

DEBT STATISTICAL BULLETIN

DECEMBER 31, 2019



Debt Management Unit
Finance Department
Government of Khyber Pakhtunkhwa



Government of Khyber Pakhtunkhwa

Debt Statistical Bulletin



INTRODUCTION

As part of the reforms initiative, the Government of Khyber Pakhtunkhwa has established Debt Management Unit (DMU) in Finance Department to assist the department to manage sub-national debt portfolio of the province. Issuing semi-annual Debt Statistical Bulletin is also part of that reforms which aims to provide a broad set of relevant information and statistics with regard to the debt position of the provincial government. The main objectives of the debt bulletin are to produce debt statistics that comply with international standards and guidelines.

Article 167 of the Constitution of Pakistan 1973 (the Constitution) deals with the subject of provincial borrowing. Until the introduction of 18th Amendment to the Constitution, almost all provincial borrowing consisted of loans obtained directly from federal government or obtained by federal government and on-lent to the provincial government.

In accordance with Article 167(4) of the Constitution, inserted by 18th Amendment, the National Economic Council (NEC) has allowed the provinces to directly raise domestic debt up to 0.85% of the national GDP. This overall limit has been distributed among the provinces according to their share in the NFC (National Finance Commission) formula. Thus, domestically GoKP can borrow, issue guarantee or subnational bond up to the limit of Rs. 47bn.

As of 31st December 2019, the outstanding loan amount of 88 external loans represents a volume of PKR 225 billion (at USDPKR rate of 156). More, than 90% of loans are provided by two institutions, ADB and IDA, latter providing more favorable conditions. The average interest rate of these loans is around 2%-2.50%, the principal repayment of these 88 loans during the period of six months is around Rs. 4.714 Billion and Interest cost is around Rs.787 Million.

The Ministry Economic Affairs, previously (Economic Affairs Division - EAD) acts on behalf of GoP for signing loan agreements with multilateral financing institutions and bilateral lenders. Part of these loans are dedicated for budget support of provincial governments or assigned for implementation of projects within the province by third party executing agencies. No matter, whether KP government or a third party executing agencies receives the loan disbursements, repayment of fees, interest and principal becomes an obligation of the provincial government and deducted in PKR from the monthly revenue share.

Currently, domestic debt of the Government of Khyber Pakhtunkhwa is zero. KP's Government has borrowed previously through Cash Development Loans (CDLs)/Scarp provided by the Federal Government, but these loans, that reached an outstanding amount of PKR 27 Billion have been repaid prematurely.

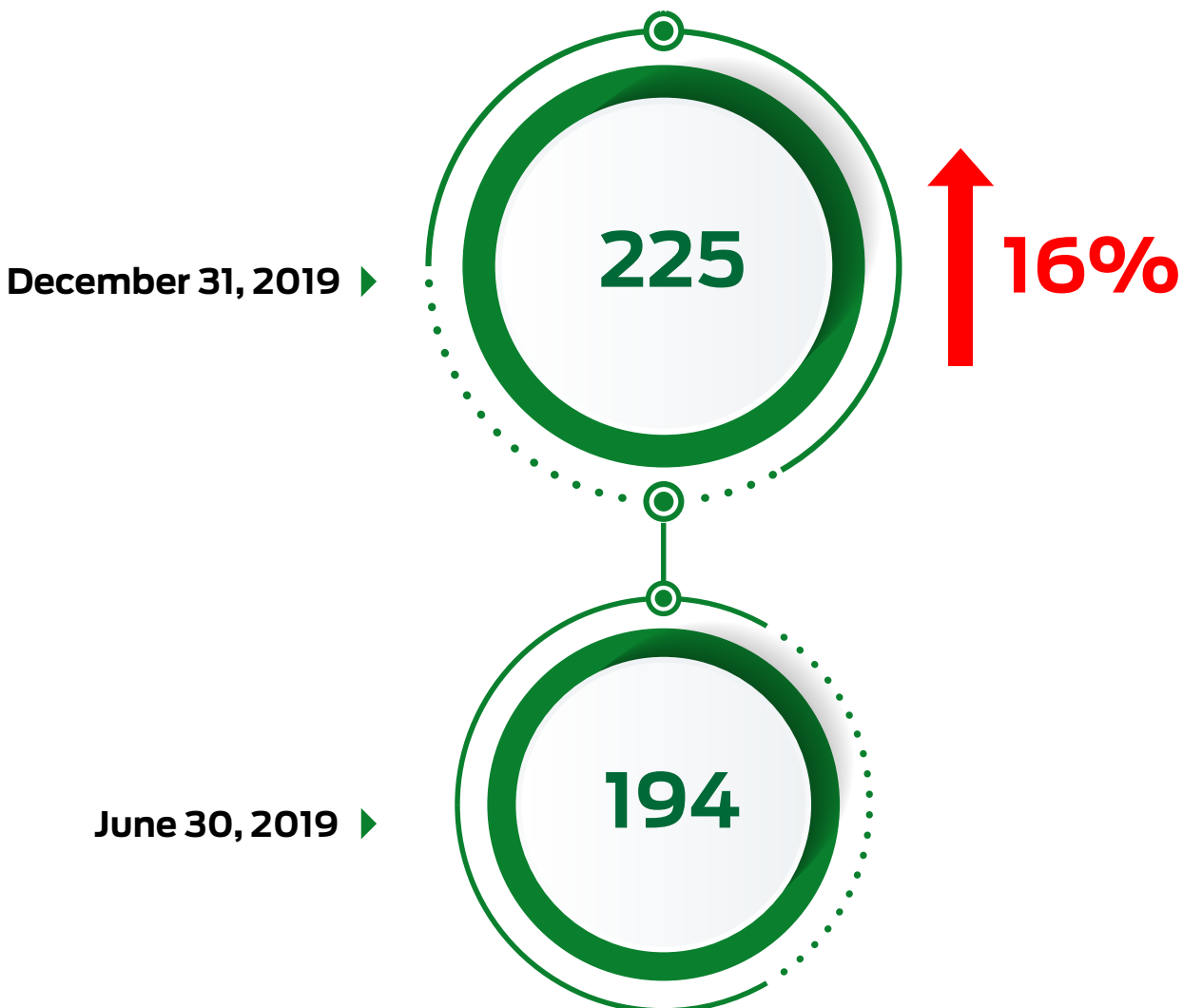
Based on the available data following are some of the important KP's loan classification; these include loan redemption profile, creditor-wise loan classification, currency-wise loan classification etc.

There was a **16%** growth in the external debt of **KP** in the **6** month from **June-December 2019**

KP Loan Portfolio

Foreign Currency Loans

(equivalent to PKR Billion)



In the Six months up to December 2019, total debt increased by 16% due to the disbursements (inflow) in Active loans, while no domestic debt was raised. Domestic Loans Nil as of 30 June 2019 and 31 December 2019.

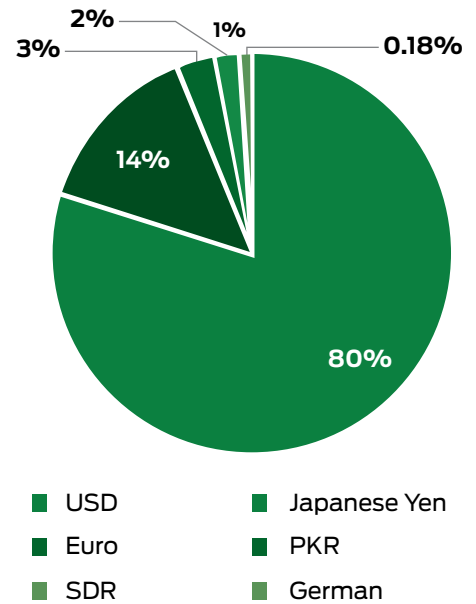


Currency Wise Composition of Outstanding Debt Stock (as at 31 December 2019)

Currency composition of KP's debt

CURRENCIES	NO.OF LOANS	(FC MILLION)	CONVERSION RATE PKR/FC	(PKR MILLION)
USD	80	1,196	150	179,418
JAPANESE YEN	3	23,105	1,346	31,097
EURO	1	43	174.00	7,458
PKR	1	4,640	1	4,460
SDR	1	9	205.65	1,773
GERMAN	2	5	85.417	394
TOTAL	88			224,781

% share of each currency

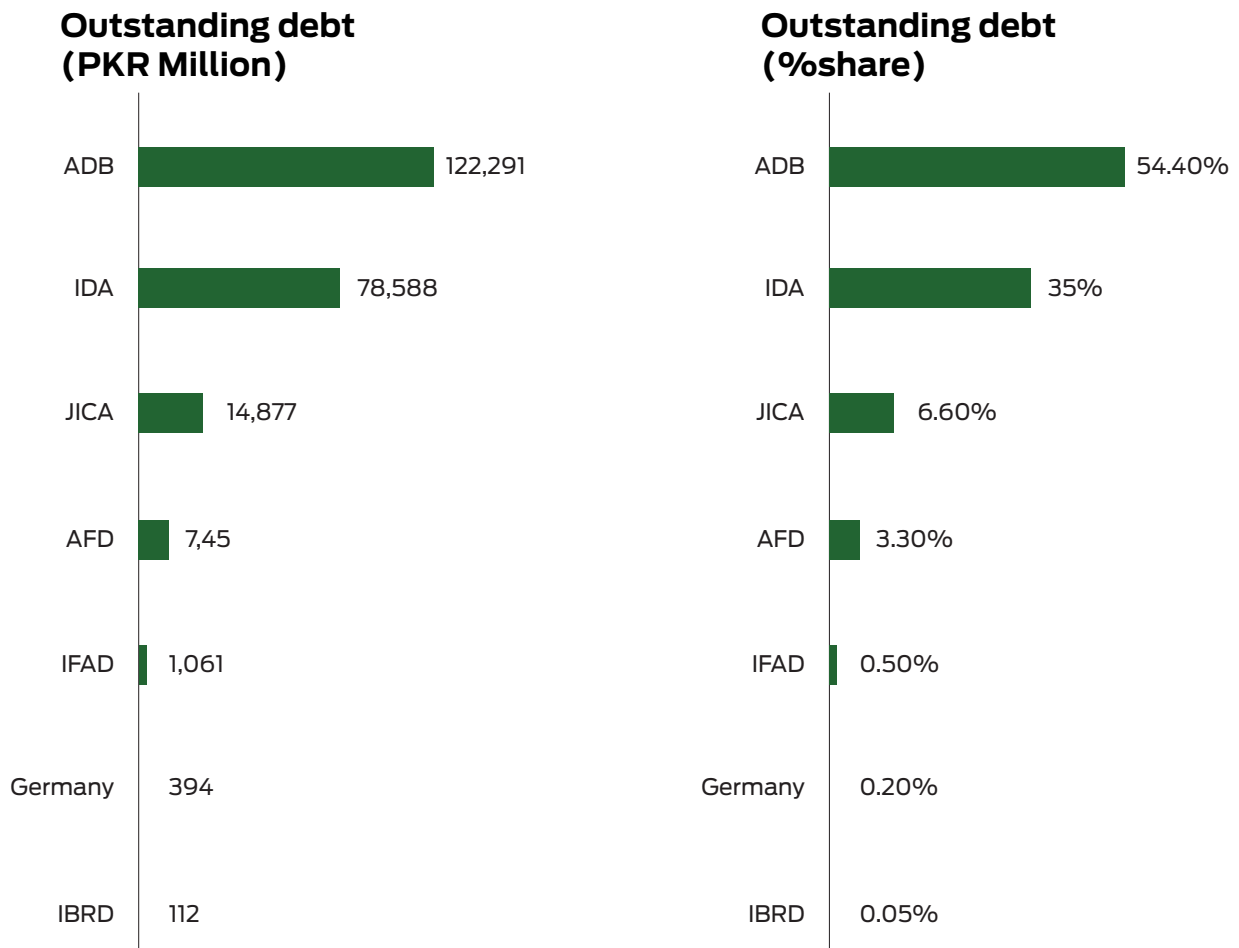


USD and Japanese Yen aggregating to 83 loans make up 90% of KP's External debt

Debt Servicing (principal repayment & interest) is done by the Ministry of Economic Affairs at source from KP's revenue share and an annual reconciliation of these figures is done with the Ministry of Economic Affairs:

Currencies	Count	Exchange Rate	Principal (PKR Million)	Interest (PKR Million)
USD	80	150	4,189	714
PKR	1	1	71	18
German	2	85	14	2
Japanese Yen	3	1	440	48
Euro	1	174	0	6
SDR	1	206	0	0
Total	88		4,714	787

Creditors Wise Composition of KP's Loan Portfolio

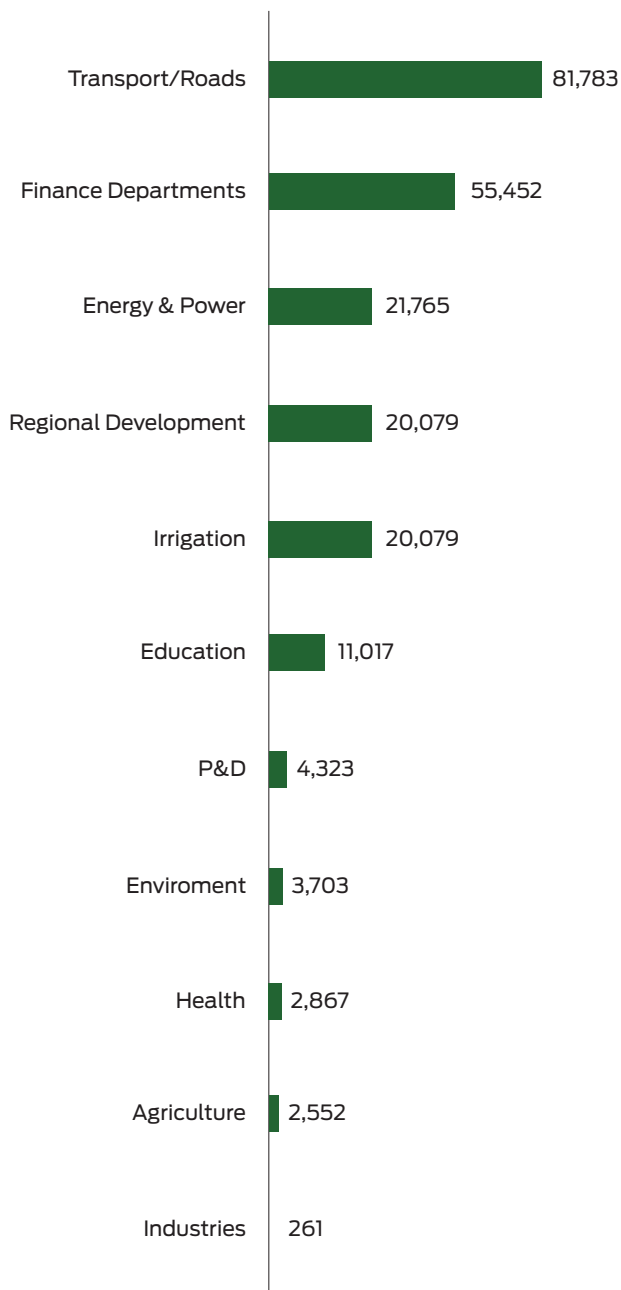


- The loan from AFD is the additional financing for BRT amounting to ~Euro 130 millions
- JICA has provided one loan at a very low interest rate of 0.01% for KP Emergency Road Rehabilitation Project.
- KP has borrowed from multilateral and bilateral lenders in the past, most of the loans are borrowed from ADB and IDA which constitute 80% of the outstanding debt stock.
- IDA loans are negotiated at fixed interest rates, however, since 2013 ADB provided loans at variable interest rate.

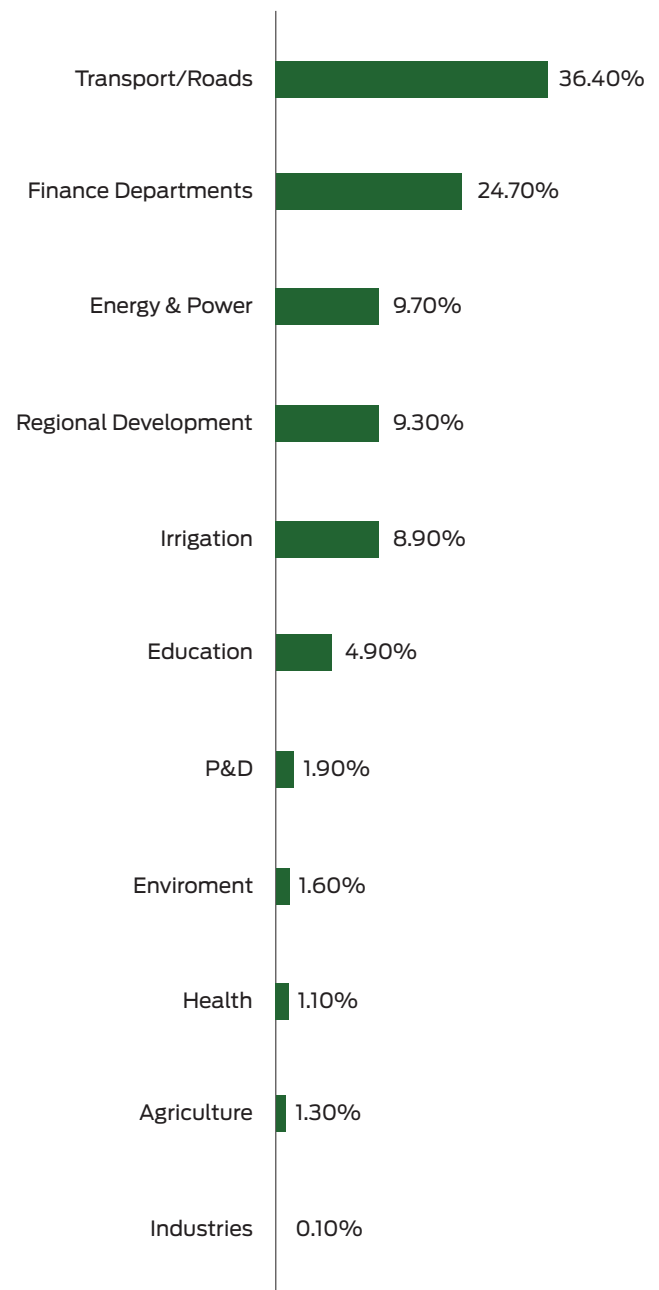


Transport (Roads) and Finance department dominate the debt composition with their high shares of debt

Sector-wise debt composition (PKR Million)

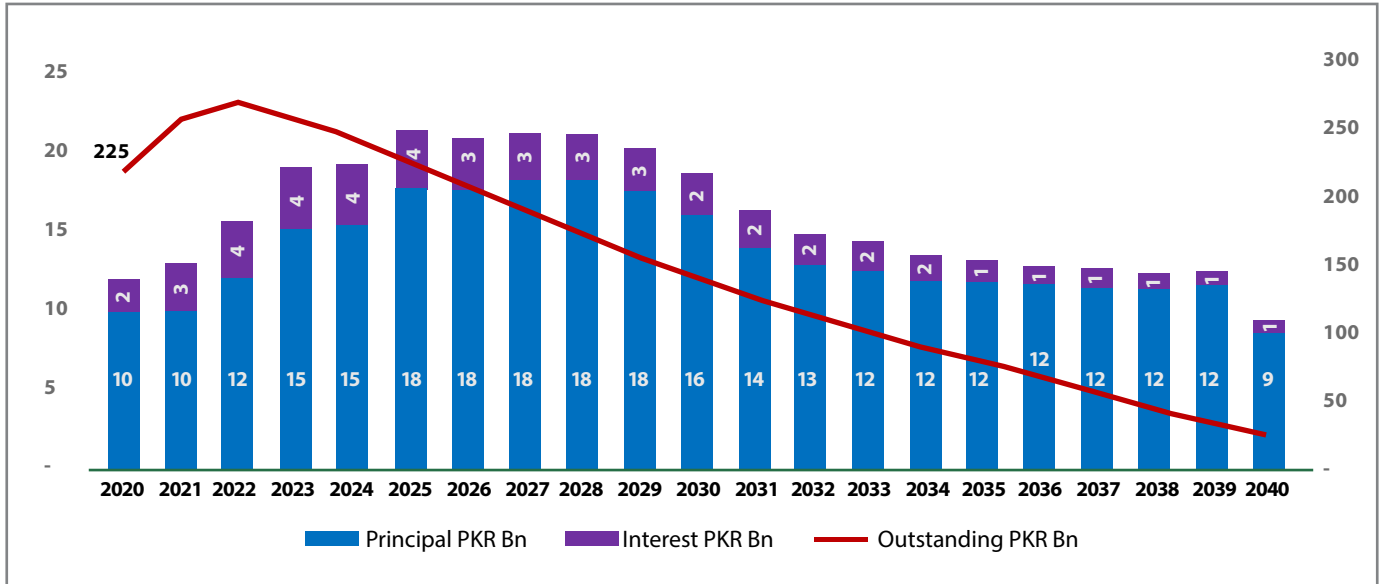


Sector-wise debt composition (%share)



- Under roads, BRT Peshawar absorbed the major debt portion financed by ADB and AFD.
- For Finance Department, it is composed of the Structural Adjustments Credit (SAC) loan 2002-05 & Development policy Credit loans 2006-07.

Redemption Profile



Redemption profile shows increase in principal on account of foreign loans because of inclusion of new loans with principal payments due in Specific years.

Loans Composition by Interest Type

Currencies	Fixed	Variable	Fixed	Variable
USD	118,133	61,285	66%	34%
Japanese Yen	14,877	16,220	48%	52%
Euro	-	7,458	0%	100%
PKR	4,640	-	100%	0%
German	394	-	100%	0%
SDR	1,773	-	100%	0%
Total	139,818	84,963		
Total %	62%	38%	-	-



Risk Indicators **Loan Portfolio**

Risk Indicators		As on 31 December 2019
Debt to KP Real GDP		16.83%
Debt to KP Revenue Receipts		42.2%
Debt Service to KP Revenue Receipts		2.06%
Cost of Debt	Weight Average Interest Rate (Range)	1.75%-2.5%
Refinancing Risk	ATM (Years)	9.89
	Debt Maturing in 1 Year as % of total debt	10.12%
Interest Rate Risk	ATR (years)	5.54
	Debt Refixing in 1 Year (as % of total debt)	22.26%
	Fixed rate debt (as % of total debt)	62%
Exchange Risk	Foreign exchange debt (as a % of total debt)	97.9%

Refinancing risk is the risk that debt will have to be rolled over at unusually high cost, or, cannot be rolled over at all. This risk is low as 10% of the total debt portfolio is set to mature within the next 12 months and the Government faces the need to seek favorable alternatives to refinance this amount.

Interest rate risk is the risk of increases in the cost of the debt arising from changes in interest rates. Fixed rate debt is 62% of the total, which means that there is a risk for the variable rate portion of the debt if the interest cost could increase further in future.

The Average USD 6 months LIBOR for the period 1 July 2019 till 31st December 2019 was 2.2%. the variable rate loans are negotiated at LIBOR+0.6%, which means that during the period, variable rate loans costed around 2.8% compared to the fixed rate of 2%.

Exchange rate risk is the risk of increased costs due to exchange rate fluctuations. Currently 98% of the debt is denominated in foreign currency which increase the exposure to currency fluctuation risk. Historically there has been an average annual 7% depreciation of local rupee against US dollar.



Debt Indicators & Ratio Analysis

Description	2018-2019	2019-2020
	Actual	BE
KP Real GDP	1,287,903	1,335,942
KP Revenue Receipts	445,000	533,000
Outstanding Debts	193,000	224,781
Interest Payments	1,208	2,138
Principal Repayments	8,597	9,926
Total Debt Servicing (Principal + Interest)	9,805	12,064
Fiscal Indicators		
Debt to Last Year Revenue Receipts	43%	51%
Debt service to Revenue Receipts	2.20%	2.71%
Interest payment to Revenue Receipts	0.27%	0.48%
Risk Indicators		
Debt to KP Real GDP	15.0%	16.8%
Debt Servicing as % of KP GDP	0.76%	0.90%
Weighted Average Interest Rate %	0.76%	0.92%



Glossary

ATM	A 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.
ATR	A 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.
Debt to GDP	The ratio of outstanding debt to GDP which is a measure of the debt burden of a country.
DOD	Disbursed and Outstanding: Total amount which has been disbursed and which is due to be repaid.
On Lent loans	Loan that are borrowed by government and then re-lent to a domestic entity.
Refinancing Risk	The possibility that a borrower cannot refinance its debt by borrowing to repay existing debt.
Short Term Debt WAIR	Outstanding debt with a maturity of less than one year. The weighted average level of interest rates on outstanding loans. The weight to be used is determined by the value of the loan as a percentage of the total.

For more information and feedback:
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