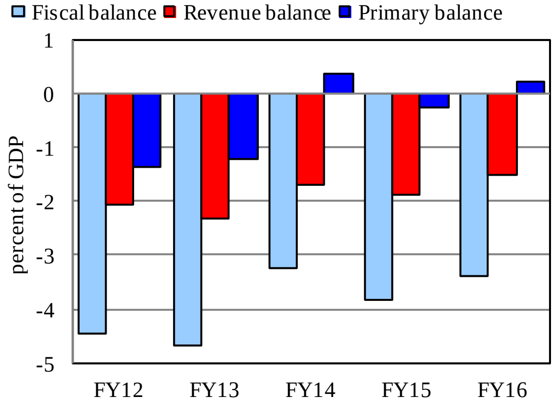
4 Fiscal Policy and Public Debt

4.1 Overview

The broad improvement in fiscal balance indicators over the last few years underscores efforts for revenue mobilization and better expenditure management by the government (**Figure 4.1**). FY16 was not an exception: fiscal deficit improved from 3.8 percent of GDP in Jul-Mar FY15 to 3.4 percent in Jul-Mar FY16, with revenue balance and primary balance following the similar trends.

Figure 4.1: Fiscal Balance Indicators during Jul-Mar



Source: Ministry of Finance

This fiscal consolidation is mainly attributable to new tax measures introduced from time to time during the year. The government levied additional customs duty on auto industry; regulatory duty on a range of consumer items; and additional FED on cigarettes during first half of the year. In the third quarter, a Voluntary Tax Compliance Scheme (VTCS) was introduced to bring traders into the tax net; an upward revision was made in regulatory duty on custom; and tax rate on financial transactions for non-filers was increased.[1] Although VTCS could not fetch the desired revenues for the national exchequer, the other tax measures helped increase overall tax-to-GDP ratio to 8.4 percent during Jul-Mar FY16, from 7.5 percent a year earlier.[2]

On the expenditure front, the government managed to contain growth in overall expenses to a moderate level. Although interest payments rose by 10.8 percent

[1] Withholding tax on financial transactions for non-filers was revised upward from 0.3 percent to 0.4 percent during Q3-FY16. This tax had been reduced from 0.6 percent to 0.3 percent in Q2-FY16.
[2] The current tax-to-GDP ratio may not be fully reflective of actual tax effort, as FBR is holding-up tax refunds. In fact, the finance minister in his budget speech for FY17 ensured early repayment of such outstanding claims.

Table 4.1: Summary of Fiscal Operations
billion rupees

		Actual		% Growth	
	Budget FY16	**Jul-Mar FY15**	**Jul-Mar FY16**	**Jul-Mar FY15**	**Jul-Mar FY16**
A. Total revenue	4,712.0*	2,682.6	2,961.9	8.3	10.4
Tax revenue	3,729.5	2,063.2	2,481.0	15.5	20.3
Non-tax revenue	958.5	619.5	480.9	-10.4	-22.4
B. Total expenditure	6,016.6	3,731.6	3,971.3	13.5	6.4
Current	4,786.1	3,199.1	3,407.0	10.1	6.5
Interest payments	*1,279.9*	*974.5*	*1,079.4*	*7.2*	*10.8*
Development	1,234.9	579.7	699.4	23.4	20.7
Net lending	-4.4	14.3	10.8		
C. Statistical discrepancy	0	-61.4	-145.8		
Fiscal balance (A-B-C)	-1,304.7	-1,048.9	-1,009.4		
Revenue balance	-74.1	-516.4	-445.1		
Primary balance	-24.8	-74.4	70.0		
Financing	1,304.7	1,048.9	1,009.4		
External sources	321.7	137.8	222.9		
Domestic sources	982.9	911.1	786.5		
Banks	283.4	469.4	538.0		
Non-bank	649.5	426.5	248.4		
Privatization	5	15.2	0.0		
percent of GDP					
Total revenue	15.4	9.8	10.0		
Tax revenue	12.2	7.5	8.4		
Total expenditure	19.6	13.6	13.4		
Current	15.6	11.6	11.5		
Development	4.0	2.1	2.4		
Fiscal balance	-4.3	-3.8	-3.4		
Revenue balance	-0.2	-1.9	-1.5		
Primary balance	-0.1	-0.3	0.2		

* Includes grants
Source: Ministry of Finance

during Jul-Mar FY16 (compared to 7.2 percent during the corresponding period of FY15), the growth in current expenditure remained sluggish on the back of a marginal decline in defence spending and some slowdown in provincial current expenditures. By contrast, development spending posted a healthy growth of 20.7 percent during this period, though it was slightly lower than the same period last year (**Table 4.1**).[3]

[3] Only 50 percent of budgeted PSDP was utilized in the first nine months of the year. A similar trend was also visible during the last three years, yet the full-year spending at each time recovered to

The financing mix also improved during this period as pressure on domestic sources eased with the rise in external financing.[4] Within domestic sources, greater burden fell on the banking system, as it provided 68.4 percent of the domestic financing.[5]

4.2 Revenues

Total revenues grew by 10.4 percent to reach Rs 2,961.9 billion during Jul-Mar FY16, compared to 8.3 percent during the comparable period last year. This improvement was mainly due to high growth in taxes. FBR tax collection, in particular, showed a sharp increase of 18.5 percent in Jul-Mar FY16, compared with 12.7 percent last year (**Table 4.2**).

Table 4.2: FBR Tax Collection
billion rupees

		Jul-Mar		% Growth		Jul-Mar Achievement	
	BE FY16	**FY15**	**FY16**	**FY15**	**FY16**	**FY15**	**FY16**
Direct	1,347.9	701.5	809.8	17.1	15.4	67.9	60.1
Indirect	1,755.8	1,073.6	1,293.2	10	20.5	69	73.7
Customs	299.1	208.9	277.6	23.4	32.9	68.2	92.8
Sales tax	1,250.3	760.3	898.5	6.1	18.2	69.9	71.9
FED	206.4	104.3	117.1	16.2	12.2	64.3	56.7
Total	**3,103.7**	**1,775.1**	**2,103.0**	**12.7**	**18.5**	**68.5**	**67.8**

Source: Federal Board of Revenue

Aggressive measures to widen the tax base and bring more tax payers into the tax net, upward revision in tax rates, and an increased focus on compliance measures helped FBR collect Rs 2,103 billion (18.5 percent) during Jul-Mar FY16, compared to Rs 1,775 billion (12.7 percent) during corresponding period last year. Furthermore, administrative efforts to engage the corporate sector through active regional tax centers and deterrence measures (such as differential tax rate for non-filers) also helped growth in taxes. On the flip side, achievements under VTCS remained well below expectations.[6]

levels allocated in the budget. Interestingly, prior to FY12, almost two-third of the PSDP utilization was concentrated during the first three quarters.

[4] During Jul-Mar FY16, net external borrowing financed a total of 22.1 percent of the budget deficit, compared to 13.1 percent in the corresponding period of last year.

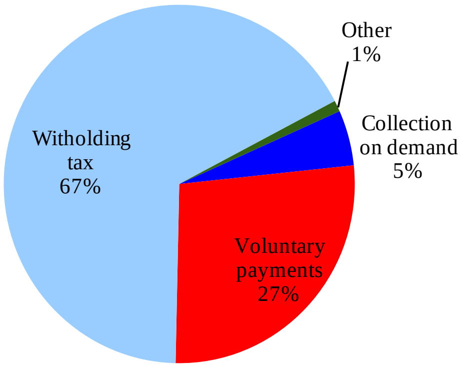
[5] By comparison, during Jul-Mar FY15, the banking system funded 51.5 percent of the total domestic borrowing by the government.

[6] FBR received merely Rs 731 million of income tax (from 7,700 traders) under VTCS up to March 31, 2015, against the expected target of Rs 100 billion.

Direct taxes

FBR collected Rs 809.8 billion through direct taxes during Jul-Mar FY16, which is Rs 108.2 billion higher than the revenue collected during the corresponding period last year. Most of this collection came from withholding taxes (67 percent) and voluntary payments (27 percent). On the other hand, tax collection on demand hovered around 5 percent of direct tax collection, depicting lower efforts to mobilize direct taxes (**Figure 4.2**). This calls for comprehensive reforms to enhance the scope of direct tax collection and improve the efficiency of the tax system.[7]

Figure 4.2: Break-up of Direct Taxes



Source: Federal Board of Revenue

Indirect taxes

Indirect taxes posted a growth of 20.5 percent to reach Rs 1,293.2 billion during Jul-Mar FY16. Additional tax measures, announced in December 2015, led to a substantial growth under sales tax and custom duties.

Sales tax contributed 69.5 percent of the indirect taxes, and 42.7 percent towards overall FBR tax collection. Major revenue spinners of sales tax from *domestic consumable goods* included: POL products, electrical energy, and cement. Sales tax collection from *imported goods* primarily came from POL products, iron & steel, and machinery & mechanical appliances (**Table 4.3**).[8]

Custom duty collection surged by 32.9 percent during Jul-Mar FY16, on top of 23.4 percent recorded during the corresponding period last year. This sharp rise can be attributed to withdrawals of concessions and upward revision in duty

[7] While as a result of FBR efforts, the active taxpayers increased from 0.76 million as on end-June 2013 to current 1.01 million, the number is still low in comparison with the employed labor force of 57.4 million.

[8] Federal Board of Revenue vide SRO 57(I)/2016 fixed sales tax rate on petroleum instead of previously applicable ad valorem rates in the backdrop of falling international prices.

structure of import items. Major revenue spinners of customs duty remained vehicles (Rs 44.0 billion), POL products (Rs 43.9 billion) and steel (Rs 20.2 billion).

Table 4.3: Sales Tax Collection during Jul-Mar
billion rupees

	FY15	FY16
Sales tax on domestic sector		
POL products	165.0	193.5
Electrical energy	17.6	22.9
Cement	15.1	19.8
VAT at import stage	12.8	15.0
Cigarettes	11.6	12.1
Others	137.5	154.9
Total	***359.7***	***418.2***
Sales tax on imports		
POL products	116.4	142.8
Iron & steel	29.3	37.9
Machinery & mechanical appliances	26.9	34.8
Electrical machinery	27.4	31.4
Vehicles (non-railway)	23.9	30.4
Others	176.7	203.2
Total	***400.7***	***480.3***
Grand Total	**760.3**	**898.5**

Source: Federal Board of Revenue

Revenue collection from FED amounted to Rs 117.1 billion during Jul-Mar FY16, compared to Rs 104.3 billion during corresponding period last year. The increase in excise duty is attributed to revision in duty structure of cigarettes and beverages. Additional surge in revenues came from travel services and improved cement sales (reflecting robust construction activity, particularly under CPEC).

Non-tax revenues

Non-tax revenues hardly met 50 percent of their annual budget target during first three quarters of FY16. Overall non-tax revenues contributed Rs 480.9 billion to the national exchequer during this period – 22.4 percent lower than the comparative period.

A number of factors explain this drop in non-tax revenues, for example, (i) the decline in SBP profit (Rs 177.6 billion in Jul-Mar FY16 from Rs 222.5 in Jul-Mar FY15) reflecting the impact of an easy monetary policy; (ii) lower CSF inflows this year compared to the previous year; and (iii) fall in revenues from crude oil (from Rs 17.4 billion during Jul-Mar

Table 4.4: Non-tax Revenues during Jul-Mar
billion rupees

	Budget	Actual	
	FY16	FY15	FY16
Mark-up (PSEs & others)	69.2	5.1	11.1
Dividends	88.1	54.8	35.8
SBP profits	280.0	222.5	177.6
Defence (incl. CSF)	154.0	154.3	80.6
Royalties on gas & oil	58.6	61.0	46.3
Passport & other fees	25.0	12.0	8.1
Discount retained on crude oil	21.0	6.7	5.7
Windfall levy against crude oil	18.0	10.7	1.6
Others	244.6	92.3	114.2
Total non-tax revenue	**958.5**	**619.5**	**480.9**

Source: Ministry of Finance

FY15 to Rs 7.3 billion in Jul-Mar FY16) owing to continued ease in crude oil prices in the global markets (iv) lower dividend collection (from Rs 54.8 billion during Jul-Mar FY15 to Rs 35.8 billion in Jul-Mar FY16) (**Table 4.4**).[9]

4.3 Expenditures

Consolidated expenditure of the government (excluding statistical discrepancy) rose by 8.5 percent during Jul-Mar FY16 – lower than 9.6 percent increase recorded during the corresponding period of FY15. The moderation in growth rate came from both current and development spending (**Table 4.5**).

Table 4.5: Analysis of Fiscal Spending during Jul-Mar
billion rupees

	Actual		% Growth	
	FY15	**FY16**	**FY15**	**FY16**
Current expenditures	**3,199.1**	**3,407.0**	**10.1**	**6.5**
Federal	2,255.8	2,368.9	8.3	5.0
Interest payment	974.5	1,079.4	7.2	10.8
Defence	485.9	482.9	7.6	-0.6
Public order and safety	66.4	75.4	10.6	13.5
Others	729.0	731.2	10.1	0.3
Provincial	943.2	1,038.0	14.8	10.1
Development expenditures	**579.7**	**699.4**	**23.4**	**20.7**
PSDP	499.4	623.4	27.1	24.8
Federal	207.9	251.3	7.6	20.8
Provincial	291.5	372.1	46.0	27.7
Others (incl. BISP)	80.2	76.0	4.3	-5.3
Net lending (to PSEs)	**14.3**	**10.8**	**-83.4**	**-24.4**
Total expenditure*	**3,793.0**	**4,117.1**	**9.6**	**8.5**

*Excluding statistical discrepancy
Source: Ministry of Finance

More importantly, control on current spending was achieved despite some increase in interest payments.[10] In fact, the federal government's non-interest expenditures remained almost at the previous year's level, which helped the government realize this fiscal consolidation. Furthermore, net lending to PSEs also remained lower during Jul-Mar FY16, compared to the previous year.

While development spending recorded a strong growth of 20.7 percent during Jul-Mar FY16, this was marginally lower than 23.4 percent increase during the comparable period last year. Of the total PSDP allocation, almost 24 percent was meant for power projects, roads & highways and the development of railways;

[9] Non-tax revenues are expected to recover during Q4-FY16 following the receipt of US$ 224 million under CSF in April 2016.
[10] Current expenditure (as percent of GDP) fell from 11.7 percent in Jul-Mar FY15 to 11.4 percent in Jul-Mar FY16.

whereas 9 percent funds were allocated to help settle temporary displaced persons (TDPs) and to support the poor through BISP.[11]

4.4 Provincial fiscal operations

Consolidated provincial revenues posted a hefty growth of 27 percent during Jul-Mar FY16, compared to 6.6 percent during the corresponding period last year. However, lower revenue absorption increased the consolidated provincial surplus to Rs 221.2 billion during Jul-Mar FY16 (**Table 4.6**).

Table 4.6: Provincial Fiscal Operations during Jul-Mar
billion rupees

	Punjab		Sindh		KPK		Balochistan		All provinces	
	FY15	FY16	FY15	FY16	FY15	FY16	FY15	FY16	FY15	FY16
A. Total revenue	626.7	715.1	387.8	430.7	208.4	233.0	138.3	147.8	1361.2	1526.6
Share in fed. revenue	515.3	595.2	295.5	329.6	180.1	200.6	116.6	127.7	1107.6	1253.2
Provincial revenues	86.8	113.9	72.2	87.3	19.1	23.4	4.0	6.8	182.1	231.4
Tax revenues	70.0	91.6	65.8	83.0	7.5	9.1	1.8	2.9	145.2	186.7
Property taxes	5.9	2.5	2.0	0.9	0.2	0.1	0.1	0.1	8.1	3.5
GST on services	0.0	40.3	0.0	43.5	0.0	5.3	0.0	1.6	0.0	90.7
Excise duties	1.3	1.9	2.7	2.8	0.0	0.0	0.3	0.3	4.3	5.0
Stamp duties	15.2	18.6	4.4	5.1	0.6	0.6	0.2	0.2	20.3	24.5
Motor vehicle tax	7.5	8.9	3.2	4.0	0.8	1.0	0.4	0.4	11.9	14.3
Other	40.2	19.4	53.6	26.7	5.9	2.1	0.9	0.4	100.6	48.6
Non-tax revenues	16.8	22.3	6.4	4.3	11.6	14.3	2.1	3.9	36.9	44.7
Fed loan & transfer	24.6	6.0	20.1	13.7	9.2	9.0	17.7	13.3	71.5	42.0
B. Total expenditure	598.7	706.6	338.5	348.8	201.8	231.5	105.5	132.4	1244.4	1419.3
Current	449.0	484.4	264.0	283.1	156.7	175.4	83.3	104.3	953.0	1047.2
Development	149.7	222.2	74.5	65.6	45.1	56.1	22.2	28.2	291.5	372.1
Gap (A-B)	28.0	8.5	49.3	81.9	6.6	1.5	32.8	15.4	116.7	107.3
Financing*	-78.2	-57.4	-63.0	-91.0	-21.7	-66.2	-31.1	-6.6	-194.0	-221.2

* Negative sign in financing means surplus.
Source: Ministry of Finance

In the light of fiscal decentralization, the provinces are exploring new avenues to generate taxes. At the same time, effective utilization of available resources has also become quite challenging for them. While the overall provincial developmental spending rose to Rs 372.1 billion during Jul-Mar FY16, their surpluses have become a regular feature of the country's fiscal account. This

[11] Source: PSDP 2015-16, Status of releases as on 25-03-2016, Ministry of Planning, Development & Reform.

demands a focus on both the revenue mobilization and revenue absorption capacity of the provinces.

Punjab

Provincial surplus of Punjab declined to Rs 57.4 billion during Jul-Mar FY16, as compared to the surplus of Rs 78.2 billion during the corresponding period last year. Out of the total expenditure of Rs 706.6 billion during Jul-Mar FY16, Rs 484.4 billion (68.5 percent) were utilized to meet current expenditure. Encouragingly, its development expenses increased sharply by 48.4 percent. Total revenues stood at Rs 113.9 billion, of which Rs 91.6 billion was generated from taxes and Rs 22.3 billion came from non-tax revenues. Major sources of tax revenue were GST on services (Rs 40.3 billion), stamp duties (Rs 18.6 billion) and motor vehicle tax (Rs 8.9 billion).

Sindh

Sindh's fiscal surplus rose to Rs 91 billion – the highest among all provinces – suggesting a greater need for planning and effective utilization of their resources. Revenues stood at Rs 87.3 billion during Jul-Mar FY16, witnessing a growth of 21 percent over last year. Most of these revenues came from taxes (Rs 83 billion), while the rest (Rs 4.3 billion) came from non-tax resources. Major source of tax revenues remained GST on services (Rs 43.5 billion) and stamp duties (Rs 5.1 billion).

Sindh's expenditure stood at Rs 348.8 billion, of which Rs 238.1 billion (68.3 percent) was spent to meet current expenditure. Development spending of the province declined from Rs 74.5 billion during Jul-Mar FY15 to Rs 65.6 billion (a decline of 12 percent) during Jul-Mar FY16.

Khyber Pakhtunkhwa (KPK)

The surplus of Khyber Pakhtunkhwa rose manifold (almost three times) during Jul-March FY16 (**Table 4.6**). This was despite 24.4 percent growth in its development outlays. Revenues rose by Rs 23.4 billion, of which tax revenues contributed Rs 9.1 billion, while non-tax revenues added Rs 14.3 billion. Of the tax revenues, Rs 5.3 billion came from GST on services, and Rs 1 billion from motor vehicle tax. The profits from hydro-electricity which added Rs 9.1 billion to collection remained a prime source of non-tax revenues.

Balochistan

Balochistan's surplus declined from Rs 31.1 billion in Jul-Mar FY15 to Rs 6.6 billion during Jul-Mar FY16, with both the revenues and expenditure posting a substantial growth. The revenues almost doubled during Jul-Mar FY16, with tax revenues grew by Rs 1.1 billion during Jul-Mar FY16 over the corresponding period last year and non-tax revenues increasing by Rs 1.7 billion. Main source of revenue remained GST on services (Rs 1.6 billion) and motor vehicle tax (Rs 0.4 billion) (**Table 4.6**).

With the growing emphasis on health and social services as well as the need for infrastructure, the development spending of the province increased to Rs 28.1 billion (up 27 percent) during Jul-Mar FY16. Meanwhile, the current expenditure rose from Rs 83.3 billion in Jul-Mar FY15 to Rs 104.3 billion during Jul-Mar FY16.

4.5 Public debt[12]

Pakistan's public debt stock increased by Rs 1.8 trillion during Jul-Mar FY16, reaching Rs 19.6 trillion as of end-March 2016 (**Table 4.7**). While around two-third of the rise came from domestic borrowing, external debt also observed highest increase since FY08 – this was mainly due to revaluation losses during Q3-FY16. Moreover, there was a marked shift in the maturity profile of domestic debt (from T-bills to PIBs) during the third quarter.

Table 4.7: Pakistan's Public Debt Profile
billion rupees

	Stock		Flow(Jul-Mar)	
	Jun-15	**Mar-16**	**FY15**	**FY16**
Public Debt	**17,757.7**	**19,550.1**	**948.0**	**1,792.4**
Public domestic debt	12,192.5	13,398.1	1,016.5	1,205.5
Public external debt	5,565.2	6,152.1	-68.5	586.9
Govt. external debt	4,770.0	5,185.4	-143.2	415.4
Debt from the IMF	417.6	584.4	79.8	166.8
External liabilities	377.6	382.3	-5.2	4.7
Memorandum Item				
Public debt as percent of GDP				
SBP definition	64.6	66.1		
MOF definition	63.2	64.8		

Source: State Bank of Pakistan

<u>Domestic debt</u>

Despite some improvement in fiscal deficit, domestic debt increased by Rs 1.2 trillion during Jul-Mar FY16 compared with Rs 1.0 trillion in the same period last

[12] Typically, changes in public debt (except IMF debt with SBP) should be equal to the size of budget deficit during a given period; this is however not the case in practice. There are two reasons for this variance: (i) exchange rate movement can impact PKR or US$ value of external debt, without having any implications for external financing of the deficit (e.g. currency movement caused US$ 1 billion revaluation loss during Q3-FY16); and (ii) changes in government deposits directly impact government borrowing from the domestic sources without having any impact on domestic debt (e.g. deposits increased by Rs 427.6 billion in Jul-Mar FY16).

year (**Table 4.8**).[13] Most of this addition was concentrated in first and third quarter of FY16, as the availability of external finance shrank in these quarters.[14]

The government continued to retire some of its debt owed to SBP during Jul-Mar FY16, using its borrowing from commercial banks. As shown in **Table 4.8**, the outstanding stock of MRTBs went down by Rs 219.2 billion during Jul-Mar FY16, compared to a decline of Rs 604.7 billion in the same period last year. This retirement enabled the government to not only contain its borrowing from SBP well below the end-March ceiling agreed with the IMF, but also meet the quarterly limit of zero borrowing under the SBP Act, 1956.[15]

Table 4.8: Absolute Change in Government Domestic Debt (Jul-Mar)

billion rupees

	FY15	FY16
Government domestic debt	**1,016.5**	**1,205.5**
Permanent debt	829.5	754.2
of which		
PIBs	779.7	622.6
Ijara	0.0	37.6
Prize bond	49.8	94.1
Floating debt	-33.1	354.9
of which		
MTBs	571.6	540.6
MRTBs	-604.7	-219.2
Bai muajjal	0.0	212.6
Outright sale	0.0	-179.1
Unfunded debt *	219.9	96.2
Foreign currency loans	0.1	0.1

*Unfunded debt mainly includes National Savings Schemes.
Source: State Bank of Pakistan

Like previous year, commercial banks continued to invest in risk-free government securities during the period. Within the government securities, T-bills remained more attractive instrument, particularly during Q3-FY16. For example, during this quarter, commercial banks offered substantial amount in T-bills (almost 4 times higher than in PIBs). However, the accepted amount against T-bills auctions was lower than both the maturity and the target set for the quarter (**Figure 4.3a**). By comparison, the government accepted an amount well-above the maturity and pre-auction target set for PIBs during Q3-FY16 (**Figure 4.3b**).

[13] Domestic debt reached Rs 13.4 trillion by end-Mar 2016 – recording 9.9 percent increase during Jul-Mar FY16.

[14] On cumulative basis, the external financing of the fiscal deficit stood at Rs 75 billion in first and third quarter, compared with Rs 147.9 billion in second quarter of FY16.

[15] MRTBs retirement during Jul-Mar FY16 was almost one-third the retirement seen last year. In fact, the IMF indicative target for net budgetary borrowing from SBP (stock) for end-March 2016 was to maintain it at end-September 2015 level. As the country had already met this target, the need for MRTB retirements was reduced during the period.

Figure 4.3a: T-bills Auction Profile

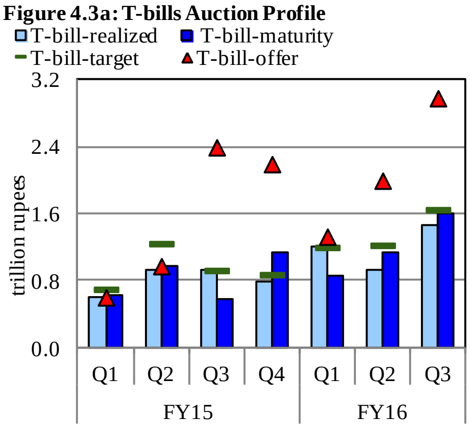
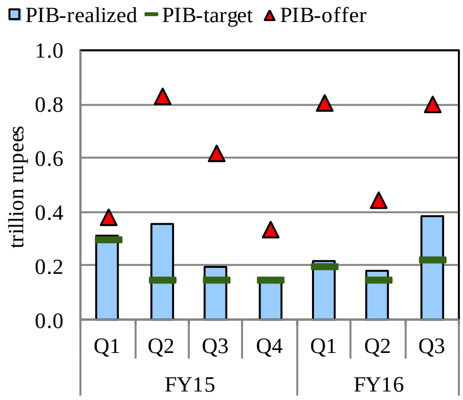


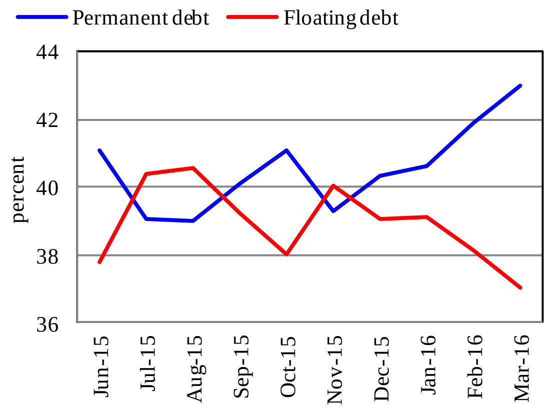
Figure 4.3b: PIBs Auction Profile



Source: State Bank of Pakistan

Out of total borrowing through PIBs during Jul-Mar FY16, around 60 percent was mobilized during Q3-FY16. In addition, the government successfully mobilized Rs 153.6 billion through two auctions of Ijara Sukuk conducted during Q3-FY16. With these developments, the share of permanent debt jumped to 43.0 percent by end-March 2016, from 40.4 percent in December 2015 (**Figure 4.4**). These changes helped the government improve the maturity profile of the domestic debt and reduced its exposure to rollover and re-pricing risks.[16]

Figure 4.4: Share in Domestic Debt



Source: State Bank of Pakistan

Unfunded debt

Net inflows into national savings schemes (NSS), increased by Rs 96.3 billion during Jul-Mar FY16 – almost half the increase seen in the same period last year

[16] In Medium Term Debt Strategy 2015/16 to 2018/19, the government reiterated its intention to borrow more from medium to long term securities with a view to lengthen the maturity profile of domestic debt.

(**Table 4.9**). Main factor for lower investment was successive downward revisions in the profit rates, following the cuts in policy rate.[17]

Table 4.9: Receipts under NSS Instruments (Jul-Mar)
billion rupees

	FY15		FY16	
	Gross	**Net**	**Gross**	**Net**
DSC	32.5	11.0	23.5	4.9
SSC	185.9	34.6	112.3	1.5
RIC	111.9	47.3	54.6	-10.4
BSC	101.4	38.2	119.2	53.8
SSA	126.6	72.2	90.3	28.1
Others	167.1	15.9	185.7	18.4
Total	**725.4**	**219.1**	**585.7**	**96.3**

Source: Central Directorate of National Savings (CDNS)

The composition of NSS indicates that Special Savings Certificates (SSCs) and Regular Income Certificates (RICs) experienced the hardest hit during Jul-Mar FY16. Among other saving schemes, Behbood Savings Certificates (BSCs) was in a better position, posting a net inflow of Rs 53.8 billion during the period under discussion. [18]

Table 4.10: Public External Debt & Liabilities
billion US$

			Flows				
	Stock		Jul-Mar		FY16		
	Jun-15	**Mar-16**	**FY15**	**FY16**	**Q1**	**Q2**	**Q3**
Public external debt	54.7	58.7	-2.3	4.1	0.9	1.4	1.7
Govt. debt	46.9	49.5	-2.9	2.6	0.5	1.0	1.1
Of which;							
Paris club	11.7	12.2	-2.0	0.6	0.1	-0.2	0.6
Multilateral	24.3	25.2	-2.6	0.9	-0.1	0.6	0.4
Other bilateral	3.9	4.1	0.3	0.2	-0.1	0.2	0.0
Euro/Sukuk bonds	4.6	4.6	1.0	0.0	0.5	0.0	-0.5
Commercial loans	0.3	0.9	0.1	0.6	-0.2	0.4	0.4
IMF	4.1	5.6	0.7	1.5	0.4	0.4	0.6
Foreign exchange liabilities	3.7	3.6	-0.2	-0.1	0.0	-0.1	0.0

Source: State Bank of Pakistan

Public external debt

Pakistan's stock of public external debt recorded an increase of US$ 4.1 billion during Jul-Mar FY16, reaching US$ 58.7 billion as of end-March 2016 (**Table 4.10**). Despite significant repayment of government external debt, public debt

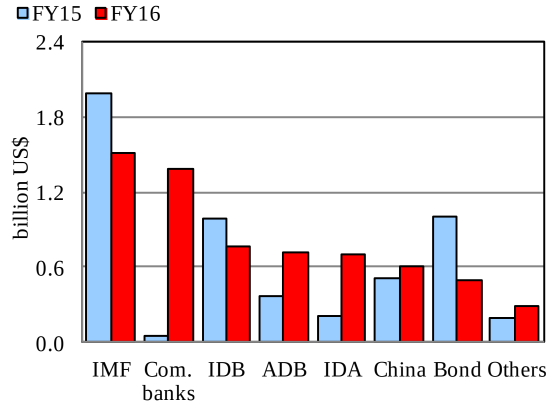
[17] The profit rates on NSS schemes are generally linked to PIBs of the same tenors, which have been declining since November 2014.
[18] Not only the profit rates on BSCs are higher compared to other saving schemes, investment in BSCs is also exempted from withholding tax and Zakat, which increases the effective return on these investments.

increased on the back of US$ 1.0 billion revaluation loss during Q3-FY16.[19] In addition, loan disbursement by IFIs, receipts from IMF, and the government borrowings from commercial lenders also contributed to the country's public debt during the period.[20]

Disbursements

Gross disbursement of external loans increased to US$ 6.5 billion during Jul-Mar FY16, against US$ 5.3 billion in the same period last year. In addition to Eurobond issued during the first quarter, the government also received substantial inflows from external creditors. These include: US$ 1.5 billion from IMF; US$ 1.4 billion from commercial lenders, US$ 0.6 billion from ADB and US$ 0.6 billion from China (**Figure 4.5**).

Figure 4.5 Gross Loan Disbursments (Jul-Mar)



Source: Economic Affairs Division & SBP

Table 4.11: Servicing of Public External Debt(Jul-Mar)
million US$

	FY15	FY16	Change
Government debt	1,859.4	2,736.4	877.0
of which			
Paris club	253.3	256.8	3.5
Multilateral	1,109.9	1,138.4	28.5
Other bilateral	288.1	321.7	33.6
Euro/Sukuk bonds	162.5	717.0	554.5
Commercial loans	6.7	215.0	208.3
IMF	1,069.8	89.0	-980.8
External liabilities	72.6	57.0	-15.6
Total	**3,001.8**	**2,882.5**	**-119.3**

Source: State Bank of Pakistan

Servicing of external debt

Pakistan's external debt servicing declined by US$ 119.3 million during Jul-Mar FY16, compared to the same period last year (**Table 4.11**). This was brought about by lower payment to IMF, whereas repayment of government external debt increased substantially during the period.[21] The increase in the repayment of government debt was due to maturity of US$ 500 million Eurobond and retirement of US$ 200 million commercial loans during the period under review.

[19] Among other currencies, depreciation of US$ against Japanese Yen, SDR and Euro resulted in US$ 602.5, 225.0 and 151.0 million increase in the EDL respectively.

[20] Total loan disbursement (excluding commercial loans) during Jul-Mar FY16 was only 41.8 percent of the budgeted inflows for FY16. Due to delays in budgeted disbursements, the government acquired short-term loans from private lenders during the period.

[21] The repayment to IMF under SBA ended in FY15, while the repayment of the on-going EFF program will begin in FY18.