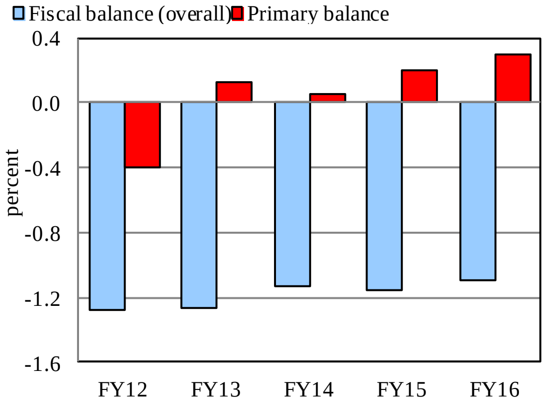
4 Fiscal Policy and Public Debt

4.1 Overview

The budget deficit in the first quarter of FY16 was 1.1 percent of GDP, showing a marginal improvement over the same period last year.[1] Though tax collection remained below expectations amid lower inflation, the reduction in the budget deficit was primarily due to moderate growth in current expenditures. The expenditure control also helped improve primary balance – another key indicator of fiscal performance (**Figure 4.1**).

Figure 4.1: Budget Balances in Q1 (% of GDP)



Source: Ministry of Finance

The tax collection by FBR was about Rs 40 billion less than expected during the first quarter, which was mainly due to sluggishness in sales tax. The direct taxes, on the other hand, showed significant growth on the back of new measures taken in the federal budget FY16 (**Box 4.1**). There was also no support from non-tax revenues, which remained at last year's level.

Therefore, the burden of fiscal consolidation fell on government expenditures. On a positive note, the government managed a moderate growth in current expenditures and directed the flow of funds towards various development works.[2] However, the expenditure should be further rationalized through minimizing expenses relating to loss-making PSEs and circular debt, in order to contain the fiscal deficit.

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[1] In Q1-FY15, budget deficit was 1.2 percent of GDP. In terms of rupees, it declined by 2.7 percent to Rs 328 billion in Q1-FY16. In comparison, the target for the budget deficit for Q1-FY16 was Rs 294 billion, as agreed with the IMF

[2] As a result, the PSDP increased by 57.4 percent during Q1-FY16, which is an encouraging development.

Meanwhile, the financing pattern of the budget deficit saw heavy reliance on commercial bank borrowings which increased to Rs 443 billion during the quarter. On a positive note, the government retired some of its debt with the central bank. Similarly, deficit financing through external resources also increased, which was largely derived from issuance of Eurobonds in the international market.[3]

Table 4.1: Summary of Fiscal Operations
billion rupees ; growth in percent

	Budget FY16	Actual		Growth	
		Q1-FY15	Q1-FY16	Q1-FY15	Q1-FY16
A. Total revenue	4,688	839.7	937.0	1.2	11.6
Tax revenue	3,729	626.9	723.5	11.7	15.4
Non-tax revenue	958	212.9	213.5	-20.8	0.3
B. Total expenditure	6,017	1176.5	1265.1	5.4	7.5
Total expenditure (booked)		1170.2	1254.0	12.7	7.2
Current[1]	4,786	1050.1	1085.2	20.9	3.3
Of which					
Interest payments	1,280	394.5	415.9	31	5.4
Development	1,231	115.3	169.9	32.3	47.4
PSDP	1,235	93.0	146.3	16.9	57.4
Others		22.3	23.6	193.3	5.7
Net lending		4.8	-1.1		
Statistical discrepancy		6.4	11.1		
Fiscal balance (A-B)	-1,305	-336.8	-328.2		
Financing	*1,305*	*336.8*	*328.2*		
External sources	322	-13.5	55.3		
Domestic sources	983	350.3	272.9		
Banking system	283	139.9	139.4		
SBP	-65	-39.0	-304.4		
Scheduled banks	348	178.9	443.8		
Non-bank	650	210.4	133.5		
% of GDP					
Overall fiscal balance	-4.3	-1.2	-1.1		
Revenue balance	-0.3	-0.7	-0.5		
Primary balance	-0.2	0.2	0.3		

[1]Includes pensions, grants, subsidies, and general government expenses.

[3] Pakistan issued 10-year bond of US $ 500 million in the international bond market at a coupon rate of 8.25 percent in September 2015.

Source: Ministry of Finance

Box 4.1: Key taxation measures announced in Federal Budget FY16[4]

In federal budget for FY16, the government targeting the tax to GDP ratio of 11.1 percent and to contain the deficit to 4.3 percent of the GDP. The budget envisaged a growth of 17.5 percent in taxes during the year, and introduced a number of new tax measures. The key proposals are given below:

New taxes / rate increases

- A one-time tax of 3 percent on individuals at income in excess of Rs 500 million, and 4 percent on associations, companies and banks, for the rehabilitation of Temporarily Displaced Persons (TDPs);
- Expansion in the coverage of differential taxation scheme for filers and non-filers in order to encourage tax filing: e.g., tax rate on dividend is increased from 10 percent to 12.5 percent for tax filers and 17.5 percent for non-filers;
- Income tax of 0.6 percent on all banking instruments levied on non-filers of tax returns, which was later reduced to 0.3 percent after negotiations with the stakeholders;
- Increase in Capital Gains Tax from 12.5 percent to 15 percent for 1st year, and 10 percent to 12.5 percent for next year;
- A uniform rate of 35 percent on all sources of banking companies' income to remove tax arbitrage;
- Reduction in various exemptions (under SROs) equivalent to Rs 120 billion.

Tax rate reduction/ concessions

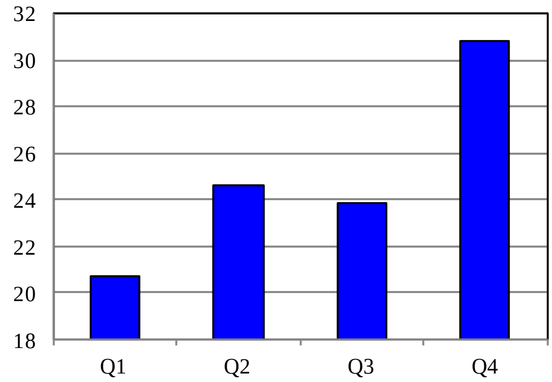
- Reduction in the number of slabs of customs duty to 4 for simplification, and reduction in duty rates from 25 percent to 20 percent;
- A plan for reducing the corporate income tax rate by 1 percent annually to bring it down from 35 percent to 30 percent during the next 6 years.
- Reduction in income tax rate from 5 percent to 2 percent for salaried taxpayers with income less than 0.5 million and in excess of 0.4 million;
- Reduction in customs duty on imported construction machinery from 30 percent to 20 percent.
- Introduction of a reduced sales tax (non-adjustable) of 7 percent instead of 17 percent to encourage farm mechanization. Similarly, the customs duty, sales tax, and withholding tax rates on imports of agricultural machinery were also proposed to be reduced.
- In order to promote certain sectors, the government has announced tax holidays. These include Halal food production which is tax exempted for four years and rice mills for one year. The government has declared a 10-year tax exemption on projects on developing and setting of electricity transmission lines in the country and 5-year tax exemption for projects for manufacturing equipments for solar and wind energy.

[4] The government took some additional revenue measures in November 2015 to make up for the revenue shortfall during the first quarter, including: (i) imposition of 5–10 percent regulatory duty on luxury and non-essential items (including fruits, vegetables, bakery items, cosmetics, shampoos, some sanitary fixtures); (ii) imposition of 1 percent customs duty across the board; (iii) increased FED on cigarettes; and (iv) raised fixed duty on import of old and used vehicles (above 1000cc) (Source: S.R.O 1177(1)/2015 and S.R.O 1178(1)/2015.)

4.2 Revenues

The revenue collection improved by 11.6 percent against a dismal growth of 1.2 percent a year ago. While the non-tax revenues showed virtually no growth, the tax collection picked up by 15.4 percent. The pace of tax collection, though encouraging, is still lower than what it should be: tax collection in Q1-FY16 is 19.3 percent of the full year target; however, according to past seasonal pattern, it should be about 21 percent of the annual revenues (**Figure 4.2**).

Figure 4.2: Seasonal Pattern of tax collection (percent share)



Source: Ministry of Finance

The shortfall witnessed in first quarter implies that much higher growth is required in subsequent quarters to achieve the annual target. For instance, a growth of 24.6 percent in tax collection will be needed in Q2, given the full year target of Rs 3,729 billion and the fact that around 25 percent of annual tax is collected in Q2 (**Figure 4.2**). .

FBR taxes

The tax collection by FBR posted 11.6 percent growth during the quarter (**Table 4.2**).[5] Encouragingly, the direct taxes yet again witnessed a robust growth of 26.3 percent which has also increased its share in total tax collection from 35.3 percent in Q1-FY15 to 39.9 percent in Q1-FY16.[6] The increase in direct taxes is largely due to enhanced coverage of the withholding taxes (**Box 4.2**).

The indirect taxes, on the other hand, posted a sluggish growth of 3.6 percent against a moderate 11.0 percent improvement in the same period last year. The overall deceleration in fuel prices and subsequently the inflation rate severely impacted the sales tax collection, which has shown negative growth during the

[5] The share of FBR taxes in total tax revenues, though still higher than 80 percent, is declining as provinces are vested with more powers to implement their tax regimes.

[6] The increase in the share of direct taxes is desirable, as it implies reduction in the regressiveness of the taxation structure.

quarter.[7] Meanwhile the customs duty witnessed 23.4 percent growth owing to increased tariffs on imported items as well as inclusion of new items under the customs levy[8].

Table 4.2: FBR Tax Collection

billion rupees; Growth in percent

	Budget FY16	Actual		Growth	
		Q1-FY15	Q1-FY16	Q1-FY15	Q1-FY16
Direct	1,348	189.7	239.7	17.3	26.3
Withholding tax	na	141.1	171.9	20.4	21.8
Indirect	1,756	348.1	360.5	11.0	3.6
Customs	299	64.5	79.6	23.1	23.4
Sales tax	1,250	258.2	253.4	9.5	-1.9
Federal excise	206	25.4	27.5	0.0	8.2
Total taxes	**3,104**	**538.0**	**600.0**	**13.1**	**11.6**

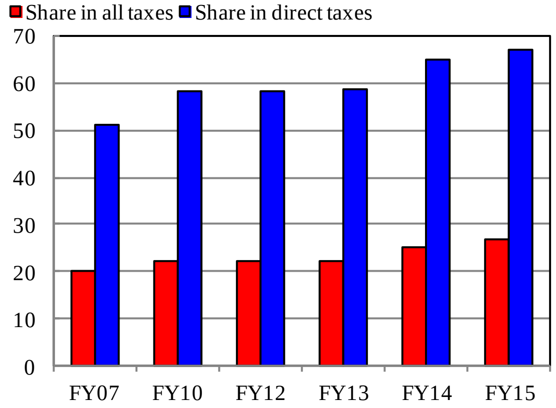
Source: Federal Board of Revenue

Box 4.2: Growing reliance on withholding taxes

The withholding tax (WHT) is levied by the governments, across the globe, on sources of income, and purchase of goods and services. Pakistan inherited WHT on salary and interest income under British Income Tax Ordinance (ITO) 1922, which was repealed by the Income Tax Ordinance, 1979. During 1990s, the withholding tax coverage was expanded substantially on various transactions and making most of them presumptive. Recently, its scope has been further enhanced to increase tax net and to address the issue of low and declining tax-to-GDP ratio. In the presence of large informal economy and poor culture of voluntary tax payments on one hand, and structural issues in tax administration on the other, the WHT has become a highly dependable means of generating revenues.

The WHT does have its merits. It is considered as low cost tool to raise revenues with the possibility of less leakages and minimum contact

Figure 4.2.1: Rising Trend of Withholding Taxes (percent)



Source: Federal Board of Revenue

[7] Within the petroleum group, the petrol prices plummeted by 29 percent (YoY) while the price of diesel fell by 22 percent.

[8] The government rationalized the custom duty by proposing withdrawal of various concessions and exemptions in federal budget FY16.

between the payers and tax official. It is therefore easy to broaden its coverage by including it on various services and income sources. Recently, the FBR has introduced a WHT mechanism, which separates out filers of income tax returns and non-filers. This mechanism is a tool to document the economy, whereby filers of tax returns pay lower tax rates than non-filers, thus incentivizing the tax filing.[9]

As a result of enhanced coverage and differential rates on filers and non-filers, the share of WHT in direct taxes increased to 67.1 percent in FY15, compared with less than 60 percent three years back (**Figure 4.2.1**). Further, the contribution of WHT in total tax collection surpassed 26 percent in FY15 making it as the most reliable tax resource. During the last three years, WHT collection from all sources witnessed a compound annual growth rate (CAGR) of 24.5 percent, compared with the growth of 8.9 percent in overall FBR taxes.

The key sources of the withholding tax are contracts and international trade, which together make half of the total collection. Tax deducted from salaries constitues 11.5 percent of the total WHT. Other important sources are bank interest and securities and cash withdrawal. [10]

The coverage of WHT on banking transactions has been further enhanced in FY16 budget with higher rates for non-filers.[11] The measure is expected to generate additional revenue as well as to curtail undocumented flow of funds from the banking channels. Although there are some adverse implications for banking sector, as people may opt out of the banking channel, we believe it will be short-lived; in the long-run this tax may help documentation of the economic transactions.

But there are also some demerits of WHT; (a) it carries a substantial compliance cost for withholding tax agents. This requires more human resource, I.T. infrastrucutre and other overheads to manage the collection mechanism and deposit with the FBR; (b) withholding tax on utilities (telephone bills, electrity bills, education fee, etc) may create additional burden on tax payers as it, though adjustable for tax filers, invloves time lags for refunds; and (c) its incidence is regressive, like indirect taxes, particularly when applied on transactions.

Non-tax revenues

The non-tax revenues posted a minimal growth of 0.3 percent (Rs 0.6 billion) due to absence of any significant one-time inflow that boosted the revenues in previous years. Moreover, due to lower international petroleum prices that continued to prevail, the revenue collected vide discount retained on crude oil and windfall levy contributed less than the same quarter last year and is expected

[9] The number of tax filers saw a steady increase in early 2000s and reached a peak of 1.8 million in FY07. However, the momentum could not prevail and tax filing declined in FY08-14 to just 0.75 million in FY14. One of the key factors behind this decline could be the increase in the income tax threshold from Rs 180,000 in FY08 to Rs 400,000 in FY14. However, steps taken by FBR resulted improvement in tax filing with 0.85 million in FY15, and expected to surpass 1 million in FY16.

[10] The WHT on cash withdrawal from banks was introduced in Finance Act 2005. The tax rate was initially set at 0.1 percent on cash withdrawals in excess of Rs. 25000 per day. The rate was revised upwards to 0.2 percent in FY07 and 0.3 percent in FY10. Meanwhile, the cash limit was enhanced to Rs 50,000 per day in federal budget FY13.

[11] See Box 4.1

to miss the budgetary targets (**Table 4.3**).[12] Similarly, the royalties on gas and oil also declined due to price effect. Meanwhile, other major components such as SBP profits, CSF inflows and dividend earnings continued to support the non-tax revenues.

Table 4.3: Non-tax Revenues
billion rupees

	Budget FY16	Actual		
		Q1-FY14	Q1-FY15	Q1-FY16
Mark-up (PSEs & others)	57	56.8	0.9	0.9
Dividend	88	3.7	10.9	16.3
SBP profits	280	80.0	67.5	67.6
Defence (incl. CSF)	154	2.0	77.3	75.7
Royalties on gas & oil	59	19.2	20	17.6
Passport & other fees	25	4.0	2.7	3.4
Discount retained on crude oil	21	3.9	2.3	2.1
Windfall levy against crude oil	18	3.8	5.3	1.0
Foreign grants	40	10.1	8	7.1
Other federal	53	74.6	5.5	7.2
Provincial	168	10.7	12.4	14.9
Total non-tax revenue	**963**	**268.8**	**212.9**	**213.5**

Source: Ministry of Finance

4.3 Expenditures

The consolidated fiscal spending witnessed 7.2 percent growth during the quarter under review which is much lower than 12.7 percent increase in same quarter last year. This slowdown was broad-based; however, sharp reduction in growth was witnessed in interest payments – the highest item in the current expenditure (**Table 4.4**).

The interest payments showed a modest growth of 5.4 percent in Q1-F16. This was mainly on account of lower growth in PIB coupon payments during the quarter. Both low interest rates and less borrowing through PIBs during FY15 were responsible for this lower growth.[13]

[12] Discount retained on crude oil is the share of government in selling price of local crude oil produced by exploration companies. Similarly, windfall levy against crude oil is the gain realized in case of fluctuations in international oil prices.
[13] The government borrowed Rs 933.2 billion during FY15 through PIBs against 1.9 trillion in FY14.

The sluggish growth in the current expenditures paved way for the government to increase its development spending. As a result, the federal PSDP increased by 80 percent during the quarter which was also complemented by 40.6 percent rise in provincial PSDP. The federal government directed significant resources towards improving transport infrastructure, revamping of railways and improving water resources and distribution network. Moreover, PSDP disbursements were also made towards the Higher Education Commission (HEC), National Highway Authority (NHA) as well as rehabilitation of the IDPs. Likewise, the provinces also focused on developing physical infrastructure by laying road networks and development spending on public welfare.

Table 4.4: Analysis of (Consolidated) Fiscal Spending – Q1

billion rupees; growth in percent

			Growth	
	FY15	**FY16**	**FY15**	**FY16**
Total expenditure	**1,176.5**	**1,265.1**	**5.4**	**7.5**
Total expenditure(booked)	1170.2	1254.0	12.7	7.2
Current	1,050.1	1,085.2	20.9	3.3
Federal	772.1	768.2	20.7	-0.5
Interest payments	394.5	415.9	31.0	5.4
Domestic	375.9	396.9	31.3	5.6
External	18.6	19.0	24.8	2.2
Pension	39.7	42.5	8.8	7.0
Grants	52.8	56.7	26.3	7.3
Defence	164.6	145.6	12.4	-11.5
Public order & safety	21.3	21.8	16.3	2.2
Health & education	12.7	16.5	-9.6	30.1
Others	86.7	69.2	6.5	-20.1
Provincial	278	317.0	21.5	14.0
Development	115.3	169.9	32.3	47.4
PSDP	93.0	146.4	16.9	57.4
Federal	39.6	71.3	-11.9	80.0
Provincial	53.4	75.1	54.4	40.6
Other dev. expenditure	22.3	23.6	193.3	5.8
Net lending	4.8	-1.2	-94.2	-124.0
Statistical Discrepancy	6.3	11.2	-91.9	75.7

Source: Ministry of Finance

4.4 Provincial fiscal operations

The fiscal position of provinces showed deterioration in overall balance. The provinces are expected to maintain surplus to provide sufficient cushion for consolidated fiscal outcome. However, the aggregate balance reduced considerably from a surplus of Rs 45.3 billion in Q1-FY15 to Rs 7.4 billion in Q1-FY16.[14] This decline is largely attributed to increased provincial expenses by 17.9 percent as well as reduction in transfers from divisible pool (**Table 4.5**). [15]

[14] Based on financing amounts of provincial budgets.
[15] On contrary to a growth of 11.6 percent in FBR taxes, the federal transfers to provinces went down by 7.2 percent during Q1-FY16.

Table 4.5: Provincial Fiscal Operations
billion rupees ; growth in percent

	Punjab	Sindh	KPK	Balochistan	Total	Growth
Q1-FY16						
Total revenue	167.7	103.4	55.1	39.8	366.0	-6.8
Share in federal revenue	134.2	72.9	46.3	35.5	288.9	-7.2
Taxes	28.8	27.0	3.0	0.4	59.2	32.5
Non-taxes	7.0	1.4	5.2	1.2	14.9	19.9
Federal loans and transfers	-2.3	2.0	0.6	2.6	3.0	-87.8
Total expenditure	196.2	101.9	58.4	38.4	395.0	17.9
Current	145.8	88.3	50.0	35.8	319.9	13.6
Development	50.4	13.6	8.4	2.6	75.1	40.6
Overall balance	-28.5	1.5	-3.3	1.4	-29.0	
Financing	31.3	-5.4	-13.0	-20.2	-7.4	
Q1-FY15						
Total revenue	183.5	104.9	63.6	40.7	392.7	1.1
Share in federal revenue	145.3	79.2	52.3	34.5	311.3	-3.5
Taxes	23.9	17.5	3	0.3	44.7	6.2
Non-taxes	5.4	1.7	4.7	0.6	12.4	15.9
Federal loans and transfers	8.9	6.5	3.6	5.3	24.3	88.4
Total expenditure	150.9	95	59.9	29.1	334.9	25.6
Current	120.3	81.9	52.7	26.8	281.7	21.2
Development	30.6	13.2	7.3	2.3	53.4	54.3
Overall balance	32.6	9.8	3.6	11.6	57.6	-52.5
Financing	-16.7	-6.4	-9.1	-13.1	-45.3	

Source: Ministry of Finance

Although the provinces were able to collect 32.5 percent higher taxes during the quarter, the revenues generated were not sufficient to meet their needs. Since the 18th amendment, the provinces are free to impose taxes on agricultural income and various services; the federal government has also shifted its cost center of various current expenditures such as public order and safety, education and health towards the provinces which has increased the current expenditures. As a result, the current expenses increased by 13.6 percent.

A disaggregated analysis reveals that Punjab posted a large deficit of Rs 31.3 billion in Q1-FY16, against a surplus of Rs 16.7 billion last year same period. While its expenditure increased by 30 percent mainly on the back of development expenses, its revenues showed a decline of 8.6 percent during the quarter. All other provinces have shown surpluses – the highest surplus by Balochistan. While total revenues by other provinces were also lower in Q1-FY16, compared with the previous year, they managed to show surpluses by controlling their expenditures.

4.5 Public debt

Pakistan's public debt stock increased by Rs 768.8 billion during Q1- FY16, reaching Rs 18.5 trillion as of end-September 2015. This was driven by rise in both the domestic and external debt (**Table 4.6**).

Domestic debt

Despite some improvement in fiscal deficit and higher availability of external resources, domestic debt during Q1-FY16 increased by almost three times of the same period last year (**Table 4.7**). This can be explained by temporary buildup of government deposits with the central bank.[16]

Table 4.6: Debt Burden

billion rupees

	Stock		Absolute Change	
	June-15	Sep-15	Q1-FY15	Q1-FY16
Public debt	**17,757.7**	**18,526.5**	**215.1**	**768.8**
Public domestic debt	12,192.5	12,714.6	189.4	522.1
Public external debt	5,565.2	5,811.9	25.7	246.7
Govt external debt	4,770.0	4,952.7	16.8	182.7
Debt from the IMF	417.6	475.3	1.7	57.7
External liabilities	377.6	383.9	7.2	6.3
Memorandum Item				
Public debt (MoF)[1]	17,380.2	18,142.6	207.8	762.5

[1] 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

Table 4.7: Absolute Change in Government Domestic Debt

billion rupees

	Q1-FY15	Q1-FY16
1. Government domestic debt	189.4	522.1
Permanent debt	248.0	90.8
of which		
PIBs	234.0	55.6
Floating debt	-112.9	377.4
of which		
MTBs	37.2	614.7
MRTBs	-216.7	-58.2
Outright sale of MRTBs	66.6	-179.1
Unfunded debt	54.1	53.7
Foreign currency loans	0.2	0.1

Source: State Bank of Pakistan

[16] Government's deposits with SBP increased by Rs 252.0 billion during Q1-FY16 against Rs 161.5 billion decline in the same period last year.

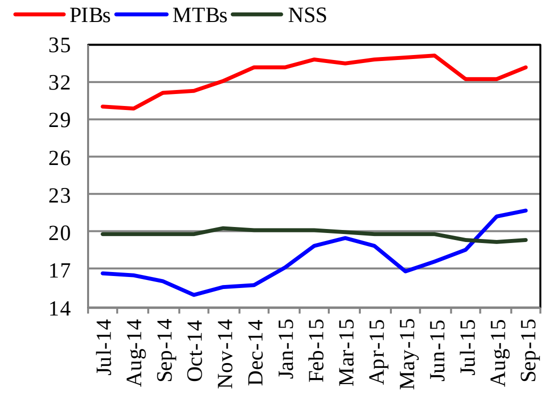
Like previous year, the government continued to borrow mainly from commercial banks in Q1-FY16 and retired some of its debt to SBP. With this strategy, the government not only successfully met the IMF ceiling on its borrowing from SBP for end-September 2015, but also satisfied the zero quarterly limit, prescribed in the SBP Act, 1956.

The pattern of borrowing from commercial banks shows that the share of long term securities in the domestic debt declined during the quarter.

The MTBs share, on the other hand increased to 21.7 percent by end September 2015, from 17.6 percent at end-June 2015 (**Figure 4.3**). While these changes could reduce the fiscal burden in terms of lower interest payments, government's exposure to rollover and re-pricing risk may increase in future.[17]

From commercial banks point of view, long term securities were still attractive, as they were anticipating a cut in the policy rate. The banks were, therefore, aggressively participating in PIB auctions throughout the quarter.

Figure 4.3: Share in Domestic Debt



Source: State Bank of Pakistan

Table 4.8: MTBs and PIBs Auction Profile (Face value)

billion rupees

Auction date	Target	Offer	Acceptance[1]	Maturity[2]
MTBs				
9-Jul-15	150.0	143.9	102.9	81.6
23-Jul-15	125.0	263.8	220.0	67.3
6-Aug-15	225.0	360.3	356.5	140.4
20-Aug-15	300.0	248.6	239.5	263.1*
3-Sep-15	150.0	210.5	195.6	101.3
17-Sep-15	250.0	160.0	146.1	208.8
Q1-FY16	**1,200.0**	**1,387.0**	**1,260.6**	**862.6**
PIBs				
15-Jul-15	100	175.5	51.7	139.3
12-Aug-15	50	364.4	63.1	16.7
9-Sep-15	50	252.8	87.9	7.3
Q1-FY16	**200**	**792.6**	**202.7**	**163.3**

[1] Competitive bids only
[2] Maturities for PIBs pertain to whole month.
*Includes outright maturities of Rs 186.5 billion MTBs.
Source: State Bank of Pakistan

[17] Rollover risk indicates inability to refinance debt falling due in a specific period if new borrowing rates are exceptionally high or investors are unwilling to purchase the debt. Re-pricing (or interest rate) risk refers to the possibility of higher interest rates at the time of refinancing.

The cumulative amount offered by banks in PIB auctions were almost four times of the target (**Table 4.8**). One of the key factors behind this was the substantial term premium available for PIBs.[18] However, the outcome of auctions shows that the government stuck to its pre-auction targets.

Funds mobilization through NSS
Despite frequent downward revisions in the rates of returns, funds mobilized through National Savings Schemes (NSS), maintained their pace in Q1-FY16, as in last year (**Table 4.9**).[19] Among the NSS, main contribution came from Special Saving Account (SSA) and Behbood Saving Certificate (BSC) that posted a net inflow of Rs 19.7 billion and Rs 22.6 billion respectively. At the same time, investment in Special Saving Scheme (SSC) went down significantly, mainly due to larger maturities during the quarter.

Table 4.9: Net Receipts under NSS Instruments
billion rupees

	FY13	FY14	FY15	FY16
DSC	17.9	1.7	3.2	0.6
SSC	13.7	3.7	17.1	7.3
RIC	12.2	5.0	14.6	-2.8
BSC	15.8	11.0	15.2	22.6
SSA	73.1	3.8	-2.4	19.7
Others	4.7	0.4	4.4	5.7
Total	**137.3**	**25.6**	**52.1**	**53.1**

DSC: Defence Saving Certificates, SSC: Special Saving Certificate, RIC: Regular Income Certificate, BSC: Behbood Saving Certificates, SSA: Special Saving Accounts
Source: Central Directorate of National Savings (CDNS)

Table 4.10: Pakistan's Public External Debt & Liabilities
million US dollars

	Jun-15	Sep-15	Change
Public external debt & liabilities	**54,674.6**	**55,608.9**	**935.3**
Government debt	46,861.2	47,387.7	526.5
of which			
Paris club	11,664.1	11,737.3	73.2
Multilateral	24,262.7	24,146.1	-115.6
Other bilateral	3,941.2	3,880.9	-60.3
Euro/Sukuk bonds	4,550.0	5,050.0	500.0
Commercial loans	300.0	100.0	-200.0
Multilateral(ST)	982.8	821.7	-161.1
Commercial loans(ST)	0	515.0	515.0
IMF	4,103.0	4,548.1	445.1
Federal government	52.0	0.0	-52.0
Central bank	4,051.0	4,548.1	497.1
External liabilities	3,709	3,673	-36.0

Source: State Bank of Pakistan

External debt & liabilities
Public external debt and liabilities posted a US$ 935.3 million increase during the quarter, reaching US$55.6 billion by end-September 2015. This increase was driven by US$ 515 million commercial loans and US$ 500 million Eurobonds

[18] As mentioned earlier, banks were expecting reduction in interest rate in the backdrop of declining inflation.
[19] The rates on NSS observed temporary reversal during August 2015 but these rates are still lower while compared to Q1-FY15.

(**Table 4.10**).[20] In addition, the country received 8th tranche under extended fund facility (EFF), which added US$ 497.1 million to total EDL during the quarter. [21]

The data of gross disbursement of external loans shows that the country received an amount of US$ 1.5 billion in Q1-FY16, compared to only US$ 663.7 million last year.[22] Moreover, fresh commitments by international donors continued to support ongoing reform process in the country (**Box 4.3**).

Debt servicing of external debt
External debt servicing declined by US$ 274.7 million in Q1-FY16, compared to the same period last year (**Table 4.11**). This was mainly on account of decline in repayments to the IMF. On the contrary, the servicing of the government debt increased due to (i) rise in the repayment to multilateral donors, and (ii) commercial loan matured during the period. Moreover, the external debt repayments are expected to increase in H2-FY16, mainly due to maturity of 10-year Eurobond issued in FY06 (For detail See SBP's **Annual Report FY15**).

Table 4.11: Public External Debt Servicing - Q1
million US dollars

	FY15	FY16	Change FY16
Public debt (a+b+c)	**1,171.6**	**896.9**	**-274.7**
Principal	958.7	697.1	-261.6
Interest	212.9	199.8	-13.1
a. Government debt	620	811	191.4
Principal	439	645	205.6
Interest	181	167	-14.3
b. IMF	533	63	-470.3
Principal	520	53	-467.2
Interest	13	10	-3.1
c. Foreign exchange	19	23	4.2
Principal	0	0	0.0
Interest	19	23	4.2

Source: State Bank of Pakistan

Box 4.3: IFIs fresh loan commitments
The International Financial Institutions (IFIs) are the major sources of financial and technical support for developing countries and play a critical role to support infrastructure development and institutional reforms. During the recent years, the ADB and World Bank were central in helping Pakistan's power sector. A brief description of projects financing agreements by the two institutions is given below:

[20] The bond was oversubscribed twice and the coupon rate was 8.25 percent; equal to the rate of Eurobond, issued in April 2014. In terms of geographical spread, 38 percent of subscription came from North America, 38 percent from UK, 12 percent from Europe and 12 percent from Asia.
[21] This amount is different than given in BOP numbers due to exchange rate valuation.
[22] This excludes inflows from IMF during the quarter.

ADB

Sustainable Energy Sector Reform Program - Subprogram 2: This program will support policy measures to address extensive debts in the power sector, as well as further market reforms to improve the efficiency of public sector power companies and to encourage competition through more private sector participation. ADB approved US$400 million loan for the program in November 20, 2015 (of which; US$ 100 million is under ordinary capital resources (OCR)).[23]

Second Power Distribution Enhancement Investment Program: The investment program aims to improve the financial viability of the power sector. By introducing the advance metering infrastructure to power distribution companies, this program will not only modernize the electricity metering and billing system but will also help to reduce losses and improve revenues. ADB has approved loan assistance of nearly US$1.0 billion on November 20, 2015 (of which; US$ 970 million is under OCR).

Sindh Provincial Road Improvement Project: The ADB has approved US$197.8 million on October 12, 2015 to rehabilitate highways in the Sindh. The proposed project aims to improve connectivity between city centers and local markets.

National Motorway M-4 Gojra–Shorkot Section Project: ADB approved loan assistance of US$ 178.0 million to fund M-4 motorway connecting Gojra to Shorkot on September 30, 2015. At the same time, ADB would also manage US$92 million grant for the project from the DFID.

Pakistan: Flood Emergency Reconstruction and Resilience Project: The project will contribute to the economic and social recovery of flood-affected areas through the rehabilitation and reconstruction of high-priority infrastructure. The ADB has approved assistance of over $220 million on June 30, 2015 for the project.

World Bank

Disaster and Climate Resilience Improvement Project: The World Bank approved US$125 million on June 02, 2015 for restoration of resilient flood protection infrastructure and to strengthen the government capacity to manage disasters and climate variability.

Fiscally Sustainable and Inclusive Growth: The World Bank approved US$125 million credit on June 18, 2015to boost economic growth through fostering private and financial sector development, and mobilizing revenue while expanding fiscal space to meet social needs.

Sindh Barrages Improvement Project: The World Bank approved US$188 million on June 19, 2015 for the project to improve the reliability and safety of the Guddu Barrage and to strengthen the Sindh Irrigation Department's capacity to operate and manage the barrages.

[23] OCR constitutes of the ADB's lending pool that provides funds to lower to middle-income countries. OCR operations are quite diversified and the main sources of funding include; paid-in capital, retained earnings, and proceeds from debt issuance. ADB issues debt in the international capital markets and its debt securities carry good investment ratings from major international credit rating agencies.

Support for Temporarily Displaced Persons of FATA: The World Bank approved US$ 75 million on August 26, 2015to support the recovery of families affected by the militancy crisis, promote child health, and to strengthen emergency response safety net delivery systems in the affected areas of Federally Administered Tribal Areas (FATA).

*Second Development Policy Credit::*The World Bank approved US$500 million on November 12, 2015 for the project to support the ongoing reform process in the energy sector that will improve its financial, technical and commercial performance of the sector

Water Sector Capacity Building & Advisory Services Project: The project aims to improve the management, planning and development of water resources for the Indus River Basin in Pakistan with better environmental and social considerations. The World Bank approved financing of US$35 million on December 21, 2015 for the project.
Source: World Bank and Asian Development Bank websites