6 Domestic and External Debt

6.1 Overview[1]

Led by a large fiscal deficit during the last three years, the country's total debt and liability stock (TDL) continued to surge, reaching Rs 10.2 trillion by June 30, 2010 (see **Figure 6.1**). In terms of ratio to GDP, the TDL stock was 69.5 percent by end FY10 showing an increase of 9 percentage points since end FY07.

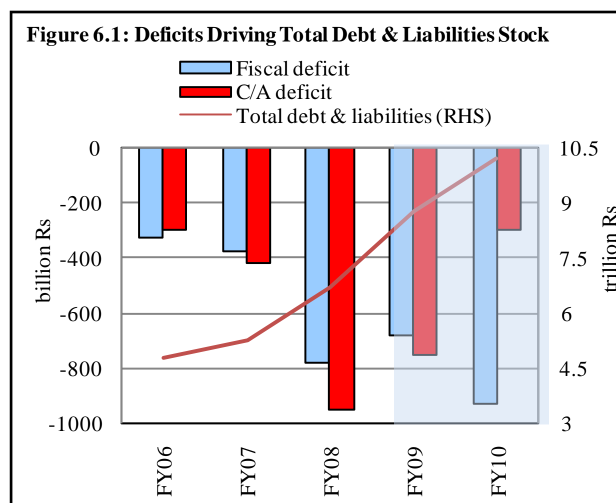


Figure 6.1: Deficits Driving Total Debt & Liabilities Stock

With this increase in the debt burden the Fiscal Responsibility and Debt Limitation Act (FRDL) 2005 criterion for sound debt management was breached for the third consecutive year during FY10. The FRDL Act envisaged (a) attainment of a public debt to GDP ratio of 60 percent by 2013; and (b) an annual 2.5 percentage point reduction in this ratio after achieving 60 percent benchmark. Encouragingly the former condition was met before the stipulated time in FY06; this achievement could not be sustained. This is reflected from the fact that public debt to GDP ratio is witnessing a continuous increase since FY08, breaching the 60 percent of GDP limit in FY09; and increasing by 2 percentage points each year instead of the reduction envisaged under FRDL (see **Table 6.1**).

Many countries around the world have seen worsening of fiscal accounts and the consequent erosion in debt sustainability indicators in the aftermath of international recession (see **Box 6.1**). However, in the case of Pakistan a myriad of domestic issues had a pronounced contribution in sharp growth in the country's TDL stock during FY08-FY10 period. One major culprit was a sharp increase in fiscal deficit during the said period, due to a number of domestic issues for instance a) low tax base and tax buoyancy; (b) increase in domestic debt servicing cost resulting from rise in domestic interest rates during April 2008 to December 2008; (c) provision of large subsidies on domestic consumption (for instance subsidies on oil prices, power tariffs, etc.).

In fact the provision of subsidies has led to piling up of huge price differential claims in the energy sector against the government, resulting in sharp increase in the PSE's debt stock during FY09 and FY10. Further, the government's decision to intervene in wheat market for boosting domestic wheat reserves also led to surge in commodity operations debt in FY09. Though fresh credit off-take by PSEs and the commodity operations borrowings remained weaker in FY10, the outstanding amount in these two heads was still very significant in FY10 due to the non-payment of huge debt stocks borrowed in FY09. To put things in perspective the share of commodity operations and PSE's debt in GDP rose to 2.8 percent and 2.6 percent in FY10 compared to 1.1 percent and 1.2 percent in FY07.[2]

[1] The debt numbers as given in this chapter are prepared in accordance with the international practice, e.g., External Debt Statistics: Guide for Compilers and Users (2003) by IMF. The Table 6.1 has a broader coverage than has been published so far. Accordingly, debt incurred by PSEs has also been added in country's total debt and the commodity operations debt has been included in country's liabilities stock. Further, foreign currency instruments, i.e., FEBCs/FCBCS/DBCs and special US dollar bonds have also been made part of domestic liabilities. In the external debt, NBP/ Bank of China deposits which were classified as foreign exchange liabilities till 2009 are being classified as medium-term debt.

[2] For detail see Chapter 4 of *SBP Annual Reports FY09 and FY10* and *SBP 1st Quarterly Report of FY10.*

In addition to the domestic factors, international commodity price shock of FY08 also added to the external debt burden and hence the TDL stock of the country. The impact of these factors was exacerbated by sharp depreciation of rupee vs US dollar that magnified rupee value of external debt.

Table 6.1: Profile of Total Debt and Liabilities

billion Rupees

	Absolute amount				As percent of GDP			
	FY07	FY08	FY09	FY10	FY07	FY08	FY09	FY10
Total Debt & Liabilities	**5249.0**	**6691.3**	**8746.6**	**10196.4**	**60.5**	**65.3**	**68.7**	**69.5**
Total Debt	**5101.0**	**6475.6**	**8306.7**	**9685.9**	**58.8**	**63.2**	**65.2**	**66.0**
Government domestic debt	2610.3	3274.7	3861.0	4652.7	30.1	32.0	30.3	31.7
PSEs domestic debt	104.2	137.3	290.0	374.9	1.2	1.3	2.3	2.6
External debt **	2386.5	3063.6	4155.7	4658.3	27.5	29.9	32.6	31.8
Government external debt	2151.0	2761.8	3451.8	3667.2	24.8	27.0	27.1	25.0
Debt from IMF	85.0	91.3	419.0	690.3	1.0	0.9	3.3	4.7
PSEs external debt	72.5	82.2	87.3	83.0	0.8	0.8	0.7	0.6
Private sector external debt	78.0	128.3	197.6	217.8	0.9	1.3	1.6	1.5
Total liabilities	**148.0**	**215.7**	**439.9**	**510.5**	**1.7**	**2.1**	**3.5**	**3.5**
Domestic liabilities *	98.6	127.2	336.2	414.6	1.1	1.2	2.6	2.8
External liabilities **	49.4	88.5	103.7	95.9	0.6	0.9	0.8	0.7
Total debt servicing	**491.2**	**641.8**	**947.0**	**1044.9**	**5.7**	**6.3**	**7.4**	**7.1**
Total interest payment	384.6	521.6	669.4	668.6	4.4	5.1	5.3	4.6
Domestic	312.6	440.2	570.2	575.2	3.6	4.3	4.5	3.9
Foreign	65.2	75.5	89.4	82.2	0.8	0.7	0.7	0.6
External liabilities	2.0	2.3	1.7	2.3	0.0	0.0	0.0	0.0
Domestic liabilities	4.8	3.6	8.1	8.9	0.1	0.0	0.1	0.1
Repayment of principal (foreign)	106.6	120.2	277.6	376.3	1.2	1.2	2.2	2.6
Memorandum item								
Total public debt[1]	4895.8	6216.3	7835.5	9106.1	56.4	60.7	61.5	62.1

[1]Total public debt includes government domestic and external debt, debt from IMF and external liabilities.

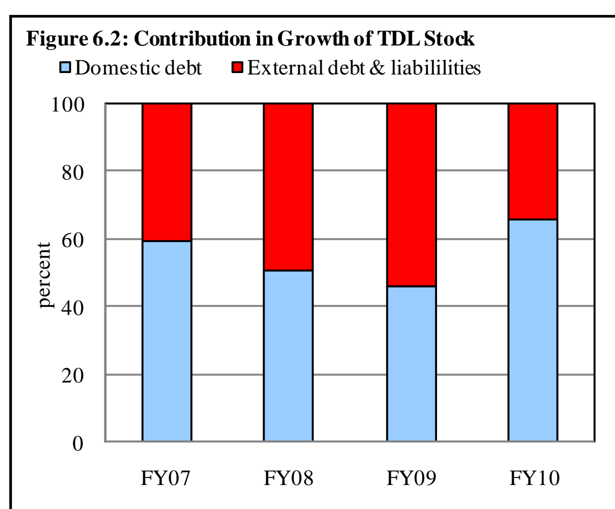
* Includes commodity operation loans to provincial governments & PSEs borrowings for commodity operations

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

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

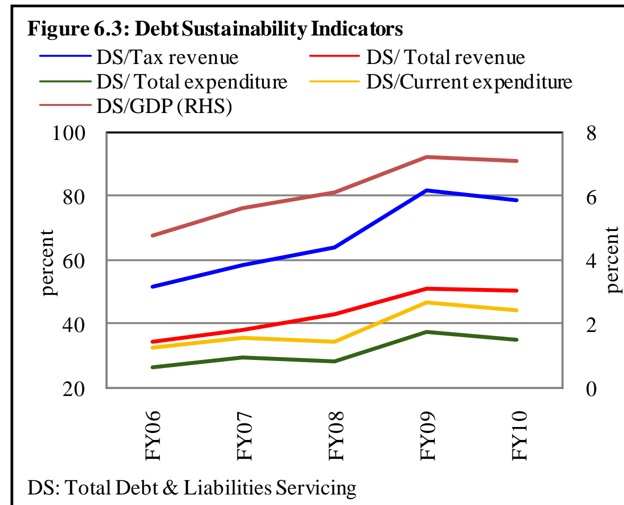
In terms of composition, while a greater share of the increase in the TDL stock during FY08 and FY09 was sourced by external debt, FY10 witnessed more reliance on domestic debt sources to finance the fiscal deficit (see **Figure 6.2**). This was caused by both lower than targeted external loan inflows as well as maturity of *sukuk* bond worth US$ 600 million during FY10. Thus in the absence of new external bond issues and weak inflows of foreign loans, the stock of country's external debt recorded a moderate increase during FY10. This situation created excessive pressures for borrowing from domestic sources. Resultantly, given the rigidities in the capacity to generate funds through permanent and unfunded debt channels, reliance on floating debt instruments that already had the largest share in domestic debt creation,

Figure 6.2: Contribution in Growth of TDL Stock



further increased during FY10. On a positive note, country's debt servicing indicators recorded a mild improvement during FY10. This improvement partly emanated from lowering of interest rates on debt instruments during FY10 due to the brief monetary policy easing phase (see **Figure 6.3**).

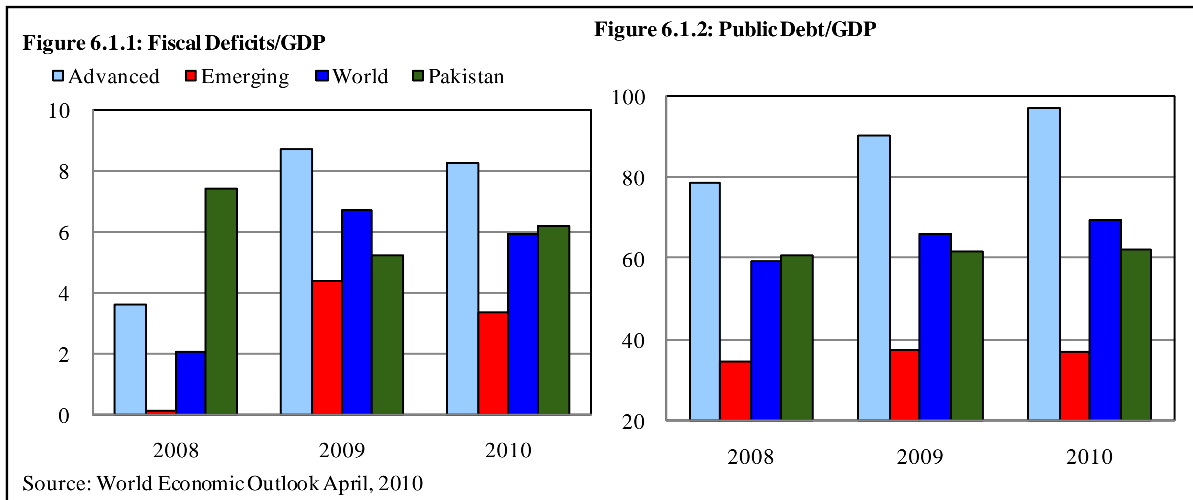
Given the challenges faced by the national economy, the country's debt profile is likely to remain under pressure during FY11 as well. Although government has stipulated a fiscal deficit of 4.0 percent of GDP for the upcoming year, this target is highly unlikely to be achieved given the extra financing needs originating from the devastation caused by the recent floods. The scale of demand from government is such that despite external assistance, greater burden for funding will have to be borne by domestic debt sources during FY11.



Although the current tightening of the monetary policy and the rise in the policy rate might translate in improving rate of returns and thus investment in permanent and unfunded debt instruments, the excessive pressure of borrowing is likely to be met from floating debt instruments during FY11 also. This situation partly implies greater pressure of budgetary borrowing through banking channel at the cost of private sector lending. Thus the excessive financing pressures during FY11 are likely to create additional risks for the fragile economic recovery observed in FY10 and demand stern fiscal prudence during the upcoming year.

Box 6.1: Fiscal deficits and public debt burden – Scenario around the world

In response to the global recession, countries around the world resorted to expansionary fiscal policies for reviving economic growth through the aggregate demand channel. According to a United Nations publication, the fiscal stimulus packages provided by 55 countries totaled around US$ 2.6 trillion, which implies 4.3 percent of world GDP since 2008.[3] The adoption of counter cyclical fiscal policy, however, resulted in pushing up the fiscal deficits of these countries, leading to the accumulation of higher debt burdens (see **Figure 6.1.1 & 2**). In view of the severity of the crisis, the magnitude of fiscal support was stronger for advanced economies compared to the emerging economies. This resulted in substantial increases in fiscal deficits of the former compared to that of the latter. Consequently the debt burden of the advanced economies recorded substantial increases during 2008 and 2009.



[3] Source: United Nations (2009), *World Economic Situation and Prospects 2010 World Outlook*.

On the contrary, Pakistan faced a fragile fiscal situation forcing it to embark on the path of fiscal consolidation under the IMF SBA. This program envisages containment of fiscal deficit within the prescribed limits. Nonetheless despite the commitment to reduction in fiscal outlays, the fiscal deficit to GDP ratio of Pakistan was well above the emerging and developing countries average during 2008-2010. Resultantly, the country's public debt to GDP ratio was also much above the average of emerging and developing countries during the same period.

6.2 Total Domestic Debt & Liabilities

A large fiscal deficit[4] and paucity of external financing resources caused country's total domestic debt and liabilities stock to reach Rs 5.4 trillion on end-Jun FY10, recording a substantial 21.3 percent YoY increase (**see Figure 6.4**).[5] A significant share in this increase was contributed by the rising government domestic debt during FY10. The growth in PSEs debt and domestic liabilities significantly muted during this period (see **Table 6.2**).

Figure 6.4: Total Domestic Debt & Liabilities

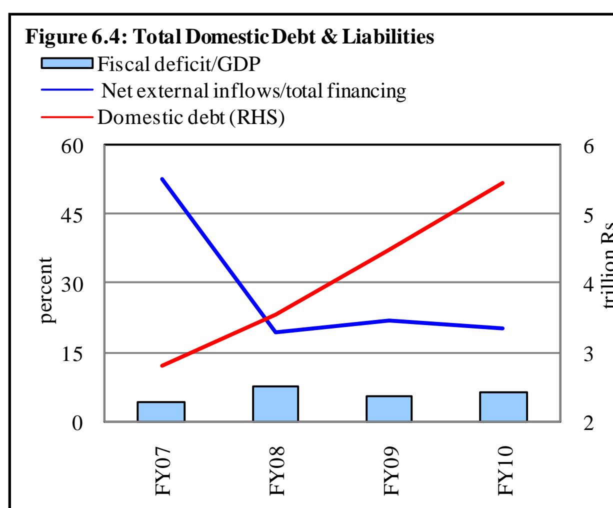


Table 6.2 : Composition of Total Domestic Debt & Liabilities

Stock in billion Rupees, growth in percent

	Debt stock			Share in Growth	
	FY08	**FY09**	**FY10**	**FY09**	**FY10**
Total Domestic debt & liabilities (I+II)	**3539.3**	**4487.2**	**5442.2**	**100.0**	**100.0**
I. Domestic debt (A+B)	**3412.1**	**4151**	**5027.6**	**78.0**	**91.8**
A. Government Domestic Debt	**3274.8**	**3861**	**4652.7**	**61.8**	**82.9**
Instrument wise					
Permanent	608.4	678	794.3	7.3	12.2
Floating	1637.4	1904	2399.1	28.1	51.8
of which					
MTBs	537	796.1	1227.4	27.3	45.2
MRTBs	1100.4	1107.9	1171.7	0.8	6.7
Unfunded	1020.4	1270.9	1456.2	26.4	19.4
Government Foreign currency liabilities	8.6	8.1	3.1	-0.1	-0.5
Institution wise					
Banking system	1766.6	2064.9	2439.9	31.5	39.3
Non-bank Debt	1499.6	1788	2209.7	30.4	44.2
of which					
Treasury Bills	47.3	56.7	211.1	1	16.2
Government Foreign currency liabilities	8.6	8.1	3.1	-0.1	-0.5
B. PSEs debt*	**137.3**	**290**	**374.9**	**16.1**	**8.9**
II. Domestic liabilities	**127.2**	**336.2**	**414.6**	**22**	**8.2**
Commodity finance operations**	127.2	336.2	414.6	22	8.2

* This number excludes the PSE debt for commodity finance operations.

** Including PSE debt for commodity finance operations

[4] Fiscal deficit for FY10 stood at 6.3 percent of GDP compared to the initial budget estimate of 4.9 percent of GDP for FY10.

[5] This was the fourth consecutive year in which government domestic debt recorded double-digit growth. With this rise the government domestic debt to GDP ratio rose to 31.7 percent in FY10 compared to 30.3 percent in FY09.

6.2.1 Government Domestic Debt

To finance its fiscal deficit, the government relied heavily on short term floating debt instruments during FY10 (see **Table 6.2 & 6.3**). The rising demand for short term debt originated from lower mobilization of unfunded debt through NSS instruments compared to FY09. Permanent debt also contributed a significant amount in total domestic debt growth during this period. However, since country's domestic debt stock has a greater share of short -term floating debt, permanent debt had the lowest contribution in domestic debt growth during FY10. In terms of institutional break-up, non-bank institutions had slightly higher share in domestic debt growth in FY10. This was due to higher participation of these institutions in T-bill auctions during this period.

Floating debt

Country's floating debt stock recorded a sharp 26.0 percent rise reaching Rs 2.4 trillion during FY10.[6] Increased holdings of T-bills by scheduled banks were an important source of deficit finance during FY10. The government's ability to increase floating debt issue helped relatively weak credit demand by the private sector. Further, government borrowing from the SBP also recorded a small rise over FY09 despite the limits imposed by IMF on borrowing from the central bank (see **Table 6.3**).[7] Resultantly, government's net (of deposits) budgetary borrowing through banking system recorded a sharp 26.8 percent increase in FY10.

Table 6.3: Factors for increase in MTBs Stock

	Q1-FY10	Jul-Dec FY10	Jul-Mar FY10	FY10
Fiscal indicators as a percentage of respective budget estimates for FY10				
Revenue collection	19.8	42.2	65.0	96.4
Total expenditure	22.6	45.6	70.5	104.5
External flows	24.7	35.3	29.7	60.5
Unfunded debt	22.1	41.5	60.1	79.0
TBs net targets	144.2	214.3	245.1	254.3
TBs net acceptance	188.7	275.3	362.4	463.6
Ceilings on borrowing from SBP	1130.0	1130.0	1130.0	1130.0
Actual borrowing from SBP	1080.0	1102.0	1193.7	1208.7

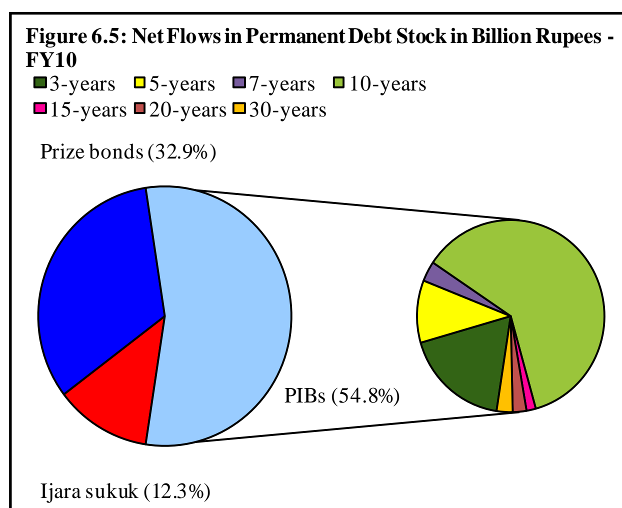
In addition to the banking channel, falling spread between various NSS instruments and T-bill yields diverted non-bank institution's demand to T-Bills during FY10 as well.

Increase in the short term debt stock has some undesirable implications for economic stability. This concern originates from the attached risk of adverse movements in the interest rates. Greater investment by schedule banks in government securities eventually crowd out private sector investment by creating liquidity shortages in the market. The liquidity shortages in turn result in causing upward pressures on the interest rates, which may result in depressing the manufacturing activity in the economy. Thus due to the vulnerability of macroeconomic environment of the country as well as the sharp volatility in domestic interest rate, investors are reluctant in investing in longer term instruments.

Permanent debt

The stock of permanent debt recorded a strong 17.1 percent rise reaching Rs 794 billion during FY10. A larger share of this increase was contributed by receipts in PIBs, followed by prize bonds. Further, funds through Ijara Sukuk bonds also recorded a small increase during FY10. Within permanent debt, PIBs were the most voluminous component with 63.6 percent

Figure 6.5: Net Flows in Permanent Debt Stock in Billion Rupees - FY10



[6] With this increase the share of floating debt in total domestic debt rose to 51.6 percent from 49.3 percent in FY09.

[7] The limits imposed by IMF on borrowing from SBP were also breached during the last two quarters of FY10.

share in the total permanent debt stock till FY10 (see **Figure 6.5**).

The disaggregated view of the PIB holdings of the government shows that although 10-year PIBs captured around two-third of the total PIB debt stock till FY10, the rest of the share was contributed by bonds with various maturity periods, i.e., 3, 5, 7, 15, 20 and 30 years. The issuance of multiple maturity instruments although helps in fulfilling requirements of various market segments, it has also resulted in fragmenting country's long term debt stock in various maturities, sizes, etc. Such fragmentation of debt stock hampers liquidity of the debt market, and developments of benchmark bonds. In this context this is imperative to develop market for fewer tenors, which will help in standardizing in governments repayment obligations in the long run.

Unfunded debt

The unfunded debt stock, after recording a sharp 24.5 percent growth in FY09, experienced a significant deceleration in FY10 and recorded only 14.6 percent rise during this period. This slowdown in investment was primarily led by lower net receipts in SSCs and BSCs (see **Table 6.4**).

Table 6.4: Profile of Unfunded Debt

	Debt (bln rupees)		**Gross receipts** (bln rupees)		**Net receipts** (bln rupees)		**Growth** (percent)	
	FY09	**FY10**	**FY09**	**FY10**	**FY09**	**FY10**	**FY09**	**FY10**
Certificates	**945.2**	**1078.7**	**764.9**	**328.1**	**219.7**	**133.4**	**30.3**	**14.1**
of which								
DSC	257.2	224.9	65.3	49.8	-27.4	-32.4	-9.6	-12.6
SSC	288.8	350.8	298.1	117.0	128.5	62.0	80.1	21.5
RIC	91.1	135.6	87.3	64.0	40.1	44.5	78.6	48.9
BSC	307.5	366.8	314.3	97.3	78.5	59.3	34.3	19.3
Accounts	**218.1**	**267.2**	**341.0**	**242.9**	**32.1**	**49.1**	**17.8**	**22.5**
of which								
SA	16.8	17.1	145.9	155.5	-10.9	0.3	-39.3	1.7
SSA	88.6	119.6	80.5	55.7	21.6	31.0	32.3	34.9
MAA	2.4	2.1	0.1	0.0	-0.1	-0.3	-2.0	-12.2
PBA	109.9	128.0	114.5	31.6	22.2	18.2	25.3	16.5
Postal Life	**67.1**	**67.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
GP Fund	**40.1**	**39.5**	**N-A**	**N-A**	**-2.4**	**-0.5**	**-5.7**	**-1.3**
Total	**1270.5**	**1456.2**[8]	**1105.8**	**571.0**	**250.1**	**182.0**	**24.5**	**14.6**

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.

The fall in net receipts of NSS instruments can be attributed to fall in profit rates offered on these instruments since December 2008 (see **Figure 6.6**). The movement in NSS rates is indirectly, affected by the SBP's monetary policy stance. To control the inflationary pressures in the economy, SBP followed a contractionary monetary policy in the first half of FY09 and the tightening of monetary policy translated in sharp increase in the PIB rates also. Since the rates of various NSS instruments are derived from the rates of PIBs, [9] these were also revised upward in that period. However, with the reversal in tightening phase, the interest rates on these instruments started to decline. This is important to note that with a fall in NSS returns, the interest rate differential between short term investment options, i.e., t-bills and these long term instruments have almost disappeared (see **Figure 6.6**).

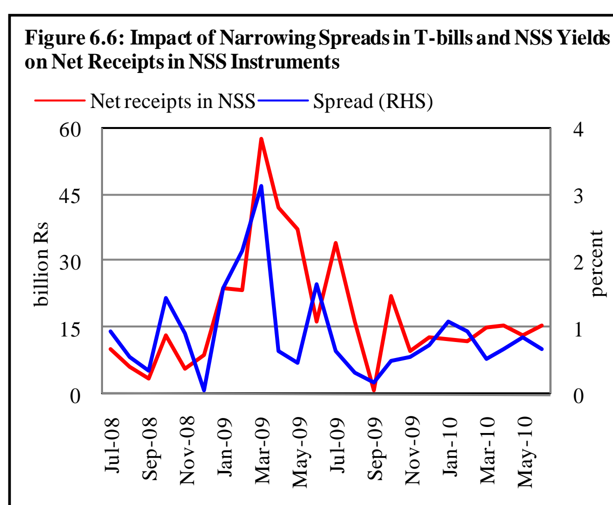
[8] The total of unfunded debt for FY10 also includes Rs 3.7 billion of National Savings bonds issued by the government in January 2010.

[9] The rates on NSS instruments are fixed at 95 percent of the weighted average yield of PIBs.

Thus the institutional investors have no incentives for locking their funds in long term maturities and are investing in t-bill auctions. This can be verified from a hefty Rs 154.5 billion increase in non-bank holdings of t-bills during FY10.

Further, the sharp increase in net receipts in SSCs during FY09 was partly led by significant institutional investment in this category during that period.[10] In the absence of this factor the net receipts and hence the stock of SSCs recorded relatively lower growth during FY10 (see **Table 6.4**)[11].

Figure 6.6: Impact of Narrowing Spreads in T-bills and NSS Yields on Net Receipts in NSS Instruments



Moreover, the sharp fall in gross receipts in BSC's is attributable to provision of conversion facility to investors towards higher rates certificates w.e.f. February 2009. This facility resulted in huge encashment and subsequent inflows into this instrument, resulting in higher gross receipts in this category during FY09. The net receipts of this category were significantly less than the gross amount during FY09. The absence of this factor in FY10 resulted in lower gross receipts during FY10.

Interest payments on government domestic debt

Despite a large increase in country's domestic debt stock during FY10, especially of the floating debt, the interest payments on domestic debt recorded a significant deceleration in YoY growth during this period (see **Table 6.5**).[12] This can be explained by (a) lower interest rates during FY10 compared to the last year, due to the monetary policy easing phase; (b) slight fall in interest payments on MRTBs due to lower monetization of deficit during FY10 compared to the last year, because of the IMF limits; (c) fall in servicing of 3-month t-bills, due to lower holding of these instruments by banks compared to that in FY09 on account of lower interest rates. In fact after the fall in policy rate from December 2008, banks substituted demand in the 3-months t-bills with 12-months bills[13] in anticipation of a further rate cut (d) falling interest payments on unfunded debt stock especially on DSCs and BSCs.

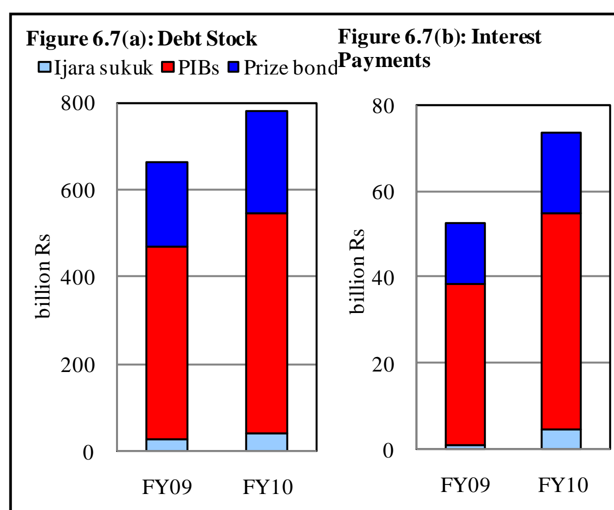
Table 6.5: Interest Payments on Government Domestic Debt

value: billion rupees, growth & share in percent

	Interest payments			YoY Growth	Share
	FY08	FY09	FY10	FY10	
Total	**440.2**	**570.2**	**575.2**	**0.9**	**100.0**
Permanent	51.2	57.0	74.4	30.5	12.9
Floating	116.5	227.2	241.1	6.1	41.9
Treasury Bills	59.1	71.8	101.1	40.8	17.6
3-months	1	30.6	4.1	-86.6	0.7
6-months	3.4	2.8	17.7	527.3	3.1
12-months	54.6	38.3	79.3	106.8	13.8
MRTBs	57.5	155.4	140.0	-9.9	24.3
Unfunded	272.5	286.0	259.7	-9.2	45.1
Of which					
Defense Saving Certificates	217.5	207.1	145.2	-29.9	25.2

[10] The anecdotal evidence suggests that institutional investment has around 20 percent share in the NSS instruments stocks, whereas around 80 percent share is held by individual investors.
[11] The anecdotal evidence suggests that the maturity of DSCs purchased by one government institute during the end of the decade of 1990s fell due in FY09. This amount, after encashment, was invested in SSCs during FY09. In fact higher interest rates offered on these schemes during FY09 made them attractive for investors.
[12] As compared to 29.5 percent rise in debt servicing during FY09 only 0.9 percent YoY growth was recorded in interest payments on domestic debt during FY10.
[13] This can be evidenced from a fall in 3-month t-bills acceptance in auctions from Rs 983.02 billion in FY09 to Rs 237.76 billion in FY10, whereas the acceptance of 12-month t-bills rose to Rs 672.4 billion in FY09 to Rs 931.3 billion in FY10. See section on Money Market in Chap 4 Money &Banking.

The fall in the former is caused by plummeting stock of this instrument, whereas the fall in interest payments on BSCs can be explained by the above-mentioned reinvestments of the encashed amounts after the conversion facility provided by the government in February 2009.

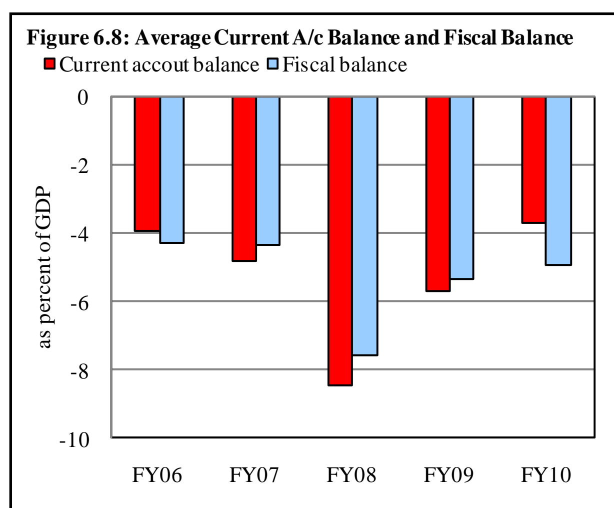


As a result of all these factors the interest payments recorded a lower increase compared to the stock of domestic debt in FY10, leading to a fall in the effective interest rate during this period.

The interest payments on permanent debt stock, however, recorded a strong increase during FY10. This is due to a corresponding increase in the debt stock of PIBs, Ijara sukuk and prize bonds (see **Figure 6.7(a) & (b)**).

6.3 External Debt

Pakistan's total external debt and liabilities (EDL) have grown rapidly during last couple of years. As against declining on average by 0.21 percent during 2001-2005, EDL grew on average by almost 10.0 percent during 2006-2010. The rise in external debt and liabilities was particularly sharp in 2008-2009 when the EDL increased by 13.8 percent; a combined effect of drying up of non-debt creating financial inflows and large current account deficit (see **Figure 6.8**). In FY10 while the current account deficit was reduced to just 2 percent of GDP from 5.7 percent in FY09, the stock of EDL continued to rise increasing by 6.3 percent or US$ 3.4 billion. The increase in the EDL largely owes to the inflows from the IMF under Stand-By Arrangement (SBA). Fortunately due to fall in the financing needs in FY10, a significant part of the acquired debt was used to build up reserves. Nevertheless rapid rise in the EDL is a serious source of concern especially when the financing needs are likely to increase in FY11 owing to adverse impact of the devastating floods and rising international commodity prices (see **Table 6.6**).



While stock of the external debt and liabilities increased in absolute terms during FY10, it declined to 32.4 percent as a proportion of GDP from 33.4 percent in the previous year. The debt sustainability analysis carried out by the IMF in its June 2010 country report indicates that external debt remains low under the medium-term baseline scenario. It could however, rise to 40 percent of GDP in the event of shocks to oil prices or FDI, but would exceed 50 percent only in the event of a simultaneous shock to growth, the current account, and FDI combined with a real depreciation. Thus the report concludes that risks to external solvency are not large.

Table 6.6: Pakistan's External Debt and Liabilities

million US Dollars

	FY08	FY09	FY10	Absolute change FY09	Absolute change FY10	Percentage change FY09	Percentage change FY10
1. Public and publically guaranteed debt	**40,643**	**42,567**	**44,124**	**1,924**	**1,557**	**4.7**	**3.7**
i) Public debt	40,447	42,415	43,965	1,968	1,550	4.9	3.7
A. Medium and long term(>1 year)	39,734	41,763	42,117	2,029	354	5.1	0.8
Paris club	13,928	13,998	13,959	70	-39	0.5	-0.3
Multilateral	21,451	23,001	23,694	1,550	693	7.2	3.0
Other bilateral	1,129	1,449	1,783	320	334	28.3	23.1
Euro bonds/saindak bonds	2,650	2,150	1,550	-500	-600	-18.9	-27.9
Others[1]	576	1,165	1,131	589	-34	102.3	-2.9
B. Short Term (<1 year)	713	652	793	-61	141	-8.6	21.6
IDB	713	652	793	-61	141	-8.6	21.6
C.IMF (Federal Government)	-	-	1,055	-	1,055	-	-
ii) Publically guaranteed debt	196	152	159	-44	7	-22.4	4.6
2. Scheduled banks' borrowing (<1 year & >1 yr)	**0**	**0**	**193**	**0**	**193**	**-**	**-**
3. Private nonguaranteed debts (M<:>1 yr)	**2,612**	**3,207**	**3,043**	**595**	**-164**	**22.8**	**-5.1**
4. Private non-guaranteed bonds	**275**	**137**	**124**	**-138**	**-13**	**-50.2**	**-9.3**
5. IMF (on SBP books)	**1,337**	**5,148**	**7,022**	**3,811**	**1,874**	**285.0**	**36.4**
Total external debt (1 -5)	**44,867**	**51,059**	**54,506**	**6,192**	**3,447**	**13.8**	**6.8**
6. Foreign exchange liabilities	**1,296**	**1,274**	**1,122**	**-22**	**-152**	**-1.7**	**-11.9**
Foreign Currency Bonds (NHA / NC)	66	44	22	-22	-22	-33.3	-50.0
Central Bank Deposits	1200	1200	1100	-	-100	-	-8.3
Other liabilities (SWAP)	30	30	-	-	-30	-	-100.0
Total external debt and liabilities (1-6)	**46,163**	**52,333**	**55,628**	**6,170**	**3,295**	**13.4**	**6.3**

[1] Due to change in the classification, NBP/ Bank of China deposits which were classified as foreign exchange liabilities till 2009 are now being classified as medium-term debt.

Table 6.7: Difference in debt stock due to change in exchange rate (in million US$)

	As on 30-06-2009	As on 30-06-2010
Australian Dollar	-2.5	0.7
Canadian Dollar	-83.0	55.7
Euro	-624.6	-776.1
Japanese Yen	1347.5	985.0
SDRs	-504.9	-542.2
Others	-96.3	-25.8
Total	**36.1**	**-302.7**

As regard to composition of the external debt, the share of publicly guaranteed debt continued to decline and reached 80.9 percent in FY10. Similarly the share of private debt in total debt has also declined from 6.3 percent to 5.8 percent in FY10. On the other hand, share of IMF debt has increased from 10.1 percent in FY09 to 14.8 percent in FY10.

Pakistan's external debt is largely (more than 90 %) denominated in four currencies, i.e., US$, Euro, Yen and Special Drawing Rights (SDRs). However, the debt is reported in US dollar in Pakistan. Thus a movement in US dollar vis-a-vis other currencies in which the debt is denominated has its effects on changes in debt stock. Unlike FY09 when depreciation of US dollar against major currencies contributed to increase in the EDL, in FY10 the effect was opposite as the valuation losses were more than offset by valuation gains. As a result, there was a net decline in EDL of 302.7 million during FY10 (see **Table 6.7**).

Structure of external debt and liabilities

Total Debt stock of the IMF increased further to US$ 8.1 billion during FY10 and was the major contributory factor in the rise of total debt stock during FY10. Out of this government of Pakistan received US$ 1.0 billion while US$ 7.2 billion were received by SBP for balance of payment support.

Public and publically guaranteed debt increased by 1.6 billion during FY10 compared to 1.9 billion in the corresponding period last year. Among Public and publically guaranteed debt, multilateral debt increased by US$ 0.7 billion during FY10 compared to US$ 1.5 billion last year. These loans were mainly provided by ADB, IDA & IDB. Moreover, most of the additional loans of ADB & IDA were in the form of project loans (see **Table 6.8**).

Table 6.8: Disbursement of External Resources during FY10

million US dollar

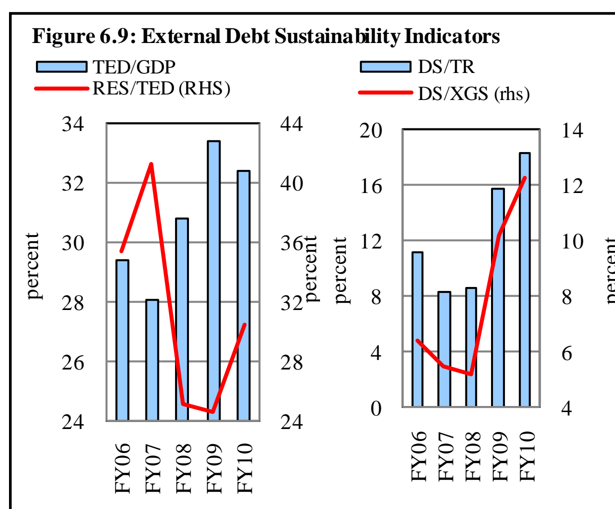
Donors	Particulars/purpose	Amount
ADB	Earthquake emergency assistant Prog. Loans/ Budgetary support Project	932.6
IDA	Earthquake emergency assistant Prog. Loans/ Budgetary support Project	702.4
IDB (S-term)	Short term credit	569.5
Saudi Arabia	Friend of Democratic Pakistan under Tokyo Conference	300
Japan	Project Friend of Democratic Pakistan under Tokyo Conference	108.5
China	Earthquake emergency assistant Project	212.3
USA	Friend of Democratic Pakistan under Tokyo Conference I D Ps Project	319.6
UK	Project Budget support for poverty reduction	147.7

The debt stock of *other bilateral* donors increased by US$0.3 billion, which is almost the same as last year, while the debt stock of Paris club decreased by US$ 0.04 billion relative to an increase of US$ 0.07 billion in the same period last year.

Debt sustainability indicators

The debt sustainability indicators exhibited mixed trend in FY10 (see **Figure 6.9**). EDL as a percentage of GDP (EDL/GDP) declined due to better GDP growth of 7.9 percent in US dollar terms relative to a smaller growth of 6.3 percent in EDL during FY10. This rise was in contrast to the last year when GDP growth declined much more sharply than the EDL. Similarly the debt sustainability also improved significantly when measured in terms of ratio of EDL to reserves as a result of better external sector performance.

Figure 6.9: External Debt Sustainability Indicators



However, the other two measures of debt sustainability– debt servicing to total revenue (DS/TR) and debt servicing to exports of goods and services (DS/XGS) deteriorated during FY10. This was mainly the result of retirement of Sukuk bonds of US$ 600 million after their maturity and slower pace of exports growth.

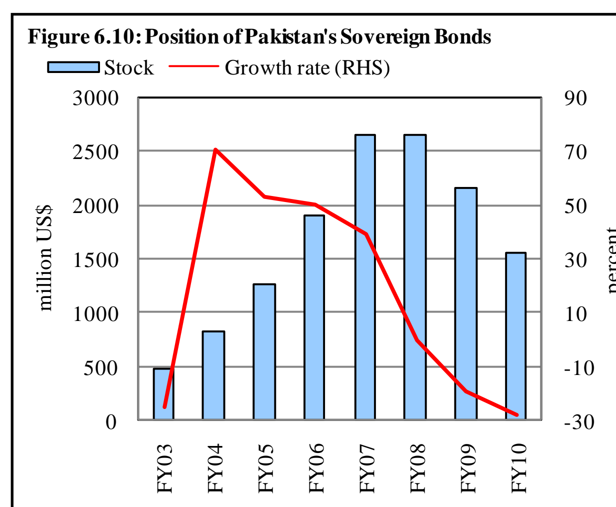
Sovereign bonds

The stock of Pakistani sovereign bonds declined to US$ 1.6 billion at end-June 2010 from US$ 2.2 billion last year (see **Figure 6.10**). This 27.9 percent decline was entirely the result of payment of principal amount of US$ 600 million of five year Sukuk, which was launched in February 2004. No new bond was launched by the Pakistani government in international market in FY10 due to

significant rise in risk premium associated with the country. Due to the same reasons the government had to scrap plans to issue bonds in FY09 also.

Foreign private loans

The stock of foreign private loans registered a net decline of US$ 164 million in FY10 over the stock in FY09. As a result, the share of foreign private loans in overall debt declined to 6.2 percent at end June-2010 from 6.6 percent last year. While the level of repayments remained almost same, it was the rise in inflows that contributed to this decline. Major companies that recorded inflows include KESC (US$ 115 million) followed by Fauji Cement Company Ltd (US$ 74 million), Engro Chemical Pakistan Limited (US$ 50 million) and Pakistan Refinery Ltd. (US$ 50 million) during FY10.



Similarly stock of private bonds fell by US$ 13 million, with 9.3 percent decline during FY10 compared to 50.2 percent decline during last year. There was no significant activity recorded under foreign private bonds during FY10.

Foreign exchange liabilities

The stock of Pakistan's foreign exchange liabilities recorded 12.0 percent decline in FY10 compared to 1.7 percent decline in the previous year. The net decline in foreign liabilities was shared by declining stock of central bank deposits and NHA bonds. The stock of central bank deposits declined to US$ 1.1 billion by end-June 2010 due to reduction in the deposit of central bank of China.

External debt and liabilities servicing

Pakistan's external debt and liability servicing stood lower at US$ 4.4 billion as of end-June 2010 compared to US$ 4.7 billion last year (see **Table 6.9**). This 7.0 percent decline in debt and liability servicing was mainly contributed by lower principal and interest payments for public and private non-guaranteed debt.

Foreign liabilities servicing increased to US$151.9 million from US$ 22 million last year. The increase in servicing of foreign liabilities was mainly on account of the repayments of Bank of China deposit of US$ 100 million and US$ 30 million payments for SWAP. In debt repayments, while the total principal payments remained almost the same as in the previous year, interest payments declined to US$ 0.96 billion during FY10 compared to US$ 1.11 billion in FY09 (see **Figure 6.11**).

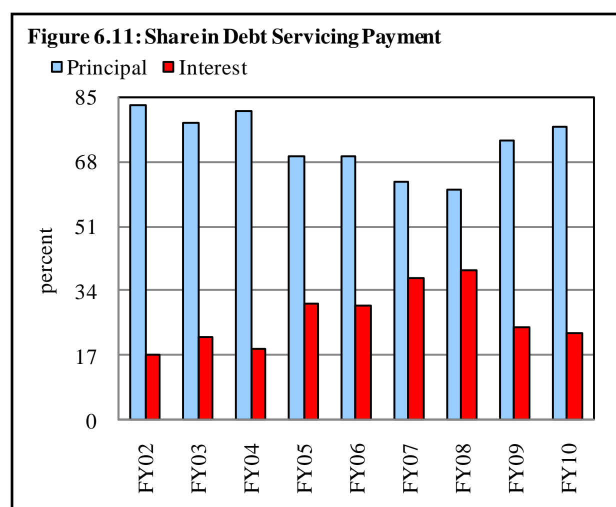


Table 6.9: Pakistan's External Debt and Liabilities Servicing

million US dollar

	FY08	FY09	FY10	FY08	FY09	FY10
	Actual Paid			Rescheduling/rollover		
1.Public and Publicly guaranteed	2,270.8	3,662.5	3,289.6	500	400	623
Principal	1,282.1	2,743.5	2,526.2	500	400	623
Interest	988.7	919.0	763.4	-	-	-
2. Private non-guaranteed	603.0	604.0	534.5	-	-	-
Principal	414.0	462.0	455.2	-	-	-
Interest	189.0	142.0	79.3	-	-	-
3. IMF	191.0	264.0	359.4	-	-	-
Principal	173.0	210.0	239.8	-	-	-
Interest	18.0	54.0	119.6	-	-	-
Total debt servicing (1-3)	**3,064.8**	**4,530.5**	**4,183.4**	**500**	**400**	**623**
Principal	1,869.1	3,415.5	3,221.2	500	400	623
Interest	1,195.7	1,115.0	962.3	-	-	-
4. Foreign liabilities	40.0	155.0	175.2	700	1,200	1,100
Principal	22.0	22.0	151.9	700	1,200	1,100
Interest	18.0	54.0	119.6	-	-	-
TOTAL (1-4)	**3,104.8**	**4,685.5**	**4,358.6**	**1,200**	**1,600**	**1,723**
Principal	1,891.1	3,437.5	3,373.1	1,200	1,600	1,723
Interest	1,213.7	1,169.0	1,081.9	-	-	-