4 Fiscal Policy and Public Debt

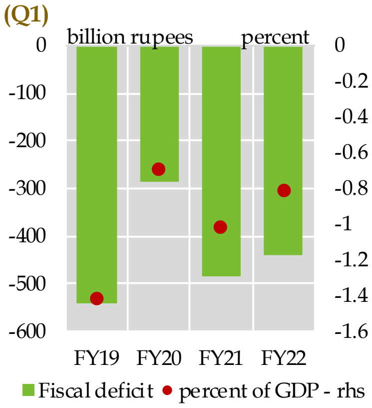
Strong growth in FBR tax collection, along with a decline in interest payments, helped improve the country's fiscal position during Q1-FY22. The fiscal deficit contracted to 0.8 percent of GDP, from 1.0 percent in the same period last year. The primary balance also recorded a surplus, despite a rise in non-interest spending, although lower than in the same period last year. Additional spending on grants for procuring Covid vaccines and for power subsidies and development outlays led to a sizeable expansion in non-interest spending. The financing space for this spending mainly originated from higher tax collection at both federal and provincial levels. Specifically, FBR taxes showed a record increase during Q1-FY22, which more than offset a decline in non-tax revenues. Interest payments contracted due to the low interest rate environment last year, as well as the debt relief under the G-20's Debt Service Suspension Initiative. Despite the lower financing needs, the pace of public debt accumulation increased during the quarter, mainly as a result of revaluation losses stemming from the PKR's depreciation against the US Dollar. External loans edged up during Q1-FY22 with the issuance of Eurobonds worth US$ 1.0 billion and disbursements by multilateral agencies. Domestic debt rose slightly, with the entire increase originating from short-term instruments.

4.1 Fiscal Trend and Policy Review

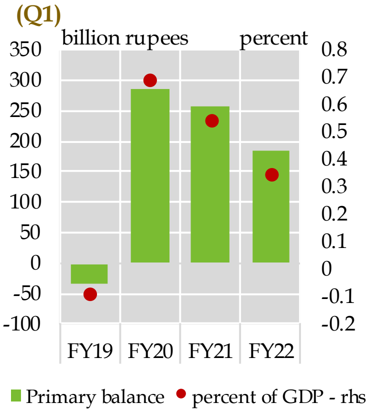
The fiscal deficit narrowed to 0.8 percent of GDP in Q1-FY22 from 1.0 percent in the same period last year (**Figure 4.1a**). The improvement largely stemmed from a record rebound in FBR tax collection during the quarter, which offset a sharp resurgence in non-interest spending. Importantly, interest payments also posted a notable decline during Q1-FY22, after showing a consistent increase in the past four years. Moreover, a Rs 276.9 billion provincial surplus further strengthened the fiscal outcome during the quarter.

The FY22 budget had a visible pro-growth tilt, as indicated by a sizeable 29.6 percent increase in development expenditures targeted for the year. In addition, the current spending was also planned to be upscaled, to cover: the partial settlement of power sector circular debt under the Circular Debt Management Plan (CDMP); increase in salaries and pensions of government employees; procurement of Covid vaccines;

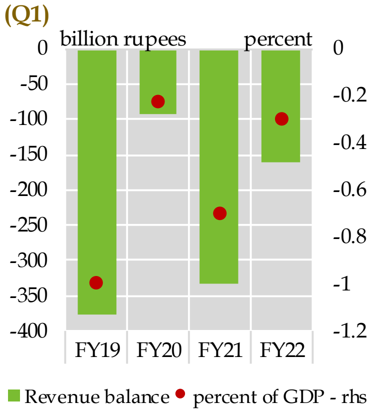
Fiscal Deficit (Q1) **Figure 4.1 a**



Primary Balance (Q1) **Figure 4.1 b**



Revenue Balance (Q1) **Figure 4.1 c**



Source: Ministry of Finance

and meet the sustained level of interest payments. These expenditures were targeted to be met via an even stronger revenue performance, so as to keep the fiscal deficit for FY22 in check.

In line with these budget estimates, improved collection at both federal and provincial levels contributed to a 36.6 percent increase in tax revenues during Q1-FY22, against a modest 5.0 percent increase in the same period last year (**Table 4.1**). FBR taxes grew by a sizable 38.3 percent during Q1-FY22, compared to 4.8 percent in the same period last year. Around two-thirds of the entire increase in FBR taxes stemmed from imports, aided by both higher volumes and higher international commodity prices. In addition, expansion in economic activity; withdrawal of Corporate Income Tax exemptions; increase in domestic price level; tax administration efforts and some budgetary measures also contributed to the higher FBR taxes. On the other hand, non-

Consolidated Fiscal Indicators **Table 4.1**

billion Rupees, growth in percent

	Q1			Growth in Q1 (YoY)	
	FY20	**FY21**	**FY22**	**FY21**	**FY22**
1. Total Revenue (a+b)	**1,489.1**	**1,478.7**	**1,808.5**	**-0.7**	**22.3**
(a) Tax revenue	1,068.9	1,122.4	1,532.8	5.0	36.6
Federal	964.4	1,010.6	1,398.0	4.8	38.3
Provincial	104.5	111.8	134.8	7.0	20.6
(b) Non-Tax	420.2	356.3	275.7	-15.2	-22.6
Federal	389.3	336.3	241.5	-13.6	-28.2
Provincial	30.9	20.0	34.2	-35.3	71.0
2. Total Expenditure (a+b+c)	**1,775.1**	**1,963.1**	**2,247.0**	**10.6**	**14.5**
(a) Current expenditure	1,582.2	1,812.6	1,968.2	14.6	8.6
Of which : Mark-up payments	571.7	742.1	622.7	29.8	-16.1
Non-markup expenditure	1,010.5	1,070.5	1,345.4	5.9	25.7
Defence	242.6	224.5	261.7	-7.5	16.6
(b) Development expenditure & net lending	147.2	215.2	264.7	46.2	23.0
(c) Statistical discrepancy	45.7	(64.7)	14.2	-241.5	-121.9
3.Overall budget balance	**(286.0)**	**(484.3)**	**(438.5)**	**69.3**	**-9.5**
percent of GDP	*(0.7)*	*(1.0)*	*(0.8)*		
4.Primary balance	**285.7**	**257.7**	**184.2**	**-9.8**	**-28.5**
percent of GDP	*0.7*	*0.5*	*0.3*		
5. Revenue balance	**(93.1)**	**(333.9)**	**(159.7)**	**258.6**	**-52.2**
percent of GDP	(0.2)	(0.7)	(0.3)		
6. Financing (a+b)	**286.0**	**484.3**	**438.5**	**69.3**	**-9.5**
(a) External (Net)	166.5	161.4	466.1	-3.1	188.9
(b) Domestic (Net)	119.5	323.0	(27.6)	170.2	-108.6
Non-Bank	242.5	92.1	108.0	-62.0	17.3
Bank	(123.0)	230.8	(135.7)	-287.7	-158.8

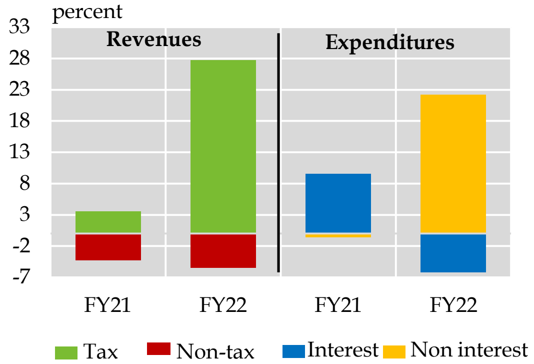
Source: Ministry of Finance

tax revenues (NTRs) fell sharply because of lower collection from Petroleum Development Levy (PDL) during Q1-FY22. This decline reflected the government's decision to significantly reduce the PDL rates amidst rising global oil prices, to provide relief to the consumers.[1]

The upsurge in tax revenues was instrumental in offsetting a strong expansion in non-interest expenditures leading to a primary surplus of 0.3 percent of GDP in Q1-FY22 **(Figure 4.2)**. Importantly, this was for the third consecutive year that the primary balance remained in surplus during the first quarter **(Figure 4.1b)**. However, a strong rebound in non-interest expenditures kept the level of surplus lower than last year. Similarly, the revenue balance also showed a slight improvement during the period, on the back of higher tax collection and lower interest payments, which contained the overall increase in current spending (**Figure 4.1c**).

As envisaged in the budget, additional spending on development outlays, grants for procuring Covid vaccines and power subsidies propelled the growth in non-interest spending to 33.0 percent during Q1-FY22, against a nominal 1.5 percent increase in the same period last year. However, a marked 16.1 percent decline in interest payments during Q1-FY22 pared the overall increase in spending during the period. This respite came from a reduction in the cost of borrowing amid the lower interest rate environment maintained throughout FY21. In addition, interest payment on external debt also declined, reflecting the impact of debt relief under the Debt Service

Breakdown of Revenues and Expenditure Growth during Q1 **Figure 4.2**



Source: Ministry of Finance

Suspension Initiative (DSSI) as well as lower global benchmark interest rates (such as LIBOR). With increased availability of forex inflows during the quarter, the financing needs of the deficit were met through external sources.

Despite the reduction in overall financing needs amidst a lower fiscal deficit, revaluation losses on external debt emerging from the PKR's depreciation against the US Dollar increased the public debt stock during Q1-FY22. Further expansion in public debt mostly originated from external sources, specifically Eurobonds and inflows from multilaterals (ADB and IDB). External liabilities of the central bank also went up after the receipt of US$ 2.8 billion from the IMF under the global Special Drawing Rights (SDRs) allocation. The pace of domestic debt accumulation slowed during Q1-FY22, with the entire increase coming from short-term instruments.

The government has shown its commitment to fiscal consolidation by showing consistent

[1] In the same vein, GST rates on POL product sales were also reduced during the quarter.

Budgeted Targets and Actual Collection **Table 4.2**

billion Rupees, growth in percent

	Budgeted Targets		Q1- Collection		Q1 - Growth		Q1 - Growth Cont.	
	FY21*	FY22	FY21	FY22	FY21	FY22	FY21	FY22
FBR taxes	4,691.0	5,829.0	1,010.6	1,398.0	4.8	38.3	3.1	26.2
Direct taxes	1,789.0	2,182.0	363.6	481.4	2.2	32.4	0.5	8.0
Indirect taxes	2,902.0	3,647.0	647.0	916.6	6.3	41.7	2.6	18.2
Non-tax revenue	1,704.4	2,080.0	356.3	275.7	-15.2	-22.6	-4.3	-5.5
Total revenue	**6,395.4**	**7,909.0**	**1,478.7**	**1,808.5**	**-0.7**	**22.3**	**-0.7**	**22.3**

* Revised estimates

Source: Ministry of Finance

primary balance surpluses. A surplus in the primary balance indicates the government's ability to stabilize the level of public debt. However, achieving a stable debt trajectory would require a meaningful and consistent expansion in the primary surplus over a number of years. Achieving this objective requires a sustained policy thrust on fiscal consolidation through prudent management of spending and efforts to increase the tax base.

4.2 *Revenues*

With the anticipation of continued economic growth momentum, higher imports and upward pressure on prices, the government targeted a high growth rate in revenue for FY22, which was mainly expected to come from tax revenues. The government targeted 24.0 percent growth in FBR taxes for FY22 to Rs 5.8 trillion, as compared to the revised estimates of last year (**Table 4.2**).[2] Specifically, the expansion in economic activity and tax policy and administrative measures are expected to lead to contribute an additional Rs 636 billion and Rs 493 billion respectively to tax revenues during FY22.[3] In the case of non-tax revenues, the growth target was set at 38.2 percent, which was mainly based on petroleum levy and Pakistan Telecommunications Authority (PTA) profits.[4] In terms of actual performance, the revenue collection surged by 22.3 percent during Q1-FY22, against a decline of 0.7 percent during Q1-FY21. The increase this year was driven by 36.6 percent rise in tax collections, which offset a 22.6 percent drop in non-tax revenues during the quarter.

FBR Taxes

The quarterly FBR collection target for Q1-FY22 envisaged a 25 percent growth in tax receipts. However, FBR tax collection surpassed the target and grew by a record 38.3 percent in Q1-FY22, compared to 4.8 percent last year **(Table 4.3 and Figure 4.3)**. Around two-thirds of the increase came from import-related taxes – i.e. GST on imports and customs duty – driven by both

[2] In terms of actual collection during FY21, the target for the current year is 22.4 percent higher on YoY basis.

[3] Source: Evidence-Based Revenue Forecasting FY2021-22, Federal Board of Revenue.

[4] The targeted growth from the revised budget estimate was set at 22 percent.

FBR Tax Collection **Table 4.3**

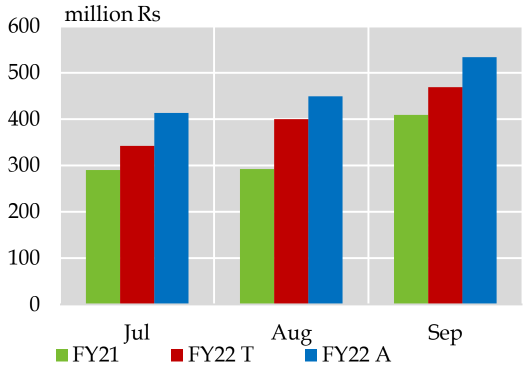
billion Rupees, growth in percent

	Targets		Q1-Collection		Q1-Growth		Q1-Growth Cont.	
	FY21*	FY22	FY21	FY22	FY21	FY22	FY21	FY22
Direct taxes	**1,789.0**	**2,182.0**	**362.7**	**481.4**	**2.0**	**32.7**	**0.7**	**11.8**
Indirect taxes	**2,902.0**	**3,647.0**	**647.6**	**915.0**	**6.4**	**41.3**	**4.0**	**26.5**
Customs duty	700.0	785.0	154.2	218.8	-0.9	41.9	-0.1	6.4
Sales tax	1,927.0	2,506.0	434.9	625.3	7.7	43.8	3.2	18.8
Imports	-	-	235.9	425.4	7.0	80.4	1.6	18.8
Domestic	-	-	199.0	199.9	8.1	0.4	1.5	0.1
FED	275.0	356.0	58.4	70.9	18.8	21.4	1.0	1.2
Total taxes	**4,691.0**	**5,829.0**	**1,010.2**	**1,396.4**	**4.8**	**38.2**	**4.8**	**38.2**

* Revised

Source: Federal Board of Revenue

Tax collection against Target and Actual Collection **Figure 4.3**



T= Target, A= Actual collections

Source: Federal Board of Revenue

higher import volumes as well as a sharp uptrend in international commodity prices. In addition, expansion in domestic economic activity **(Table 4.4)**; higher commodity prices (both energy and non-energy); withdrawal of the Corporate Income tax exemptions announced in March2021;[5] tax administration measures to improve audit procedures; and some budgetary measures to improve collection (**Table 4.5**) provided further impetus to the tax

Growth in Economic Indicators **Table 4.4**

percent

	Q1- FY21	Q1-FY22
Production		
Textile	2.2	0.8
Food	13.7	3.4
POL	2.4	4.7
Automobile	-5.9	42.6
Overall LSM	**4.5**	**5.1**
Sales		
Electricity*	1.3	7.9
Cement**	19.0	3.9
Automobile***	8.7	68.5
POL	10.5	17.9
FMCG	23.7	21.0

* electricity generation, ** cement dispatches *** excluding three wheelers

Source: Pakistan Bureau of Statistics, All Pakistan Cement Manufacturers Association, National Electric Power Regulatory Authority

collection and reflected in a notable increase in the FBR tax-to-GDP ratio during Q1-FY22 (**Figure 4.4**).

Import-related taxes showed a pronounced increase

A sharp rise in imports during Q1-FY22 bolstered collection from import-

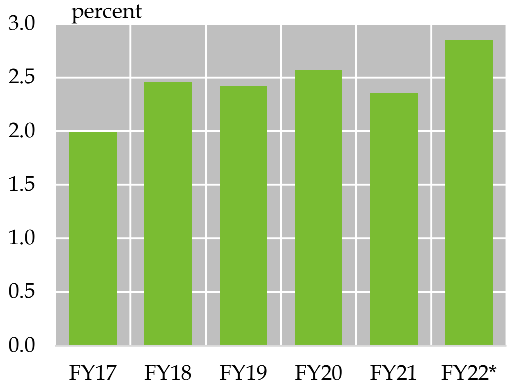
[5] These reforms include the withdrawal of tax exemptions and the reversal of reduced tax rates on various categories.

Budgetary Revenue Measures for FY22 **Table 4.5**

Revenue-Enhancing Measures	Relief Measures
The price of sugar (on which ST was charged) was changed to actual market rate, compared to the fixed price of Rs 60 per kg.	Provision of zero-rating regime on plant and machinery for registered exporters under export facilitation scheme.
Zero-rating regime for petroleum crude oil and machinery for petroleum and gas sector was withdrawn.	Exemption of ST and FED for border sustenance markets.
Threshold for tax on electricity consumption was reduced from Rs 75,000 to Rs 25,000 (rate stayed the same at 7.5 percent)	Reduction in sales tax rate on locally manufactured cars of up to 1,000cc to 12.5 percent from 17 percent.
Online marketplaces were directed to collect withholding tax of 2 percent on supplies made through e-commerce.	Reduction in FED by 2.5 percent on locally manufactured cars.
Levy of regulatory duty on luxury items and additional customs duty applied on import of automobile parts.	Reduction of WHT on telecom services from 8 to 3 percent.
Withdrawal of ST exemption on non-essential items (raw and ginned cotton, LNG/RNG, soybean seeds)	Reduction in advance tax on usage of internet and telephone service from 12.5 to 10 percent

Source: Ministry of Finance

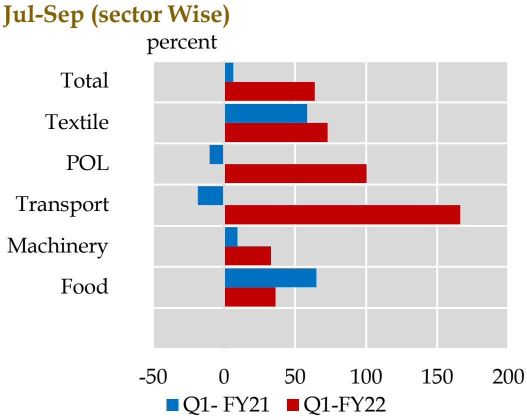
Tax to GDP for Q1 **Figure 4.4**



* the ratio for FY22 is based on estimated GDP

Source: Ministry of Finance

Growth in Import Value during Jul-Sep (sector Wise) **Figure 4.5**



Source: Pakistan Bureau of Statistics

related taxes during the period. Particularly, collection from POL products more than doubled during the period amid increasing international prices and rising import volumes (**Figure 4.5**). Similarly, with a rebound in domestic demand, personal car imports (both CBU and CKD) rose by 206.8 percent compared to a decline of 25.8 percent last year as per PBS data, which translated into a corresponding increase in tax collection (**Table 4.6**)

GST collection from domestic sales remains flat

Around one-third of the entire GST collection on domestic sales was contributed by the energy sector, mainly POL products, electrical energy and oil exploration. In the non-energy sector sugar, textile and other food products made notable contributions.[6]

[6] These were the major domestic GST spinners in FY21. The information on tax spinners for Q1-FY22 is not available.

Major Import-related Taxes (Jul-Sep) **Table 4.6**
billion Rupees; growth in percent

	FY21	FY22	Growth
Sales tax	**235.9**	**425.4**	**80.4**
POL	52.2	137.0	162.5
Iron and steel	23.1	31.6	36.9
Animal or vegetable fats and oil	16.2	26.1	60.7
Vehicles other than railway or tramway	10.3	32.3	213.1
Customs duty	**154.2**	**218.8**	**41.9**
POL	18.7	50.1	167.6
Vehicles other than railway or tramway	14.0	47.7	241.5
Iron and steel	13.6	13.9	1.6
Total	**390.1**	**644.2**	**65.1**

Source: Federal Board of Revenue

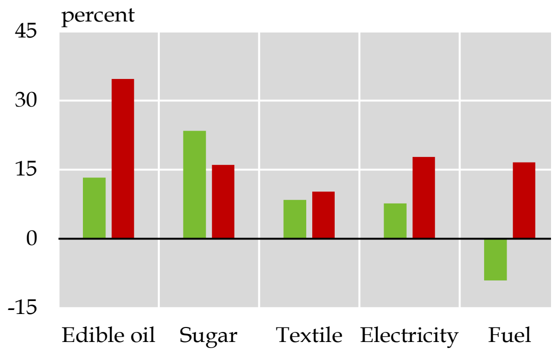
Despite a sizable growth in domestic sales of POL products and fast-moving consumer goods (FMCGs), healthy uptick in electricity generation, and surge in domestic prices of various commodities (**Figure 4.6a**), the growth in collection from GST remained stagnant during Q1-FY22. This may be explained by a significant reduction in GST rates on POL products.

The government reduced GST on POL products during Q1-FY22 to minimize the impact of the increasing global oil prices on end-consumers **(Figure 4.6b)**.[7,8] Similarly, the GST rate on locally manufactured cars (of up to 1,000cc) was reduced to 12.5 percent from 17 percent, which further dented revenue collection.

FED collections edged up strongly

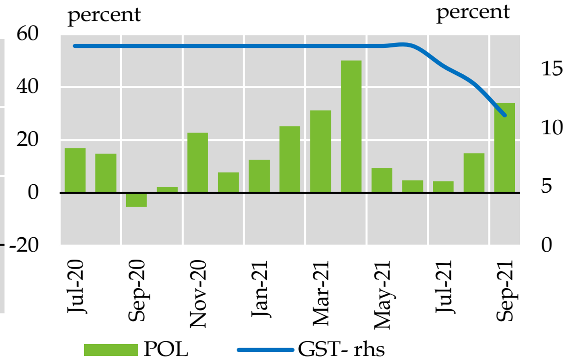
The increase in FED collection was achieved despite a reduction in FED rates on automobiles and juices. Major sub-heads in this category are beverages, cement and cigarettes. The notable increase in FED can be explained by continued anti-smuggling drive against illegal cigarettes that switched the domestic demand to local brands. Moreover, growth in beverages sales, as

Increase in Domestic Prices of Major Commodities **Figure 4.6a**



Source: Pakistan Bureau of Statistics

Growth in POL Sales and GST Rates **Figure 4.6b**



Source: Oil Companies Advisory Council, Federal Board of Revenue

[7] FBR SRO No. 860(I)/2021 – Dated: July 6, 2021
[8] The average GST rate on POL products stood at 13.4 percent during Q1-FY22 against 17 percent in Q1-FY21.

gauged from a rise in both domestic production and prices, bolstered collections from this segment during Q1-FY22. [9]

Direct taxes grew significantly due to continued administrative efforts

With the pickup in economic activity, continued administrative efforts, and removal of CIT exemptions from March 2021, direct taxes rose by 32.3 percent during Q1-FY22, compared to 2.2 percent growth last year.

The expansion in withholding taxes (WHT) was driven by the substantial growth in imports, along with an increase in salaries of government employees and a surge in development spending. The rise in WHT collection was despite a 0.5 percent reduction in the WHT rate on contracts.

Sustained efforts to improve tax administration further boosted collections

The fiscal authorities scaled up efforts to improve tax regulations and procedures. Some of the new measures during Q1-FY22 included: (i) initiation of awareness drive to encourage filing of income tax returns[10]; (ii) improvement in audit procedures by reducing the time of litigation process; (iii) compulsory indication of business bank account of the taxpayer while filing tax returns; and (iv) FBR's compliance with the Financial Action Task Force (FATF) action plans regarding anti-money laundering/countering the financing of terrorism (AML/CFT) for Designated Non-Financial Business and Professions (DNFBPs).[11]

To improve voluntary payments, the FBR launched countrywide electronic and print media campaigns to encourage the filing of income tax returns. In addition, the penalty rate was also increased on late filing of returns. The drive contributed to a significant 44 percent increase in the number of tax filers (as on the closing date of filing returns); at the same time, collections from returns rose to Rs 48.6 billion from Rs 29.6 billion last year.

Non-tax revenue declined on account of lower collections from petroleum levy

The FY22 budget envisaged a 38.2 percent increase in NTRs, which was expected to come mostly from the petroleum development levy. During Q1-FY22 NTR collections fell by 22.6 percent, compared to 15.2 percent decline in the same period last year (**Table 4.7**). This drop is mainly explained by lower PDL collection in the wake of downward adjustment in PDL rates during the quarter. In view of the sharp increase in international oil prices, the government significantly reduced PDL rates

[9] The production of beverages rose by 3.0 percent during Q1-FY22, whereas prices of this product category also went up by 3.9 percent during the quarter.

[10] Source: FBR press release dated October 16, 2021.

[11] The FATF plenary had approved two actions specific to Designated Non-Financial Business and Professions in June 2021, which are being regulated by the FBR. Since then, the FBR has launched an online portal and a mobile app to facilitate the DNFBPs in implementing AML/CFT regulations, including generating Suspicious Transaction Reports. Meanwhile, the FBR has carried out number of inspections of DNFBPs to minimize tax evasion and imposed fines on non-compliance. Source FBR Press Release dated October 21, 2021.

Non-tax Revenues during Jul-Sep (consolidated) — **Table 4.7**

billion Rupees, growth in percent

	FY20	FY21	Growth
SBP profits	105.0	109.0	3.8
Profits (post office/PTA)	8.2	30.1	269.2
Mark-up (PSEs & others)	25.7	19.5	-24.1
Royalties on gas & oil	14.6	21.7	48.5
Dividends	1.5	1.9	27.3
Passport & other fees	3.0	6.1	106.7
Defense	2.9	2.8	-1.3
Petroleum levy	136.4	13.3	-90.2
GIDC	5.0	6.5	30.8
Total	**356.3**	**275.7**	**-22.6**

Source: Ministry of Finance

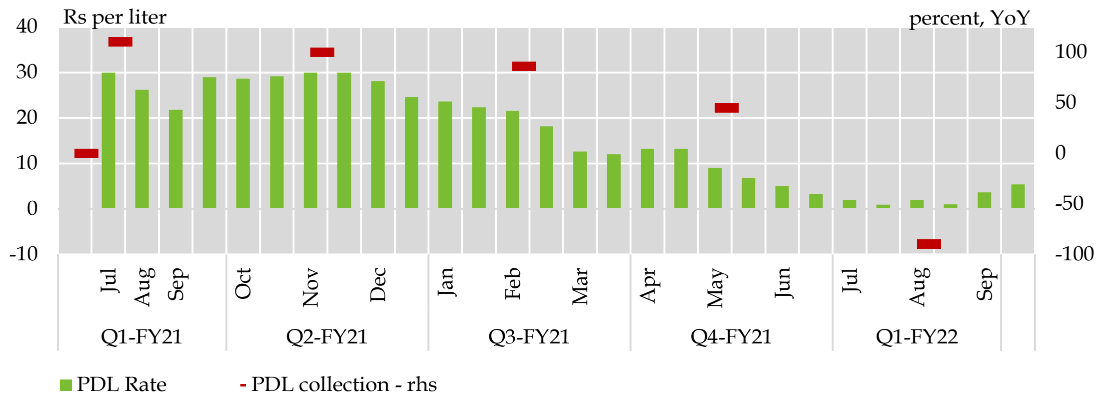
to provide breathing room to consumers. This led to a 90.2 percent decline in collection from PDL during the quarter (**Figure 4.7**).

Meanwhile, the SBP's profit to the government remained almost at last year's level in the first quarter. This was despite a contraction in interest earnings stemming from partial retirement of the government's debt with SBP. This drop was more than offset by the interest earnings from open market operation (OMO) injections, which almost doubled over the same period last year. Meanwhile, revenues from PTA profits rose sharply, as the government received Rs 23.4 billion against the issuance of a 4G spectrum license to a major cellular company. With this, the total collections from PTA profits rose to Rs 30.1 billion in Q1-FY22, compared to Rs 8.2 billion last year.[12]

4.3 Federal Expenditures[13]

The budget estimate for federal expenditures in FY22 was set 18.9 percent higher than FY21. Particularly, the target for development spending was increased by a wide margin to support the ongoing economic recovery, both at the federal and provincial levels.[14]

PDL Rates and Quarterly Collections Growth — **Figure 4.7**



Source: Ministry of Finance and State Bank of Pakistan

[12] Importantly, this is one-half of the total sales price of the license; the remaining amount will be received in 5 equal installments annually.
[13] The discussion in this section is based on expenditures excluding statistical discrepancy.
[14] The federal PSDP was targeted at Rs 900.0 billion in FY22, against Rs 667.3 billion actually spent in FY21. The cumulative provincial target was set at Rs 1,235.0 billion for FY22, against Rs 770.3 billion spent in FY21.

At the same time, non-interest current expenditures were also envisaged to be scaled up. This was done to make circular debt payments to the power sector under the Circular Debt Management Plan (CDMP); meet the expenses for procuring Covid vaccines to ensure sustained pace of inoculation; and cover the increase in salaries and pensions of government employees, which were kept unchanged last year. In addition, the pressure of interest payments – particularly on foreign debt – were expected to remain elevated, partly driven by the PKR depreciation and the gradually rising global benchmark rates like LIBOR.

In terms of actual outcome, the growth in federal expenditures decelerated to 9.9 percent in Q1-FY22 from 17.9 percent last year. The slowdown primarily came from a decline in interest payments on both domestic and foreign debt, which partially offset a sharp 39.0 percent rise in non-interest expenditures during Q1-FY22 **(Figure 4.8)**. This development was in contrast to Q1-FY21, when interest payments were the major contributor to the expenditure growth **(Figure 4.9)**. Meanwhile, non-interest expenditures rose sharply during Q1-FY22, in line with the budget estimates.

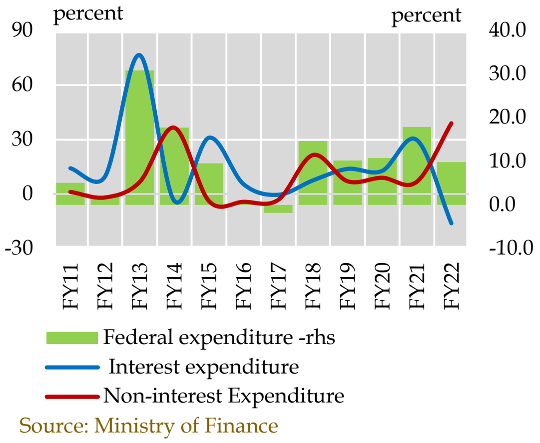
Federal Current Expenditures

A 16.1 percent decline in interest payments held down growth in federal current expenditures during Q1-FY22 **(Table 4.8)**. However, with a sharp pickup in spending on subsidies and grants, and a notable expansion in pensions and defense-related expenditures, the non-interest current spending grew by a sizable 39.4 percent in Q1-FY22. On the other hand, the growth in the running of civil government tapered off during the quarter, reflecting the government's continued focus on containing non-priority spending.[15]

Spending on Covid Vaccination and Power Sector remained prominent during Q1-FY22

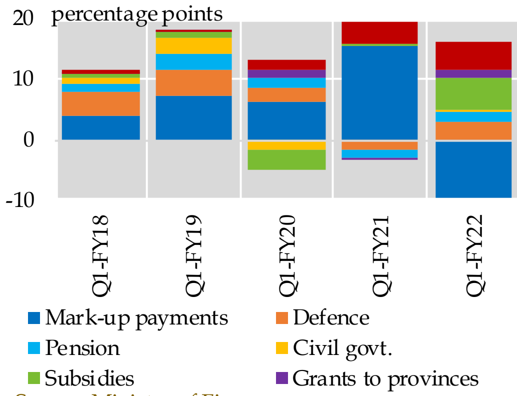
The Economic Stimulus Package (ESP) announced after the Covid outbreak in March 2020 aimed to facilitate economic recovery and contain the spread of the pandemic. Nearly one-third of the total

Growth in Federal Spending (Q1) **Figure 4.8**



Source: Ministry of Finance

Growth Contribution in Federal Current Expenditures **Figure 4.9**



Source: Ministry of Finance

[15] Circular No. 7(1) - Exp.IV/2016-440, dated July 15, 2021, Expenditure Wing, Finance Division.

State of Federal Expenditures **Table 4.8**

billion Rupees; growth in percent	Q1-FY21	Q1-FY22	Growth Q1-FY21	Growth Q1-FY22
Total Expenditures* (a+b)	**1401.9**	**1540.1**	17.9	9.9
(a) Current expenditure	**1271.5**	**1360.6**	16.4	7.0
Mark-up payments	742.1	622.7	29.8	-16.1
Domestic	684.9	571.1	38.6	-16.6
Foreign	57.2	51.6	-26.4	-9.7
Defence affairs and services	224.5	261.7	-7.5	16.6
Pension	86.7	110.7	-12.6	27.7
Running of civil govt.	88.9	89.5	1.9	0.6
Subsidies	2.8	73.9	-	-
Grants to provinces and others	126.4	202.1	37.8	59.9
Grants to provinces	18.1	32.6	-20.8	80.6
Grants to others	108.3	169.5	57.3	56.4
(b) Development expenditure and net lending	130.5	179.5	34.7	37.6
Total Development expenditure	**86.4**	**143.8**	-7.6	66.4
PSDP	82.5	143.8	-11.7	74.3
O/w Development grants to provinces	11.8	35.5	-45.8	201.5
Others development expenditure	3.9		3603.8	-100.0
Net lending	**44.0**	**35.7**	1244.5	-18.9
Provinces	-6.7	33.1	376.1	-591.5
Others	50.7	2.6	982.5	-94.9

* Excluding statistical discrepancy

Source: Ministry of Finance

allocation was spent till June 2021 to support businesses, agriculture and the vulnerable segments of the economy, and to scale up healthcare facilities to respond to the pandemic.[16] During Q1-FY22, a further payment of Rs 69 billion was made to the National Disaster Management Authority (NDMA) for the procurement of Covid vaccines. The total number of doses administered reached over 100 million up till October 2021, with almost 38 million individuals fully and 68 million partially vaccinated.

In terms of social protection, the disbursements under the Benazir Income Support Program (BISP) ticked down compared to same period last year. This was mainly due to the discontinuation *of* the *Ehsaas Emergency Cash Transfer Program* from Q2-FY21.

The expenditures on subsidies rose by Rs 71 billion during Q1-FY22, compared to the same period last year. This increase mainly emanated from disbursement of tariff differential subsidy to utility companies, which are paid each year, after the first quarter. However, the earlier disbursement this year pushed the overall growth during Q1 this year. In addition, a small payment was also made to PHPL under the CDMP in this period. It is important to note that the FY22 budget envisaged payment of Rs 266 billion to settle arrears of IPPs/PHPL under the CDMP.

[16] The ESP amounted to Rs 1.2 trillion.

Interest payments tapered off during Q1-FY22

After rising sharply during FY21, interest payments on both domestic and foreign debt declined in Q1-FY22, thereby lowering the share of FBR taxes spent on debt servicing **(Figure 4.10)**.

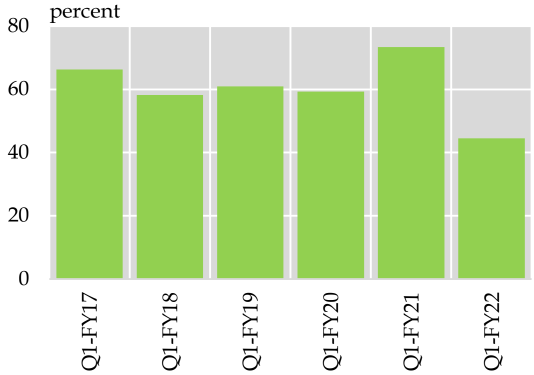
The low interest rate environment maintained throughout FY21, contributed to a 16.6 percent decline in interest payments in Q1-FY22, from Rs 684.9 billion during Q1-FY21 (**Figure 4.11**). This drop mainly stemmed from lower payments on T-bills, as the effective rates on maturing 6-month and 12-month T-bills was down 500 and 600 bps respectively in Q1-FY22 over the same period last year. Similarly, interest payments on PIBs also declined during the period. This was driven by a slowdown in the growth of the PIB stock as well as a 450 bps YoY decline in the effective rate paid on the maturing PIBs during the quarter.[17] Foreign interest payments also declined, reflecting the impact of deferred payments under the DSSI and lower benchmark global interest rates (LIBOR).

Pensions and Defence Spending rose significantly during Q1-FY22

Pension expenditures soared 27.7 percent during Q1-FY22 as compared to a decline in Q1-FY21. The growth this year was mainly driven by an increase in pensions of government employees.[18]

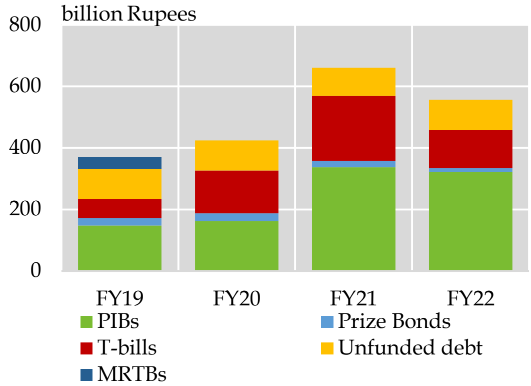
Defence expenditures grew by 16.6 percent during Q1-FY22, against a contraction last year. The budget target of defense spending was set higher for FY22, keeping in view the

Ratio of Interest Payments to FBR Tax Revenue **Figure 4.10**



Source: Ministry of Finance

Instrument-wise Interest Payments (Q1) **Figure 4.11**

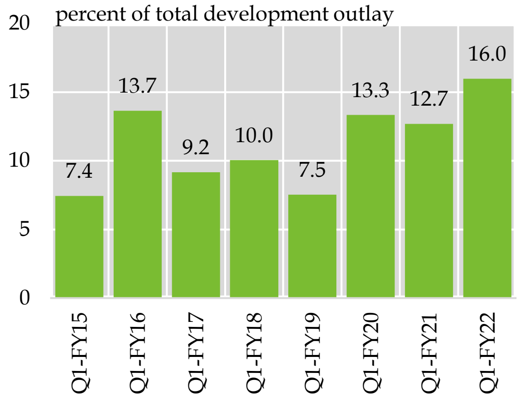


Source: State Bank of Pakistan

[17] It may be recalled that at end- June 2019, the government had converted the stock of MRTBs held by the SBP to PIBs, with maturities of 3 to 10 years. Nearly 70 percent of the SBP's debt stock was converted into 10-year Floating Rate PIBs (FR-PIBs). With the cumulative 625 bps reduction in the policy rate from March 2020 till September 2021, the pace of debt servicing on domestic debt also decelerated. The amount of short-term debt converted into long-term debt at end-June 2019 stood around Rs 6.4 trillion. Around 70 percent (Rs 4.5 trillion) of this stock was converted on floating rates.

[18] Circular No. 4(1)- Reg.6/2021-486, dated July 8, 2021, Regulations Wing, Finance Division.
Circular No. F.4 (3)R-4/2011 - Revision, dated July 26, 2021, Regulations Wing, Finance Division.

Federal PSDP Spending **Figure 4.12**



Source: Planning Commission

increase in salaries as well as special allowances for military officials.

In addition, a change in data categorization for some defense-related expenditures also partly contributed to this increase. For instance, during FY21, the expenditures pertaining to *security enhancement* were included in *other* development expenditures. However, in the FY22 budget, these expenditures are categorized under current spending of *defence affairs and services*.

Federal Development Expenditures

To provide further impetus to economic activity, the FY22 budget target for federal PSDP was set at Rs 900 billion, which depicted a 34.9 percent increase over last year. In line with this estimate, federal development expenditures rose by 66.4 percent in Q1-FY22, against a decline of 7.6 percent in the previous corresponding period. Importantly, the development spending stood at 16 percent of the annual estimate, which is close to the benchmark defined in the federal PSDP release strategy.[19] This is in contrast to the previous years, when development expenditures used to generally remain muted in the first quarter of the fiscal year. (**Figure 4.12)**.

The federal development grants to provinces rose significantly, which stimulated provincial development spending during the quarter. The development priorities for FY22 largely focused on water, food, energy resources, road infrastructure, meeting the Sustainable Development Goal (SDG) targets, and progress on CPEC projects.[20]

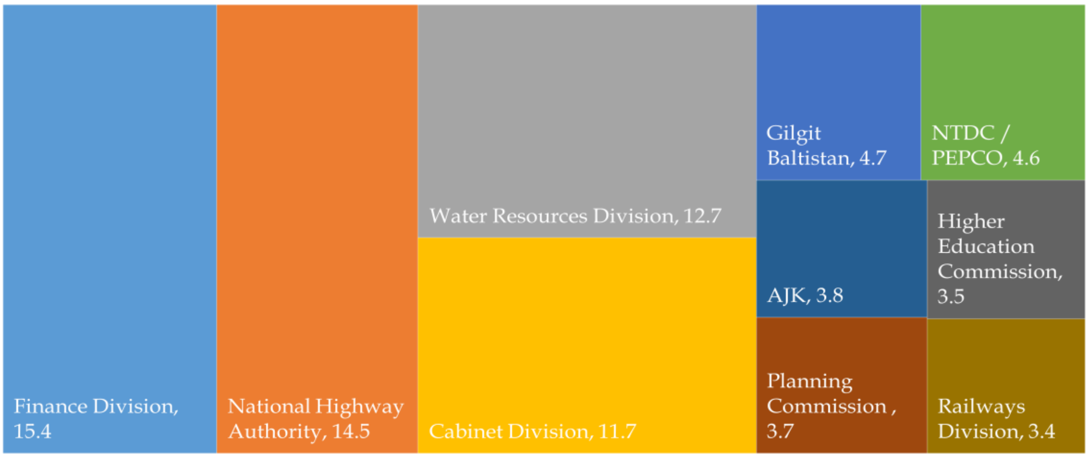
The PSDP releases during Q1-FY22 aligned with these objectives and were concentrated in the departments dealing with water resources, road infrastructure and special areas **(Figure 4.13)**.[21]

4.4 Provincial Fiscal Operations

The consolidated provincial surpluses during Q1-FY22 stood at Rs 276.9 billion, or 0.5 percent of GDP - which was almost half of the annual target for full-year FY22. All the provinces contributed to the surplus except for KP, which posted a deficit of Rs 3.2 billion **(Figure 4.14)**. A Rs 418.9 billion increase in total provincial revenue offset the Rs 186.4 billion expansion in provincial

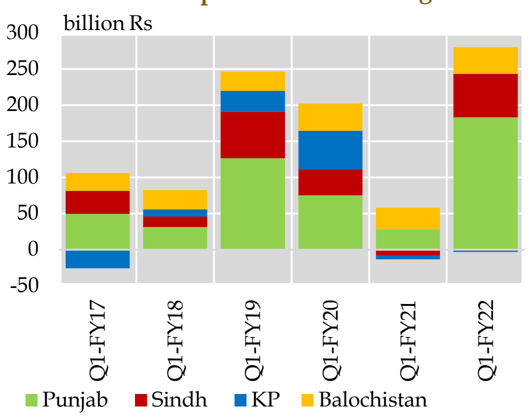
[19] According to the PSDP release strategy, 20 percent of the federal PSDP spending should be spent in the first quarter; 30 percent in the second and third quarters; and 20 percent in the last quarter of every fiscal year. Source: Revised Release Strategy for Funds Allocated for the Public Sector Development Programme (PSDP) 2019-20, Budget Wing, Finance Division.
[20] Source: Federal PSDP (2021-22), Planning Commission. Islamabad.
[21] Within the water sector, Dasu Hydropower project in KP had a priority status.

Top 10 PSDP Authorization - Division-wise (share in percent) **Figure 4.13**



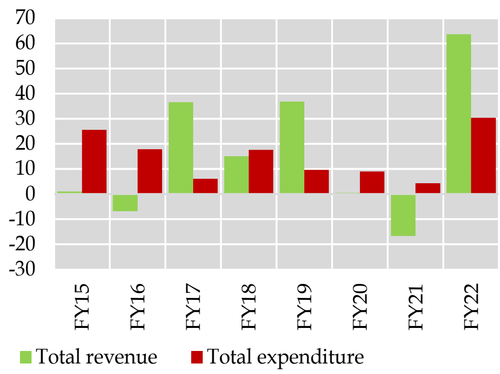
Source: Planning Commission of Pakistan

Province-wise Surplus **Figure 4.14**



Source: Ministry of Finance

Growth in Provincial Revenues & Expenditures (Q1) **Figure 4.15**



Source: Ministry of Finance

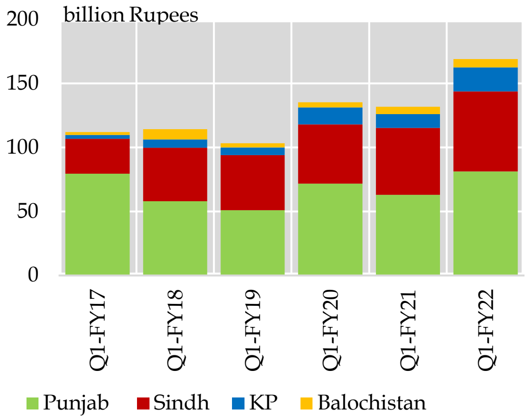
expenditures, driving the overall increase in the surplus **(Figure 4.15)**.

Provincial Revenues

A notable expansion in federal transfers to provinces from the divisible pool resulted in higher provincial revenues. In addition, better revenue collection from provincial own sources and higher federal grants to provinces further propped up provincial revenues.

Provincial own revenue grew by 28.3 percent during Q1-FY22 against a decline in Q1-FY21 **(Table 4.9)**. Major contribution to this growth came from Punjab and Sindh **(Figure 4.16)**. In Punjab, the collection from the general sales tax on services (GSTS) rose sharply, mainly due to the revival of economic activities. This uptick was realized

Provincial Own Revenue **Figure 4.16**



Source: Ministry of Finance

despite the continuation of the tax relief package amounting to more than Rs 50 billion for ease of doing business during FY22.[22] In the case of Sindh, the up surge in imports shored up the GSTS collection from port and shipping services. The own revenue collection in KP primarily came from higher *profits from hydroelectricity* during Q1-FY22.

Provincial Expenditures

The total provincial expenditures recorded a significant growth of 30.3 percent in Q1-FY22, against an increase of 4.3 percent during Q1-FY21. The rise was observed across current and development expenditures.

Specifically, the increase in current expenditures was engendered by increase in salaries and pensions of government employees. Punjab announced an increase of 10 percent in the salaries and pensions and a 25 percent special allowance for the financially distressed employees.[23] Likewise, Sindh and KP also announced 20.0 percent increase in salaries for FY22. In addition, spending on health and education sectors

Provincial Fiscal Operations **Table 4.9**

billion Rupees; growth in percent

			Growth	
	Q1-FY21	Q1-FY22	Q1-FY21	Q1-FY22
A. Total revenue (a+b+c)	**658.9**	**1077.8**	**-16.7**	**63.6**
a. Provincial share in fed. revenue	504.0	807.5	-17.7	60.2
b. Fed loans and transfers	23.1	101.2	-46.4	338.1
c. Provincial own revenue	131.8	169.0	-2.7	28.3
Taxes	111.8	134.8	6.9	20.6
Non-taxes	20.0	34.2	-35.3	71.0
B. Total expenditures (a+b)	**614.5**	**800.9**	**4.3**	**30.3**
a. Current	565.9	648.0	9.2	14.5
b. Development	89.8	153.8	27.2	71.2
c. Statistical discrepancy	-41.2	-0.9	-	-
Overall balance (A-B)	**44.4**	**276.9**	**-78.0**	**524.0**

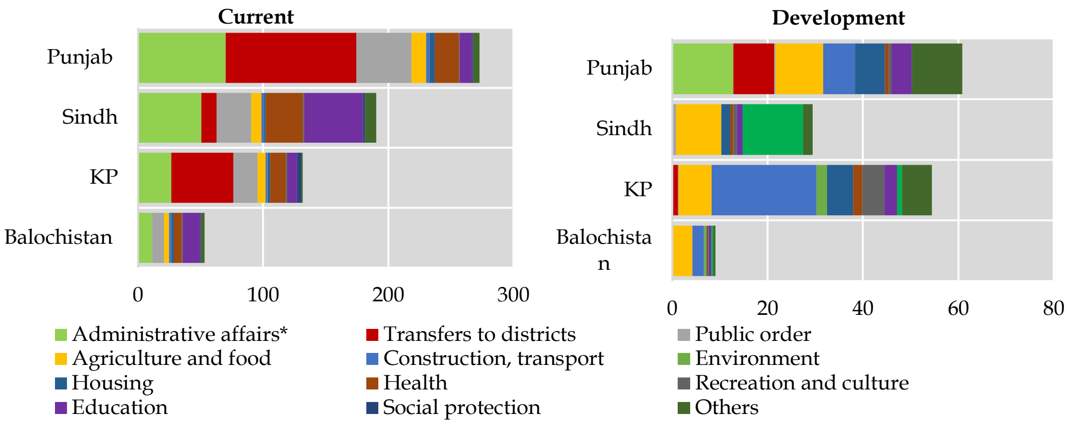
*Negative sign in financing means surplus.

Source: Ministry of Finance

[22] In the budget FY22, the Punjab government announced a tax relief package for the Covid-hit areas by reducing the sales tax on over 20 services for different sectors, including stamp duty, property tax, and rate of entertainment duty, among others. Source: Budget documents for FY22, Government of Punjab.

[23] Punjab Budget Highlights for FY22. Government of Punjab.

Provincial Expenditure Priorities during Q1-FY22 (billion Rs) **Figure 4.17**



Source: Ministry of Finance

rose across the provinces to improve service delivery **(Figure 4.17)**.[24]

Similarly, provincial governments also announced large increases in the development budgets for FY22. Punjab announced a development outlay of Rs 570 billion for FY22, which was up Rs 223 billion over last year. This included a District Development Package of Rs 360 billion, and spending on the 'Universal Health Insurance' program (Rs 80 billion) for the entire population of Punjab.[25] These priorities reflected in higher transfers to districts and increased spending on health during Q1-FY22.

Likewise, Sindh announced an Rs 83 billion expansion in development budget to Rs 252 billion for FY22. Health and education were the focus areas.[26] Similarly, the current spending on these two sectors also rose during the quarter **(Figure 4.17)**.

KP's development budget focused on the development of the province along with the merged areas, while Rs 150 billion allocation was made for the Annual Development Plan for FY22.[27] Accordingly, allocation to construction and transport dominated the development expenditures during Q1-FY22 **(Figure 4.17)**.[28]

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[24] Some major areas of focus are improvement in hospital services and continuation of educational projects. For instance, Sindh has spent funds on the primary and secondary school education during Q1-FY22.
[25] Punjab Budget Highlights for FY22. Government of Punjab.
[26] Sindh Budget documents for FY22. Government of Sindh.
[27] The 25th Constitutional Amendment in 2018 officially merged the Federally Administered Tribal Areas (FATA) into KP. The administrative merger took place officially during 2018-19. Since then, the development spending in the newly merged areas has been increasing in the province, with the budgeted spending reaching Rs 97 billion for FY22. Source: KP White Paper for FY22.
[28] White Paper for FY22. Government of Khyber Pakhtunkhwa

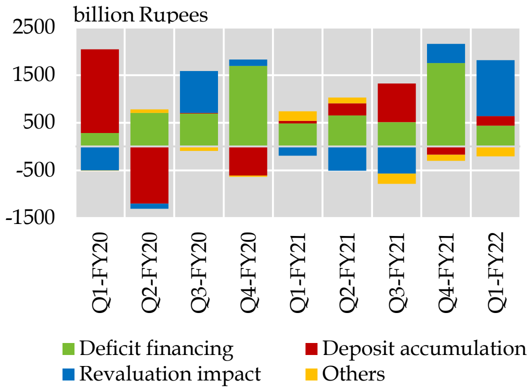
4.5 Public Debt

Despite the reduction in financing requirements, the public debt build-up gained pace during Q1-FY22. The stock of public debt reached Rs 41.5 trillion with an addition of Rs 1.6 trillion, against a Rs 0.6 trillion increase in the same period last year. Out of the entire increase this year, Rs 1.2 trillion came from the PKR's 7.7 percent depreciation against the US Dollar during this period (**Figure 4.18**).[29] A slight uptick in government deposits with the banking system also partially contributed in the overall increase in public debt.[30]

In terms of composition, around 90 percent of the addition to public debt was sourced from external sources. The maturity profile of external debt remained largely tilted towards long-term tenors mainly due to the issuance of Eurobonds and inflows from multilaterals. Moreover, external liabilities of the central bank also increased with an inflow of US$ 2.8 billion from the IMF under the global SDR allocations.[31]

On the other hand, the growth in domestic debt weakened during Q1-FY22. In terms of profile, the government adhered to its commitment of zero fresh borrowing from the SBP. The monthly analysis reveals that the stock of T-bills (short-term debt) rose sharply during July 2021, followed by a decline in the subsequent months (**Figure 4.19**). This pattern was in line with the auction targets set by the government for Q1-FY22.

Source of Change in Public Debt **Figure 4.18**



Source: State Bank of Pakistan

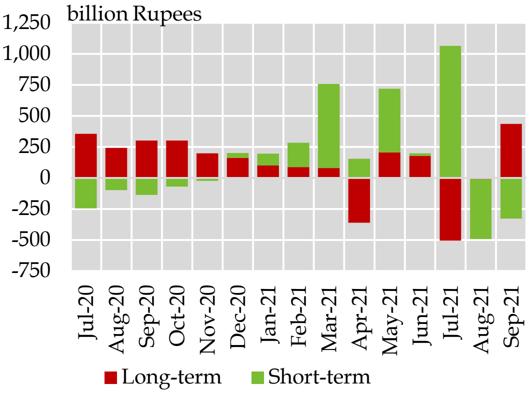
Anticipating market interest in the short-term paper, the targets for T-bills were set higher than upcoming maturities in July 2021. This was to meet the financing requirements and to make a large (Rs 961.0 billion) repayment of fixed-rate PIBs falling

[29] The external debt is contracted in different currencies and converted to US Dollars using the end-period exchange rates of various currencies against the greenback. Similarly, the US Dollar value is converted to PKR using the end-period exchange rates for reporting purposes. Any appreciation/depreciation of the US Dollar against other currencies leads to revaluation gains/losses for Pakistan. Similarly, any depreciation/appreciation of the PKR vis-à-vis the greenback leads to revaluation losses/gains for Pakistan. The revaluation losses of Rs 1.2 trillion during Q1-FY22 due to the PKR depreciation against the US Dollar offset the revaluation gains of US$ 0.4 billion from the appreciation of the US Dollar against other international currencies during the quarter.

[30] The government's deposits include those of both the federal and provincial governments. The overall rise in government deposits with the banking system came from provincial governments. The deposits of the provincial governments held with the SBP increased by Rs 0.3 trillion, whereas the deposits of the federal government held with the SBP declined by roughly Rs 0.2 trillion.

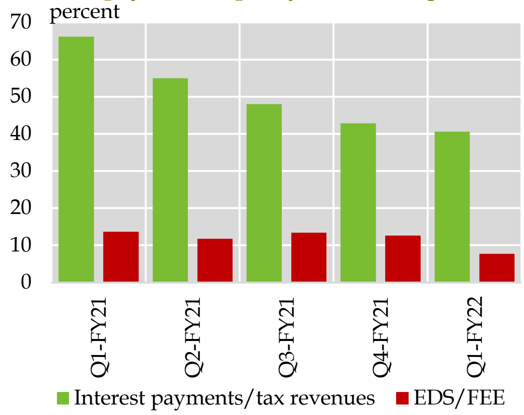
[31] External liabilities are not a part of public external debt.

Tenor-wise change in Domestic Debt **Figure 4.19**



Source: State Bank of Pakistan

Debt Repayment Capacity **Figure 4.20**



Source: Ministry of Finance, State Bank of Pakistan

due in the month. In the following months, in line with the auction targets, the government made net repayments of T-bills, leading to a decline in their stock. However, market interest in floater PIBs with fortnightly and quarterly reset options remained strong. Hence, the debt mobilization through these instruments exceeded targets, leading to an increase in the stock of PIBs during August and September 2021.

The debt repayment capacity of the country – as measured by the ratios of interest payments–to-tax revenues and external debt servicing-to-foreign exchange earnings (FEE) – improved during Q1-FY22 (**Figure 4.20**).[32]

As seen from the auction targets, given the market's reluctance to invest in long-term paper, the PIB targets were set lower than maturities. During the period of heightened uncertainty about the course of monetary policy, keeping market interest in long-term paper intact is a challenging task. However, the government may signal its commitment for lengthening the domestic debt maturity by setting higher targets for long-term paper. This will further strengthen the government's ability to achieve objectives of the medium-term debt strategy, such as improvement in the maturity profile and ensuring lower cost of borrowing.

Domestic Debt

The stock of government domestic debt reached Rs 26.4 trillion by end- September 2021 with an addition of Rs 0.2 trillion from end-June 2021 (**Table 4.10**). Adequate availability of external financing eased the growth in domestic debt to 0.6 percent, against 1.8 percent last year.

Instrument-wise analysis

Government made net repayments of T-bills after July 2021

Sensing the market's interest in short-term paper, the government set the net of maturity target for T-bills at a much higher level of Rs

[32] Foreign exchange earnings is a sum of exports of goods, exports of services, primary income account credits and secondary income account credits.

525 billion during Q1-FY22, compared to net retirement of Rs 903 billion in the same quarter of last year. Similarly, the target for floater PIBs was announced at Rs 525 billion, against Rs 830 billion during Q1-FY21.

On the other hand, the auction target for fixed-rate PIBs was set at Rs 150 billion, against maturities of Rs 961 billion falling due during July 2021. Accordingly, the offered and accepted amounts for T-bills (particularly 6-months) remained on the higher side in July 2021 (**Figure 4.21 and 4.22).** In the subsequent months, fund mobilization through T-bills declined. The net of maturity acceptance of T-bills stood at Rs 1,041 billion during July, against retirements of Rs 560 billion and Rs 353 billion during August and September 2021, respectively.

Furthermore, inflows into the Naya Pakistan Certificates (NPCs) for residents amounted to Rs 8.3 billion during Q1-FY22, against Rs 0.7 billion during the same quarter of last year.[33] These inflows also helped diversify the investor base for government debt securities.

Change in Government Domestic Debt (Q1) **Table 4.10**

billion Rupees

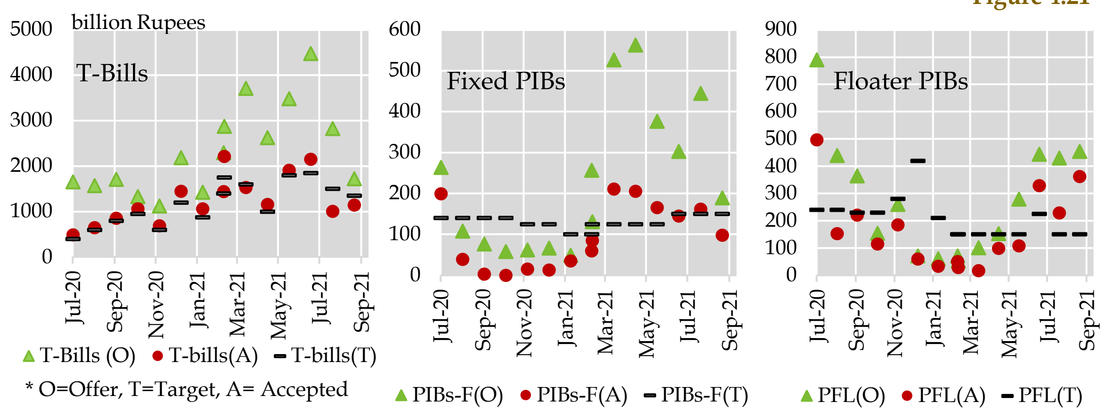
	Net Flows	
	FY21	**FY22**
Government domestic debt	419.3	178.4
institution-wise		
A. Through banking system	312.0	70.6
From scheduled banks	597.0	355.6
From SBP	-285.0	-285.0
B. Through non-banks	107.4	107.2
Instrument-wise		
A. Permanent debt	898.6	-67.2
B. Floating debt	-480.0	250.8
C. Unfunded debt	0.8	-14.0
NSS (net of prize bonds)	5.7	-13.5
D. Foreign currency instruments	-0.1	-0.1
E. Naya Pakistan Certificates	0.7	8.3

Source: State Bank of Pakistan

Net PIB retirements during Q1-FY22

Though the investment in floater PIBs (PFLs) increased during Q1-FY22, net retirements of fixed rate PIBs more than offset the inflows in PFLs. In overall terms, there were net PIB

Investment in Government Securities **Figure 4.21**

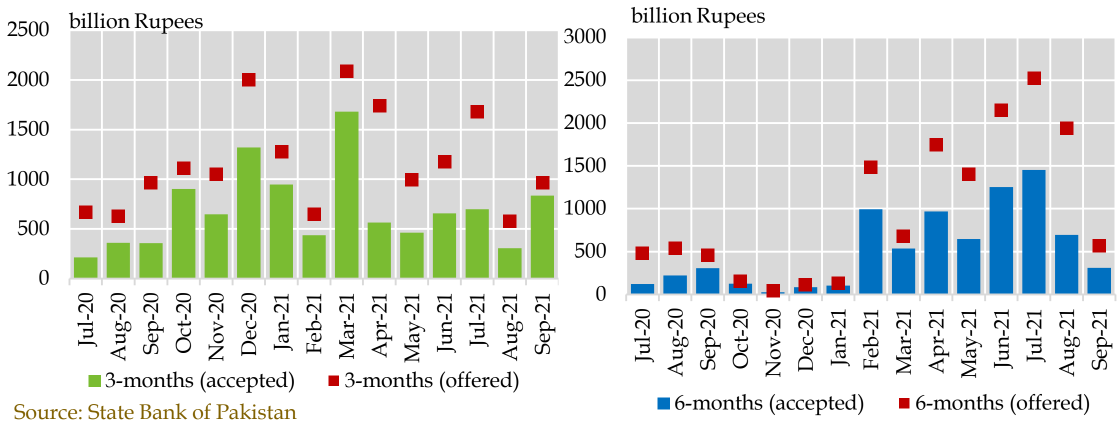


* O=Offer, T=Target, A= Accepted

Source: State Bank of Pakistan

[33] These NPCs include both Islamic and conventional types.

Bidding Pattern of T-bills **Figure 4.22**



Source: State Bank of Pakistan

retirements of Rs 67.0 billion between end-September and end-June 2021. This also includes the repayment of Rs 0.3 trillion to the SBP. So far, the government has settled an amount of Rs 0.9 trillion (including Rs 0.3 trillion in August 2021), out of its Rs 7.7 trillion debt held with the SBP that was re-profiled at the end of FY19. Out of total amount, roughly Rs 1.2 trillion was re-profiled into fixed PIBs.

The bidding pattern of PIBs also changed within the quarter. The expectations of an increase in the policy rate and banks' already high exposure in PIBs, discouraged further investments into long-term securities, especially in fixed-rate PIBs. However, the market's interest in 2-year and 3-year PFLs - which have fortnightly and quarterly coupon reset options –remained strong. These instruments allowed an extension in the maturity profile of domestic debt in August and September 2021. However, as the returns on PFL are adjusted fortnightly in line with any change in the benchmark interest rate (3-month T-bills), the repricing risk has also increased.

National Savings Schemes (NSS) witnessed net outflows

With a ban on institutional investments into NSS from the start of FY21, institutions continued to withdraw funds from these schemes, leading to overall net outflows, particularly from Defence Savings Certificates and Special Savings Certificates. However, with the upward adjustment in profit rates compared to the same period last year, net inflows were seen into Regular

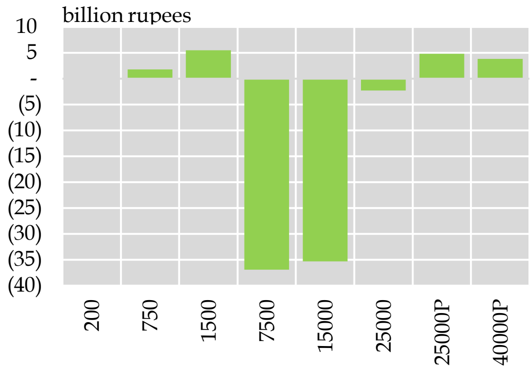
Instrument-wise net inflows into National Savings Schemes **Table 4.11**

Inflows in billon Rs; profit rates in percent

	Gross inflows		Net inflows		Profit rates	
	Q1-FY21	Q1-FY22	Q1-FY21	Q1-FY22	Q1-FY21	Q1-FY22
Defence savings certificates	7.1	10.6	-1.5	-2.1	8.3	9.4
Special savings certificates	22.3	22.6	6.5	-17.9	7.7	9.4
Regular income certificates	17.2	23.9	2.9	5.4	7.8	8.8
Behbood savings certificates	41.6	48.0	3.5	2.8	10.1	11.0

Source: Central Directorate of National Savings

Net Investment in Prize Bonds during Q1-FY22 **Figure 4.23**



Source: Central Directorate of National Savings

Income Certificates (RIC) and Behbood Savings Certificates (BSC) (**Table 4.11**).

Discontinuation of prize bonds led to continued withdrawals during Q1-FY22

Net outflows were recorded from prize bonds during the period under review. A high volume of withdrawals from Rs 7,500 and Rs 15,000 prize bonds more than offset the gross inflows into the premium prize bonds **(Figure 4.23)**.

Public External Debt & Liabilities

Revaluation gains contained the pace of increase in public external debt

The stock of public external debt (excluding liabilities) increased US$ 1.6 billion during Q1-FY22 to US$ 88.0 billion by end-September 2021, against a US$ 1.9 billion increase recorded during the same quarter last year. Although fresh disbursements remained higher than last year, revaluation gains of roughly US$ 0.4 billion due to the US Dollar's appreciation against other international currencies helped contain the

Change in Public External Debt (Q1) **Table 4.12**

million US$

	FY21	FY22
Public external debt (1&2)	1,913.0	1,598.0
1. Government external debt	1,987.5	1,909.0
of which		
i) Long term (>1 year)	2,357.5	1,477.0
Paris club	278.4	-382
Multilateral	1,487.3	364
Other bilateral	984	66
Commercial loan	-425.5	140
Euro bond	-	1,000
NPCs	1	344
ii) Short term (<1 year)	-370	432
Multilateral	-303.7	473
Commercial loans	-26.5	-
2. From IMF	-75.4	-311
Foreign exch. liabilities	-859.3	2,881.0
Central bank deposits	-1,000.00	-
SDR Allocation	32	2,725.0

Source: State Bank of Pakistan

pace of public external debt accumulation.[34] Almost 40 percent of the government external debt is denominated in non-USD currencies. Therefore, movement of other currencies against the US Dollar directly influence the stock of external debt. More than half of these revaluation gains during Q1-FY22 owed to the depreciation of the IMF's Special Drawing Rights (SDRs) against the US Dollar. Similarly, the US Dollar's strong performance against the Euro and the Japanese Yen also contributed to these gains. Meanwhile, the country's external liabilities increased with the release of US$ 2.8 billion from under the additional SDR allocation (**Table 4.12)**.

Long-term inflows dominated external loan disbursements

Gross disbursements stood at US$ 3.2 billion during Q1-FY22 compared to US$

[34] The country had registered revaluation losses of US$ 0.9 billion during Q1-FY21.

Disbursement of Foreign Economic Assistance (Q1) **Table 4.13**

amount in million US$

Donor	FY21	FY22
Multilateral sources	1,485	1,595
Bilateral sources	105	110
Commercial loans	335	457.5
Safe deposit	1000	0
Euro bond	0	1,000
Total	**2,925**	**3,205**

Source: Ministry of Economic Affairs

2.9 billion during Q1-FY21.[35] Out of the total amount, US$ 1.9 billion were disbursed for budgetary support and US$ 0.8 billion as project aid. Specifically, the ADB disbursed US$ 0.3 billion for Covid-19 vaccine support, whereas the IDA provided US$ 0.4 billion for a program on affordable clean energy. A short-term credit facility of US$ 0.4 billion was also provided by the IDB during Q1-FY22. A large part of the inflows (US$ 1.6 billion) was long-term in nature and sourced from multilateral institutions (**Table 4.13**).

Eurobond issuance fetched better rates than FY21

The government mobilized US$ 1.0 billion from the issuance of Eurobonds of various tenors during Q1-FY22. During March 2021, when Pakistan had re-entered the international capital market after around three years, the country had adopted a program-based approach with the registration of the Global Medium-Term Note (MTN) program, which allowed it to tap the market regularly and at a short notice. Keeping in view the ample liquidity available in the global market, favorable trend of international benchmark interest rates, and scheduled repayment of US$ 1.0 billion against a maturing Sukuk bond in October 2021, the timing of issuance was appropriate. (**Table 4.14**)

Eurobonds Issued by Pakistan **Table 4.14**

amount in million US$, rate in percent

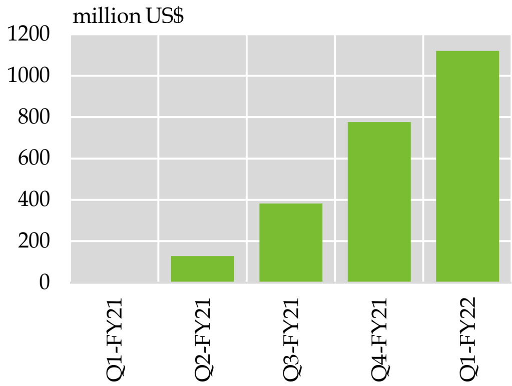
Tenor	Amount	Rate
	FY21	
5-year	1,000	6.0
10-year	1,000	7.38
30-year	500	8.88
	FY22	
5-year	300	5.87
10-year	400	7.12
30-year	300	8.45

Source: Ministry of Finance

Inflows into Naya Pakistan Certificates (NPCs) continued

Naya Pakistan Certificates (NPCs) attracted US$ 0.3 billion inflows during the period

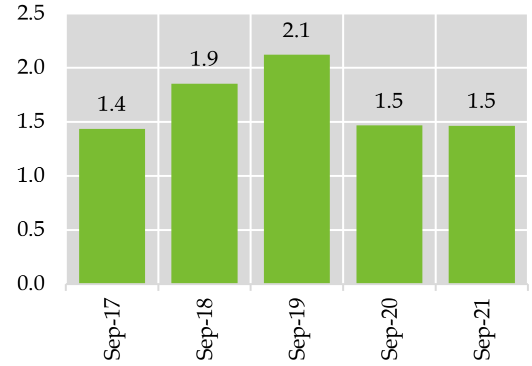
Cumulative Inflows - Naya Pakistan Certificates by non-residents **Figure 4.24**



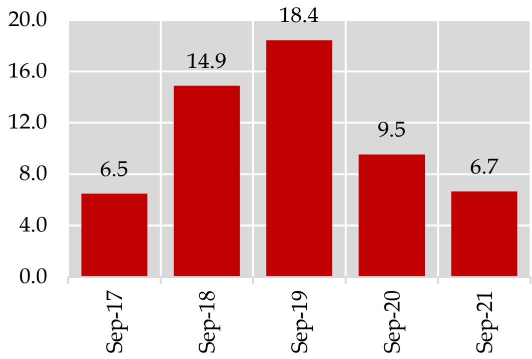
Source: State Bank of Pakistan

[35] This amount excludes inflows from the IMF, Pakistan Banao Certificates, Naya Pakistan Certificates, and investment from non-residents into government securities.

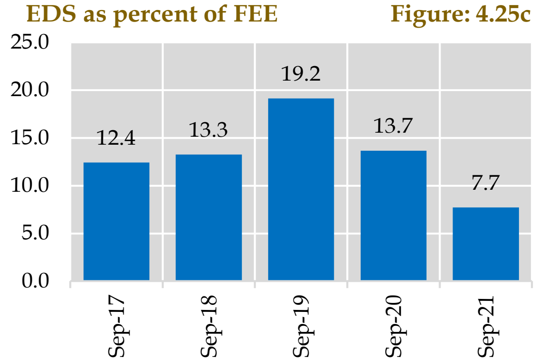
ST Debt as percent of Total Debt **Figure: 4.25a**



ST debt as percent of SBP Reserves **Figure: 4.25b**

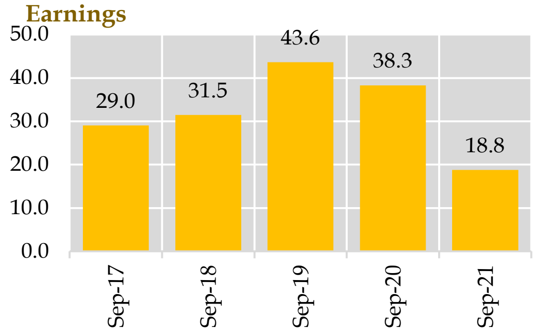


EDS as percent of FEE **Figure: 4.25c**



* EDS external debt servicing; FEE foreign exchange earnings

EDS as percent of Export Earnings **Figure: 4.25d**



* EDS external debt servicing;

Source: State Bank of Pakistan

under review.[36] With this additional investment, the stock of NPCs in public debt reached US$ 1.1 billion by end- September 2021 (**Figure 4.24**). These inflows have not only provided support to the official FX reserves, but also improved the maturity profile of external debt. On the other hand, there were net outflows of US$ 100 million in foreign investment from local government securities (both short term and long term) during the quarter.

External debt sustainability indicators improved during Q1-FY22

Significant increase in the foreign exchange earnings and the continued build-up of FX reserves improved the solvency and liquidity position of external debt during the quarter. The deferred repayments under the DSSI

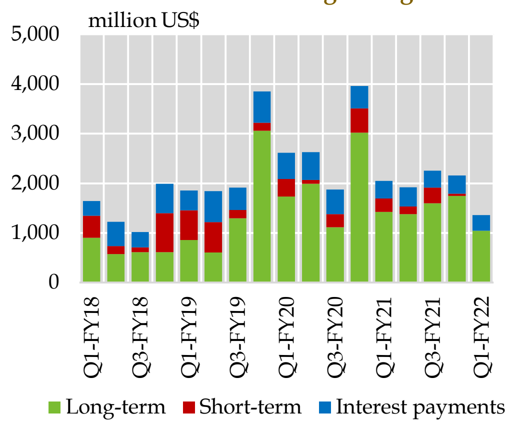
[36] This number indicates investment by non-residents only. Investment by residents are recorded in the category of domestic debt, as mentioned above.

provided further respite.[37] Specifically, with the increase in FX reserves, the claims of short-term (ST) public external debt over SBP reserves declined from 9.5 percent to 6.7 percent. Similarly, the debt repaying capacity of the government strengthened, as evident from the ratio of external debt servicing-to-export earnings (**Figure 4.25**).[38]

Public external debt servicing

Public external debt servicing (excluding liabilities) slowed down to US$ 1.4 billion during Q1-FY22 from US$ 2.0 billion during Q1-FY21[39] (**Figure 4.26**). This slowdown emanated from the debt relief provided under the DSSI and lower global benchmark interest rates (LIBOR) during the quarter. The country secured debt relief of US$ 0.6 billion (US$ 0.4 billion principal and US$ 0.2 billion interest payments) under the DSSI during the first quarter. This relief helped contain the volume of debt servicing. The country had benefitted from the DSSI in Q1-FY21 as well, however the volume of relief was lower (US$ 0.2 billion principal and 0.1 billion interest payments).

Public External Debt Servicing **Figure 4.26**



Source: State Bank of Pakistan

Similarly, as most of the commercial loans are benchmarked with LIBOR, a reduction in LIBOR also contained external debt servicing during the period. On average, 3M-LIBOR stood around 0.25 percent during Q1-FY21, which declined to 0.13 percent on average during Q2-FY22.

[37] Even after excluding the impact of DSSI, the ratio of EDS/FX earnings stand at 11.1 percent as of end September 2021 compared to 15.7 percent as of end September 2020.
[38] The ratio of EDS/exports earnings improved to its lowest level since Q4-FY11. During Q4-FY11, highest volume of exports earnings in a particular quarter was recorded, which led to improvement of this ratio. In Q1-FY22, the second highest quarterly export earnings along with a decline in external debt servicing led to improvement.
[39] This includes principal component both long term and short term plus interest payments made on public debt only