

# Debt Bulletin

## Government of Khyber Pakhtunkhwa

### As at June 30, 2019



#### INTRODUCTION

Khyber Pakhtunkhwa (KP) is the third largest province in Pakistan with a share of about 10% in the country's GDP. KP finances its ambitious development program through external loans, with the federal government - through Economic Affairs Division (EAD) - acting as sovereign borrower, while the debt service, including fees, interest and principal repayment is borne by the provincial government's budget through at source deduction from the monthly revenue share, received from the federal government.

Article 167(4) of 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 subnational 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 subnational government and assuring national fiscal sustainability. International practice favors incorporating clear fiscal rules to clarify the spending responsibilities of a subnational government, and examine own-source revenues and debt in a way to optimize land and local resource use.

The National Economic Council (NEC) allowed all provinces to raise domestic debt and issue subnational bonds or issue guarantee up to 0.5% of national GDP (subsequently increased to 0.85% of national GDP). Consequently, by granting domestic borrowing powers to all provinces have given more choices and flexibility to accelerate the economic development of the provinces.

Moreover, from the financial year 2017-18, the NEC has increased the borrowing limit for all four provinces. This move allowed all provinces to get loans domestically to the tune of

# Debt Bulletin

## Government of Khyber Pakhtunkhwa

### As at June 30, 2019



Rs. 323bn (FY 2018-19). Thus, domestically GoKP can borrow, issue guarantee or subnational bond up to the limit of Rs. 44bn.

Considering the importance of subnational debt management, the Government of Khyber Pakhtunkhwa (GoKP) in FY 2018-2019 has established a Debt Management Unit (DMU) within the Finance Department (FD) with a mandate to develop and implement a comprehensive plan, framework, and strategy for effective subnational debt management.

Currently, domestic debt of the Government of Khyber Pakhtunkhwa is zero. GoKP has borrowed previously through Cash Development Loans provided by the Federal Government, but these loans, that reached an outstanding amount of PKR 27bn have been repaid prematurely due to high interest rate, resulting in PKR 6bn in savings from interest payments. However, GoKP has raised various external loans from different multilateral and bilateral agencies for the developmental programs of the province through federal government. Part of these loans are dedicated to budget support of the provincial government or assigned for implementation of projects within the province by third party executing agencies.

**Debt Bulletin**  
**Government of Khyber Pakhtunkhwa**  
**As at June 30, 2019**



**Khyber Pakhtunkhwa Total Debt Stock as on June 30, 2019 (PKR Million)**

Currencies	Outstanding as on 30 June 2018	Principal Repayments during the year	Additions during the year	Outstanding as on 30 June 2019	% Growth
Domestic Loans	-	-	-	-	-
Foreign Loans	160,709	8,597	1,718	193,685	21%

1: The growth in outstanding debt stock is mainly attributable to the appreciation of dollar against PKR, which is around 27%. 2: The Additions during the years shows the amount disbursed during the year.

**Currency Wise Composition of Outstanding Debt Stock (as at 30 June 2019)**

Currencies	No of Loans	Outstanding (FC million)	Conversion Rate PKR/FC	Outstanding (PKR million)	Percentage
USD	80	1,046.9	150.0	157,039	81.08%
PKR	1	4,711.7	1.0	4,712	2.43%
German	2	4.8	85.4	408	0.21%
Yen	3	23,423.7	1.3	31,526	16.28%
<b>Total</b>	<b>86</b>	-	-	<b>193,685</b>	<b>100%</b>

**Lender wise composition of Khyber Pakhtunkhwa Debt Portfolio (PKR million)**

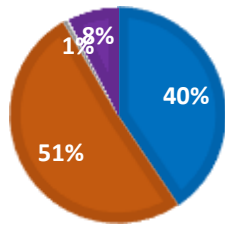
Creditors	2018-19	2018-19	Outstanding as on 30 <sup>th</sup> June 2019	Outstanding %	Average Interest Rate	No of Loans		
	Principal Repayment	Interest Payment				Fixed	Variable	Total
IDA/IBRD	2,936	596	78,522	40.5%	0.76%	35	0	35
ADB	5,588	599	98,803	51.0%	0.61%	40	5	45
IFAD	48	8	1,087	0.6%	0.73%	3	0	3
Germany	25	3	408	0.2%	0.72%	2	0	2
JICA	-	1	14,866	7.7%	0.01%	1	0	1
<b>Total</b>	<b>8,597</b>	<b>1,208</b>	<b>193,685</b>	<b>100%</b>	<b>0.76%</b>	<b>81</b>	<b>5</b>	<b>86</b>

**Debt Bulletin**  
**Government of Khyber Pakhtunkhwa**  
**As at June 30, 2019**

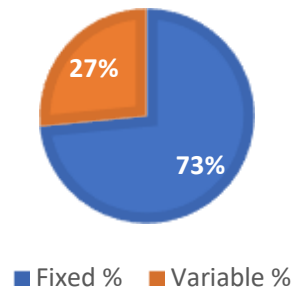


**LENDER WISE  
COMPOSITION**

■ IDA/IBRD ■ ADB ■ IFAD ■ Germany ■ JICA



**OUTSTANDING  
30TH JUNE 2019**



**Principal & Interest for the period i.e. 1st July 2018 till 30th June 2019**

Currency	Count	Exchange Rate	Principal (FC million)	Principal (PKR million)	Interest (FC million)	Interest (PKR million)
USD	80	137.50	55.85	7,678.93	7.79	1,072
PKR	1	1.00	142.78	142.78	36.14	36
German	2	78.30	0.32	25.29	0.04	3
Yen	3	1.23	608.22	750.42	78.45	97
<b>Total</b>	<b>86</b>			<b>8,597</b>		<b>1,208</b>

# Debt Bulletin

## Government of Khyber Pakhtunkhwa

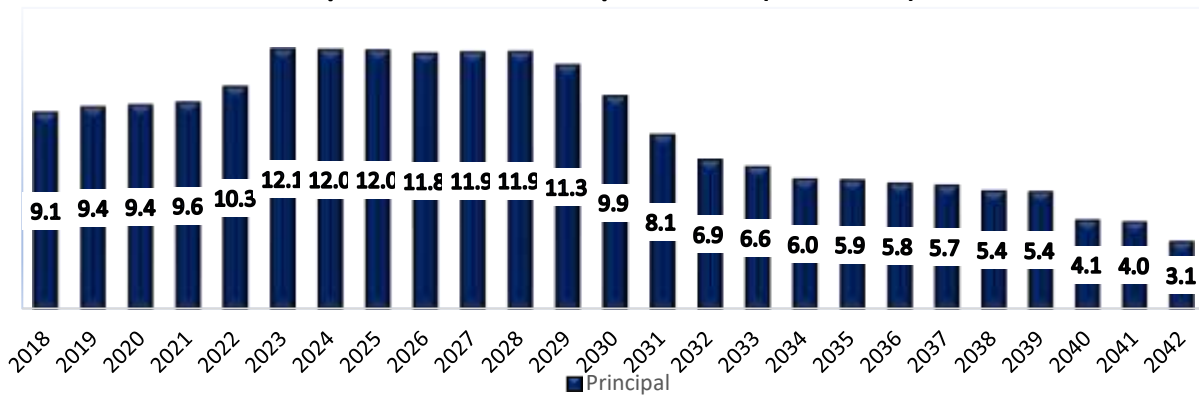
### As at June 30, 2019



#### Composition of Debt stock by Interest type (PKR million)

Interest Type	Principal Repayment	Interest Payment	Outstanding 1st July 2019
Fixed Rate	7,847	1,112	142,307
Variable Rate	750	96	51,378
<b>Total</b>	<b>8,597</b>	<b>1,208</b>	<b>193,685</b>

#### Redemption Profile of Principal Amount (PKR Billion)



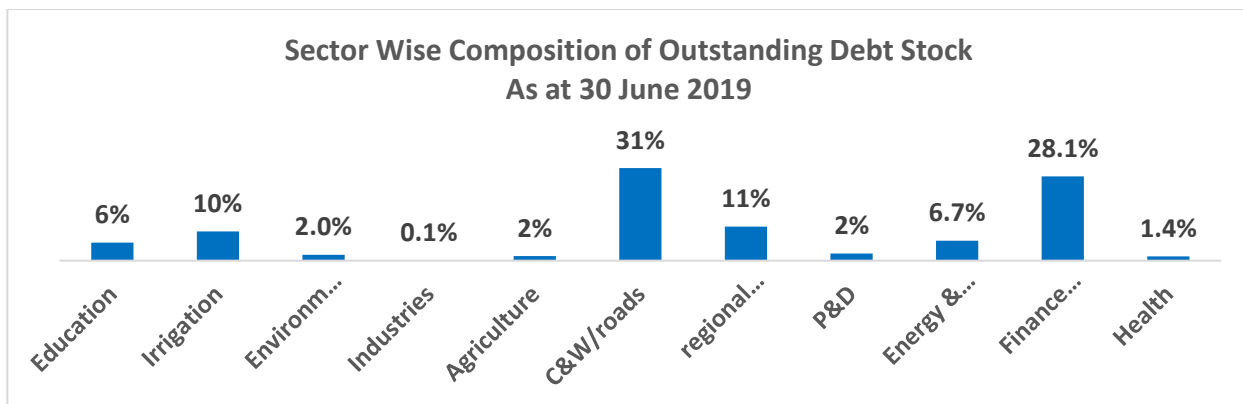
The redemption profile is based on the existing debt stock, however it will change if new loans are added to existing debt stock

**Debt Bulletin**  
**Government of Khyber Pakhtunkhwa**  
**As at June 30, 2019**



**Sector wise composition of Outstanding Debt Stock (in PKR millions)**

<b>Sector</b>	<b>Outstanding</b>	<b>Percentage</b>
Education	11,546	6%
Irrigation	18,757	10%
Environment	3,876	2.0%
Industries	269	0.1%
Agriculture	3,012	2%
C&W/roads	59,815	31%
regional Development	21,868	11%
P&D	4,514	2%
Energy & Power	12,897	6.7%
Finance Department	54,430	28.1%
Health	2,700	1.4%
<b>Total</b>	<b>193,685</b>	<b>100%</b>



# Debt Bulletin

## Government of Khyber Pakhtunkhwa

### As at June 30, 2019



#### Risk Indicators

Risk Indicators		As on 30 June 2019
Outstanding Debt as a % of KP Nominal GDP		5.02%
Outstanding Debt as a % of KP Revenue		32.97%
Interest payment as a % of KP Revenue		0.21%
<b>Cost of Debt</b>	Weight Avg. IR	0.76%
<b>Refinancing Risk</b>	ATM (Years)	10.32
	Debt Maturing in 1 Year as % of total debt	8.82%
<b>Interest Rate Risk</b>	ATR (years)	6.15
	Debt re-fixing in 1 Year (as % of total debt)	47.36%
	Fixed rate debt (as % of total debt)	73%
<b>Foreign Exchange Risk</b>	Foreign exchange debt (as a % of total debt)	97.6%

- ATM= Average Time to Maturity  
ATR= Average Time to Refixing  
WAIR= Weighted Average Interest Rate  
FX= Foreign Exchange
- Debt Maturing in 1 year = All debt that matures within 1 year as a share of total debt.
- Debt Refixing in 1 year= total variable rate debt plus fixed rate debt maturing within 1 year as a share of total debt.
- The refinancing risk for the KP Province as of 30 June 2019 is relatively low with an ATM of 10 years. This shows that Government has an average of 10 years to refinance its debt portfolio
- For interest rate risk, The ATR for total debt is 6.15 years. This implies that the Province has adequate time to fix the interest rates in terms of interest rate shocks. In addition, the weighted average interest rate is considerably low at 0.80% for the total debt stock as most of the loans taken in the initial years were highly concessional.
- However, in terms of exposure to foreign exchange rate risk, 97.6% of the total debt portfolio is exposed to exchange rate volatility.

**Debt Bulletin**  
**Government of Khyber Pakhtunkhwa**  
**As at June 30, 2019**



**Debt Indicators and Ratios - Comparative Analysis (PKR million)**

Description	2017-2018	2018-2019
Pakistan GDP	34,618,576	38,558,769
Total Resources (KP Budget)	467,670	587,410
KP GDP	3,461,858	3,855,877
Outstanding Debts	160,709	193,685
Interest Payments	1,039	1,208
Principal Repayments	7,153	8,597
Total Debt Servicing (Principal + Interest)	8,192	9,805
<b>Fiscal Indicators</b>		
Total Outstanding debt to Revenue	34.36%	32.97%
Total Debt service to Revenue	1.75%	1.67%
Interest payment as % age of Revenue	0.22%	0.21%
<b>Risk Indicators</b>		
Outstanding debt as % of KP GDP	4.64%	5.02%
Debt Servicing as % of KP GDP	0.24%	0.25%
<b>WAIR %</b>	<b>0.71%</b>	<b>0.76%</b>

- Pakistan GDP figures are taken from State Bank of Pakistan (SBP)
- KP Province GDP is assumed at 10% of the Pakistan GDP
- The figures for Outstanding Debt and Debt Servicing costs are taken from the loan amortization schedules provided by the Economic Affairs Division