



PUNJAB DEBT BULLETIN

DECEMBER 2023

Debt Management Unit
Finance Department
Government of Punjab

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1 Introduction

- 1.1 Government borrowing remains vital part of financing mechanism for developing countries and sub-national units. These debt inflows complement the available funding to support resource-intensive infrastructure projects which are geared towards facilitating economic growth and achieving social development goals. Borrowed funds at times are also utilized to expedite Government reform to improve service delivery and efficiency through budgetary support.
- 1.2 Additional funds can act as a catalyst in growth of an economy as long as the economic returns are higher than the cost of borrowed funds. Therefore, prudent debt management strategy is multidimensional as on one hand it has to reconcile sub-national development goals with sustainable levels of debt, while on the other, it has to ensure that optimal financing options are selected in view of cost and risk tradeoffs.

2 Public Debt

- 2.1 Government debt means the outstanding principal amount of financial liabilities of Government of Punjab (GoPb) which require payment of interest. It excludes the debt of public corporations/ entities controlled by the Provincial Government.
- 2.2 Before the 18th amendment of the Constitution of Pakistan, provinces were not allowed to borrow directly in local as well as foreign currency. However, after the 18th Constitutional Amendment, sub-clause (4) of Article 167 awarded powers to provinces to borrow in local currency and extend provincial guarantees within limits defined by National Economic Council (NEC). Foreign Currency loans are still contracted by Economic Affairs Division (EAD) of the Federal Government and subsequently on-lent to provinces on same terms & conditions. Provinces maintain leverage to select the terms & conditions of these loans including term, repayment dates and desired currency in agreement with donors/ lenders through the Federal Government.

3 Debt Bulletin

- 3.1 Punjab's debt bulletin aims to provide information on sub-national debt to the public and support Government's commitment to transparency and accountability. Debt bulletin is published on a quarterly basis and contains detailed information on (i) debt stock; (ii) debt service payments; (iii) composition and structure of debt; (iv) key debt risk indicators; (v) provincial guarantees; and (vi) other important parameters.

4 Principles of Debt Management

- 4.1 Prudent utilization of debt leads to higher economic growth and helps sub-national governments to accomplish social and developmental goals. However, comprehensive debt management is required on part of the province to not only keep current levels of debt under control but to also fulfill its future repayment obligations.
- 4.2 Over long-term horizon, efforts are focused towards increasing the province's economic footprint in-line with macro-economic objectives which eventually provide support towards debt re-payment capacity through modernized infrastructure. Debt is useful for growth of the economy; however, it must be closely monitored and a proper strategy should be adopted to ensure that the current economic contribution does not result in elevated debt servicing by lowering fiscal space for development expenditure in future years.

5 Public Debt Portfolio

- 5.1 Punjab's overall debt comprises two major components; Domestic debt and External debt. Domestic debt constitutes borrowing from the Federal Government, whereas, External debt encompasses mostly concessional long-term foreign currency loans obtained from multilateral and bilateral creditors.
- 5.2 Domestic debt includes Cash Development Loans (CDL), primarily taken for agriculture programs, on fixed interest rates with original maturity of 25 years. These loans have been mostly repaid and only a small portion is outstanding.
- 5.3 External debt comprises loans obtained from multilateral lenders such as Asian Development Bank (ADB), World Bank (WB), Japan International Cooperation Agency (JICA), International Fund for Agriculture Development (IFAD) and bilateral borrowing from Japan, France and China. These loans are borrowed by the Federal Government and on-lent to GoPb. These loans can be broadly classified as Project Loans and Program Loans. Project loans are long-term loans meant for public investments in infrastructure, whereas Program loans are medium-term loans for budgetary support, typically linked with policy reforms.
- 5.4 At the end of December 2023, debt stock of Government of Punjab (GoPb) stood at PKR 1,704.5 billion, out of which PKR 1,702.4 billion is from external lenders and PKR 2.1 billion is from domestic sources. These loans collectively are 2.97% of Punjab's GSDP¹. Bifurcation of debt stock and its various attributes of last four quarters are summarized below:

¹ Gross State Domestic Product (GSDP) of Punjab FY2024 (PKR 57,353 bln.) is assumed at 54.2% of Pakistan's GDP^(P) (PKR 105,817 bln.)

Table-1: Punjab's Debt Summary

Quarterly Comparison	Mar-2023	Jun-2023	Sep-2023	Dec-2023
(PKR in billion)				
Domestic Debt	2.7	2.6	2.4	2.1
External Debt	1,649.5	1,704.9	1,702.3	1,702.4
Total Government Debt	1,652.2	1,707.5	1,704.7	1,704.5
Punjab's GSDP	45,885	45,885	57,353	57,353
(In Percent of Punjab's GSDP)				
Domestic Debt	0.01%	0.005%	0.004%	0.003%
External Debt	3.59%	3.72%	2.97%	2.97%
Total Government Debt	3.60%	3.72%	2.97%	2.97%
(In Percent of Total Government Debt)				
Domestic Debt	0.2%	0.2%	0.1%	0.1%
External Debt	99.8%	99.8%	99.9%	99.9%
(US\$ in billion)				
Domestic Debt	0.01	0.01	0.01	0.01
External Debt	5.81	5.95	5.91	6.03
Total Government Debt	5.82	5.96	5.92	6.04
Exchange Rate (PKR/US\$, EoP)	283.96	286.60	287.99	282.14

Source: World Bank, Asian Development Bank, Ministry of Economic Affairs, Loan Section & Debt Management Unit GoPb.

5.5 Total government debt of GoPb witnessed slight decrease of 0.01% (i.e. PKR 0.2 billion) compared to end Sep 2023. This decrease is on account of reduction in net debt position witnessing FX gain of around PKR 13.9 billion during the second quarter of FY 2023-24 (Oct-Dec 2023), as depicted in the following table:

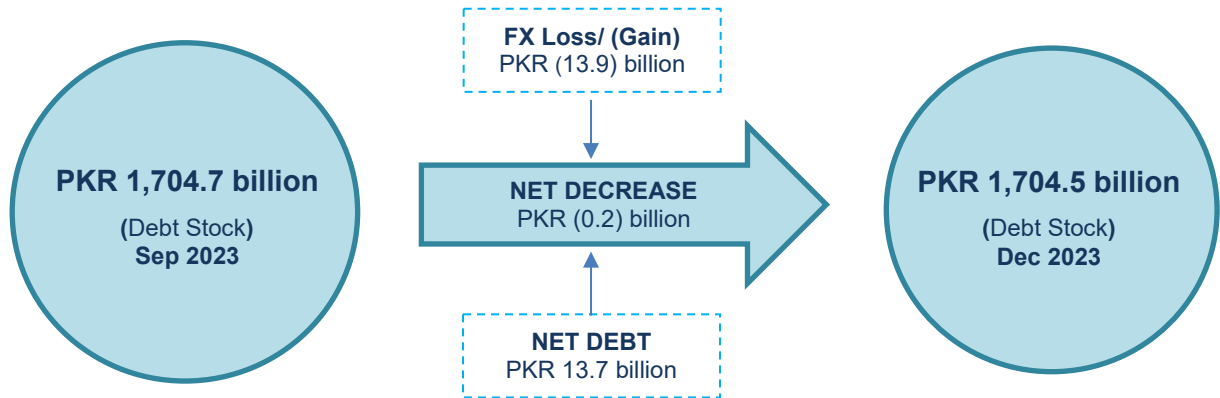
Table-2: Reasons for increase/ decrease in Public Debt (PKR in billion)

	Oct - Dec 23
Increase / (Decrease) in Total Debt	(0.2)
FX Loss/ (Gain)	(13.9)
Net Debt (Receipts – Repayments)	13.7

Source: Debt Management Unit, Finance Department Punjab

5.6 The outstanding debt stock at Dec 2023 is exclusive of provincial guarantees² (awarded to various GoPb's entities) and commodity debt. The outstanding commodity debt stood at PKR 450 billion at end of Dec 2023, which is secured by wheat stock procured by the Government for commodity operation along with Guarantee in form of Cash Credit Limit (CCL) by the Federal Government.

² Guarantees extended to State Owned Entities (SOEs)

Fig-1: Increase in Debt

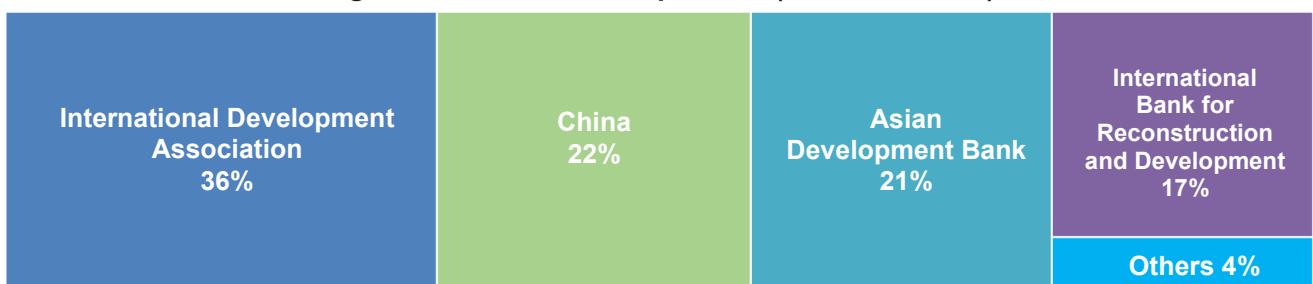
6 Debt Composition

- 6.1 The debt portfolio predominantly comprises borrowing from external sources with 99.9 percent coming from multilateral agencies and bilateral loans contracted on mostly concessional terms (low cost and longer tenor), procured mainly for infrastructure development and for reform support, whereas, only 0.1 percent of debt portfolio is domestic in nature borrowed from the Federal Government.
- 6.2 Government of Punjab's external debt is derived mainly from three key sources, with around 53 percent coming from World Bank (IDA & IBRD), 22 percent from China and 21 percent from Asian Development Bank.

Table-3: Creditor-wise Composition as % of Total Debt

Lenders	Sep-2023	Dec-2023
International Development Association (IDA)	35%	36%
China	22%	22%
Asian Development Bank	22%	21%
International Bank for Reconstruction and Development (IBRD)	17%	17%
Others	4%	4%
Total	100%	100%

Source: Debt Management Unit, Finance Department Punjab

Fig-2: Creditor-wise Composition (% of Total Debt)

7 Sectoral Composition

7.1 Sector-wise classification is made on the basis of project nature and scope. Major portion of debt is against Agriculture, Irrigation & Livestock sector, followed by Transport & Communication, Education and Urban Development.

7.2 Key sectors for infrastructure development projects are identified in partnership with Planning & Development Board Punjab, while programs are identified in partnership with concerned departments of GoPb.

Fig-3: Sectoral Composition (% of Total Debt)

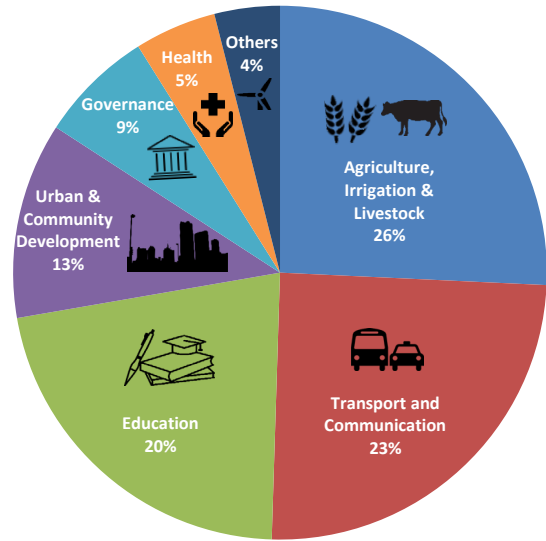


Table-4: Sector-wise Composition as % of Total Debt

Sectors	Sep-2023	Dec-2023
Agriculture, Irrigation & Livestock	25%	26%
Transport and Communication	23%	23%
Education	21%	20%
Urban & Community Development	13%	13%
Governance	9%	9%
Health	5%	5%
Others	4%	4%
Total	100%	100%

Source: Debt Management Unit, Finance Department Punjab

8 Currency Composition

8.1 Government of Punjab's debt portfolio is dominated by foreign currency borrowings, with total exposure residing at 99.9% of outstanding debt. Currency-wise exposure is denominated in USD (71 percent) followed by Special Drawing Rights (21 percent), Japanese Yen (5 percent) and Chinese Yuan (2.6 percent).

Table-5: Currency-wise Composition as % of Total Debt

Currencies	Sep-2023	Dec-2023
US Dollar	72%	71%
Special Drawing Rights	20%	21%
Japanese Yen	4.7%	5.0%
Chinese Yuan	2.6%	2.6%
Others	0.7%	0.7%
Total	100%	100%

Source: Debt Management Unit, Finance Department Punjab

9 Debt Risk Indicators

Table-6: Key Debt Risk Indicators

Risk Exposure	Indicators	Dec-2023
Currency Risk	Share of External/ FX Debt (%)	99.9%
Refinancing Risk	ATM of Total Debt (Years)	8.2
	Share of Debt Maturing within 1 Year (% of total)	6.6%
Refixing Risk	ATR of Total Debt (Years)	6.0
Debt Servicing* as % of average revenue ³ of preceding three (03) Financial Years		7.2%
Share of Fixed Rate Debt (%)		74%

* Projected Debt Servicing for FY 2023-24

Source: Debt Management Unit, Finance Department Punjab

- 9.1 Foreign exchange risk refers to exposure of debt portfolio to change in exchange rate. Government of Punjab's debt by virtue of its composition (99.9% external debt), remains exposed to Foreign Exchange (FX) risk. Owing to this, any change in parity of USD and other foreign currencies with Pak Rupee has a pronounced impact on valuation of the GoPb debt portfolio when translated into Pak Rupee terms.
- 9.2 Refinancing risk refers to the possibility that the Government may not be able to replace its debt obligation with new debt. The most important indicator for its evaluation is Average Time to Maturity (ATM) which considers payment weight and time to provide an estimation of how quickly a loan is repaid. GoPb's ATM of its total debt portfolio stood at an average of 8.2 years, which denotes a relatively longer life of underlying loans and lower risk profile.
- 9.3 Average Time to Refixing (ATR) captures the Refixing Risk of a portfolio, indicating average time period after which the interest rate for entire debt portfolio is required to be reset. It essentially characterizes fixed rate debt as less risky since it is not exposed to interest rate fluctuations during its life. The indicator remains within comfortable range with an average of 6.0 years remaining until next re-fixing date.
- 9.4 Debt Servicing FY 2023-24^(b) of interest and principal payments constitute 7.2 percent of average revenue of Punjab for (03) three preceding years. This indicator is forward looking and remains focus of the Government to keep it within adequate threshold in any given year. It may be taken into account that increase in exchange rate, in addition to impacting the outstanding debt stock of the Province also has considerable impact on debt servicing requirements in future years.

³ General Revenue Receipts (GRR) of 2021: (PKR 1,675 bln), 2022: (PKR 2,194 bln) and 2023: (PKR 2,484 bln) considered for calculation of avg revenue.

9.5 Overall, significant portion (74 percent) of debt portfolio comprise loans contracted on fixed interest rates and are not exposed to changes in international interest rates. However, the floating rate portion (26 percent) remains subject to periodic revision of interest rates since these loans attract floating reference rates (i.e. SOFR, TONA, EURIBOR, etc.) Given the increasing interest rate environment internationally coupled with depreciation of PKR against foreign currencies, debt servicing in PKR terms is witnessing higher requirement as percentage of revenue for the province.

10 Maturity Profile

10.1 Government of Punjab's debt amortization structure is fairly smooth, where 33 percent of total debt portfolio is payable within next 5-years and around 27 percent is payable over 10-year period, whereas 40 percent is payable over long-term horizon with amortization spread across next 25-years. This indicates that the maturity profile of GoPb's debt is well balanced and longer tenor of underlying loans provides the Government a predictable repayment schedule.

Table-7: Maturity Profile as % of Total Debt

	1 year	2-3 years	4-5 years	6-7 years	8-10 years	>10 years	Total
Total Debt	6.7%	12.9%	13.4%	13.6%	13.6%	39.8%	100.0%
External Debt	6.6%	12.8%	13.4%	13.6%	13.6%	39.8%	99.8%
Domestic Debt	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%

Note: Based on the remaining maturity of Jun'23 debt stock

11 Debt Servicing

11.1 Debt servicing includes expected payments towards principal and interest due on outstanding debt. Total debt servicing for FY 2022-23 was PKR 115.0 billion, while PKR 153.4 billion is expected to be paid during FY 2023-24.

Table-8: Debt Servicing (Principal + Interest)

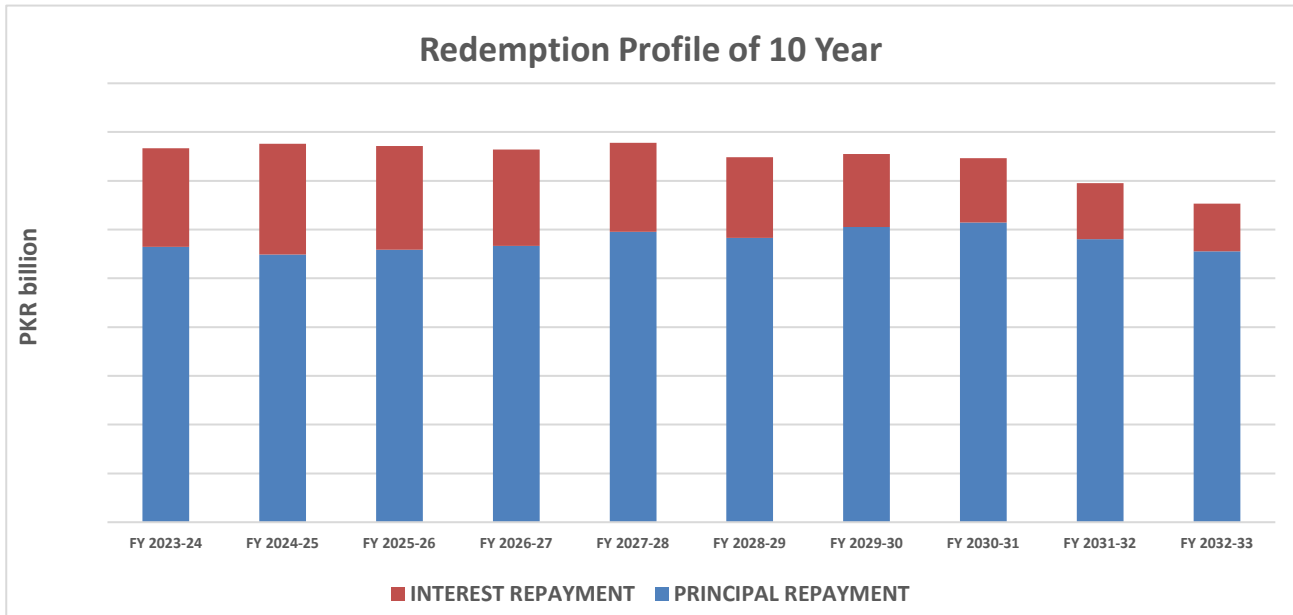
Currencies	FY 2022-23 ^(R)	FY 2023-24 ^(P)
Principal Payment	84.5	112.9
Interest Payment	30.5	40.5
Total	115.0	153.4

* Based on (R)vised Debt Servicing & (P)rojected Debt Servicing

Source: MoEA, Debt Management Unit & Loan Section.

11.2 Out of the budgeted debt servicing for FY 2023-24 (PKR 153.4 billion), an amount of PKR 76.74 billion has been paid during two quarters (Jul-Dec 2023).

11.3 Projected redemption profile for next 10 years is presented below, whereas total debt portfolio of GoPb is expected to retire by Jun 2057.



12 Highlights of Borrowing Operations during Second Quarter FY 2023-24

12.1 During second quarter of FY 2023-24, GoPb received an amount of PKR 41.9 billion as disbursements (actual receipts) for its contracted loans and an amount of PKR 28.2 billion was paid on account of principal re-payment (actual deductions) resulting in net borrowing of PKR 13.7 billion for the quarter Oct-Dec 2023.

12.2 During the quarter (Oct-Dec 2023) one foreign loan matured against which all scheduled payments have been made by GoPb:

Bahawalpur Rural Development Project financed by Islamic Development Bank (IDB) contracted in the year 1998 amounting to Islamic Dinar (ID) 3.7 million for a period of 25 years.

13 Government Guarantees

13.1 Government guarantee is an arrangement where Government ensures to undertake payment of a debt or performance of a financial obligation in the event of a default by the primary creditor. Government of Punjab has awarded guarantee support to various GoPb owned entities and projects. Guarantee limits to provinces are defined by National Economic Council (NEC), which are used for issuance of Provincial Guarantee and for domestic borrowing by the province. At end of Dec 2023, GoPb has extended total guarantees amounting to PKR 48.9 billion, providing support towards various Power and Road projects.

13.2 Provincial Cabinet has allowed additional Guarantee support to Punjab Thermal Power (Pvt.) Limited pursuant to the Sponsor Support Agreement. These additional Guarantees will be added to total guarantees once issued by Finance Department.

14 Commodity Debt

14.1 Provincial commodity operations are carried out on an ongoing basis by the Government through Punjab Food Department with the objectives of ensuring food security and to provide stability to wheat price in the Province. These operations require large quantities of wheat to be purchased, at support price decided by the Provincial Cabinet every year during wheat harvesting season and are then subsequently released at subsidized price for the general public.

14.2 Purchase of wheat stock requires large amount of funds which are borrowed from commercial banks so that the budgetary resources of the Provincial Government are not burdened for this purpose. These loans, by virtue of being backed by underlying wheat stock, are self-liquidating in nature. In addition to the underlying commodity stock, Federal Government issues Cash Credit Limit (CCL) – a form of Guarantee – to the Provincial Government facilitating in securing loans at competitive rates for commodity operation. During this activity, certain incidental charges in the form of interest, storage costs, freight etc. are also incurred increasing the cost price of wheat to the Government.

14.3 Government issues wheat to flour mills at subsidized release price to ensure smooth provision of flour to the public. The difference between cost price (purchase price plus incidentals) of wheat and lower release price is financed from additional debt. However, limited repayment of debt over the years took the form of an ever-increasing debt which is rolled over every quarter, posing considerable challenge to the fiscal health of the Province. The level of commodity debt over last few years is depicted in the following table:

Table-9: Commodity Debt (PKR in billion)

Currencies	Jun-2022	Jun-2023	Sep-2023	Dec-2023
Commodity Debt – Opening Balance	548	629	680	510
Repayment	(164)	(386)	(170)	(94)
New Borrowing	245	437	-	34
Commodity Debt – Closing Balance*	629	680	510	450
Interest Payment	41	87	-	66

* Commodity Debt does not include Accrued Mark-up - Sep 23: PKR 30 billion, Dec 23: PKR 26 billion (estimated)

- 14.4 The size of commodity debt surged to PKR 629 billion by the end of June 2022 and was projected to escalate to PKR 950 billion by the end of June 2023. With elevated debt burden and high interest rate environment, the existing model for commodity operations was becoming unsustainable and carried the risk of impeding capacity of the Government to uphold food security and maintain fiscal space in future years.
- 14.5 Recognizing the urgency to tackle debt challenge and mitigate the unchecked growth of commodity debt, Provincial Cabinet approved imperative principles for future shape of commodity operations with directions to retire unsecured portion of commodity debt (portion of debt not secured by wheat stock). This resulted in disbursements of PKR 469 billion in FY-2023 and FY-2024, out of which PKR 74 billion was during released during 2QFY2024.
- 14.6 Total outstanding commodity debt stood at PKR 450 billion at end of Dec 2023 secured by wheat stock amounting to PKR 414 billion (based on price of 4,700 per maund) resulting in unsecured portion of debt and interest at PKR 36 billion.
- 14.7 In order to restrict further debt accumulation and improve sustainability of commodity operations, various measures are being implemented. These include constraints on the volume of wheat procurement, timely servicing of commodity debt, and the transition from general subsidies to targeted subsidies and other social protection programs to prevent additional accumulation of commodity debt.

15 PFM Act and Debt Limitation

- 15.1 The Public Financial Management Act, 2022 enacted by the Provincial Assembly instituted various limits on Public Debt and Guarantees vide Section 21 of the Act to keep liabilities of the Government within prudent thresholds. The Public Debt portfolio remains within these limits and there is sufficient space available to avail additional economically beneficial borrowing. Limits along with their status at end Dec 2023 are provided below:

Table-10: PFM Debt Limits

PFM Debt Limits	Defined Limit as % of Avg. Revenue of preceding 03 years	Dec-2023
a) Public Debt* and Guarantees	200%	104%
b) Government Debt** and Guarantees	160%	83%
c) Public Corporations Debt and Guarantees	40%	16%
d) Interest expense on Government Debt	12%	1.4%

* Public Debt includes Government Debt (Foreign & Domestic) and debt raised for commodity operation

** Government Debt includes Foreign & Domestic Debt

15.2 As of Dec 2023, all thresholds are well within the limits defined under PFM Act 2022. Public Debt and Guarantees stood at 104 percent of average revenue of preceding three (03) years of GoPb due to decrease of Public debt and commodity debt, whereas Government debt and Guarantees was 83 percent. Debt to Public Corporations of GoPb including Guarantees (16 percent) and Interest expense (1.4 percent) are well below the prescribed limit under Public Financial Management Act, 2022.