



BI-ANNUAL

— DEBT BULLETIN —

31st December 2021

Debt Management Unit
Finance Department
Government Of Balochistan



PREFACE

I am pleased to present the 2nd Bi-Annual Debt Bulletin Report, Government of Balochistan, which aims to provide the public with a broad set of relevant information and statistics on the province's debt position along with movement during the half year ended 31st December 2021.

The main objective of the bulletin is to produce debt statistics that comply with the best international practices and standards, provide accurate and timely information for sound financial and economic decision making in public sectors. It is also aimed to strengthen fiscal policy analysis and reporting; provide debt statistics to facilitate debt analysis with a view of enhancing effective debt management; disseminate debt data to the general public, lawmakers or policy-making body, international organization and other stakeholders for informed decision making; and make key provincial government debt statistics available in a single publication.

In a brief, the debt portfolio of the province consists of 71 loans with outstanding amount of Rs 50.334 billion as on 31st December 2021. During the period Rs 3.700 billion were disbursed to the province from active loans while the province has repaid principal of Rs.3.083 billion on account of closed loans. Moreover, the province has also paid interest of Rs.0.394 during the same period.

The bulletin is divided into several parts giving comprehensive information about the debt portfolio of the province through detailed data on the debt portfolio presented in statistical tables and charts; Debt Portfolio analysis for the period and debt sustainability and risks.

A better debt management and resource planning has become inevitable during the previous few years particularly in the backdrop 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.

Above in view, I would like to appreciate the technical support provided by Debt Management Unit (DMU) to debt section (Finance Department) in the management of debts of the province including but not limited to reconciliation, portfolio analysis, risk analysis etc. This untiring efforts of the DMU have for reaching impact on the fiscal discipline of the province. Moreover, a copy of this report can also be easily accessed on www.finance.gob.pk

(HAFIZ ABDUL BASIT)
SECRETARY FINANCE

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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



1. Introduction

1.1 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 loans) mechanism to the province.

1.2 The foreign debt loans have been availed to support the economic growth and provide for filling the economic & 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 Right Bank Outfall Drainage in Naseerabad Division by WAPDA.

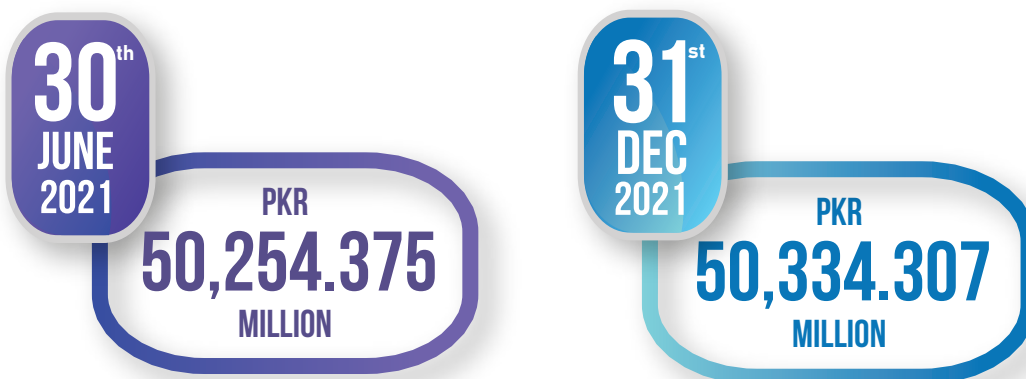
1.3 The exchange rates used for compiling debt data on borrowing, debt servicing, disbursements, outstanding debts and debt projections are communicated by EAD (Economic Affairs Division), Government of Pakistan, to province for translation of base currencies into Pak Rupees and quantification of exchange risk losses/gains.

1.4 The Finance Department, Government of Balochistan, has established a debt management unit (DMU) in Finance Department under Multi Donor Trust Fund (MDTF) administered by the World Bank in order to manage the huge debt portfolio province including raising of new funds, risk assessment and its mitigation and reducing cost of debt.

1.5 The following sections talk about the current debt balances, movement in debt portfolio during the financial period (1st July 2021 to 31st Dec 2021), effects of exchange rate & disbursements (receipts) and repayments during the fiscal period on the portfolio, risk analysis and a presentation of debts by lenders, sectors and currencies.

2. Review Of Debt Portfolio Of The Province

2.1 The outstanding balance of disbursed debt including foreign and domestic debts of the provinces as on 31st December, 2021 and June 30, 2021 are depicted as under-



2.2 There is net increase of Rs.79.932 million in the debt balances of the province from 1st July 2021 to 31st December 2021 which is attributable to the following effects;

- Effect of Foreign exchange rate fluctuation; and
- Effect of Net of Disbursement and Repayment during the period;

2.3 The base currency wise increase is further elaborated through a movement schedule below shown in Pakistan Rupees to analyze the impact of reduction/growth of each currency on the debt portfolio.

(TABLE 2.1: MOVEMENT ON DEBT PORTFOLIO DURING THE PERIOD)

BASE CURRENCY	<-----RUPEES IN MILLION ----->			GROWTH /(REDUCTION) %
	30 th JUNE 2021	31 st DEC 2021	INCREASE / (DECREASE)	
US DOLLAR	39,847.969	40,432.519	584.551	1.47%
JAPANESE YEN	7,523.939	7,069.132	(454.807)	(6.04) %
DEUTSCHE MARK	882.298	840.284	(42.014)	(4.76) %
CANADIAN DOLLAR	14.598	12.694	(1.904)	(13.04) %
PAK RUPEES	1,985.571	1,979.678	(5.893)	(0.30) %
TOTAL	50,254.375	50,334.307	79.932	0.16%

Each of effects are further explained as under;

a) Effect of Foreign Exchange Rates Fluctuation;

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).

Whereas according to financing agreements repayment will 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:**

(TABLE 2.2: EXCHANGE RATE EFFECT)

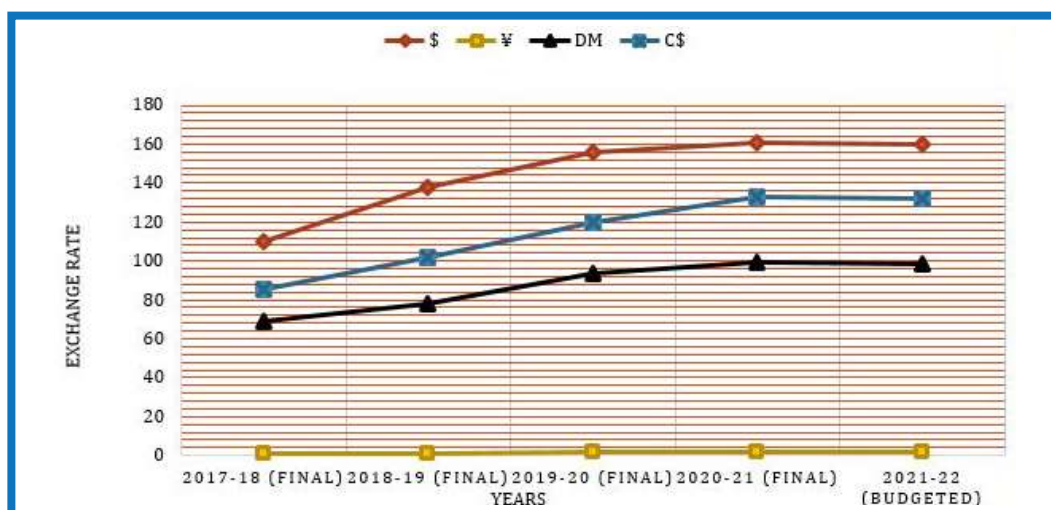
DESCRIPTION	\$	¥	DM	C\$
R.E EXCHANGE RATE PKR TO BC 2021-2022	160	1.463	98.945	131.888
B.E EXCHANGE RATE PKR TO BC 2020-2021	161	1.472	99.090	132.712
EXCHANGE RATE EFFECT	{0.62} %	{0.61%}	{0.15} %	{0.62} %

2.5 The historical trends of depreciation in Pakistan Rupees against the borrowing currencies show a consistent and continuous depreciation of Pakistan Rupees resulting in accumulation of debt portfolio in monetary terms. 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 issuance of currency notes in market etc. The budgeted rates for Fiscal Year 2021-22 and historical rates for the previous four years, communicated by the Economic Affairs Division, are presented in the table and graph below;

(TABLE 2.3: HISTORICAL TRENDS IN BASE CURRENCIES TO PAK RUPEES)

BORROWING CURRENCIES	\$	¥	DM	C\$
2021-22 (BUDGETED)	160.00	1.46	98.47	131.89
2020-21 (FINAL) 30TH JUNE	161.00	1.47	99.09	132.71
2019-20 (FINAL) 30TH JUNE	156.00	1.55	93.30	119.97
2018-19 (FINAL) 30TH JUNE	137.50	1.23	78.30	102.12
2017-18 (FINAL) 30TH JUNE	109.75	1.03	69.01	85.19

(Figure 2.1: Historical trends -Foreign Exchange Rates)



2.6 Moreover, at the time of finalization of this debt bulletin the actual exchange rates of Pak Rupees to base currencies are much higher than budget. However, these are not presented here as all the balances are adjusted only after communication of final exchange rates from the EAD though it might have huge impact on the debt balances.

b) Effect of Net of Disbursement and Repayment;

2.7 Another attribute of movement on debt portfolio is that of disbursement (receipts) and repayment effect. During the period, the Government paid installments related to various closed loan as per the financing agreement and amortization schedule and received amounts against existing ongoing loans. The effect of disbursement and repayments is shown in **Table 2.4** below;

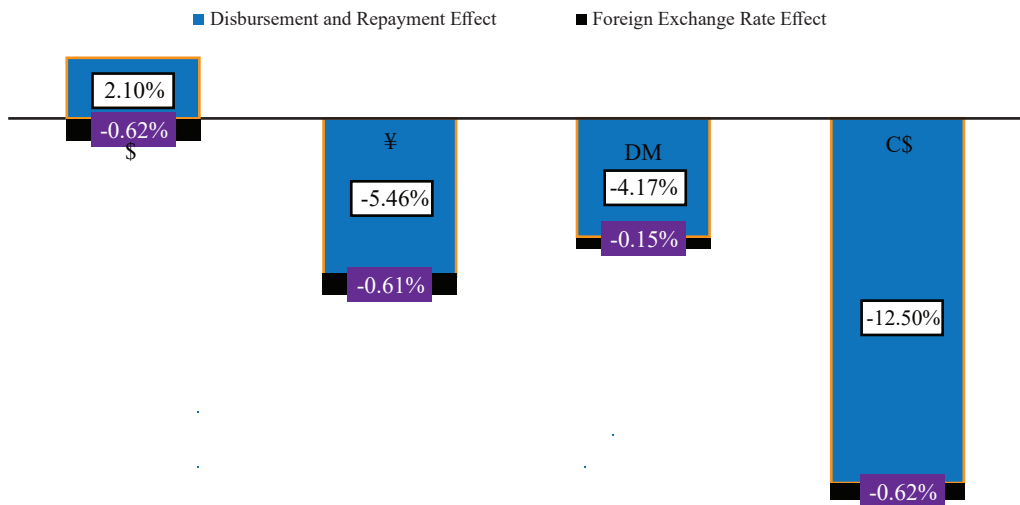
(TABLE 2.4: DISBURSEMENT AND REPAYMENT EFFECT)

DESCRIPTION	AMOUNT IN MILLION (BASE CURRENCIES)			
	\$	¥	DM	C\$
OPENING BALANCES AS ON 1ST JULY 2021	247.503	5,111.024	8.904	0.110
DISBURSEMENTS FROM JULY-DEC 2021	21.641	-	-	-
REPAYMENTS FROM JULY-DEC 2021	(16.441)	(279.082)	(0.371)	(0.014)
CLOSING BALANCES AS ON 31ST DEC 2021	252.703	4,831.942	8.533	0.096
DISBURSEMENT AND REPAYMENT % AGE CHANGE	2.10%	(5.46) %	(4.17) %	(12.5) %

2.8 It is pertinent to mention here that un-utilized fund amounting to US \$ 4.726 million 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. The amount is included in the repayment shown above.

2.9 The combined effect of foreign exchange rate and repayments/disbursements are shown below at **Figure 2.2** below:

(FIGURE 2.2: COMBINED EFFECT FROM TABLE 2.2 & TABLE 2.4)



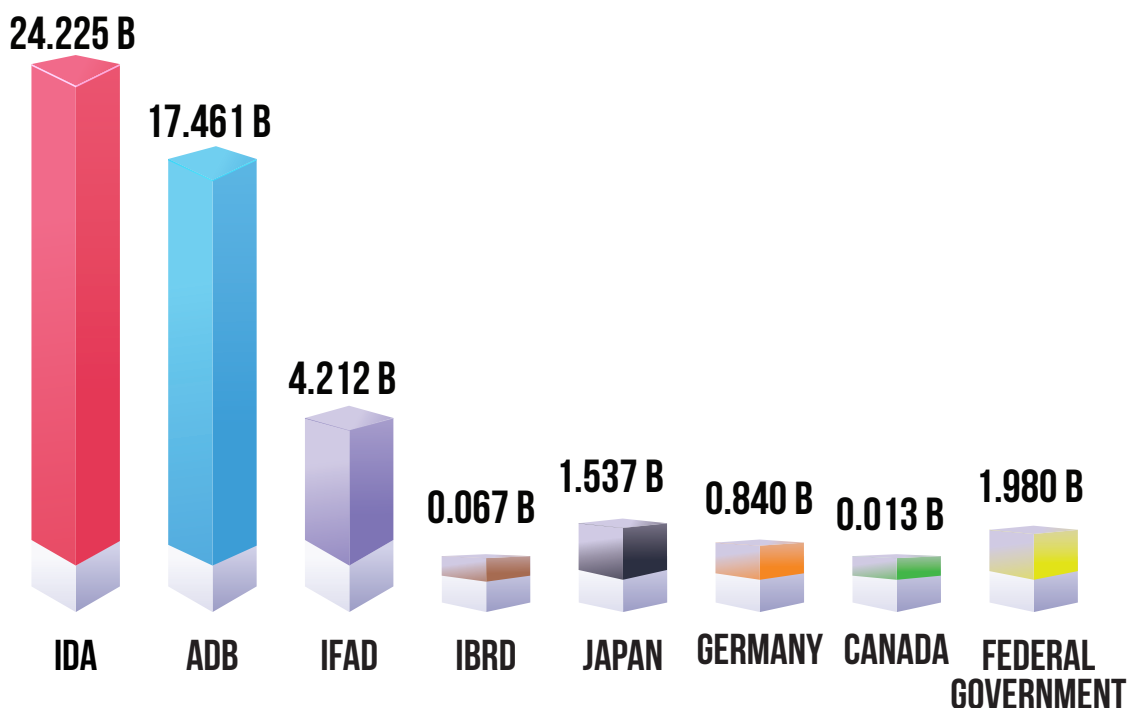
Cash Development Loan (CDL);

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

3. DEBT 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. An agency wise break up of outstanding loan balances as on 31st Dec 2021 in PKR terms is shown in the **Figure 3.1** below:

(FIGURE 3.1: LENDERS WISE DEBT POSITION)



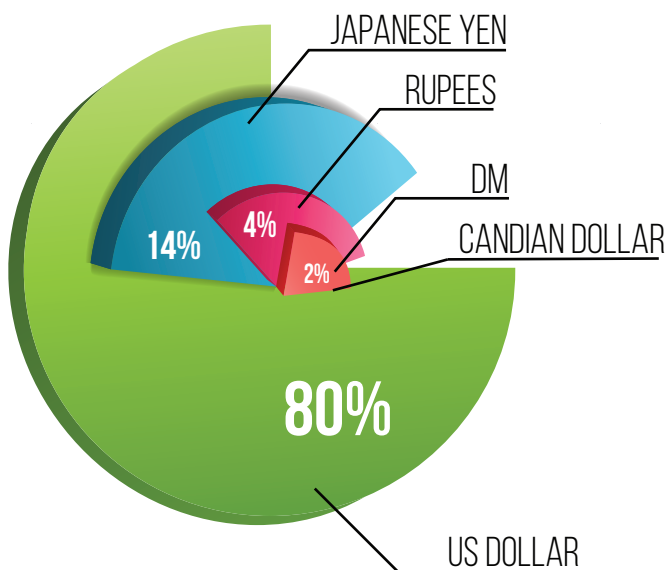
4. DEBT POSITION BY CURRENCY COMPOSITION

4.1 The loans portfolio consists of multiple currencies including US Dollars, Canadian Dollar, Deutsche Mark, 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. US \$ loans account for 80% of the loan portfolio while Japanese Yen and Deutsche Mark loans accounted for 14 % and 1.7% respectively. The currency wise debt portfolio composition of the province as on 31st Dec 2021 in the **Table 4.1** and **Figure 4.1** below.

(TABLE 4.1: CURRENCY WISE DEBT POSITION)

BASE CURRENCY	COUNT	DOD AS ON 31ST DEC 2021 (BASE CURRENCY MILLION)	EXCHANGE RATE	DOD AS ON 31ST DEC 2021 (PKR MILLION)
\$ (US DOLLAR)	66	252.703	160.00	40,432.519
CS (CANADIAN DOLLAR)	01	0.096	131.89	12.694
DM (DEUTSCHE MARK)	01	8.533	98.47	840.284
¥ (JAPANESE YEN)	02	4,831.942	1.46	7,069.132
PAK RUPEES	01	1,979.678	-	1,979.678
TOTAL				50,334.307

(FIGURE 4.1: DEBT POSITION CURRENCY WISE)



5. DEBT PORTFOLIO BY INTEREST TYPE

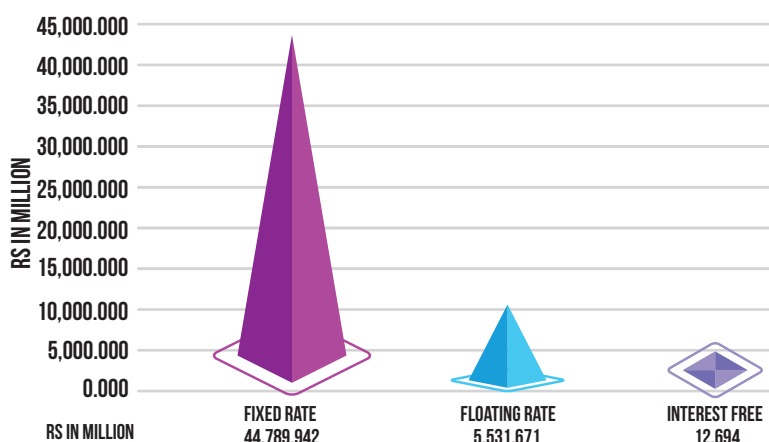
5.1 The repayment amount consists of repayment of principal and interest cost on outstanding amount according to the rates and repayment schedule agreed upon in the loan agreement. The amortization schedule is revised at the close of project according to the amount actually disbursed and adjusted each 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. Budget estimates for fiscal year 2020-21 and payment for the period is shown below at **Table 5.1** respectively:

(TABLE 5.1: DEBT SERVICING BUDGETED AND ACTUAL)

LENDERS	LOAN BY INTEREST TYPE	INTEREST/SERVICE CHARGES RATE	NO OF LOANS
IDA & IBRD	FIXED	0.75%-2%	34
ADB	FIXED	1%-2%	29
ADB	FLOATING	LIBOR+0.6%	01
IFAD	FIXED	0.75%	03
GERMANY	FIXED	0.75%	01
JAPAN	FIXED	2.30%	01
CIDA	INTEREST FREE	0%	01
FEDERAL GOVT	FIXED	6.62%-11.79%	01
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)



6. 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 disbursements have been completed and repayments of principal amounts of loans are in process as per repayment schedule while active loans are those where disbursements are still being received or will start in the ongoing fiscal year. The status of active loans is given at **Table 6.1** as under:

(TABLE 6.1: STATUS OF ACTIVE LOANS)

NAME OF PROJECT	Lending Agency	Committed Amount (Millions)	Estimated Disbursements during FY 2021-22 (PKR Million)	Actual Disbursement Up to 31st Dec 2021 (PKR Million)
BALUCHISTAN INTEGRATED WATER RESOURCES MANAGEMENT AND DEVELOPMENT PROJECT (BIWRMP)	IDA*	SDR 142.600	7,000	1,782.310
BALUCHISTAN WATER RESOURCES DEVELOPMENT SECTOR PROJECT (BWRDSP)	ADB	\$100.000	1,500	1,445.303
BALUCHISTAN HUMAN CAPITAL INVESTMENT PROJECT (BHICP)	IDA	SDR 15.400	2,000	217.453
BALUCHISTAN LIVELIHOODS AND ENTREPRENEURSHIP PROJECT (BLEP)	IDA	SDR 14.800	-	-
GWADAR LASBELA LIVELIHOOD SUPPORT PROJECT II (GLLSP)	IFAD	\$ 60.155	800	255.803

*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.

The debt portfolio of the province consists of 71 loans in number in which five (5) loans are active and 66 have been closed from disbursement point of view. The active loans are from lenders IFAD, IDA and ADB. The active loans are 16.49% and closed 83.51% of the debt profile of the province.



7. 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. Sector wise outstanding balances as on 31st Dec, 2021 are as follows in **Table 7.1**;

(TABLE 7.1: SECTOR WISE DEBT POSITION)

S. NO	DESCRIPTION	NO OF LOANS	DOD AS ON 31ST DEC 2021 (RS MILLION)	% OF OUTSTANDING AMOUNT
01	AGRICULTURAL	06	5,162.947	10.26%
02	COMMUNICATION & WORKS	06	7,759.470	15.42%
03	EDUCATION	12	10,596.607	21.05%
04	ENERGY	01	76.429	0.15%
05	FINANCE DEPARTMENT	01	1,879.117	3.73%
06	FISHERIES	01	159.360	0.32%
07	GOVERNANCE, RESEARCH & STATISTICS	02	71.697	0.14%
08	HEALTHSTATISTICS	07	1,377.645	2.74%
09	INDUSTRIES	02	28.272	0.06%
10	IRRIGATION	10	4,411.796	8.76%
11	LIVESTOCK	01	61.331	0.12%
12	OTHERS	06	2,564.615	5.10%
13	RURAL DEVELOPMENT & POVERTY REDUCTION	02	4,190.902	8.33%
14	SOCIAL WELFARE	04	2,234.230	4.44%
	WATER (PUBLIC HEALTH ENGINEERING)	10	9,759.889	19.40%
TOTAL		71	50,334.307	100%

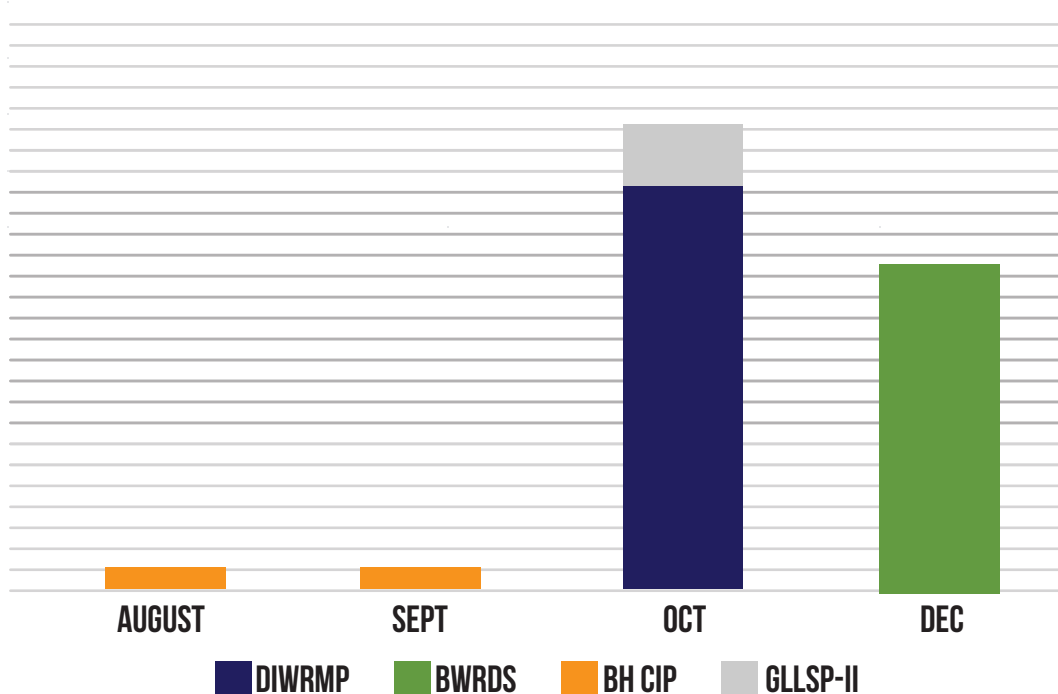
8. ACTUAL DISBURSEMENT OF ACTIVE LOANS

8.1 During the period ended 31st Dec, 2021 Rs 3,700.869 million equivalent to US \$21.641 million were disbursed on account of active loans from IDA, ADB and IFAD. The project wise monthly and total disbursements from active loans during the period ended 31st Dec 2021 are shown below at **Table 8.1** with graphical presentation at **Figure 8.1**:

(TABLE 8.1: DISBURSEMENT FROM ACTIVE LOANS)

LOAN / PROJECT NAME	AGENCY	<-----PKR IN MILLION----->				
		AUGUST 2021	SEPT 2021	OCT 2021	DEC 2021	TOTAL
BALUCHISTAN INTEGRATED WATER RESOURCES MANAGEMENT AND DEVELOPMENT PROJECT (BIWRMP)	IDA	-	-	1,782.310	-	1,782.310
BALUCHISTAN WATER RESOURCES DEVELOPMENT SECTOR PROJECT (BWRDSP)	ADB	-	-	-	1,445.303	1,445.303
BALUCHISTAN HUMAN CAPITAL INVESTMENT PROJECT (BHCIP)	ADB	102.145	115.308	-	-	217.453
GWADAR LASBELA LIVELIHOOD SUPPORT PROJECT II (GLLSP)	IFAD	-	-	255.803	-	255.803
TOTAL		102.145	115.308	2,038.113	1,445.303	3,700.869

(FIGURE 8.1: GRAPHICAL PRESENTATION OF DISBURSEMENT)



9. REPAYMENT OF PRINCIPAL & INTEREST

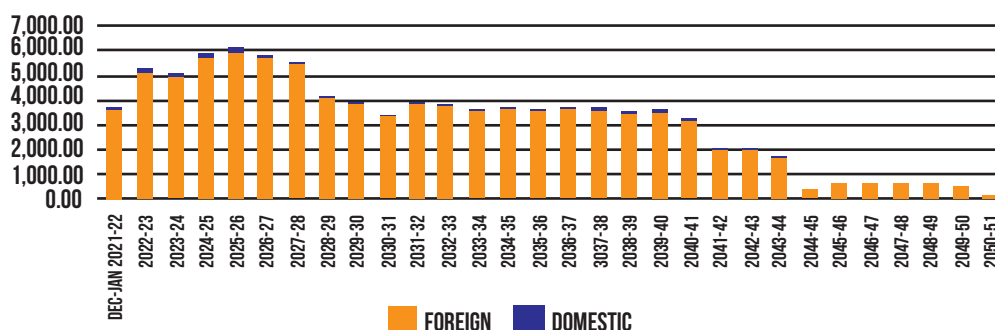
9.1 The repayment amount consists of repayment of principal and interest cost on outstanding amount according to the rates and repayment schedule agreed upon in the loan agreement. The amortization schedule is revised at the close of project according to the amount actually disbursed and adjusted each 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. Budget estimates for fiscal year 2020-21 and payment for the period is shown below at **Table 9.1** respectively:

(TABLE 9.1: DEBT SERVICING BUDGETED AND ACTUAL)

DEVELOPMENT PARTNER	PAYMENTS RUPEES IN MILLION			
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
	BUDGET ESTIMATES 2020-21		PAID UP TO 31ST DEC 2021 (BE RATE)	
IDA	1,905,614	228,384	1,710,807	192,570
IBRD	14,880	0,530	7,440	0,279
ADB	2,236,101	155,865	1,111,337	80,366
IFAD	139,013	30,252	69,507	15,129
CANADA	3,627	-	1,813	-
JAPAN	279,538	36,969	139,769	19,288
GERMANY	73,068	6,439	136,534	3,288
FEDERAL GOVT	11,786	167,135	5,893	83,568
TOTAL	4,663,627	625,574	3,083,100	394,488

9.2 **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)



10. 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 recurrent and development expenditure and the debt to provincial revenue is low 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 period wise comparison between different indicators is shown at **Table 10.1** below:

(TABLE 10.1: DEBT SUSTAINABILITY INDICATORS)

DESCRIPTION		31ST DEC 2021	31ST DEC 2020
SOLVENCY/VULNERABILITY INDICATORS	OUTSTANDING DEBTS TO THE BUDGETED FEDERAL TRANSFER	14.14%	17.33%
	OUTSTANDING DEBTS TO THE BUDGETED PROVINCIAL OWN RECEIPTS (TAX AND NON-TAX RECEIPTS)	48.77%	113.09%
LIQUIDITY/FISCAL INDICATORS	PRINCIPAL REPAYMENT TO REVENUE EXPENDITURE	0.89%	1.67%
	PRINCIPAL REPAYMENT TO REVENUE RECEIPT	0.66%	1.98%
	INTEREST PAYMENT TO REVENUE EXPENDITURE	0.11%	0.16%
	INTEREST PAYMENT TO REVENUE RECEIPT	0.08%	0.13%

11 .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)

FACTORS	RISK INDICATORS	31ST DEC 2021
REFINANCING RISK	DEBT MATURING IN 1 YEAR (% OF TOTAL)	0.54%
	AVERAGE TIME TO MATURITY (ATM) YEARS	10.98 YEARS
INTEREST RATE RISK	FIXED RATE DEBT (% OF TOTAL)	88.98%
	DEBT RE-FIXING IN 1 YEAR (% OF TOTAL)	6.29%
	AVERAGE TIME TO RE-FIXING (ATR) YEARS	11.04 YEARS
FOREIGN EXCHANGE RISK	FOREIGN CURRENCY DEBT AS % OF TOTAL DEBT	96.07%

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 10.98 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 11.04 years which is quite high and on safe side. The portfolio exposure to interest rate risk is low.

11.4 Foreign Exchange Risk; Only foreign loans are exposed to exchange rate risk. As 96.07% of the debt portfolio consist of foreign debts that is why, foreign exchange risk for Balochistan is at the higher side. Moreover, the abrupt depreciation of Pak Rupees against foreign currencies, has a huge impact on the outstanding loan balances and interest payments in PKR terms.



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