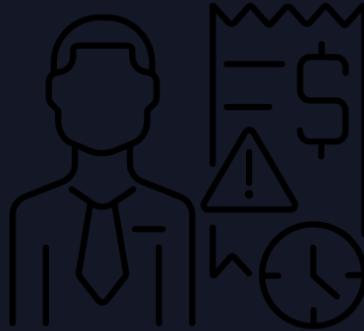




DEBT MANAGEMENT UNIT

FINANCE DEPARTMENT GOVERNMENT OF SINDH



DEBT BULLETIN SINDH (BI-ANNUAL)

JULY - JUNE 2023

 finance.gos.pk

 A.K Lodhi Block Finance Complex,
New Sindh Secretariat No.6, Kamal-Atta-Turk Road, Karachi

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LIST OF ABBREVIATIONS

ADB	Asian Development Bank		
AIIB	Asian Infrastructure Investment Bank	KWSSIP	Karachi Water and Sewerage Services Improvement Project
AFD	French Development Agency (Agence Française de Développement)	NHSP	National Health Support Program
ATM	Average Time to Maturity	OPEC	Organization of the Petroleum Exporting Countries
ATR	Average Time to Re-fixing	SACOS	Sindh Aqua Culture Operations in Sindh
CLICK	Competitive and Live-able City of Karachi	SELECT	Sindh Early Learning Enhancement Through Classroom Transformation
CRE	Current Revenue Expenditure	SPRSIP	Sindh Provincial Road Sector Improvement Project II
GCF	Green Climate Fund	SSEIP	Sindh Secondary Education Improvement Project
GoP	Government of Pakistan	SWEEP	Solid Waste Emergency and Efficiency Project
GoS	Government of Sindh	SW&ATP	Sindh Water & Agriculture Transformation Project
HCIP	Human Capital Investment Project	TRR	Total Revenue Receipts
HSBRP	Hyderabad Southern Bypass Road Project	WAIR	Weighted Average Internal Rate
IBRD	International Bank for Reconstruction & Development		
IDA	International Development Association		
IFAD	International Fund for Agricultural Development		
IsDB	Islamic Development Bank		
JICA	Japan International Corporation Agency		

Summary

The publication of the Sindh Debt Bulletin as of June 30, 2023 is illustrative of Sindh Government's commitment towards better debt management, transparency in maintaining debt portfolio and having necessary feedback from the relevant stakeholders. The document provides an account of the provincial debt stock, its redemption profile, composition and structure of the foreign and domestic loans and provincial guarantees that provides a basis for risk analysis. It is a combination of brief description supported with reports having significant data coupled with financial ratios providing an outlook of public debt portfolio and variations taking place during the year.

A cursory glance to the portfolio shows that weighted average interest rate (WAIR) for the domestic loans is 11.55% which is higher than the WAIR of 2.56% for the external loans, for reasons of securing high interest-bearing loans. Whereas, the total WAIR for the entire debt portfolio is 2.69%. The prevailing discount rate of State Bank of Pakistan (SBP) is 22% as of June 30, 2023. There is an increase in the WAIR for the external debt portfolio from 2.10%, (as of June 2022), to 2.69% due to increase in rates of variable loans.

The Total Revenue Receipt (TRR), Current Revenue Expenditure (CRE), and Debt Servicing (Principal + Interest) were Rs. 1,409.56 billion, Rs. 1,214.11 billion and Rs. 57.55 billion till the end of June 2023.

1.0 INTRODUCTION

The bulletin provides an authentic source document for general purposes and reflects government's resolve to provide easy access to information to public. It contains data regarding (i) Overview of provincial debt, (ii) Increase in public debt portfolio, (iii) Debt servicing, (iv) Composition and structure of debt, and (v) Snapshot of specific debt risk indicators.

2.0 OVERVIEW OF TOTAL PUBLIC DEBT

Total public debt defined as "the sum of domestic and external debts of the Government with defined terms and conditions for repayment for each". It excludes the debt of public corporations/entities controlled by the provincial government. The following table depicts the composition of Sindh's debt portfolio.

Table -1: Overview of Provincial Debt

	December-21	June-22	December-22	June-23
Rs. In Million				
Domestic Debt	19,525	15,235	14,378	13,293
External Debt	469,649	560,847	619,251	894,507
Total Debt	489,174	576,082	633,629	907,800
Sindh's GDP	13,697,795	16,402,726	16,402,726	20,741,163
(In Percent of Sindh's GDP)				
Domestic Debt	0.14	0.09	0.09	0.06
External Debt	3.43	3.42	3.78	4.31
Total Debt	3.57	3.51	3.86	4.38
(In Percent of Total Public Debt)				
Domestic Debt	3.99	2.64	2.27	1.46
External Debt	96.01	97.36	97.73	98.54
(USD in Million)				
Domestic Debt	106.17	74.01	63.50	46.48
External Debt	2,553.83	2,724.54	2,734.85	3,127.76
Total Debt	2,660.00	2,798.55	2,798.35	3,174.24
Exchange Rate (PKR/USD)	176.51	205.85	226.43	285.99

• Note: Pakistan GDP data fetched from <https://www.sbp.org.pk/ecodata/index2.asp>
 • Sindh GDP calculated @ 24.5% of national GDP as per NFC award formula

3.0 Reasons for Increase in Total Debt

During FY 2022-23, the increase of Rs. 331,718 million is mainly because of currency depreciation impact of Rs. 228,175 million. Total loan disbursements and principal payments recorded for the year were Rs. 145,008 million and Rs. 41,465 million respectively.

Table -2: Reasons for Increase in Total Debt.

(Rs. In million)

	June-22	December-22	June-23
Increase in Total Debt	121,197	57,546	331,718
Currency Depreciation / (Appreciation)	96,283	49,187	228,175
Disbursement - Principal Payments	24,914	8,359	103,543

4.0 Maturity Profile of External and Domestic Loans

The following shows the maturity profile of both external and domestic loans in upcoming years till their full maturity.

Table -3: Maturity Profile of External and Domestic Loans

	1-5 Years	6-10 Years	11-15 Years	16-20 Years	21-25 Years	26-30 Years	Total
External Loans	37	21	18	26	13	2	117
Domestic Loans	11	6	4	1	0	0	22
Total Loans	48	27	22	27	13	2	139

Note: Above table is prepared based on the remaining maturity of debt stock.

Fig -1: Maturity Profile of External and Domestic Loans

Maturity Profile of External and domestic loans



5.0: Glimpse of Recent Borrowing Activities

During the last 01-year period, an amount of PKR 145,008 million was disbursed on account of twenty-four (24) foreign loans from four (04) multilateral agencies (IDA/IBRD, ADB, IsDB & AIIB) and one (01) bilateral agency (South Korea).

There are ten (10) new Loans which were signed in the last 02 years for total amount of USD 2,312 million. Almost 86% of these new loans were signed on concessional rates (Fixed) and remaining 14% on commercial rates (SOFR plus spread). The variable rate has now increased to 7.59% that includes 6M SOFR rate of 5.09% (as published on June 30, 2023) plus variable spread in the range between 1.35% - 2.5% variable spread. In current situation, the actual cost is much higher when comparing to concessional financing on 2.0% only.

TABLE -4: RECENT BORROWING ACTIVITIES

(Amount in USD million)

	Name of Loans	Lender	Sanctioned Amount	Type (Fixed / Variable)
1.	Sindh Flood Emergency Rehabilitation Project	IDA	500	Fixed
2.	Sindh Flood Emergency Housing Reconstruction Project	IDA	500	Fixed
3.	Sindh Water and Agriculture Transformation Project (I)	IDA	292	Fixed / variable
4.	Strengthening Social Protection Delivery System in Sindh	IDA	200	Fixed
5.	Sindh Integrated health and Population Project	IDA / IsDB	250	Fixed / variable
6.	Sindh Emergency Flood Assistance Project	ADB	200	Fixed
7.	Sindh Resilience Project (Phase II)	IDA	200	Fixed
8.	Sindh Early Learning Enhancement Through Classroom Transformation (SELECT)	IDA	100	Fixed
9.	National Support Health Program (NHSP)	IDA	70	Fixed
	Total		2,312	

There are eight (08) more loans currently in negotiation or in concept paper clearance phase for total USD 2,014 million which are likely to be signed/approved in the next 12-16 months period. These loans along with the already signed/approved loans collectively will increase the Debt portfolio at least by more than 75% (excluding average rupee depreciation) in the next 5-7 years period.

TABLE -5: RECENT LOANS IN NEGOTIATIONS

(Amount in USD million)

Name of Loans	Lender	Sanctioned Amount
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1.	Sindh Provincial Road sector improvement project II (SPRSIP)	ADB	300
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2.	Sindh Coastal Resilience Project	ADB	180
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3.	Karachi Water and Sewerage Services Improvement Project (Phase II)	IBRD (200 M) / AIB (200 M)	400
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4.	Sindh Secondary Cities Improvement Project	ADB	300
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5.	Livestock/AquaCulture Operations in Sindh	IDA	134
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6.	Hyderabad Southern Bypass Road (HSBRP)	ADB	100
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7.	Sindh Transformational Accelerated Rural Services – Water Sanitation & Hygiene Project (STARS-WASH)	IDA	400
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8.	Sindh Housing Reconstruction Project	IsDB	200
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Total			2,014
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6.0 Liability by Sector (External Debt Portfolio)

(Amount in million)

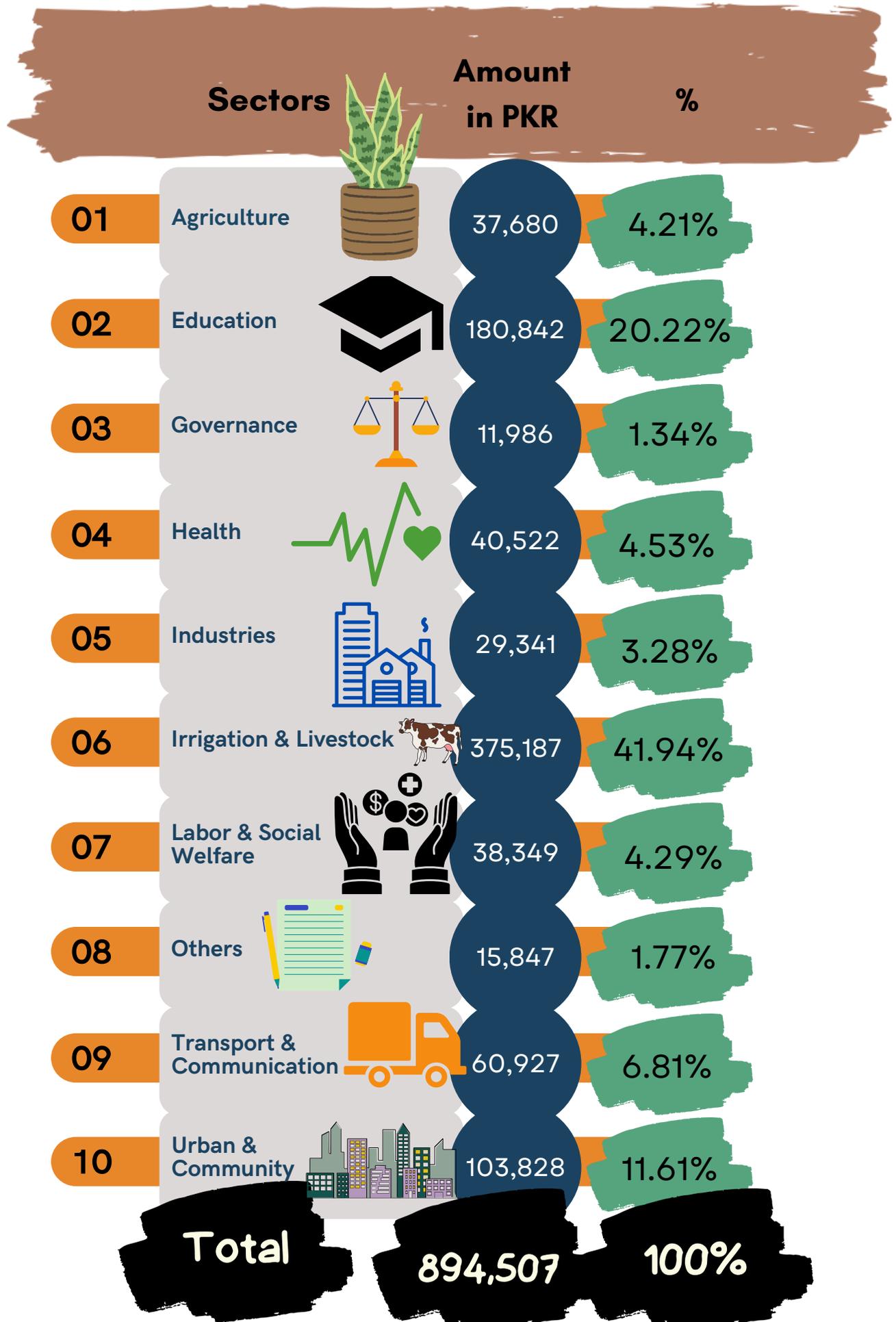
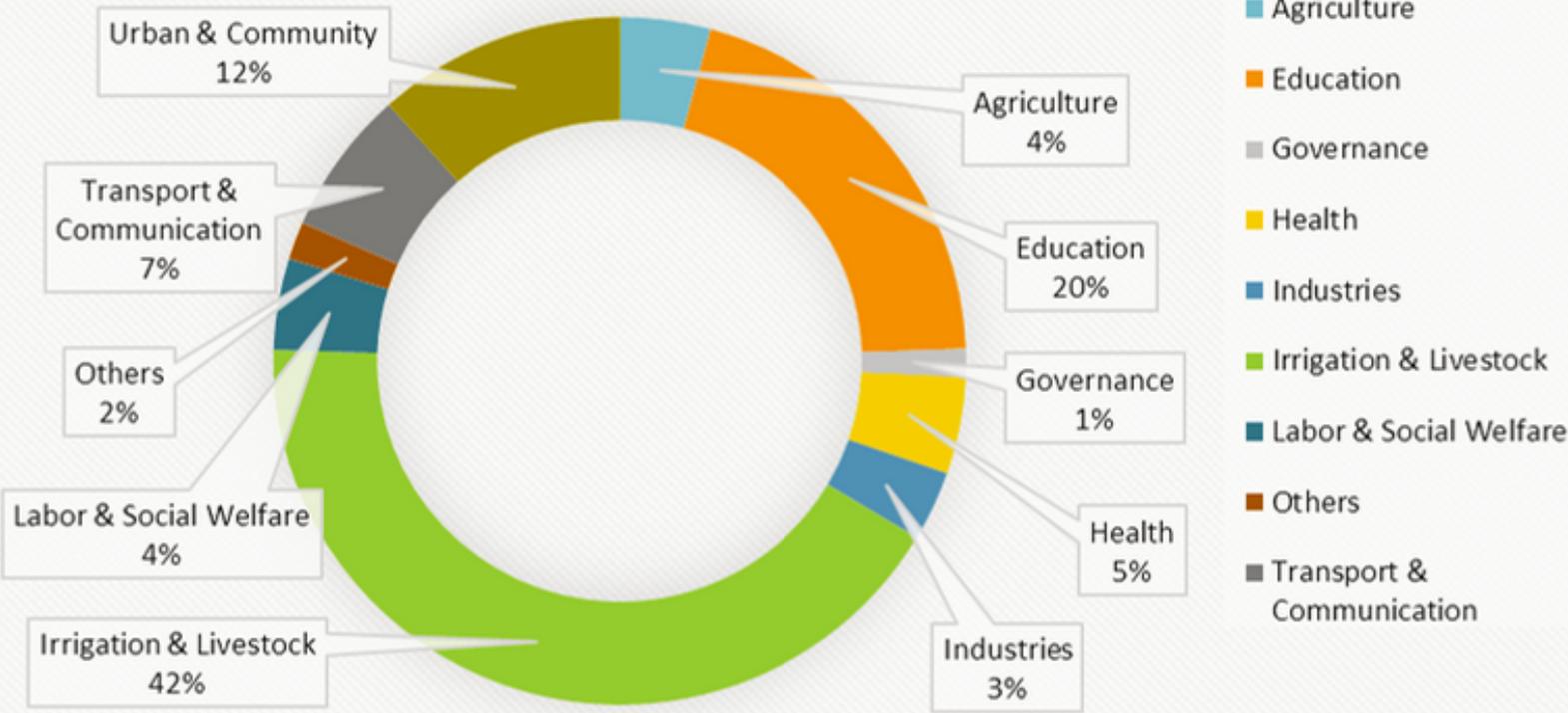




FIG -2: LIABILITY BY SECTOR

Sector wise outstanding June 30, 2023
(External debt portfolio)



The amount has increased by a total of PKR 331,718 million from July 2022 - June 2023. Total loan disbursements and principal payments recorded for the year were PKR 145,008 million and PKR 41,465 million and a currency Depreciation impact of PKR 228,175 million.

7.0 COMPOSITION BY LENDER

Table -7: Composition by Lender

(Amount in million)

Agency	Count	Amount outstanding (PKR) June 30, 2022	Amount outstanding (PKR) December 31, 2022	Amount outstanding (PKR) June 30, 2023	% of Total Debt
World Bank	68	381,701	426,547	646,746	71.24%
ADB	43	162,381	173,406	219,582	24.19%
Japan	3	11,013	11,781	12,811	1.41%
Fed. Govt.	22	15,235	14,378	13,293	1.46%
Others	3	5,753	7,518	15,368	1.69%
Total	139	576,083	633,629	907,800	100%

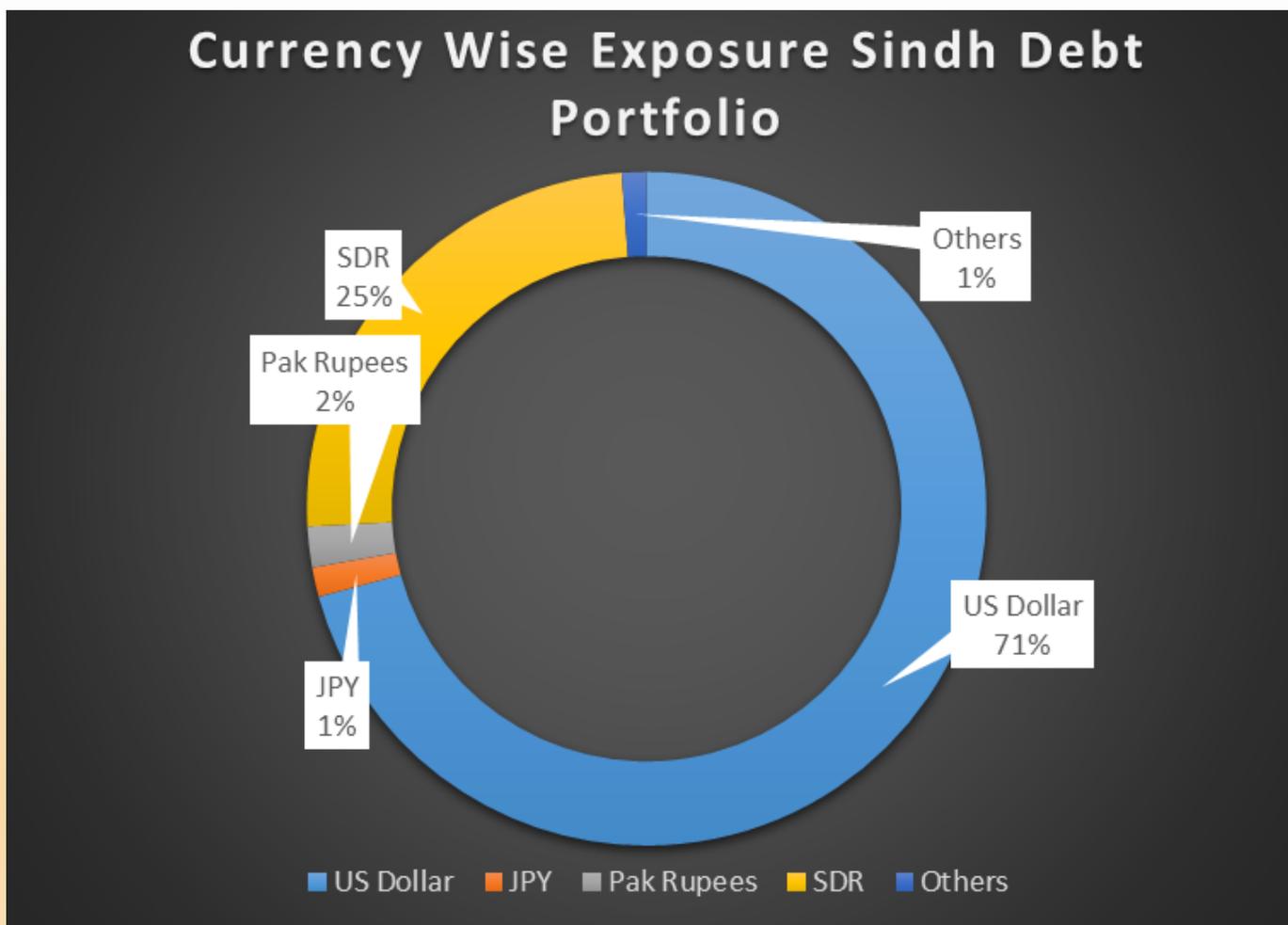
• Note: Others include (Korea, AFD, AIIB, OFID, IFA)

8.0 Exposure by Currency

The US Dollar dominates with **70.79%** of the total debt portfolio, but Sindh has managed to diversify its portfolio by **24.67%** in SDR, which comprises a basket of 05 currencies. The PKR is **1.95%** of the total portfolio; others are negligible.

Fig -3: Currency Wise Exposure

Currency Wise Exposure Sindh Debt Portfolio June 30, 2023		
Currencies	Amount	Percentage
US Dollar	642,638	70.79%
JPY	12,811	1.41%
Pak Rupees	17,734	1.95%
SDR	223,992	24.67%
Others	10,624	1.17%
Total	907,800	100%



9.0 DEBT RISK INDICATORS

Foreign Exchange / FX Risk: The share of foreign currency-denominated loans is **98.5%** of the total Sindh debt portfolio, which consider to be higher exposure to Currency risk/Exchange rate risk.

Interest Rate Risk: Debt re-fixing in one year as a percentage of the total is **24.86%**, which is on the lower side. It includes debt on fixed-rate maturing within the current year plus sixteen (16) SOFR Based loans, re-fixed after every 06 months.

ATR (Average time to re-fixing): For a complete debt portfolio is **8.8** years which is high and indicates low risk relatively while measuring its vulnerability towards interest rate risk.

Re-financing Risk: Debt maturing in one (01) year is average **4.9%** of the total debt portfolio, which is low, considering its exposure to refinancing risk.

ATM (average time to maturity): For a complete debt portfolio is **11.19** years, which shows the debt portfolio average maturity period is high and indicates low exposure to refinancing risk.

TABLE -9: DEBT RISK INDICATORS

Risk Indicators		Domestic Debt	External Debt	Total Public Debt	Domestic Debt	External Debt	Total Public Debt
		End-June 2022			End-June 2023		
FX risk	FX debt (% of total debt)	96.30%			98.50%		
Interest rate risk	Debt Re-fixing in 1 year (% of total)	16.20%	26.90%	26.50%	15.31%	24.71%	24.86%
	Fixed rate debt (% of total)	100%	78.70%	79.50%	100%	76.70%	76.70%
	*ATR (years)	4.91	7.85	7.7	5.03	8.53	8.12
Refinancing risk	Debt maturing in 1 year (% of total)	16.20%	5.40%	5.80%	15.31%	4.71%	4.90%
	*ATM (years)	4.91	10.34	10.14	5.03	11.28	11.19

The Key impact is due to gradual increase in foreign loan variable rate category to 24% and prevailing rate to 5.09% (SOFR) plus variable spread in the range between 1.35% - 2.5%.

10. Interest Composition for External and Domestic loans

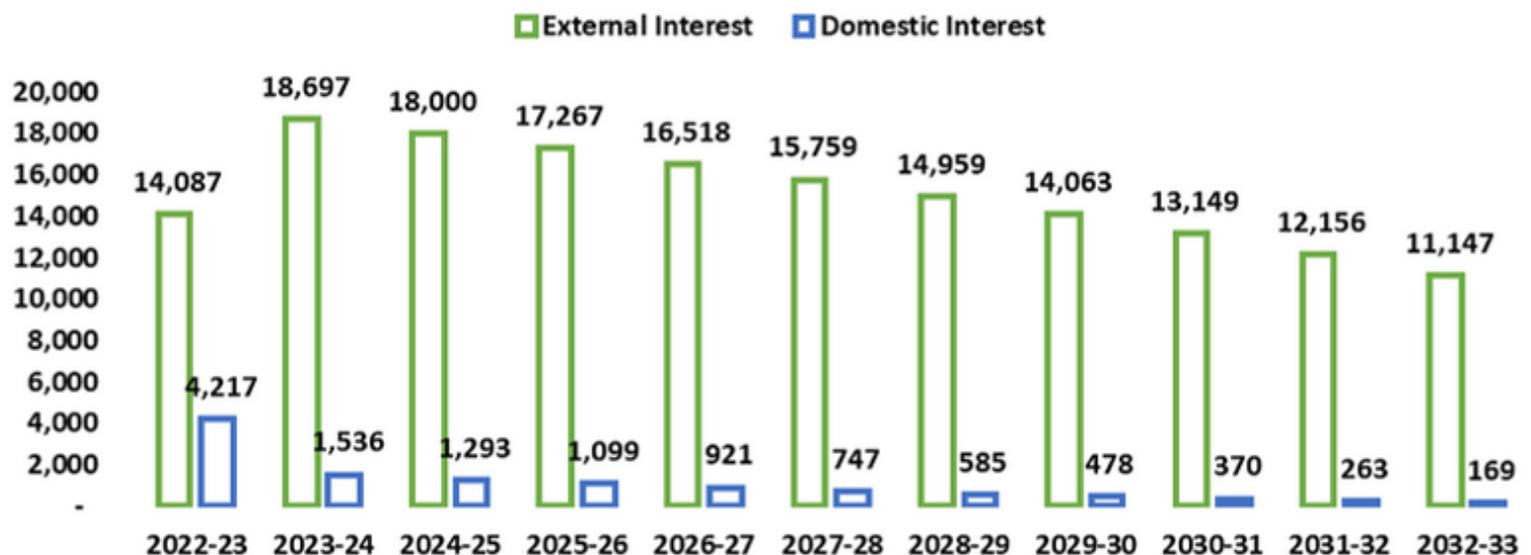


Table- 10: Interest Composition for External and Domestic Loans

FY	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
External Interest	14,087	18,697	18,000	17,267	16,518	15,759	14,959	14,063	13,149	12,156	11,147
Domestic Interest	4,217	1,536	1,293	1,099	921	747	585	478	370	263	169
Total Interest	18,304	20,233	19,293	18,366	17,439	16,506	15,544	14,541	13,519	12,419	11,316

Figure -4: Interest Composition for External and Domestic Loans

Year wise Interest Profile PKR in Million



Principal redemption profile shows increase an average of 5.75% in principal repayment from FY 2022-23 onwards mainly due to inclusion of new loans with principal payments due in specific years and also because of local currency depreciation.

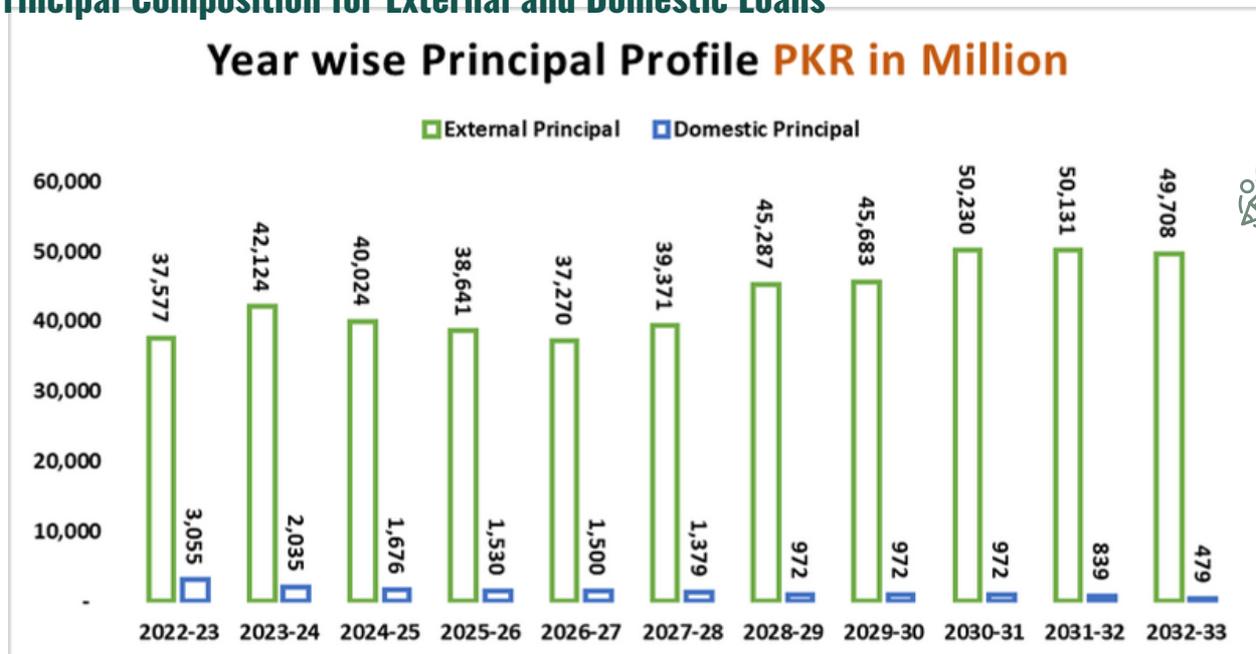
11. Principal Composition for External and Domestic Loans



Table- 11: Principal Composition for External and Domestic Loans

FY	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
External Principal	37,577	42,124	40,024	38,641	37,270	39,371	45,287	45,683	50,230	50,131	49,708
Domestic Principal	3,055	2,035	1,676	1,530	1,500	1,379	972	972	972	839	479
Total Principal	40,632	44,159	41,700	40,171	38,770	40,750	46,259	46,655	51,202	50,970	50,187

Fig -5: Principal Composition for External and Domestic Loans



12. Government Guarantees

Government guarantee is formal assurance by the Government for repayment of debt and related expenditures on account of a financial liability in the event of a default by the primary creditor. Provincial borrowing limit that includes guarantee for PKR 60.8 billion has allowed dated August 17th, 2017, by National Economic Council (NEC). At the end of Dec 2022, GoS has extended total guarantee amount of PKR 5.0 billion only.

13. Glossary

ATM: Average time to maturity measures the weighted average time to maturity of all the principal payments in the portfolio.

ATR: Average Time to Re-fixing is a measure of weighted average time until all the principal payments in the debt portfolio become subject to a new interest rate.

Foreign exchange risk: (Also known as FX risk, exchange rate risk or currency risk) is a financial risk that exists when a financial transaction is denominated in a currency other than that of the local currency of the Country.

TRR: Means all tax and non-tax receipts to the Government including federal grants to the province but not including loans or grants received from other entities.

CRE: Means the expenditure on goods and services for consumption or utilization in a financial year and may include employees related expense, retirement benefits, operating expenses, repair and maintenance, subsidies, transfer payments and grants.

Interest Rate Risk: Indicates the exposure of debt portfolio to any variation in interest rates.

Re-financing risk: Is the risk to measure its vulnerability against rolling over the debt on higher interest rates.

SBP: The State Bank of Pakistan (SBP) is incorporated under the State Bank of Pakistan Act, 1956, which gives the Bank the authority to function as the central bank of the country.

WAIR: (Weighted average interest rate) is the aggregate rate of interest paid on all debt.