PUNJAB DEBT BULLETIN

30th JUNE 2023

Debt Management Unit
Finance Department
Government of Punjab

Lists of Tables & Figures

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 available 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 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 June 2023, debt stock of Government of Punjab stood at PKR 1,707.5 billion, out of which PKR 1,704.9 billion is from external lenders and PKR 2.6 billion is from domestic sources. These loans collectively are 3.72% of Punjab's GSDP[1]. Bifurcation of debt stock & its various attributes of last four quarters are summarized below:

[1] Gross State Domestic Product (GSDP) of Punjab (PKR 45,885 bln.) is assumed at 54.2% of Pakistan's GDP (PKR 84,658 bln.)

Table-1: Punjab's Debt Summary

Quarterly Comparison	Sep-2022	Dec-2022	Mar-2023	Jun-2023
(PKR in billion)				
Domestic Debt	3.3	3.0	2.7	2.6
External Debt	1,313.2	1,324.5	1,649.5	1,704.9
Total Government Debt	**1,316.5**	**1,327.5**	**1,652.2**	**1,707.5**
Punjab's GSDP	45,885	45,885	45,885	45,885
(In Percent of Punjab's GSDP)				
Domestic Debt	0.01%	0.01%	0.01%	0.01%
External Debt	2.86%	2.89%	3.59%	3.72%
Total Government Debt	**2.87%**	**2.89%**	**3.60%**	**3.72%**
(In Percent of Total Government Debt)				
Domestic Debt	0.2%	0.2%	0.2%	0.2%
External Debt	99.8%	99.8%	99.8%	99.8%
(US$ in billion)				
Domestic Debt	0.01	0.01	0.01	0.01
External Debt	5.75	5.85	5.81	5.95
Total Government Debt	**5.76**	**5.86**	**5.82**	**5.96**
Exchange Rate (PKR/US$, EoP)	228.25	226.68	283.96	286.60

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

5.5 Total government debt of GoPb witnessed an increase of 3.34% (i.e. PKR 55.3 billion) compared to end of March 2023. This increase is attributable to FX loss of PKR 26.1 billion and net increase in debt amounting to PKR 29.2 billion during the last quarter of FY 2022-23 (Apr-Jun 2023), as depicted in the following table:

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

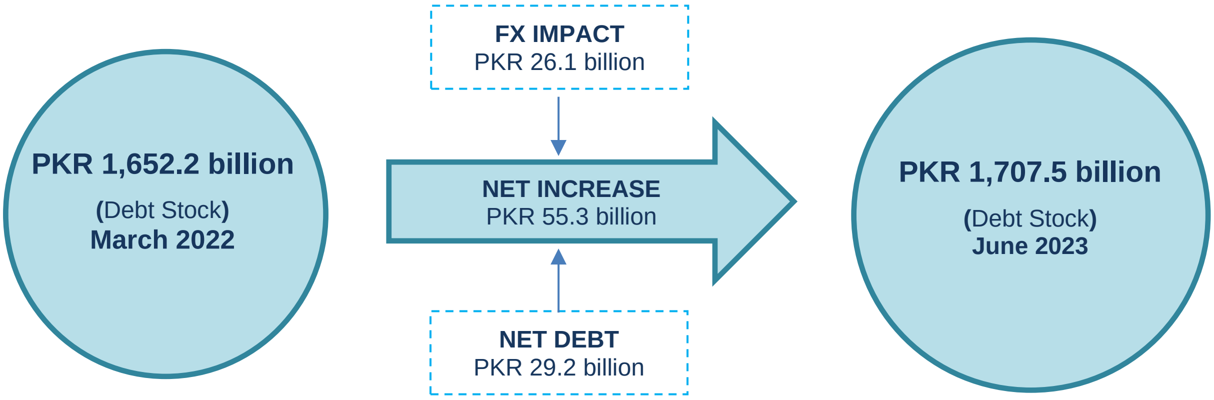
	Apr - Jun 23
Increase / (Decrease) in Total Debt	**55.3**
FX Impact	26.1
Net Debt (Receipts – Repayments)	29.2

Source: Debt Management Unit, Finance Department Punjab

5.6 The outstanding debt stock at June 2023 is exclusive of provincial guarantees[2] (awarded to various GoPb's entities) and commodity debt. The outstanding commodity debt stood at PKR 680 billion at end of June 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 (SOE)/ Government Owned Entities (GOE)

Fig-1: Increase in Debt



6 Debt Composition

6.1 The debt portfolio predominantly comprises borrowing from external sources with 99.8 percent coming from multilateral agencies and bilateral loans contracted on concessional terms (low cost and longer tenor), procured mainly for infrastructure development and for reform support, whereas, only 0.2 percent of debt portfolio is domestic in nature borrowed from the Federal Government.

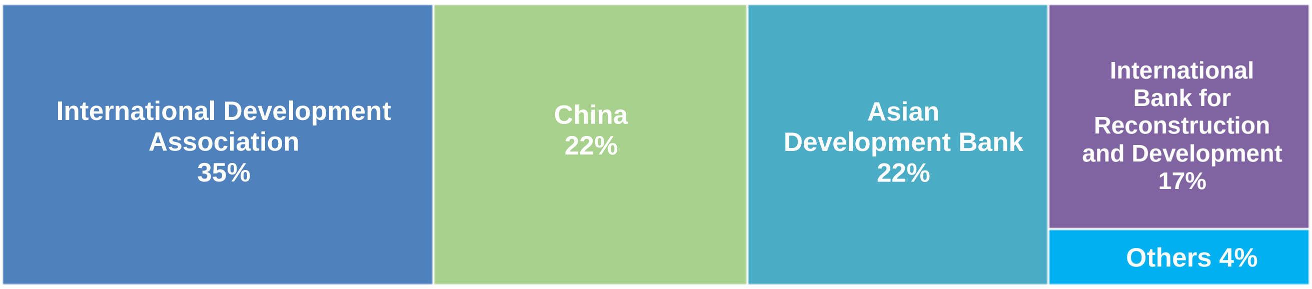
6.2 Government of Punjab's external debt is derived mainly from three key sources, with around 52 percent coming from World Bank (IDA & IBRD), 22 percent from China and 22 percent from Asian Development Bank.

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

Lenders	Mar-2023	Jun-2023
International Development Association (IDA)	34%	35%
China	23%	22%
Asian Development Bank	23%	22%
International Bank for Reconstruction and Development (IBRD)	16%	17%
Others	4%	4%
Total	**100%**	**100%**

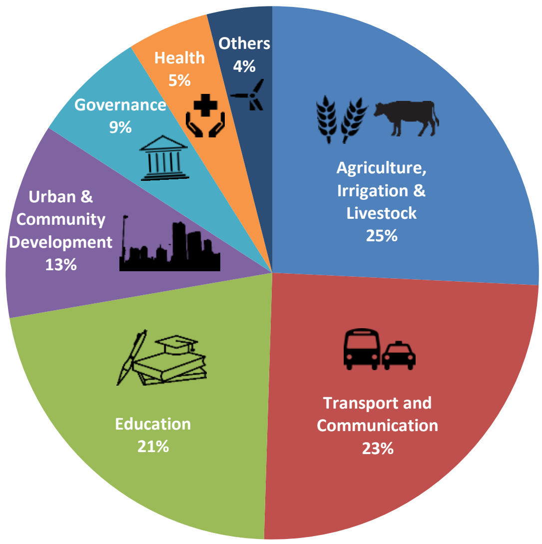
Source: Debt Management Unit, Finance Department Punjab

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



7 Sectoral Composition

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



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 Ministries / Departments of Punjab Government.

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

Sectors	Mar-2023	Jun-2023
Agriculture, Irrigation & Livestock	26%	25%
Transport and Communication	24%	23%
Education	22%	21%
Urban & Community Development	12%	13%
Governance	8%	9%
Health	4%	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 99.8% of outstanding debt. Currency-wise exposure is denominated in USD (72 percent) followed by Special Drawing Rights (20 percent), Japanese Yen (4.7 percent) and Chinese Yuan (2.7 percent).

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

Currencies	Mar-2023	Jun-2023
US Dollar	72%	72%
Special Drawing Rights	19%	20%
Japanese Yen	5.0%	4.7%
Chinese Yuan	3.0%	2.7%
Others	0.7%	0.6%
Total	**100%**	**100%**

Source: Debt Management Unit, Finance Department Punjab

9 Debt Risk Indicators

Table-6: Key Debt Risk Indicators

Risk Exposure	Indicators	Jun-2023
Currency Risk	Share of External/ FX Debt (%)	99.8%
Refinancing Risk	ATM of Total Debt (Years)	8.2
	Share of Debt Maturing within 1 Year (% of total)	6.7%
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 (%)		73%

* Budgeted 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 (99.8% 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 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 increases 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 (73 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 (27 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 is well balanced and longer tenor of underlying loans provides the Government a predictable repayment schedule.

Table-7: Maturity Profile as % of Total Debt

Period	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 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.

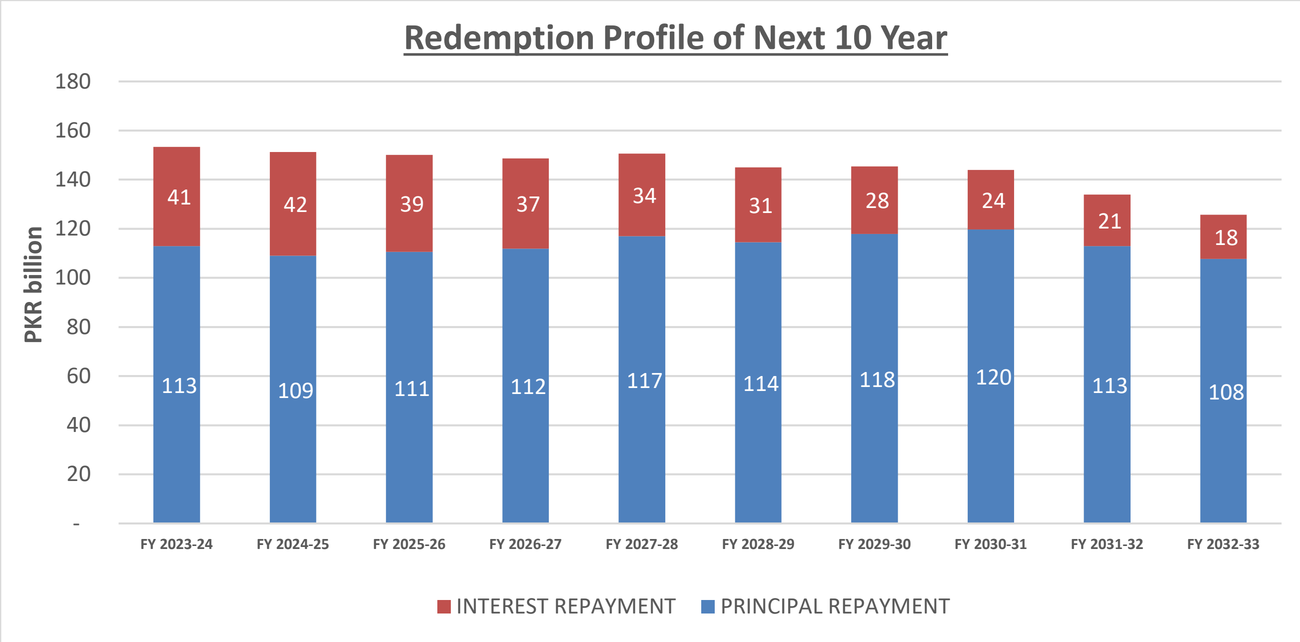
Table-8: Debt Servicing (Principal + Interest)

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

* Based on (R)evised Debt Servicing & (B)udgeted Debt Servicing

Source: MoEA, Debt Management Unit & Loan Section.

11.2 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 Last Quarter FY 2022-23

12.1 During last quarter of FY 2022-23, GoPb received an amount of PKR 66 billion as disbursements for its contracted loans and an amount of PKR 37 billion was paid on account of debt servicing (actual deductions) resulting in net borrowing of PKR 29 billion for the quarter Apr-Jun 2023.

12.2 In last quarter of FY 2022-23 one (program) loan was signed by GoPb with World Bank: Punjab Family Planning Program (PFPP) amounting to USD 100 million on Shorter Maturity Loan (SML) terms for a period of 12 years, with no interest or service charges. Program will be executed by Population Welfare Department (PWD) and Primary & Secondary Healthcare Department (P&SHD). The loan utilizes a Program-for-Results (PforR) framework and is contingent on achievement of program's DLIs.

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. Guarantees limit to provinces are defined by National Economic Council (NEC), to be used for issuance of Provincial Guarantee and for domestic borrowing by the province. At end of Jun 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 require 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 in form of subsidy by Government of Punjab. However, limited disbursement of subsidy over the years has resulted in significant accumulation of debt. This unsecured commodity debt or accumulated subsidy (difference between total debt and wheat stock) is being financed through additional bank loans which are rolled over every quarter. The level of commodity debt over last few years is depicted in the following table:

Table-9: Commodity Debt

Currencies	Jun-2020	Jun-2021	Jun-2022	Jun-2023
Commodity Debt – Opening Balance	428	462	548	629
Repayment	(109)	(133)	(164)	(386)
New Borrowing	143	219	245	437
Commodity Debt – Closing Balance	**462**	**548**	**629**	**680**
Interest Payment	55	36	41	87

14.4 The size of total commodity debt ballooned to PKR 629 billion at end-Jun 2022 and was expected to reach PKR 950 billion by the end-Jun 2023. Given the level of debt burden and high commercial interest rates, the model for commodity operation was becoming unsustainable and carried the risk of hampering capacity of the Government to ensure food security in future years.

14.5 Finance Department remained cognizant of this fiscal risk emanating from increasing level of commodity debt and its resulting implications on viability of commodity operations. To mitigate the fiscal implications for the Province and contain the increasing risks to sustainability of the commodity operations, Finance Department presented a holistic situation to the Provincial Government during 3rd quarter of last financial year. It was stressed that in order to curtail further accumulation of commodity debt, proactive measures need to be taken and repayment may be accelerated to reduce the increasing level of debt.

14.6 On recommendation of Finance Department, Provincial Cabinet in its 8th meeting held on 4th March 2023 accorded approval to release accumulated subsidy to Food Department lowering the Commodity Debt level. In compliance with the approval, PKR 50 billion was released to Food Department during 3QFY-2023 and PKR 175 billion during 4QFY-2023. Additional disbursements are expected to be made in FY 2023-24.

14.7 In order to further restrict debt accumulation and improve sustainability of commodity operations, Finance Department is taking various measures like restricting the quantum of wheat procurement, servicing of circular debt on timely basis and replacing general subsidy with targeted subsidy/ social protection to restrict further accumulation of commodity debt. Total outstanding commodity debt stood at PKR 680 billion at end of Jun 2023 secured by wheat stock amounting to PKR 397 billion. The debt stock may reduce further with additional disbursement of accumulated subsidy during FY 2023-24.

15 PFM Act and Debt Limitation

15.1 The Public Financial Management Act, 2022 approved by the Provincial Cabinet in Dec 2022 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-Jun 2023 is provided below:

Table-10: PFM Debt Limits

PFM Debt Limits	Defined Limit as % of Avg. Revenue of preceding 03 years	Jun-2023
a) Public Debt* and Guarantees	**200%**	115%
b) Government Debt** and Guarantees	**160%**	83%
c) Public Corporations Debt and Guarantees	**40%**	13%
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 Jun-2023, all thresholds are well within the limits defined under PFM Act 2022. Public Debt and Guarantees stood at 115 percent of average revenue of preceding 3 years of GoPb, whereas Government debt and Guarantees was 83 percent. Debt to Public Corporations of GoPb including Guarantees (13 percent) and Interest expense (1.4 percent) are well below the prescribed limit under Public Financial Management Act, 2022.