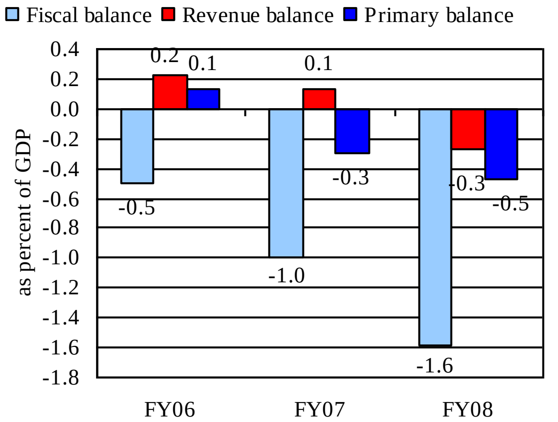
5 Fiscal Developments

5.1 Overview

All key fiscal performance indicators deteriorated significantly in Q1-FY08 (see **Figure 5.1**). As a percentage of GDP both, the fiscal and primary deficit increased, and more importantly, the revenue balance[1] moved from a surplus in the first quarters of the preceding four years to a deficit in Q1-FY08. The latter was despite an impressive growth of 22.3 percent YoY in total revenues during Q1-FY08. The revenue deficit is particularly troubling, as the Fiscal Responsibility and Debt Limitation Act binds the government to keep its revenue balance at least zero from FY08 onwards.

Figure 5.1: Fiscal Performance Indicators (Q1)



The higher fiscal deficit during Q1-FY08 is primarily associated with a surge in total expenditures. In particular, the development expenditure grew by a handsome 89.5 percent. Current expenditures also registered a high growth of 39.2 percent on account of a 100 percent rise in servicing of domestic debt. While data on subsidies is unavailable separately, these are also likely to be well above budgetary provisions. This is indicated by the 222.7 percent YoY rise in spending under the head of "*economic affairs*" during Q1-FY08 (see **Table 5.3**).

The deterioration in fiscal performance indicators suggests that if current trends persist, and strong corrective measures are not undertaken promptly, the annual fiscal deficit target of 4.0 percent of GDP for FY08 will not be met. It is very crucial that the government make an effort to achieve the fiscal deficit target as this would send a strong signal of the government's commitment to fiscal discipline and macroeconomic stability.

[1] Revenue balance measures the saving capacity of the government and is calculated as the difference between total revenue and current expenditures.

5.2 Revenues

The acceleration in revenue growth during Q1-FY08 is basically due to a substantial rise in non-tax revenues that also offset the impact of a deceleration in the growth of tax revenues (see **Table 5.1**).

Table 5.1: Summary of Consolidated Public Finance During Jul-Sep
billion Rs

	Jul-Sep					YoY change (%)	
	FY04	**FY05**	**FY06**	**FY07**	**FY08**	**FY07**	**FY08**
Total revenue	165.6	202.3	236.6	255.7	312.6	8.1	22.3
Tax revenue	103.8	134.3	158.4	191.6	215.6	20.9	12.5
Non-tax revenue	61.8	68.0	78.1	64.1	97.0	-18.0	51.5
Total Expenditure	206.5	227.1	274.3	342.4	470.7	24.8	37.5
Current	158.9	186.9	219.8	244.2	340.0	11.1	39.2
Development and net lending	33.1	33.4	50.6	65.2	129.8	28.8	99.2
Unidentified expenditure	14.5	6.8	3.9	33.0	0.9	751.5	-97.4
Budget deficit	-40.9	-24.9	-37.7	-86.7	-158.1	130.0	82.3
Financing	40.9	24.9	37.7	86.7	158.1	130.0	82.3
External	4.9	19.6	5.0	27.8	36.8	453.2	32.4
Domestic	34.0	5.3	32.7	58.9	121.3	80.3	105.9
Bank	9.9	-19.9	14.9	34.5	69.9	132.4	102.4
Non-bank	22.1	19.1	14.3	10.0	51.4	-30.4	415.2
Privatization proceeds	2.0	6.1	3.5	14.4	0.0	313.0	-100.0
As percent of GDP							
Total revenue	2.9	3.1	3.1	2.9	3.1	--	--
Tax revenue	1.8	2.1	2.1	2.2	2.2	--	--
Non-tax revenue	1.1	1.1	1.0	0.7	1.0	--	--
Total Expenditure	3.7	3.5	3.6	3.9	4.7	--	--
Current	2.8	2.9	2.9	2.8	3.4	--	--
Development and net lending	0.6	0.5	0.7	0.7	1.3	--	--
Unidentified expenditure	0.3	0.1	0.1	0.4	0.0	--	--
Budget deficit	-0.7	-0.4	-0.5	-1.0	-1.6	--	--

Source: Ministry of Finance

The increase in non-tax revenues during Q1-FY08 is largely on account of a sharp rise in SBP profits and interest income (see **Table 5.2**). The rise in transfer of SBP profits and interest income helped compensate a decline in dividend income, gas surcharge and the PDL. The decline in the latter probably reflects the government's decision not to use this head as a source of revenue.

Table 5.2: Composition of Tax and Non-tax Revenues
billion Rs

	Jul-Sep			YoY change (%)	
	FY06	**FY07**	**FY08**	**FY07**	**FY08**
Tax revenues	**158.4**	**191.6**	**215.6**	**20.9**	**12.5**
Direct taxes	47.1	70.2	79.2	49.0	12.8
Taxes on property	2.0	1.5	1.0	-24.6	-31.2
Taxes on goods and services	72.7	82.4	98.0	13.4	18.9
Taxes on international trade	28.6	27.9	29.1	-2.4	4.5
Other taxes	8.0	9.6	8.2	19.2	-14.0
Non-tax revenues	**78.1**	**64.1**	**97.0**	**-18.0**	**51.5**
Profits from PTA/Post Office Dept	10.2	0.1	0.0	-99.5	-70.0
Interest (PSE and others)	3.4	3.2	12.6	-6.3	294.2
Dividends	7.6	15.7	2.0	106.1	-87.2
SBP profits	3.9	15.0	47.3	284.6	215.3
Defence	28.9	0.6	1.3	-97.9	126.4
Surcharges	6.4	13.6	8.8	110.6	-35.3
Petroleum	1.2	7.6	4.2	519.9	-45.1
Gas	5.2	6.0	4.6	15.0	-22.9
Royalty on oil/gas	4.9	6.9	11.3	40.6	62.7
Others	12.7	9.0	13.7	-28.9	51.9
Total Revenue	**236.6**	**255.7**	**312.6**	**8.1**	**22.3**

Source: Ministry of Finance

The deceleration in tax revenues stemmed from a relatively lower growth of direct taxes and a decline in tax collection under the head of *other taxes*. The slowdown in these receipts overshadowed the improvement in taxes on goods and services.

5.3 Expenditures

The consolidated public expenditure jumped sharply in Q1-FY08 due to strong increases in both current and development spending. The exceptional 89.5 percent YoY increase in the latter would be particularly encouraging, if it translates into an improvement in the country's infrastructure and human capital.

The rise in current expenditure is more troubling (see **Table 5.3**). This handsome growth in current expenditure reflects a few major developments. First, interest payments on domestic debt doubled to reach Rs 98.5 billion quashing the favorable impact of a decline in growth of interest payments on foreign debt. The increase in servicing of domestic debt reflects both, an increase in the absolute value of the debt stock, and rising interest rates, as well as the impact of large oneoff bullet maturities (principal and interest) of long-term bonds issued in past years.

Table 5.3: Composition of Current Expenditure During Jul-Sep

billion Rs

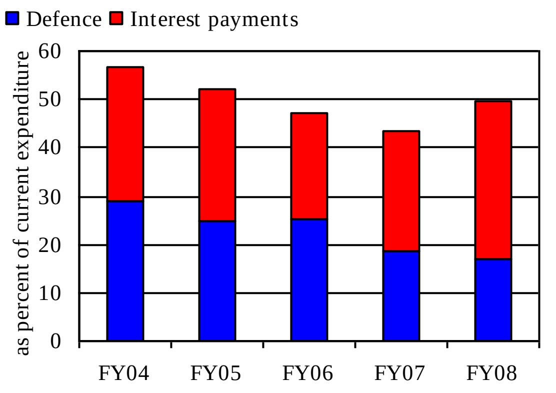
	Jul-Sep			YoY change (%)	
	FY06	**FY07**	**FY08**	**FY07**	**FY08**
Current expenditure	**219.8**	**244.2**	**340.0**	**11.1**	**39.2**
of which					
Interest payments	48.0	60.3	111.1	25.6	84.3
Domestic	39.8	49.1	98.5	23.5	100.7
Foreign	8.2	11.2	12.6	36.2	12.2
Defence	55.9	45.6	57.5	-18.5	26.3
Economic affairs	3.9	7.9	25.6	104.9	222.7
Health	0.9	0.9	1.1	0.2	24.1
Education affairs and services	3.5	3.7	5.0	5.3	34.8
Provincial	67.0	83.1	102.6	24.1	23.5

Source: Ministry of Finance

Second, after registering a decline of 18.5 percent in Q1-FY07, defence expenditures saw a surge of 26.3 percent in Q1-FY08. This perhaps reflects greater engagement of armed forces to maintain law and order situation in parts of NWFP and tribal areas. Lastly, health and education expenditures observed a welcome increase of 24.1 percent YoY and 34.8 percent YoY respectively.

Owing to an oversized increase in interest payments, the aggregate share of defence and interest payments in total current expenditure saw a reversal from the downtrend observed during the last few years (see **Figure 5.2**). It is noteworthy that even after a surge in defence expenditures, its share in current expenditure continued to decline, from 18.7 percent in Q1-FY07 to 16.9 percent in Q1-FY08.

Figure 5.2: Major Components of Current Expenditure (Q1)



Finally, the sharp rise in expenditures under "economic affairs" probably reflects the impact of large subsidies extended by the government to various sectors, such as fertilizers (DAP), food (wheat) and energy (particularly diesel) during Q1-FY08.

5.4 Government Borrowings[2]

The increase in the fiscal deficit during Q1-FY08 is reflected in the substantial increase in government borrowings. While external borrowings rose by a third compared to the Q1-FY07 level, domestic borrowings more than doubled in the same period (see **Table 5.4**).

Table 5.4: Sources of Financing

billion Rupees

	Jul-Sep			Growth (%)		Percent share[1]	
	FY06	FY07	FY08	FY07	FY08	FY07	FY08
Total financing of budget	**37.7**	**86.7**	**158.1**	**130.0**	**82.3**	**100.0**	**100.0**
External resources (net)	5.0	27.8	36.8	453.2	32.4	32.1	23.3
Internal resources (net)	32.7	58.9	121.3	80.3	105.9	67.9	76.7
Banking system	14.9	34.5	69.9	132.4	102.4	(58.6)	(57.6)
Non-bank	17.8	24.4	51.4	36.8	110.9	(41.4)	(42.4)
Privatization proceeds	3.5	14.4	0.0	313.0	-100.0	(24.5)	(0.0)

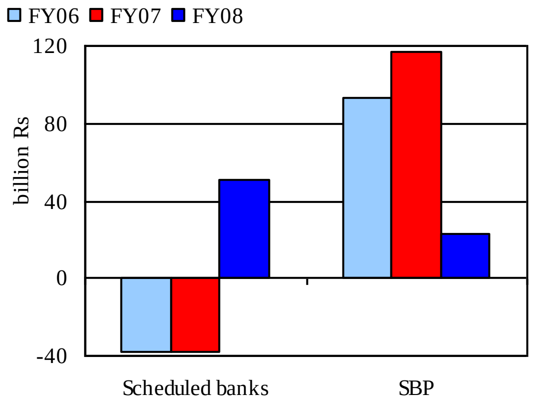
Source: Ministry of Finance

[1] Numbers in parenthesis represent share in domestic source of financing

Financing from the Banking Sector

In Q1-FY08 the government's net budgetary borrowings from the banking sector registered a growth of 102.4 percent YoY on top of a growth of 132.4 percent YoY in the same period of FY07. Within the banking system, net government borrowing pattern changed structurally in Q1-FY08. In this quarter, the government borrowed heavily from scheduled banks and used these borrowings to retire some of its liabilities to SBP.

Figure 5.3: Borrowings from Banking System (Jul-Oct)



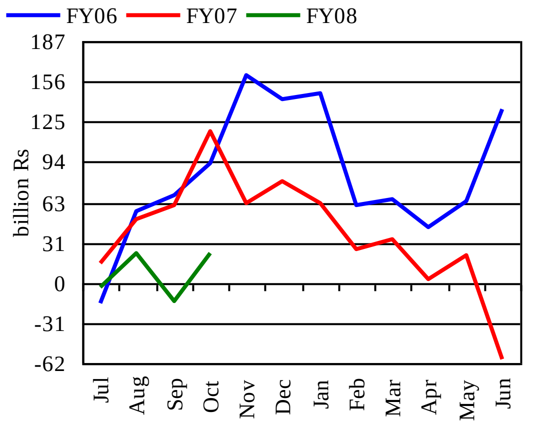
[2] The government borrowing numbers do consider the impact of government deposits with the banking system whereas the debt numbers do not.

Thereafter, the government's borrowings from the central bank, in particular, have resurged strongly, with part of the increase being offset by a decline in borrowings from commercial banks (see **Figure 5.3**).

SBP

In Q1-FY08, goverenment retired Rs 13.9 billion of its liabilities (government securities), with SBP. This first quarter borrowing pattern is different from the government borrowing pattern in the first quarter in the preceding two years (see **Figure 5.4**). The change is due to the substantial financing government has received from the scheduled banks through the sale of government securities, specifically treasury bills.

Figure 5.4: GoP Borrowing Trend from SBP



A disaggregation shows that the government had retired Rs 51.3 billion in Q1-FY08 in terms of government securities. On the other hand, there was net outflow in 'Deposit & Others' head of Rs 37.4 billion from government account with SBP, which diluted the monetary impact of its substantial retirement of securities.

Schedule Banks[3]

In Q1-FY08 government received Rs 85.5 billion of financing from the scheduled banks. This is in contrast to the pattern in the first quarter of preceding two years, where financing from scheduled banks had seen net retirement. The increase in the banks' appetite for government securities reflects a slowdown in the private sector credit demand coupled with the increase in return on the government securities. This led the banks to invest heavily in risk free government securities.

Despite banks' greater interest in PIBs, government faced net retirement from scheduled banks in long-term papers during Q1-FY08. A disaggregation shows major impact was from the retirement of Federal Government Bond (FGB) worth Rs 9.8 billion issued to HBL. These bonds were specifically issued to HBL on account of CBR outstanding refunds.

[3] The data in the discussion used, excludes the secondary market transactions.

Non Bank Borrowings

Higher mobilization under NSS and PIBs in Q1-FY08 raised non banks' share in government budgetary financing.

NSS Instruments

Inflows in NSS instruments increased significantly in Q1-FY08 (see **Table 5.5**), despite only a marginal rise in rates of returns on these instruments (see **Table 5.6**).[5] Defense Saving Certificate, Special Saving Certificate and the Special Saving Accounts that had seen net retirements in the same period of the previous year become source of financing. The increased volatility in the capital market and relative slowdown in the prices of real estate as well as the reopening of these schemes to institutional investors might have helped in increasing the NSS savings in Q1-FY08.

Table 5.5: Government Borrowing From Unfunded Sources
(Jul-Oct)

billion Rs

	FY06	FY07	FY08
Defence Saving Certificates	-2.3	-2.0	1.2
Special Saving Certificates	-20.1	-0.3	6.3
Regular Income Certificates	-5.5	-5.0	-1.3
Bahbood Savings Certificates	26.5	20.8	16.8
Saving Accounts	-3.5	-0.2	-4.5
Special Saving Accounts	-0.8	0.0	2.4
Pensioners' Benefit Accounts	7.8	4.6	4.1

Table 5.6: Rate of return on Banks Deposits & Various NSS Instruments
percent per annum

	WADR[1]	RICs[2]	DSCs[3]	SSCs[4]	PBA[5]
1-Jan-05	1.75	5.70	8.15	6.95	10.08
1-Jul-05	3.38	8.88	9.46	8.74	11.04
1-Jan-06	3.26	8.88	9.46	8.74	11.04
17-Jun-06	4.72	9.24	10.00	9.17	11.52
23-Jun-07	5.33	9.54	10.15	9.25	11.64
30-Sep-07	6.04	9.54	10.15	9.25	11.64

[1]Weighted average deposit rates; [2]Regular income certificate; [3]Defence saving certificates; [4] Special saving certificates; [5]Pensioners benefit accounts

5.5 FBR Tax Collection

The Federal Board of Revenue (FBR) surpassed its revenue target of Rs 263.1 billion for Jul-Oct FY08, despite a shortfall of Rs 4 billion for the target for the month of September 2007 (see **Table 5.7**).

During FY07 an impressive growth in direct taxes led to a strong FBR performance, with net collections surpassing the revenue target by a substantial margin. Worryingly, available information for FY08 reveals a drastic fall in the

[5] Returns on the NSS instruments revised on June 23, 2007.

growth of direct tax collection in the months of September and October 2007. This produced a substantial deceleration in the growth of direct taxes.

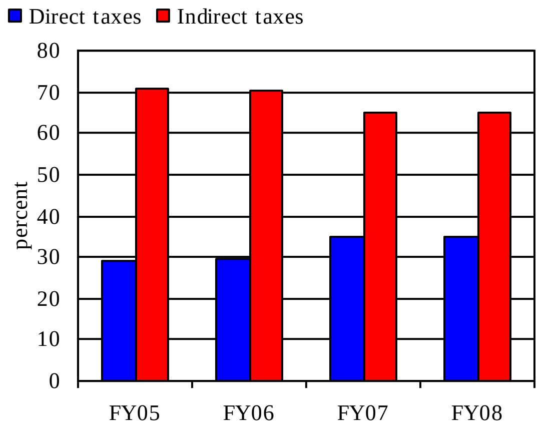
Table 5.7: FBR Tax Collection (Jul-Oct)
billion Rs

	Net Tax Collection			YoY change (%)		
	FY06	**FY07**	**FY08**	**FY06**	**FY07**	**FY08**
Direct Taxes	59.3	82.5	94.7	22.3	39.2	14.7
Indirect Taxes	141.9	154.7	176.7	20.1	9.0	14.2
Sales Tax	86.6	97.6	114.3	23.5	12.7	17.1
FED	16.9	19.5	23.3	8.9	15.3	19.7
Customs	38.5	37.7	39.1	18.2	-2.1	3.9
Total Taxes	**201.2**	**237.2**	**271.4**	**20.8**	**17.9**	**14.4**
Memorandum item:						
Target (Jul-Oct)	192.3	236.2	263.1			
Target (Annual)	690.0	835.0	1025.0			
Collection as % of						
Jul-Oct target	104.6	100.4	103.2			
Annual target	29.2	28.4	26.5			

Source: Central Board of Revenue, Islamabad

On the other hand, indirect taxes registered a growth of 14.2 percent during Jul-Oct FY08 as compared to 9.0 percent in the same period last year. This increase is mainly due to higher growth in imports, as reflected in 15.9 percent growth in import-related sales tax during Jul-Oct FY08 compared to 5.4 percent in Jul-Oct FY07. As direct and indirect taxes grew at roughly the same rates, their shares remained unchanged (see **Figure 5.5**) from that in the corresponding period last year.

Figure 5.5: Share in Total Taxes (Jul-Oct)



Gross Collection and Refunds

The gross tax collections rose by a meager 7.0 percent during Jul-Oct FY08 as compared to 19.4 percent in the corresponding period last year. This slow growth of gross collections is due mainly to large deceleration in collection of direct taxes and domestic sales tax. Gross collection on account of direct taxes increased by only 5.1 percent during Jul-Oct FY08 as compared to 42.5 percent during the same period last year, while gross collections on domestic sales tax grew by a mere 3.6 percent in Jul-Oct FY08 against 27.6 percent in comparable period last year.

Table 5.8: Gross collection and refunds (Jul-Oct)

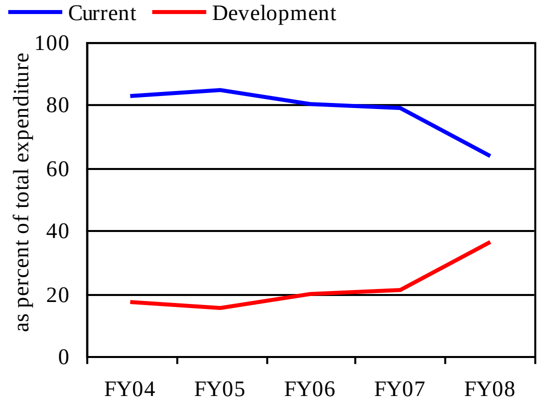
billion Rs

	Gross collection			Refunds		
	FY07	**FY08**	**% change**	**FY07**	**FY08**	**% change**
Direct taxes	**94.5**	**99.3**	**5.1**	**12.0**	**4.6**	**-61.3**
Indirect taxes	**175.9**	**189.9**	**8.0**	**21.2**	**13.2**	**-37.7**
Sales tax	112.9	123.8	9.7	15.3	9.6	-37.5
Domestic	56.68	58.706	3.6	15.3	9.5	-37.7
Import-related	56.196	65.118	15.9	0.0	0.0	34.6
FED	19.514	23.297	19.4	0.1	0.0	-86.0
Customs	43.513	42.785	-1.7	5.8	3.6	-37.5
Total taxes	**270.4**	**289.2**	**7.0**	**33.2**	**17.8**	**-46.2**

Source: FBR

However, while the refunds had increased by 31.1 percent in Jul-Oct FY07, these declined by 46.2 percent in Jul-Oct FY08. Interestingly, the decline in refunds is mainly seen in heads which have experienced a deceleration in gross receipts (see **Table 5.8**).

Figure 5.6: Composition of Total Expenditure (Q1)



5.6 Provincial Fiscal Operations

Provincial public finance exhibited a noticeable fall in overall balance during Q1-FY08 as total expenditures witnessed a massive 50 percent YoY increase to reach at Rs 167.8 billion, accompanied by a slowdown in growth in revenue receipts (see **Table 5.9**). Had it not been for an extraordinary increase in provincial non-tax receipts, the drop in overall balance would have been even larger.

However, the decline in overall balance during Q1-FY08 does not necessarily mean deterioration in fiscal performance of the provinces as the growth in total expenditures came entirely from development expenditures. Current expenditures recorded an increase of 21.5 percent against a 158 percent growth in development expenditure that led to an encouragingly high share of development expenditures in total expenditures (see **Figure 5.6**). This is also reflected in the fact that all the four provinces recorded revenue surpluses during the quarter.

Federal tax assignments to provinces during Q1-FY08 rose by 15.7 percent compared to 42.3 percent in the corresponding period last year. The high growth in provincial share in federal revenues during Q1-FY07 was however due to adoption of a new formula of revenue sharing that had increased provincial share from 37.5 percent to 41.5 percent. Provincial taxes declined marginally during the quarter largely due to a fall in other tax revenue that declined from Rs 3.5 billion to Rs 2.8 billion. However, the decrease in tax revenues was more than offset by an unusually high increase in non-tax revenues that stemmed from an impressive Rs 9.5 billion interest income against Rs 0.02 billion in the corresponding period last year. Province-wise

Table 5.9: Summary of Consolidated Provincial Finance (Jul-Sep)

billion Rs

	Jul-Sep			
	FY05	**FY06**	**FY07**	**FY08**
Total revenue	**65.9**	**76.7**	**98.7**	**119.4**
Provincial share in Federal revenue	46.0	55.2	78.5	90.9
Provincial taxes	8.7	8.9	9.8	9.5
Property taxes	2.4	2.0	1.5	1.0
of which: agriculture tax	0.1	0.1	0.1	0.1
Excise duties	0.4	0.5	0.5	0.6
Stamp duties	2.5	2.3	2.4	2.7
Motor Vehicle tax	1.4	2.0	2.0	2.3
Other	2.0	2.1	3.5	2.8
Provincial non-tax	5.1	5.7	4.9	18.4
Interest	0.1	0.0	0.0	9.5
Profits from hydro electricity	1.0	0.0	0.0	1.5
Irrigation	0.5	0.5	0.5	0.5
Others	3.5	5.2	4.4	6.8
Federal loans and transfers/grants	6.1	6.8	5.4	0.7
Loans (net)	-1.1	-0.7	-1.5	-7.3
Grants	7.1	7.5	6.9	8.0
Total Expenditure	**70.1**	**90.4**	**111.7**	**167.8**
Current expenditure	59.2	72.6	88.2	107.1
Interest payments to federal govt	6.5	5.7	5.1	4.4
Other current expenditure	52.7	67.0	83.1	102.6
Development Expenditure	10.9	17.8	23.5	60.7
Overall balance	**-4.1**	**-13.8**	**-13.0**	**-48.4**

Source: Ministry of Finance

data shows that the revenue on account of interest income came almost exclusively from Punjab.

Table 5.10: Provincial Finance (Jul-Sep)

billion Rs

	Punjab		Sindh		NWFP		Balochistan	
	FY07	**FY08**	**FY07**	**FY08**	**FY07**	**FY08**	**FY07**	**FY08**
Total revenue	**45.5**	**63.2**	**31.8**	**29.8**	**12.5**	**17.5**	**8.9**	**9.0**
Provincial share in federal revenue	37.2	44.5	26.2	28.0	8.7	10.8	6.4	7.7
Provincial taxes	5.2	5.2	3.9	3.4	0.6	0.6	0.2	0.2
Provincial non-tax	3.0	12.9	0.9	1.6	0.9	3.5	0.1	0.3
Federal loans and transfers/grants	0.1	0.6	0.7	-3.3	2.3	2.6	2.2	0.7
Total expenditure	**59.5**	**96.6**	**29.5**	**41.1**	**13.8**	**19.5**	**8.8**	**10.5**
Current expenditure	41.9	51.6	27.7	34.7	10.7	12.4	7.8	8.4
Development expenditure	17.6	45.0	1.8	6.5	3.1	7.1	1.0	2.1
Overall balance	**-14.0**	**-33.4**	**2.2**	**-11.4**	**-1.3**	**-2.1**	**0.1**	**-1.6**

Source: Ministry of Finance

A breakup of provincial public finance statistics reveals that all provinces have witnessed deterioration in overall balance resulting from massive outlays on account of development projects (see **Table 5.10**). The deterioration in overall balance of Sindh is more worrisome as it also reflects a fall in revenue receipts from Rs 31.8 billion in Q1-FY07 to Rs 29.8 billion in the corresponding quarter of FY08.

5.7 Domestic Debt

The growth in outstanding stock of domestic debt accelerated in Jul-Oct FY08 **(**see **Table 5.11)** reflecting the impact of a rise in fiscal deficit. To finance the increased budgetary requirements, the government borrowed heavily from domestic sources despite the fact that external inflows for budget financing increased substantially by 32.4 percent YoY in the quarter under discussion.

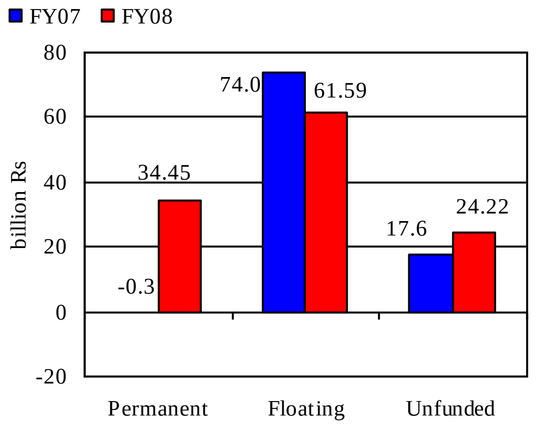
Table 5.11: Key Developments of Domestic Debt (Jul-Oct)

	FY07	**FY08**
Growth in domestic debt (percent)	3.9	5.0
Absolute	91.3	120.3
Of which		
Long term (billion Rs)	17.3	58.5
Short term (billion Rs)	74.0	61.6
Domestic debt stock (End-Oct; billion Rs)	2384.1	2717.0

Composition of Domestic Debt
A noteworthy development of Jul-Oct FY08 is the significant increase in long term component of domestic debt. This reflects the increasing inflows into the NSS, as well as rising PIB issues by the government.

The outstanding stock of *permanent debt* rose by 6.3 percent in Jul-Oct FY08 as compared to a decline in the corresponding period last year (see **Figure 5.7**). This increase primarily stemmed from the PIBs and Prize Bonds, the only long term instruments in the permanent debt category. The government fetched net Rs 41.2 billion through successful PIBs auctions in Jul-Oct FY08.

Figure 5.7 Domestic Debt Outstanding (Jul-Oct)



Unfunded debt showed a marginal increase of 2.6 percent in Jul-Oct FY08 and reached at Rs 24.2 billion from Rs 17.5 billion in Jul-Oct FY07. Gross sales of major NSS instruments, i.e., Defence Saving Certificates, Special Saving Certificates, Bahbood Saving Certificates and Pensioners Benefit Account increased during the period and despite significant repayments, NSS showed a net increase of Rs 24.2 billion (see **Table 5.12**).

Table 5.12 .Gross Sales of NSS instruments (Jul-Sep)
billion Rupees

	FY07		FY08	
	Gross Sales	Net Receipts	Gross Sales	Net Receipts
DSC	5.1	-1.7	30.1	4.7
SSC	31.7	-0.2	84.6	5.2
BSC	34.0	17.7	79.5	13.5
SA	5.3	-0.2	59.2	-4.7
PBA	10.7	4.0	25.4	3.4

Floating debt which comprised mainly of T-bills increased by 5.6 percent in Jul-Oct FY08 as compared to 7.9 percent in the corresponding period last year when government was relying heavily on short term debt instruments.

A significant development is the shift in the ownership profile of T-bill holdings in Jul-Oct FY08. The stock of SBP T-bill holding (on net basis) decreased by Rs

46.65 billion during Jul-Oct FY08. In contrast, it went up by Rs 71.7 billion during Jul-Oct FY07 (see **Table 5.13).**

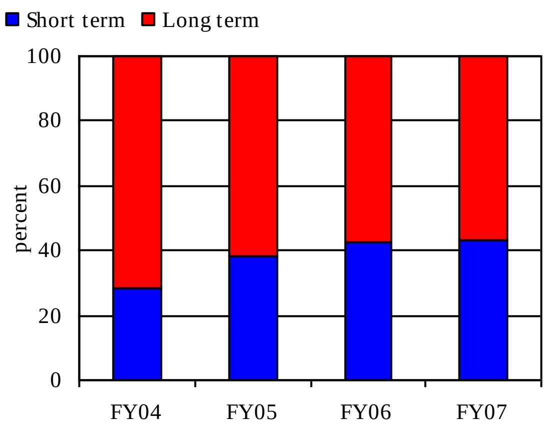
Table 5.13: Gross Payments & Receipts of T-bills (Jul-Oct)
billion Rupees

	FY07		FY08	
	Receipts	**Payments**	**Receipts**	**Payments**
MTBs (auction)	189.7	169.0	209.2	105.7
MRTBs*	362.6	290.9	229.7	276.3
Total	552.3	460.0	438.9	382.0

* MRTBs are used for replenishment and MTBs are issued in auctions.

The term structure of domestic debt has changed slightly in Jul-Oct FY08 as the absolute amount of long term component of debt has started rising **(**see **Figure 5.8)**. Growth of ST debt went down to 5.6 percent in Jul-Oct FY08 from 7.9 percent in Jul-Oct FY07; however the share of short term debt registered a marginal increase from 42.5 percent in Jul-Oct FY07 to 43.0 percent in Jul-Oct FY08.

Figure 5.8: Tenore of Domestic Debt (Jul-Oct)



Domestic debt servicing (as the breakup of debt servicing is available till Jul-Sep FY08, this discussion is based on the Jul-Sep data) cost reached 1.0 percent of GDP in Jul-Sep FY08 from 0.6 percent in Jul-Sep FY07. This appears consistent with the rise in the stock of debt and the rising rate of financing on the short term debt. The latter comprises 43.9 percent of the total stock of debt and is more sensitive to the rise in ST interest rates and the bullet maturities of Defence Saving Certificates issued in earlier years.

Table 5.14: Debt Servicing of Unfunded Debt
million Rupees

	Jul-Sep FY07	**Jul-Sep FY08**
DSC	13,118.3	69,931.0
SSC	3,453.8	2,963.3
BSC	3,818.6	5,429.8
PBA	1,530.4	1,891.4