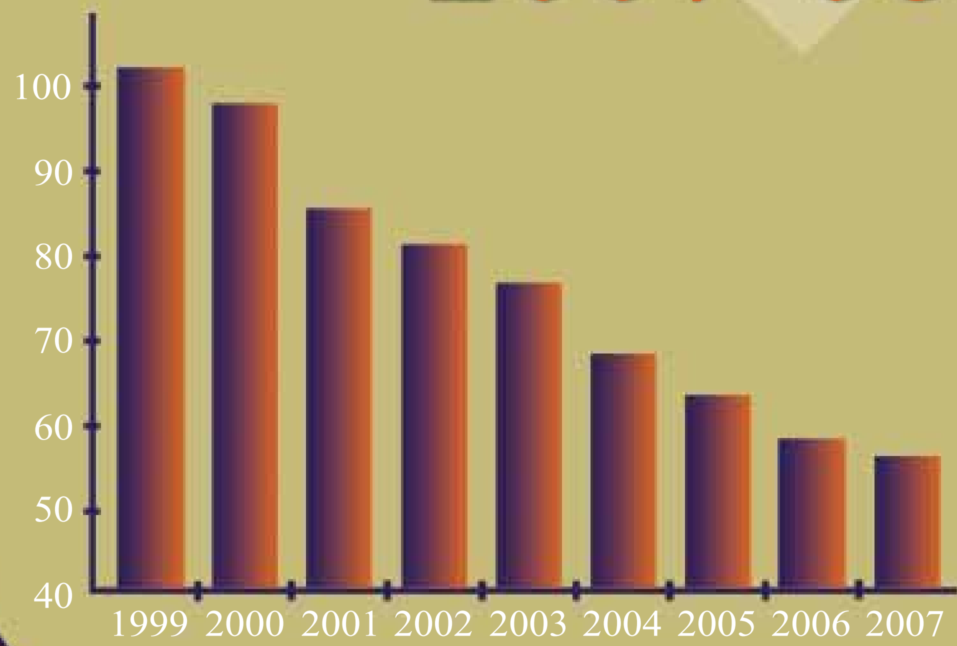
DEBT
Policy Statement
2007-08



Debt Policy Coordination Office (DPCO)
Ministry of Finance, Government of Pakistan,
Islamabad. January 31, 2008

Debt Policy Statement
2007-08

Debt Policy Coordination Office (DPCO),
Ministry of Finance,
Government of Pakistan
Islamabad, January 31, 2008

TABLE OF CONTENTS

List of Tables

List of Figures

LIST OF ACRONYMS

ADB	Asian Development Bank
BOP	Balance of Payment
BSC	Bahbood Saving Certificates
CAR	Current Account Receipts
CBR	Central Board of Revenue
DPCO	Debt Policy Coordination Office
DSC	Defense Saving Certificates
EAD	Economic Affairs Division
EDL	External Debt and Liabilities
FEE	Foreign Exchange Earnings
FER	Foreign Exchange Reserves
FIB	Federal Investment Bonds
FRDL Act	Fiscal Responsibility and Debt Limitation Act
FY07(Q1)	First Quarter of FY07 (July-Sep.)
GDP	Gross Domestic Product
GoP	Government of Pakistan
HBL	Habib Bank Limited
HTM	Held to Maturity
IMF	International Monetary Fund
INT	Interest Payments
KESC	Karachi Electricity Supply Company
LIBOR	London Inter Bank Offer Rate
MoF	Ministry of Finance, Government of Pakistan
MRTB	Market Related Treasury Bills
MTB	Market Treasury Bills
NSS	National Saving Schemes
PBA	Pensioners' Benefit Accounts
PD	Primary Dealers
PIA	Pakistan International Airline
PIB	Pakistan Investment Bonds
PSDP	Public Sector Development Program
SBP	State Bank of Pakistan
SDR	Special Drawing Rights
STD	Short-term Debt
T-Bills	Market Treasury Bills
WAPDA	Water and Power Development Authority

ACKNOWLEDGEMENTS

This report has been produced by the Debt Policy Coordination Office (DPCO) to fulfill the requirement laid out under Section 7 of the Fiscal Responsibility and Debt Limitation (FRDL) Act 2005. It is a result of concerted efforts of many individuals. I would like to thank to various Ministries, Departments, Divisions and Agencies for timely provision of the data to the DPCO. In particular, we would like to acknowledge the support from Budget Wing (MoF), Corporate Finance Wing (MoF), EAD (Computer Center) and SBP. I would like to recognize the hard work put in by Mr. Zafar-ul-Hassan, Assistant Economic Adviser (EA Wing) in bringing this comprehensive policy document to fruition. A special thanks to Nadia Mahmood (Domestic debt), Reema Kazmi and Samina Shabbir (External debt) for their able statistical and research support.

Dr. Ashfaque Hasan Khan
Director General (Debt Office)
Ministry of Finance

I. Introduction

The issue of high levels of indebtedness in developing countries received greater attention in the second half of the 1990s from policy makers and public opinion around the world. They viewed this as one of the key factors responsible for underdevelopment of many poor countries. Higher indebtedness renders the country more vulnerable to shocks and crises. Higher indebtedness also diminishes the effectiveness of fiscal and monetary policy, and hampers the ability of the government to conduct effective counter-cyclical fiscal and monetary policy. Furthermore, the protagonists of the debt overhang hypothesis argue that high levels of indebtedness discourage investment and negatively affect growth as future higher taxes are expected to repay the debt. The traditional neoclassical model on the other hand, argues that there is an incentive for capital scarce countries to borrow and invest since the marginal product of capital is higher than the world interest rate. In other words, borrowing from within and outside the country is a normal economic activity as it help countries grow faster by financing productive investment, and it can also provide cushion against the impact of economic disruptions.

2. It is equally true that if a country or a government accumulates debt beyond its debt servicing capacity, a debt crisis can erupt with potentially large economic and social costs. Debt burden becomes unsustainable when it accumulates at a faster rate than the borrower's capacity to service it. What exactly is sustainable debt? It is defined as a situation in which a borrower is expected to continue servicing its debts in an orderly and stable macroeconomic environment. For this reason, it is important to gauge how much debt an economy or government can safely absorb. The assessment is particularly relevant for developing countries that rely heavily on external resources to meet their large financing needs.

3. The root cause of higher levels of indebtedness is imprudent fiscal imbalances; therefore, any debt strategy will remain incomplete without a supporting or prudent fiscal policy. There has been a general acceptance worldwide that financial discipline over a prolonged period is essential for preventing macroeconomic imbalances and accordingly slowing the pace of debt accumulation. It has also been recognized that a prolonged commitment to financial discipline can only come from a rule-based fiscal policy. Pakistan had witnessed serious macroeconomic imbalances in the 1990s mainly on account of its fiscal profligacy, resulting in accumulation of large and unsustainable public debt. The outcomes of unsustainable debt have been the deceleration in investment and economic growth and the associated rise in the levels of poverty.

4. It is in this background that the government initiated the work on the preparation of a rule-based fiscal policy in early 2000. This policy, enshrined in the Fiscal Responsibility and Debt Limitation Act 2005, was passed by the Parliament in June 2005. This Act ensures responsible and accountable fiscal management by all government – the present and the future – and would encourage informed public debate about fiscal policy. This Act also requires government to be transparent about its short and long-term fiscal intensions and imposes high standards of fiscal disclosure.

5. Pakistan has pursued a credible debt strategy for the last five/six years and succeeded in reducing the country's debt burden to almost one-half. Public debt (both

rupee and foreign currency debt) has been reduced from 79 percent in end-June 2000 to 50.1 percent of GDP by end-September 2007. Similarly, public debt as percentage of revenues (another indicator of debt burden) has declined from 589 percent to 339 percent during the same period. External debt and liabilities has also been reduced from almost 52 percent of GDP to 28 percent by end June 2007 and further to 25.7 percent by end-September 2007. Notwithstanding these successes there is a need to remain vigilant.

II. Debt Policy Statement

6. The Debt Policy Statement is presented to fulfill the requirement in Section 7 of the Fiscal Responsibility and Debt Limitation (FRDL) Act 2005. The statement provides an overview of the public debt as well as external debt and liabilities and explains the changes in the debt profile over the FY07 and early FY08.

Section 7 of the FRDL Act 2005 requires that:

(1) The Federal Government shall cause to be laid before the National Assembly, the debt policy statement by the end of January of each year.

(2) The purpose of the debt policy statement is to allow the assessment of the Federal Government's debt policies against the principles of sound fiscal and debt management and debt reduction path.

(3) In particular and without prejudice to the provisions of sub-section (2) the debt policy statement shall, *inter alia*, contain **–**

(a) Assessment of the Federal Government's success or failure in meeting the targets of total public debt to estimated gross domestic product for any given year as specified in the debt reduction path;
(b) Evaluations of external and domestic borrowing strategies and provide advice on these strategies;
(c) Evaluations of the nominal and real costs of external and domestic borrowing and suggest ways to contain these costs;
(d) Analysis of the foreign currency exposure of Pakistan's external debt;
(e) Consistent and authenticated information on public and external debt and guarantees issued by the Government with ex-post facto budgetary out-turns of all guarantees and those of other such claims and commitments;
(f) Information of all loan agreements contracted, disbursements made thereof and repayments made thereon, if any, by the Government during the fiscal year; and
(g) Analysis of trends in public debt and external debt and steps taken to conform to the debt reduction path as well as suggestions for adjustments, if any, in the Federal Government's overall debt strategy.

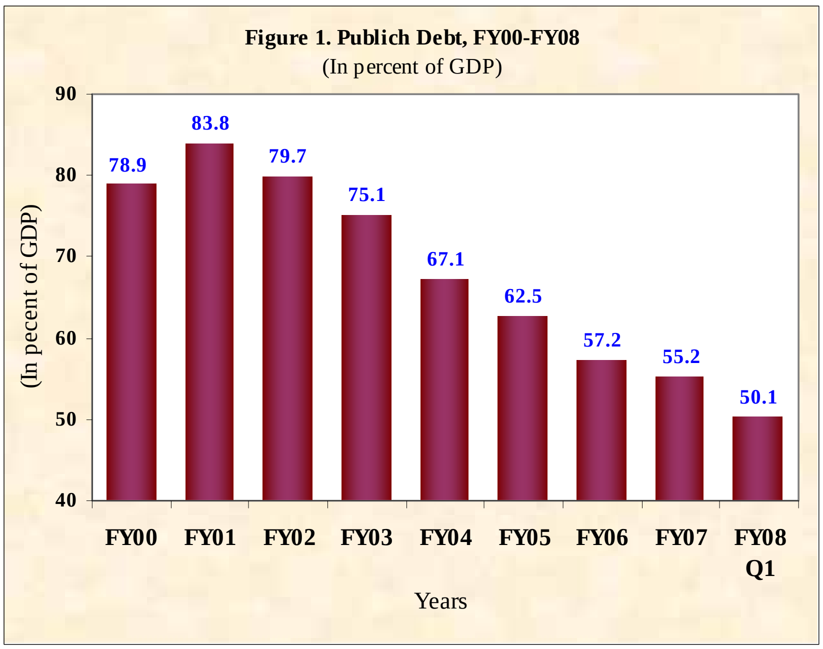
III. Objectives of the Debt Management

7. The main objective of public debt management is to ensure that the government's financing needs and its payment obligations are met at the lowest possible cost over the medium-to-long run, consistent with a prudent degree of risk. The objective also includes the promotion and development of domestic debt market.

IV. Review of the Public Debt

8. Public debt represents the quantum of the debt denominated in Rupees as well as in foreign currency that is owed directly by the government. Pakistan's public debt grew by 10.7 percent in the FY07 which translates into an annual average growth rate of 6.7 percent since FY00. The nominal GDP on the other hand showed a growth rate of 13.0 percent over the same period. Public debt therefore grew at a slower pace than the growth in nominal GDP. This is in sharp contrast to the experience in the last two decades where Pakistan's public debt grew at an average rate of 18 percent and 15 percent per annum during the 1980s and 1990s, respectively – much faster than the growth in nominal GDP (11.9% and 13.9% respectively).

9. The growth in pubic debt in recent past is slower than the nominal GDP therefore, public debt as a percentage of GDP has continued its declining trend [See Fig-1]. Public debt as percentage of GDP declined from 57.2 percent at the end of FY06 to 55.2 percent at the end of FY07. The decline in debt is even more striking when viewed from the fact that just 8 years ago the public debt was over 100 percent of GDP. Reductions in fiscal and current account deficits alongwith stability in exchange rate have been responsible for such a sharp decline in the country's debt burden during the last 8 years.



10. As stated earlier the government had set-up a high level Debt Committee in 2000, to examine the root causes of the rising debt burden and suggest a debt reduction strategy to stabilize the debt situation. The government is following the debt strategy as suggested by the Committee. Reduction in the fiscal and current account deficits, maintaining stability in exchange rate, lowering the cost of borrowing, raising revenues and foreign exchange earnings, rationalizing expenditure, and debt re-profiling from the Paris Club have been the key features of the debt reduction strategy. Promulgation of Fiscal Responsibility and Debt Limitation (FRDL) Act in June 2005 was a major break-through for providing much needed legislative support to debt management objectives.

11. The debt strategy followed by the Government over the last five/ six years have yielded positive results. Public debt as percentage of GDP has declined substantially from almost 80 percent at the end of FY02 to 55.2 percent by the end of FY07. This reflects a 24.8 percentage points decline in the country's debt burden in 6 years. During the first quarter (July-September) of FY08 this ratio has further declined to 50.1 percent of the projected GDP for the year. However, in absolute terms public debt grew by 10.7 percent during FY07 which is slightly higher by the standards of the recent past and represents one of the highest ever growth in a single year for almost one decade.

12. The capacity to carry debt is dependent on the size of the economy (GDP) as well as the resources available with the government to service that debt, therefore debt should also be considered in relation to government revenue. As can be seen in Table 1, public debt at the end of FY00 was at a high of 589 percent of total revenue. Following the debt reduction strategy, which included raising revenue as one of the key elements, the public debt burden in relation to total revenue has declined substantially to 371 percent by end-FY07 and further to 338 percent at the end of September 2007.

Table-1: Public Debt, FY00-FY08 Q_1

	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08 Q1
					(In billions of Rs.)				
Domestic Currency Debt	1576	1728	1715	1852	1979	2152	2322	2600	2696
Foreign Currency Debt	1442	1761	1795	1769	1808	1913	2022	2209	2296
Total Public Debt	3018	3489	3510	3621	3787	4064	4343	4810	4992
					(In percent of GDP)				
Rupees Debt	41.2	41.5	39.0	38.4	35.1	33.1	30.6	29.9	27.0
Foreign Currency Debt	37.7	42.3	40.8	36.7	32.0	29.4	26.6	25.4	23.0
Total Public Debt	78.9	83.8	79.7	75.1	67.1	62.5	57.2	55.2	50.1
					(In percent of Revenue)				
Rupees Debt	308	312	275	257	246	239	212	200	183
Foreign Currency Debt	281	318	288	245	224	212	185	170	156
Total Public Debt	589	631	562	502	470	452	397	371	338
					(In percent of Total Debt)				
Rupees Debt	52.2	49.5	48.9	51.1	52.3	52.9	53.5	54.1	54.0
Foreign Currency Debt	47.8	50.5	51.1	48.9	47.7	47.1	46.5	45.9	46.0
Memo:									
Foreign Currency Debt ($ Billion)	27.5	27.8	29.9	30.6	31.2	32.1	33.6	36.4	37.9
Exchange Rate (Rs./U.S.$, E.O.P)	52.5	63.4	60.1	57.7	57.9	59.7	60.2	60.6	60.6
GDP (in Rs. Billion)	3826	4163	4402	4823	5641	6500	7594	8707	9970
Total Revenue (in Rs. Billion)	513	553	624	721	806	900	1095	1298	1476

Source: Various Economic Survey, EAD, Budget Wing (MoF) and calculations by DPCO staff.

13. The structure of public debt has undergone minor changes over the last seven years. The share of rupee denominated debt has increased from 52.2 percent in FY00 to 54.1 percent in FY07 — an increase of almost 2 percentage points. The share of foreign currency denominated debt on the other hand registered a decline during the same period. This is a definite policy shift towards increased emphasis on domestic borrowing.

14. During the last six years, the debt servicing of public debt has declined sharply from 50.2 percent of total revenue in FY02 to 30 percent of total revenue in FY07 and from 45.4 percent of current expenditure in FY02 to 28.4 percent of current expenditure in FY07. The subsequent fiscal space created by bridging the revenue-expenditure gap and low debt servicing cost has enabled the Government to increase spending on the public sector development program (PSDP) as well as poverty and social sector related expenditures.

15. Although public debt is now on a solid downward footing, sustaining the momentum will be a continuing challenge. The coming years will see an increase in borrowing particularly in the foreign currency component to finance the infrastructural development programs. Pakistan need substantial amount of resources for major overhaul of existing human and physical infrastructure. The large infrastructure projects envisaged in the next decade will increase the debt burden if sufficient revenues are not generated from within the country.

IV.i Dynamics of the Public Debt Burden

16. The rise in the public debt burden during the two consecutive decades of the 1980s and 1990s was largely contributed by factors like the high real cost of borrowing and stagnant government revenue. The real cost of borrowing for two components of the public debt, namely rupee and foreign currency denominated, is measured differently. The real cost of borrowing for Pakistan's domestic debt has varied greatly over the last two decades [Table 2]. During the 1980s, the real cost of borrowing for domestic public debt was only 1.0 percent.

Table 2: Real Cost of Borrowing
(Percent)

	External Debt	Domestic Debt	Public Debt
1980s	3.4	1.0	2.3
1990s	2.7	3.2	2.9
1990-I	-3.0	-1.9	-2.4
1990-II	-5.5	5.7	5.6
2000-04	0.9	6.4	4.4
2004-08*	-4.7	2.2	-1.3

Source: EA Wing and DPCO calculations.
* Jul. 2003 - end Sep. 2007.

17. The interest rates on domestic debt rose sharply in early 1990s due to financial sector liberalization but the much higher interest rate to a large extent was wiped out by the sharp acceleration in inflation in the 1990s. The average real cost of borrowing for the domestic component of the public debt was 3.2 percent because of double-digit inflation for most of the 1990s. Further dis-aggregation of the 1990s suggests that the real cost of domestic borrowing was negative (1.9 percent) in the first half of the 1990s but rose sharply (5.5 percent) in the second half, mainly because of a decline in inflation. During the first four years of the decade (2000-04), the real cost of borrowing for domestic debt was 6.4 percent owing to lower inflation but in the last three years (2004-08) the real cost of borrowing declined to 2.2 percent partly due to rising inflationary pressure in the economy as well as declining nominal cost of borrowing.

Table 3. Dynamics of Public Debt Burden

	Primary Fiscal Balance (Percent of GDP)	Real Cost of Borrowing	Real Growth of Debt	Real Growth of Revenues	Real Growth of Debt Burden
		(Percent per year)			
1980s	-3.7	2.3	10.6	7.6	3.0
1990s	-0.3	2.9	4.9	2.9	2.0
1990-I	-1.8	-2.4	3.6	3.2	0.4
1990-II	1.1	5.6	6.2	2.5	3.7
2000-04	1.2	4.4	-3.3	6.0	-9.3
2004-08*	-0.3	-1.3	-0.6	7.6	-8.2

Source: EA Wing and DPCO calculations.
* Jul. 2003 - end Sep. 2007.

18. The issue of measuring the real cost of foreign borrowing (debt payable in foreign exchange) is complex. In the case of the rupee component of debt, only the interest cost is taken into account, but in the case of foreign borrowing, interest cost as well as the cost due to depreciation of the rupee (or capital loss on foreign exchange) are taken into account. Thus, the capital loss on foreign exchange is added to the real interest cost. The average real cost of foreign borrowing was 3.4 percent and 2.7 percent per annum in the 1980s and 1990s respectively [See Table 2]. Further dis-aggregation reveals that the real cost of borrowing was much higher (5.5 percent) in the second half of the 1990s mainly on account of a sharp depreciation of the rupee viz the US dollar and falling domestic inflation. Interestingly, the real costs of both the domestic and foreign debt averaged more or less the same in the second half of the 1990s. During the first four years of the current decade (2000-04), the real cost of borrowing for foreign exchange denominated loan declined to 0.9 percent and further turned into negative 4.7 percent in the during 2004-08.

19. During the first four years (2000-04), the appreciation of Rupee along-with low domestic inflation contributed to lowering of interest rates but in the next four years (2004-08), the depreciation of rupee along-with higher inflation contributed to negative incidence of real cost of borrowing. The lower implied cost of external borrowing has contributed to overall declining trend in real cost of borrowing during the last eight years. As a result of the sharp fluctuation in the real cost of borrowing for both domestic and foreign debt, the dynamics of the growth in public debt also changed over the last two decades.

20. The changing dynamics of public debt is well-documented in Table 3. The growth in the public debt burden averaged 3.0 percent and 2.0 percent per annum during the 1980s and 1990s. Although, public debt grew in real terms at a very high rate of almost 11 percent per annum in the 1980s; it did not immediately lead to a sharp rise in debt burden because the debt carrying capacity (real growth in revenues) of the country was rising by around 8.0 percent per annum. However, it sowed the seeds for future difficulties because real growth in revenue continued to decelerate in the 1990s (2.9 percent on average). Interestingly, the rate of real growth in public debt decelerated to 4.9 percent but the decline in the public debt burden was not substantial because of a slowdown in the real growth of revenues. Real public debt grew at a faster pace of 6.2 percent during the second half of the 1990s as did the public debt burden which rose by 3.7 percent against a marginal rise of 0.4 percent during the first half of the 1990s. The real cost of borrowing was highest at 5.6 percent per annum, on average, during the second half of the 1990s. A sharp real depreciation in the exchange rate causing real cost of borrowing to rise, slower real growth in revenue and a low level of international as well as domestic inflation have been responsible for the rise in the public debt burden in the second half of the 1990s.

21. The pendulum swung to other extreme during 2004-08[1] when the real cost of foreign borrowing turned negative (-4.7 percent) from 0.9 percent in 2000-04 [See Table 2]. The parameters witnessed considerable changes in the first four years and the last four years. During the first four years (2000-04), the interest rates and inflation were benign

[1] FY08 (Q1) refers to the first quarter of FY08 which is the latest available data on foreign currency debt.

along with appreciation of Pak-rupee. On the other hand in the last four years (2004-08) interest rate and inflationary pressure bounced back, and rupee depreciated somewhat against major currencies.

22. The real cost of rupees borrowing increased substantially to 6.4 percent on average during 2000-04 as against 5.7 percent in the second half of 1990s, mainly on account of a sharp deceleration in inflation. However, the real cost of borrowing for public debt averaged 4.4 percent during 2000-04, slightly lower than 5.6 percent in the second half of the 1990s [See Table-2].

23. The improvement in the real cost of foreign currency borrowing on the one hand and fiscal consolidation effort on the other, resulted in a sharp decline in the debt burden during 2000-04. The main contribution to this decline came from massive increase in real revenues and a slower real growth in debt. As can be seen in Table 3, during 2004-08 the real growth in revenues slowed owing to inflationary pressure in the economy, however, the public debt declined witnessed a negative growth in real terms by 3.3 percent which helped in deceleration in debt burden to the extent of 9.3 percent.

24. As shown in Table 3, the primary fiscal balance turned into marginally negative on average during 2004-08 and the real growth of debt also registered a decline of 0.6 percent. At the same time real revenue grew at an average rate of 7.6 percent per annum. The combined effect of growth in revenue and sharp reduction in debt growth resulted in a sharp decline of 8.2% per annum in the country's debt burden during the last four years.

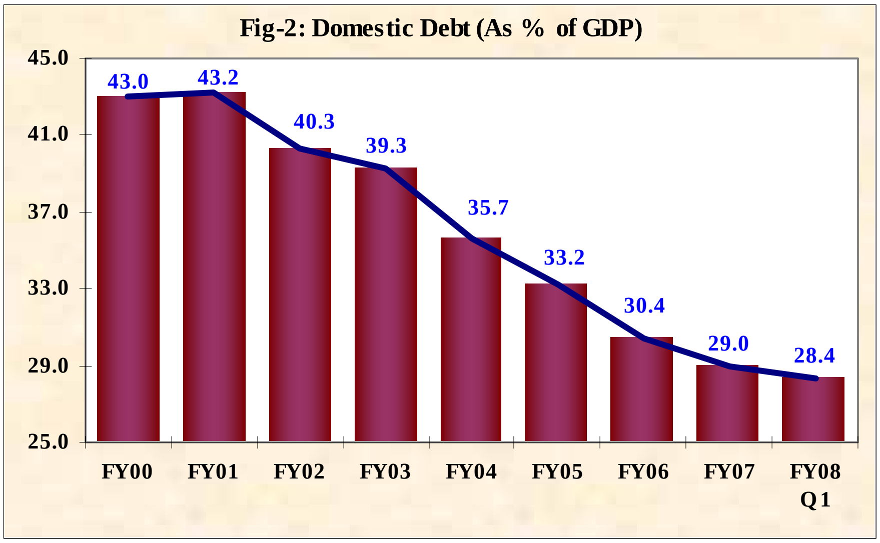
25. **An analysis of the dynamics of the public debt burden provides useful lessons for policy-makers to manage the country's public debt. First, every effort should be made to maintain a primary surplus in the budget. Second, the interest rate and inflation environment should remain benign. Third, the pace of revenue growth must continue to rise to increase the debt carrying capacity of the country and fourth, the exchange rate stability will help reduce the country's public debt burden. Center to all these lessons is the pursuance of prudent monetary, fiscal and exchange rate policies.**

IV.ii. Domestic Debt

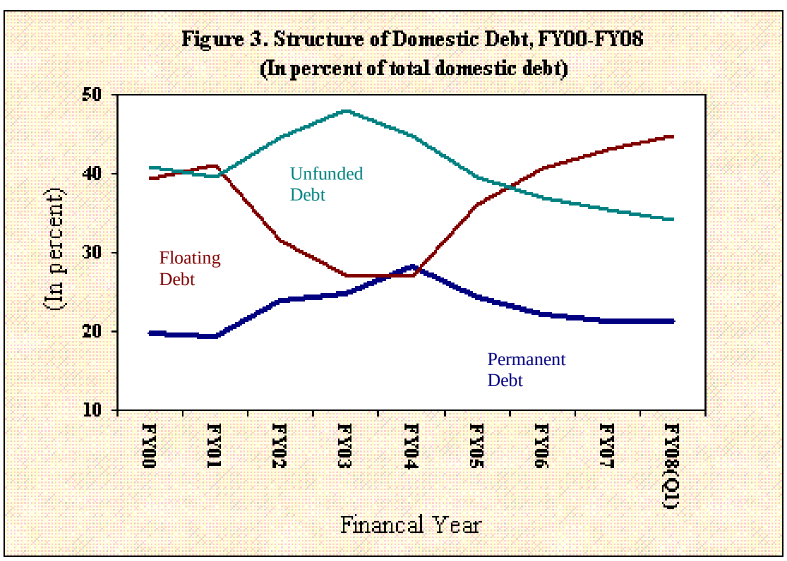
26. Borrowing from domestic sources has several advantages including avoidance of exchange rate risk, lower liquidity risk and ability to deflate debt through higher inflation. On the other hand in most developing countries financial sectors are comparatively small which limits availability of credit. Excessive borrowing by the public sector could lead to crowding out of the private sector as well as high interest rates and inflation. With the expansion of financial sector in Pakistan the government has relied more on borrowing from the domestic sources which at the end of first quarter of FY08 (Q1) accounted for 54.0 percent of total public debt.

27. At the end of FY07 total domestic debt stood at Rs. 2610.2 billion which is 29 percent of GDP [See Figure-2]. The net increase in domestic debt was Rs. 298.6 billion from end of FY06 where domestic debt was Rs. 2311.6 billion. This represents a growth rate of 12.9 percent which is higher than the average growth rate since FY00 of 6.6 percent but still lower than the pace of growth in domestic debt observed in the 1980's and the 1990's which were 20 percent and 16 percent, respectively.

28. The domestic debt is classified in three main categories: permanent debt, floating debt and unfunded debt. Permanent debt includes medium and long-term debt such as Pakistan Investment Bonds (PIBs) and prize bonds while floating debt consists of short-term borrowing in the form of T-bills. Unfunded debt refers mostly to outstanding balances of various national saving schemes. At the end of FY07, permanent debt represented 21.6 percent of total domestic debt while floating debt made up 42.4 percent. The remaining 36.0 percent consisted of unfunded debt.



29. As can be seen in Figure 3 there has been a shift in shares of different components of domestic debt since FY99. In particular, shares of permanent debt and unfunded debt in total outstanding debt have been decreasing while the share of floating debt has been increasing. The increase in the domestic debt during 2006-07 in absolute terms was primarily came from a rise in the stock of floating debt, however, other two components of domestic debt namely, permanent and unfunded contributed to increase in stock of domestic debt as well.



30. There was a net increase in stock of permanent debt by Rs. 47.7 billion. Floating debt increased by a staggering Rs. 167.4 billion while unfunded debt saw an increase of Rs. 83.5 billion. This substantial increase in floating debt was the result of government's decision to rely less on long-term Pakistan Investment Bonds (PIBs) and more on direct lending from the Central Bank which is in the form of Market Related Treasury Bills (MRTBs). The reason for this shift in reliance from long-term instrument to short-term instrument is discussed later in this section. This increase in the share of floating debt has shortened the maturity profile of domestic debt and increased the vulnerability to rollover risk.

Table 4. Outstanding Domestic Debt, FY02-FY08

	FY02	FY03	FY04	FY05	FY06	FY07	FY08 Nov.
			(In billions of Rs.)				
Permanent Debt	**424.8**	**468.8**	**570.0**	**526.2**	**514.9**	**562.5**	**599.4**
Market Loans	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Government Bond	9.6	9.6	9.6	9.5	9.4	19.8	9.4
Prize Bonds	103.1	130.0	152.8	162.2	165.5	174.5	179.4
Foreign Exchange Bearer Certificates	3.1	2.2	1.0	0.6	0.3	0.2	0.2
Bearer National Fund Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Federal Investment Bonds	81.5	45.5	33.5	14.6	6.6	3.1	2.2
Special National Fund Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Currency Bearer Certificates	0.8	0.1	0.1	0.1	0.1	0.0	0.0
U.S. Dollar Bearer Certificates	0.1	0.2	0.2	0.1	0.0	0.0	0.0
Special U.S. Dollar Bond	55.5	40.2	32.1	25.1	14.9	9.4	8.9
Government Bonds Issued to SLIC	14.3	9.5	6.2	3.6	1.5	0.0	0.6
Pakistan Investment Bonds (PIB)	153.8	228.7	331.6	307.6	303.9	352.5	395.7
Government Bonds issued to HBL	0.0	0.0	0.0	0.0	9.8	0.0	0.0
Floating Debt	**557.8**	**516.3**	**542.9**	**778.2**	**940.2**	**1107.7**	**1264.3**
Adhoc Treasury Bills	122.8	0.0	0.0	0.0	0.0	0.0	0.0
Treasury Bills on Tap	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Treasury Bills through Auction	197.5	402.5	345.2	452.7	432.1	656.1	721.2
Rollover of Treasury Bills discounted SBP	10.7	0.5	0.5	0.6	0.6	0.0	0.6
Treasurey Bills purchased by SBP (MRTB)	226.8	113.2	197.2	324.9	507.5	451.5	542.6
Unfunded Debt	**792.1**	**909.5**	**899.2**	**873.2**	**881.7**	**940.0**	**963.3**
Defence Savings Certificates	287.0	309.0	312.2	303.5	295.9	289.0	290.1
Khas Deposit Certificates and Accounts	0.6	0.6	0.6	0.6	0.6	0.6	0.6
National Deposit Certificates	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Savings Accounts	7.7	9.3	8.6	9.1	8.7	18.7	13.6
Mahana Amadni Account	2.0	2.2	2.3	2.4	2.4	2.5	2.5
Postal Life Insurrance	29.9	37.3	46.0	56.3	67.1	67.1	67.1
Special Savings Certificates and Accounts	256.2	346.2	335.9	250.7	192.2	208.3	216.9
Regular Income Scheme	189.9	175.0	125.9	85.2	69.7	51.3	50.0
Pensioners' Benefit Account	0.0	10.2	23.4	41.1	57.5	69.0	73.1
Bahbood Savings Certificates	0.0	0.0	22.7	83.3	143.0	190.2	207.0
G.P. Fund	18.7	19.7	21.6	41.0	44.5	43.3	42.3
Total Domestic Debt	**1774.7**	**1894.5**	**2012.2**	**2177.6**	**2336.8**	**2610.2**	**2827.0**
Total Domestic Debt (excluding foreign currency debt included in external debt)	1715.2	1851.9	1978.8	2151.8	2321.6	2600.5	2817.8

Source: Budget Wing, Ministry of Finance and DPCO staff calculations.

Table 5. Causative Factors in Change in Stock of Domestic Debt, FY07

	Stock (End FY06)	Stock (End FY07)	Change in Stock	Reciepts	Repayments	Net Investment
				(in FY07)		
	(In billions of Rs.)					
Permanent Debt	**514.88**	**562.54**	**47.66**	**105.28**	**68.45**	**36.82**
Market Loans	2.88	2.88	0.00	0.00	0.00	0.00
Government Bond	9.42	19.78	10.36	0.00	0.03	-0.03
Prize Bonds	165.51	174.51	9.01	44.41	39.48	4.94
Foreign Exchange Bearer Certificates	0.30	0.24	-0.06	0.00	0.03	-0.03
Bearer National Fund Bonds	0.01	0.01	0.00	0.00	0.00	0.00
Federal Investment Bonds	6.65	3.13	-3.52	0.10	1.05	-0.95
Special National Fund Bonds	0.00	0.00	0.00	0.00	0.00	0.00
Foreign Currency Bearer Certificates	0.05	0.04	-0.01	0.00	0.00	0.00
U.S. Dollar Bearer Certificates	0.05	0.04	-0.01	0.00	0.00	0.00
Special U.S. Dollar Bond	14.85	9.40	-5.45	0.00	0.51	-0.51
Government Bonds Issued to SLIC	1.50	0.00	-1.50	0.00	9.80	-9.80
Pakistan Investment Bonds (PIB)	303.87	352.52	48.65	60.77	17.56	43.21
Government Bonds issued to HBL	9.80	0.00	-9.80	0.00	0.00	0.00
Floating Debt	**940.23**	**1107.66**	**167.42**	**730.70**	**574.05**	**156.65**
Adhoc Treasury Bills	0.00	0.00	0.00	0.00	0.00	0.00
Treasury Bills on Tap	0.01	0.01	0.00	0.00	0.00	0.00
Treasury Bills through Auction	432.13	656.10	223.97	132.97	67.36	65.61
Rollover of Treasury Bills discounted SBP	0.55	0.00	-0.55	0.00	0.00	0.00
Treasurey Bills purchased by SBP (MRTB)	507.54	451.54	-56.00	597.73	506.68	91.04
Unfunded Debt	**881.71**	**940.01**	**58.30**	**190.94**	**164.72**	**26.23**
Defence Savings Certificates	295.94	288.96	-6.98	31.47	29.81	1.66
Khas Deposit Certificates and Accounts	0.61	0.60	0.00	0.00	0.01	0.00
National Deposit Certificates	0.02	0.02	0.00	0.00	0.00	0.00
Savings Accounts	8.74	18.74	9.99	50.09	57.74	-7.65
Mahana Amadni Account	2.43	2.48	0.06	0.03	0.04	-0.01
Postal Life Insurance	67.12	67.12	0.00	0.00	0.00	0.00
Special Savings Certificates and Accounts	192.21	208.29	16.08	41.12	31.05	10.07
Regular Income Scheme	69.66	51.29	-18.37	11.06	12.42	-1.36
Pensioners' Benefit Account	57.50	68.97	11.47	14.75	9.85	4.91
Bahbood Savings Certificates	142.98	190.20	47.21	42.42	22.27	20.15
G.P. Fund	44.50	43.33	-1.16	0.00	1.53	-1.53
Total Domestic Debt	**2336.82**	**2610.20**	**273.38**	**1026.92**	**807.22**	**219.70**

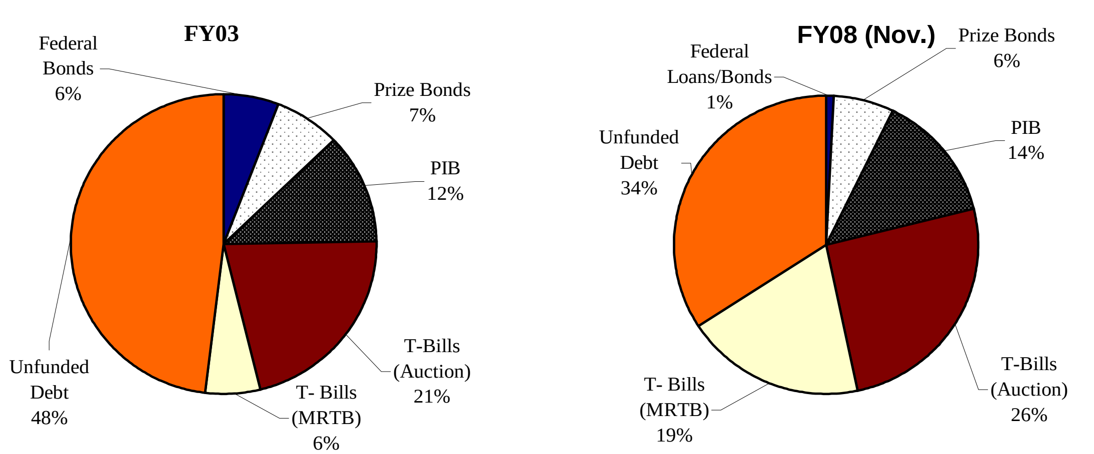
Source: Budget Wing, Ministry of Finance and DPCO Staff calculations.

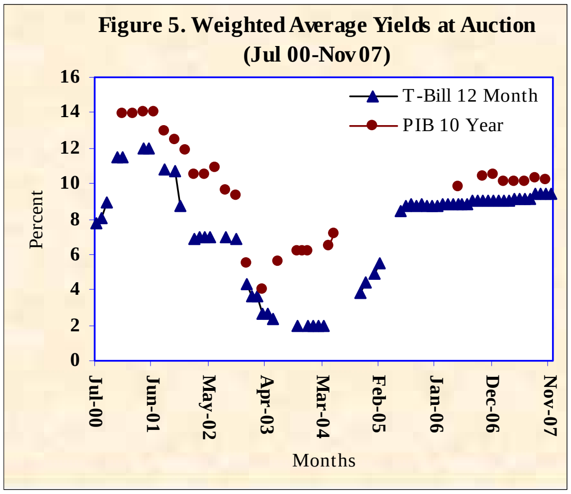
Table 6. Causative Factors in Change in Stock of Domestic Debt, FY08

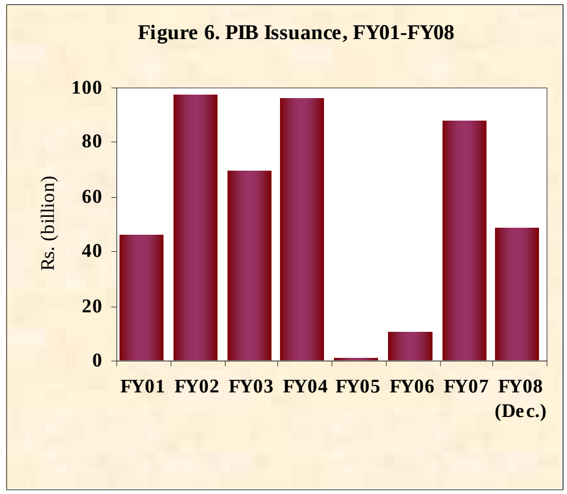
	Stock (End FY07)	Stock (End Nov FY07)	Reciepts	Repayments	Net Investment
			(in Jul-Nov FY07)		
	(In billions of Rs.)				
Permanent Debt	**562.5**	**599.4**	**105.3**	**68.5**	**36.82**
Market Loans	2.88	2.88	0.00	0.00	0.00
Government Bond	19.78	9.36	0.00	0.03	-0.03
Prize Bonds	174.51	179.45	44.41	39.48	4.94
Foreign Exchange Bearer Certificates	0.24	0.23	0.00	0.03	-0.03
Bearer National Fund Bonds	0.01	0.01	0.00	0.00	0.00
Federal Investment Bonds	3.13	2.18	0.095	1.046	-0.95
Special National Fund Bonds	0.00	0.00	0.00	0.00	0.00
Foreign Currency Bearer Certificates	0.04	0.04	0.00	0.00	0.00
U.S. Dollar Bearer Certificates	0.04	0.04	0.00	0.00	0.00
Special U.S. Dollar Bond	9.40	8.89	0.00	0.51	-0.51
Government Bonds Issued to SLIC	0.00	0.58	0.00	0.00	0.00
Pakistan Investment Bonds (PIB)	352.52	395.73	60.77	17.56	43.21
Government Bonds issued to HBL	0.00	0.00	0.00	9.80	-9.80
Floating Debt	**1107.7**	**1264.3**	**730.7**	**574.0**	**156.65**
Adhoc Treasury Bills	0.00	0.00	0	0	0.00
Treasury Bills on Tap	0.01	0.01	0	0	0.00
Treasury Bills through Auction	656.10	721.16	132.971	67.362	65.61
Rollover of Treasury Bills discounted SBP	0.00	0.55	0.00	0.00	0.00
Treasurey Bills purchased by SBP (MRTB)	451.54	542.59	597.73	506.68	91.04
Unfunded Debt	**940.0**	**963.3**	**190.9**	**164.7**	**26.23**
Defence Savings Certificates	288.96	290.14	31.47	29.81	1.66
Khas Deposit Certificates and Accounts	0.60	0.60	0.00	0.01	0.00
National Deposit Certificates	0.02	0.02	0.00	0.00	0.00
Savings Accounts	18.74	13.65	50.09	57.74	-7.65
Mahana Amadni Account	2.48	2.48	0.03	0.04	-0.01
Postal Life Insurrance	67.12	67.12	0.00	0.00	0.00
Special Savings Certificates and Accounts	208.29	216.94	41.12	31.05	10.07
Regular Income Scheme	51.29	50.01	11.06	12.42	-1.36
Pensioners' Benefit Account	68.97	73.11	14.75	9.85	4.91
Bahbood Savings Certificates	190.20	206.99	42.42	22.27	20.15
G.P. Fund	43.33	42.25	0.00	1.53	-1.53
Total Domestic Debt	**2610.20**	**2826.99**	**1026.92**	**807.22**	**219.70**

Source: Budget Wing, Ministry of Finance and DPCO Staff calculations.

Figure 4. Struture of Domestic Debt, FY03 and FY08







31. After keeping issuance of PIBs dormant for some time for stabilizing interest rates, the issuance of PIBs was reinvigorated by the government in FY07. During the period of almost freezing or less reliance, the share of PIB in total debt portfolio did not change substantially between FY03 (12%) and FY08 (end Sep.) (13%). The share of other federal loans and bonds has declined from 6 percent to 1 percent in large part because of maturing Federal Investment Bonds. As can be seen in Table 5, in FY07, the largest negative net investments in permanent debt were in FIBs (Rs. 2.76 billion), Special U.S. Dollar Bonds (Rs. 5.4 billion) and Government Bonds (6.76 billion). The large negative net investment in FIBs is due to the fact that these have been discontinued and replaced by the PIBs. The largest positive increase was for PIBs (Rs. 50.47 billion). This shows changed focus of the government towards PIBs.

32. The share of floating debt which had declined to 27 percent in FY04, increase to 42.5 percent by the end of FY07 and has further increased to 47.2 percent by end-Sep. FY08. The major categories under floating debt are Treasury Bills issued through auction and Treasury Bills extended by SBP (MRTB[2]). As shown in Figure 4, there has been a substantial increase in the share of MRTBs which at the end of FY03 made up 6 percent of total domestic debt and by FY08 (end-Nov.) represented 19 percent of domestic debt. The share of treasury bills through auction in outstanding domestic debt also increased from 21 percent in FY03 to 26 percent in FY08 (End-Nov.).

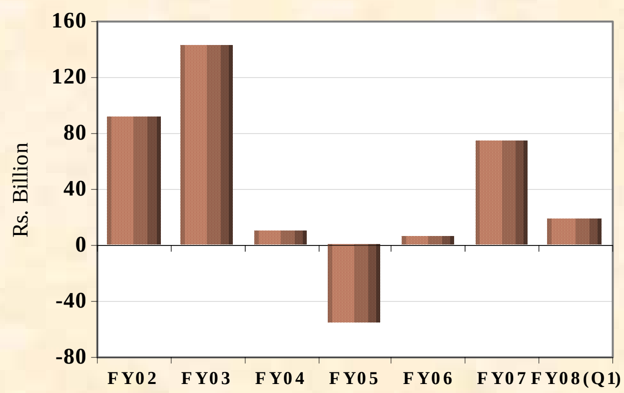
33. There are two reasons for this dramatic increase in reliance on short-term debt. First, there was limited issuance of long-term debt (PIBs) between July 2004 and April 2006 due to an unstable interest rate environment. As can be seen in Figure 5, the issuance of PIBs in FY05 and FY06 was substantially lower than earlier financial years. The spread between the weighted average yields on 10 year PIBs and 12 Month Treasury Bills were increasing in the second half of FY04. In the first half of FY05, SBP started to tighten the monetary conditions by increasing the auction rates for treasury bills at unpredictable pace. The rising short-term rates stoked the expectations of higher long-term rates which led to higher premium demands to compensate for the increased uncertainty. In this environment, the government opted to switch to short-term

[2] Market Related Treasury Bills

borrowing. As the short-term interest rates have stabilized the government has re-entered the PIB market with successful auctions in May 2006 (Rs. 10 billion), five auctions in the FY07 (Rs. 87.86 billion) and four auctions in the first half of FY08 (Rs.49.4 billion).

34. The second reason for higher reliance on floating debt was lower than expected net investment in NSS from FY04 to FY06. As can be seen in Figure 6, the net inflow in NSS was negative in FY05. While it was positive in FY04, FY06 and now in FY07, it was nowhere close to the level observed in FY03. This was a likely result of the lowering of NSS yields. The government has now re-allowed the institutional investors to invest in NSS instruments.

Fig-7: Net Investment (NSS) FY02-FY08



35. As a result of the negative net inflows, the share of unfunded debt has declined from 48 percent in FY03 to 35.5 percent by end September FY08 (See Figure 3). During FY07, stock of unfunded debt increased by only Rs. 58.3 billion. The largest positive contributors in this increase was a positive inflow of Rs. 47.2 billion in Bahbood Saving Instruments (targeted to widows and orphans) while the largest negative contributor was a decline in stock of Regular Income Scheme by Rs. 18.4 billion. There were net withdrawls from Defense Saving Certificates in the tune of Rs. 7.0 billion while there was a positive net investment of Rs. 11.5 billion in Pensioners' Benefit Accounts (PBA). As can be seen in Table 5, most of net investment declines were compensated for by increases in inflows to Pensioner's Benefit Account (PBA) and Bahbood Saving Certificates (BSC). Most likely this represents a shift of accounts from other instruments to higher interest bearing accounts such as BSC and PBA which have higher yields since they serve a social welfare purpose. ***The large shifts suggest that the targeting of account holders in BSC and PBA needs to be tightened to ensure that the higher yields (for social welfare purposes) are limited to the intended beneficiaries.*** The net investment in NSS should increase in the coming financial year with the government's decision to allow institutional investors, other than banks and insurance companies, to invest in NSS again.

IV.iii. Domestic Debt Servicing

36. Total debt servicing on domestic debt in FY07 was Rs. 321.6 billion which is 3.7 percent of GDP and 24.8 percent of total revenue. As can be seen in Table 7, the largest share of payment was Rs. 132.2 billion (40.0 percent of total) for DSCs while interest payment on MRTBs was Rs. 46.7 billion (14.5 percent of total) and Rs. 34 billion (10.6 percent of total) on PIBs. ***The higher expenditure on debt servicing is mainly because of the maturities of Defense Saving Certificates (DSCs) sold in FY 1996-97. This shows that the government's additional expenditure on domestic debt servicing was due to past financing commitments and not excessive spending in fiscal year 2006-07***.

37. In order to assess the cost of borrowing an implied interest rate is calculated as interest payments in FY07 divided by the stock at the end of previous financial year. The highest implied rate is for unfunded debt at 21.4 percent which is understandable since it includes extraordinary payments on account of final payment on account of DSCs matured after 10 years. They were actually issued in 1996-97 at lucrative interest rate. ***The rate on DSC is distorted at 44.6 percent because of bullet payments of maturing DSCs*** and the current yields on new DSCs are fraction of this implied interest rate. DSC are a 10 year instrument and debt servicing of DSC issued over the last decade at much higher rates (above 15 percent) are now maturing and require additional expenditure. As expected, floating debt is the cheapest option with an average implied rate of 9.2 percent while the rate of permanent debt is 0.7 percentage points higher at 9.9 percent.

Table 7. Interest Payment on Domestic Debt FY07

	Interest Payment†	As % of Debt Servicing	Implied Interest Rate*
	(FY07)	(Percent)	
	(Rs. billions)		
Permanent Debt	**50.95**	**15.8**	**9.9**
Prize Bonds	10.23	3.2	6.2
PIB	34.13	10.6	11.2
Floating Debt	**86.93**	**27.0**	**9.2**
T-Bill (Auction)	40.21	12.5	9.3
T-Bill (SBP)	46.73	14.5	9.2
Unfunded Debt	**183.71**	**57.1**	**21.4**
DSC	132.16	41.1	-
Special Saving (C&A)	16.98	5.3	8.8
Reg. Income Sch.	6.15	1.9	8.8
Pensioner's BA	6.65	2.1	11.6
Bhabood SC	17.56	5.5	12.3
Total	**321.60**		**13.9**

Source: Budget Wing, MoF and DPCO Staff calculations.

† Only large sub-components are shown under each cateogory of debt.

*Calculated as interest payment divided by stock as of end of FY06.

Table 8. Domestic Debt Interest Payments Burden, FY91-FY08

Year	Outstanding Debt	Interest Payments	Domestic Interest Payment (in percent of) Tax Revenue	Total Revenue	Total Expenditure	Current Expenditure	GDP
	(In billions of Rs.)		(percent)				
FY91	448.2	35.7	27.5	20.8	13.7	18.2	3.5
FY95	807.7	77.9	30.2	24.1	18.2	22.5	4.2
FY00	1642.4	210.2	51.8	41	29.6	29.5	5.5
FY02	1774.7	189.5	38.6	29.6	22.3	27.1	4.2
FY03	1894.5	166.9	30.0	22.3	17.9	21.1	3.4
FY04	2012.2	161.5	26.1	19.2	16.5	21.2	2.9
FY05	2158.4	176.3	26.7	19.6	15.8	20.4	2.7
FY06	2311.6	191.4	25.2	18.8	14.4	19.6	2.7
FY07	2610.2	321.6†	36.1	24.8	19.2	23.4	3.7
FY08*	2827.0	318.2	29.0	21.6	17.0	23.1	3.2

Source: Budget Wing (MoF) and DPCO staff calculations.

* Budget Estimates. † Provisional

38. As a result of prudent fiscal management over the last 6 years, the burden of interest payments on the domestic budget has declined sharply, thereby, releasing resources for public sector development program (PSDP) and social sector programs. As shown in Table 8, interest payment on domestic debt as a percentage of total revenue has been reduced from 29.6 percent in FY02 to 24.8 percent in FY07. Similarly, as percentage of total expenditure it has declined from 22.3 percent in FY02 to 19.2 percent in FY07. Most

importantly, as percentage of GDP, interest payments declined from 4.2 percent to 3.7 percent in the last six years.

IV.iv. External Debt and Liabilities

39. External debt and liabilities (EDL) at the end of FY07 were US$ 40.17 billion. This shows an increase of US$ 2.93 billion which represents a 7.8 percent increase over the stock at the end of FY06. Majority of the EDLs are in the form of medium and long term borrowing from multilateral and bilateral lenders which accounts for more than 80 percent of outstanding debt (see Table 9). The share of short-term debt is extremely low at 0.1 percent. Pakistan has taken advantage of an earlier Paris Club rescheduling to re-profile its debt at more favourable terms.

Table 9. Composition of EDLs*, FY07

Component	Percent
Public & Publicly Guaranteed	87.8
Paris Club	31.6
Multilateral	46.5
Other Bilateral	2.5
Short Term	0.1
Other	7.2
Private Non-Guaranteed	5.0
IMF	3.5
Foreign Exchange Liabilities	3.7
Memo:	
Total EDLs (In billion of US$)	40.17

Source: SBP Statistical Bulletin and DPCO
*EDL: External Debt & Liabilities

40. The growth of EDLs which had slowed earlier in the decade has started to pick-up pace again partly on account of borrowing for earthquake-related spending. EDLs grew by 4 percent in FY06 while they grew by 7.8 percent in FY07. But because of faster growth in GDP the EDLs as a percentage of GDP have been on a decline. As can be seen in Table 10, EDLs as percentage of GDP have declined from 29.4 percent in FY06 to 28.0 percent in FY07. During the first quarter of FY08, the EDLs have further declined to 25.7 percent of the projected GDP for the year.

41. The largest increase in stock was for debt to multilateral donors with a change in stock of US$ 2.16 billion, as shown in Table 11. The foreign exchange liabilities showed a decline of US$ 110 million (7.1 percent) but this was more than compensated for by fresh borrowing from multilateral lenders and Foreign Currency Bonds (including Euro bonds). Interest payments on EDLs were US$ 1.11 billion and the amortization payments stood at US$ 1.87 billion.

42. As Table 12 shows, the first quarter of FY08 saw an increase of EDLs by 3.7 percent to US$ 41.67 billion. Public and publicly guaranteed debt increased by US$ 1.5 billion (4.2 percent) mainly on account of borrowing from multilateral lenders while the external liabilities continued on their downward trend, declining by $US 0.13 billion (8.8 percent).

Table-10: Pakistan: External Debt and Liabilities

	FY02	FY03	FY04	FY05	FY06	FY07	FY08 Q1
			(In billions of U.S. dollars)				
1. Public and Publically Guaranteed debt	29.24	29.23	29.88	30.81	32.60	35.29	36.78
A. Medium and long term(>1 year)	29.05	29.05	29.85	30.81	32.41	35.27	36.62
Paris club	12.52	12.61	13.56	13.01	12.83	12.69	13.31
Multilateral	14.33	14.95	14.35	15.36	16.53	18.69	19.44
Other bilateral	0.43	0.51	0.72	0.81	0.85	1.00	1.03
Euro bonds/Saindak Bonds	0.64	0.48	0.82	1.27	1.91	2.66	2.65
Military debt	0.82	0.26	0.20	0.19	0.13	0.08	0.05
Commercial Loans/credits	0.31	0.23	0.20	0.18	0.17	0.15	0.14
B. Short Term (<1 year)	0.18	0.19	0.02	0.27	0.20	0.03	0.16
IDB	0.18	0.19	0.02	0.27	0.20	0.03	0.16
2. Private Non-guaranteed Debt (>1 yr)	2.23	2.03	1.67	1.34	1.58	2.00	2.10
3. IMF	1.94	2.09	1.76	1.61	1.49	1.41	1.44
Total External Debt (1 through 3)	**33.40**	**33.35**	**33.31**	**34.04**	**35.68**	**38.699**	**40.322**
Of Which Public	***29.9***	***30.6***	***31.2***	***32.1***	***33.6***	***36.4***	***37.9***
4. Foreign Exchange Liabilities	3.13	2.12	1.95	1.80	1.59	1.47	1.34
Foreign Currency Accounts	0.41	--	--	--	--	--	--
FE - 45	0.23	--	--	--	--	--	--
FE-13/For 01:FE25CRR w/SBP	--	--	--	--	--	--	--
FE - 31 deposits (incremental)	0.17	--	--	--	--	--	--
Special U.S $ Bonds	0.92	0.70	0.55	0.42	0.25	0.16	0.15
Foreign Currency Bonds (NHA / NC)	0.20	0.18	0.15	0.13	0.11	0.09	0.07
National Debt Retirement Program	0.08	0.01	0.00	--	--	--	--
Central Bank Deposits	0.75	0.70	0.70	0.70	0.70	0.70	0.70
NBP/BOC Deposits	0.50	0.50	0.50	0.50	0.50	0.50	0.40
Other Liabilities (SWAP)	0.28	0.05	0.05	0.05	0.03	0.03	0.03
FEBCs/FCBCs/DBCs	0.07	0.04	0.02	0.01	0.01	0.01	0.01
Total External Debt & Liabilities (1 through 4	**36.53**	**35.47**	**35.26**	**35.83**	**37.26**	**40.17**	**41.67**
(of which) Public Debt	29.9	30.6	31.2	32.1	33.6	36.4	37.9
Official Liquid Reserves	4.34	9.53	10.56	9.81	10.77	13.33	13.88
			(In percent of GDP)				
1. Public and Publically Guaranteed debt	40.8	35.5	30.5	28.1	25.7	24.6	22.7
A. Medium and long term(>1 year)	40.5	35.2	30.5	28.1	25.5	24.6	22.6
B. Short Term (<1 year)	0.3	0.2	0.0	0.2	0.2	0.0	0.1
3. IMF	2.7	2.5	1.8	1.5	1.2	1.0	0.9
Total External Public Debt	**41.7**	**37.2**	**31.9**	**29.3**	**26.5**	**25.4**	**23.4**
4. Foreign Exchange Liabilities	4.4	2.6	2.0	1.6	1.2	1.0	0.8
Total External Debt & Liabilities (1 through 4	**51.0**	**43.0**	**36.0**	**32.7**	**29.4**	**28.0**	**25.7**
Official Liquid Reserves	6.1	11.6	10.8	9.0	8.5	9.3	8.6
Memo:							
GDP (in billions of Rs.)	4402	4823	5641	6500	7594	8707	9970
Exchange Rate (Rs./U.S. dollar, Period Avg.)	61.4	58.5	57.6	59.4	59.9	60.6	61.5
Exchange Rate (Rs./US$, EOP)	60.1	57.7	57.9	59.7	60.2	60.6	60.6
GDP (in billions of U.S. dollars)	71.7	82.4	98.0	109.5	126.9	143.6	162.1

Source: State Bank of Pakistan

Table 11. Causative Factors in Change in External Debt and Liabilities, FY07

	FY06	FY07	Change	Percent Change	Principal FY07	Interest FY07
	(In billions of US Dollars)				(In billions of US Dollars)	
1. Public and Publically Guaranteed debt	32.58	35.29	2.71	8.3	1.24	0.84
A. Medium and long term(>1 year)	32.41	35.27	2.86	8.8	1.05	0.83
Paris club	12.83	12.69	-0.14	-1.1	0.23	0.36
Multilateral	16.53	18.69	2.16	13.0	0.68	0.27
Other bilateral	0.85	1.00	0.16	18.3	0.07	0.04
Euro bonds/Saindak Bonds	1.91	2.66	0.75	39.2	0.00	0.15
Military debt	0.13	0.08	-0.05	-36.2	0.05	0.01
Commercial Loans/credits	0.17	0.15	-0.02	-12.1	0.02	0.01
B. Short Term (<1 year)	0.17	0.03	-0.14	-85.2	0.19	0.01
2. Private Non-guaranteed Debts (>1 yr)	1.59	2.00	0.42	26.3	0.40	0.15
3. IMF	1.49	1.41	-0.08	-5.6	0.12	0.02
Total External Debt (1 through 3)	35.66	38.70	3.04	8.5	1.76	1.01
4. Foreign Exchange Liabilities*	1.59	1.47	-0.11	-7.1	0.12	0.10
Foreign Currency Accounts	0.00	0.00	0.00	0.0	0.00	0.00
Special U.S $ Bonds	0.25	0.16	-0.09	-36.8	0.09	0.01
FC Bonds (NHA / NC)	0.11	0.09	-0.02	-19.3	0.02	0.01
Central Bank Deposits	0.70	0.70	0.00	0.0	0.00	0.03
NBP/BOC Deposits	0.50	0.50	0.00	0.0	0.00	0.05
Other Liabilities (SWAP)	0.03	0.03	0.00	0.0	0.00	0.00
FEBCs/FCBCs/DBCs	0.007	0.005	-0.002	-28.6	0.003	0.003
Total External Debt & Liabilities*	37.24	40.17	2.93	7.9	1.87	1.11
Official Liquid Reserves	10.77	13.35	2.58	24.0		

Source: SBP Bulletin and DPCO staff calculations.

Table 12. Causative Factors in Change in External Debt and Liabilities, FY08

	FY07	FY08(Q1)	Change	Percent Change	Principal FY08(Q1)	Interest FY07(Q1)
	(In billions of US Dollars)				(In billions of US Dollars)	
1. Public and Publically Guaranteed debt	35.29	36.78	1.494	4.2	0.33	0.18
A. Medium and long term(>1 year)	35.27	36.62	1.356	3.8	0.30	0.17
Paris club	12.69	13.31	0.617	4.9	0.04	0.01
Multilateral	18.69	19.44	0.753	4.0	0.21	0.09
Other bilateral	1.00	1.03	0.023	2.3	0.02	0.00
Euro bonds/Saindak Bonds	2.66	2.65	-0.002	-0.1	0.00	0.06
Military debt	0.08	0.05	-0.035	-42.2	0.03	0.00
Commercial Loans/credits	0.15	0.15	0.000	0.0	0.00	0.00
B. Short Term (<1 year)	0.03	0.16	0.137	548.0	0.03	0.01
2. Private Non-guaranteed Debts (>1 yr)	2.00	2.10	0.100	5.0	0.09	0.04
3. IMF	1.41	1.44	0.028	2.0	0.01	0.00
Total External Debt (1 through 3)	38.70	40.32	1.62	4.2	0.42	0.23
4. Foreign Exchange Liabilities*	1.47	1.34	-0.13	-8.8	0.03	0.03
Foreign Currency Accounts	0.00	0.00	0.00	0.0	0.00	0.00
Special U.S $ Bonds	0.16	0.15	-0.01	-5.1	0.01	0.00
FC Bonds (NHA / NC)	0.09	0.07	-0.02	-25.0	0.02	0.01
Central Bank Deposits	0.70	0.70	0.00	0.0	0.00	0.01
NBP/BOC Deposits	0.50	0.40	-0.10	-20.0	0.10	0.01
Other Liabilities (SWAP)	0.03	0.03	0.00	0.0	0.00	0.00
FEBCs/FCBCs/DBCs	0.01	0.01	0.00	0.0	0.00	0.00
Total External Debt & Liabilities*	40.17	41.67	1.49	3.7	0.55	0.26
Official Liquid Reserves	13.35	13.88	0.53	4.0		

Source: SBP Bulletin and DPCO staff calculations.

* Excluding FEBCs/FCBCs & DBCs from 30/06/99

V. Official Loan Disbursements

43. The total disbursements of official loans[3] during FY07 was US$ 2.67 billion of which multilateral debt accounted for US$ 2.4 billion while bilateral loans accounted for US$ 208 million. The foreign loans disbursement by purpose is as follows: US$ 1.72 billion for BOP/Cash support, US$ 0.31 billion for earthquake relief and for power of US$ 0.11 billion. Pakistan kept its policy of resorting more to concessional and longer terms inflows which has positive impact to improve the maturity profile of external debt.

44. The total disbursement of official loans by economic classification is reported in Table-13. Over one half of the total disbursements were for BOP/cash followed by lending for earthquake relief assistance of 11.7 percent. The share of balance of payment support increases to 73.1 percent if non-earthquake related disbursement is considered. Of the rest of the non-earthquake related disbursements, just over 7 percent is accounted for by transportation/communication sector and another 4.9 percent by the power sector. These are followed by water and rural development/ poverty reduction which make up 3.4 and 2.3 percent of the non-earthquake related disbursement respectively.

Table 13. Disbursement of Official Loans by Economic Classification, FY07

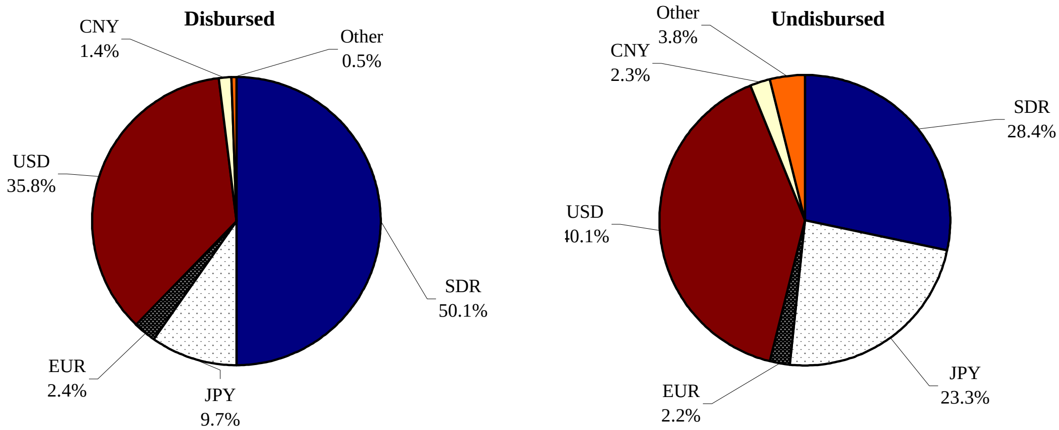
Economic Classification				(Excluding Earthquake	
	Disbursed	Disbursed	Undisbursed	Disbursed	Undisbursed
	(US$ billions)	**% of Total**			
Earthquake Relief Assistance	0.314	11.75	13.72	-	-
B.O.P/Cash	1.723	64.56	11.75	73.16	13.62
Short Term Credit	0.025	0.94	0.32	1.06	0.37
Transportation and Communication	0.166	6.24	19.70	7.07	22.84
Power	0.115	4.31	11.37	4.88	13.18
Rural Development and Poverty Redution	0.054	2.04	3.29	2.31	3.82
Water	0.107	3.99	4.86	4.52	5.63
Governance, Research and Statistics	0.036	1.36	5.31	1.54	6.15
Physical Planning and Housing	0.038	1.42	4.63	1.61	5.36
Health and Nutrition	0.038	1.41	1.75	1.59	2.03
Others	0.053	1.99	23.30	2.25	27.01
Memo:					
Total (Billions of US$)	2.669	100.00	100.00	2.36	5.72

Source: DPCO staff calculations based on the EAD Annual Status Report 2006-07.

45. Table 13 also shows the outstanding amounts of un-disbursed loans by economic classification i.e. loans which have been signed but have not disbursed fully. This gives an indication of the priority sectors in external borrowing in the coming financial years. A significant share of remaining disbursements is in transportation/communication and power sectors. This suggests that a significant part of external borrowing in the coming financial years is linked to infrastructure development.

[3] Official lending refer to loans from bilateral and multilateral lenders. These are managed by the Economic Affairs Division (EAD) and make up the bulk of Pakistan's external debt and liabilities.

Figure 8. Currency Composition of Official Loans



46. The currency distribution of the disbursed and undisbursed loans for FY07 is depicted in Figure 8. By far the largest share in total disbursements was in SDR (Special Drawing Rights)[4]. US dollar disbursements accounted for 35.8 percent of total disbursements while 9.7 percent was accounted for by Japanese Yen. Currency composition of un-disbursed external loans gives an indication of the changes expected in currency composition of future external debt. The largest shares in un-disbursed loans are from SDR and US dollar. The share of SDR in remaining disbursements is smaller than disbursements in the current year suggesting that the composition of debt is likely to shift slowly to US dollar and Japanese Yen.

VI. New External Loans Signed

47. Nearly US$3.25 billion of new official loans were signed in FY07. Table 14 shows the economic classification of the new loans signed. Nearly 75.4 percent of new loans signed were for BOP/cash which is a clear manifestation of rising current account deficit and unprecedented rise in petroleum bill. The next largest share was for earthquake related relief assistance which accounts for 4.3 percent of new loans contracted. The next two largest sectors were education and training (0.1 percent) and short-term borrowing for fuel (0.05 percent).

48. Pakistan successfully issued a US$ 750 million 10 year note at a fixed rate of 6.875% on May 24, 2007 lead managed by Deutsche Bank, Citi Group and HSBC. This was the largest 10 year deal to date, beating the previous deal of US$ 500 million. The transaction has provided a true liquid benchmark for other issuers to follow. The transaction priced at an impressive UST (US Treasury) +200 basis point which is 40 bps (basis points) tighter compared to last year's deal that priced at UST +240 basis points. The deal priced at the tight end of a revised price guidance of 6.875-7.00 percent. The issue was highly oversubscribed with the largest ever order book amassed for Pakistan. The order book of US$ 3.7 billion meant an oversubscription of over 7 times on the

[4] SDR is a unit of account used by the IMF and some other international organizations such as World Bank and ADB. SDR is defined as a composite of a basket of currencies consisting of the euro, Japanese yen, pound sterling, and U.S. dollar.

original deal of US$ 500 million. The resounding demand allowed Pakistan to upsize the deal by 50% to US$ 750 million. The transaction was announced and priced within 72 hours, an impressive feat and testament to investor confidence in Pakistan. Furthermore, an astounding 60% of the deal went to first-time investors who had never bought Pakistan paper before and that 75% of investors met on the roadshow placed orders. The offering was well balanced by geographically with an increase in US participation to 35% from 19% on previous transaction.

Table 14. New Official Loans Signed, FY07

Economic Classification	Signed	Disbursed FY07	(Percent of total signed)
	(Billions of US$)		
B.O.P/Cash	1.901	1.434	75.459
Earthquake Relief Assistance	0.190	0.082	4.325
Agriculture	0.228	0.000	0.000
Governance, Research and Statistics	0.061	0.001	0.053
Health and Nutrition	0.006	0.000	0.000
Education & Training	0.022	0.002	0.104
Power	0.306	0.000	0.003
Transport and Communication	0.176	0.000	0.000
Short-Term Loan	0.225	0.025	1.315
Others	0.133	0.000	0.000
Memo:			
Total (Billions of US$)*	**3.248**	**1.545**	**100.00**

Source: EAD Annual Status Report FY06 and DPCO staff calculations.

VII. External Debt Burden

49. A critical appraisal of the external debt and liabilities will be incomplete without a discussion on changes in external debt burden and vulnerability. There are various indicators which are widely used by the international community and financial institutions to determine the debt carrying capacity and the amount of risk associated with a particular country. Some examples of these indicators are: the stock of external debt and liabilities as percent of GDP, export earning, foreign exchange earning, foreign exchange reserves, and debt servicing as percentage of current account receipts. A cursory look at Table 15 is sufficient to see that all indicators of debt burden show that Pakistan's external debt burden has declined significantly over the last eight years. During theFY07, these indicators demonstrate a marked improvement.

Table 15. Trends in External Debt Sustainability Indicators, FY00-FY07

Year	EDL/ GDP	EDL/ FEE	EDL/ FER	STD/EDL	INT/CAR
	(Percent)		Ratio	(Percent)	
FY00	51.7	297.2	19.3	3.2	11.9
FY01	52.1	259.5	11.5	3.7	13.7
FY02	50.9	236.8	5.8	1.4	7.8
FY03	43.1	181.2	3.3	1.2	5.3
FY04	36.7	164.7	3.0	0.6	4.9
FY05	32.6	134.3	2.7	0.8	3.9
FY06	28.9	117.3	2.9	0.9	3.1
FY07	28.0	122.5	2.5	0.1	3.1

Source: EA Wing and SBP Bulletins.

EDL: External Debt and Liabilities, FEE: Foreing Exchange Earnings, FER: Foreign Exchange Reserves, STD: Short-term Debt, INT: Interest Payments and CAR: Current Account Receipts

50. The external debt and liabilities (EDL) declined from 51.0 percent of GDP in FY02 to 25.7 percent of the projected GDP for FY08 by end-September 2007. As shown in Figure 10, the EDLs were 297.2 percent of foreign exchange earnings at the end of FY00 but declined to 122.5 percent by end FY07. The EDLs were over 19 times of foreign exchange reserves in FY00 but declined to 2.5 times by end 2007. Interest payments on external debt were 11.9 percent of current account receipts but declined to 3.1 percent during the same period. The maturity profile improved significantly as is evident from the fact that short-term debt was 3.2 percent of EDL at the end of FY00 but has declined to 0.07 percent of EDL by FY07 [See Table-15].

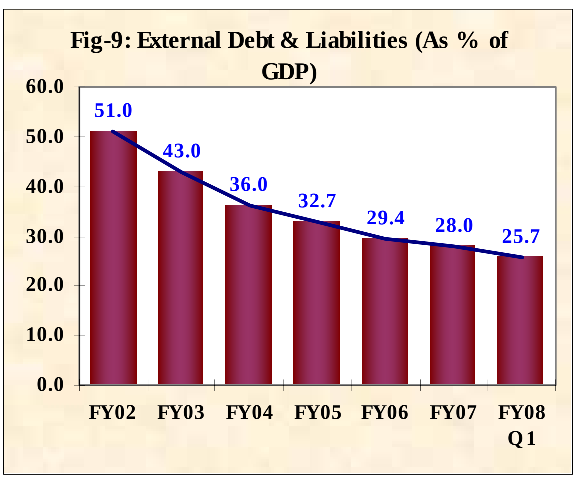
51. As Table 16 shows, total external debt servicing on external debt and liabilities was US$ 2.98 billion of which US$ 1.87 billion was for principal payments while US$ 1.11 billion was against interest payments. Figure 9 shows the currency composition for debt servicing on official loans as reported by EAD in FY07. Of the total amount of payments of US$ 1.9 billion nearly 49 percent was made in dollars followed by 18 percent in Japanese Yen and 11 percent in Euro. Figure 11 shows the maturity profile (including principal payments and interest payments) of the external debt for the next thirty years assuming that all loans are completely disbursed and no new loans are taken. The profile is fairly smooth with few notable spikes which represent the bullet payments of recently issued bonds (2009, 2010, 2016 and 2036). The maximum payment in any given year is just over US$ 1.9 billion which is a manageable level based on Pakistan's foreign exchange earnings.

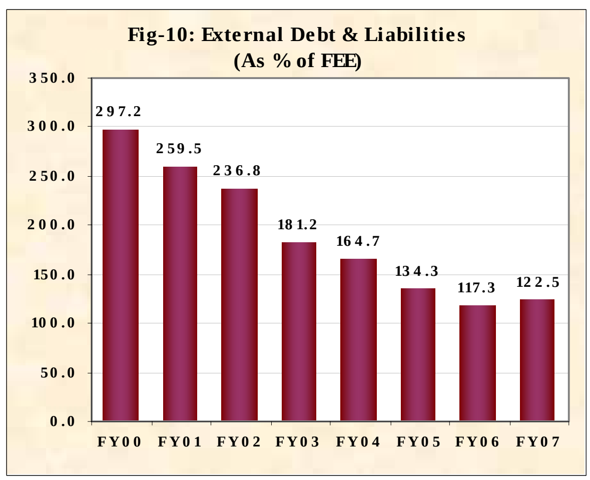
Table-16: Pakistan's External Debt and Liabilities

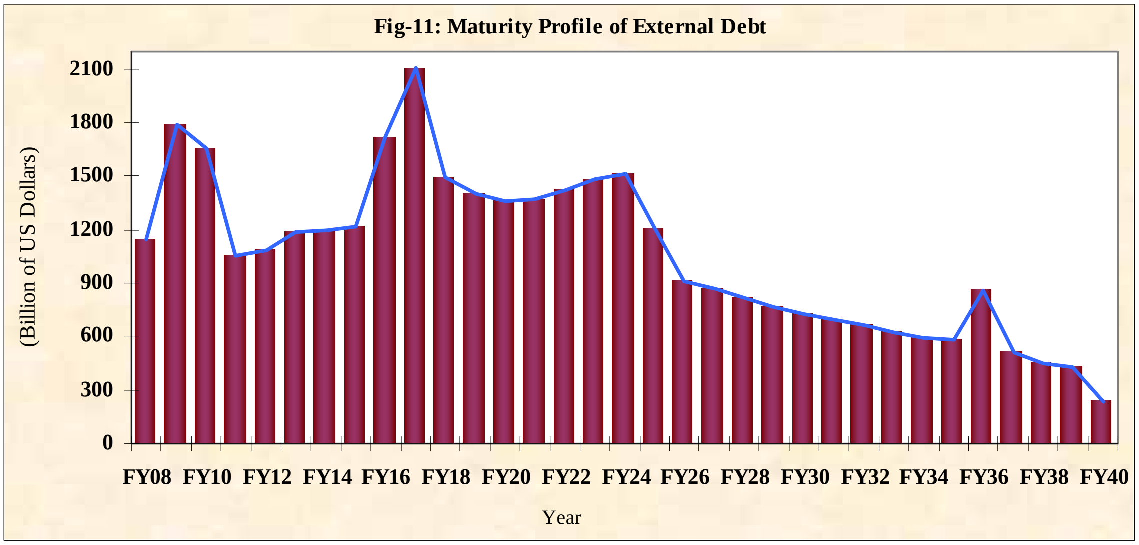
($ Million)

Years	Actual Amount Paid	Amount Rolled Over	Total
1999-00	3756	4081	7837
2000-01	5101	2795	7896
2001-02	6327	2243	8570
2002-03	4349	1908	6257
2003-04	5274	1300	6574
2004-05	2965	1300	4265
2005-06	3110	1300	4410
2006-07	2978	1300	4278
2007-08*	809	550	1359

* July-September Source: State Bank of Pakistan







VIII. Guarantees

52. Contingent liabilities are costs which the government will have to pay if a particular event occurs. These are obligations triggered by discrete but uncertain events. The probability of a contingency occurring can depend on exogenous (such as natural disasters) and endogenous (such as implications of market institutions and government programs for moral hazard in the markets) variables. Contingent liabilities are therefore not recognized as direct liabilities. However, contingent government liabilities are associated with major hidden fiscal risks.

Table 16. Guarantees Issued, FY07 and FY08(H1)
(As of 15 Jan. 2008)

Name of Organization		Amount (In Rs. Billion)
FY07		
PIA		45.0
WAPDA		6.5
PNSC		0.4
Local Currency		17.0
Total		**69.0**
		(In percent of GDP)
GDP (in billions of Rs.)	8707	**0.79**
FY08 (Jul-Dec.)		
PIA		8.1
WAPDA		7.8
MINFAL/TCP		8.3
Local Currency		30.4
Total		**54.6**
Projected GDP		(In percent of GDP)
(in billion of Rs.)	9970	**0.55**

Source: Corporate Finance Wing, MoF and DPCO staff calculations.

53. A common example of a contingent liability is a government-guaranteed loan. At the time the guarantee is issued there is no liability for the government, since this is contingent upon the borrower failing to repay the loan as contracted. However, in the event of default, the lender can invoke the guarantee and the government will be obliged to repay the amount of the loan still outstanding. At that point, the contingent liability will become an actual liability of the government, and a payment must be made. These liabilities support specific policy objectives by creating financial incentives, without an immediate financial outlay. However, when these contractual guarantees or non-contractual commitments are realized, the government faces significant fiscal costs at the expense of other outlays. Thus an analysis of the country's fiscal position and debt sustainability is incomplete if it skips over obligations made by the government outside the budget. Table 16 shows the new guarantees on loans issued by the government in FY07 and first half of FY08. The total amount of new guarantees issues was 0.8 percent of GDP in FY07.

IX. Report on Compliance with FRDL Act 2005

54. The Fiscal Responsibility and Debt Limitation Act, 2005 was approved on 13 June 2005. It required the federal government to take measures to reduce total public debt and maintain it within prudent limits thereof. The following section identifies the various limits set by the FRDL Act 2005 and reports on progress of the government in meeting those targets.

The FRDL Act 2005 requires the following:

(1) Ensure "that within a period of ten financial year, beginning from the first July, 2003 and ending on thirtieth June, 2013, the total public debt at the end of the tenth financial year does not exceed sixty percent of the estimated gross domestic product for that year and thereafter maintaining the total public debt below sixty percent of gross domestic product for any given year."

Government has already met and actually exceeded the requirement on level of debt as a percentage of GDP. Further, this limit has been realized within three financial years instead of ten years as envisaged by the FRDL Act. At the beginning of July 2003, the total public debt stood at 75.1 percent of GDP while at the end of June 2007, the same figure stands at 55.2 percent of GDP. For FY08 (1st Quarter) the level of public debt has further declined to 50.1 percent of the projected GDP for the year.

(2) **Ensure "that in every financial year, beginning from the first July, 2003, and ending on the thirtieth June 2013, the total public debt is reduced by no less than two and a half percent of the estimated gross domestic product for any given year."**[5]

The government has not successfully met this requirement in FY07. Public debt stood at 57.2 percent of GDP by end June 2006 and decreased to 55.2 percent of GDP by end-June 2007, which implies a 2.0 percentage point reduction in the public debt-to-GDP ratio against specified reduction target of 2.5 percentage points. Even though the reduction in public debt-to-GDP ratio did not meet the target of 2.5 percent per year, this part of the FRDL Act 2005 was meant to be a vehicle in achieving the more important target of reducing the public debt-to-GDP ratio to less than 60 percent within a ten year span. Having already brought the public debt-to-GDP ratio below 60 percent in a mere three years instead of ten, the target of yearly reduction of 2.5 percent has only notional value. By end September 2007, the public debt-to-GDP ratio went down further to 50.1 percent of the projected GDP for FY08. This is an indication that the government has remained fiscally prudent thus far, as required by the FRDL Act 2005. The important thing about this fiscal prudence is that it has not been achieved at the expense of the reduction in social sector and poverty related expenditures. These expenditures were 5.7 percent of GDP in FY06 and increased further to 5.8 percent of GDP in FY07. Poverty and social sector related expenditure is targeted at 6 percent of GDP for the year FY08. It means legal obligation to keep these expenditures at 4.5 percent of GDP is well taken

[5] The FRDL Act 2005 also requires the reduction of revenue deficit to nil no later than end of FY08 and sets a lower limit on the expenditure on social and poverty alleviation related expenditures as a share of GDP. Compliance with these requirements is discussed in the Fiscal Policy Statement.

care of. Expenditure on education and health are also growing briskly, and there are indications that expenditure on these items will be doubled in terms of percentage of GDP by FY13.

(3) Not issue "new guarantees, including those for rupee lending, bonds, rates of return, output purchase agreements and all other claims and commitments that may be prescribed, from time to time, for any amount exceeding two percent of the estimated gross domestic product in any financial year: Provided that the renewal of existing guarantees shall be considered as issuing a new guarantee."

The government remained within this required limit of 2% of GDP by issuing Rs. 69.0 billion new guarantees which is 0.8% of GDP for fiscal year 2006-07. For the first half of the current fiscal year of 2007-08, the government issued Rs. 54.6 billion of new guarantees which amounts to 0.6% of GDP which is fraction of what is required by FRDL 2005.

X. Debt Management Strategy

55. The government plans to put in place several measures to meet its twin objectives of borrowing at the minimum cost while keeping risks in check and of developing an efficient local currency sovereign debt market.

Strategies on Overall Debt Management

- ***The DPCO will publish an analytical report on debt on a quarterly basis.***

DPCO will establish links with the four debt management units in the government (SBP, EAD, NSS and Budget Wing) in order to develop an updated electronic database of all components of debt on a historical basis.

Strategies on Domestic Debt

- ***The government will continuously provide the supply of long term securities in order to establish an efficient government yield curve***

In order to catalyze a vibrant market and for the development of secondary market the government had conducted five PIBs auctions in FY 2006-07 and issued Government long term securities amounting Rs.87 billion. The Government had also launched 30 years maturity PIB December'06, its total outstanding stock till end of June'07 stood at Rs.16.10 billion. For the fiscal year 2007-08, the government will opt to remain close to its preset volumes and consistent supply of government securities will be considered as an investment needed to develop the government bond market. This in turn, provides the benchmark yield curve that will form the foundation of the corporate bond market. The Government has conducted four PIBs auctions in the first half of the FY08 and raised more than Rs.49 billion. The total maturities of PIBs during the FY08 amount to Rs.14.5 billion. The Government will be active in domestic capital market by issuing more PIBs during the second half of the FY08.

- ***The investor base will be diverse by encouraging different sectors like insurance and pension.***

Development of investor base is essential for an active secondary market consisting of domestic and foreign investors, insurance companies, mutual and pension funds, institutional investors and individuals. The absence of sufficiently developed long-term investors is a significant hurdle in the development of debt market. Commercial banks and DFIs are not long-term investors as their liabilities are not long term. Although employee benefit funds and insurance companies are the natural demanders of long term assets to hedge their long term liabilities, in Pakistan they are too small and underdeveloped as an investor base to drive demand for debt securities sufficiently. Developing the pension sector is a major initiative primarily motivated by providing a dependable and adequate social safety net for citizens and the insurance sector is a vehicle for bearing and distributing risk. Creating an enabling environment for these sectors to develop and flourish will be one of the most powerful and effective action that the government and industry participants can take to develop Pakistan's debt capital market .The Government needs to improve regulation and incentives for the development of these sectors to enhance demand for government bonds. With the help of wide array of investors with varying risk preferences, time horizons, and trading motives would ensure active trading, liquidity and allow the government with increased options of funding.

- ***Work with the SBP to reconsider the held-to-maturity (HTM) category for sovereign bonds***

The held-to-Maturity Category introduced in 2002 by the SBP allows banks to hold bonds at book value not at mark- to-market value. In a rising interest rate environment, banks are incentivized to hold bonds to maturity and not trade them in order to avoid booking losses. This category needs to be reviewed and phased out gradually.

- ***The government will work on its long term funding resource (NSS) to make them market- based instruments***

The Government has largest share of its debt in NSS (around 39% of Government Debt as on November 2007).It provides the reliable source of long-term funding to the government and a widespread distribution network that provides access to retail investor base. But it has historically been a costly source of funding due to the subsidized nature of its saving products and free embedded put option. The government needs to integrate NSS into the mainstream capital markets by reviewing its policy of allowing redemption at zero penalties in order to make NSS instruments competitive with market instruments.

- ***Debt Capital Market will be developed to have alternative sources of financing rather than just to rely on banking system.***

The size of the corporate debt market in a country can signify the extent of debt market development. In addition to being indicative of general debt market development of a country, corporate debt markets are vital to the robustness of the financial system of economy as they strengthen and diversify the funding channels for economic growth. Accordingly, the meager size of Pakistan's corporate debt issues reflects the underdevelopment of the country's debt capital market. The government will take several measures regarding pricing and issuance of TFC's, and corporate bond market development.

- ***Provision of Electronic media can expedite the financial processes.***

There is no electronic means of confirming deals, trading and subsequent payment of success deals. In order to run the courses of action smoothly, electronic media should be present throughout the process in order to attain maximum efficiency. All debt trades including private placements to be reported as centralized data base so that most of the transactions which are carried out on an over-the-counter (OTC) basis can be recorded for the estimation of volume traded.

In addition to the above, the Primary Dealers (PD) system needs to be reviewed for wider and efficient distribution of securities to market. Furthermore, the government will reduce its stock of MRTBs at a measured pace either by issuing PIBs and/or MTBs because direct borrowing from the central bank dampens the efficacy of monetary policy and is against the government's goals of keeping inflation in check. As a policy, the Government will limit its direct borrowing from SBP and instead borrow from the market.

Strategies on External Debt Management

56. What level of debt is sustainable for an economy and how much debt is considered as too much? It is well known that if a country or government accumulates debt beyond its debt servicing capacity, a debt crisis can erupt with potentially large economic and social costs. It is, therefore, essential that the government must find out as to how much debt the country can safely absorb. This leads to a pertinent question as to what level of debt is sustainable. A sustainable debt is a situation where borrower is expected to continue to service its debt obligation in an orderly and stable macroeconomic environment. Debt would become unsustainable if a country accumulates debt at a faster pace than the increase in its debt servicing capacity.

57. There are three steps required to assess the sustainability of debt for any country. Firstly, there is a need to form a view of how outstanding stocks of debt are likely to evolve overtime relative to the economy's ability to service it. This step involves projecting the flows of revenue, foreign exchange earnings, expenditure, imports, economic growth and exchange rate changes. To the extent that these variables are influenced by government policies, projections of debt dynamics depend on policy variables as well as on macroeconomic and financial market developments that are intrinsically uncertain. Secondly, it is essential to examine as to how the outlook would change under plausible shocks such as higher costs of borrowing, reflecting general developments in financial markets and exchange rate depreciation which may drastically increase the burden of foreign currency denominated debt.

58. Finally, the most difficult step in assessing debt sustainability is defining a threshold at which debt is deemed to become unsustainable. Such thresholds have been developed for certain group of countries. For Highly Indebted Poor Countries (HIPCs), for example, the debt would become unsustainable if the net present value of debt exceeds 200 percent of export earnings. Similarly, for non-industrial countries a debt-to-GDP ratio exceeding 40 percent would be a turning point at which risks of debt exposures start to increase. In the case of Pakistan, this ratio is 28 percent – far less than 40 percent. However, a word of caution is required here. No single threshold can reliably define the turning point at which a country's debt will prove unsustainable, as country specific factors and circumstances beyond the debt ratio would play important roles. For

example, higher debt ratio would be less worrisome for countries with faster export growth, a larger share of exports to GDP, and a larger share of domestic currency debt.

Ultimately, assessment of debt sustainability is probabilistic: there is always an element of judgment involved in assessing whether an individual country's debt exceeds prudent levels. The prudent debt management however requires that new borrowing even on concessional terms should be pursued with caution and be based on robust projection of key macroeconomic variables.

59. The government will continue to closely monitor the share of external debt stock and payments which are on a floating basis and develop a framework to assess on a timely basis the risks arising from developments in the global capital markets.

Strategies on Guarantees

- The government will ensure that its guarantees are within the limit imposed under FRDL Act, 2005.