibility of Debt Policy Co-ordination Office (DPCO) established under clause (b) of sub-section (2) of section (13). A progress report at 30 June 2008 on various limits set on public debt in FRDL act 2005 along with DPCO compliance report up to end September 2007 is given below:

FRDL Limits	Development till 30 September 2007 reported by DPCO	Progress from September 2007 onwards
Ensure "that within a period of ten financial years, beginning from July 1, 2003 and ending on June 30, 2013, the total public debt at the end of 10th financial year does not exceed 60 percent of the estimated GDP for that year and thereafter maintaining the total public debt below 60 percent of GDP for any given year."	At the end of June 2007, the public debt to GDP ratio stood at 55.2 percent, while in Q1-FY08 this ratio further declined to 50.1 percent of FY08 projected GDP.	Government had achieved the limit of public debt as 60 percent of GDP within three years instead of ten years as required by FRDL Act. Total debt to GDP ratio continuously declined from 80.1 percent in FY03 to 57.9 percent at end June 2007 due to remarkable higher economic growth and relatively stable exchange rate during this period. In FY08, this ratio took a u-turn; reaching 61.3 exceeding the 60 percent ratio set for end June 2013. The debt to GDP increased by 332 basis point due to macroeconomic imbalances such as large current account deficit on the back of higher trade deficit, about 100 percent growth in fiscal deficit, double digit inflation and significant depreciation of PKR as GDP growth remained slow.
Ensure "that in every financial year, beginning from July 1, 2003 and ending on June 30, 2013, the total public debt is reduced by no less than 2.5 percent of the estimated GDP for any given year;" provided that the social and poverty alleviation related expenditures are not reduced below 4.5 percent of estimated GDP for any given year and budgetary allocation to education and health, will be doubled from existing level in terms of percentage of GDP during the next ten year.	Debt to GDP ratio decreased to 55.2 percent in FY07 with 2.0 percentage points reduction as compared with reduction target of 2.5 percentage points in every year. By end September 2007, this ratio declined further to 50.1 percent of estimated GDP of FY08.	FY08 is the second consecutive year when government could not meet FRDL requirement of 2.5 percentage point reduction of total debt. By end June 2008, this ratio stood at 61.3 showing a raise of 332 basis points, which is not only moving in opposite direction of a specified reduction target of 2.5 percentage points but also against 2.0 percentage points reduction in public debt to GDP ratio in FY07. This raise is contributed by addition of domestic as well as external debt of government on the back of highest twin deficits in FY08. International credit rating agencies considered the external debt position as one of the others factor for the country rating, which investors usually consider while making decisions. In FY08, Moody's Investor Service and Standard and Poor's lowered the sovereign rating of Pakistan from B1/B+ to B2/B, which reflects the increase in high risk obligations. During the last three years (FY06-FY08) social and poverty related expenditure[1] remained more than 5.5 percent of GDP as against 4.5 percent target of FRDL Act. Education and health are the two main factors in the development of a nation. The government had realized their importance in FRDL Act 2005 by fixing the target of health & education expenditure as percent of GDP to double during FY03-FY13. In real terms, health & education expenditure as percent of GDP remained constant with less than one percent during last ten years.

[1] Social and poverty related expenditure includes highways, road & bridges, water supply and sanitation, education, population planning, social security and other welfare, natural calamities, irrigation, land reclamation, rural development food subsidies, sub-ordinate judiciary, law and order (only the development aspect), village electrification, and food support programs.

"Reduce revenue deficit to nil not later than the 30 June, 2008, and thereafter maintaining a revenue surplus. Revenue deficit means the difference between total current expenditure and total revenue of the government which indicates increase in liabilities of government without corresponding increase in assets of government".	Revenue balance remained in deficit with 0.9 percent of GDP in FY07. During the first quarter of FY08, this deficit reached Rs 27.3 billion; 0.3 percent of projected GDP of the year.	The 3.1 percent revenue deficit to GDP ratio observed in FY08; was not only highest during the last nine years (except for revenue surplus inFY04) but also higher than 0.6 percent average FY03-FY07. The revenue deficit amounted to Rs 325 billion in FY08, significantly 320.2 percent higher than the revenue deficit of FY07. This is another requirement of FRDL Act 2005 not fulfilled by the government within given time period at end June 2008 mainly due to 33.6 percent growth of current expenditure on the back of higher debt servicing payments (domestic as well as external) and superannuation allowances and pensions.
Not issue "new guarantee, including those for rupee lending, bonds, rates of return, output purchase agreements and all other claims and commitments that may be prescribed from time to time, for any amount exceeding 2.0 percent of the estimated GDP in any financial year: provided that the renewal of existing guarantees shall be considered as issuing a new guarantee."	In first six months of FY08, the government of Pakistan issued new guarantees of Rs 54.6 billion; 0.6 percent of GDP, which is lesser than the limit prescribed in FRDL Act 2005. In FY07, government remained in limit of 2.0 percent by issuing Rs 69.0 billion new guarantees, which was 0.8 percent of GDP.	In FY08, the government of Pakistan issued new guarantees of Rs 209.8 billion; 2.0 percent of GDP, which is not only higher than the 1.1 percent of GDP in previous year but also exactly, match the limit prescribed in FRDL Act 2005. In FY08, about 74.5 percent of government issued guarantees belong to energy and oil sector as compared to 51.9 percent guarantees were for same sectors in last year.



The reversal indicates that in the times ahead, not only the debt servicing cost would increase further but the fiscal space generated previously due to higher growth in GDP compared to domestic debt has already started to shrink. Both put additional budgetary constraints on allocating resources for social development expenditures.

Domestic debt servicing burden continued to pose a major threat to fiscal sustainability in FY08 (see **Figure 6.4**). As a percent of GDP, domestic debt servicing jumped to 4.2 percent compared to 3.6 percent in FY07. The repayment capacity of domestic debt, measured by servicing to total revenues ratio, weakened further as domestic debt servicing devoured 28.5 percent of the revenue resources in FY08 compared to 24.4 percent in FY07.

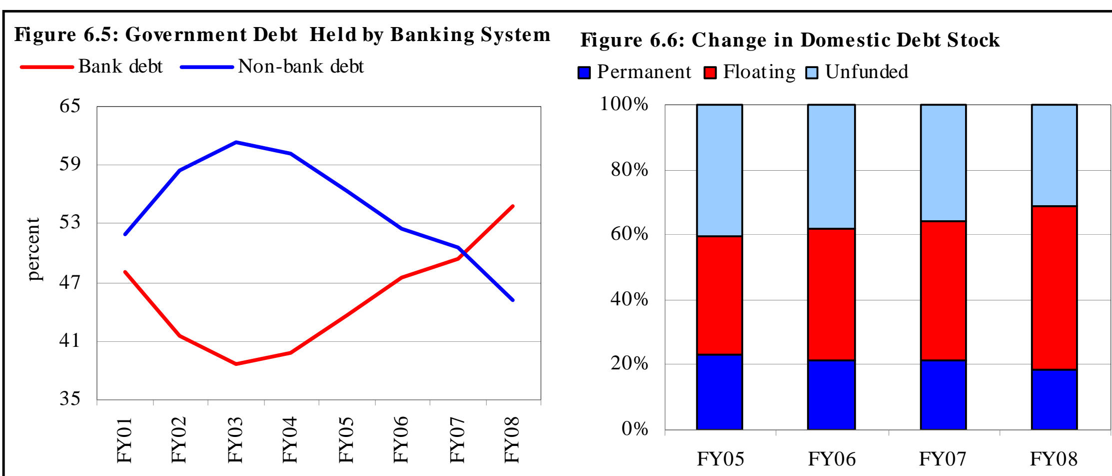
Moreover, with growth in domestic debt servicing expected to surpass growth in GDP, the above ratios are likely to rise further in FY09, squeezing the allocation for social and poverty related expenditures that are supposed not to be less than 4.5 percent of GDP for any given year as envisaged in the *Fiscal Responsibility and Debt Limitation Act 2005*.

6.2.1 Composition of Domestic Debt

Domestic financing of the FY08 budget deficit was almost exclusively funded by borrowings from the central bank. The exceptionally high borrowings from SBP had following profound impact on the structure of domestic debt: (1) SBP now holds major share in banking system debt (see **Table 6.2**); (2) solely based on the SBP contribution, the banking sector replaced the non-banks as major holder of the domestic debt (see **Figure 6.5**). Consequently, (3) the structure of the domestic debt has further tilted towards the shorter tenor (treasury bills) and finally, (4) the contribution of NSS, a major source

Table 6.2: Structure of Domestic Debt

	Debt (billion rupees)				**Growth Rate** (%)		**Share** (percent)	
	FY05	**FY06**	**FY07**	**FY08**	**FY07**	**FY08**	**FY07**	**FY08**
Permanent	501	500	553	608	10.6	10.0	21.3	18.7
Floating	778	941	1108	1638	17.8	47.8	42.6	50.3
of which								
MTBs	*453*	*433*	*656*	*537*	51.6	-18.2	*25.2*	*16.5*
MTBRs	*325*	*508*	*452*	*1101*	-11.0	143.5	*17.4*	*33.8*
Unfunded	850	882	940	1020.4	6.6	8.5	36.1	31.2
Domestic Debt	2129	2322	2601	3266	12.0	25.6	100.0	100.0



of non bank borrowing, closer to half of the total debt once, shrank to less than one third in FY08 (see **Figure 6.6**).

A key reason for government's dependence on central bank borrowings was the reluctance of commercial banks and other institutions to invest in government papers given the risks in a rising interest rate scenario. The anticipated interest rate risk, on the one hand, led to the net retirement of Rs 119 billion in Market Treasury Bills and on the other, failed to woo the investors towards the long term instruments, despite substantial market term premium available at the longer end[2] (see **Figure 6.7**). As a result, PIB auctions in FY08 brought only Rs. 59.1 billion for budgetary financing against

[2] Term premium is the premium received for the long term investment and calculated with reference to the 3-m paper.

the target of Rs 100 billion. Similarly, there were net retirements of above Rs. 4.3 billion in the long term Defence Saving Certificates (for details see section on **Unfunded Debt**).

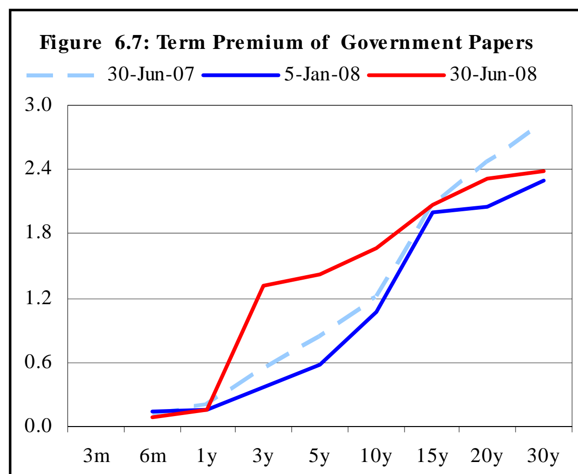


Figure 6.7: Term Premium of Government Papers

Permanent Debt

Despite 10.1 percent rise in its stock, the share of permanent debt in total domestic debt declined to 18.6 percent in FY08 from 21.3 percent in FY07.

Within permanent debt, although PIB retained its dominant share in FY08 (see **Figure 6.8**) but contributed only Rs 59.1 billion in FY08 against the original target of Rs 100 billion, signifying investors' reluctance in taking long term positions in the rising interest rate scenario.

Floating Debt

Floating debt or short term debt, consisting solely of treasury bills, swelled by 47.8 percent in FY08 compared to 17.8 percent in FY07 (see **Figure 6.9**). The sharp increase in floating debt stemmed from the treasury bills for replenishment that is borrowing from the central bank which saw a growth of 143.5 percent. This rise was contrary to 13.8 percent decline envisaged by SBP at the beginning of the fiscal year.[3]

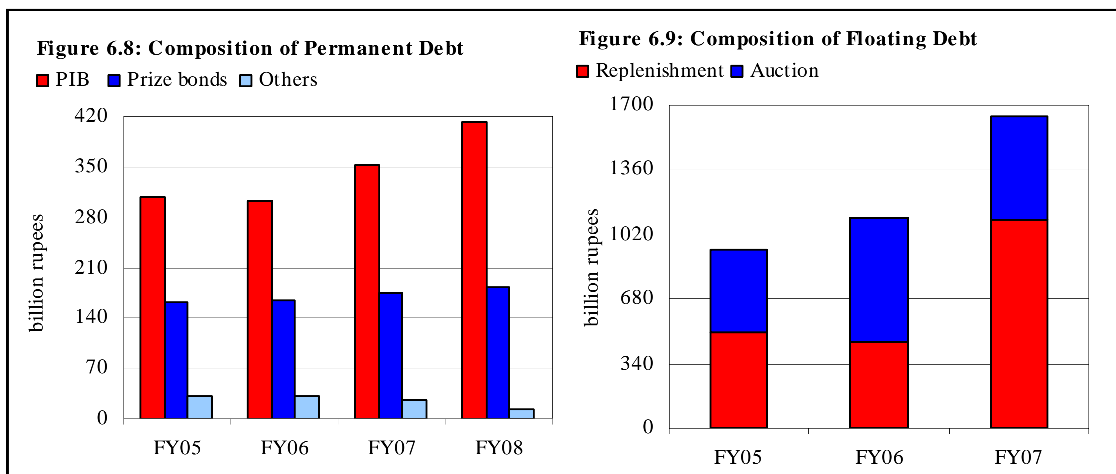


Figure 6.8: Composition of Permanent Debt

Figure 6.9: Composition of Floating Debt

The rise in government's financing requirement from central bank led to the loosening of monetary management being conducted by SBP, prompting the central bank to raise the policy rates thrice within a span of 6-7 months.

In contrast, commercial banks' holding of treasury bills declined by 18.2 percent in FY08 compared to 51.6 percent rise in FY07. Rising inflation strengthened the interest rate risk, waning attractiveness of the Market Treasury Bills and leading commercial banks to stay aloof from the treasury bills auction.

[3] SBP advised the government to retire Rs 62.5 billion of MRTBs in FY08.

Unfunded Debt

The growth in stock of unfunded debt reached 8.5 percent in FY08, mainly on account of higher investments in Behbood Saving Certificates (BSC), Pensioners Benefit Accounts (PBA) and Special Saving Certificates (SSC). Notwithstanding this rise, the share of unfunded debt in domestic debt declined from 36.1 percent in FY07 to 31.2 percent in FY08 (see **Table 6.3**).

It is important to note that both BSC and PBA are specialized investment instruments designed for targeted group of small investors. Behbood Saving Certificates are designed for widows and senior citizens while the Pensioners Benefit Accounts are designed specifically for pensioners. Both instruments are exempted from withholding tax and Zakat deduction.

Table 6.3: Profile of Unfunded Debt

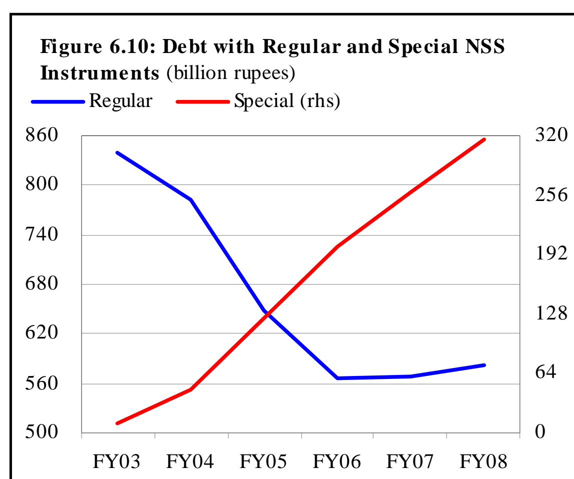
debt and financing in billion rupees and growth in percent

	Debt				Financing		Growth	
	FY05	**FY06**	**FY07**	**FY08**	**FY07**	**FY08**	**FY07**	**FY08**
Certificates	**671**	**649**	**678**	**726**	**28.5**	**48.0**	**4.4**	**7.1**
of which								
DSC	304	296	289	285	-7.0	-4.3	-2.4	-1.5
SSC	198	140	147	160	6.7	13.8	4.8	9.4
RIC	85	70	51	51	-18.4	-0.3	-26.4	-0.1
BSC	83	143	190	229	47.2	38.8	33.0	20.4
Accounts	**105**	**121**	**152**	**185.2**	**30.9**	**33.2**	**25.5**	**21.7**
of which								
SSA	8	9	19	67	10.0	5.5	18	8.9
MAA	2	2	2	2.5	0.1	0.0	2.3	-1.0
PBA	41	57	69	88	11.5	18.7	19.9	27.1
Postal Life	54	67	67	67	0.0	0.0	0.0	0.0
GP Fund	20	44	43	42.5	-1.2	-0.8	-2.6	-2.0
Total	**850**	**882**	**940**	**1020.4**	**58.3**	**80.4**	**6.6**	**8.6**

Notes: DSC: Defence Saving Certificate, SSC: Special Saving Certificate, RIC: Regular Income Certificate, BSC: Behbood Saving Certificates, SSA: Special Saving Account, MAA: Mahana Aamdani Accounts, PBA: Pensioners Benefit Account.

A comparison of the regular and specialized NSS instruments shows that the specialized instruments on aggregate have performed well in attracting the investors (see **Figure 6.10**). The aggregate outstanding debt against the PBA and BSC, since its inception in 2003, stood at Rs 317 billion at the end of FY08, attaining an average growth rate of 127 percent in last five years. On the other hand, the outstanding debt against the major regular instruments, comprising SSC, DSC, RIC, SA and SSA continued to decline with exception in FY08 when marginal recovery was seen primarily due to 9.4 percent growth in SSC. Contrasting performance of the two categories of the NSS instruments shows that the regular NSS instruments might have become uncompetitive due to alternate

Figure 6.10: Debt with Regular and Special NSS Instruments (billion rupees)

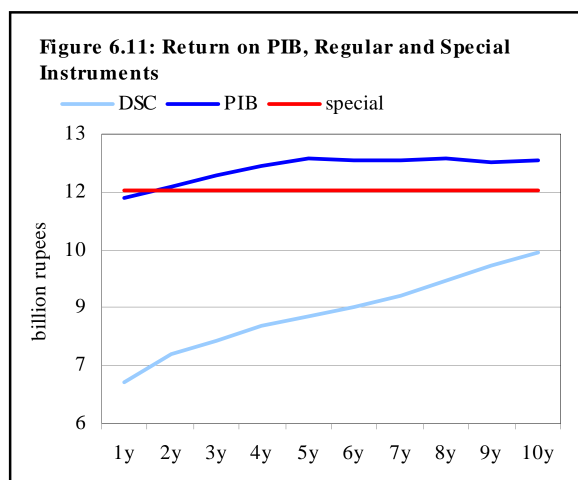


investment avenues available to investors like PIB's and possibly mutual funds, offering better structure of returns (see **Figure 6.11**)[4]. Not to mention that the specialized NSS instruments are offering specialized rates of 11.64 percent per annum, more competitive to the available revaluation rates (PKRV) on PIBs.

To enhance the competitiveness of the regular NSS instruments, there is need to make the price setting mechanism flexible and elastic to the market rates. Additionally, the price setting mechanism needs to be made more transparent. For example, SSC and DSC profit rates are linked with the PIBs; however the exact practice and the weights used, in deriving the certificates profit rates is hardly known to the investors. Therefore, in the wake of changing macroeconomic situation, anticipating a price movement of NSS instruments *a priori*, becomes difficult.

Realizing these deficiencies, the government has already initiated the process of restructuring NSS instrument. In Budget FY09, the government has announced a 200 basis points increase in the profit rates on NSS instruments. Simultaneously, the price setting period has been reduced from six months to three months.

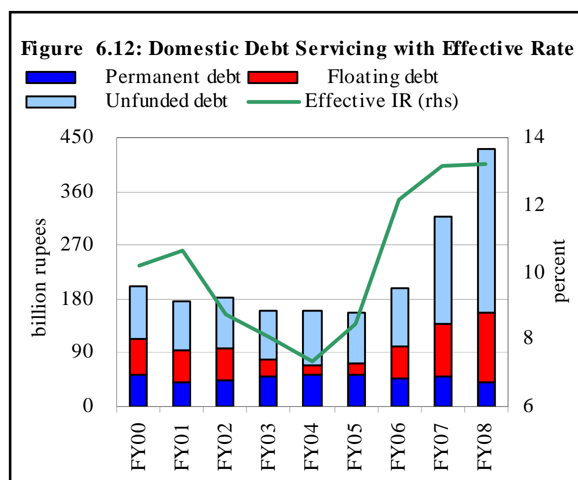
Figure 6.11: Return on PIB, Regular and Special Instruments



6.2.2 Interest Payments on Domestic Debt[5]

Debt servicing on domestic debt registered 36.1 percent growth in FY08, considerably moderate compared to 60.6 percent recorded in FY07. In absolute term, Rs430.9 billion interest amount was paid on domestic debt in FY08, which pushed the effective interest rate to 13.1 percent from 12.2 percent per annum in FY07 (see **Figure 6.12**).

Figure 6.12: Domestic Debt Servicing with Effective Rate



A further break up shows that debt servicing costs of permanent and floating debt are in tandem with their outstanding balance. The cost of permanent debt is declining with the decline in the share of the permanent debt while that of floating debt is increasing with increase in its share in the total debt.

In contrast, the cost of unfunded debt is swelling despite its shrinking share in total debt. The maturing Defense Saving Certificates issued in late nineties at the exorbitant rates are responsible for 'surprise' increase in the debt servicing cost of the unfunded debt.

[4] In **Figure 6.11,** for PIBs, PKRV of May 30,2008 has been used while for DSC, the profit rates prior to May 24,2008 have been used. Similarly, for special instrument profit rate prior to May 24, 2008, has been used as both BSC and the PBA have similar rates.

[5] Excluding 'Other payments' and Provincial.

In FY08, the share of DSCs in servicing of unfunded debt increased to 79.8 percent from 73.4 percent last year (see **Figure 6.13**). This rising trend in the DSC debt servicing cost may continue in FY09 as well, since the CDNS received the DSC deposits at the maximum profit rates of 18.04 percent till May 1999.

Unfortunately, *NSS is still ill-equipped to determine how many of these certificates were encashed prematurely and how many were held till maturity*[6]. However, a crude projection assuming the various proportion of the gross investment held by the investors till maturity is shown in **Figure 6.14**.

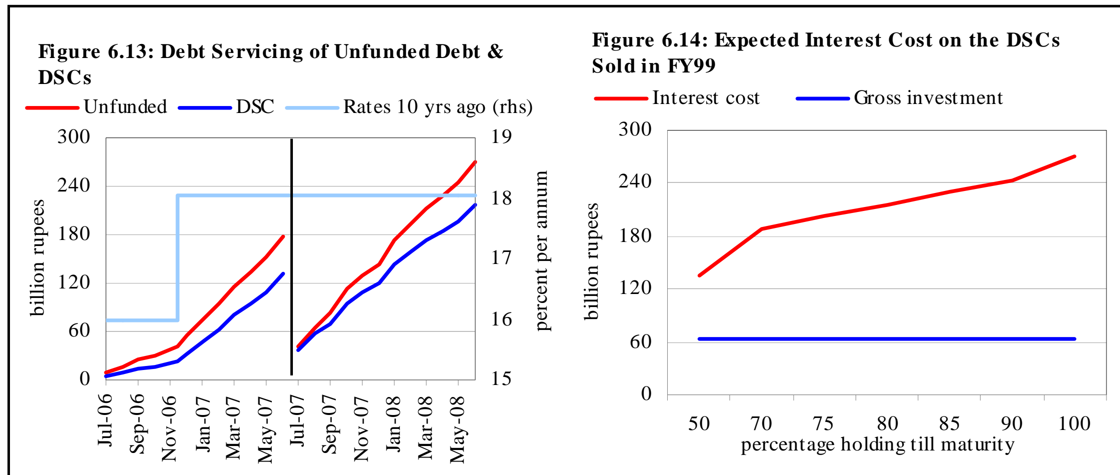


Figure 6.13: Debt Servicing of Unfunded Debt & DSCs

Figure 6.14: Expected Interest Cost on the DSCs Sold in FY99

In the extreme event where all of Rs 63.5 billions of DSCs issued in FY99 are retained till maturity, the impact of the maturing DSCs in FY09 would be as high as Rs 270 billion. However, if the retention ratio in levels seen in FY07, the impact would be lower.

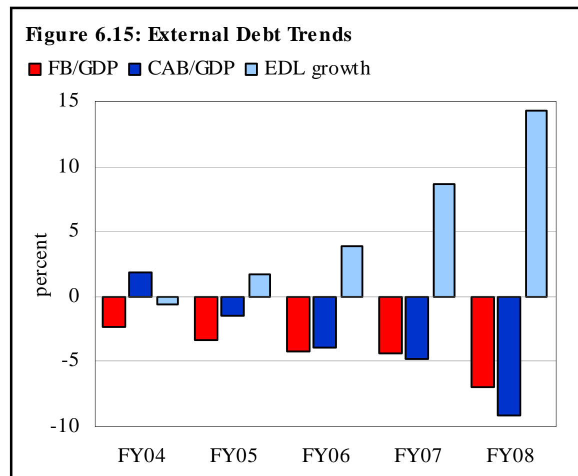


Figure 6.15: External Debt Trends

6.3 External Debt

Outstanding external debt and liabilities (EDL) of Pakistan have mounted to US$ 46.3 billion by end-June 2008, recording increase of US$ 5.8 billion over end-June 2007 with 5.9 percent growth during this period (see **Table 6.4**). This rise in EDL was contributed by increase in public and publicly guaranteed debt, private non-guaranteed debt/bonds as well as foreign exchange liabilities during the period under review.

The rise in foreign external debt and liabilities in FY08 mainly reflects the increase in twin deficits i.e. current account deficit and fiscal deficit (see **Figure 6.15**

A significant change in the maturity composition of public and public guaranteed debt stock was observed during FY08. The share of medium and long term debt (MLTD), having more than one year

[6] Economic Survey 2007-08

maturity, declined to 77.0 percent in FY08 from 86.9 percent during last year. In contrast to MLTD, the share of short term debt (with less than one year maturity) increased by 16.9 percentage points over the last year.

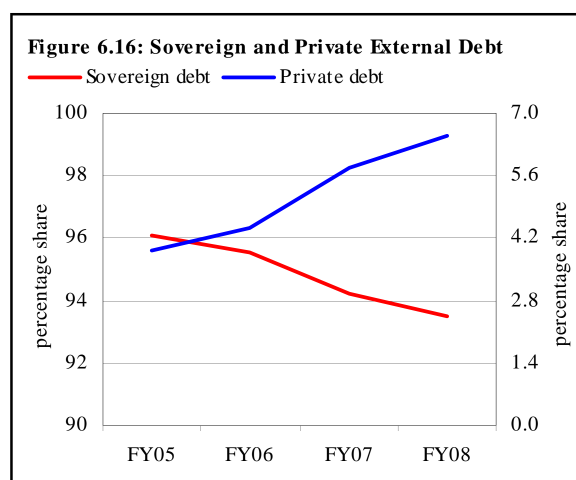
Table 6.4: Pakistan's External Debt and Liabilities

Value and absolute change in million US$

(Million US $)			Absolute change		Percentage change	
ITEM	FY07	FY08 P	FY07	FY08	FY07	FY08
1. Public and Publically Guaranteed debt	**35,349**	**40,242**	2,770	4893	8.5	13.8
A. Medium and long term(>1 year)	**35,324**	**39,529**	2,914	4205	9.0	11.9
Paris club	12,694	13,928	-137	1234	-1.1	9.7
Multilateral	18,687	21,581	2,157	2894	13.0	15.5
Other bilateral	1,002	1,190	155	188	18.3	18.7
Euro bonds/Saindak Bonds	2,655	2,650	747	-5	39.2	-0.2
Military debt	83	41	-47	-42	-36.2	-50.4
Commercial loans/credits	145	124	-20	-21	-12.3	-14.5
Local currency bonds (TBs & PIBs)	58	15	58	-43		-74.1
B. Short term (<1 year)	**25**	**713**	-144	688	-85.2	2752.0
IDB	25	713	-144	688	-85.2	2752.0
2. Private non-guaranteed debts (M<:>1 yr)	**2,002**	2,612	417	610	26.3	30.4
3. Private non-guaranteed bonds	**250**	275	250	25		10.0
4. IMF	**1,407**	1,337	-84	-70	-5.6	-5.0
Total external debt (1 through 4)	**39,008**	**44,466**	3,353	5458	9.4	14.0
5. Foreign exchange liabilities*	**1,473**	**1,817**	-112	343	-7.1	23.3
Special U.S $ bonds	156	121	-91	-35	-36.9	-22.2
Foreign currency bonds (NHA / NC)	88	66	-21	-22	-19.7	-25.0
Central bank deposits	700	1,200	0	500	0.0	71.4
NBP/BOC deposits	500	400	0	-100	0.0	-20.0
Other liabilities (SWAP)	30	30	0	0	0.0	0.0
FEBCs/FCBCs/DBCs	5	5	-1	0	-20.9	0.0
Total external debt and liabilities (1 through 5) *	**40,481**	**46,282**	3,240	5801	8.7	14.3

* Excluding FEBCs/FCBCs & DBCs P: provisional

The contribution of private debt in total external debt has been increasing over the years (see **Figure 6.16**). The share of foreign private loans rose from 3.9 percent in FY05 to 6.5 percent at end-June 2008. The major portion of private debt was for the development of communication, power sector and development of storage services sector.



The maturity profile (both principal as well as interest payments) of foreign debt is reasonably smooth during the next thirty years with some notable years (2009, 2010, 2016, 2036) in which the payments of 5-year Euro Bonds, 10-yearEuro bond, 5-year Sukuk bond

and 30-year Euro bonds are due (see **Box 6.2**). In the next two years (FY09-FY10), first the 5-year Euro bonds (amount of US$ 500 million) will mature; followed by 5-year Sukuk bonds (of US$ 600 million) (see **Figure 6.17**). These payments will put some pressure on liquidity and debt servicing indicators in the coming months.

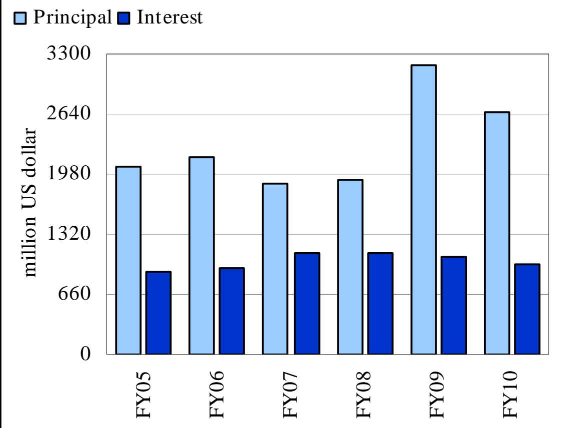


Figure 6.17: Trend of Debt Payments

6.3.1 Debt Sustainability Indicators

Despite rise in EDL stock, the TED as a percent of GDP, (TED/GDP) dropped moderately during FY08, which reflects an improvement in the potential of Pakistan economy to service the debt burden. This falling trend is the continuity of the similar trend observed during FY01-FY07 (see **Figure 6.18**). Similarly the debt service ratio (indicates how much of an economy export earnings are used in servicing its debt) also improved during FY08 mainly due to smooth schedule of debt payments- principal as well as interest payments (see **Special section 6.1-External Debt Vulnerability and Risk Indicators in Pakistan**).

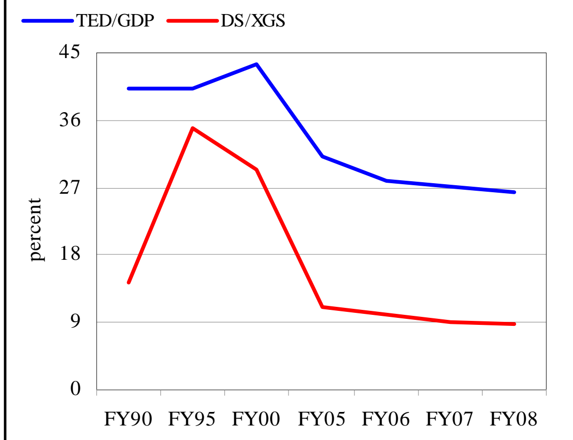


Figure 6.18: Debt Sustainabilty

6.3.2 Structure of External Debt and Liabilities

Multilateral Debt

The increase in debt stock from multilateral donors was one reason for the rise in total debt stock during FY08. The debt payable to these organizations recorded a US$ 2894 million net increase in FY08 over the debt stock of preceding year largely owed to ADB and IDA. Within multilateral[7] debt, the share of ADB loan doubled in FY08, while the contribution of IDA declined to one half over the last year (see **Figure 6.19**).

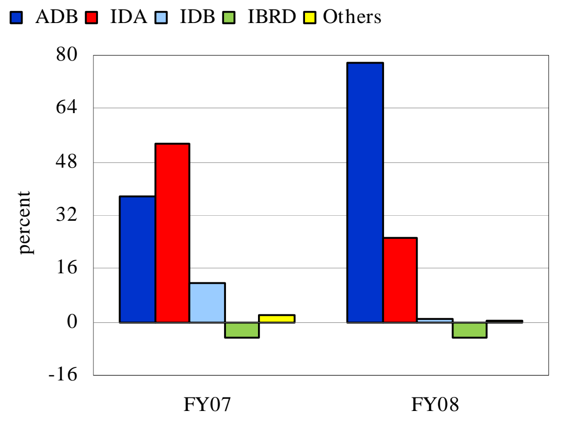


Figure 6.19: Composition of Multilateral Debt

Pakistan received an amount of US$ 2257 million from ADB chiefly as project loans in FY08 compared with US$ 811 million in the

[7] International financial institutions organized to provide financial and technical assistance to foster economic development in less developed countries. They are financed by member contributions and borrowings from the world financial markets. In terms of scope they may be global (the World Bank Group), regional (the Latin American Development Bank or Asian Development Bank), or specialized institutions (the Caribbean Development Bank or the East African Development Bank). In Pakistan's case ABD, IBRD, IDA, IDB and IFAD are the major contributors of multilateral debt

last year. These project loans were for livelihood of earthquake displaced people, Punjab resource management program, agriculture sector program-II, and access to justice program. Similarly, Pakistan got US$ 735 million foreign aid from IDA during FY08 mainly for polio eradication partnership program-II, poverty alleviation fund program, highways rehabilitation project and tax administration reforms program.

Paris Club and Other Bilateral Debt

Paris club debt stock registered a significant net increase of US$ 1234 million during FY08 as against a net decline of 137 million in FY07. Japan, France and Germany were major donors during FY08. The share of Japan in total Paris club debt increase was about 54 percent in FY08. The loans from other Paris club members were for the projects of health and nutrition, governance, research and statistics and earthquake rehabilitation assistance. The debt from other bilateral rose by US$ 188 million during fiscal year FY08. China and Saudi Arabia were the major contributors of this inflow for programs/projects of Chashma nuclear power plant, Gwadar deep water port, diesel electric locomotives & freight wagons, repatriation of Afghan refugees and imports of Saudi goods.

Sovereign Bonds

The stock of sovereign bonds remained unchanged at US$ 2.6 billion in FY08. Due to macroeconomic imbalances and political uncertainty, Pakistan could not issue any new bond in the international market and the yield of all existing global bonds has risen during FY08. In FY09 budget, the government is expecting to raise Rs 31250 million from international markets by issuance of Sukuk/global bonds. In current economic imbalances and political insecurity, the cost of issuance of new bond will be very high (see **Box 6.2** for detailed analysis of cost of issuance of new bond as well the performance of existing bonds in international market).

Box 6.2: Performance of Pakistani Bonds in the International Market

With triumphant implementation of structural reforms and gaining economic stability, on February 12, 2004, Pakistan made a successful return to the international capital markets after a gap of almost 5 years by issuing a five year Eurobond of US$ 500 million. The bond was priced 370 bps above UST (3.046) with the yield of 6.75 percent. The success of this bond can be gauged from the fact that the bond was around four times oversubscribed. The investor response on this bond and continued macroeconomic stability encouraged the government to launch further bonds in the subsequent years. Since FY05, the government of Pakistan has issued four more five, ten and thirty years bonds; totaling US$ 2150 million (see **Table-6.5**). As with the first 2004 bond, these bonds were also heavily oversubscribed indicating investor's confidence on the country's long-term economic performance.

However, of recent, a mix of adverse developments on both, the domestic and external front has made rising of external financing through floatation of bonds extremely costly. Pakistan therefore had to scrap planed flotation of global bonds in FY08. For FY09, government has again planned raising around US$500m from international capital market.

Table 6.5: Performance of Various Sovereign Bonds

value: million US$, yield in percent

Issue Year	Bond	Tenor	Maturity	Value	Yield at issue	Yield at 30 June 2007	Yield at 30 June 2008
FY04	Euro	5- years	Feb-2009	500	6 m Libor + 323 bps (6.75%)	6.414	9.877
FY05	Sukuk	-do-	Jan-2010	600	6 m Libor + 220 bps		
FY06	Euro	10-years	Mar-2016	500	10 years US t-bill + 240 bps (7.125%)	6.966	11.568
	Euro	30-years	Mar-2036	300	30 year US t-bill + 302 bps (7.875%)	7.314	9.252
FY07	Euro	10-years	June-2017	750 *	10 year US t-bill + 200 bps (6.875 %)	7.377	10.066

* Government of Pakistan has upsized the fifty percent of original deal from US$ 500 million to US$ 750 million.

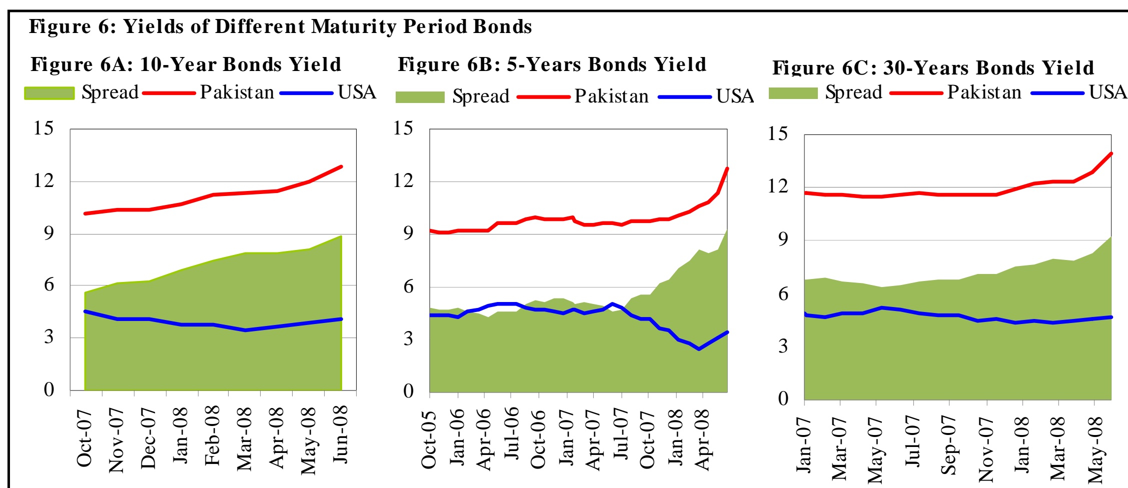
In this situation, it would be pertinent to estimate the cost of issuance of new papers in international markets. The cost of raising funds through external sources comprises risk premium (country premium) over comparable risk free assets (such as US-treasury securities). The components of risk premium are:

1. Currency (risk) premium, which reflects the risk attached with the depreciation of domestic currency.

2. Default (risk) premium; reflects the financial health (solvency) of the borrower country under consideration and compensation for the risk that country defaults.
3. Jurisdiction (onshore-offshore) premium is the difference between domestic (onshore) financial regulations and international (offshore) financial regulations.

Inflation uncertainty, expected stance of domestic monetary policy and sovereign ratings by two leading agencies are the other factors, which affect the cost of issuance of new bonds. These factors are usually incorporated in the country ratings computed by credit rating agencies (Moody's Investor Service and Standard and Poor's[8]) which investors usually refer to while making investment decisions. The cost of issuance of new bonds in international markets can be estimated by yield difference of existing Pakistani instruments having different maturities with the USA commercial papers of same tenors in debt market.

Figure 6: Yields of Different Maturity Period Bonds



Yield on all Pakistani bonds increased in FY08, especially in second half of FY08, spreads (yield difference between Pakistani and USA bonds) rose sharply. In case of spread between Pakistan 5-years euro bond and US bond of same tenors reached 932 basis points at end June 2008 from 632 basis points at end December 2007(see **Figure 6B**). Widening spread reflect the state of both US and Pak economies: decline in yield of US bonds due to fall in federal fund rate[9] from 4.75 percent on September 18, 2007 to 2.0 percent on June 25, 2008, rising political instability and macroeconomic imbalances in Pakistan (as clear from high twin deficits and high inflation environment), which has increased the risk profile of the country as reflected in the downgrading of the country's credit rating[10] by both Moody's and S&P. As in 5-year bond, yield on Pakistani 10-years and 30-years bonds also increased in debt market in FY08. The spread (between Pakistan and USA) on 10-years maturity bonds and 30-years bond rose by 253 basis points and 214 basis points during December 2007 to June 2008 (see **Figure 6A & 6C**).

Above performance analysis of Pakistani bonds in international markets suggests that raising capital from international market in current scenario would now be more expensive than earlier.

Foreign Private Loans/Bonds

Foreign private loans/bonds stock raised by net inflow of US$ 635 million in FY08 over the stock of last fiscal year. During the period under review, foreign private loans registered a significant growth of 30.4 percent. Instead of domestic money market, debtor organizations/companies have arranged these loans from external sources due to interest rate differential between Pakistan and other countries' money markets and relatively stable exchange rates of those economies. The main portion of private loans was arranged from Sweden, Netherland and UK. The major share of this debt was for

[8] In their statement on rating criteria, Moody's and Standard and Poor's list various economic, social and political factors such as per capita income, GDP growth, inflation, fiscal balance, external balance, external debt, economic development and default history, that underlie their sovereign credit rating.

[9] The federal fund rate; this is the rate banks charge each other for overnight loans of reserves. FED rate dropped by 275 basis points from 4.75 percent rate on September 18, 2007 to 2.0 percent rate on June 25, 2008.

[10] In FY08, Moody's Investor Service and Standard and Poor's lowered the sovereign rating of Pakistan from B1/B+ to B2/B, which reflects the increase in high risk obligations.

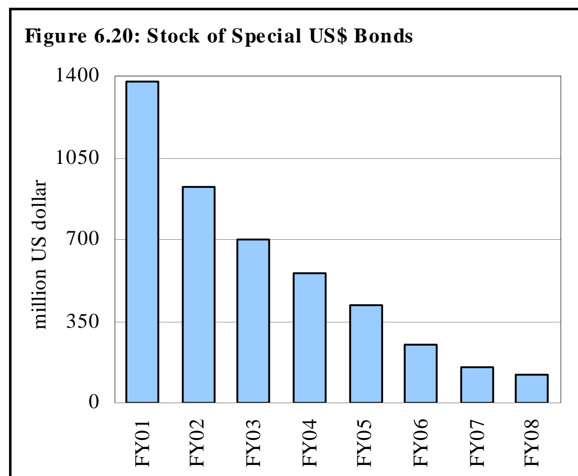
the development of communication sector (to extend the mobile network of two services providers[11]), energy sector (to improve the infrastructure of KESC), and development of storage services sector. Similarly the stock of private bonds reached US$ 275 million, with 10.0 percent growth during FY08. These bonds[12] are issued for the development of construction sector as well as for telecommunication sector, having 5-years maturity.

Foreign Exchange Liabilities

The stock of Pakistan's foreign exchange liabilities recorded a US$ 343 million net increase during FY08 as compared to a fall of US$ 112 million in FY07. The rise in liabilities was contributed by the rising stock of Bank of China deposits, which was partially offset by fall in Special US$ bonds along with falling stock of NHA bonds.

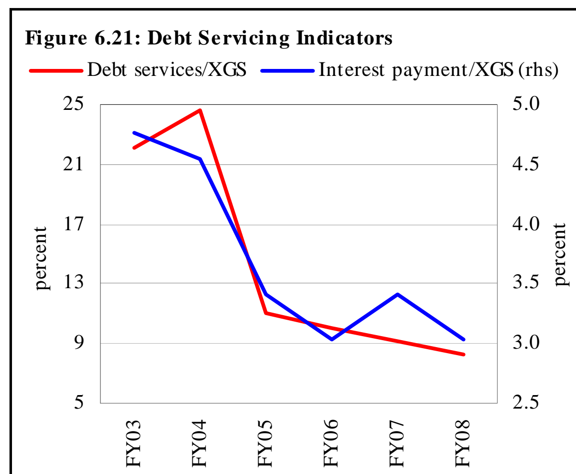
At the end of FY08, the stock of Bank of China (BOC) deposits reached US$ 900 million, with 80.0 percent growth over the last year stock. Actually, foreign liabilities on account of BOC increased by US$ 500 in FY08, partially offset by US$ 100 million debt repayment in the first quarter of FY08.

Figure 6.20: Stock of Special US$ Bonds



The stock of Special US$ bonds fell by US$ 35 million in FY08 over the stock of FY07. Since FY02, the stock of Special US$ bonds has dropped by US$ 1255 million (see **Figure 6.20**) on the back of maturity (3, 5 and 7-year maturity bonds) as well as encashment of bonds (**for details see SBP Annual Report 2006-07**). Similar to Special US$ bonds, the *NHA bonds* stock also registered US$ 22 million decline on account of the payment of principal of 20-year tenor bonds, issued in 1991. Payment of these bonds is made to a banking consortium in first quarter of each fiscal year and the last payment under this head will be due in FY10.

Figure 6.21: Debt Servicing Indicators



6.3.3 External Debt and Liabilities Servicing

Pakistan debt servicing payments of external debt and liabilities reached about US$ 3 billion in FY08, 1.7 percent higher than the payments of FY07 (see **Table 6.6**). This increase came due to rising maturing of external debt owed mainly to multilateral agencies, Paris club lenders as well as maturities of private non-guaranteed debt. Similarly the rise in the cost of servicing foreign liabilities reflected the re-payments of Bank of China, interest on Special US$ bond and NHA bonds. In debt servicing payment, principal payment has higher share as compared with the share of interest payments (which declined during FY08).

[11] Mobilink and Warid are two telecommunication companies that arranged this loan from Sweden and Netherland.

[12] The Mobilink limited has issued private bonds of US$ 250 million and Pace limited has also issued bonds of US$ 25 million. These bonds will mature in 2013.

As far as the debt servicing indicators (such as interest servicing and debt servicing) are concerned, improvement was observed in these ratios in FY08 (See **Figure 6.21**) Interest payment or interest servicing as a percent of export of goods and services, reflects the level of current earnings needed for the debtor country in servicing the debt shown improvement in FY08 as compared to rise during previous year. This improvement was mainly due to relatively high growth of exports and decline in interest payments during FY08. In FY08, the debt servicing ratio to export earnings, which indicates how much of an economy's export earnings are used in servicing its debt, continued with downward trend as seen during the last four years (FY04-FY07).

Table 6.6 : Pakistan's External Debt and Liabilities Servicing

million US$

	FY05		FY06		FY07		FY08 P	
	Actual paid	Rescheduled/ rollover	Actual paid	Rescheduled/ rollover	Actual paid	Rescheduled/ rollover	Actual paid	Rescheduled/ rollover
1.Public and publicly guaranteed	**1811**	**100**	**2241**	**100**	**2076**	**100**	**2026**	**100**
Principal	1120	100	1504	100	1237	100	1188	100
Interest	691	0	738	0	839	0	839	0
A. Medium and long term (> 1 year)	**1803**	**100**	**1957**	**100**	**1874**	**100**	**1987**	**100**
Principal	1112	100	1233	100	1045	100	1163	100
Interest	691	0	724	0	829	0	825	0
Paris club	**533**	**0**	**614**	**0**	**593**	**0**	**628**	**0**
Principal	152	0	257	0	232	0	243	0
Interest	381	0	356	0	361	0	385	0
Multilateral	**899**	**0**	**888**	**0**	**951**	**0**	**1114**	**0**
Principal	692	0	661	0	681	0	797	0
Interest	207	0	227	0	270	0	317	0
Other bilateral	**52**	**0**	**115**	**0**	**103**	**0**	**84**	**0**
Principal	27	0	80	0	68	0	63	0
Interest	25	0	35	0	36	0	21	0
Eurobonds	**217**	**0**	**250**	**0**	**148**	**0**	**90**	**0**
Principal	158	0	159	0	3	0	2	0
Interest	60	0	91	0	145	0	88	0
Military	**79**	**0**	**68**	**0**	**54**	**0**	**45**	**0**
Principal	67	0	60	0	46	0	41	0
Interest	12	0	8	0	8	0	4	0
Commercial loans /credits	**23**	**100**	**23**	**100**	**26**	**100**	**25**	**100**
Principal	16	100	16	100	16	100	16	100
Interest	6	0	7	0	10	0	9	0
B. Short-term (< I year)	**9**	**0**	**284**	**0**	**202**	**0**	**33**	**0**
IDB	**9**	**0**	**284**	**0**	**202**	**0**	**33**	**0**
Principal	8	0	271	0	192	0	25	0
Interest	0	0	14	0	10	0	14	0
2. Private non-guaranteed	**482**	**0**	**404**	**0**	**549**	**0**	**596**	**0**
Principal	374	0	320	0	400	0	408	0
Interest	109	0	85	0	149	0	188	0
3. IMF	**423**	**0**	**159**	**0**	**144**	**0**	**182**	**0**
Repurchases /principal	400	0	143	0	120	0	174	0
Charges/interest	23	0	16	0	24	0	9	0
Total Debt servicing (I+II+III)	**2716**	**100**	**2804**	**100**	**2769**	**100**	**2804**	**100**
Principal	1893	100	1966	100	1756	100	1769	100
Interest	823	0	838	0	1012	0	1035	0
4. Central bank deposits	**24**	**700**	**34**	**700**	**27**	**700**	**35**	**700**
Principal	0	700	0	700	0	700	0	700
Interest	24	0	34	0	27	0	35	0
5. NBP /BOC deposits	**16**	**500**	**28**	**500**	**47**	**500**	**117**	**400**
Principal	0	500	0	500	0	500	100	400
Interest	16	0	28	0	47	0	17	0
6. Special US$ bonds	**163**	**0**	**202**	**0**	**104**	**0**	**41**	**0**
Principal	130	0	174	0	91	0	35	0
Interest	33	0	28	0	13	0	6	0
7. Foreign currency loans bonds (NHA)	**25**	**0**	**26**	**0**	**28**	**0**	**28**	**0**
Principal	22	0	22	0	22	0	22	0
Interest	3	0	4	0	6	0	6	0
8.FEBC/FCBC/DBC	**19**	**0**	**18**	**0**	**3**	**0**	**5**	**0**
Principal	8	0	9	0	0	0	0	0
Interest	11	0	9	0	3	0	5	0
Total	**2965**	**1300**	**3115**	**1300**	**2978**	**1300**	**3030**	**1200**
Principal	2054	1300	2171	1300	1869	1300	1926	1200
Interest	911	0	945	0	1108	0	1104	0

Source: Statistics Department, State Bank of Pakistan

Special Section 6.1 External Debt Vulnerability and Risk Indicators in Pakistan

Countries that heavily rely on external borrowings to finance their expenditure run the risk of falling into debt trap. Over the years Pakistan has been funding part of its expenditures with borrowing from abroad. By 1999 these reached unmanageable proportions forcing Pakistan to default on its external obligations. Fortunately Pakistan was able to negotiate rescheduling of its external debt on very favorable terms in 2000. Since then, Pakistan's debt indicators have improved significantly due to a combination of prudent debt strategy and improvement in the economic performance.

In FY08, however, owing to adverse developments at home and abroad, Pakistan's stock of external debt and liabilities has increased sharply, specifically Pakistan's stock of external debt and liabilities increased by US$ 5.8 billion, higher than the cumulative rise in debt stock from FY01 to FY07. Given the rapid rise in the debt stock it is important to assess the debt sustainability and debt vulnerability of the country. This involves examination of various indicators, which are usually in the form of ratios and referred as external debt indicators. Besides the external debt indicators, it is also useful to assess the vulnerability by examining macroeconomic indicators. This involves comparison of certain macroeconomic variables against some benchmark values, the value that these variables typically exhibit before a debt crisis. Before proceeding further, it would be useful to first delve upon the interrelated concepts of debt sustainability, vulnerability, solvency and illiquidity. [13]

Sustainable debt is the level of debt which allows a debtor country to meet its current and future debt service obligations in full, without recourse to further debt relief or rescheduling, avoiding accumulation of arrears, while allowing an acceptable level of economic growth.

A country is vulnerable if the level of debt servicing is inconsistent with the level of reserves and it appears that the country may not be able to fully discharge its external obligations. This inability to discharge external obligations may arise from either a solvency or a liquidity problem.

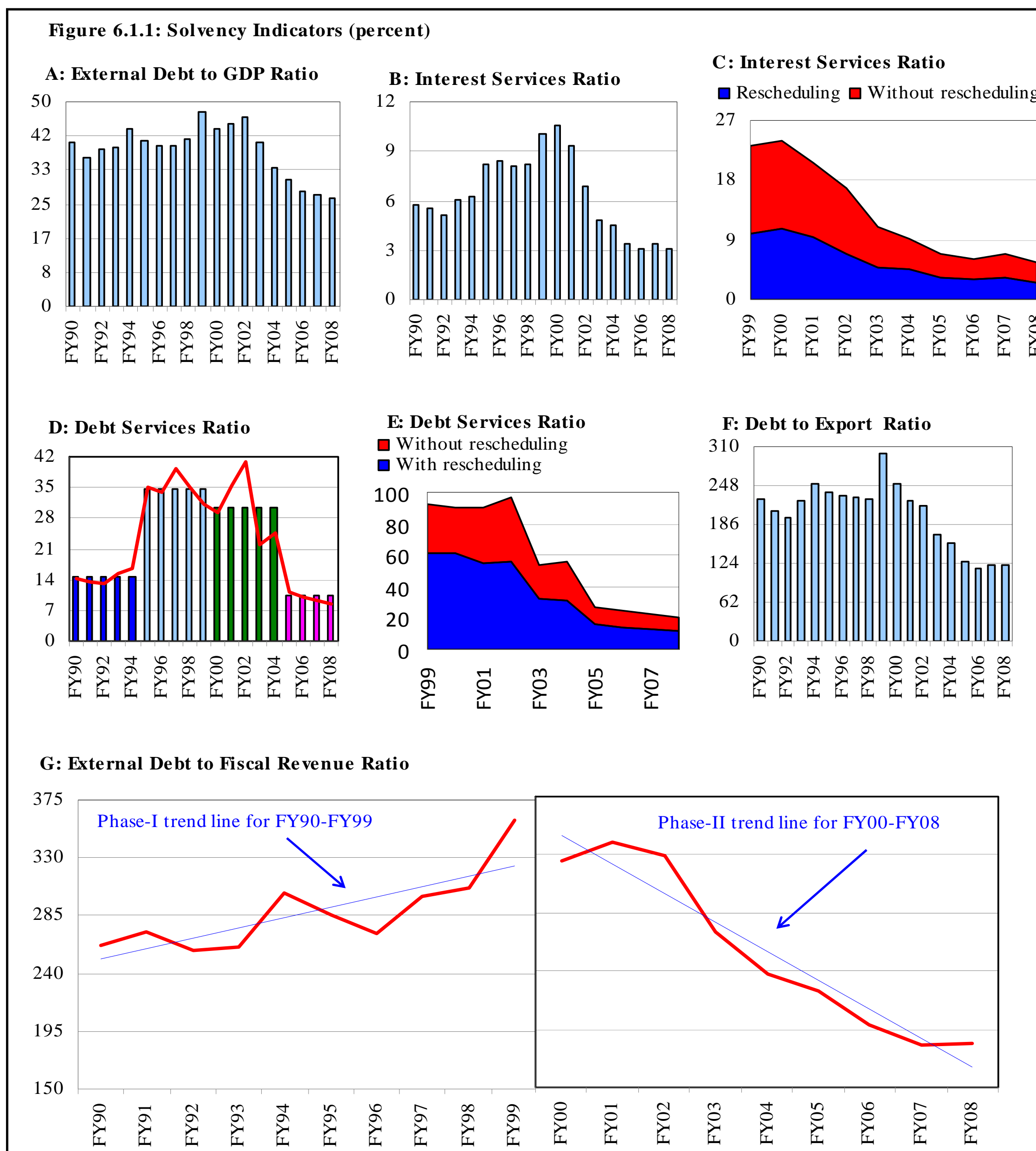
A country is solvent as long as the value of net interest payments does not exceed the present value of current inflows (primarily exports) net of imported inputs. Although insolvency inevitably leads to debt crisis it is possible for even a solvent country to face debt crisis by becoming illiquid. An illiquid situation is one in which a country does not have enough reserves to meet its current external obligations.

A solvent country may become illiquid if foreign creditors looking at various macroeconomic indicators conclude that the country would become insolvent going forward; as foreign creditors withdraw and domestic residents seek refuge abroad for their assets, the uncoordinated creditors rush for the exit quickly deplete the foreign exchange reserves thereby creating liquidity problems.

The most common set of solvency indicators are: interest service ratio, debt service ratio, external debt to exports ratio, external debt to GDP ratio and debt to revenue ratio. For liquidity risk the relevant ratios are reserves to short term debt, reserves to imports, reserve to interest payment, short term debt to total debt and short term debt and current account balance to reserve ratio.

In case of macroeconomic indicators the indicators with best predictive value are net international reserves, real effective exchange rate, inflation, output growth, exports and imports behavior, terms of trade, broad money and reserve money growth, interest rates, fiscal deficit and credit to public sector.

[13] These concepts are discussed in detail in the IMF paper titled: Debt- and Reserve-Related Indicators of External Vulnerability: Prepared by the Policy Development and Review Department in consultation with other Departments, March 23, 2000



Solvency Indicators:

Solvency indicators show the potential of an economy to service its external debt and the level of the current foreign earnings needed to servicing its debt. Most of the solvency external debt indicators have shown that the potential of Pakistan economy to meet its debt commitments (long term as well as short term) has improved (see **Figure 6.1.1and Table 6.1.1**) or in other words, Pakistan financial soundness has improved to fulfill its external liabilities; with declining pace during the last three year. For example, the debt to GDP ratio was 26.6 percent in FY08 , 60 basis points less than the ratio recorded last year. During the last four years (FY05-FY08) the average external debt to GDP is 28.2 percent as compared to 41.2 percent average during FY01-FY04. This improvement was mainly due

to remarkable higher economic growth (the average growth rate for FY05-FY08 being 6.8 percet), early repayment of external debt[14]

Liquidity indicators

Debt and liquidity/reserve indicators provide information regarding reserve adequacy. Contrary to solvency indicators, nearly all liquidity indicators revealed deterioration in liquidity adequacy in FY08 (see **Figure 6.1.2 and Table 6.7**). A sharp rise was seen in CAB and STD to reserve ratio during the last four year (FY05-FY08). Patricularly in FY08, this ratio increased by 120.1 percentage points compared with 3.8 in the previous year.

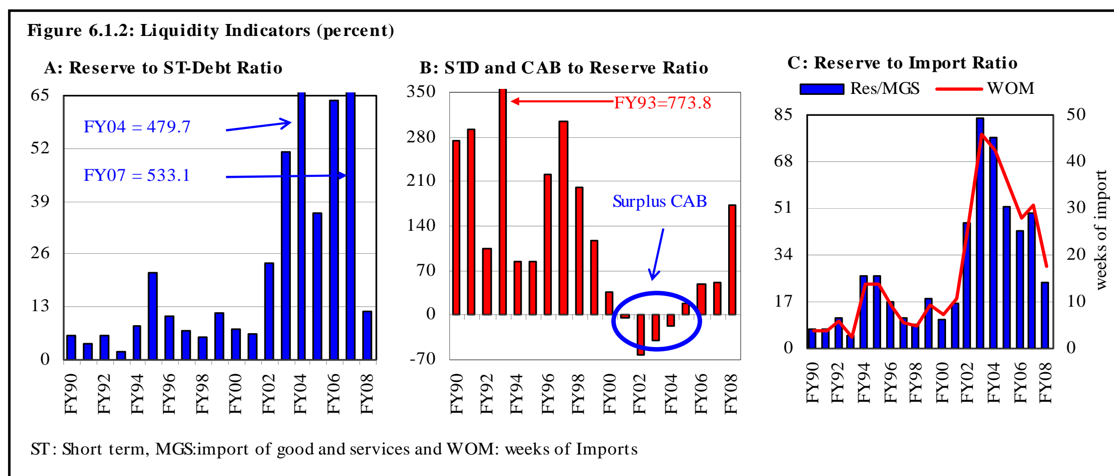


Figure 6.1.2: Liquidity Indicators (percent)

ST: Short term, MGS:import of good and services and WOM: weeks of Imports

Macroeconomic Indicators

In Pakistan most of the economic indicators deteriorated in FY08 (see **Figure 6.1.3 and Table 6.7**). Output growth rate is the most important indicator of economic health. If GDP is growing, business activities, employment generation, personal income and other economic activities will increase. If GDP growth is slowing down, then businesses will hold off new investment, which in turn, can further depress the growth. During the last four years, the growth rate dropped from 9.0 percent in FY05 to 5.8 percent in FY08 mainly due to law and order situation, political instability, relatively unsatisfactory performance of commodity producing sector (agriculture and industry) and shortages of energy in the economy. A continuous deceleration of growth, or output decline, is another leading indicator of crisis associated with the problems in the external sector, increase in borrowing cost, and loss in competitiveness, etc. A sustainable output growth can be achieved by improving the law and order situation, increase investment in energy sector and restoring the confidence of investors on government policies.

The above analysis of external debt vulnerability shows that overall external debt sustainability in Pakistan has weakened during the recent years. Deterioration is observed in all economic indicators of the economy. The reserve adequacy indicators such as RES/STD, STD/ED, REs/M, and CAB & STD/RES revealed that in current years the reserve adequacy of Pakistan has dropped. The solvency indicators i.e. debt to GDP ratio, interest service ratio, debt service ratio, show improvement in sustainability, which may decline in coming quarter due to expected deceleration in economic growth and performance of external sector in next year. The other two external debt solvency indicators-debt to export ratio and fiscal sustainability indicator, present a similar weakness.

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[14] These pre-payment include US$ 350 million by PARCO to JBIC, US$ 1.17 billion to ADB loan, and US$ 65.8 million of private non-guaranteed debt.

Table 6.7: External Debt Vulnerability and Risk Indicators in Pakistan

	FY90	FY95	FY00	FY05	FY06	FY07	FY08
				Solvency indicators			
TED/GDP	40.2	40.3	43.6	31.1	28.0	27.1	26.6
IP/XGS	5.7	8.2	10.6	3.4	3.0	3.4	2.1
DS/XGS	14.4	34.9	29.4	11.1	10.0	9.2	8.8
TED/XGS	226.4	237.6	251.8	127.3	114.8	120.1	122.3
TED/TR	261.3	285.3	325.3	224.5	198.3	182.2	185.0
				Liquidity indicators			
Res/STD	5.7	21.3	7.6	36.2	63.7	533.8	14.0
Res/M	7.1	26.6	10.3	51.6	43.1	49.4	24.2
Res/IP	92.8	37.2	136.9	9.3	8.8	8.3	9.0
STD/ED	0.5	0.4	0.4	0.8	0.5	0.1	1.4
(STD + CAB)/Res	273.2	83.6	35.0	18.4	47.9	51.7	171.9
WOM	3.7	13.9	7.3	35.0	27.8	30.6	17.6
				Economic indicators			
Inflation	6.0	13.0	3.6	9.3	7.9	7.8	12.0
GDP growth	4.6	5.1	3.9	9.0	5.8	6.8	5.8
Reserves	529.0	2,743.1	1,352.3	12,597.9	13,122.0	15,646.0	11,387.2
FD/GDP	6.1	4.9	5.4	3.3	4.3	4.3	7.0
Exports	4,926.0	7,759.0	8,191.0	14,400.5	16,387.0	17,278.0	20,125.0
Trade balance	-2,485.0	-2,537.0	-1,411.0	-4,352.5	-8,237.0	-9,711.0	-15,285.7
Trade balance/GDP	-5.1	-3.5	-1.9	-3.9	-6.4	-6.7	-8.8
Money growth	17.5	17.2	9.4	19.3	14.9	19.3	15.3
M2/GDP	39.9	44.2	36.6	45.6	44.7	46.6	44.7
Reserve money growth	15.4	9.4	25.1	17.6	10.2	20.9	21.5

All values except for exports and trade balance are in percent while these are in billion US$. Res-foreign exchange reserves held by SBP, STD-short term debt, M-imports of goods & services, IP-interest payments, TED-external debt, and CAB-current account balances, WOM-weeks of imports, TR-total revenue, FD-fiscal deficit, XGS-exports of goods and services,M2-money supply, GDP-gross domestic products.

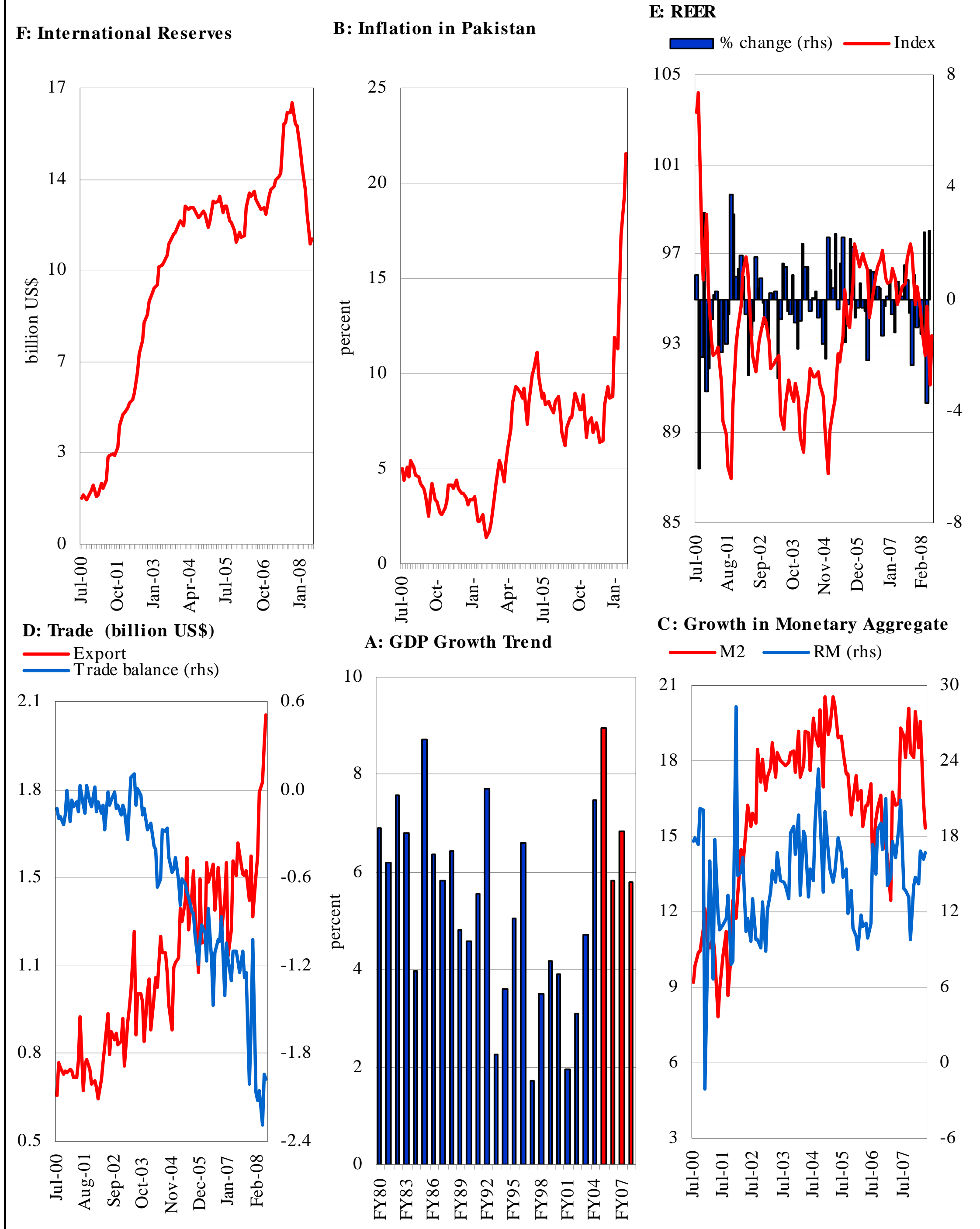
Figure 6.1.3: Trends of Economic Indicators
F: International Reserves
billion US$
17
14
10
7
3
0
Jul-00
Oct-01
Jan-03
Apr-04
Jul-05
Oct-06
Jan-08
B: Inflation in Pakistan
percent
25
20
15
10
5
0
Jul-00
Oct-
Jan-
Apr-
Jul-05
Oct-
Jan-
E: REER
% change (rhs)
Index
105
101
97
93
89
85
8
4
0
-4
-8
Jul-00
Aug-01
Sep-02
Oct-03
Nov-04
Dec-05
Jan-07
Feb-08
D: Trade (billion US$)
Export
Trade balance (rhs)
2.1
1.8
1.5
1.1
0.8
0.5
0.6
0.0
-0.6
-1.2
-1.8
-2.4
Jul-00
Aug-01
Sep-02
Oct-03
Nov-04
Dec-05
Jan-07
Feb-08
A: GDP Growth Trend
percent
10
8
6
4
2
0
FY80
FY83
FY86
FY89
FY92
FY95
FY98
FY01
FY04
FY07
C: Growth in Monetary Aggregate
M2
RM (rhs)
21
18
15
12
9
6
3
30
24
18
12
6
0
-6
Jul-00
Jul-01
Jul-02
Jul-03
Jul-04
Jul-05
Jul-06
Jul-07