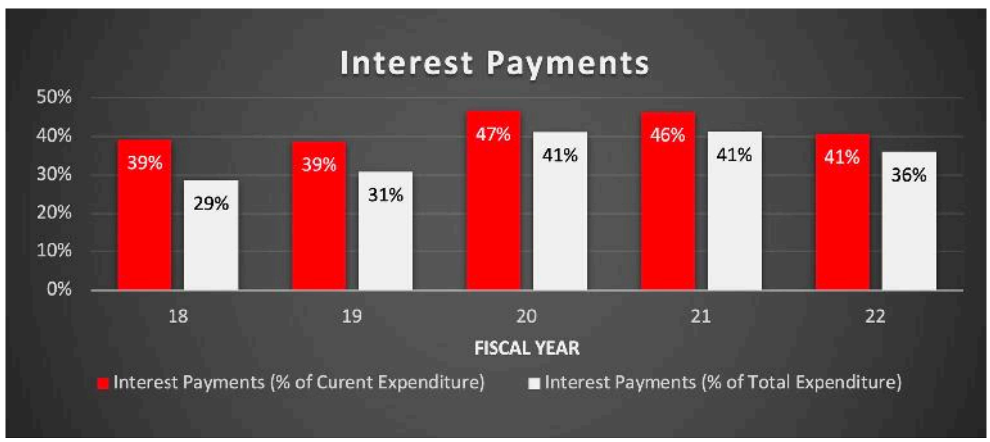
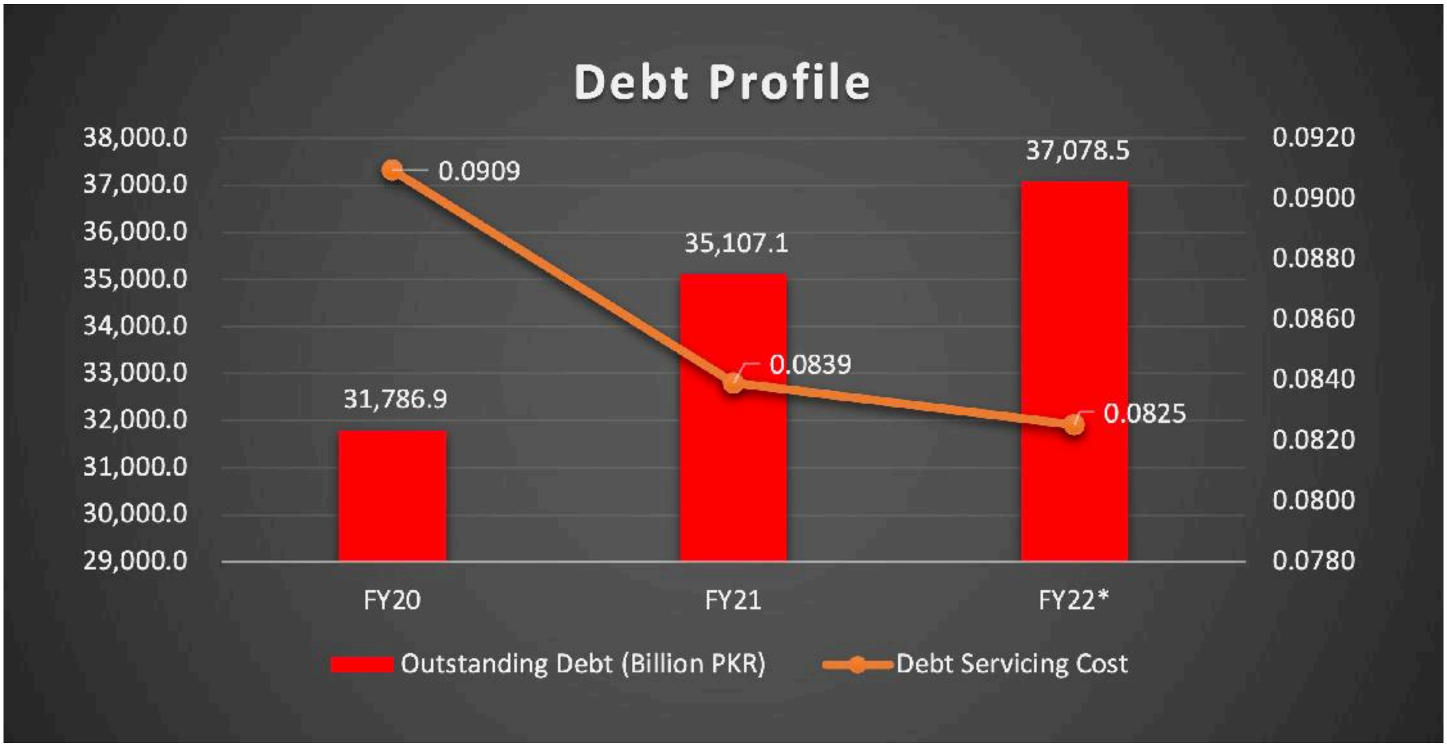
# 04 Debt And Financing



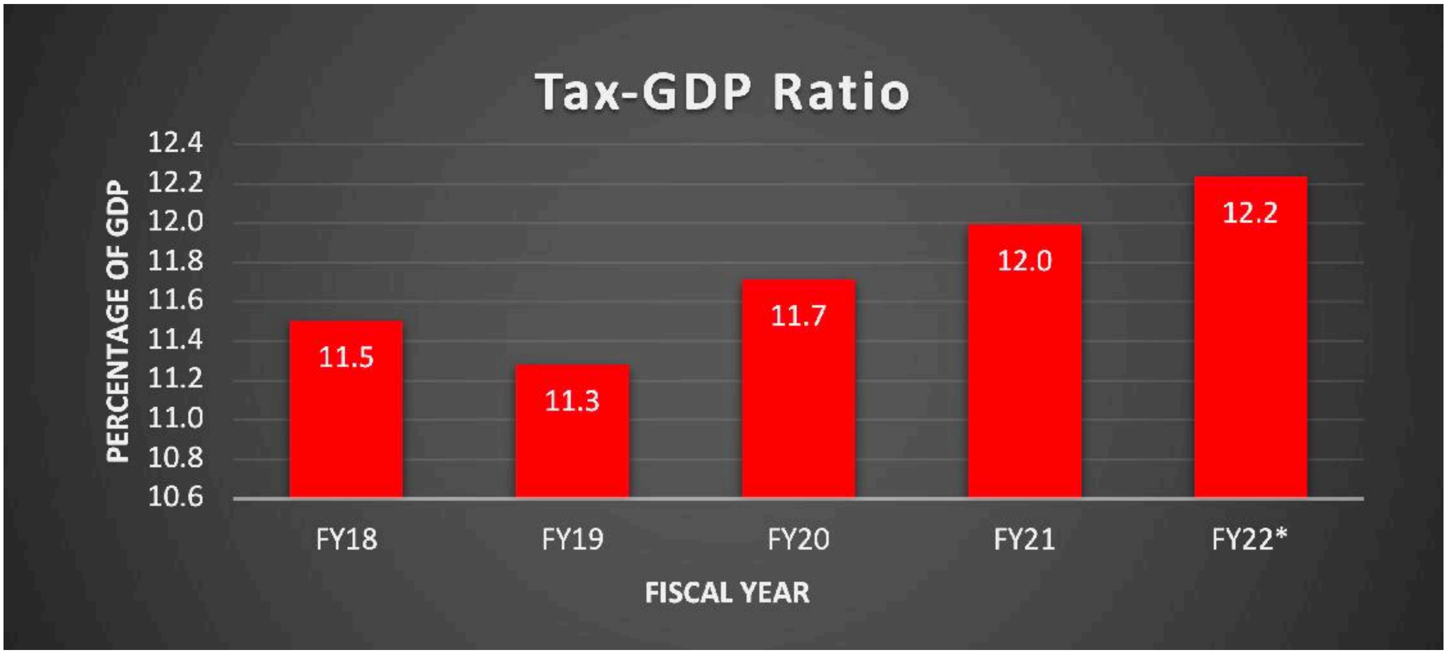
- The federal government's total debt and liabilities reached a staggering PKR 37,078.5 billion by the end of April 2021. This is just an under PKR 2000 billion increase from June 2020, when the federal government total debt and liabilities amounted to PKR 35107.1 billion.
- Against the total planned expenditure of PKR 8487 billion in Fiscal year 22, PKR 3060 billion have been allocated for interest payments. As a result, 41% of the government's Current Expenditure (PKR 7523 billion) will be spent on interest payments. This equals 36% of the total expenditure for the year.
- Interest payments take up a massive portion of the budget expenditure, however, a 5 percentage point proposal of decrease can be seen in interest payments share in current expenditure as well as a 5 percentage point decrease as a share of total expenditure, as shown in figure 4.1 for the upcoming budget FY 2021-22. This will allow the federal government a fiscal space to allocate more funds on development expenditures and other growth-oriented measures of the budget. However, given our debt now has significant long term commitments the interest cost may not fall. Last year saw a substantial decrease owing to G20 relief and lowered interest rates.




- The federal government expects to raise over PKR 2.7 trillion from external resources, including PKR 2.69 trillion from external loans. This will increase the gross external resources in the upcoming fiscal year by over PKR 0.5 trillion.
- 55% of the external resources raised will, however, be used for repayment of foreign loans and credits. This represents a 9-percentage point decrease in external resources share set aside for foreign loans and credit repayments. Although it is still higher than the share in Fiscal Year 2020, when 40% of external resources were used for foreign loans and credit repayments. That was possible primarily due to rescheduling of debt payments following the coronavirus pandemic. (Figure 4.2).
- This also is an indicator of better fiscal space available to the government in the upcoming fiscal year, which is evident through other policy reliefs provided in the budget as well as an increased development expenditure.

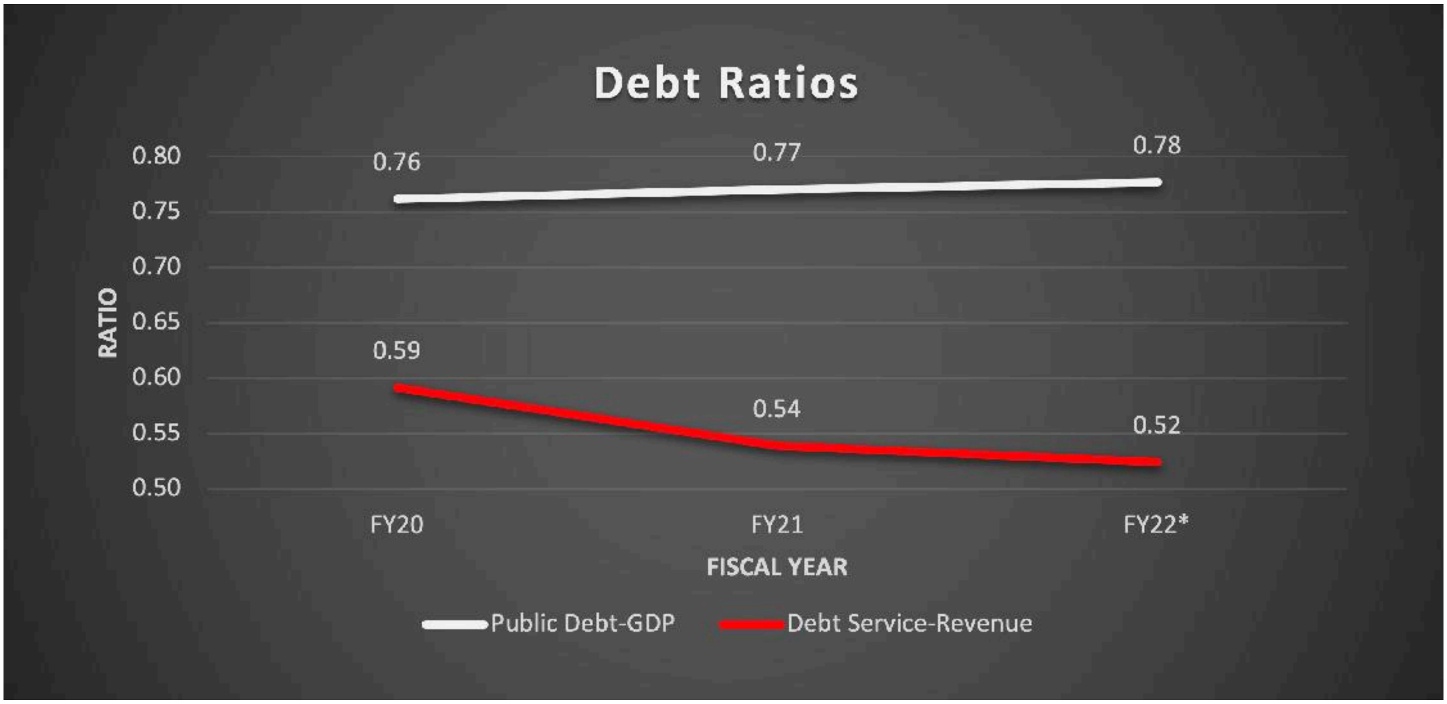



- Tax Revenue-GDP Ratio has remained constant over the past few years, as shown in Figure 4.4.
- Tax Revenue target has been set at PKR 5839 billion, while the GDP is expected to grow at 4.8%. This will take the nominal GDP to PKR 47, 709 billion by the end of the upcoming financial year.
- If both these are achieved, the tax-revenue-GDP ratio is expected to increase to 12.2.




***Projected for upcoming financial year.**

- Government's debt policy statement identifies sustaining Public Debt-GDP and Debt Service-Revenue ratios important for sustained growth.
- It aims to do the above by a combination of measures including revenue mobilization, rationalization of current expenditure and efficient utilization of debt.
- As shown in Figure 4.5, the Public Debt-GDP ratio is rather constant, but the Debt Service-Revenue ratio is showing a downward trajectory. This, coupled with a slightly improving tax-GDP ratio along with a falling debt servicing cost is a good beginning to sustain debt levels in coming years.




***Public Debt-GDP Estimated using data up till April 2021.**

- The government has indicated not only aiming to sustain the growth, but to also aim for high levels of growth rate in the economy. PIDE's Reform Agenda for Accelerated and Sustained Growth also highlights the need to grow at higher rates to be able to sustain debt levels as well as create opportunities for the new entrants in the labor force.
- While there is still a lot to be done to achieve a sustainable high level of growth for a longer period, on the debt front the initial indicators suggest that we are moving in the right direction and must

## Conclusion

Government has faced numerous economic challenges, aggravated by the Covid 19 Pandemic but the Government has successfully progressed from recovery and stabilization to sustainable growth. Provisional GDP growth rate for FY 2021 is estimated to be 3.94% against the targeted growth of 2.1%. The Current account balance during Jul-Apr, FY 2020-21 had been in surplus. The FBR tax collection grew by 14.4% during Jul-Apr FY 2020 and is expected to post a healthy collection by the end of FY 2020-21. Government has posted a primary surplus for the first three quarters of FY 2020-21. This has enabled the government to resume the $6bn Extended Fund Facility and completed second to fifth review under the program with IMF. However, the journey to growth from stabilization along with unwarranted risks of Covid-19 is tough and requires an out of the box thinking.