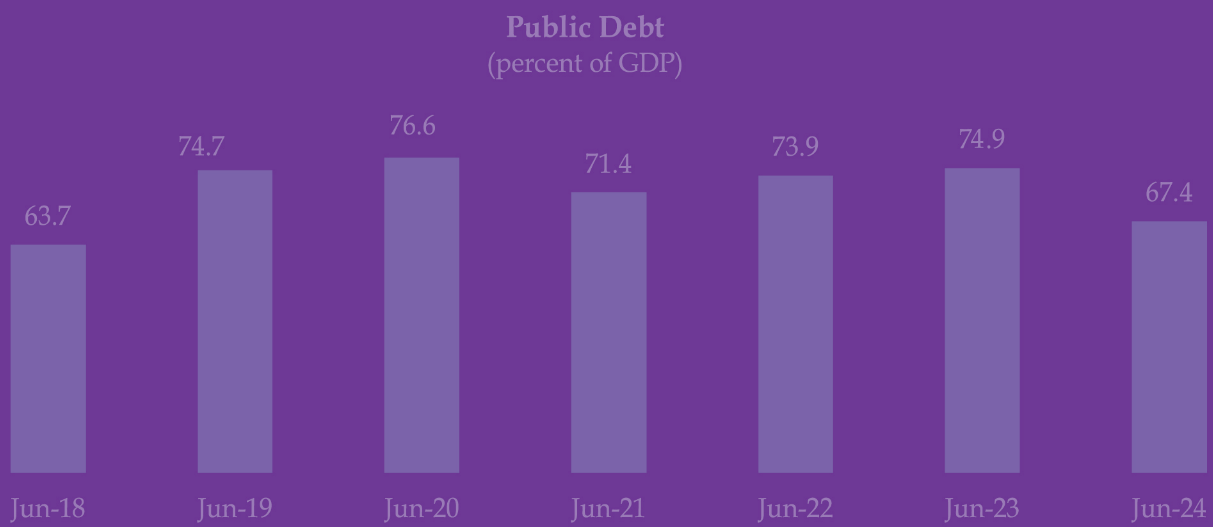
5

Domestic and External Debt

Fiscal consolidation and revaluation gains considerably slowed down the pace of debt accumulation during FY24. As a result, the public debt to GDP ratio fell to 67.4 percent in FY24 from 74.9 in FY23. While both domestic and external debt contributed to this decline, the major contribution came from external debt. The external debt recorded a contraction in absolute terms, primarily on account of revaluation gains amid exchange rate appreciation, which more than offset the accumulation in external debt in dollar terms. On the other hand, growth in domestic debt also decelerated. The domestic debt was primarily sourced from commercial banks, predominantly mobilised through long-term government securities that lengthened the debt maturity profile during FY24. Moreover, while the liquidity indicators for external debt deteriorated, the repayment capacity and solvency indicators improved.



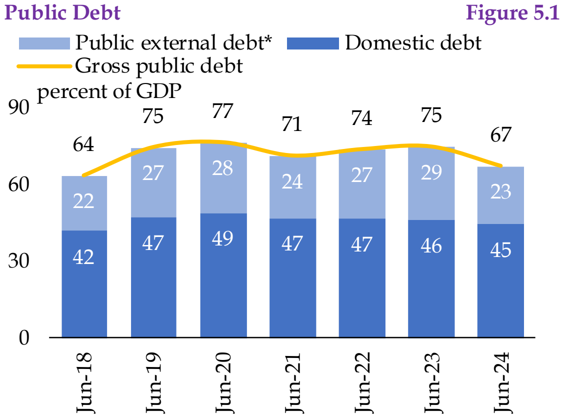
5 Domestic and External Debt

5.1 Public Debt

Pakistan's total debt and liabilities grew by 11.0 percent during FY24, slower than 29.1 percent increase in the previous year. Likewise, growth in public debt decelerated to 13.3 percent during FY24 compared to 27.7 percent in the previous year. As a result, the public debt to GDP ratio dropped to 67.4 percent at end-June FY24, the lowest since FY18 **(Figure 5.1).**[1] This decrease largely emanated from a contraction in external debt, while domestic debt also decreased in terms of GDP **(Table 5.1 & Figure 5.1)**.

The decline in external debt primarily stemmed from a favorable revaluation impact of 0.7 percent of GDP (Rs 694.3 billion) due to exchange rate appreciation, which more than offset the increase in external debt in dollar terms during FY24 **(Figure 5.2).** The decrease in domestic debt in terms of GDP, on the other hand, mainly reflects lower fiscal deficit.[2] More specifically, it was due to a primary surplus recorded in FY24 after 17 years.[3] Notwithstanding the slowdown, the share of domestic debt increased during FY24 **(Figure 5.3)**.

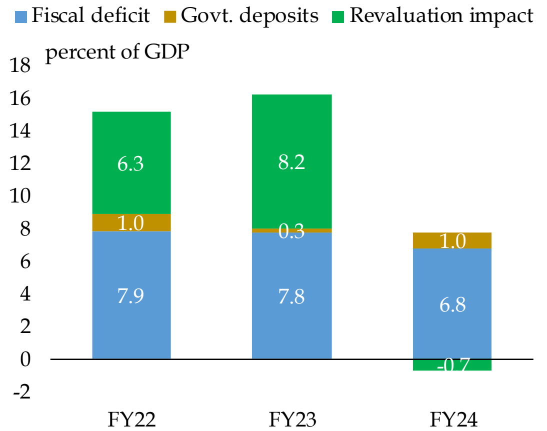
Public Debt **Figure 5.1**



*Including debt from IMF

Source: State Bank of Pakistan

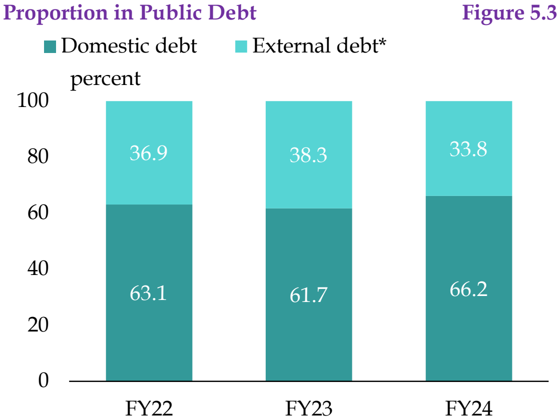
Composition of Change in Public Debt **Figure 5.2**



Source: State Bank of Pakistan

The domestic debt was almost entirely sourced from commercial banks during FY24. This may be attributed to lower-than-budgeted external financing, retirement in National Savings Schemes (NSS) and repayment of maturing Pakistan Investment Bonds (PIBs) to the SBP. Moreover, suspension of higher tax in connection with maintaining minimum advances-to-deposit ratio for FY24 encouraged banks' investment in government securities. In

Proportion in Public Debt **Figure 5.3**



*Including debt from IMF

Source: State Bank of Pakistan

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[1] In addition to reduction in external debt in PKR terms, a sharp growth of 25.9 percent in nominal GDP also lowered the debt to GDP ratio.

[2] Although fiscal deficit decreased in terms of GDP during FY24, it increased in absolute terms compared to the previous year.

[3] The primary balance showed a surplus of Rs 952.9 billion during FY24, against a deficit of Rs 825.5 billion in FY23.

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

stock and flows in billion Rupees, growth in percent

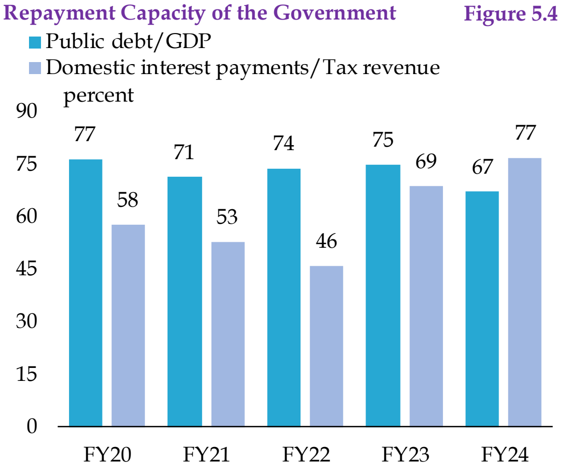
	Stock			Flows		Growth	
	FY22	FY23	FY24	FY23	FY24	FY23	FY24
Total Debt & Liabilities	**59,260.8**	**76,511.5**	**84,906.9**	**17,250.7**	**8,395.4**	**29.1**	**11.0**
Gross Public Debt (I+II+III)	**49,242.0**	**62,881.0**	**71,245.9**	**13,639.0**	**8,364.9**	27.7	13.3
I. Government domestic debt	31,085.4	38,809.8	47,160.2	7,724.4	8,350.4	24.8	21.5
II. Government external debt	16,747.0	22,030.9	21,753.6	5,283.9	-277.3	31.6	-1.3
III. Debt from IMF	1,409.6	2,040.2	2,332.1	630.7	291.8	44.7	14.3
IV. External liabilities	2,275.6	3,101.9	3,265.6	826.3	163.6	36.3	5.3
V. Private sector external debt	3,697.7	5,503.3	5,540.2	1,805.6	36.9	48.8	0.7
VI. PSEs external debt	1,667.1	2,147.9	2,162.2	480.8	14.3	28.8	0.7
VII. PSEs domestic debt	1,393.4	1,687.2	1,705.6	293.7	18.5	21.1	1.1
VIII. Commodity operations	1,133.7	1,485.9	1,378.3	352.3	-107.6	31.1	-7.2
IX. Intercompany external debt	837.6	1,301.4	1,273.7	463.8	-27.7	55.4	-2.1
Percent of GDP							
Gross public debt	73.9	74.9	67.4	-	-	-	-
Government domestic debt	46.6	46.2	44.6	-	-	-	-
Government external debt	25.1	26.2	20.6	-	-	-	-
Total external debt and liabilities	40.0	43.0	34.4	-	-	-	-

Source: State Bank of Pakistan

addition, the expectation of lower interest rate amid falling inflation might have increased banks' appetite for long-term instruments **(see Chapter 3)**.

Within the borrowing from banks, the government mainly relied on long-term instruments, GoP Ijara Sukuks and floating rate PIBs, whereas significantly lower funds were raised through T–bills. This improved the maturity profile of the domestic debt, and reduced the rollover risk.[4] Further, higher debt in floating rate PIBs is likely to benefit the government in declining interest rate environment through repricing at lower rates. Conversely, the maturity profile of external debt slightly deteriorated due to increase in the proportion of short-term loans during FY24.[5] Furthermore, the indicators for repayment capacity of the government show a mixed picture during FY24. The ratio of public debt to GDP improved, while the ratio of domestic interest payments to FBR tax deteriorated. The improvement in the former mainly owes to slower growth in public debt, as well as higher nominal GDP. The deterioration in the latter, despite significant growth of nearly 30 percent in FBR taxes, can be attributed to relatively higher share of domestic debt **(Figure 5.4)**. In addition, both the indicators are still higher than

Repayment Capacity of the Government **Figure 5.4**



Sources: Ministry of Finance and State Bank of Pakistan

[4] As per the latest report by MoF, average time to maturity (ATM) of domestic debt increased to 3.0 years from 2.8 years at the end of FY23.

[5] According to MoF, the ATM of external debt decreased to 6.3 years in H1-FY24 from 6.4 years at end the of FY23.

Government Domestic Debt — Table 5.2

billion Rupees; share and growth in percent

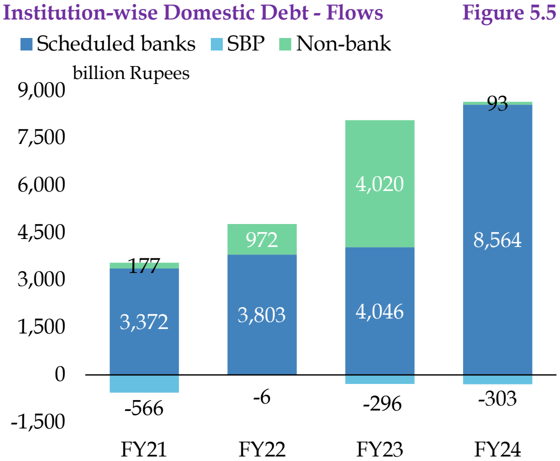
	Stock			Flows		Share		Growth	
	FY22	FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24
Government Domestic Debt (I+II+III+IV+V)	**31,085.4**	**38,809.8**	**47,160.2**	**7,724.4**	**8,350.4**	**-**	**-**	**24.8**	**21.5**
I. Permanent debt, *of which*	20,843.7	26,021.5	33,656.2	5,177.8	7,634.7	67.0	71.4	24.8	29.3
GoP Ijara Sukuk	2,279.8	3,150.6	4,766.2	870.8	1,615.6	8.1	10.1	38.2	51.3
PIBs	17,687.0	22,009.3	28,025.8	4,322.3	6,016.5	56.7	59.4	24.4	27.3
Prize bonds	374.6	382.5	385.1	7.9	2.6	1.0	0.8	2.1	0.7
II. Floating debt, *of which*	6,804.1	9,335.3	10,247.6	2,531.2	912.4	24.1	21.7	37.2	9.8
Market treasury bills	6,752.4	9,269.2	10,167.3	2,516.8	898.1	23.9	21.6	37.3	9.7
III. Unfunded debt, *of which*	3,336.0	2,926.5	2,798.7	-409.5	-127.8	7.5	5.9	-12.3	-4.4
NSS (Net of prize bonds)	3,208.3	2,818.5	2,707.8	-389.8	-110.7	7.3	5.7	-19.0	-3.9
IV. Foreign currency instruments	8.7	383.8	373.6	375.1	-10.3	1.0	0.8	4315.4	-2.7
V. Naya Pakistan Certificates (NPCs)	92.9	142.7	84.1	49.8	-58.6	0.4	0.2	53.6	-41.1

Source: State Bank of Pakistan

the international thresholds proposed by the World Bank and the IMF.[6]

While the improvement in debt indicators during FY24 is encouraging, sustaining these trends is imperative from the macroeconomic stability standpoint. In this regard, the need for continued fiscal consolidation can hardly be overemphasized. This requires streamlining policy efforts to widen the tax base for steady increase in government revenue over the medium term. Similarly, expediting SOE reforms is a must to reduce unnecessary burden on fiscal accounts and slow accretion in debt.

Institution-wise Domestic Debt - Flows — Figure 5.5



Source: State Bank of Pakistan

5.2 Domestic Debt

Domestic debt maintained the momentum, albeit at a slightly slower pace **(Table 5.2)**. It rose by 21.5 percent during FY24, compared to 24.8 percent increase in the previous year. In terms of GDP, however, it decreased by 1.6 percent to 44.6 percent due to fiscal consolidation as well as significant growth in nominal GDP during FY24.

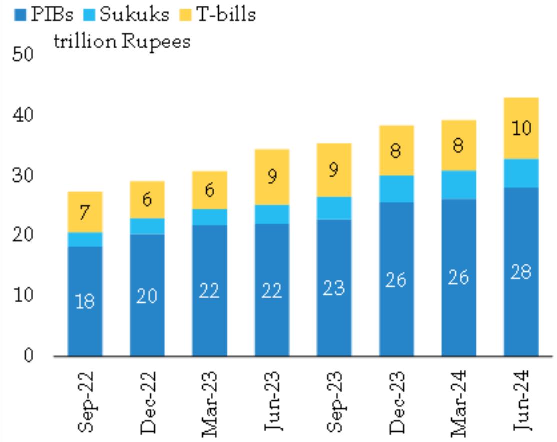
The accumulation in domestic debt was primarily sourced from scheduled banks during FY24. The funds mobilized from banks more than doubled to Rs 8.6 trillion in FY24 from Rs 4.0 trillion in FY23. This is in contrast to FY23, when government had borrowed almost equally from banks and non-bank sources **(Figure 5.5)**.

This shift is attributable to the suspension of higher tax on the banks' investment in government securities for FY24, which was linked to Advances to Deposits Ratio (ADR).[7] In addition, relatively higher returns on bank

[6] As suggested by the World Bank and the IMF, public debt-to-GDP ratio is the most relevant in measuring the degree of indebtedness and government's solvency capability. The optimum threshold for this indicator is 25 to 30 percent for emerging economies. Moreover, the proposed range for interest payments-to-tax revenue ratio is 7 to 10 percent. (Source: GUID-5250-Guidance-on-the-Audit-of-Public-Debt-Appendix-1-Debt-Indicators.pdf (issai.org)

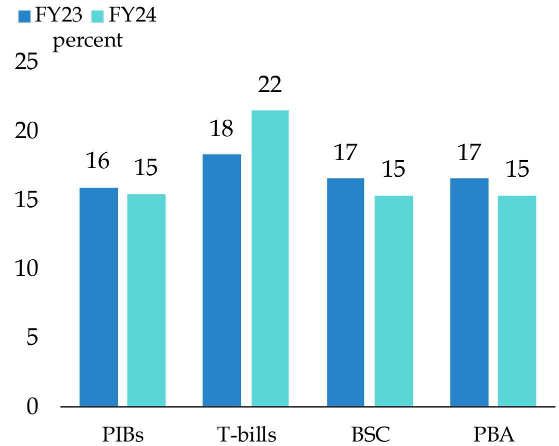
[7] Source: FBR SRO No. 226(I)/2023.

Outstanding Stock of Government Securities Figure 5.6



Source: State Bank of Pakistan

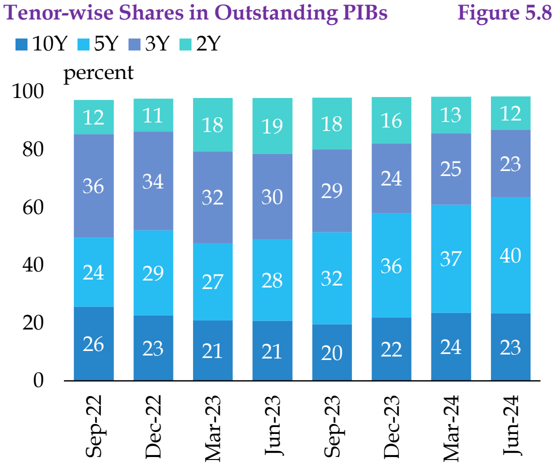
Yields on Borrowing Instruments Figure 5.7



Sources: State Bank of Pakistan and National Savings

deposits enticed individuals to place their funds in bank deposits instead of investing in relatively low yielding alternates, including NSS instruments.[8,9] Besides, lower than expected inflows from external sources also increased government reliance on scheduled banks **(Figure 5.5)**.

Tenor-wise Shares in Outstanding PIBs Figure 5.8



Source: State Bank of Pakistan

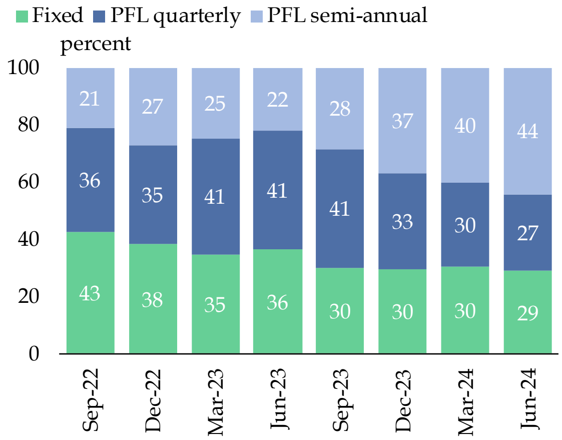
Permanent Debt

In order to reduce the cost of borrowing, the government raised more funds through long-term securities, primarily floating-rate PIBs (PFLs), amid the expectation of reduction in the policy rate during FY24. In particular, the government borrowing through PIBs and Sukuk increased by Rs 6016.5 and Rs 1615.6 billion respectively, during FY24 compared to Rs 4322.3 and 870.8 billion in the last fiscal year **(Figures 5.6 & 5.7)**. As a result, the share of PIBs and Sukuk in the stock of domestic debt increased to 65.2 and 11.0 percent respectively, at end-June 2024 from 63.9 and 9.2 percent in the previous year.

Within the permanent debt, the investors were more inclined towards 5-year papers during FY24 **(Figure 5.8)**.[10] Amid expected decrease in the interest rates, the government raised more funds through semi-annual PFLs to reduce the cost of funding and rollover risk.[11,12] Consequently, their share surged to 44.1 percent

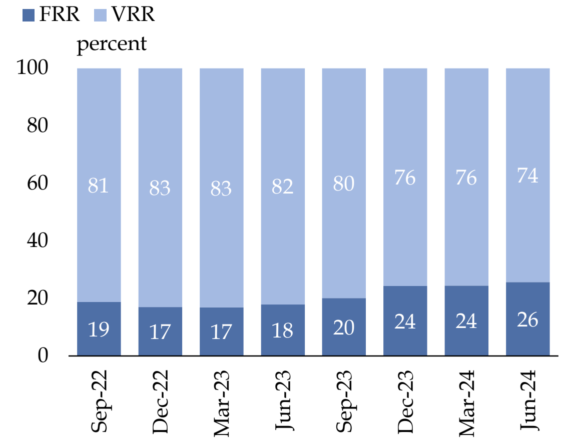
[8] NBFIs' deposits with banks increased to Rs 484 billion during FY24, against the withdrawal of Rs 148.3 billion in the previous year.
[9] For example, the bank balances of NBP Government Securities Liquid Fund, UBL Retirement Savings Fund and NBP Islamic Money Market Fund increased to Rs 1570.1 million, Rs 1458.5 million and Rs 8560.4 million respectively, during Jul-Mar FY24 (the latest available) from Rs 194.4 million, Rs 1333.7 million and Rs 7703.3 million at end-June 2023. Moreover, the rates on these balances ranges from 10 to 22.5 percent during July-Mar FY24.
[10] The categorization is based on tenor at the time of issuance. The share of 5-year and 10-year PIBs increased to 40.2 and 23.4 percent respectively at end-June FY24 from 28.2 and 20.8 percent the previous year. Whereas, the share of 2-year PIBs decreased to 23.4 percent at end-June FY24 from 29.6 percent at end-June FY23.
[11] The share of floating-rate PIBs (PFLs) increased to 71.1 percent at end- June FY24 from 63.6 percent the previous year.
[12] The weighted average yield on funds raised through PIBs decreased to 15.4 percent during FY24 from 16.8 percent in the last year.

Share in PIBs - Fixed and Floating **Figure 5.9**



Source: State Bank of Pakistan

FRR and VRR Shares in Sukuks **Figure 5.10**



Source: State Bank of Pakistan

at the end of FY24, from 22.1 percent recorded at the end of FY23 **(Figure 5.9)**.

In order to diversify the existing investors' base, the government initiated issuance of Shariah compliant debt securities through Pakistan stock exchange from December 2023. This initiative, together with sufficient liquidity with the Islamic banks, resulted in significant higher mobilization through GoP Ijara Sukuk; Rs 1615.6 billion during FY24 compared to Rs 870.8 billion raised in the previous year. Like PIBs, most of the funding was raised through Variable Rental Rate (VRR) GoP Ijara Sukuk.

However, due to expected decline in interest rates, the investors remained more inclined to invest in Fixed Rentals Rate (FRR) instruments. As result, their share in government securities increased to 25.6 percent at end-June 2024, from 17.9 percent in the previous year **(Figure 5.10)**.

Prize bonds, a major component of permanent debt, saw net inflow of only Rs 2.6 billion during FY24 against a net inflow of Rs 7.9 billion in the previous year. This was because of three reasons. First, the government announced extension in encashment/replacement or conversion of major denomination bonds from June 2023 to June 2024 that may have led to higher encashment. Second, the government required to purchase bonds through bank account, which may have discouraged prospective investors due to fear of registration. Third, lucrative rate of return on saving accounts particularly, Sarwa Islamic Saving Account (SISA) may also have resulted in some switching away from prize bonds.[13]

Floating Debt

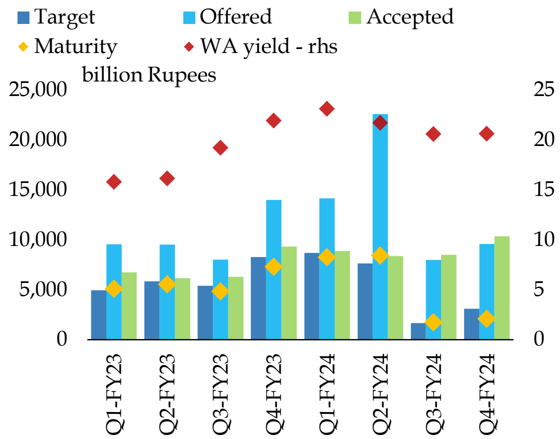
Under the prevailing higher interest rate environment, relatively lower amount of funds were raised through short-term instruments like T-bills, especially in the first two quarters of FY24. The funds raised through T-bills decreased to Rs 898.1 billion in FY24 against Rs 2,516.8 billion in the previous year. Owing to higher bid rates, the government set the auction targets close to the maturities during the first two quarters of FY24.[14] However, consequent upon higher financing needs amid lower-than-expected external inflows, the government raised more funds than the announced targets in the last two quarters of FY24 (**Figure 5.11)**.

Moreover, the quarterly auction summary shows that the realized amount was largely

[13] Source: Circular No. CMD/GSSAD/PBU/PB-1/48397/2023, Link: C_15.pdf (sbp.org.pk)

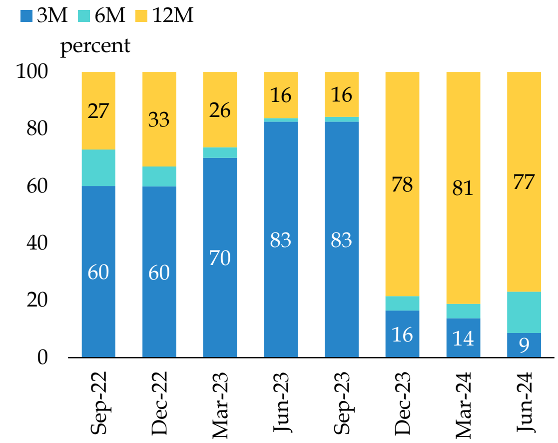
[14] The weighted average yield on T-bills on the average remained 21.5 percent during FY24, compared with 18.3 percent in the previous year.

Auction Summary T-bills **Figure 5.11**



Source: State Bank of Pakistan

Tenor-wise Shares in Outstanding T-bills **Figure 5.12**



Source: State Bank of Pakistan

concentrated in 12-month T-bills during the last three quarters of FY24 **(Figure 5.12)**. With the expectation of decrease in interest rates, the concentration of borrowing in 12-month T-bills reflects the government's strategy of reducing rollover risk.

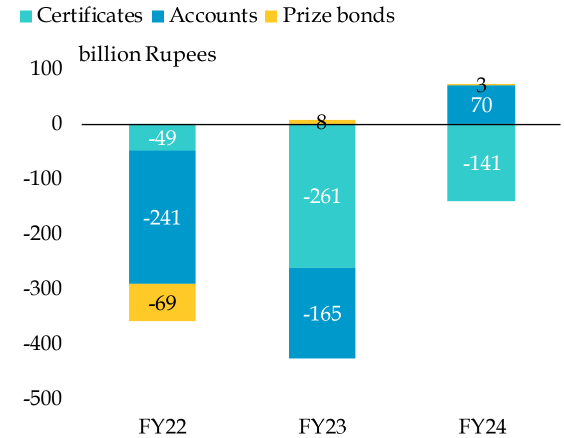
Unfunded Debt[15]

The outflows from unfunded debt – mostly from NSS – declined to Rs 127.8 billion during FY24 compared to an outflow of Rs 409.5 billion in the previous year. The sizeable decrease in outflows could be attributed to higher inflows in SISA on the back of lucrative returns. Nonetheless, Regular Income Certificates (RIC) and Defense Savings Certificates (DSC) mainly led the outflows from NSS.[16] While, Behbood Saving Certificate (BSC), together with all categories of short-term savings certificates, observed moderate inflows during FY24.[17]

The decline in investment in National Savings Certificates (NSCs) is mainly attributed to downward revision in the rate of return on most of the national saving schemes during FY24. Relatively higher returns on bank deposits together with the government's efforts to curb unregistered investment, especially in prize bonds, appears to have diverted investment away from NSS.[18]

Contrary to the NSCs, the Savings Accounts (SAs), the second largest component of the unfunded debt, recorded a net inflow of Rs 70.3 billion during FY24 against an outflow of Rs 164.7 billion in the previous year (**Figure 5.13**). This was mainly because downward adjustment in rates of return on most of the national saving accounts was relatively lower compared to that on saving certificates. The net inflow in SAs was mainly driven by mobilization of Rs 68.9 billion

National Savings Schemes - Yearly Flows **Figure 5.13**

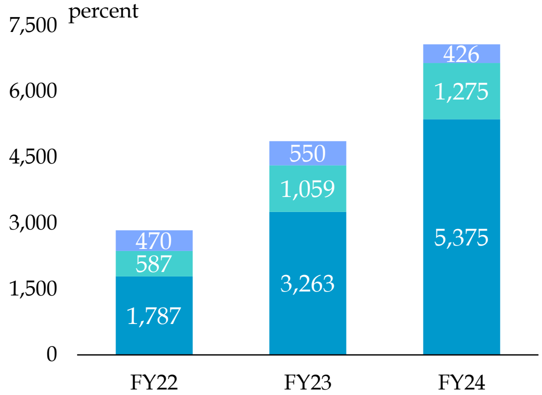


Source: State Bank of Pakistan

15 The unfunded debt, comprising saving certificates and saving accounts, is funded directly by the people.
16 The average profit rate on RIC remained 15.0 percent during FY24 compared with 12.36 percent in FY23.
17 The category of short-term comprises on 3-month, 6-month and 12-month certificates.
18 The investment in registered (premium) bonds increased by Rs 54.7 billion during FY24.

Interest Payments on Domestic Debt

Figure 5.14



Source: State Bank of Pakistan

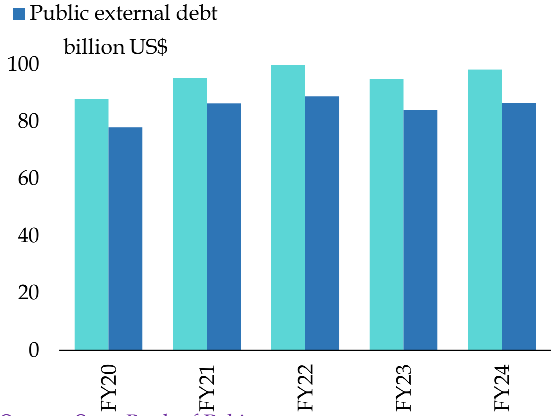
through SISA, which may be attributed to attractive profit rate of 19.5 percent during current review period. In addition, Pensioners' Benefit Account (PBA) recorded a net inflow of Rs 29.6 billion compared to Rs 13.8 billion in the last year.

Naya Pakistan Certificates

During FY24, residents' investment in Naya Pakistan Certificates (NPC) declined by Rs 58.6 billion against an expansion of Rs 49.8 billion in the previous year (**Table 5.2**). One of the possible factor could be investors' increased inclination towards locking funds in SISA during FY24.

External Debt Stock

Figure 5.15



Source: State Bank of Pakistan

Domestic Debt Servicing

Consequent upon rising debt stock amid high interest rate environment, interest payments remained on an upward trajectory.[19] The interest payment on domestic debt surged to Rs 7.1 trillion during FY24 from Rs 4.9 trillion in the previous year (**Figure 5.14)**. This is despite increased mobilization of funds through long-term securities, mostly the PFLs and GoP Ijara Sukuks, at relatively lower rates. At the same time, the stock of short-term debt, mainly T-bills, declined during FY24.[20] In addition, amid investors' declining interest in NSS instruments other than SISA, the interest expenses associated with the unfunded debt declined by 22.6 percent during FY24, against 17.0 percent increase in the previous year. Moreover, cut-off rates also declined in the auctions of government securities held in the last quarter of FY24, as market started to price in a possible reduction in the policy rate amidst falling inflation.[21]

5.3 Public External Debt & Liabilities

The stock of public external debt & liabilities increased by US$ 4.4 billion during FY24, against a decline of US$ 4.2 billion in the previous year. Similarly, the public external debt increased by US$ 2.5 billion during FY24, against a decline of US$ 4.8 billion in the previous year **(Table 5.3 & Figure 5.15).** The external debt accumulation during FY24 reflects lower principal repayment and revaluation gains due to appreciation of US dollar against other international currencies.[22]

[19] The interest expenses rose further by 45.6 percent during FY24, after 71.7 percent increase in the previous year.
[20] The interest payments on T-bills increased by 20.4 percent during FY24 compared to 80.5 percent in FY23.
[21] The contribution of interest rate in the growth of interest payments decreased to 29.1 percent during FY24 from 56.0 percent in the last year.
[22] The appreciation of the US Dollar against Euro, Japanese Yen, Pound Sterling and Special Drawing Right (SDR) during fiscal year FY24 resulted in a gain of $635.7 million on external debt.

Public External Debt **Table 5.3**

million US$; share and growth in percent

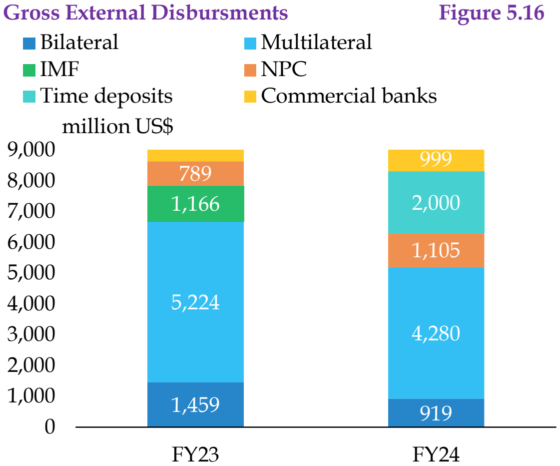
	Stock			Flows		Share		Growth	
	FY22	FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24
Public external debt (1+2)	**88,837.8**	**84,050.1**	**86,525.1**	**-4,787.7**	**2,474.9**	**-**	**-**	**-5.4**	**2.9**
1. Government external debt	**81,941.0**	**76,926.2**	**78,147.4**	**-5,014.9**	**1,221.3**	**91.5**	**90.3**	**-6.1**	**1.6**
i) Long term (>1 year)	**80,591.9**	**76,765.9**	**77,387.6**	**-3,826.1**	**621.8**	**91.3**	**89.4**	**-4.7**	**0.8**
Paris club	9,231.8	7,901.1	6,474.4	-1,330.7	-1,426.7	9.4	7.5	-14.4	-18.1
Multilateral	34,022.8	37,363.1	39,248.0	3,340.3	1,884.8	44.5	45.4	9.8	5.0
Other bilateral	18,053.3	17,572.3	18,552.4	-481.0	980.1	20.9	21.4	-2.7	5.6
Euro/Sukuk bonds	8,800.0	7,800.0	6,800.0	-1,000.0	-1,000.0	9.3	7.9	-11.4	-12.8
Commercial loans/credits	9,481.2	5,563.8	5,490.3	-3,917.4	-73.5	6.6	6.3	-41.3	-1.3
Naya Pakistan Certificates	953.0	534.3	783.9	-418.7	249.6	0.6	0.9	-43.9	46.7
ii) Short term (< 1year)	**1,349.1**	**160.3**	**759.8**	**-1,188.8**	**599.5**	**0.2**	**0.9**	**-88.1**	**374.0**
Multilateral	1,327.1	160.3	250.0	-1,166.8	89.7	0.2	0.3	-87.9	56.0
2. From IMF	**6,896.8**	**7,124.0**	**8,377.6**	**227.1**	**1,253.7**	**8.5**	**9.7**	**3.3**	**17.6**
Foreign exchange liabilities	**11,134.3**	**10,831.2**	**11,731.2**	**-303.2**	**900.0**	**-**	**-**	**-2.7**	**8.3**
Central bank deposits	2,700.0	2,700.0	3,700.0	0.0	1,000.0	-	-	0.0	37.0
Other liabilities (SWAP)	4,535.3	4,224.9	4,169.6	-310.3	-55.4	-	-	-6.8	-1.3
Allocation of SDR	3,897.3	3,904.0	3,860.8	6.7	-43.2	-	-	0.2	-1.1

Source: State Bank of Pakistan

External Disbursements

The total external loan disbursements amounted to US$ 9.8 billion during FY24, slightly lower from US$ 10.8 billion in the previous year. The overall disbursements also fell short of the budget estimates.[23] The decline may be attributed to tight global financial condition, low sovereign credit rating, and domestic uncertainty. The disbursements were largely from multilateral and bilateral sources. The major disbursements from bilateral sources included time deposits of US$ 2 billion from Saudi Arabia and US$ 1 billion from UAE as deposit with the central bank **(Figure 5.16)**.

Gross External Disbursments **Figure 5.16**



Source: Economic Affairs Division

IMF's Stand-By Arrangement (SBA) supported disbursements from multilateral sources. The major disbursements included US$ 2.2 billion from the World Bank, US$ 1.3 billion from the ADB, and US$ 345 million from the AIIB **(Table 5.4)**.

Moreover, against outflows in FY23, there were net inflows in NPCs during FY24. This mainly reflected increase in profit rates, as well decrease in Pakistan's risk premium with improved external buffers. However, commercial loans continued to show retirement for the second year in FY24.

[23] The government had budgeted US$ 22.8 and US$ 17.6 billion for FY23 and FY24, respectively.

Gross External Disbursements — **Table 5.4**

million US$

	FY22	FY23	FY24
Multilateral	4,828.8	5,224.2	4,279.9
ADB	1,625.9	2,266.1	1,327.7
AIIB	41.6	558.9	345.0
IDB	1,406.8	177.8	317.5
IMF	-	1,166.2	-
WB	1,579.0	2,099.5	2,218.3
Bilateral	708.1	1,459.0	919.4
China	162.6	128.0	69.1
Saudi Arabia	401.1	1,182.3	661.5
USA	69.8	31.1	40.2
Japan	20.6	35.2	36.5
France	15.5	33.8	49.6
Commercial banks	4,863.3	2,206.0	999.0
NPCs^	-	789.0	1,104.6
Bonds	2,041.7	-	-
Time deposits *	3,000.0	-	2,000.0
Total disbursements	15,441.9	10,844.3	9,811.3

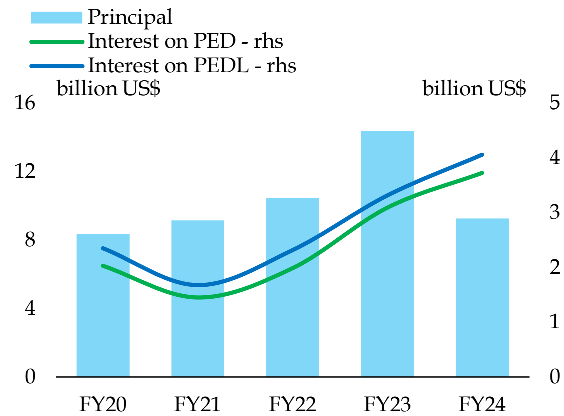
^ NPCs became part of external disbursements for the first time in FY23; * not included in public external debt as these are part of external liabilities.

Source: Economic Affairs Division

External Debt Servicing

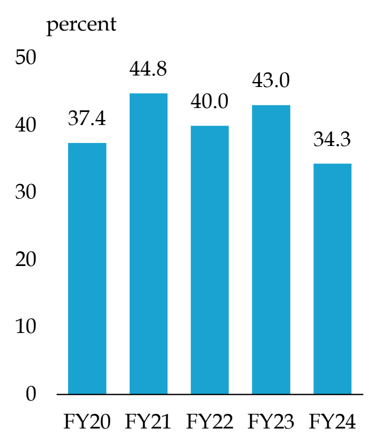
Debt servicing, including interest payments and repayment of principal, declined to US$ 13.5 billion during FY24 compared to US$ 18.0 billion in the last year. The decrease is mainly attributed to lower repayment of principal amount due in FY24. Interest payments, including interest expenses on liabilities, rose to US$ 4.1 billion during FY24, up from US$ 3.3 billion in the previous year **(Figure 5.17)**.[24] The interest payments on long-term loans increased, while declined on short-term loans during FY24.[25,26] The increase in interest payments can be ascribed to rising debt stock, as well as increase in interest rates as indicated by trends

External Debt Servicing - Principal and Interest — **Figure 5.17**



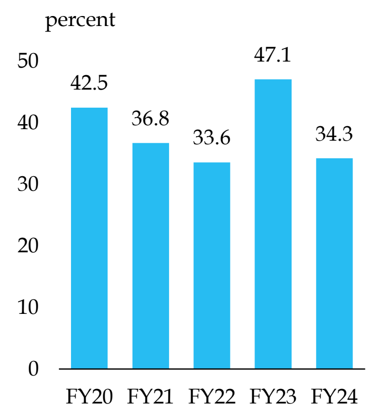
Source: State Bank of Pakistan

TEDL as Percent of GDP — **Figure 5.18**



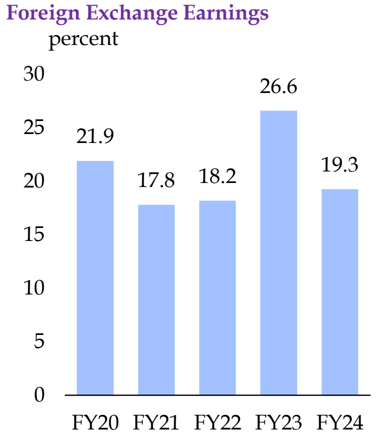
Source: State Bank of Pakistan

EDS as Percent of Exports Earnings — **Figure 5.19**



Source: State Bank of Pakistan

EDS as Percent of Foreign Exchange Earnings — **Figure 5.20**



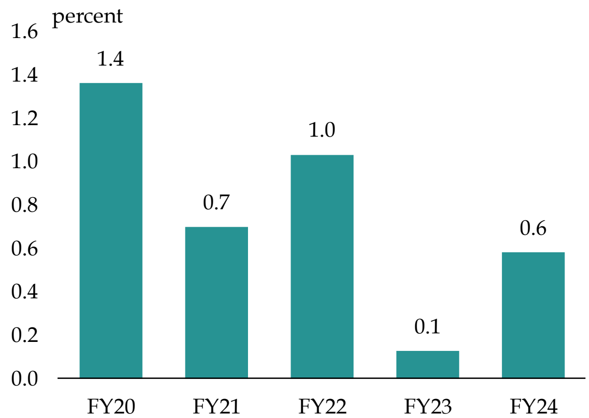
Source: State Bank of Pakistan

[24] Interest payments on liabilities registered US$ 334 million during FY24 compared to US$ 224.1 million in FY23.

[25] The interest expenses on long-term debt rose to US$ 3.1 billion from US$ 2.6 billion in the previous year. Similarly, the interest payments on foreign exchange liabilities and IMF loans increased to US$ 334.0 and US$ 619.1 million respectively, during FY24 compared to US$ 224.1 and US$ 402.2 million in FY23.

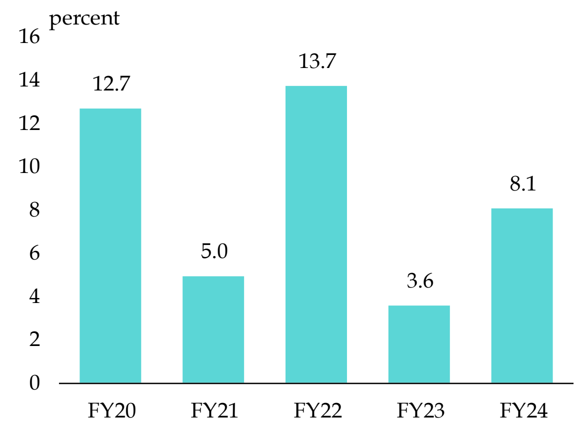
[26] The mark-up expenses on short-term loans marginally declined to US$ 38.0 million during FY24 from US$ 44.0 million in FY23

STPED as Percent of PEDL **Figure 5.21**



Source: State Bank of Pakistan

STPED as Percent of SBP Reserves **Figure 5.22**



Source: State Bank of Pakistan

in Secured Overnight Financing Rate (SOFR) during FY24.[27]

External Debt Sustainability[28]

The SBA with the IMF, that partially eased external borrowing constraints, along with noteworthy reduction in current account deficit, resulted in improving sustainability of external debt. Moreover, appreciation of PKR against US dollar and the gains due to appreciation of US dollar against other international currencies also contributed in improving the country's capacity to repay foreign debt. In addition, increase in foreign exchange earnings and SBP's FX reserves supported the sustainability position during FY24.

The debt solvency indicators also depict improvement in the country's ability to repay external debt during FY24. This is indicated by decrease in the ratios of Total External Debt & Liabilities to GDP ratio (TEDL/GDP), External Debt Servicing (EDS) to Foreign Exchange Earnings (FEE) and EDS to Exports Earnings (EE) **(Figures 5.18, 5.19 & 5.20)**.

However, the liquidity indicators—the ratios of Short-Term Public External Debt (STPED) to Public External Debt and Liabilities (PEDL) and STPED to SBP reserves somewhat deteriorated **(Figures 5.21 & 5.22)**. The major reason behind this deterioration is the increase in short-term debt to US$ 759.8 million at the end of FY24 from US$ 160.3 million in the last year.

Despite improvement in the solvency indicators, the external debt profile remained at modest risk during FY24. Based on the IMF' risk assessment benchmarks, the ratio of foreign currency debt to total public debt, though decreased to 34 percent, still lies in the range of modest risk of 20 to 60 percent **(Figure 5.3)**.[29]

[27] SOFR is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities. The average SOFR increased to 5.33 percent in FY24 from 3.81 percent in the previous year. Source: SOFR Averages and Index Data - FEDERAL RESERVE BANK of NEW YORK (newyorkfed.org)

[28] Solvency indicators measure the capacity of a country to repay the external debt on an ongoing basis. The liquidity indicators, measuring the ability to service short-term liabilities, comprise on short-term debt to foreign exchange reserves ratio and short-term debt to total external debt ratio.

[29] According IMF's benchmarks, a country deemed to be at modest risk when the ratio of public debt in foreign currency to total public debt lies between 20 and 60 percent. Below 20 and above 60 percent indicate low and high risk respectively.