Chapter 5
Domestic and External Debt

Pakistan's pace of public debt accumulation, in terms of rupees, accelerated during FY22 primarily due to a large fiscal deficit. In terms of GDP, public debt reached 73.5 percent in FY22, up from 71.5 percent in FY21. Composition of public debt indicates that around one-half of the rise in public debt was raised through domestic sources. Within domestic sources, the government mainly relied on commercial banks. In terms of maturity, the government was able to lengthen the maturity profile as the funds were mobilized through floating rate PIBs and also Shariah compliant Ijara Sukuk. The government adhered to its commitment of zero fresh borrowing from SBP in line with the SBP Act. On the other hand, the pace of external debt accumulation, in terms of US Dollars, decelerated due to debt repayment and appreciation of the US Dollar against other international currencies. From the perspective of debt management, while the maturity profile of public debt was lengthened, debt sustainability indicators deteriorated on the back of increasing cost of debt servicing. Nonetheless, repayment capacity witnessed improvement in FY22 amidst higher export proceeds, compared to FY21, and debt rescheduling under DSSI. However, with the expiry of the DSSI in December 2021, pressures from external debt repayments have increased.

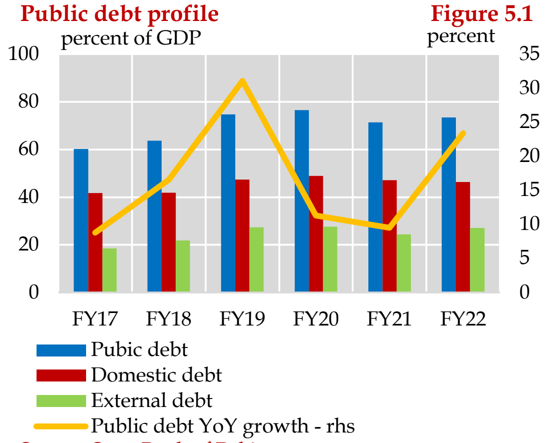
5.1 Public Debt

The pace of debt accumulation accelerated to 23.4 percent during FY22, compared to 9.5 percent during FY21. In terms of GDP, public debt edged up from 71.5 percent in FY21 to 73.5 percent in FY22 (**Table 5.1** & **Figure 5.1**). The increase in public debt burden emanated from higher fiscal and current account deficits.

In terms of composition, both domestic and external debt contributed in the expansion of public debt. Within domestic debt, the government continued to rely mainly on commercial banks to meet the financing needs in FY22.[1] Moreover, the funds mobilized through non-banks[2] also increased from Rs 177.3 billion in FY21 to 971.8 billion in FY22.[3]

Quarterly composition indicates that external debt constituted a major part of public debt accumulation in the first two quarters **(Figure 5.2)**. Nonetheless, with a large expansion in fiscal deficit, and inadequate availability of external financing along with large external debt repayments, domestic debt witnessed a sharp increase in the third and fourth quarter of FY22.

Public debt profile **Figure 5.1**



Source: State Bank of Pakistan

Summary of Pakistan's Debt and Liabilities **Table 5.1**

billion rupees

	Stock			Flows		Percent of GDP	
	FY20	FY21	FY22	FY21	FY22	FY21	FY22
A. Total debt and liabilities (sum I to IX)	44,591.5	47,844.0	59,696.8	3,252.5	11,852.8	85.7	89.2
B. Gross public debt (sum I to III)	36,398.6	39,866.0	49,192.3	3,467.5	9,326.3	71.5	73.5
C. Total debt of the government (I+II+III-X)*	33,235.3	35,668.5	44,330.8	2,433.2	8,662.3	63.9	66.2
I. Government domestic debt	23,282.5	26,265.4	31,036.2	2,982.9	4,770.8	47.1	46.4
II. Government external debt	11,824.5	12,439.0	16,746.5	614.5	4,307.5	22.3	25.0
III. Debt from IMF	1,291.5	1,161.5	1,409.6	-129.9	248.0	2.1	2.1
IV. External liabilities	1,663.3	1,378.4	2,275.6	-284.8	897.2	2.5	3.4
V. Private sector external debt	2,628.2	2,543.5	3,596.0	-84.8	1,052.6	4.6	5.4
VI. PSEs external debt	869.5	1,064.6	1,675.7	195.1	611.0	1.9	2.5
VII. PSEs domestic debt	1,490.5	1,436.7	1,393.4	-53.8	-43.3	2.6	2.1
VIII. Commodity operations	813.4	904.0	1,133.7	90.6	229.7	1.6	1.7
IX. Intercompany external debt	727.9	650.7	905.1	-77.2	254.4	1.2	1.4
X. Deposits with banking system	3,163.3	4,197.5	4,861.5	1,034.2	664.0	7.5	7.3

*As per FRDLA definition

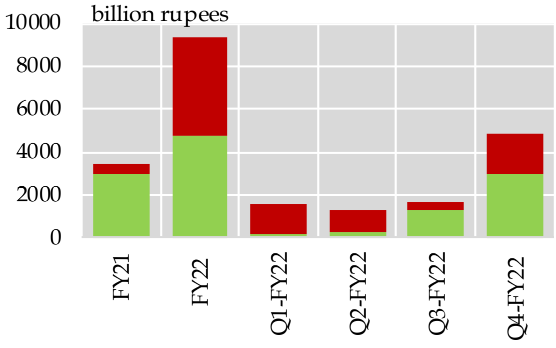
Source: State Bank of Pakistan

[1] As per the ammended SBP Act,: "The Bank shall not extend any direct credits to or guarantee any obligations of the Government, or any government-owned entity or any other public entity."

[2] Non-bank institutions include insurance companies, venture capitalists, exchange companies, etc. that does not have full banking license and cannot accept deposits from the public. However, they do facilitate alternative financial services such as investment, risk pooling, financial consulting, brokering, money transmission and check cashing.

[3] Most of the non-bank investments were in T-Bills, PIBs and Ijara Sukuks.

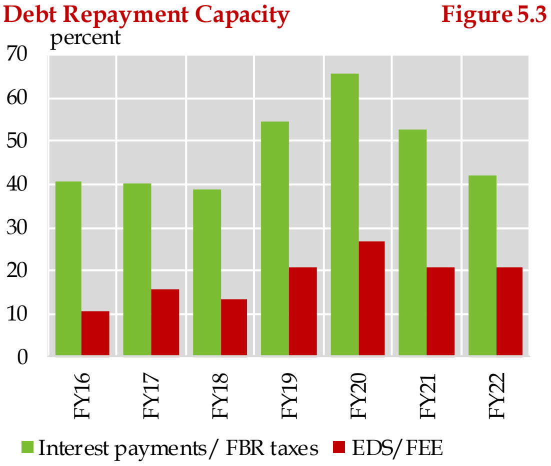
Composition-wise change in public debt **Figure 5.2**



* including debt from the IMF
Source: State Bank of Pakistan

The maturity profile of the public debt lengthened as almost the entire increase in public debt in FY22 was sourced through long-term instruments. The improvement in maturity profile, which considerably reduced rollover risk, was achieved through increased reliance on long-term debt securities such as Pakistan Investment Bonds (PIBs), Euro bonds, Ijara Sukuks and Naya Pakistan Certificates (NPCs). Pakistan also issued long-term Eurobonds worth US$ 2.0 billion in the international market in FY22.[4]

Debt Repayment Capacity **Figure 5.3**



Source: Ministry of Finance

The repayment capacity of the country as measured by interest payments to FBR tax revenues improved to 51.8 percent in FY22 from 57.5 percent, a year earlier, on the account of robust growth in tax revenues during FY22 **(Figure 5.3)**. Nonetheless, it is important to highlight that most of the tax revenues came from import related taxes. To consistently improve the repayment capacity of the country it is important to diversify the tax base and continue with the process of administrative efforts. On the same lines, it is equally important to create a balance between lengthening of the maturity profile and the borrowing cost of debt.

Risks pertaining to domestic debt

The recent economic situation has exposed Pakistan's domestic debt to multiple risks; first, with higher debt mobilization through flexible mark-up based long-term instruments[5], the government's repricing risk has increased. Second, mobilization of funds through floating PIBs added burden on debt servicing, specifically, in an increasing interest rate environment which has led to higher financing needs. Consequently, there was more likelihood of spending on debt servicing than on public sector development. Moreover, the continuous net outflows in prize bonds and NSS along with increased reliance on commercial banks[6] may leave less space for the government to bargain on the cost of borrowing.

5.2 Domestic Debt

The stock of domestic debt reached Rs 31.0 trillion by end June-2022, with an accumulation of Rs 4.8 trillion during FY22 against Rs. 3.0 trillion in FY21. Similar to FY21, most of the rise in domestic debt came from long-term instruments; including PIBs and GoP Ijara Sukuks; more reliance on PIBs and Shariah compliant bonds, emanated from (1) persistent deficit financing requirements, (2)

[4] There was a net increase of US$ 1 billion in FY22, as repayment of US$ 1 billion is also made.
[5] Almost 60. 8 percent of the rise in PIBs during FY22 was mobilized through floater PIBs nearly same percent was mobilized in FY21. However, in FY22, interest rates were higher.
[6] Around 76.0 percent of the deficit financing through domestic sources came from banks in FY22. Source: Ministry of Finance, Fiscal operations.

continuous net outflows from prize bonds and NSS, and (3) GoP's commitment to generate funds through long –term and Islamic instruments.

Although, a large number of T-bills were mobilized by the government in the last quarter of FY22, their overall contribution in domestic debt remained low due to accumulative retirement of around Rs 1.7 trillion in Q2 and Q3 of FY22. Moreover, the stock of unfunded debt which includes national saving schemes (net of prize bonds) also reduced in FY22.

Ownership of domestic debt

Institution-wise data shows that the commercial banks remained the main financing source of the government in FY22 as well. Their share in outstanding debt stock increased from 48.6 percent in FY21 to 53.4 percent in FY22 **(Figure 5.4**). Moreover, the government received the PKR equivalent of IMF SDRs for Covid related expenditures. The government did not borrow from the SBP in line with the amended SBP Act.

Permanent debt[7]

Similar to FY21, the share of the PIBs and Islamic financing instruments remained elevated, whereas, prize bonds recorded net outflows in FY22.

Overall, the stock of permanent debt in outstanding domestic debt increased to 67.2 percent in FY22 from 60.6 percent in FY21. This increase is largely due to higher mobilization of funds through the PIBs and Ijara Sukuks. In FY22, Ijara Sukuks were 7.3 percent of the outstanding debt against 2.5 percent in FY21. Whereas, PIBs constituted 57.0 percent of the domestic debt compared to 52.6 percent in FY21.

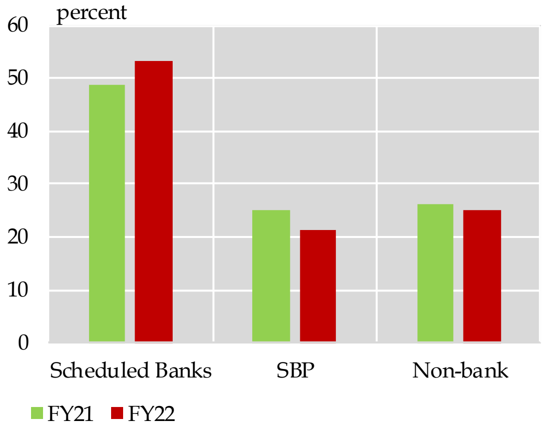
PIBs

Regarding the PIBs, the government mobilized funds worth Rs 3.1 trillion (net of maturity) during FY22, compared to Rs 1.7 trillion in FY21. This sharp increase in PIBs for the third consecutive year originated largely from floating-rate PIBs (PFLs)[8]**(Figure 5.5 b).** However, the share of fixed PIBs increased in the second half of FY22. **(Figure 5.5 a)**

From investor's perspective, the quarterly coupon payments and resets that are linked with 3-month T-bill rates make it an attractive investment. [9]Whereas, for the government, their long term nature reduces the rollover risk. This is evident from the pre-auction target of the government[10] and amount offered by the investors - which was almost doubled than the targeted one in FY22[11].

Nonetheless, it is important to highlight that although the PIBs lengthened the maturity profile of the domestic debt, they also increased the cost of borrowing due to large concentration in floating rate category in a rising interest rate environment.

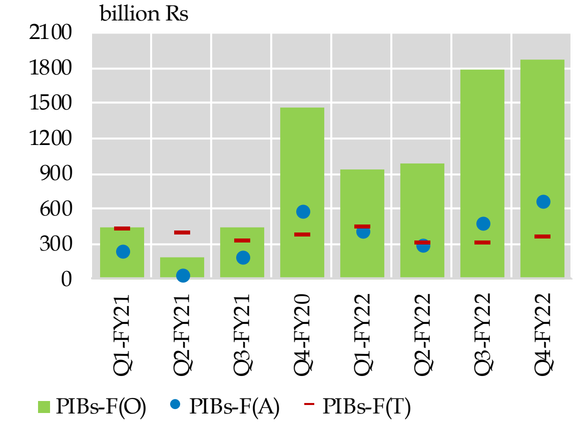
Ownership of Domestic Debt **Figure 5.4**



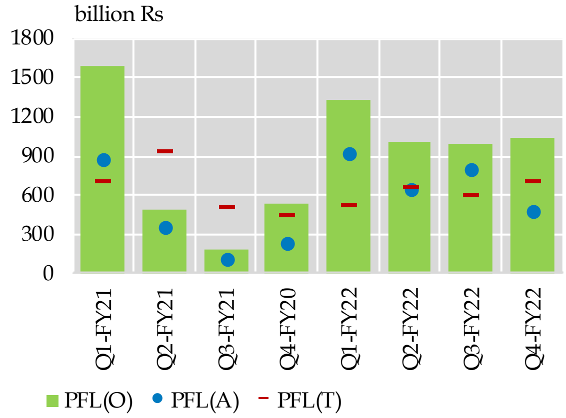
Source: State Bank of Pakistan

[7] Permanent Debt, also known as long-term debt, comprises instruments which has a maturity of more than one year. It mainly consists of the PIBs, GoP Ijara Sukuks and prize bonds. (Source: Statistics & DWH Department, State Bank of Pakistan.)
[8] Launched in FY20
[9] Specifically, 3-year, 5-year and 10-year PFLs remained attractive investments for investors in FY22.
[10] The government allocated around 63.9 percent to the PFLs in FY22.
[11] For more details see Chapter 3.

Auction profile fixed PIBs **Figure 5.5a**



Auction profile floating PIBs **Figure 5.5b**



Source: State Bank of Pakistan

GOP Ijara Sukuk

The GoP mobilized funds through Shariah compliant Sukuk worth Rs 1.6 trillion during FY22, compared to Rs. 467 billion in FY21. On the supply side, Islamic banks had ample liquidity making them a potent source of government borrowing.

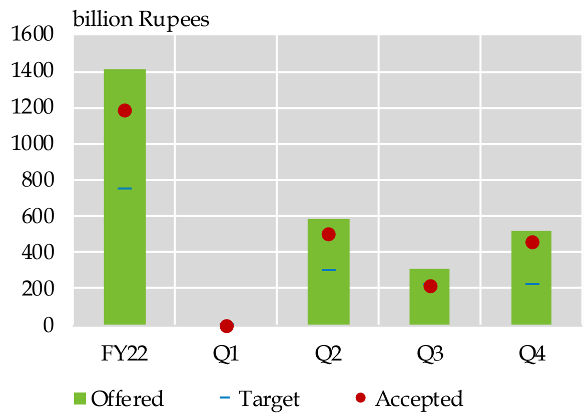
Similar to the PIBs, a large part of the Ijara Sukuks was mobilized through variable rental rate (VRR) instruments, particularly in Q2 and Q4 of FY22, as a result of expected hike in interest rates. Moreover, unlike Fixed Rental Rate (FRR) instruments, the offered and accepted amount for VRR Sukuks remained higher than targeted amount. However, in Q3-FY22 more funds were generated through FRR Sukuks due to steeper yield curve (**Chapter 3**) **(Figure 5.6 a & b)**

Prize Bonds

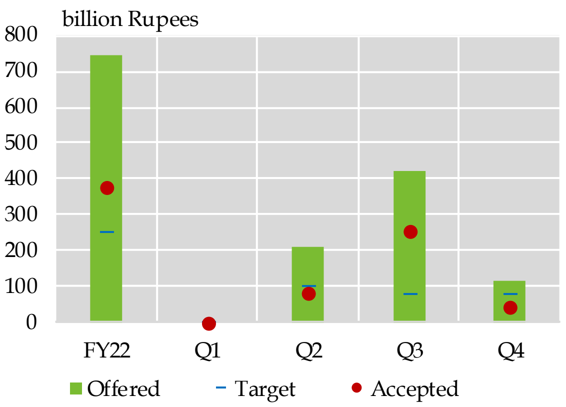
Prize bonds recorded net outflows for the third consecutive year as a result of discontinuation of higher denomination bearer bonds by the government to improve documentation of the economy. [12]

In this regard, the bond holders were presented with the following options (1) convert them to premium prize bonds; (2) replace them with special savings

GoP Ijara Sukuk (VRR) **Figure 5.6a**



GoP Ijara Sukuk (FRR) **Figure 5.6b**



Source: State Bank of Pakistan

[12] Government has discontinued bearer Prize bonds of 7,500, 15,000, 25,000 and 40,000 in FY21. It is important to highlight that the government discontinued bearer bonds of 25000 and 40000, and introduced non-bearer (premium bonds against these denominations).

Domestic Debt **Table 5.2**

Billion Rupees

	Stock		Absolute Change					
	Jun-21	Jun-22	FY21	FY22	Q1	Q2	Q3	Q4
I. Permanent Debt (1+2)	15,904.1	20,843.7	1,880.6	4,939.6	(67.2)	1,615.3	1,728.9	1,662.5
1. Federal Government Bonds	15,457.5	19,991.3	2,171.0	4,533.7	(8.6)	1,153.5	1,727.5	1,661.4
of which								
GOP Ijara Sukuk 3 Years	665.3	2,279.8	467.0	1,614.6	-	632.5	478.6	503.5
Bai-Muajjal of Sukuk	201.0	23.2	-	(177.8)	-	(72.6)	(105.3)	-
Pakistan Investment Bonds (PIBs)	14,590.0	17,687.0	1,704.0	3,097.0	(8.6)	593.5	1,354.2	1,157.9
2. Prize Bonds	443.7	374.6	(290.4)	(69.1)	(58.6)	(13.1)	1.4	1.2
3. SBP loan to GOP against SDRs allocation	-	474.9	-	474.9	-	474.9	-	-
II. Floating Debt	6,680.4	6,802.9	1,102.1	122.5	250.8	(1,287.6)	(401.9)	1,561.3
of which								
Market Treasury Bills	6,676.9	6,752.4	1,101.4	75.4	250.8	(1,335.5)	(401.5)	1,561.7
MTBs for Replenishment of Cash	3.5	50.6	0.7	47.1	-	47.9	(0.4)	(0.4)
III. Unfunded Debt	3,645.9	3,335.9	(27.7)	(310.0)	(14.0)	(27.9)	4.5	(272.6)
of which								
Saving Schemes (Net of Prize Bonds)	3,497.9	3,208.2	(25.6)	(289.7)	(13.5)	(19.2)	16.5	(273.6)
GP Fund	100.8	80.5	(0.7)	(20.3)	(0.6)	(8.7)	(12.0)	1.0
IV. Foreign Currency Instruments	6.7	8.7	(0.4)	2.0	0.5	0.3	0.2	0.9
of which								
Special US Dollar Bonds	6.5	8.4	(0.4)	1.9	0.5	0.3	0.2	0.9
V. Naya Pakistan Certificates	28.3	45.0	28.3	16.8	8.4	2.5	(1.9)	7.8
Government Domestic Debt (I+II+III+IV+V)	26,265.4	31,036.2	2,982.9	4,770.8	178.5	302.5	1,329.8	2,959.9

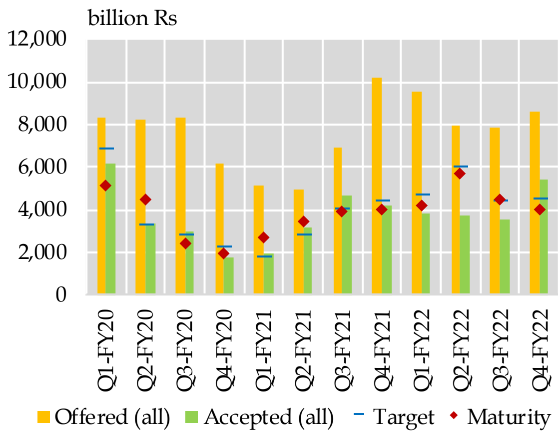
Source: State Bank of Pakistan

certificate/defense savings certificates; or (3) encash them at face value(through transfer of proceeds to the bond-holders bank account. However, the data suggests that most of the investors decided to withdraw at the face value. Resultantly, in FY22, despite net inflows in lower denomination bonds and registered premium prize bonds of 25,000 and 40,000[13], there was overall net outflow of Rs 69.1 billion in prize bonds **(Table 5.2)**.

Floating debt[14]

Floating debt (short term-with maturity of less than one-year) showed a marginal increase of Rs. 122.5 billion in FY22 compared to a rise of Rs 1.1 trillion during FY21. The main reason behind this deceleration was significant retirement in T-bills. In the first three quarters of FY22 **(Figure 5.7)**, the government accepted less than the targeted amounts due to high bidding interest rates (**Chapter 3**). However, in Q4-FY22, as a result of high financing requirements, the government accepted more than the targeted amount. In Q4-FY22, T-bills worth Rs 5.7 trillion were auctioned; out of

Auction Summary of T-Bills **Figure 5.7**

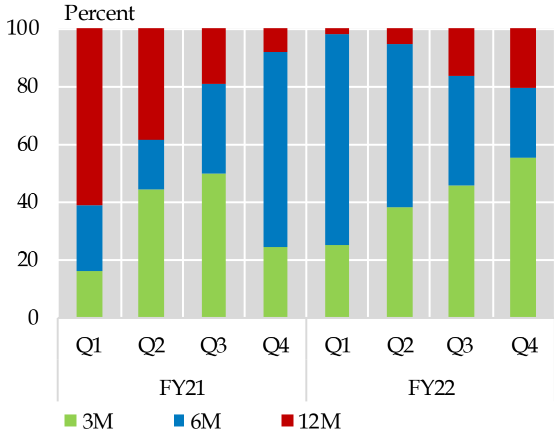


Source: State Bank of Pakistan

[13] These bonds are bearer bonds. They are different from the bonds that were discontinued by the government.(see Footnote 12)

[14] Floating debt comprises instruments which has a maturity of less than one year. It majorly comprises T-bills of 3-months, 6-months and 12-months. Source: Core Statistics Department, State Bank of Pakistan

Share of T-bills in outstanding Stock **Figure 5.8**



Source: State Bank of Pakistan

which Rs 3.4 trillion was raised in June 2022. Around 77.1 percent of T-bills in Q4-FY22 were 3m instruments. Consequently, the 3m T-bills in the outstanding debt grew rapidly by Rs 2.3 trillion in Q4-FY22 **(Figure 5.8)**.

Unfunded debt[15]

Unfunded debt recorded net outflows of Rs. 310.0 billion in FY22 **(Table 5.2).** Most of the outflows were in national saving schemes. In particular, net outflows were recorded in the category of special savings account. However, marginal net inflows were documented in Pensioner' Benefit Account, Behbood Saving Certificates (BSC) and Saving Accounts.

Although profits rates have increased during FY22 in line with the increase in the policy rate, restriction on institutional investments from NSS products might led to subsequent withdrawals.

Naya Pakistan Certificates (held by residents only)[16]

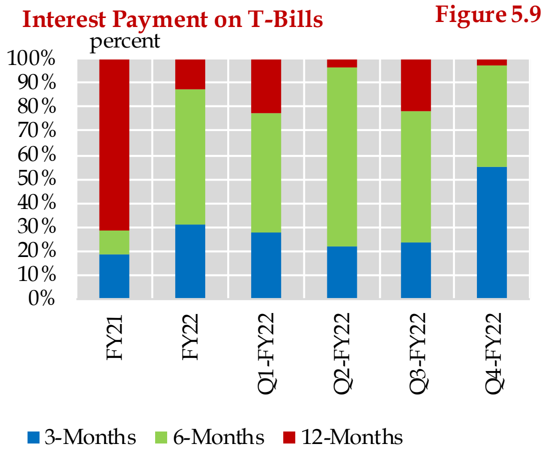
The outstanding stock of NPCs (held by residents only) rose by Rs 16.8 billion during FY22. Most of the increase was seen during H1-FY22, whereas during Q3-FY22 the NPCs stock witnessed a decline **(Table 5.2).**

Interest payments on domestic debt remain at an elevated level

The domestic debt servicing grew by 13.4 percent in FY22 compared to 9.1 percent in FY21. In absolute terms, interest payments of Rs 2.8 trillion were made during FY22 compared to Rs 2.5 trillion in FY21.

Although, the rising debt stock was the main factor contributing to the consistent rise in interest payments on domestic debt, the increase in the policy rate from Q2-FY22 onwards inflated the borrowing cost as well. The cut off rates of the T-bills and coupon rates of the PIBs increased by almost 500-800 bps during FY22. Instrument-wise analysis shows that interest payments on the PIBs increased significantly. With the rising share of floating rate PIBs in the outstanding debt stock, interest payments on these instruments increased particularly in an increasing interest rate environment. Interest payments on T-bills also increased during FY22, particularly of 3-month and 6-month T-bills, as the government relied on short-tenor instruments during FY22 due to inadequate external financing **(Figure 5.9)**.

Interest Payment on T-Bills **Figure 5.9**



Source: State Bank of Pakistan

15 Unfunded debt comprises instruments such as National Saving Schemes (NSS) which is funded directly by the people. (Source: Statistics & DWH Department, State Bank of Pakistan)

16 NPCs has two parts; (1) NPCs held by residents and (2) NPCs held by non-residents. NPCs (held by residents) is part of domestic debt and NPCs held by non-residents is part of external debt.

Public External Debt **Table 5.3**

million US Dollar

	Stock(end-June)		Quarter wise inflows			
	FY21	FY22	Q1-FY22	Q2-FY22	Q3-FY22	Q4-FY22
Public external debt (1&2)	**86,456.9**	**88,835.7**	**1,623.5**	**2,475.8**	**-1,695.9**	**-24.6**
1. Government external debt	**79,073.1**	**81,938.9**	**1,934.3**	**2,816.3**	**-2,434.2**	**549.4**
of which						
i) Long term (>1 year)	78,215.0	80,589.8	1,503.1	2,828.5	-2,588.0	631.2
Paris club	10,725.9	9,231.8	-381.6	-198.3	-437.6	-476.6
Multilateral	33,836.1	34,022.8	364.1	434.2	-120.9	-490.6
Other bilateral	14,821.5	18,053.3	65.5	3,041.8	-777.8	902.3
Euro Sukuk global bonds	7,800.0	8,800.0	1,000.0	-1,000.0	1,000.0	0.0
Commercial loans/credits	9,695.6	9,481.2	140.4	382.1	-2,008.5	1,271.6
Naya Pakistan Certificates	808.7	950.9	369.4	159.6	85.1	-471.8
ii) Short term (<1 year)	858.1	1,349.1	431.2	-12.2	153.8	-81.7
Multilateral	505.8	1,327.1	472.7	88.5	233.7	26.4
Local currency securities	352.3	22.0	-41.6	-100.7	-79.9	-108.1
Commercial loans/credits	0.0	0.0	0.0	0.0	0.0	0.0
2. From IMF	**7,383.7**	**6,896.8**	**-310.8**	**-340.5**	**738.3**	**-574.0**
Foreign exch. liabilities	**8,762.6**	**11,134.3**	**2,882.0**	**-3.0**	**-109.7**	**-397.5**
Central bank deposits	2,700.0	2,700.0	0.0	0.0	0.0	0.0
Allocation of SDR	1,410.1	3,897.3	2,725.2	13.8	-91.5	-160.3

Source: State Bank of Pakistan

5.3 Public External Debt & Liabilities

The pace of public external debt accumulation decelerated in FY22. It reached US$ 88.8 billion by end-June 2022 against US$ 86.5 billion by the end-June 2021, registering a growth of 2.7 percent compared to 10.8 percent in FY21 **(Table 5.3)**. The deceleration in external debt in terms of US Dollar is attributed to two main factors; first, external debt repayments in FY22; second, there was a slowdown in net external inflows in the wake of uncertainty in the country along with delayed disbursements of an expected tranche of the IMF EFF program.

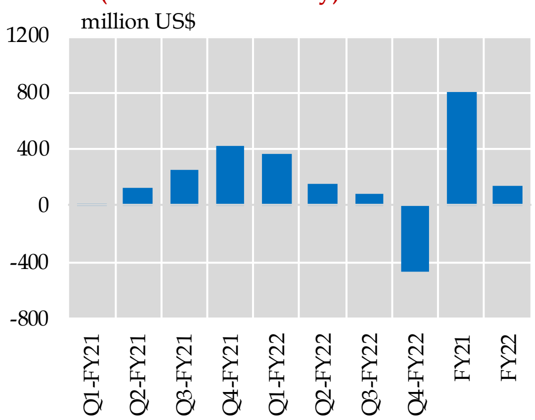
Foreign Investments

Foreign investment in local government securities declined, registering net outflows in PIBs and T-bills. Similarly, while NPCs (held by non-residents only) remained an attractive source of investment until Q3-FY22, the outstanding stock of NPCs (held by non-residents) declined, by US$ 471.8 million in Q4-FY22 **(Figure 5.10).** Delays in the resumption of the IMF program, political instability in Pakistan, Russia-Ukraine conflict and severe monetary tightening by the Fed were the key factors that led to decline in these investments.

Gross External Disbursements

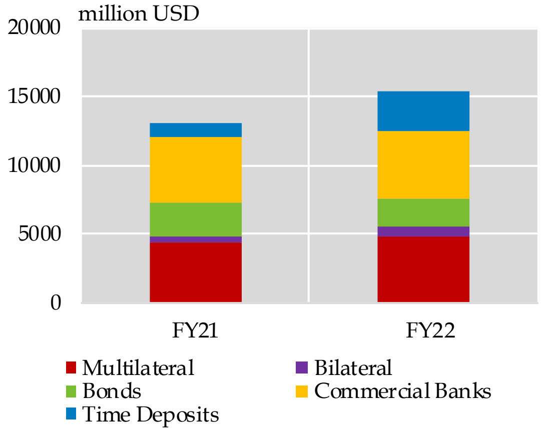
Gross external disbursements (public grants and loans, excluding guarantees) rose to US$ 15.4 billion in FY22 against commitments of US$ 14.1 billion which was higher than both the FY21 Budget estimates and disbursements. This was due to higher financing requirements arising from increasing CAD.

Changes in Outstanding Stock of NPCs (Non-Residents Only) **Figure 5.10**



Source: State Bank of Pakistan

Gross External Disbursements by Type Figure 5.11



Source: Economic Affairs Division

Bifurcation of disbursements show that around one-third of the financing was sourced through commercial banks, while another one-third came from multilateral sources. The government also entered the international bond market twice and raised US$ 2.0 billion during FY22 **(Figure 5.11).**

Similar to the previous year, non-project aid constituted a larger part of the total disbursements in FY22, around 85.6 percent, with budgetary support having the largest share in it (**Figure 5.12**).

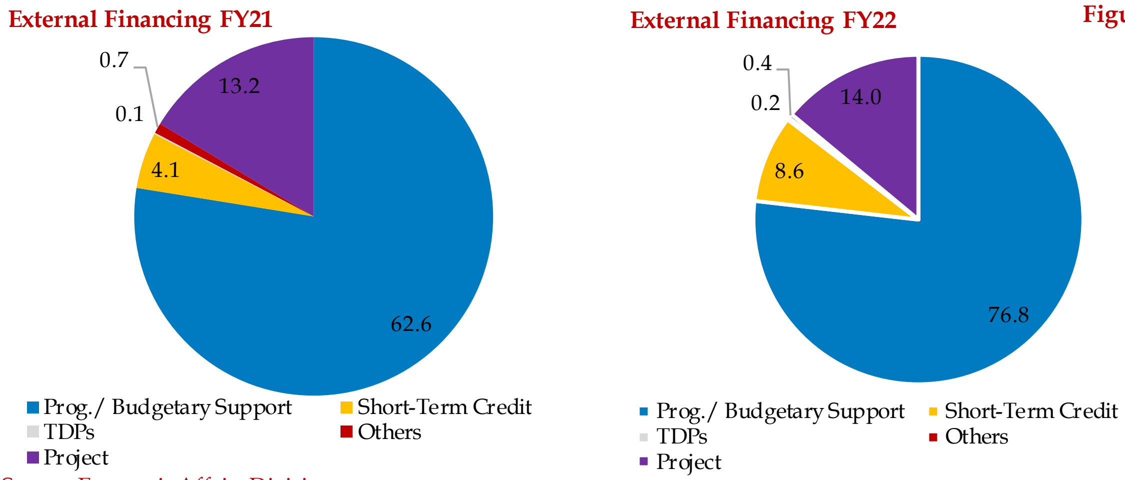
Disaggregated analysis of the disbursements show that within multilateral sources, most of the disbursements came from ADB (US$ 1.6 billion); World Bank (US$ 1.5 billion) and IDB-short-term (US$ 1.3 billion).[17]

Further analysis depicts that financing from the ADB was mostly project aid, amounting US$ 924.6 million. Whereas, most of the World Bank's financing was for budgetary support.[18] The amount disbursed by the IDB was short term loan which was utilized for the import of oil and LNG.

Like previous year, these donors helped Pakistan in financing nearly one- third of all its financing needs[19]. That being said, the share of multilateral donor decreased from 33.5 percent in FY21 to 31.2 percent during FY22 (**Figure 5.13**). Despite the reduction in share of multilateral donors, in absolute terms, it had increased from US$ 4.4 billion to US$ 4.8 billion.

On one hand, one-third of the financing through commercial banks helped Pakistan fulfil its short-term needs however, it also increased refinancing and interest rate risk

Figure 5.12



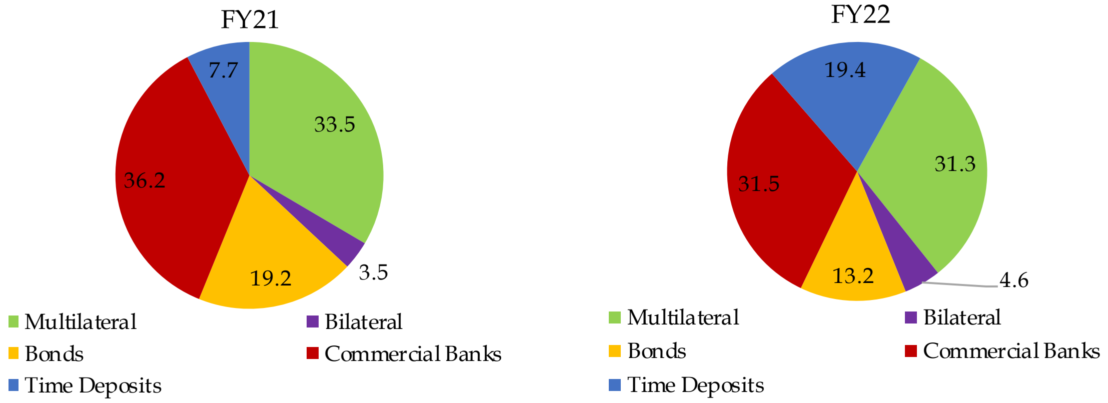
Source: Economic Affairs Division

[17] ADB, around 33.6 percent, World Bank (IDA), around 32.8 percent and IDB (short-term loans), around 27.5 percent

[18] Around 55.7 percent of the World Bank's financing was for budgetary support.

[19] Out the total inflows in FY22 around 27.7 percent were from ABD, IDB (short term) and World Bank combine. In FY21 the inflows from these donors were 26.8 percent of total disbursed amount.

Share in Gross External Disbursment **Figure 5.13**



Source: Economic Affaires Division

due to relatively short- term nature[20] and increasing LIBOR rates.[21]

External Debt Servicing

Pakistan repaid worth US$ 13.0 billion sovereign debt[22] (including short-term) during FY22 compared to last year's US$ 8.4 billion. **(Table 5.4).** Whereas a marginal amount of US$ 330 million was paid during FY22 on foreign exchange liabilities, against US$ 3.2 billion in FY21.

The overall higher amount of debt servicing compared to previous year can be explained by; first, less debt repayments in FY21 due to debt relief of worth US$ 2.3 billion under the DSSI; second, more principal repayments in FY22 compared to FY21; and third, escalated interest payments on long-term instruments in FY22 compared to FY21.

DSSI Debt Relief

Pakistan benefited from the debt relief provided under the G-20 Debt Service Suspension Initiative (DSSI) in the first half of

Pakistan's External Debt Servicing -Principal & Interest **Table 5.4**

million US$

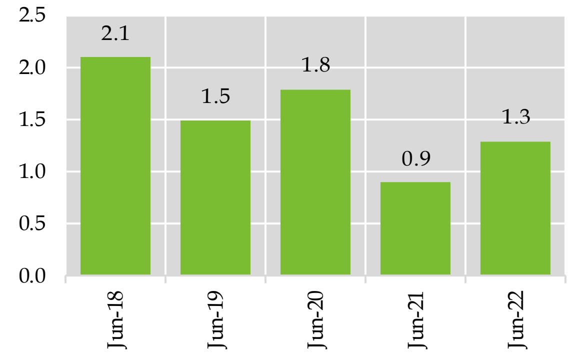
	FY21	FY22	FY22			
			Q1	Q2	Q3	Q4
1. Public debt (a+b+c)	**8,430**	**13,018**	**1,372**	**3,683**	**4,406**	**3,557**
a. Government debt	**6,376**	**11,303**	**1,111**	**3,079**	**3,974**	**3,140**
of which						
Paris Club	10	599	-	6	41	552
Multilateral	2,003	2,088	602	457	571	458
Other Bilateral	205	776	47	24	609	97
Euro/Sukuk global bonds	362	1,587	32	1,275	32	247
Commercial loans /credits	3,753	5,508	427	1,305	2,710	1,066
NPC	-		-	-	-	718
b. To the IMF	**1,229**	**1,154**	**259**	**326**	**249**	**320**
c. Short-term government debt	**825**	**566**	**3**	**278**	**183**	**96**
2. Foreign exchange liabilities	**3,225**	**330**	**18**	**155**	**114**	**43**

Source: State Bank of Pakistan

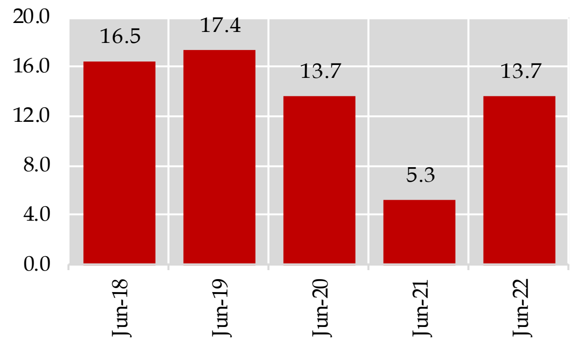
[20] Most of the commercial loans are for a year or two.
[21] The commercial loans are linked with benchmark LIBOR. Increasing LIBOR rate therefore, increases the borrowing cost for the government.
[22] Includes principal and interest payments.

Figure: 5.14

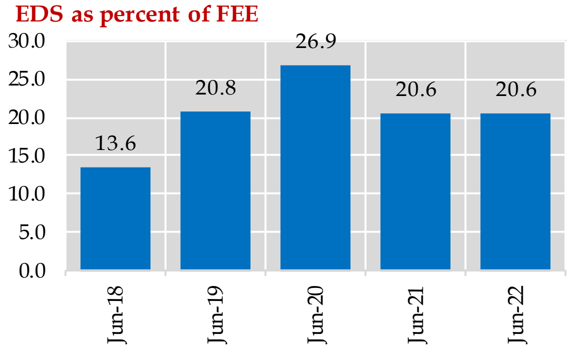
ST Debt as percent of Total Debt



ST debt as percent of SBP Reserves

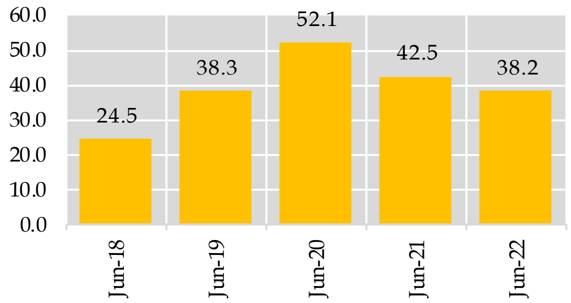


EDS as percent of FEE



* EDS external debt servicing; FEE foreign exchange earnings

EDS as percent of Export



* EDS external debt servicing;

Source: State Bank of Pakistan

FY22[23]. This relief provided fiscal space of US$ 1.0 billion (principal US$ 0.7 billion and interest payments US$ 0.2 billion) to the government in FY22. Moreover, it improved the debt repaying capacity indicators in FY22.

It may be recalled that the World Bank and IMF had urged G20 countries to establish the Debt Service Suspension Initiative (DSSI) in April 2020 with the objective of helping the developing countries to manage the adverse impact of the Covid-19. Overall, 73 countries were eligible for a temporary suspension of debt-service payments owed to their official bilateral creditors. The suspension period, originally set to end on December 31, 2020, was extended till December 2021.[24] Under this initiative, the debt repayments were postponed for the short-term, instead of the actual cancellation of debt obligations. The repayment period for the restructured principal and interest payments is 4-6 years.

5.4 External Debt Sustainability [25]

Unlike FY21, the external debt sustainability indicators remained unfavorable in FY22 despite improvement in the GDP and FEE. For

[23] Overall, the DSSI provided a temporary relief of US$ 3.7 billion to Pakistan from May 2020 to December 2021 through debt suspension and debt rescheduling. It was divided in three tenures. The last tenure was from July-December 2021(H1-FY22).

[24] Source: www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative

[25] A country's external debt sustainability is evaluated through solvency and liquidity indicators. The Solvency gauges the country's ability to service its external payments on an ongoing basis. These indicators include external debt-to-GDP, external debt-to-Foreign Exchange Earnings (FEE) and External Debt Servicing (EDS)-to-FEE; whereas, liquidity indicators measure the country's ability to service its short- term liabilities. These include: short term debt-to-reserves; both total reserves and SBP reserves along with STPED –to –total external debt.

instance, the Total External Debt & Liabilities (TDL)[26] reached 39.7 percent of GDP compared to 34.5 percent in FY21. Consequently, this rise in external debt along with decline in reserves resulted in the deterioration of debt sustainability ratio such as total reserves- to- total external debt and SBP reserves- to- total external debt.

However, as discussed, repayment capacity improved in terms of EDS-to-export earning as a result of debt relief and rise in the FEE. Furthermore, liquidity indicators weakened due to surge in short-term borrowing during FY22. This, along with declining reserves, led to the deterioration of Short-Term Public External Debt (STPED)-to- reserves ratios. **(Figure 5.14)**.

[26] The Total External Debt & Liabilities (TDL) is different from Public External Debt that we have discussed before. TDL includes Public External debt & liabilities and external debt of (1) Public sector enterprises (PSEs), (2) Banks, (3) Private Sector and (5) Intercompany loans