



BALUCHISTAN'S DEBT REPORT 2020-21

DEBT MANAGEMENT UNIT
FINANCE DEPARTMENT
GOVERNMENT OF BALUCHISTAN



**BALUCHISTAN'S
DEBT REPORT
2020-21**

PREFACE

I am pleased to present the 2nd Balochistan's Debt Report showing the debt position of the province as on 30th June 2021 and the movement of debt balances since 30th June 2020. This report is a portrayal of Government's commitment to transparency, accountability and access to information by the general public that is also emphasized under the Government of Balochistan Right to Information Act 2021. It provides statistical data on Balochistan's public debt portfolio over the year to assess and analyze the provincial debt in a microscopic way.

Timely reporting of accurate debt statistics is one of the key elements of effective Public Debt Management. In line with international good practices, the Debt Management Unit-Finance Department compiles and publishes the public debt statistics on semi-annual basis with the following objectives;

- a) To provide accurate, comprehensive, consistent, reliable, timely and comparable debt statistics;
- b) To provide information about debt service payments; composition and structure of debts; risks linked with foreign exchange borrowing for management of sustainable economic growth;
- c) To disseminate debt statistics i.e., parameters of external and domestic debts to policy makers, the general public, government officials, international organizations, investors in debt securities and other stakeholders for research and informed decision making.

This report will enable more informed and effective policy formulation and decision making by the Government and stakeholders. It will serve as Government's instrument for promoting financial accountability and transparency in the public sector to create more public debt awareness among stakeholders, both in Balochistan and beyond its borders.

A better debt management and resource planning has become inevitable during the

previous few years particularly in the back drop of the 18th Constitutional amendments enabling the provinces to directly enter into bilateral foreign financing. Moreover, its importance has also increased due to deficit budgeting by the province to cope with the challenges of recurrent budget. While keeping pace with the development of the province, this report can also be accessed on www.finance.gob.pk

(ABDUL REHMAN BUZDAR)
SECRETARY FINANCE

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| | Interest Rate Risk; | |
| | Foreign Exchange Risk; | |

ABBREVIATIONS

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

INTRODUCTION

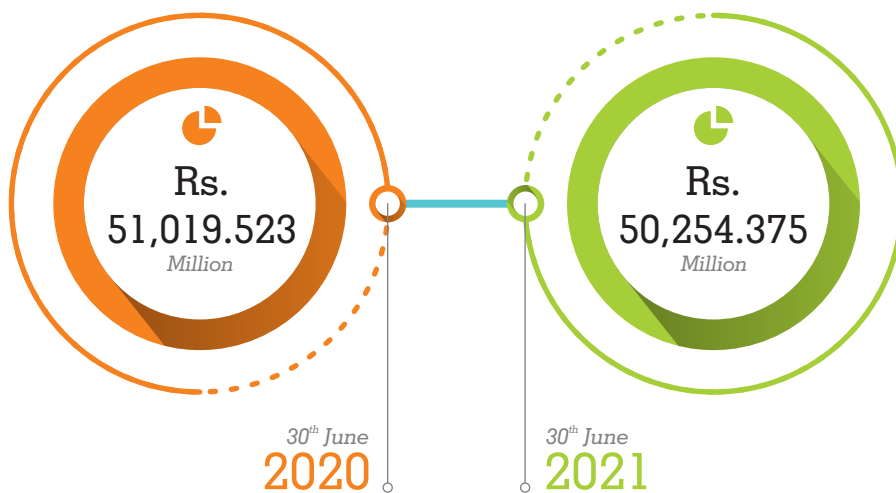
1.1 The 18th Constitutional Amendment has redefined Pakistan's fiscal architecture through a paradigm shift from a heavily centralized to a predominantly decentralized federation and reinforced a multi-level governance system by extending greater autonomy to the provinces and powers to make allocations, 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 provincial government and assuring national fiscal sustainability. International practice favors incorporating clear fiscal rules to clarify the spending responsibilities of a provincial government, and also examine own-source revenues and debt in a way to optimize land and local resource use.

1.2 The total foreign debt portfolio of the Government of Balochistan consists of foreign loans provided by various international lending agencies to support the economic growth and provide for filling the social gap through introduction of development projects in the socio-economic sectors of the province. Apart from the major foreign currency portfolio, the province had also entered into a composite Cash Development Loan (CDL) arrangement with the Federal Government for the development of by the WAPDA of Right Bank Outfall Drainage in Naseerabad Division. Keeping in view the huge debt portfolio of the province, its management including raising of new funds, risk assessment and its mitigation and reducing cost of debt, the Finance Department Government of Balochistan established a debt management unit (DMU) in Finance Department with technical assistance from Governance and Policy Project (GPP) Balochistan funded by Multi Donor Trust Fund (MDTF) administered by the World Bank.

1.3 The following sections talk about the current debt balances, movement in debt portfolio during the financial year (FY)2020-21, effects of exchange rate & disbursements (receipts) and repayments during the fiscal year on the portfolio, risk analysis and a presentation of debts by lenders, sectors and currencies.

REVIEW OF DEBT PORTFOLIO OF THE PROVINCE

2.1 The debt portfolio of the province comprises of long term concessional external (foreign) and domestic debts. The foreign debts have been availed through Economic Affairs Division (EAD) from different multilateral and bilateral institutions by the Government of Balochistan (GoB) and these loans were transferred with same terms and conditions by relending (on-lent loans¹) mechanism to the province. The outstanding balance of disbursed debt as on June 30, 2021 and June 30, 2020 are depicted as under;



2.2 As shown above there is an overall reduction of Rs 765.148 million in debt portfolio of the province when a comparative analysis is carried out with 30th June 2020. This reduction is further elaborated through a movement schedule below shown in Pakistan Rupees against the base currencies to analyze the impact of reduction/growth of each currency on the debt portfolio.

¹Foreign loans borrowed by EAD on behalf of provinces and then relent to the Provincial Governments on similar conditions

Table 2.1: Movement on Debt Portfolio during 2020-21

Rupees In Million

| Base Currency | 30th June 2021 | 30th June 2020 | Growth/ (Reduction) | Increase /(Decrease)% |
|-----------------|-------------------|-------------------|------------------------|--------------------------|
| US Dollar | 39,847.969 | 41,337.993 | -1,490.024 | -3.60 |
| Japanese Yen | 7,523.939 | 8,765.111 | -1,241.172 | -14.16 |
| Deutsche Mark | 882.298 | 899.924 | -17.626 | -1.96 |
| Canadian Dollar | 14.598 | 16.495 | -1.897 | -11.50 |
| Pak Rupees | 1,985.571 | - | 1,985.571 | 100 |
| Total | 50,254.375 | 51,019.523 | -765.148 | -1.49 |

2.3 The percentage change shows the overall effect on the debt portfolio during the year. This change in debt volume is attributable to the effects of the following factors;

- a) Foreign exchange rate fluctuation effect;
- b) Net of Disbursement and Repayment effect during the year; and
- c) Inclusion of Cash Development Loan (CDL) in debt portfolio.

a) Foreign Exchange Rates Fluctuation Effect;

2.4 The exchange rates parity of Pakistan Rupees to borrowing currencies are communicated to the province by EAD and the loan portfolio is adjusted accordingly. Moreover, the majority debts (IDA and IBRD) of the Government of Balochistan have been contracted in SDRs (Special Drawing Rights) due to favorable terms and conditions in the form of service rate/interest rate, Commitment charges and maturity profile (ranging from 20 years to 40 years with grace period of 5 years to 10 years). However, on other hand it has been mentioned in the financing agreements that repayment shall be made in US \$ due to which at the time of repayments the SDRs have to be converted into US \$ and the balances adjusted accordingly. The effect of change in exchange rate is shown below at

Table 2.2: Exchange Rate Effect

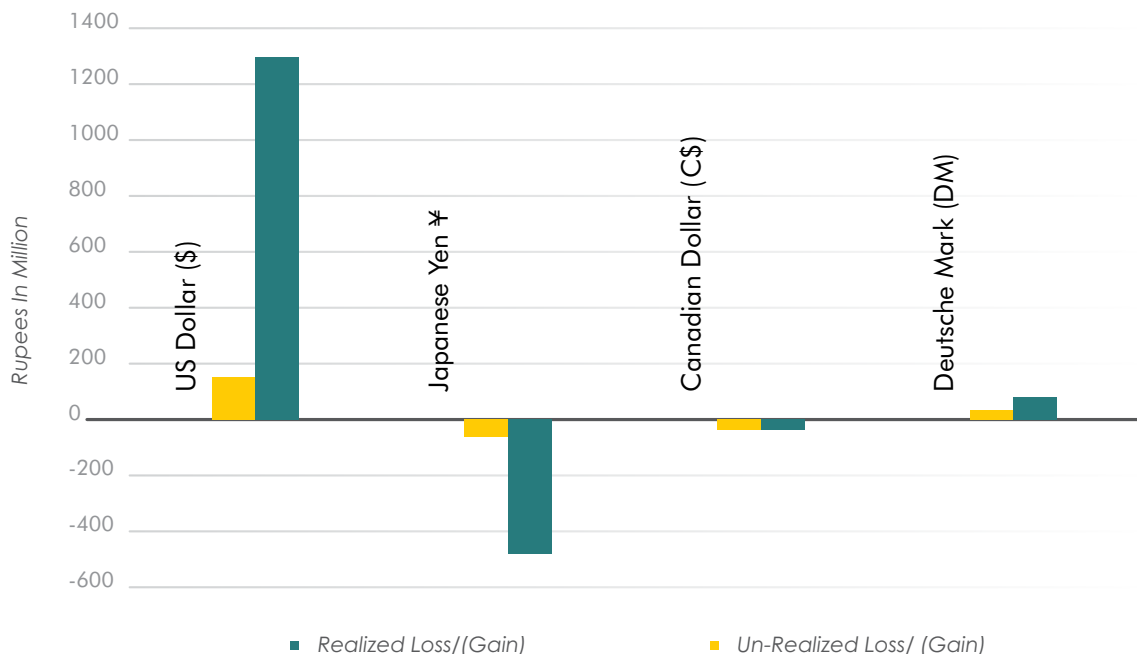
| Description | \$ | ¥ | DM | C\$ |
|-----------------------------------|--------------|---------------|--------------|---------------|
| Exchange Rate PKR to BC 2020-2021 | 161 | 1.472 | 99.090 | 132.712 |
| Exchange Rate PKR to BC 2019-2020 | 156 | 1.553 | 93.295 | 119.967 |
| Exchange Rate Effect | 3.21% | -5.22% | 6.21% | 10.62% |

2.5 As shown in Table 2.2, the PKR has depreciated against all the borrowing currencies except for Japanese Yen (¥) resulting in Foreign Exchange loss. In terms of Currency wise forex realized and unrealized loss/gain is shown in Table 2.3 with graphical presentation at Figure 2.1:

Table 2.3: Realized and Un-realized loss/gain*Rupees In Million*

| Base Currency | Realized Loss/(Gain) | Un-Realized Loss/(Gain) | Total Loss/(Gain) |
|-----------------|----------------------|-------------------------|-------------------|
| US Dollar | 148.644 | 1,346.664 | 1,495.308 |
| Japanese Yen | -43.140 | -457.133 | -500.273 |
| Canadian Dollar | 0.351 | 1.753 | 2.104 |
| Deutsche Mark | 4.30 | 55.90 | 60.20 |
| Total | 110.154 | 947.183 | 1,057.337 |

Figure 2.1: Exchange loss/gain bifurcation

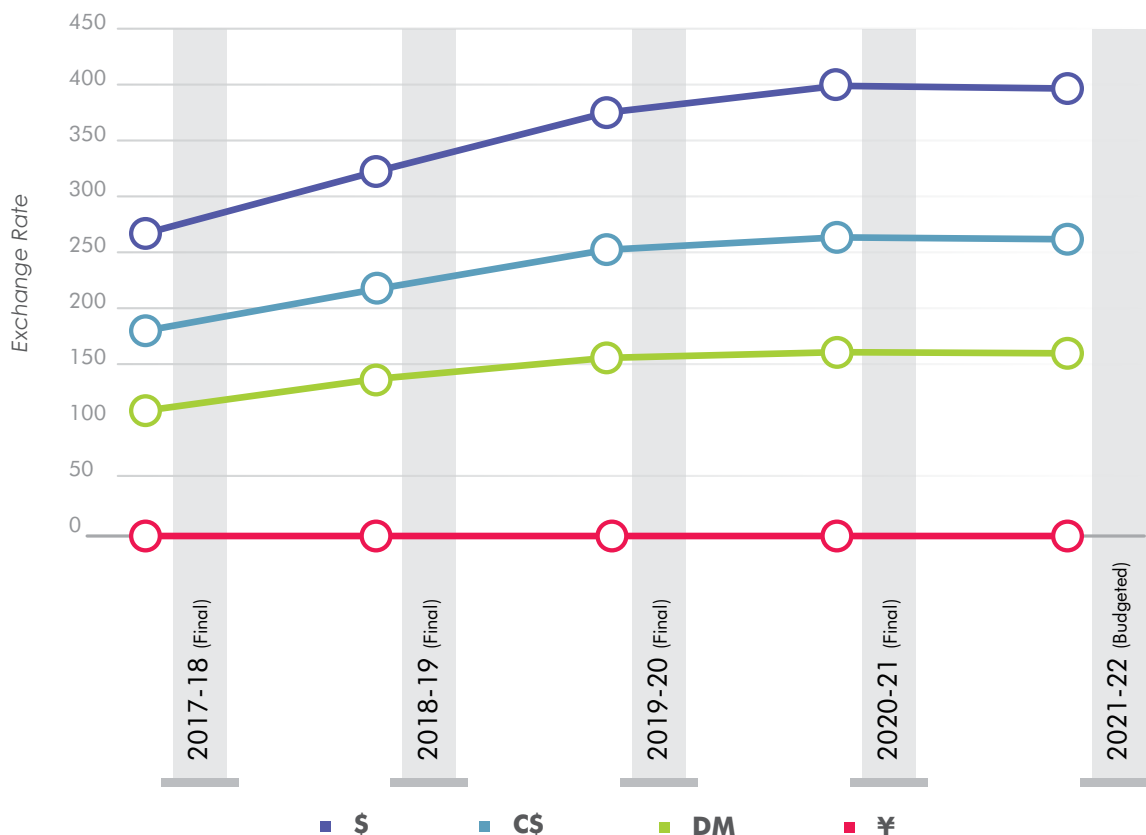


2.6 The historical trends of depreciation in Pakistan Rupees against the borrowing currencies shows a consistent and continuous depreciation of Pakistan Rupees resulting in accumulation of debt portfolio in momentary terms. However, the Japanese Yen has become weaker against Pak Rupee in the current fiscal year. The budgeted Exchange Rates communicated by EAD show that the Pakistan Rupees is likely to stronger against all the borrowing currencies in coming fiscal year. There is quite uncertainty to predict the volatility of Pak Rupee being dependent on various factors such as foreign currency inflows in the country, reduction in trade deficit and etc. The budgeted rates for Fiscal Year 2022-21 and historical rates for the previous four years communicated by the Economic Affair Division with graphical presentation are given as under in Table 2.4 and Figure 2.2:

Table 2.4: Historical Trends in Base Currencies to Pak Rupees

| Borrowing Currencies | \$ | ¥ | DM | C\$ |
|----------------------|--------|-------|-------|--------|
| 2021-22 (Budgeted) | 160 | 1.463 | 98.47 | 131.89 |
| 2020-21 (Final) | 161 | 1.472 | 99.09 | 132.71 |
| 2019-20 (Final) | 156 | 1.55 | 93.3 | 119.97 |
| 2018-19 (Final) | 137.5 | 1.23 | 78.3 | 102.12 |
| 2017-18 (Final) | 109.75 | 1.03 | 69.01 | 85.19 |

Figure 2.2: Historical trends -Foreign Exchange Rates



b) Net of Disbursement and Repayment Effect;

2.7 Another attribute of movement on debt portfolio is that of disbursement (receipts) and repayment effect. During the fiscal year the Government paid installments related to various closed loan as per the financing agreement and amortization schedule and while received amounts against ongoing loan. The effect of disbursement and repayments is shown in Table 2.5 below;

Table 2.5: Disbursement and Repayment Effect

Amount in million (Base currencies)

| Description | \$ | ₹ | DM | C\$ |
|--|---------------|---------------|---------------|----------------|
| Opening Balances as on 01-07-2020 | 264.987 | 5,643.623 | 9.646 | 0.138 |
| Disbursements from July-June 2021 | 12.245 | - | - | - |
| Repayments from July-June 2021 | -29.729 | -532.599 | -0.742 | -0.028 |
| Closing Balances as on 30th June 2021 | 247.503 | 5,111.024 | 8.904 | 0.110 |
| Disbursement and Repayment % age Change | -6.60% | -9.44% | -7.69% | -20.00% |

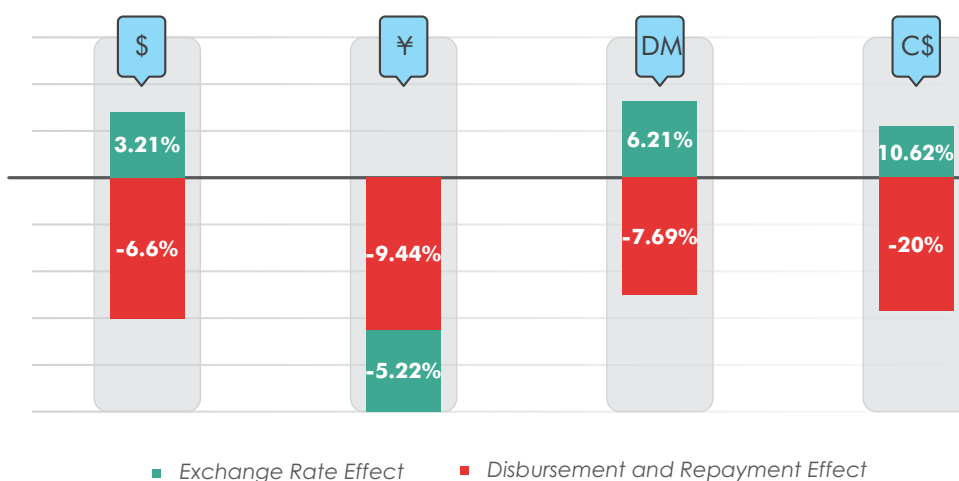
2.8 The above repayment also includes payment of un spent balance of US\$ 125,041 on account of IFAD loan. It is imperative to mention here that Repayment effect was so significant on the portfolio that it weights over the effect of foreign exchanges rates increases and disbursement resulting into overall reduction of debt portfolio in each currency.

2.9 The combined effect being the effect of foreign exchange rate and Repayments and Disbursements are shown below at the Table 2.6 and Figure 2.3:

Table 2.6: Combined Effect

| Description | \$ | ¥ | DM | C\$ |
|--|------------|------------|---------|---------|
| Combined Effects | -3.79% | -14.16% | -1.96% | -11.50% |
| Impact of fluctuations in PKR on closing Balances (Rs. in million) | -1,490.024 | -1,241.172 | -17.626 | -1.897 |

Figure 2.3: Combined Effect



C) Cash Development Loan (CDL);

2.10 This is a composite CDL loan from Federal Government on account of Right Bank Outfall Drain (RBOD-III) project executed by WAPDA Pakistan. The purpose of this project was to provide the direly needed effluent disposal facilities for existing and proposed drainage. An Accumulated debt balance, for different year amounting of Rs 1,990.556 million, was transferred to Balochistan, after taking over of this project by the Irrigation Department, Government of Balochistan, from WAPDA. The breakup of this composite loan transferred to Balochistan is as follows at Table 2.7:

Table 2.7: Cash Development Loan Details

| Amount Transferred | Interest Rate (Fixed by FG) | Installment Amount | Total no of yearly Installments |
|---------------------------|------------------------------------|---------------------------|--|
| 350.586 | 11.79% | 46.320 | 20 |
| 377.980 | 10.53% | 46.014 | 21 |
| 61.990 | 11.53% | 8.056 | 25 |
| 1,200.00 | 6.62% | 109.948 | 24 |

2.11 The CDL was transferred in the year 2020-21 and an installment of Rs 178.921 million comprising of interest Rs.167.135 million and principal Rs.11.786 million was paid during that year.

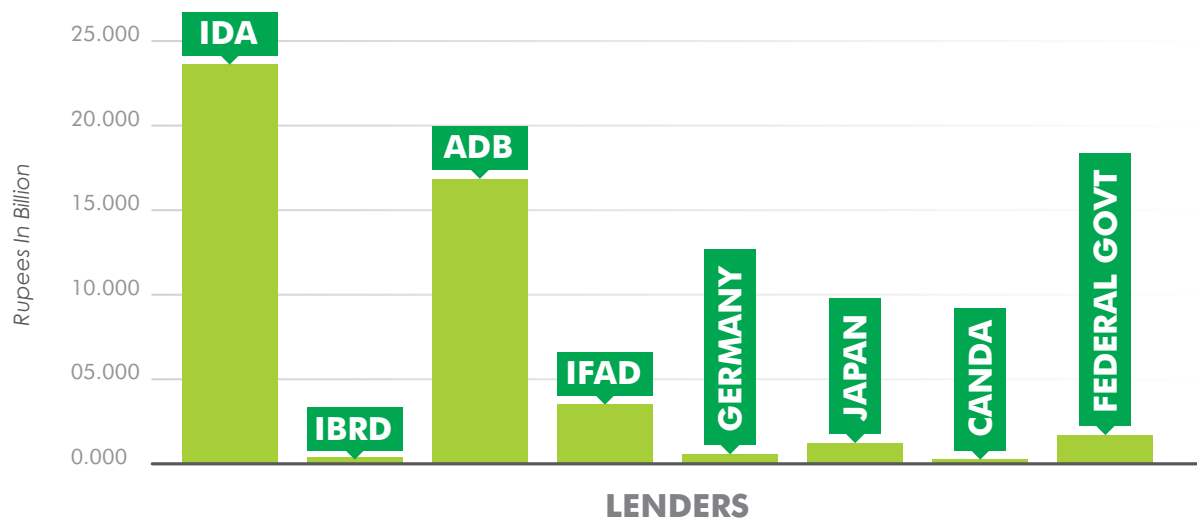
DEBTS PORTFOLIO BY LENDERS

3.1 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 30th June 2021 in base currencies and PKR terms are shown in the Table 3.1 and Figure 3.1 below:

Table 3.1: Agency wise Break up of Loan Position as on 30th June 2021

| Agency | Number of Loans | DOD* 30th June2021 (Base Currency Millions) | Conversion Rate (2020-21) ^[2] | DOD 30th June2021 (PKR Millions) |
|---------------------|-----------------|---|--|----------------------------------|
| IDA | 33 | \$150.478 | 161 | 24,226.947 |
| IBRD | 1 | \$0.465 | 161 | 74.865 |
| ADB | 30 | \$71.302 | 161 | 11,479.633 |
| ADB | 1 | ¥ 3,964.592 | 1.47 | 5,836.276 |
| IFAD | 2 | \$25.258 | 161 | 4,066.523 |
| Germany | 1 | DM 8.904 | 99.09 | 882.298 |
| Japan | 1 | ¥ 1,146.432 | 1.47 | 1,687.663 |
| CIDA | 1 | C\$ 0.110 | 132.71 | 14.598 |
| Federal Govt | 1 | PKR | - | 1,985.571 |
| Total | 71 | | | 50,254.375 ^[3] |

Figure 3.1: lenders wise debt position



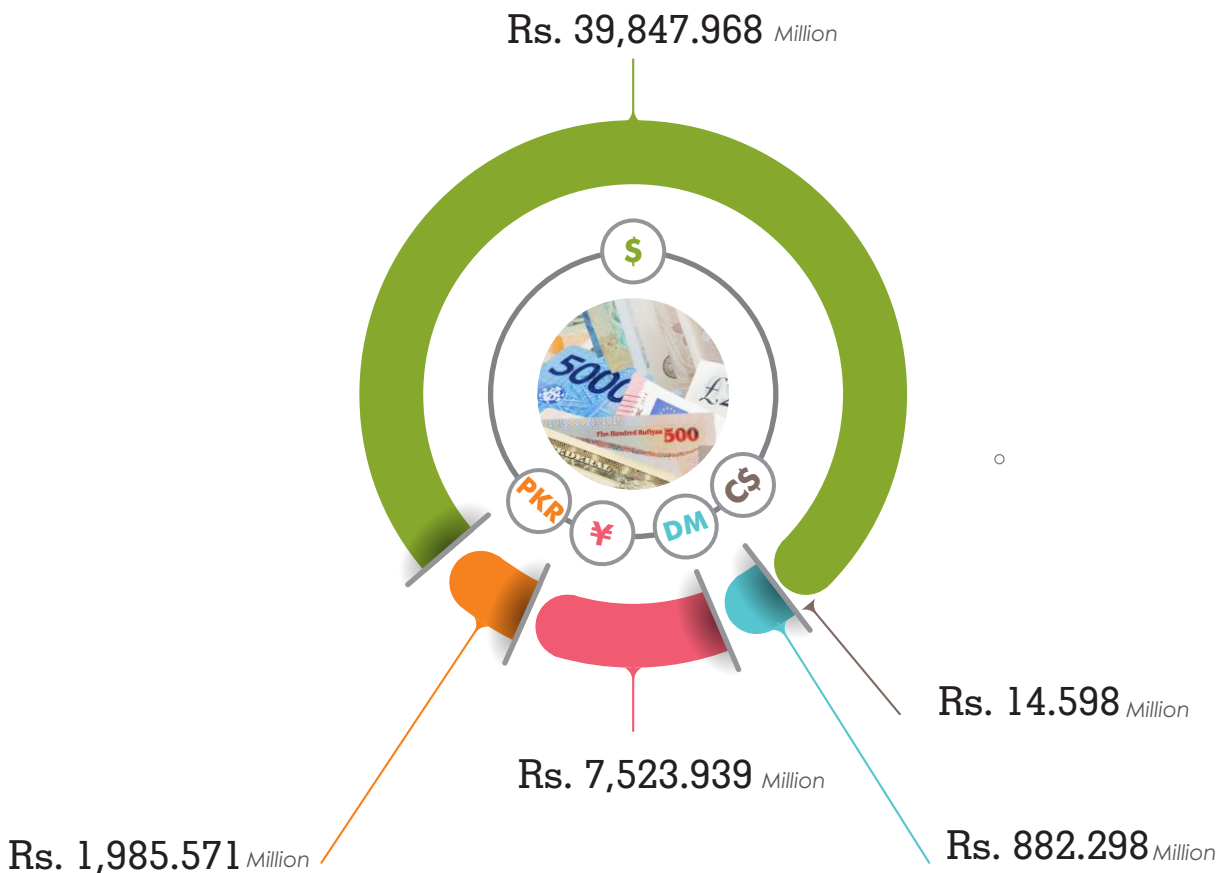
²Rates received from EAD for Financial year 2020-21.

³These figures have been duly reconciled with EAD in Month of August 2021

DEBT POSITION BY CURRENCY COMPOSITION

4.1 The loans portfolio consists of multiple currencies including US Dollars, Canadian Dollar, Deutsche Mark and Japanese Yen and Pakistan Rupees. In case of foreign debts, the decision of loan currency is taken by EAD keeping in view the economy of loans in terms of interest rate and currency. In the loan portfolio, US \$ loans accounted for 79% of the loan portfolio while Japanese Yen and Deutsche Mark loans accounted for 14.97% and 1.76% respectively. The currency wise debt portfolio composition of the province as on 30th June 2021 in the Figure 4.1 via a pie chart below.

Figure 4.1: Debt Position Currency Wise



DEBT PORTFOLIO BY INTEREST TYPE

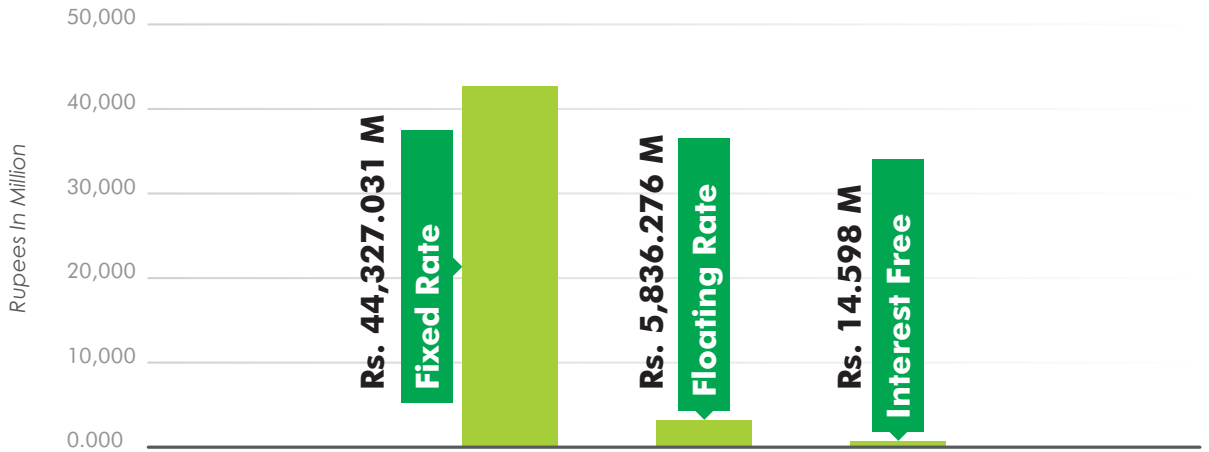
5.1 The loan profile of the province comprises of floating, fixed and interest free rate loans, wherein, 35 loans are fixed interest rate loans obtained from IDA/IBRD followed by 29 loans from ADB. The floating interest rate loans have been obtained from ADB only while the loan from Canada is interest free. In the debt portfolio one (1) loan is of floating interest rate being (11.61% of loan portfolio), one (1) loan is of free interest rate (0.03% of loan portfolio) and sixty-nine (69) loans are of fixed interest rate (88.36% loan portfolio). The terms of loans are given in Table 5.1 below;

Table 5.1: Terms of Loan portfolio

| Lenders | Loan by interest type | Interest/Service charges Rate | No of Loans |
|-----------------------|-----------------------|-------------------------------|-------------|
| IDA & IBRD | Fixed | 0.75%-2% | 35 |
| ADB | Fixed | 1%-2% | 29 |
| ADB | Floating | LIBOR+0.6% | 1 |
| IFAD | Fixed | 0.75% | 2 |
| Germany | Fixed | 0.75% | 1 |
| Japan | Fixed | 2.30% | 1 |
| CIDA | Interest Free | 0% | 1 |
| Federal Govt | Fixed | 6.62%-11.79% | 1 |
| | Total | | 71 |

5.2 The breakup of fixed, floating and interest free loan in monetary terms is given at Figure 5.1 through a bar chart:

Figure 5.1: Monetary Position of loans interest term wise



DEBT PORTFOLIO BY STATUS

6.1 The status of loan explains whether it is a closed loan or active loan. Closed loans are those where the disbursements had been completed and repayments of principle amounts of such loans are ongoing as per repayment schedule while active loans are those where disbursements are still ongoing or will start in the ongoing fiscal year. The status of active and closed loans is given at Table 6.1:

Table 6.1: Status of Active Loans

| Name of Project | Lending Agency | Committed Amount (Millions) | Estimated Disbursements during FY 2021-22 (PKR Million) |
|---|----------------|-----------------------------|---|
| National Immunization Support Project (NISP) | IDA | SDR 2.172 | - |
| Balochistan Integrated Water Resources Management and Development Project (BIWRM &DP) | IDA | SDR 142.600* | 7,000 |
| Balochistan Water Resources Development Sector Project (BWRDSP) | ADB | \$100.00 | 1,500 |
| Pandemic Responses Effectiveness (Covid-19) | IDA | \$5.00 | - |
| Balochistan Human Capital Investment Project (BHCIP) | IDA | SDR 15.400 | 2,000 |
| Balochistan Livelihoods and Entrepreneurship Project (BLEP) | IDA | SDR 14.800 | - |
| Gwadar Lasbela Livelihood Support Project II (GLLSP) | IFAD | \$60.155 | 800 |

*The committed value in SDR for this project was revised from SDR 142.600 million to SDR 77.557 million after cancellation of SDR 65.043 million.

6.2 It is pertinent to mention here that the un-utilized fund amounting to RS 789,847,465 (US \$ 4,726,319.94) on account of IDA loan No. 6590 (Pandemic Response Effectiveness) were diverted to the Federal Government for procurement of COVID vaccines in the month of July 2021.










6.3 Moreover, Balochistan Human Capital Investment Project, Balochistan Livelihoods and Entrepreneurship Project and Gwadar Lasbela Livelihood Support Project II are active loans projects with no disbursement during the fiscal year 2020-21. However, it is expected that in the on-going fiscal year amounts will be disbursed from these loans based on the cash flow requirements of respective PMU (Project Management Unit).










SECTOR WISE OUTSTANDING DEBTS

7.1 The loans obtained by the Government of Balochistan over the years are for support of projects reflected in the Provincial Public Sector Development Programmed (PSDP) as Foreign Project Assistance (FPA) based on the respective needs of the sectors. The sector wise outstanding balances as on 30th June, 2021 are as follows in Table 7.1;

Table 7.1: Sector wise debt position

| Description | No of Loans | DOD as on 30th June 2021 (Rs Million) | % Of Outstanding Amount |
|--|-------------|--|-------------------------|
| Agricultural  | 6 | 5,395.151 | 10.74% |
| Communication & Works  | 6 | 8,253.132 | 16.42% |
| COVID-19  | 1 | 762.738 | 1.52% |
| Education  | 12 | 11,288.415 | 22.46% |
| Energy  | 1 | 80.251 | 0.16% |
| Finance Department  | 1 | 2,009.041 | 4.00% |
| Fisheries  | 1 | 240.534 | 0.48% |
| Governance, Research & Statistics  | 2 | 74.846 | 0.15% |
| Health  | 7 | 1,402.380 | 2.79% |

| Description | | No of Loans | DOD as on 30th June 2021 (Rs Million) | % Of Outstanding Amount |
|--|---|-------------|--|-------------------------|
| Industries |  | 2 | 2,015.179 | 4.01% |
| Irrigation |  | 10 | 2,643.240 | 5.26% |
| Livestock |  | 1 | 72.000 | 0.14% |
| Others |  | 5 | 2,470.352 | 4.92% |
| Rural development & poverty reduction |  | 1 | 4,044.491 | 8.05% |
| Social Welfare |  | 5 | 2,380.783 | 4.74% |
| Water (Public Health Engineering) |  | 10 | 7,121.842 | 14.17% |
| Total | | 71 | 50,254.375 | 100% |

ACTUAL DISBURSEMENT OF ACTIVE LOANS

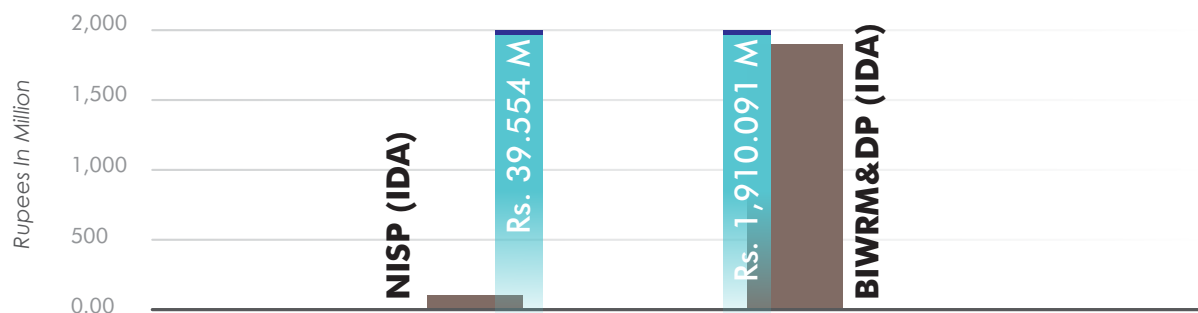
8.1 During the year ended 30th June 2021 Rs 1,949.645 million equivalent to US \$12.245 million were disbursed on account of active loans from IDA only. The project wise monthly disbursements from active loans during the year ended 30th June 2021 are shown below at Table 8.1 with graphical presentation at Figure 8.1:

Table 8.1: Disbursement from active loans

Rupees In Million

| Loan / Project Name | Agency | November 2020 | December 2020 | Total |
|--|--------|---------------|---------------|----------|
| National Immunization Support Project (NISP) | IDA | 39.554 | - | 39.554 |
| Balochistan Integrated Water Resources Management & Development Project –BIWRM&DP | IDA | - | 1,910.09 | 1,910.09 |
| Total | | 39.554 | 1,910.09 | 1,949.65 |

Figure 8.1: Graphical Presentation of Disbursement



REPAYMENT OF PRINCIPAL DEBT AMOUNT & INTEREST THERE ON

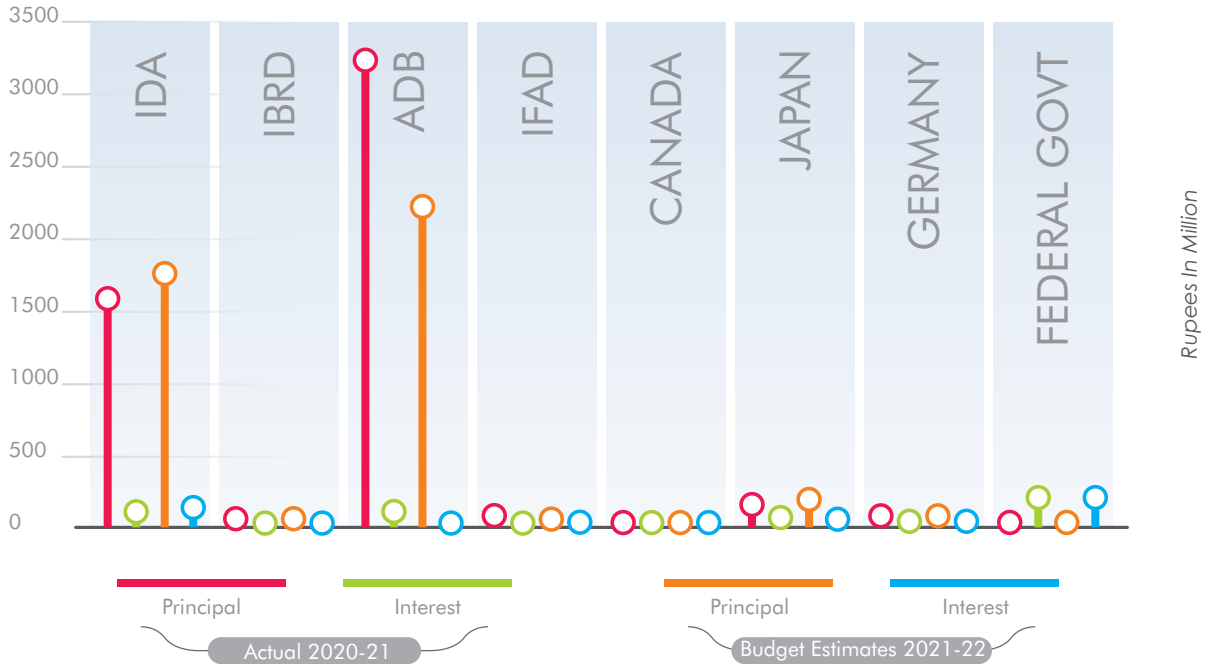
9.1 The repayment amount consists of repayment of principal and interest cost on outstanding amount according to the rates and repayment schedule agreed upon in the loan agreement. The amortization schedule is revised at the close of project according to the amount actually disbursed and adjusted each year according to the currency fluctuations. The foreign exchange loss/gain arising due to currency fluctuation is adjusted into the debt balances in the form of realized loss/gain. Payment of fiscal year 2020-21 and budget estimates of fiscal year 2021-22 is shown below at Table 9.1 and Figure 9.1:

Table 9.1: Debt Servicing current year and projected year

Rupees In Million

| Development Partner | Principal | Interest | Principal | Interest |
|---------------------|----------------|----------|--------------------------|----------|
| | Actual 2020-21 | | Budget Estimates 2021-22 | |
| IDA | 1,763.867 | 217.093 | 1,905.614 | 228.384 |
| IBRD | 14.973 | 0.646 | 14.880 | 0.530 |
| ADB | 3,419.135 | 184.034 | 2,236.101 | 155.865 |
| IFAD | 91.122 | 31.407 | 139.013 | 30.252 |
| Canada | 3.650 | - | 3.627 | - |
| Japan | 281.277 | 43.668 | 279.538 | 36.969 |
| Germany | 73.525 | 7.031 | 73.068 | 6.439 |
| Federal Govt | 4.985 | 167.723 | 11.786 | 167.135 |
| Total | 5,652.534 | 651.602 | 4,663.627 | 645.574 |

Figure 9.1 Graphical presentation of Principal and Interest payments



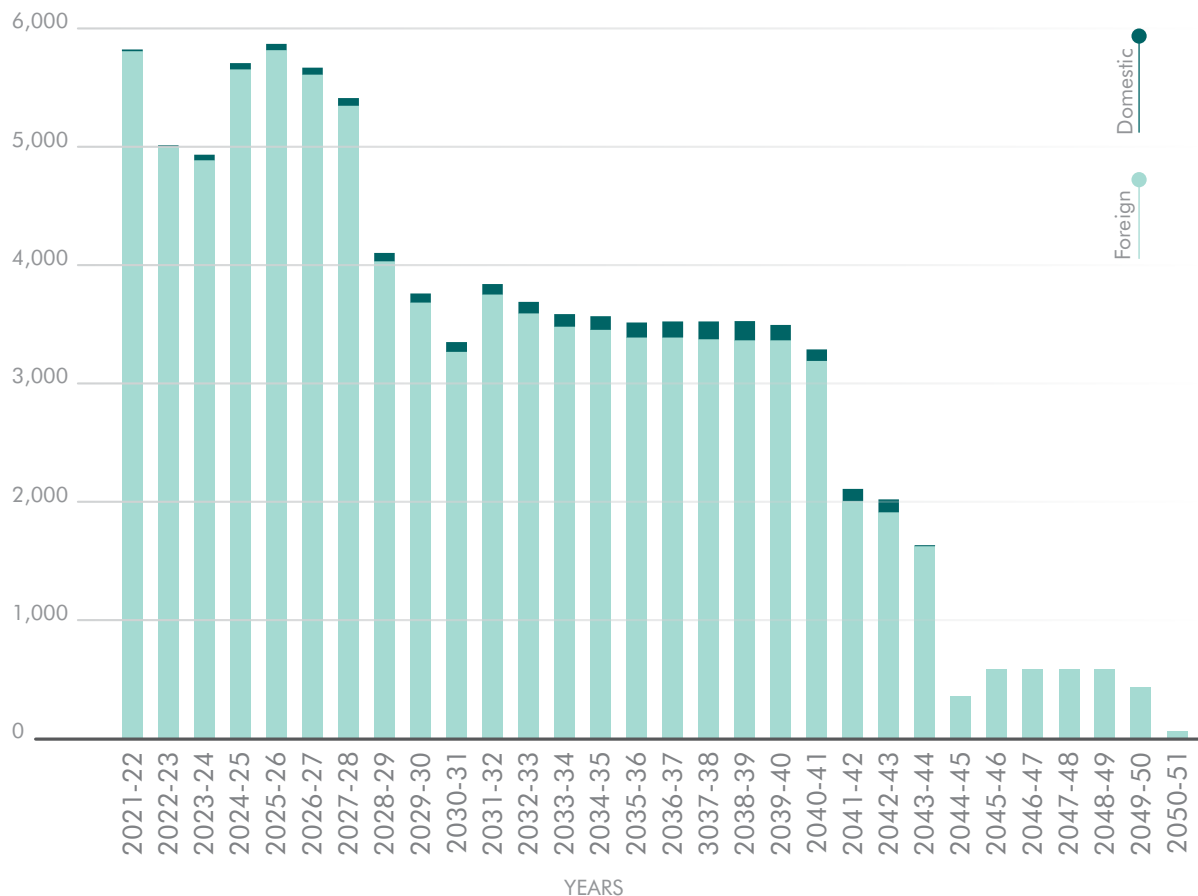
9.2 Reduction in budget estimates for the FY 2021-22 as compared to FY 2020-21 are due to the following factors, namely;

- Reduced foreign exchange rate predicted for the fiscal year 2021-22;
- Closure of Loan No. ADB 2202 with installment of Rs 1.220 billion in 2020-21;
- Repayments of unspent balance of \$ 125,042 on account of IFAD loan;
- Starting of repayment of installments of loan No. IDA 5885, which is lower than the closed loan.

9.3 **Expected Redemption Profile;** The redemption profile is of the existing outstanding loan and the expected disbursement of active loans in the debt portfolio over the agreed time period. The exchange rates communicated by EAD for the budget year 2021-22 have been used for conversion of debt portfolio in Pak Rupees. This redemption profile is based on existing stock; however, it is subject to change with the addition of new loans and change in exchange rate. A graphical presentation of redemption profile is shown below at Figure 9.2:

Figure 9.2: Expected Redemption Profile

Rupees In Million



DEBT SUSTAINABILITY

10.1 Debt sustainability analysis is important because it gives the 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 are solvency/vulnerability (debt bearing capacity) and liquidity/fiscal indicators (debt servicing capacity). A year wise comparison between different indicators is shown at Table 10.1 below:




Table 10.1: Debt sustainability indicators

| Solvency/Vulnerability Indicators | | | | Liquidity/Fiscal Indicators | | | |
|--|----------------|----------------|--|--|----------------|----------------|--|
| Description | 2021-22 | 2020-21 | | Description | 2021-22 | 2020-21 | |
| Outstanding debts to the budgeted federal transfer | 14.12% | 18.00% | | Principal Repayment to Revenue Expenditure | 1.46% | 1.98% | |
| Outstanding debts to the budgeted provincial own receipts (Tax and Non-Tax Receipts) | 48.69% | 108.00% | | Principal Repayment to Revenue Receipt | 1.00% | 1.67% | |
| | | | | Interest payment to Revenue Expenditure | 0.20% | 0.21% | |
| | | | | Interest payment to Revenue Receipt | 0.14% | 0.15% | |

RISK ANALYSIS OF DEBT PORTFOLIO

11.1 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. Risk indicators are shown at Table 11.1:

Table 11.1: Risk indicators

|  <p>Refinancing Risk</p> | <table border="1"> <thead> <tr> <th>Risk Indicators</th> <th>30th June 2021</th> </tr> </thead> <tbody> <tr> <td>Debt Maturing in 1 year (% of total)</td> <td>0.00%</td> </tr> <tr> <td>Average Time to Maturity ^[4](ATM) Years</td> <td>11.00 Years</td> </tr> </tbody> </table> | Risk Indicators | 30th June 2021 | Debt Maturing in 1 year (% of total) | 0.00% | Average Time to Maturity ^[4] (ATM) Years | 11.00 Years | | |
|---|--|-----------------|----------------|--|--------|---|-------------|--|-------------|
| Risk Indicators | 30th June 2021 | | | | | | | | |
| Debt Maturing in 1 year (% of total) | 0.00% | | | | | | | | |
| Average Time to Maturity ^[4] (ATM) Years | 11.00 Years | | | | | | | | |
|  <p>Interest Rate Risk</p> | <table border="1"> <thead> <tr> <th>Risk Indicators</th> <th>30th June 2021</th> </tr> </thead> <tbody> <tr> <td>Fixed rate debt (% of total)</td> <td>88.34%</td> </tr> <tr> <td>Debt Re-fixing in 1 Year (% of total)</td> <td>6.29%</td> </tr> <tr> <td>Average Time to Re-fixing ^[5](ATR) Years</td> <td>11.07 Years</td> </tr> </tbody> </table> | Risk Indicators | 30th June 2021 | Fixed rate debt (% of total) | 88.34% | Debt Re-fixing in 1 Year (% of total) | 6.29% | Average Time to Re-fixing ^[5] (ATR) Years | 11.07 Years |
| Risk Indicators | 30th June 2021 | | | | | | | | |
| Fixed rate debt (% of total) | 88.34% | | | | | | | | |
| Debt Re-fixing in 1 Year (% of total) | 6.29% | | | | | | | | |
| Average Time to Re-fixing ^[5] (ATR) Years | 11.07 Years | | | | | | | | |
|  <p>Foreign Exchange Risk</p> | <table border="1"> <thead> <tr> <th>Risk Indicators</th> <th>30th June 2021</th> </tr> </thead> <tbody> <tr> <td>Foreign currency debt as % of total debt</td> <td>96.04%</td> </tr> </tbody> </table> | Risk Indicators | 30th June 2021 | Foreign currency debt as % of total debt | 96.04% | | | | |
| Risk Indicators | 30th June 2021 | | | | | | | | |
| Foreign currency debt as % of total debt | 96.04% | | | | | | | | |

11.2 Re-Financing/Roll-Over Risk; Refinancing/Rollover Risks refer to the risk of having to refinance/roll-over retiring portion of the debt at a higher interest rate. The Debt Maturing in a year and the Average Time to Maturity (ATM) are indicators used to measure this risk. The ATM shows the average time to maturity of all the principal repayments in the debt portfolio. Higher portion of debt maturing in a year and shorter ATM imply higher risk exposure and vice versa. The ATM of the Balochistan loan portfolio is in good shape of 11.00 years. This is due to concessional loan portfolio with low interest rate and high maturity period. The above mention data shows that the loan portfolio exposure to refinancing risk is low.

11.3 Interest Rate Risk; The Interest Rate Risk refers to the exposure of debt portfolio to changes in interest rate. Fixed Rate Debt in the total loan portfolio, Debt Re-Fixing in a year and Average Time to Re-Fixing (ATR) are indicators used to measure this risk. The Average Time to Re-fixing (ATR) shows the weighted average time that the loan portfolio will be exposed to change in interest rates. Low ATR and high portion of debt re-fixing in a year indicates high interest rate risk. The ATR of Balochistan loan portfolio is 11.07 years which is quite high and on safe side. The portfolio exposure to interest rate risk is low.

11.4 Foreign Exchange Risk; Since the total loan portfolio of the province consists of foreign loans, that is why, foreign exchange risk for Balochistan is at the higher side, particularly after the abrupt depreciation of Pak Rupees against foreign currencies, had a huge impact on the outstanding loan balances and interest payments. During the year ended 30th June 2021 a loss of Rs 1,057.337 million were incurred on account of foreign current fluctuation.

⁴A measure of weighted average time to maturity of all principal repayments in the portfolio. ATM measures the average length of time it takes for all debt instruments to mature. A longer ATM implies lower refinancing risk and vice versa.

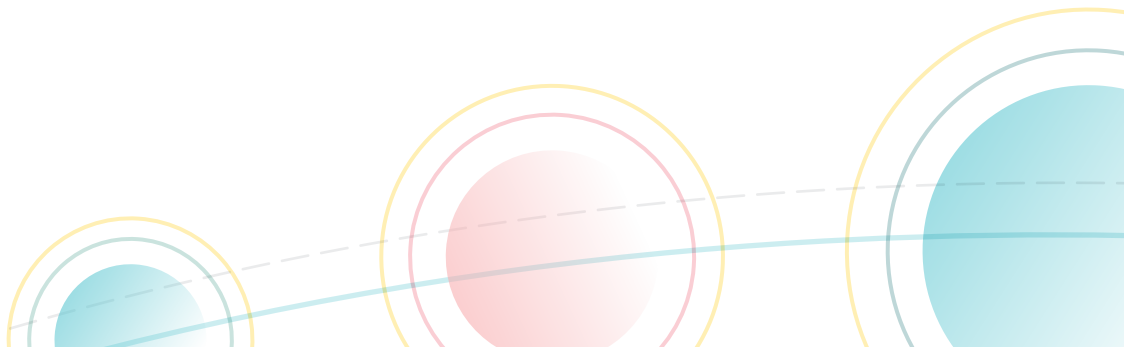
⁵A measure of weighted average time until all principal repayments in the portfolio become subject to a new interest rate. The longer the period, the longer the interest exposure.



BALUCHISTAN'S DEBT REPORT **2020-21**



DEBT MANAGEMENT UNIT
FINANCE DEPARTMENT
GOVERNMENT OF BALUCHISTAN





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