



PUNJAB DEBT BULLETIN

30th September 2022

Debt Management Unit
Finance Department
Government of Punjab



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1.0 Introduction

- 1.1 Government borrowing remains vital part of financing mechanism for developing countries and by extension sub-national units. These debt inflows compliment the available resources to fund resource-intensive infrastructure projects which are geared towards facilitating accelerated economic growth and achieving social development goals. Borrowed funds at times are also utilized to expedite Government reform to improve service delivery and improve efficiency through budgetary support.
- 1.2 Additional funds can act as a catalyst in the course of 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.

2.0 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.

3.0 Debt Bulletin

- 3.1 Punjab's debt bulletin aims to provide information on sub-national debt to the public and ensure 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.

4.0 Principles of Debt Management

- 4.1 Prudent utilization of debt leads to higher economic growth and helps sub-national government to accomplish its 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.

5.0 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 include Cash Development Loans (CDL), primarily taken for agriculture programs, on fixed interest rates with original maturity of 25 years. These have been mostly repaid and only a small portion is outstanding which are expected to be paid off by FY 2029-30.
- 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 policy reforms.
- 5.4 At the end of Sep 2022, debt stock of Government of Punjab stood at PKR 1,316 billion, out of which PKR 1,313 billion is from external lenders and PKR 3.3 billion are loans from domestic sources. These loans collectively are 3.6% of Punjab's GDP¹.

¹ Punjab's GDP (PKR 36,823 bln.) is assumed as 55% of Pakistan's GDP (PKR 66,950 bln.)

Bifurcation of debt stock and its various attributes are summarized below:

Table-1: Punjab's Debt Summary²

Quarterly Comparison	Dec-2021	Mar-2022	Jun-2022	Sep-2022
(PKR in billion)				
Domestic Debt	4.3	3.9	3.5	3.3
External Debt	1,075	1,090	1,203	1,313
Total Debt	1,079	1,094	1,207	1,316
Punjab's GDP	29,627	35,188	36,823	36,823
(In Percent of Punjab's GDP)				
Domestic Debt	0.01%	0.01%	0.01%	0.01%
External Debt	3.6%	3.1%	3.3%	3.6%
Total Debt	3.6%	3.1%	3.3%	3.6%
(In Percent of Total Public Debt)				
Domestic Debt	0.4%	0.4%	0.3%	0.2%
External Debt	99.6%	99.6%	99.7%	99.8%
(US\$ in billion)				
Domestic Debt	0.02	0.02	0.02	0.01
External Debt	6.03	5.93	5.88	5.75
Total Public Debt	6.05	5.95	5.90	5.76
Exchange Rate (PKR/US\$, EoP)	178.31	183.73	204.59	228.25

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

5.5 Total public debt of GoPb was recorded at PKR 1,316 billion at end of Sep 2022, the debt stock witnessed an increase of 9.1% (i.e. PKR 109 billion) compared to end-Jun 2022. This increase is mainly attributable to FX gain/ loss of PKR 117 billion realized during the quarter (Jul-Sep 2022), whereas new debt experienced a net reduction of PKR 8 billion during the period as depicted in the following table:

Table-2: Reasons for increase/decrease in Public Debt	(PKR in billion)
	Jul-Sep 22
Increase / (Decrease) in Total Debt	109
FX Impact	117
Net Debt (Receipts – Repayments)	(8)

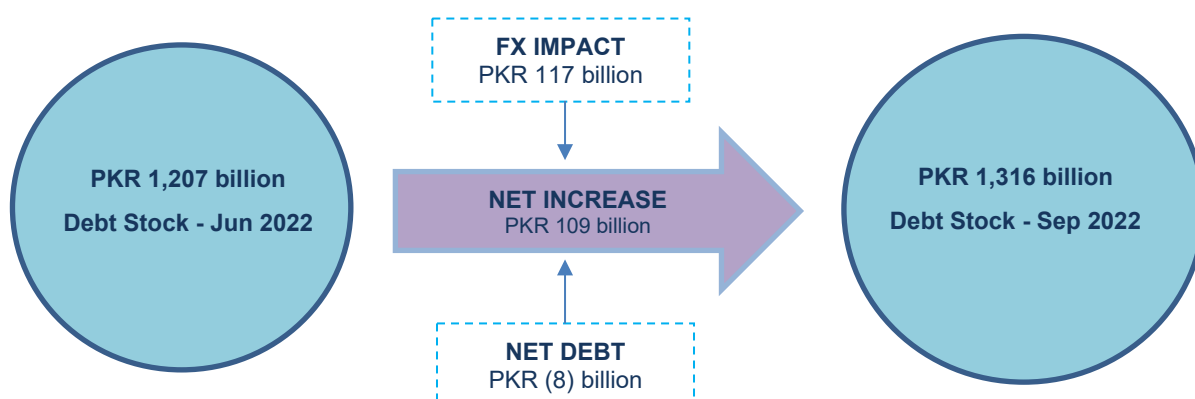
Source: Debt Management Unit, Finance Department Punjab

5.6 Reduction in net debt of PKR (8) billion denotes that there were lower disbursements received during quarter Jul-Sep 2022 compared to higher principal repayments. The outstanding debt stock at the 2022 is exclusive of provincial guarantees³ awarded to various GoPb's entities, commodity debt and projects. The outstanding commodity

²All tables in this document carry end of the period (EoP) data with respect to debt outstanding.

³ Guarantees extended to Government entities.

debt stood at PKR 574 billion at end of Sep 2022, which is secured by wheat stock procured by Government for commodity operation along with Guarantee in form of Credit Limit by the Federal Government.



6.0 Debt Composition

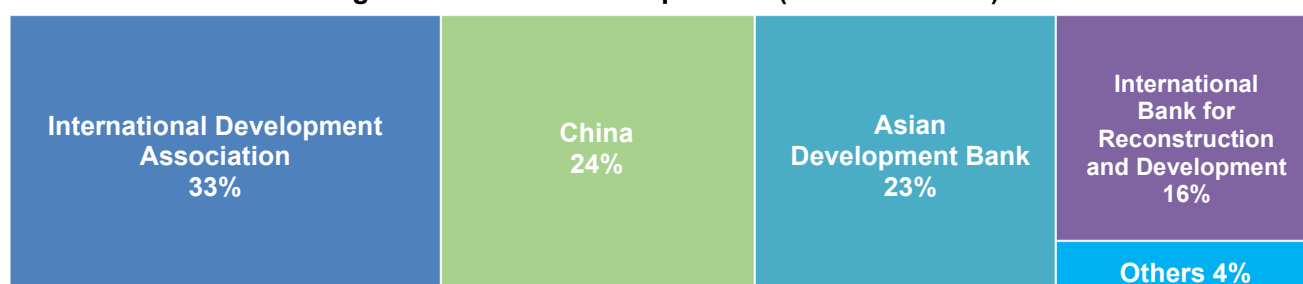
- 6.1 The debt portfolio predominantly comprises borrowing from external sources with 99.8 percent coming from multilateral agencies and bilateral loans contracted on concessional terms (low cost and longer tenor) procured mainly for infrastructure development and reform support, whereas, only 0.2 percent of debt portfolio is domestic in nature procured from the Federal Government.
- 6.2 Government of Punjab's external debt is derived mainly from three key sources, with around 49 percent coming from World Bank (IDA & IBRD), 24 percent from China and 23 percent from Asian Development Bank.

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

Lenders	Jun-2022	Sep-2022
International Development Association (IDA)	33%	33%
China	24%	24%
Asian Development Bank	23%	23%
International Bank for Reconstruction and Development (IBRD)	15%	16%
Others	5%	4%
Total	100%	100%

Source: Debt Management Unit, Finance Department Punjab

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



7.0 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 The selection of key sectors for infrastructure development projects are identified in partnership with Planning & Development Board Punjab, while programs are identified in partnership with concerned Ministries and Departments of Punjab Government.

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

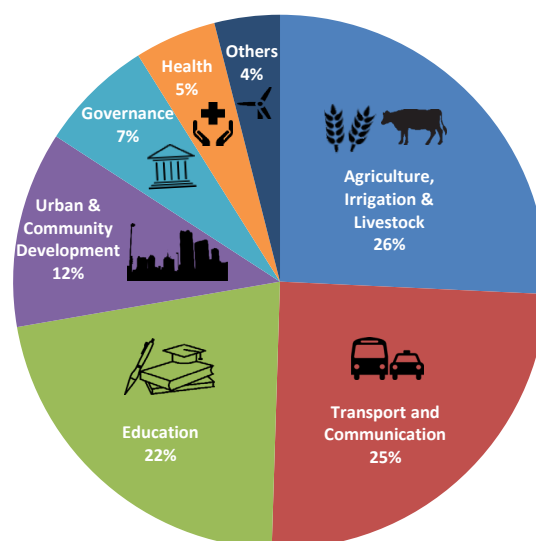


Table-4: Sector-wise Composition as % of Total Debt

Sectors	Jun-2022	Sep-2022
Agriculture, Irrigation & Livestock	26%	26%
Transport and Communication	25%	25%
Education	22%	22%
Urban & Community Development	12%	12%
Governance	7%	7%
Health	5%	5%
Others	4%	4%
Total	100%	100%

Source: Debt Management Unit, Finance Department Punjab

8.0 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 (74 percent) followed by Special Drawing Rights (17 percent), Japanese Yen (5 percent) and Chinese Yuan (3 percent).

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

Currencies	Jun-2022	Sep-2022
US Dollar	73.0%	74.0%
Special Drawing Right	18.0%	17.4%
Japanese Yen	5.4%	5.0%
Chinese Yuan	3.0%	3.0%
Others	0.6%	0.6%
Total	100%	100%

Source: Debt Management Unit, Finance Department Punjab

9.0 Debt Risk Indicators

Table-6: Key Debt Risk Indicators

Risk Exposure	Indicators	Jun-2022	Sep-2022
Currency Risk	Share of External/ FX Debt (%)	99.7%	99.8%
Refinancing Risk	ATM of Total Debt (Years)	8.3	8.2
	Share of Debt Maturing within 1 Year (% of total)	5.8%	6.7%
Refixing Risk	ATR of Total Debt (Years)	6.3	6.2
Debt Servicing* as % of Avg. Revenue of Last 03 Financial Yrs.		5.2%	5.8%
Share of Fixed Rate Debt (%)		75%	75%

*Principal and Interest

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), is exposed to Foreign Exchange (FX) risk. Owing to this, any change in parity of USD and other foreign currencies with Pak Rupee have 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 that the average time period after which the interest rate for entire debt portfolio is required to 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 a comfortable range with an average of 6.2 years remaining until next refixing date.
- 9.4 Debt Servicing, including interest and principal payments, constitute 5.8 percent of average revenue of Punjab for last 3 financial years. Overall, significant portion (75 percent) of debt portfolio comprise loans contracted on fixed interest rates and are not exposed to the increasing interest rate environment being witnessed internationally. The floating rate portion (25 percent) is subject to periodic revision of interest rates since these loans attract LIBOR. However, after cessation of LIBOR as the benchmark rate in 2023, loans based in USD and SDR will attract Secured Overnight Financing Rate (SOFR), while, other alternative reference rates will be applicable respective to each currency i.e. TONA, EURIBOR, etc.

10.0 Maturity Profile

10.1 Government of Punjab's debt amortization structure is fairly smooth, where 30.6 percent of total debt portfolio is payable within next 5-years and 42.7 percent is payable over long term horizon while payments are due over next 26-year period. 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

	1 year	2-3 years	4-5 years	6-7 years	8-10 years	>10 years	Total
Total Debt	4.5%	13.1%	12.9%	13.3%	13.6%	42.7%	100%
Domestic Debt	0.1%	0.1%	0.04%	0.02%	0.01%	0.0%	0.25%
External Debt	4.4%	13.0%	12.9%	13.3%	13.6%	42.7%	99.75%

Note: Based on the remaining maturity of debt stock

11.0 Debt Servicing

11.1 Debt servicing includes expected payments towards principal and interest due on outstanding debt. Total actual debt servicing for FY 2021-22 was PKR 68.4 billion whereas it is projected at PKR 92.5 billion for FY 2022-23.

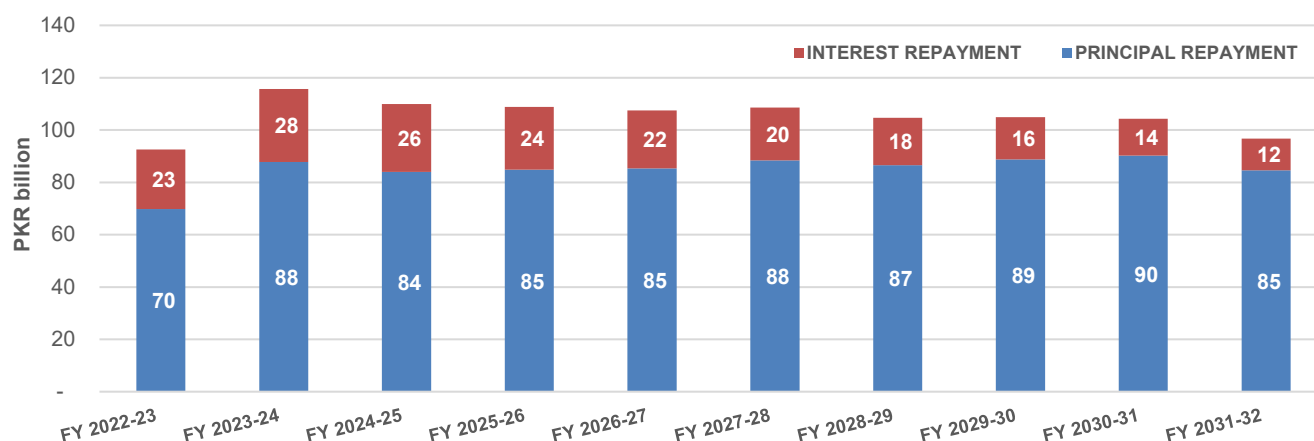
Table-8: Debt Servicing (Principal + Interest)

Currencies	FY 2021-22 ⁴	FY 2022-23 ⁵
Principal Payment	52.6	69.8
Interest Payment	15.8	22.7
Total	68.4	92.5

Source: Debt Management Unit, Finance Department Punjab

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

Fig-4: Redemption Profile of Debt Servicing



⁴ Actual Debt Servicing for the FY 2021-22

⁵ Projected Debt Servicing for the FY 2022-23

12.0 Highlights of Borrowing Operations during July - Sep 2022

- 12.1 During the first quarter of FY 2022-23, GoPb received an amount of PKR 7.9 billion as disbursements for its contracted loans and amount PKR 15.9 billion was paid on account of debt servicing resulting in net borrowing of PKR (8) billion for the quarter Jul-Sep 2022.
- 12.2 Over this period no new loans were contracted, while the following two foreign loans matured against which all scheduled payments have been made:
- i. Second On-Farm Management Water Management Project, lent by Asian Development Bank contracted in 1988 amounting to USD 25.6 million for a period of 35 years.
 - ii. Project Design Advance (PDA) for Jalalpur Irrigation Project, extended by Asian Development Bank (ADB) amounting USD 5 million for period of 5 years.

13.0 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 Sep 2022, GoPb has extended total guarantees amounting to PKR 48.9 billion, providing support towards various Power and Road projects.