

**BI-ANNUAL**

# **DEBT BULLETIN**

**FOR**

**THE PERIOD ENDED**

**31<sup>st</sup> DECEMBER 2020**



**DEBT MANAGEMENT UNIT**  
**FINANCE DEPARTMENT**  
**GOVERNMENT OF BALOCHISTAN**



**BI-ANNUAL**  
**DEBT BULLETIN**  
FOR  
THE PERIOD ENDED  
**31<sup>st</sup> DECEMBER 2020**

**DEBT**  
**MANAGEMENT**  
**UNIT**

**FINANCE DEPARTMENT**  
**GOVERNMENT OF**  
**BALUCHISTAN**

# INTRODUCTION

The 18th Constitutional Amendment has redefined Pakistan's fiscal architecture through a paradigm shift from a heavily centralized to a predominantly decentralized federation and reinforced a multi-level governance system by extending greater autonomy to the provinces and powers to make allocations, employing funds in important development projects. Given their expanded responsibilities and deep decentralization trends, there is a strong case for enhancing the access of provincial governments to different sources of finance.

In the last few years, there has been a natural increase in importance of sub-national borrowing for financing the growing demand for public infrastructure spending. The challenge, however, is to simultaneously achieve the goals of providing borrowing autonomy and at the same time to preserve fiscal discipline by preventing the insolvency of the sub-national government and assuring national fiscal sustainability. International practice favors incorporating clear fiscal rules to clarify the spending responsibilities of a sub-national government, and also examine own-source revenues and debt in a way to optimize land and local resource use.

In the context of Balochistan, the current capital expenditure of Government of Balochistan consists mainly of repayment of different debts. With provincial debt, there was a clear need for an effective public debt management strategy to ensure adequate fiscal space for future development programs. This need can be met most efficiently via the establishment of a specialized Debt Management Unit (DMU), to not only manage the whole liability portfolio for the Government of Balochistan but address issues such as limited institutional capacity and incomplete debt management system that lacks tools for Identifying, analyzing, preparing for and responding to risks arising from sub-national debts. Therefore, the Government of Balochistan has established a DMU within Finance Department to streamline and strengthen public debt management capacity and ensure that sub-national debt is sustainable.

The Finance Department (Debt Management Unit) has prepared this debt bulletin report to inform the general public, development partners and other stakeholders of the Government debt management operations with respect to the province's total debt portfolio and current debt stock; its debt service payments; composition and structure of debts; risks linked with foreign exchange borrowings. This report is issued on semi-annual basis both in printed form and is made available on the web site of the Finance Department Government of Balochistan. The publication and dissemination of this report also demonstrates government's commitment to transparency, accountability and access to information by the general public. It provides statistical data on Balochistan's public debt on bi-annual basis to assess and analyze the provincial debt in a microscopic way.

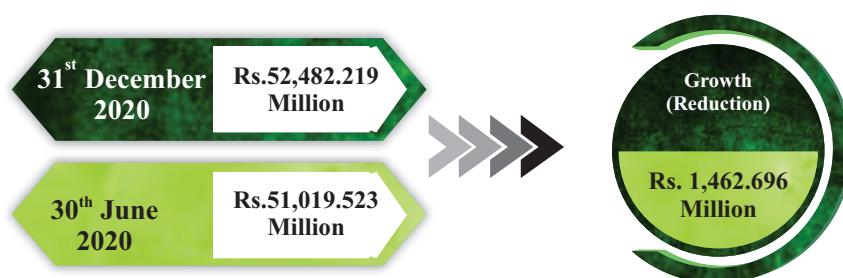
This semi-annual report is second in a row after issuing the first "Debt Analysis and Bulletin Report" for the year ended 30<sup>th</sup> June,2020.

# ABBREVIATIONS

<b>ADB</b>	Asian Development Bank
<b>ATM</b>	Average Time to Maturity
<b>ATR</b>	Average Time to Re-fixing
<b>BC</b>	Base Currency
<b>BIWRM&amp;DP</b>	Balochistan Integrated Water Resources Management & Development Project
<b>CIDA</b>	Canadian International Development Agency
<b>DMU</b>	Debt Management Unit
<b>DOD</b>	Disbursed Outstanding Debt
<b>EAD</b>	Economic Affairs Division
<b>FPA</b>	Foreign Project Assistance
<b>GDP</b>	Gross Domestic Product
<b>GLLSP</b>	Gwadar Lasbela Livelihood Support Project
<b>GoB</b>	Government of Balochistan
<b>IBRD</b>	International Bank for Reconstruction and Development
<b>IDA</b>	International Development Association
<b>IFAD</b>	International Fund for Agriculture Development
<b>JICA</b>	Japan International Cooperation Agency
<b>NEC</b>	National Economic Council
<b>NFC</b>	National Finance Commission
<b>PKR</b>	Pak Rupees
<b>PSDP</b>	Public Sector Development Programme
<b>SDR</b>	Special Drawing Rights
<b>WRMP</b>	Water Resource Management Project

## DEBT PORTFOLIO OF THE PROVINCE

The debt portfolio of the province comprises of long term concessional external (foreign) debts only. All the external debts, in the debt portfolio of the province, have been availed through Economic Affairs Division (EAD) by Government of Balochistan (GoB) and the same were on lent to the province for utilization in accordance with the re-lending instructions issued by the EAD. The outstanding balance of disbursed debt stood at as on 31<sup>st</sup> December 2020 and 30<sup>th</sup> June 2020 are shown below respectively



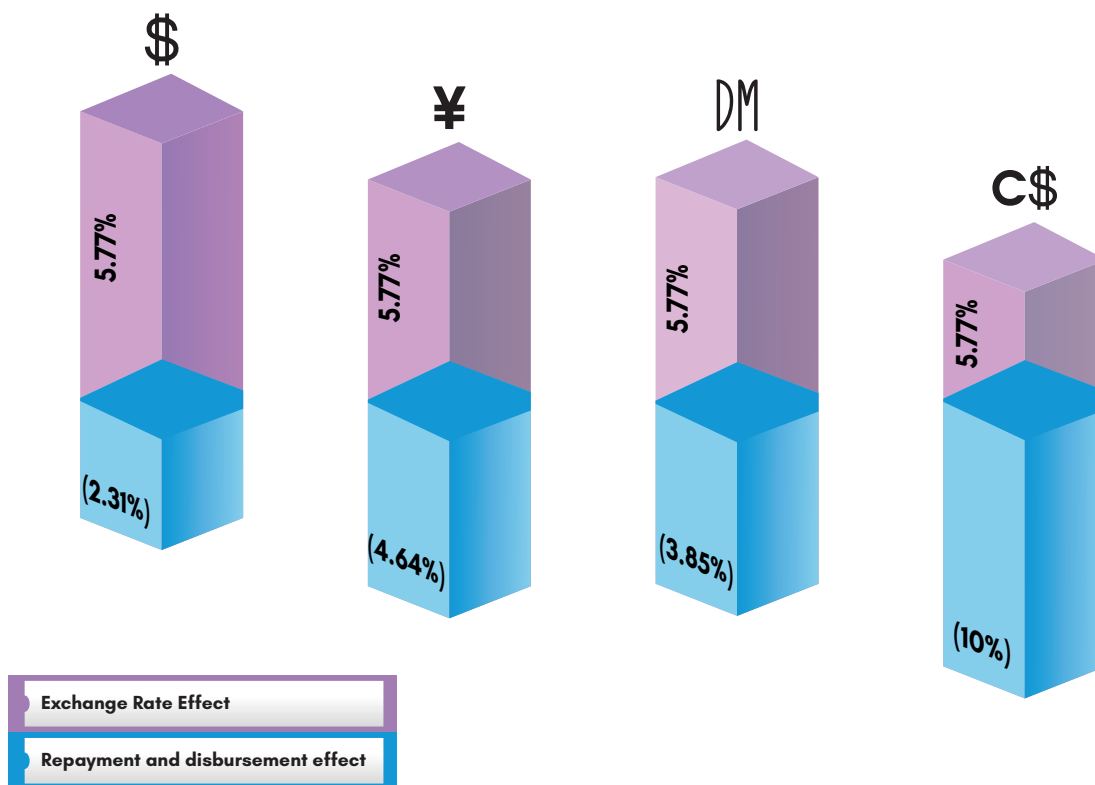
The change in external debt portfolio is due to exchange rate fluctuations and repayment and disbursement made during the period. Exchange rates fluctuations are mainly attributable to depreciation of PKR against the borrowing currencies. The depreciation is such significant that even after setting off the effect of repayment and disbursement from the portfolio the overall growth rate of portfolio is still positive. The effect of exchange rate and movement on repayment and disbursement are explained as below in Table (1) and Figure (1);

**TABLE 01: (CHANGE IN DEBT PORTFOLIO)**

Description	\$	Y	DM	C\$
Amount in Million				
<b>Repayment and disbursement effect</b>				
Opening Balances as on 1 <sup>st</sup> July 2020	264.987	5,643.623	9.646	0.138
Disbursement from July-Dec 2020	12.245	-	-	-
Repayment from July-Dec 2020	(18.377)	(262.038)	(0.371)	(0.014)
<b>Closing Balance as on 31<sup>st</sup> Dec 2020</b>	<b>258.854</b>	<b>5,381.584</b>	<b>9.275</b>	<b>0.124</b>
Repayment and disbursement % age change	(2.31%)	(4.64%)	(3.85%)	(10%)
<b>Exchange Rate Effect</b>				
Opening Exchange Rate PKR to BC	156	1.553	93.295	119.967
Closing Exchange Rate PKR to BC	165	1.643	98.677	126.888
Exchange Rate % age change	5.77%	5.77%	5.77%	5.77%

Description	\$	Y	DM	C\$
Amount in Million				
Portfolio effect (Combined)				
Combined % age	3.32%	0.88%	1.70%	(4.96%)
Impact of fluctuations in PKR on Closing balances	1,372.960	75.220	15.310	(0.790)

FIGURE 01:(EFFECT ON DEBT PORTFOLIO)



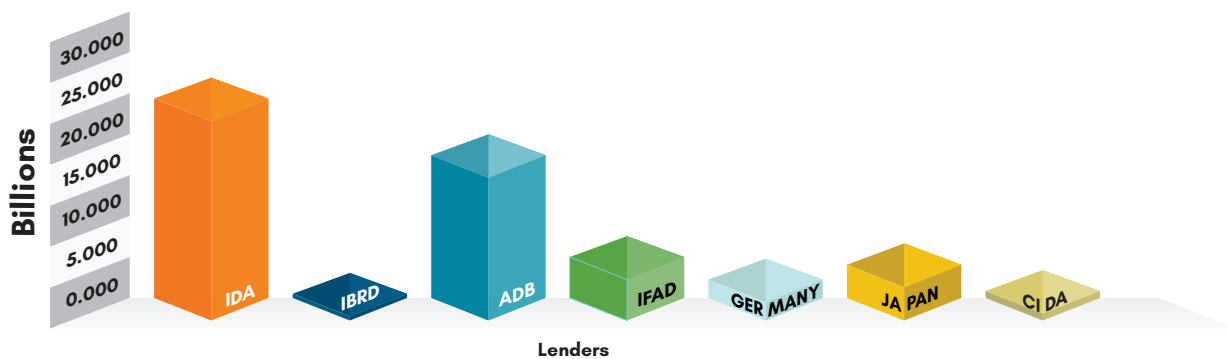
## EXTERNAL DEBTS BY LENDERS

Provinces avail external loans, through Economic Affairs Division, Government of Pakistan from various International Agencies including IDA (International Development Association), IBRD (International Bank for Reconstruction and Development), ADB (Asian Development Bank), IFAD (International Fund for Agriculture Development), CIDA (Canadian International Development Agency), Germany and Japan. The agency wise break up of outstanding loan balances as on 31<sup>st</sup> Dec 2020 in base currencies and PKR terms are shown in the Table 2 below;

**TABLE 02: (EXTERNAL DEBTS BY LENDERS)**

AGENCY	NOS OF LOANS	DOD 31 <sup>st</sup> DEC 2020 (BASE CURRENCY MILLION)	CONVERSION RATE	DOD 31 <sup>st</sup> DEC 2020 (RS MILLION)
<b>IDA</b>	<b>33</b>	<b>\$ 155.956</b>	<b>165.00</b>	<b>25,732.704</b>
<b>IBRD</b>	<b>1</b>	<b>\$ 0.512</b>	<b>165.00</b>	<b>84.398</b>
<b>ADB</b>	<b>29</b>	<b>\$ 76.570</b>	<b>165.00</b>	<b>12,633.989</b>
<b>ADB</b>	<b>1</b>	<b>¥ 4,139.616</b>	<b>1.64</b>	<b>6,800.148</b>
<b>IFAD</b>	<b>2</b>	<b>\$ 25.817</b>	<b>165.00</b>	<b>4,259.865</b>
<b>GERMANY</b>	<b>1</b>	<b>DM 9.275</b>	<b>98.68</b>	<b>915.233</b>
<b>JAPAN</b>	<b>1</b>	<b>¥ 1,241.968</b>	<b>1.64</b>	<b>2,040.181</b>
<b>CIDA</b>	<b>1</b>	<b>C\$ 0.124</b>	<b>126.89</b>	<b>15.702</b>
<b>TOTAL</b>	<b>69</b>			<b>52,482.219</b>

**FIGURE 02: (EXTERNAL DEBTS BY LENDERS)**



**EXTERNAL DEBT BY CURRENCY COMPOSITION**

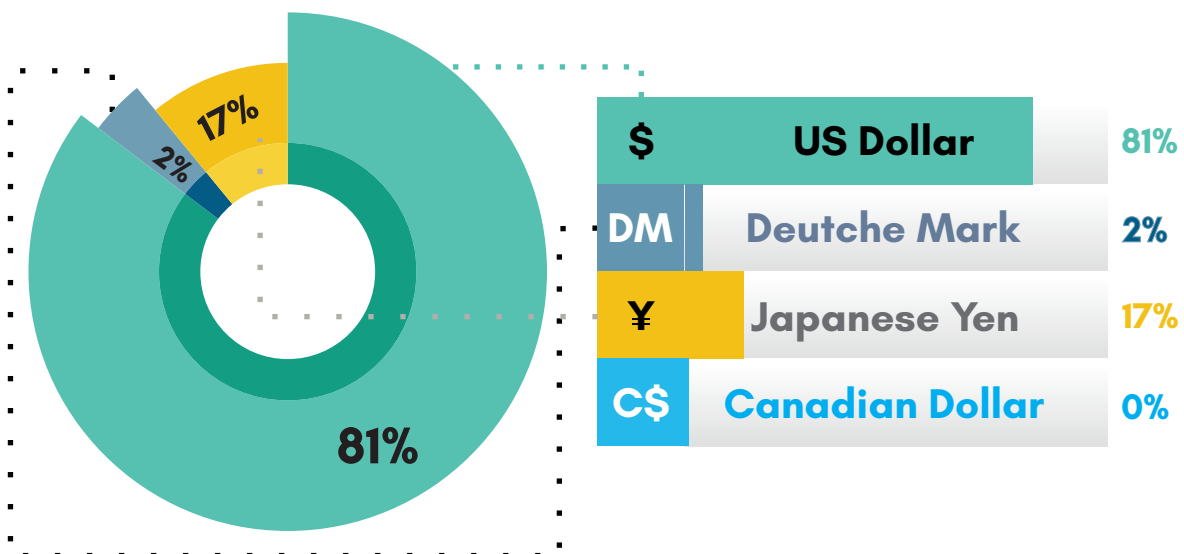
The loans portfolio consists of multiple currencies including US Dollar, Canadian Dollar, Deutsche Mark and Japanese Yen. This is decided by the EAD keeping in view of the economy of loans in terms of interest rate and currency fluctuations.

The majority debts (IDA & IBRD) of the Government of Balochistan have been contracted in SDRs (Special Drawing Rights) due to the fact that service charges/interest cost rate is comparatively lower in SDR's loan as against other currency. However, on other hand it has also been mentioned in the financing agreements that repayment shall be made in US Dollar. At the time of repayment, the US \$ is converted into SDR and adjusted in outstanding balance of SDR. The currency wise debt portfolio composition of the province as on 31<sup>st</sup> Dec 2020 is shown below in table 03 and figure 03.

**TABLE 03:(CURRENCY WISE DEBT POSITION)**

BASE CURRENCY	COUNT	DOD as on 31 <sup>st</sup> Dec (Base Currency Million)	EXCHANGE RATE	DOD as on 31 <sup>st</sup> Dec (PKR Million)
\$ (US Dollar)	65	258.854	165	42,711.075
C\$ (Canadian Dollar)	1	0.124	126.89	15.702
DM (Deutsche Mark)	1	9.275	98.68	915.233
¥ (Japanese Yen)	2	5,381.584	1.64	8,840.209
<b>Total</b>	<b>69</b>			<b>52,482.219</b>

**FIGURE 03:(CURRENCY WISE DEBT POSITION)**

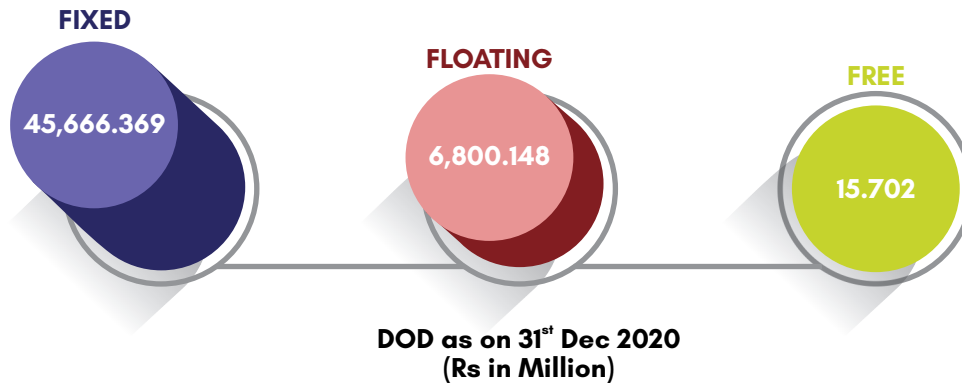




**EXTERNAL DEBT BY INTEREST TYPE**

The loan profile of the province comprises of floating, fixed and free interest rate loans. The floating interest rate loans have been obtained from ADB while the loan from Canada is interest free and does not carry any other charges. The debt position by interest type is shown in Figure (04);

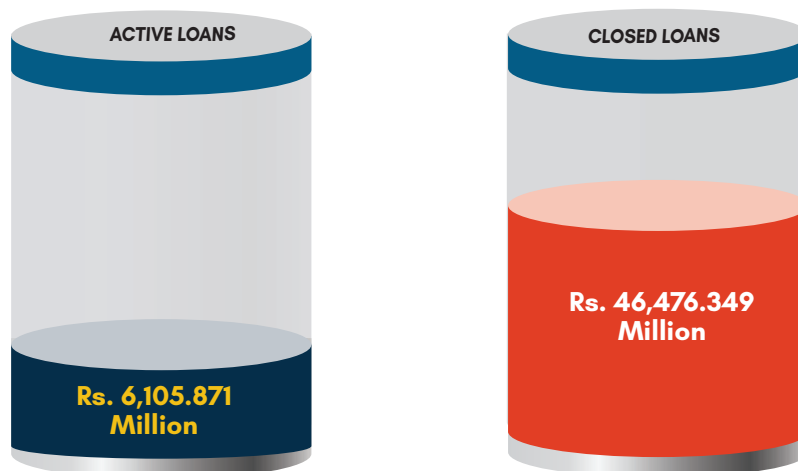
**FIGURE 04: (DEBT POSITION BY INTEREST TYPE)**



**EXTERNAL DEBT BY STATUS**

Out of 69 loans in the debt portfolio, four (4) loans are active with disbursements in progress while the rest are closed loans against which disbursements are completed and repayments have been started. The active loans are from lenders IDA and ADB. The status wise debt outstanding balances as on 31<sup>st</sup> December, 2020 is shown in Figure (05);

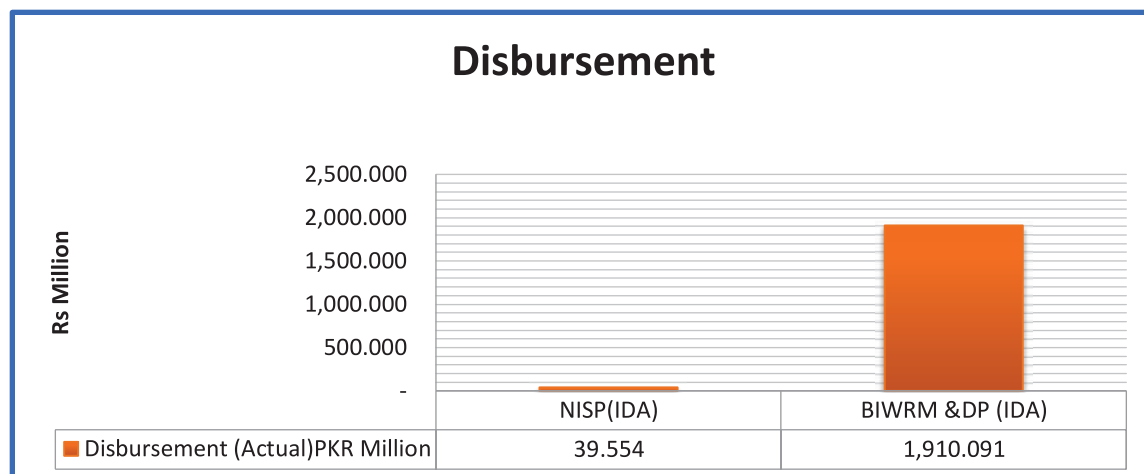
**FIGURE 05: (DEBT POSITION BY STATUS)**



### ACTUAL DISBURSEMENT FROM ACTIVE LOANS

During the period ended 31<sup>st</sup> Dec 2020 Rs 1,949.646 Million equivalent to \$12,244,561 (Actual) were disbursed on account of active loans from IDA. The disbursements from active loans during the year period ended 31<sup>st</sup> Dec 2020 project wise are shown in figure (06) below;

**FIGURE 06: (DISBURSEMENT DURING HALF YEARLY)**



### REPAYMENT OF PRINCIPAL AND DEBT SERVICING

Repayment of principal and interest on outstanding balances is made according to rates and repayment schedules agreed upon the loan agreement. The amortization schedule is revised at the close of the project according to the amount actually disbursed and adjusted each year according to the currency fluctuations. The debt servicing for the fiscal year 2020-21 and projected fiscal year 2021-22 is shown in table (04) below;

**TABLE 04: (PROJECTED REPAYMENTS IN 2020-21)**

AGENCY	PRINCIPAL REPAYMENT	INTEREST	TOTAL
IDA/IBRD	1,823.035	220.944	2,043.979
ADB	3,548.933	152.717	3,701.650
IFAD	72.754	32.188	104.942
JAPAN	313.358	48.649	362.007
CIDA	3.489	-	3.489
GERMANY	73.221	7.002	80.222
<b>TOTAL</b>	<b>5,834.790</b>	<b>461.498</b>	<b>6,296.289</b>

**2020-21  
DEBT  
SERVICING**  
Rs in Million

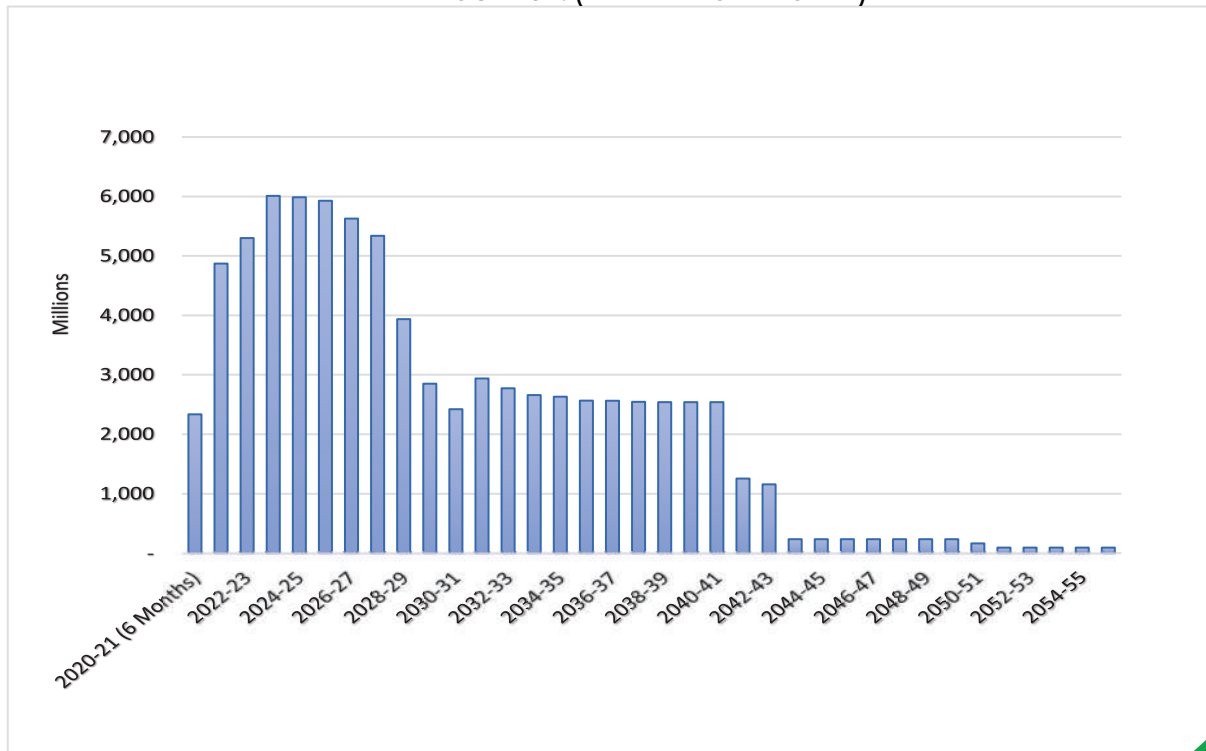
TABLE 05: (PROJECTED REPAYMENTS IN 2021-22)

	PRINCIPAL REPAYMENT	INTEREST	TOTAL	AGENCY
<b>2021-22 PROJECTED DEBT SERVICING</b>  Rs in Million	1,980.509	236.067	2,216.576	IDA/IBRD
	2,355.376	128.570	2,483.946	ADB
	143.358	31.198	174.555	IFAD
	313.358	41.442	354.800	JAPAN
	3.489	-	3.489	CIDA
	73.221	6.453	79.673	GERMANY
	4,869.311	443.729	5,313.040	TOTAL

## EXPECTED REDEMPTION PROFILE

The expected redemption profile of the principal outstanding based on the exchange rate of 2020-2021 is shown below. This redemption profile is based on existing stock. However, it will change with the addition of new loans and change in exchange rate.

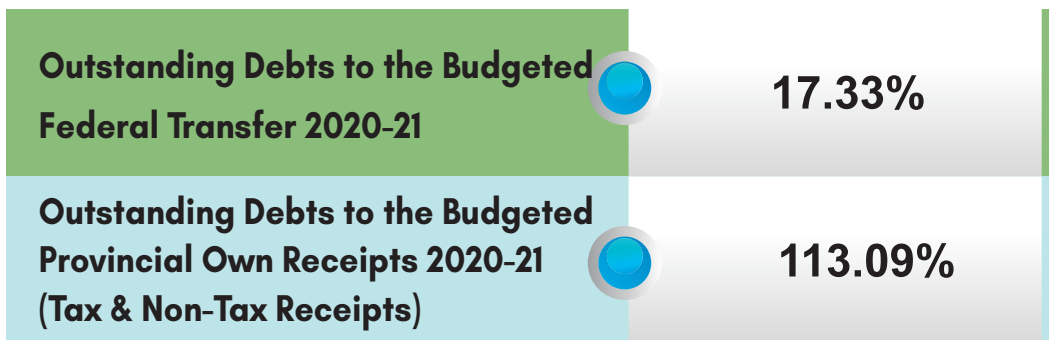
FIGURE 07: (REDEMPTION PROFILE)



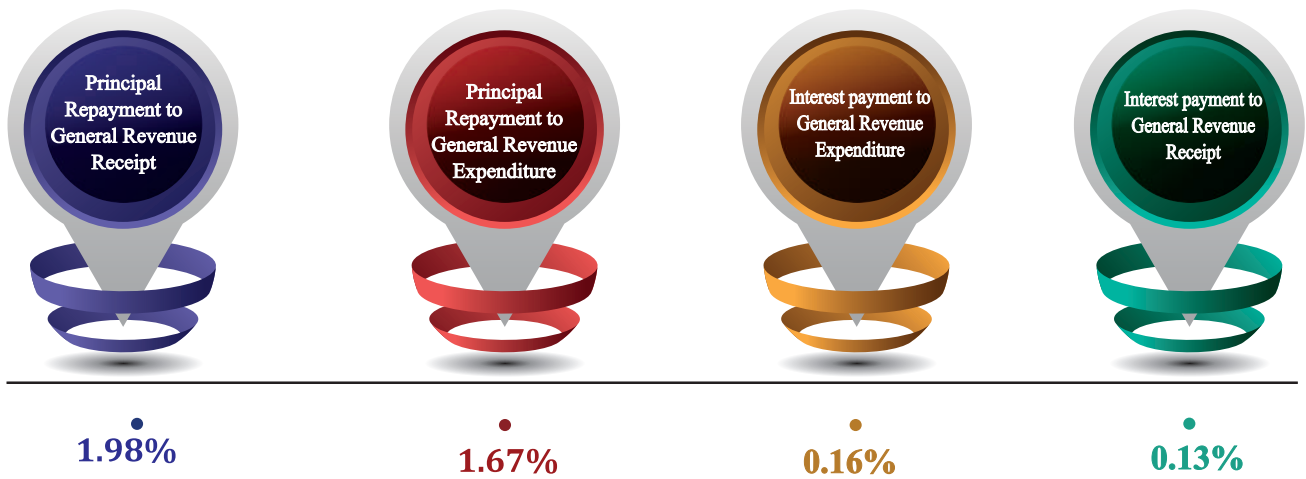
**DEBT SUSTAINABILITY**

Debt sustainability analysis is important because it gives a province a medium to long-term perspective of its debt burden. Maintaining Debt at a sustainable level means that the volume of debt service doesn't affect routine and development expenditure and the debt to provincial revenue is low and not rising over time. Debt sustainability can be assessed through indicators, as these are basically used to measure the indebtedness level of a Province. Commonly known sustainability measures are solvency/vulnerability (debt bearing capacity) and liquidity/fiscal indicators (debt servicing capacity).

**TABLE 06: (SOLVENCY/VULNERABILITY INDICATORS)**



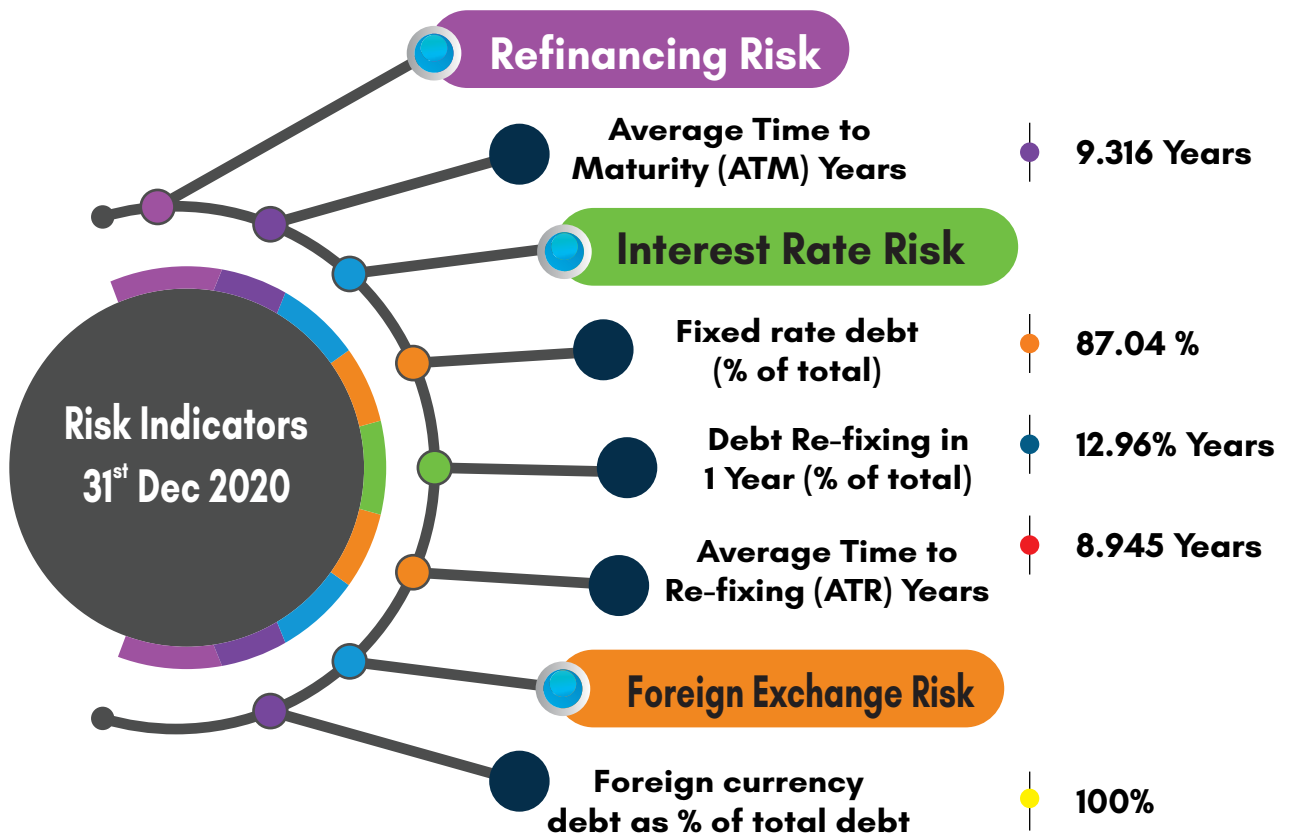
**FIGURE 08: (LIQUIDITY/ FISCAL INDICATORS)**



**COST AND RISK ANALYSIS OF DEBT**

A number of indicators are used to monitor and control risks associated with government debt. The challenges are to achieve a debt structure that balances the cost with an appropriate level of risk. Risk indicators measure the exposure of debt stock to maturity. Interest rate and currency risk act as a guideline to devise future borrowing strategies.

**TABLE 07: (COST AND RISK ANALYSIS)**





(0092)-081-9204630



[www.finance.gob.pk](http://www.finance.gob.pk)



@FinanceGob

