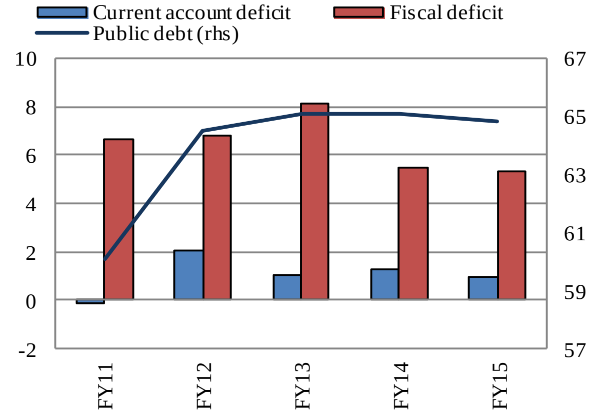
6 Domestic and External Debt

6.1 Overview

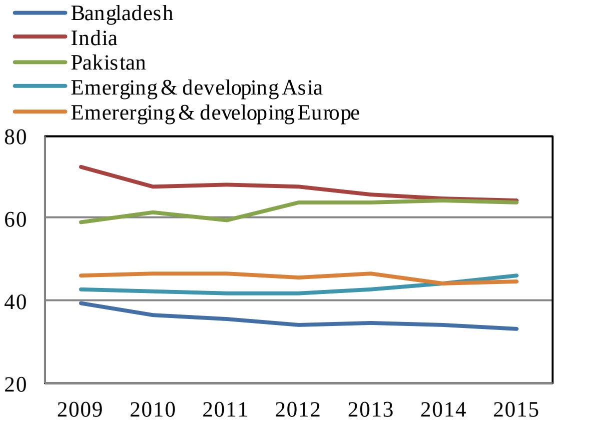
Public debt-to-GDP ratio declined slightly to 64.8 percent in FY15 from 65.1 percent last year, primarily on the back of revaluation gains of US$ 4.2 billion along with some improvements in fiscal and current account balances (**Figure 6.1**). The revaluation gains were the result of global currency movements due to ongoing changes in the world economies (see **Chapter 7**).[1] While the pace of debt accumulation declined (with an addition of Rs 1.4 trillion to the debt stock in FY15, compared with Rs 1.7 trillion in FY14), the debt-to- GDP ratio is still very high (**Table 6.1**).

Figure 6.1: Deficits & Public Debt (as % of GDP)



Source: Ministry of Finance and State Bank of Pakistan

Figure 6.2: Government Gross Debt (% of GDP)



Source: World Economic Outlook & State Bank of Pakistan

Pakistan's indebtedness also compares unfavorably with other emerging economies (**Figure 6.2**). As a high level of debt hurts growth and macroeconomic stability, it is often advised to keep it within safe limits.[2]

Realizing the adverse implications of high debt burden, the government has imposed some limits on its debt accumulation. There are three key frameworks that provide guidelines for debt management in Pakistan:

1) Fiscal Responsibility and Debt Limitation (FRDL) Act 2005, which limits the overall debt stock;
2) Medium Term Debt Strategy 2014-18 (MTDS), which provides some debt targets in the medium term; and
3) SBP Act, which limits government borrowing from the central bank to zero by end of the quarter.

Encouragingly, quarterly limits on government borrowing from SBP have mostly been observed in the recent period. However, it has been challenging to keep the overall level of debt within limits set in other two frameworks. FRDL 2005 requires the public debt-to-GDP below 60 percent and observing revenue surpluses, from FY13 onward – both these conditions could not be met. Similarly, MTDS 2014-18 targets this ratio in the range of 51.2 to 52.0 percent by end of 2017-18; which seems

[1] Without these gains, debt-to-GDP ratio becomes 66.4 percent as on end June 2015.

[2] The relationship between debt and growth is extensively studied in the economic literature. It is generally concluded that debt hurts growth when it is higher than a threshold level. But there is no consensus over an exact value of the threshold. Interestingly, a recent study by Pescatori et al. (2014) finds no evidence of any particular debt threshold above which medium-term growth prospects are compromised. However, they find some evidence that higher debt is associated with a higher degree of output volatility. [Reference: Pescatori, A., D. Sandri., and J. Simon. (2014). *'Debt and Growth: Is There a Magic Threshold?'* IMF Working Paper 14/34.]

Table 6.1: Profile of Pakistan's Debt and Liabilities

Rs. billion

	Debt Stock			Absolute Change		Percent of GDP	
	FY13	**FY14**	**FY15**	**FY14**	**FY15**	**FY14**	**FY15**
Total debt & liabilities	16,338.2	18,223.8	19,842.5	1,885.5	1,618.8	72.7	72.5
Public debt[1]	14,599.5	16,315.5	17,757.7	1,716.0	1,442.2	65.1	64.8
Public debt (MoF definition)[2]	14,291.7	15,991.3	17,380.2	1,699.6	1,388.9	63.8	63.5
Total debt	15,560.7	17,407.1	18,904.9	1,846.4	1,497.8	69.4	69.0
Govt. domestic debt	9,520.4	10,906.5	12,192.5	1,386.1	1,286.0	43.5	44.5
PSEs domestic debt	312.2	366.2	458.7	54.0	92.6	1.5	1.7
External debt	5,728.2	6,134.3	6,253.6	406.1	119.3	24.5	22.8
Govt. external debt	4,336.5	4,786.3	4,770.0	449.9	-16.3	19.1	17.4
IMF loans	434.8	298.4	417.6	-136.4	119.2	1.2	1.5
PSEs external debt	183.2	216.1	245.9	33.0	29.8	0.9	0.9
Private external debt	465.5	497.6	547.7	32.1	50.1	2.0	2.0
Intercompany debt	308.2	335.9	272.4	27.7	-63.5	1.3	1.0
Total liabilities	777.5	816.7	942.0	39.2	125.4	3.3	3.4
Domestic liabilities	469.7	492.4	564.5	22.8	72.0	2.0	2.1
External liabilities	307.8	324.2	377.6	16.4	53.3	1.3	1.4

[1]Public debt include Govt. Domestic Debt, Govt. External Debt, IMF loans & External Liabilities

[2] MOF defines public debt as "The portion of total debt which has a direct charge on government revenues as well as debt obtained from IMF".

Source: State Bank of Pakistan.

challenging unless fiscal deficits are consistently controlled in the subsequent years, the process of public debt management is improved further, foreign inflows through investment and privatization pick up; and PSEs deficits and subsidies are cut down.

Table 6.2: Absolute Change in Government Domestic Debt

Rs. billion

	FY11	FY12	FY13	FY14	FY15
Government domestic debt	**1361.4**	**1632.5**	**1882.5**	**1386.1**	**1286.0**
Permanent debt	328.6	573.5	478.6	1824.6	1009.1
of which					
PIBs	111.6	358.3	346.9	1900.4	933.2
Floating debt	836.3	907.8	1052.3	-595.8	10.2
of which					
MTBs	590.2	565.8	536.8	-1,172.9	402.1
MRTBs	192.6	442.2	515.5	577.1	-570.9
MTBs Outright sale	53.5	-100.3	0.0	0.0	179.1
Unfunded debt	198.3	142.2	348.5	157.3	266.5
Foreign currency loans	-1.7	0.0	3.1	-0.1	0.1

Source: State Bank of Pakistan

It should be recognized that debt management is a complex job requiring an appropriate mix of interest cost and maturity profile. On a positive note, the recent trend in the debt shows improvements in maturity profile of the public debt. The government's borrowing through long term securities, which started in the second half of FY14, continued during FY15. This helped lengthening the maturity profile of domestic debt, which bodes well in terms of interest rate and roll over risks. However, in terms of cost, the long term borrowing could entail higher interest payments in future. Specifically, higher cost and bullet repayment features of the sovereign bonds would lead to lumpy debt servicing in years ahead.[3] More specifically, repayments on account of rescheduled Paris Club debt, Eurobonds and the current Extended Fund Facility (EFF) are expected to emerge from FY16 onwards.

[3] In case of bullet bond, the entire face value of the bond is paid on maturity.

6.2 Domestic debt

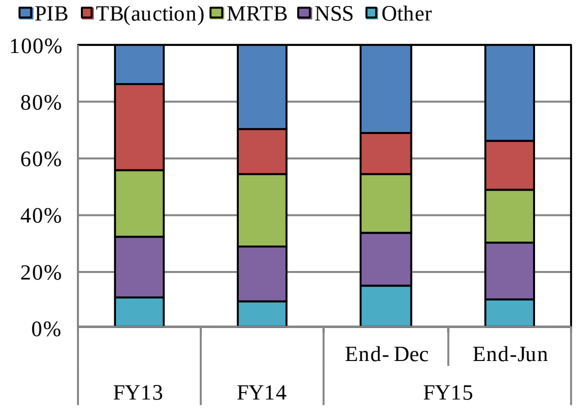
The pace of domestic debt accumulation declined during FY15 on the back of improvement in fiscal deficit (**Table 6.2**). With an addition of Rs 1,286.0 billion, the outstanding stock of domestic debt reached Rs 12.2 trillion by end June 2015. The composition of the domestic debt also witnessed some changes:

- The share of central bank in the domestic debt declined from 26.2 percent in FY14 to 18.7 percent in FY15;
- The share of permanent debt (mostly PIBs) in total domestic debt stock increased to 41.1 percent in FY15, compared with 36.7 percent in FY14.

During FY15, the government met its borrowing requirements mainly through government securities, which helped to retire sum of Rs 570.9 billion debt held with SBP. This enabled the government to meet quarterly target of borrowing from SBP agreed with the IMF in second and third quarters of FY15. However, in first and last quarters of FY15, these targets were missed by small margin.

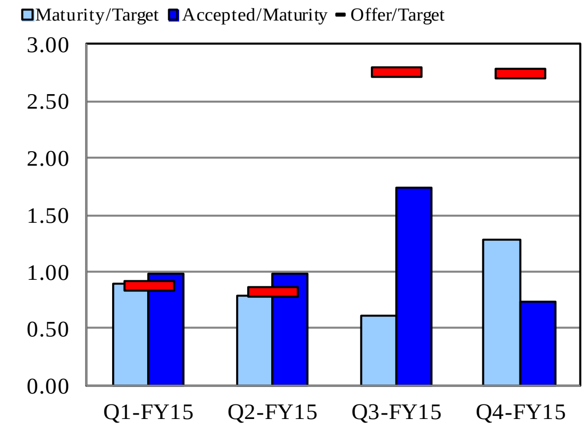
Continuing the trend in second half of FY14, financing structure remained skewed towards long term debt instruments, as envisaged in the Medium Term Debt Management Strategy 2014-18. Consequently, the share of PIBs in total debt stock reached 34.1 percent by end June 2015, from 29.5 percent as on end June 2014. However, it is important to note here that the magnitude of the shift from short term to long term debt was relatively smaller in FY15, because of change in the market dynamics during H2-FY15. The commercial banks started investing in the short term papers during H2-FY15 and resultantly the share of T-bills (auction) in domestic debt increased from 15.6 percent in December 2014 to 17.6 percent by end June 2015 (**Figure 6.3**).

Figure 6.3: Composition of Domestic Debt

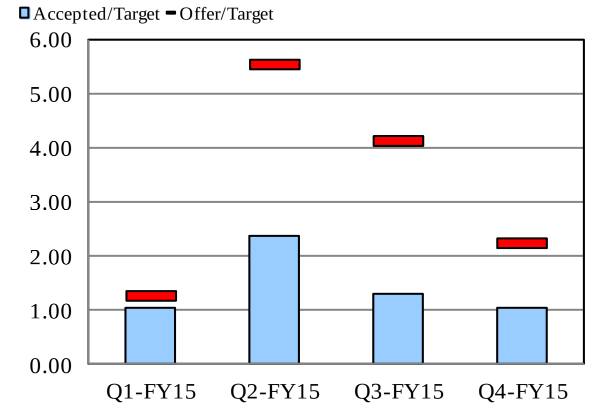


Source: State Bank of Pakistan

Figure 6.4: T-Bills Auction Profile (competitive bids only)



PIB Auction Profile



Source: State Bank of Pakistan

As discussed in **Chapter 4** (in the context of money market developments), the commercial banks followed distinct patterns of investment during different phases of FY15, due to changes in the market sentiments about interest rates, inflation and external sector developments. Their behavior also influenced the pattern of domestic debt, as discussed below:

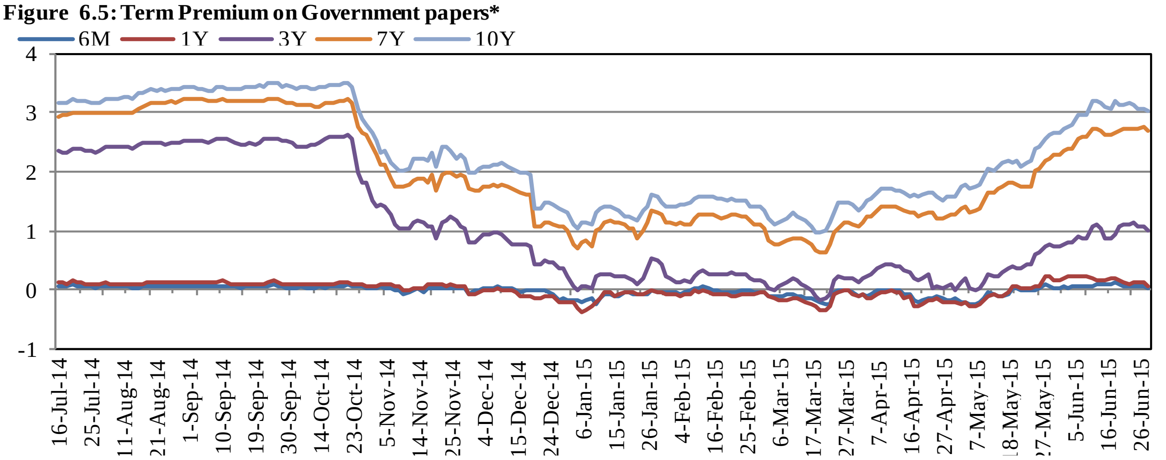
The government was aiming to borrow some incremental amount in addition to existing T-bill maturities during Q1-FY15, as evident from a less than one maturity-to-target ratio (**Figure 6.4**). However, banks were reluctant to invest in short term securities, as evident from offered amount being less than quarterly target in T-bill auctions. Similarly, commercial bank's participation in PIB auctions held in July and August 2014 also remained dull due to tight liquidity conditions in the market.[4]

Although some revival of banks' interest in PIB auction was witnessed in the month of September 2014, cumulative borrowing during Q1 was lower than the required amount.[5] Therefore, the government borrowed from SBP to fulfill its financing requirements. As a result, the government could not adhere to the quarterly borrowing target from SBP agreed with the IMF for end September 2014.

However, the improvement in macroeconomic environment after Q1-FY15 on the back of ease in external account, stability in exchange rate, and decline in inflation led the market to expect a cut in the interest rate. As a result, scheduled banks' interest in government securities revived, as it is evident from higher offered amount than the target, particularly during second half of the year (**Figure 6.4**).

As shown in **Figure 6.5,** the term premium on PIBs was significantly higher than T-bills during Jul-Oct FY15. In fact, the cutoff yields in primary auction of PIBs were higher than the policy rate; and the same was reflected in the secondary market yields on government papers. From October onward, this gap started reducing, as cutoff yields remained closer to policy rate in third and fourth quarters. Contrary to PIBs, the term premium for 6 and 12-month T-bills with reference to 3-month T-bills remained almost negligible, as the cut-off rates in the primary auctions were already very close to the policy rate throughout the year.

Figure 6.5: Term Premium on Government papers*



*Term Premium calculated w.r.t 3-month T-bills ; Source: State Bank of Pakistan

Net inflows into NSS

Net Mobilization through national savings schemes (NSS) witnessed an increase of Rs 261.2 billion during FY15, from Rs 149.9 billion last year (**Table 6.3**). About 40 percent of this increase

[4] The sharp increase in the current account deficit and delay in the IMF fourth review put strain on balance of payments in Q1-FY15. As a result, SBP deliberately kept the market liquidity tight to stabilize the FX market.
[5] In September 2014, the improvement in inflation expectation (driven by declining oil prices) changed the market sentiments in favor of PIBs.

was in Special Savings Account (SSA), mainly due to institutional investment in November 2014 – before the reduction in the rates of return.

Net investment in other than SSA instruments declined during FY15, compared to last year. Main factor for lower investment was successive downward revisions in the profit rates, following the cut in policy rate in November 2014 (**Figure 6.6**).[6] Moreover, the government's decision to impose higher withholding tax for non-filers also dampened net inflows in saving schemes during the year.[7]

Table 6.3: Absolute Change in Unfunded Debt

Rs. billion

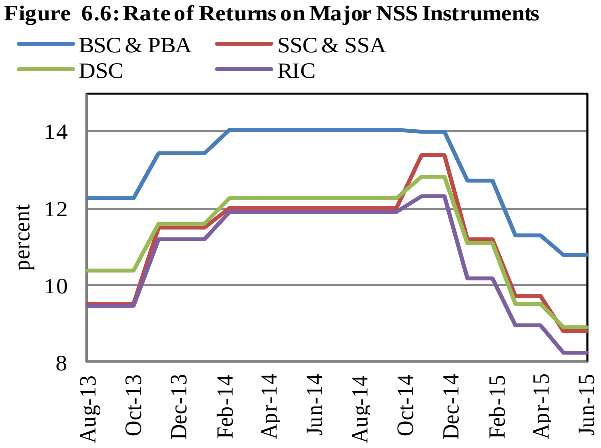
	FY11	FY12	FY13	FY14	FY15
NSS	193.9	132.0	329.9	149.9	261.2
DSCs	9.7	7.3	29.9	13.0	16.2
SSCs	44.0	-52.8	46.4	57.6	28.5
RICs	46.9	44.0	36.0	62.8	50.6
BSCs	61.7	52.3	47.6	54.0	45.9
SSA	14.2	61.1	150.8	-53.5	100.1
Others	17.4	20.1	19.2	16.0	19.9
GP Fund	4.4	10.2	18.6	7.4	5.3
Total	**198.3**	**142.2**	**348.5**	**157.3**	**266.5**

Source: Central Directorate of National Savings (CDNS)

Interest payment on domestic debt[8]

The growth in the interest payment on domestic debt went down by 2.3 percentage points in FY15, mainly on account of fall in interest payment on T-bills (**Table 6.4**). Both decline in the interest rates and share of T-bills in budget financing during H1-FY15 were responsible behind this fall during the year.[9]

Figure 6.6: Rate of Returns on Major NSS Instruments



Source: Central Directorate of National Savings

However, some of the components of domestic interest payments showed higher growth, like: (a) interest paid on account of the massive retirement of SBP debt; and (b) coupon payments on PIBs issued in the recent years.[10]

6.3 External debt & liabilities

Pakistan's total external debt and liabilities (EDL) fell by US$ 262.0 million during the year, to reach US$ 65.1 billion by end June 2015 (**Table 6.5**). Despite significant amount of loan disbursement by IFIs and mobilization of US$ 1.0 billion through Sukuk in FY15, the stock of external debt and liabilities declined on the back of hefty US$ 4.2 billion revaluation gains (**Box 6.1**). At the same time, decline in external debt repayments and improvement in the current account balance, reduced the fresh borrowing

Table 6.4: Interest Payment on Domestic Debt

Rs. billion

				Growth (%)	
	FY13	FY14	FY15	FY14	FY15
Permanent Debt	193.2	228.6	463.0	18.3	102.6
of which; PIBs	117.8	153.6	389.4	30.4	153.5
Floating	477.7	561.9	432.2	17.6	-23.1
T-Bills (Auctioned)	303.0	343.6	162.1	13.4	-52.8
MRTBs	174.7	218.2	270.1	24.9	23.8
Unfunded	236.2	252.3	279.6	6.8	10.8
Total	**907.1**	**1,042.8**	**1,174.8**	**14.9**	**12.7**

Source: SBP & CDNS

[6] The rates on different NSS schemes are generally linked to PIBs of the same tenors, which were declining from November 2014 onward.

[7] W.e.f July, 1st 2014, the government imposed 15 percent withholding tax on profit for non-filers provided that the profit paid is rupees 500,000 or less, while withholding for filers was retained the same at 10 percent.

[8] This analysis is based on SBP data for interest payments on domestic debt, which do not match with MoF data. SBP calculates interest payments on an accrual basis, whereas the MoF reports the actual interest paid during the year.

[9] Although the share of T-bills (auction) in total financing picked up in H2-FY15, that didn't affect the total interest payments during the year, because; most of the T-bills were of 6 and 12 month tenor, whose payment will be due next year.

[10] Coupon payments on PIBs are made at a fixed rate on semi-annual basis. Fresh PIBs are generally issued in July every year; and reopened in subsequent auctions, resulting interest payment burden in July and January till maturity.

requirements of the government during FY15.[11] As a result, a part of the acquired debt was used to build up reserves, leading to an improvement in debt servicing capacity of the country.

Table 6.5: Pakistan's External Debt and Liabilities
billion US Dollar

	Stock			Absolute change	
	FY13	FY14	FY15	FY14	FY15
Public debt (1+2+3)	**51.2**	**54.7**	**54.7**	**3.5**	**-0.1**
1. Government external debt	43.8	48.4	46.9	4.7	-1.6
i) Long term(>1 year)	43.5	47.7	45.8	4.2	-1.9
of which					
Paris club	13.5	13.6	11.7	0.1	-1.9
Multilateral	24.2	25.8	24.3	1.6	-1.6
Bilateral	2.9	3.4	3.9	0.4	0.6
Euro/Sukuk global bonds	1.6	3.6	4.6	2.0	1.0
ii) Short term (<1 year)	0.3	0.7	1.0	0.5	-0.2
2. From IMF	4.4	3.0	4.1	-1.4	1.1
3. Foreign exchange liabilities	3.1	3.3	3.7	0.2	0.4
4. Public sector enterprises (PSEs)	1.8	2.2	2.4	0.3	0.2
5.Banks	1.6	2.0	2.3	0.4	0.3
i. Borrowing	0.7	1.1	1.4	0.4	0.3
ii. Nonresident deposits (LCY & FCY)	0.8	0.9	1.0	0.1	0.0
6. Private Sector	3.1	3.0	3.0	-0.1	0.0
7. Debt liabilities to direct investors - Intercompany debt	3.1	3.4	2.7	0.3	-0.7
Total external debt (1+2+3+4+5+6+7)	**60.9**	**65.4**	**65.1**	**4.5**	**-0.3**

Source: State Bank of Pakistan.

However, repayments on account of rescheduled Paris Club debt, Eurobonds and EFF are expected to emerge from FY16 onwards. Given the volatile history of external balances, there is a need for adequate debt management plans to honor the expected maturities in the coming years. A well thought policy for export promotion, attracting FDI, and stimulating domestic investment and growth is important to improve the debt servicing capacity and debt sustainability.

Disbursements

Disbursement of external loans was recorded US$ 5.7 billion in FY15, compared to US$ 6.8 billion in FY14. The inflows came from bilateral and multilateral creditors and through issuance of Skukuk bonds. While bilateral loans recorded marginal increase, inflows from the multilateral creditors, particularly ADB, declined (**Table 6.6**). The increase from bilateral creditors, largely owes to the provision of support for energy related projects by China during FY15. Inflows from multilateral creditors during FY15 included: (i) financing from ADB for infrastructure and social sector development; (ii) IDA funds, largely for budgetary support; and (iii) borrowing from IDB, mostly short term loans based on Murabaha arrangement.

Sukuk bond

After a gap of almost eight years, Pakistan successfully entered in the international capital market in 2014. The country raised US$ 2.0 billion by issuing Eurobond (5 & 10 year) in April 2014 and Sukuk (5 year) in November 2014.[12] As per budget estimates, the government had planned to mobilize US$

[11] The external debt repayments went down by 40.0 percent in FY15, while current account deficit reduced to 0.8 percent of GDP from 1.3 percent last year.
[12] For details of Eurobond, see Annual Report 2014.

500 million through Sukuk and an equal amount through Eurobond in FY15. However, an amount of US$ 1.0 billion were mobilized through Sukuk, which received an overwhelming response from the investors. The sukuk was issued at the rate of 6.75 percent, which were 50 basis points lower than the Eurobond issued in April 2014. This Sukuk was backed by Islamabad-Lahore Motorway (M2). The subscription of this bond had a broad geographical base: Europe (35 percent), Middle East (32 percent), North America (20 percent), and Asia (13 percent).

Pakistan entered in to the market at a time, when interest rates were at lower level, and the appetite of sovereign papers was on a higher side. This enabled the government not only to retire its domestic debt but also to increase country's FX reserves. Notwithstanding these positives, the bullet repayment features of such bonds suggest the careful management of outflows at the time of amortization.[13] [14]

Table 6.6: External Loans & Grants Disbursements

Million US$

	FY14		FY15	
	C/M[1]	Actual	C/M	Actual
Bilateral	**7,164.3**	**1360.9**	**774.6**	**1804.9**
of which				
China	6,501.6	602.4	151.6	1208.7
Japan	68.5	183.9	79.7	137.5
UK		265.6	534.4	260.1
USA	150.0	128.4	--	97.4
S. Arabia	309.4	93.3	--	27.1
others	134.7	87.3	8.95	74.1
Multilateral	**5,592.9**	**3329.5**	**2520.2**	**2843.0**
of which				
ADB	2,148.8	816.3	649.5	449.8
IBRD	18.1	162.9	23.4	74.4
IDA	1,563.1	1532.5	1425.4	1123.8
IDB(S.Term)	1,006.5	408.9	388.8	1004.8
IDB	264.4	163.5	--	131.0
IFAD		9.4	32.1	14.97
Others	592.1	236.1	1.0	44.2
Bond (Euro& Skuk)	**2,000.0**	**2,000.0**	**1,000**	**1,000**
Commercial Banks	**200.0**	**150.0**	**100.1**	**150.1**
Total	**14,957.2**	**6,840.3**	**4394.9**	**5798.1**

Source: EAD Status Report

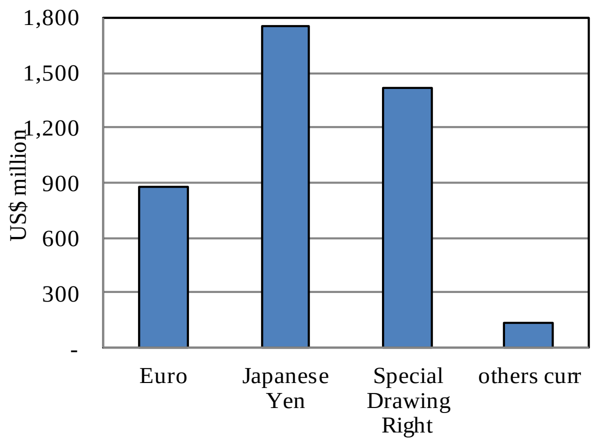
[1]C/M: Commitment

Box 6.1: Effect of Currency Valuations on External Debt and Liabilities

Debt is created to finance the fiscal and current account deficits. By simple arithmetic, the addition to the debt stock and the combined amount of funds required to finance the twin deficits should match. However, there are number of factors which prevent this simple equation to hold, like accounting on accrual basis or cash basis, draw down of deposits or reserves to finance the deficits, and currency revaluation (in case of external debt). FY15 witnessed a substantial amount of US$ 4.2 billion on account of currency revaluation, which contributed to the reduction of the external debt stock.

These revaluation gains were realized due to appreciation of US Dollar against other major currencies. While actual obligations under external debt are contracted in various currencies, the overall indebtedness is determined by converting these obligations into a single currency, usually US Dollar, applying exchange rate at a particular point of time. Any movement in the US Dollar vs. other currencies affects the country's outstanding stock of external debt.

Figure 6 .1.1: Currency Revaluation Gains in FY15



In Pakistan, nearly 55.0 percent of *public and publically guaranteed debt* is contracted in three major currencies: Euro, Japanese Yen, and SDR. All these currencies observed depreciation against US Dollar during FY15. Specifically, the country's external debt position benefitted from depreciation of Yen against Dollar, which alone caused US$ 1.7 billion reduction in Dollar value of the external debt. Similarly, appreciation of Dollar against Euro and SDR provided a revaluation gain of US$ 2.3 billion (**Figure 6.1.1**).

[13] As mentioned earlier, in the case of bullet bond, the entire face value of the bond is paid on maturity.
[14] In September 2015, Pakistan again entered into the market and mobilized US$ 500 million through Eurobond.

As this gain depends only on the movements in foreign currencies; the revaluation loss is also equally likely in case of changes in exchange in some different directions. As long as these gains or losses remain just a book entry, they have no economic implications, except making debt indicators look good or bad. However, when realized, they can affect fiscal and external accounts.

Servicing of external debt

After heavy repayments in FY14, the external debt servicing posted 28.9 percent decline during FY15 (**Table 6.7**). The negative growth in the debt servicing was brought about by lower repayments to the IMF that peaked out in FY14. In addition to the IMF, repayments to ADB also declined during FY15.

Table 6.7: External Debt Servicing
million US Dollar

	FY11	FY12	FY13	FY14	FY15
i. Public external debt (a+b+c)	**2,826.4**	**3,692.6**	**5,316.4**	**5,862.9**	**3952.9**
Principal	1,881.6	2,800.0	4,504.3	5,064.0	2,888.7
Interest	944.9	892.6	812.0	798.9	1,064.2
a. Govt. external debt	2,247.8	2,263.0	2,205.3	2,556.9	2,598.7
Principal	1,491.3	1,546.3	1,505.4	1,834.1	1,663.2
Interest	756.4	716.7	699.9	722.8	935.5
b. IMF loans	441.8	1,317.9	2,999.4	3,181.6	1,264.2
Principal	268.2	1,153.7	2,898.9	3,129.8	1,225.5
Interest	173.6	164.1	100.5	51.7	38.7
c. FX liabilities	136.9	111.8	111.6	124.3	89.7
Principal	122.0	100.0	100.0	100.0	0.0
Interest	14.9	11.8	11.6	24.3	89.7
ii. PSEs debt	**358.9**	**248.9**	**280.6**	**232.8**	**274.4**
Principal	310.1	211.0	238.0	196.0	238.7
Interest	48.7	38.0	42.6	36.8	35.7
iii. Private sector debt	**346.1**	**370.8**	**381.3**	**471.6**	**445.2**
Principal	266.1	282.9	303.3	398.7	371.6
Interest	80.1	88.0	78.1	72.9	73.6
External debt (i+ii+iii)	**3,531.4**	**4,312.4**	**5,978.3**	**6,567.3**	**4,672.5**
Principal	2,457.8	3,293.8	5,045.6	5,658.6	3,499.0
Interest	1,073.7	1,018.5	932.7	908.7	1,173.5

Source: State Bank of Pakistan

6.1 However, going forward, the debt servicing pressure is expected to reemerge as: (i) Eurobonds issued in FY06 (US$ 500 million) and FY07 (US$ 750 million) will mature in FY16 and FY17; (ii) The repayment of rescheduled Paris Club debt under Official Development Assistance (ODA) will start from FY17; (iii) The repayment of the on-going Extended Fund Facility (EFF) program with the IMF will begin in FY18; (iv) 5-year Eurobond issued in April 2014 (US$ 1.0 billion) will mature in FY19 and Sukuk bond issued in November 2014 will mature in FY20.

6.4 External debt sustainability

The impact of the recent fall in Pakistan's external debt is visible in almost all the external debt sustainability indicators during FY15 (**Table 6.8**). Generally, there are two types of indicators to assess the country's ability to make repayments of external debt: solvency indicators and liquidity indicators. Solvency indicators include external debt-to-GDP, which shows debt bearing capacity of the country; and external debt servicing to forex earnings ratio, which shows debt servicing capacity. As **Table 6.8** shows, external debt-to-GDP witnessed a significant decline in FY15. The improvement in this indicator was due to a drop in external debt caused by hefty revaluation gains during FY15.

On the other hand, decline in external debt repayments coupled with strong growth in the remittance, improved the debt servicing capacity of the country. Specifically, the external debt servicing (EDS)-to-foreign exchange earnings (FEE) ratio dropped to 8.5 percent in FY15, from 12.9 percent last year. Other measure of debt servicing capacity, i.e., EDS-XE ratio also declined during the period.

The liquidity indicators are share of short term debt in the total debt and liabilities (STD/EDL) and FX reserves to short term debt ratio (RES/STD). Both these indicators also improved. Particularly, liquidity position owing to less repayment, and accumulation of FX reserves led to remarkable improvement in the RES/STD ratio. In addition, import coverage ratio also went up to 21.8 weeks by end June from 19.9 weeks same period last year.

Table 6.8: Indicators of External Debt Sustainability

Percent

	FY10	FY11	FY12	FY13	FY14	FY15
Solvency Indicators						
Debt bearing capacity						
ED/GDP	33.3	29.9	28.1	25.6	24.5	22.8
EDL/GDP	34.7	31.1	29.2	27.0	25.8	24.2
Debt servicing capacity						
EDS/FEE	11	7.5	9	12.3	12.9	8.5
EDS/XE	21	13.8	17.4	21.4	23.3	16.4
Liquidity indicators						
STD/EDL	1.4	1.0	0.6	0.0	1.1	0.8
RES/STD (ratio)	19.7	29.9	40.3	---	20.3	36.1

ED: Total external debt; EDL: External debt and liabilities; EDS: External debt servicing; STD: Short term debt; FEE: Foreign exchange earnings; XE: Exports earnings; RES: Total liquid reserves

Source: SBP calculations