

*An annual overview of
Pakistan's external
inflows, outflows,
public debt and its
servicing*

ANNUAL REPORT ON FOREIGN ECONOMIC ASSISTANCE

(July – June 2021-22)

**Policy Analysis & Development Wing
Ministry of Economic Affairs
Government of Pakistan**



ANNUAL REPORT ON FOREIGN ECONOMIC ASSISTANCE Jul – Jun 2021-22

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**Policy Analysis & Development Wing
Ministry of Economic Affairs
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PREFACE

Preparation of the '*Annual Report on Foreign Economic Assistance*' is a regular feature of the Ministry of Economic Affairs (MoEA). This document provides an overview of Pakistan's external inflows, outflows, external public debt, and debt servicing. The report contains useful information for researchers, economists, and local and international development partners on the external economic assistance position of Pakistan.

The report is divided into four chapters. Chapter 1 explains the rationale and procedure for obtaining external economic assistance; Chapter 2 depicts the total commitments from the developing partners with the Government of Pakistan during the FY 2021-22; Chapter 3 narrates the total disbursements made by the development partners during the period and Chapter 4 deals with external public debt and its servicing.

Data for the bulletin is obtained from the Debt Management and Financial Analysis System (DMFAS) Database managed by the Debt Recording and Reporting Center, MoEA. An electronic copy of the bulletin is available on MoEA's Website (www.ead.gov.pk).

We hope readers will find this report useful. Comments and suggestions for further improvements of this Report are welcome and may be emailed to policy-1@ead.gov.pk

Dr. Muhammad Arshad
Chief (Policy)

Islamabad, November, 2022

EXECUTIVE SUMMARY

Foreign Economic Assistance (FEA) is the aid that promotes the economic development and welfare of developing countries, provided bilaterally or through multilateral agencies. The main purpose of FEA is to provide relief and assistance to developing economies in minimizing fiscal imbalances and promoting growth and development.

The purpose of this report is to highlight the FEA received by the Government of Pakistan from bilateral and multilateral development partners from July 2021 to June 2022, both loans and grants. For this purpose, data is obtained from the Debt Management & Financial Analysis System (DMFAS) database.

In terms of new commitments, the Government of Pakistan signed new agreements worth USD 15,722 million in the FY 2021-22. These commitments were composed of Eurobonds, Time deposits from Saudi Arabia, and multilateral & bilateral development partners. Out of these commitments, 62% was committed by international financial investors under bonds, commercial banks, and time deposits to provide support to the budget, strengthen the foreign exchange reserves and stabilize the exchange rate, 16% as project financing, 14% as commodity financing, and 8% as program financing. In FY 2021-22, financing for the procurement of the Covid-19 vaccine was the key priority of the Government.

From July 2021 to June 2022, disbursements of USD 16,974 million were mainly under the project and program loans/grants with ADB, World Bank, and IsDB being the largest contributors among multilateral development partners. In bilateral, China was the largest contributor to total disbursements in the specified time. The energy & power sector received the largest share of disbursements, i.e. 26% of the total.

External financing is an important source for developing countries including Pakistan as it can be productive for the economic growth of such countries. External debt is the total external debt owed by the country, whereas, external public debt is the total external debt owed by the government. As of 30th June, 2022 Pakistan's total external public debt amounted to USD 88.84 billion.

The Government paid USD 12,378 million during the FY 2021-22 on account of debt servicing of external public loans. Of this, principal repayments were USD 10,355 million and interest payments were USD 2,023 million. Furthermore, the net transfers of the Government's external public debt were USD 6,380 million.

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LIST OF ABBREVIATIONS

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
CDWP	Central Development Working Party
DMFAS	Debt Management and Financial Analysis System
EAD	Economic Affairs Division
ECNEC	Executive Committee of the National Economic Council
EU	European Union
FEA	Foreign Economic Assistance
IMF	International Monetary Fund
IsDB	Islamic Development Bank
IFAD	International Fund for Agriculture Development
OECD	Organization for Economic Co-operation & Economic Development
PA&D Wing	Policy Analysis & Development Wing
SAFE	State Administration of Foreign Exchange of the People's Republic of China
SBP	State Bank of Pakistan
SFD	Saudi Fund for Development
UK	United Kingdom
UN	United Nations
USA	United States of America
WB	World Bank

1. INTRODUCTION

Foreign Economic Assistance (FEA) can be defined as “government aid designed to promote the economic development and welfare of developing countries”¹. It includes concessional loans, grants and technical assistance which is provided bilaterally or through multilateral agencies such as the World Bank, the Asian Development Bank (ADB), Islamic Development Bank (IsDB), Asian Infrastructure Investment Bank (AIIB), United Nations (UN) and European Union etc. The purpose of obtaining FEA is to undertake social and economic development projects with a larger and sustainable impact on public welfare. Foreign assisted programs also help developing countries in achieving higher and sustainable economic growth through adoption of economic reforms and greater economic integration. It provides immediate relief to the developing countries facing fiscal imbalances and facilitates them in achieving their intended development objectives.

This report intends to provide first-hand information about the FEA (both in the form of loans and grants) received by the Government of Pakistan from multilateral and bilateral development partners from July 2021 to June 2022. Data is obtained from the Debt Management and Financial Analysis System (DMFAS) database maintained by the Debt Recording and Reporting Centre of the Economic Affairs Division² (EAD).

The Government of Pakistan has been receiving foreign assistance mainly to achieve two major objectives:

- (a) sustainable social and economic growth as envisioned in its development plans as well as to meet SDGs targets specifically to reduce poverty and inequality; and*
- (b) address the fiscal imbalances for enhanced macroeconomic stability.*

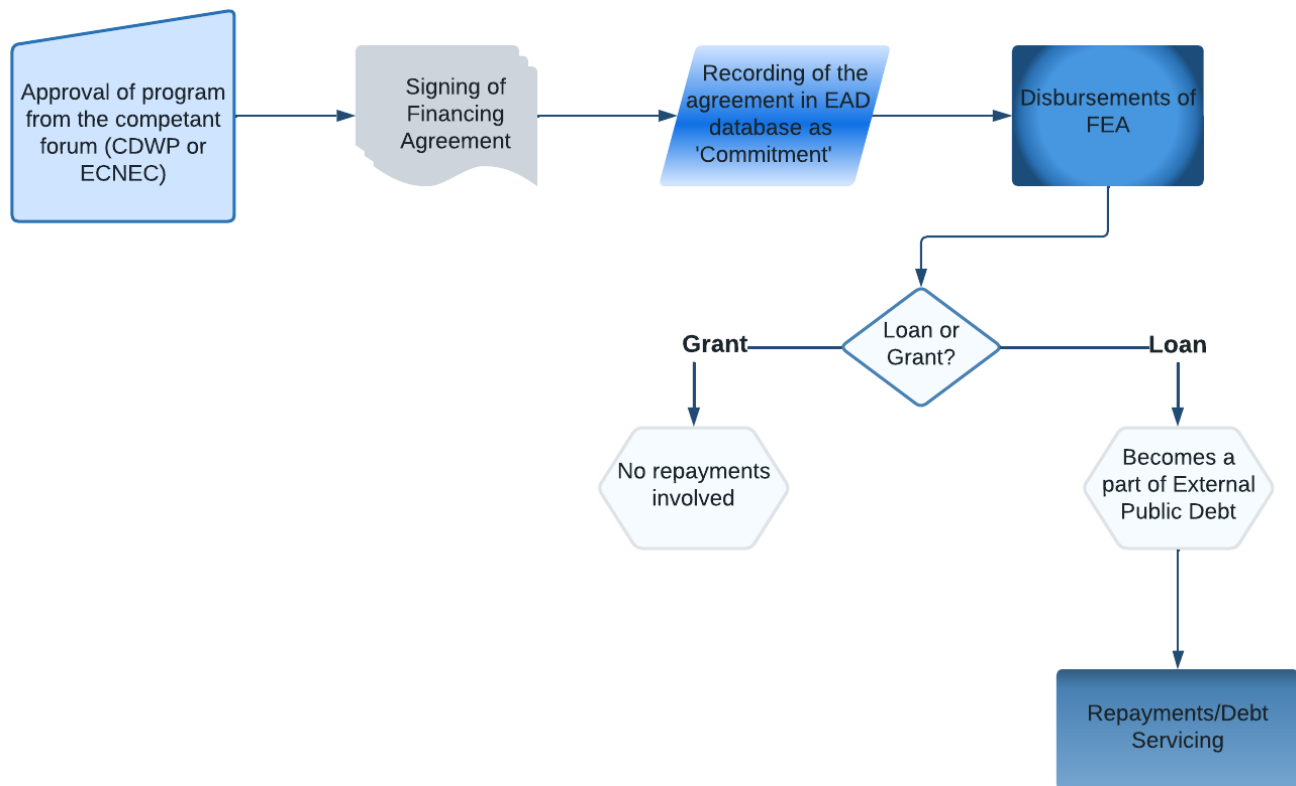
¹ OECD (2020), Net ODA (indicator). doi: 10.1787/33346549-en (Accessed on 18 August 2020)

² The report does not contain data of Pakistan Banao Certificates (PBC), Naya Pakistan Certificate (NPC) and foreign portfolio investment in GoP’s domestic securities.

1.1. RECORDING PROCEDURE

The Rules of Business, 1973, empowers the EAD to compile and analyze FEA obtained from all multilateral and bilateral sources. Accordingly, EAD maintains a database namely DMFAS to record the details of FEA committed or disbursed by the development partners from time to time. The complete cycle of data recording of FEA can be seen in the following flow chart:

Figure 1: Procedure of External Public Debt Recording



Source: PA&D Wing

Based on the amortization schedule, the repayment of the loan is managed by EAD, and it coordinates with the relevant sponsoring/executing agency, development partners, Finance Division and State Bank of Pakistan (SBP). EAD also regularly conducts the portfolio reviews of foreign funded projects/programs to ensure quick disbursements, optimal utilization and facilitate the sponsoring/executing agency for timely completion of projects/programs.

2. NEW COMMITMENTS

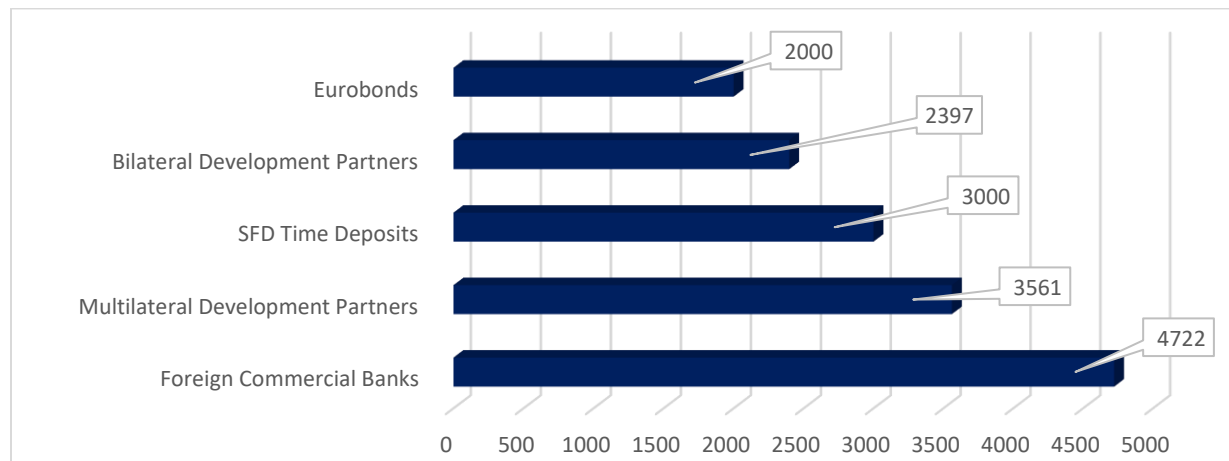
New commitments are the amounts of FEA which have been committed by the development partners during the observed time and are likely to be disbursed in the next five to six years³. The new commitments are recorded by the EAD after the signing of the “financing instruments” with the development partners. EAD signs each instrument after rigorous consultations and negotiations with the stakeholders including Finance Division, Law and Justice Division and relevant sponsoring/executing agency of Federal/Provincial Governments. In addition to this, the foreign loans signed by the Finance Division are also recorded in the EAD’s database as “Commitments”. The Finance Division raises funds from the international financial institutions and capital markets in the shape of foreign commercial loans and through issuance of Eurobonds/Sukuk to stabilize foreign exchange reserves and provide budgetary/balance of payments support.

In FY 2021-22, the Government of Pakistan signed new agreements worth USD 15,722 million as commitments

- USD 4,722 million with foreign commercial banks
- USD 3,561 million with multilateral development partners
- USD 2,396 million with bilateral development partners
- USD 3000 million as SFD time deposits
- USD 2000 million committed as Eurobonds

- Amongst the multilateral development partners, the following emerged as the largest partners in terms of new commitments of FEA, during the period under review:
 - ADB with USD 1,783 million (50% of multilateral partners)
 - Islamic Development Bank with USD 1,134 million (USD 881 million as short term and USD 252 million as long term)
 - The World Bank committed USD 341 million (10% of multilateral partners).

Figure 2: Composition of New Commitments (USD Millions)



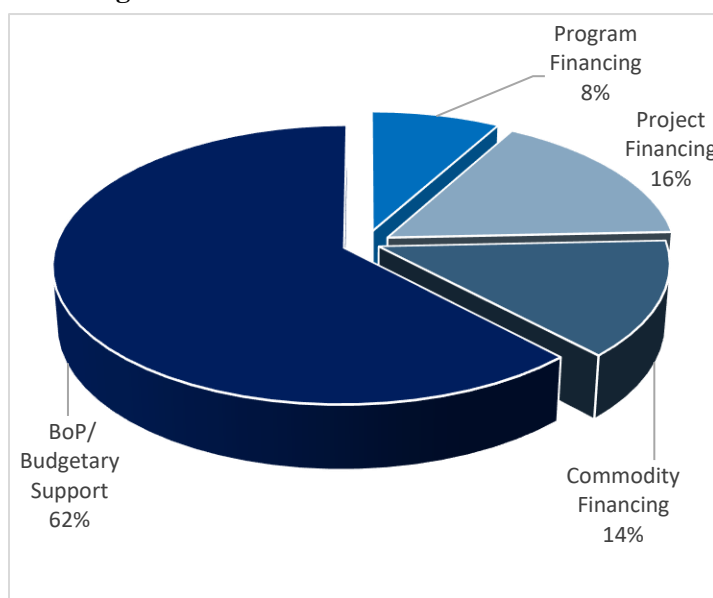
³ The disbursement period is dependent upon the execution period of the project/program

2.1. Mode of Financing of New Commitments

FEA in Pakistan is broadly categorized as: (a) Project financing; (b) Program financing; (c) Commodity financing; and (iv) BOP/ Budgetary Support. Project financing is obtained for funding socio-economic and infrastructure development projects. Program financing is secured to support the wide-ranging economic reforms and balance of payments and is generally obtained from multilateral development partners such as ADB, World Bank, AIIB, etc. (on concessional terms and conditions with longer maturity). Commodity financing is arranged for the procurement of crude oil mainly from the IsDB. Through BOP/Budgetary support, the Government raises funds from international financial institutions and capital markets to meet its immediate foreign exchange and liquidity requirements.

Out of the total commitments agreed during Jul - Jun of FY 2021-22, USD 9,763 million (62% of total commitments) was committed by international financial investors under bonds, commercial banks and safe deposits to strengthen the foreign exchange reserves and stabilize the exchange rate. While 16% of the commitments were earmarked for project financing followed by commodity financing with USD 2,133 million (14% of total), an amount of USD 1,278 million was committed for program financing through ADB to broaden and deepen the financial system, improve fiscal management and to bring financing sustainability in energy sector to foster growth in Pakistan (see **Figure 3**).

Figure 3: Mode of Commitments



Source: DMFAS Database

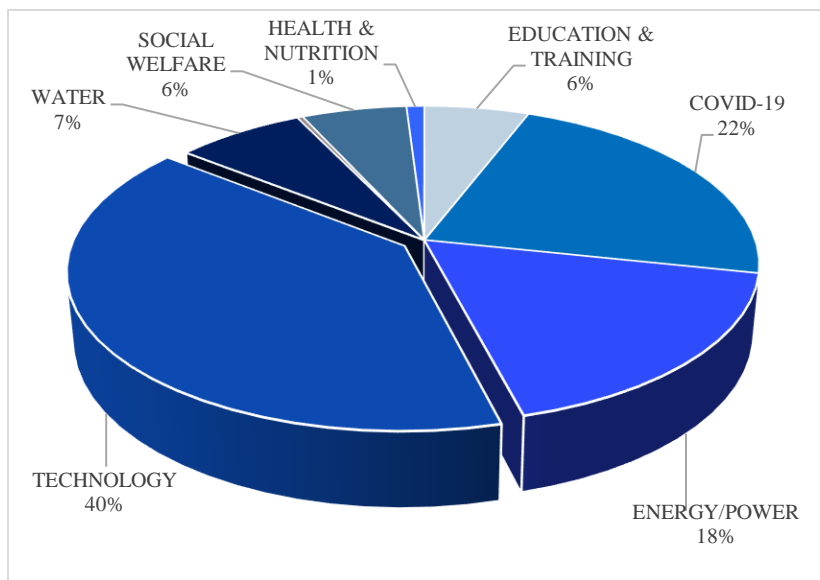
2.2. Sectoral Distribution of New Commitments

During the period under review, the Government committed USD 2,547 million as project financing for the procurement of Covid-19 vaccines, Energy/Power, Education and Training, Social Welfare, Water, and Health & Nutrition Sectors of the economy.⁵ The sectoral composition of the new commitments reflects the priority development objectives of the Government and is summarized in **Figure 4**.

⁵ Since program and commercial financing are mainly for the budgetary support, this section only analyzed the sectoral distribution of project financing.

Figure 4 illustrates that financing for the procurement of Covid-19 vaccine was the key priority of the Government during the FY 2021-22 committing USD 573 million. Similarly, USD 447 million has been committed for Energy/Power Sector followed by water USD 183 million, Education & Training Sector USD 149 million, Social Welfare USD 149 million and Health & Nutrition USD 25.26 million. An amount of USD 1,012 million has been committed by China.

Figure 3: Sector-wise Composition of New Commitments (Project Financing)



Source: DMFAS Database

3. DISBURSEMENTS

Disbursements of FEA represent the total amount of funds received by the Government from its development partners. Direct comparison of past and current disbursements with new commitments is not advisable as the new commitments are planned to be disbursed in the future over the time span of five to six years, whereas disbursements during a period are the cumulative sum of current disbursements against new and old commitments.

3.1. Composition of Disbursements

Disbursements of USD 16,974 million during July 2021 – June 2022 were mainly under the projects and programs loans/grants from multilateral, bilateral development partners and financial institutions (see **Figure 5**).

The composition of disbursements is as follows:

- a) USD 4,873 million or 29% of total disbursements were from foreign commercial banks;
- b) USD 4,828 million or 28% of total disbursements were from the multilateral development partners, mainly ADB, World Bank, and IsDB
- c) USD 3,000 million or 18% of total disbursements were recorded under SFD Time deposits.
- d) USD 2,231 million or 13% of the disbursements were from bilateral development partners particularly China and Saudi Arabia.
- e) USD 2,000 million or 12% of total disbursement were from international bond holders

Figure 4: Disbursements of Foreign Economic Assistance (USD Million)

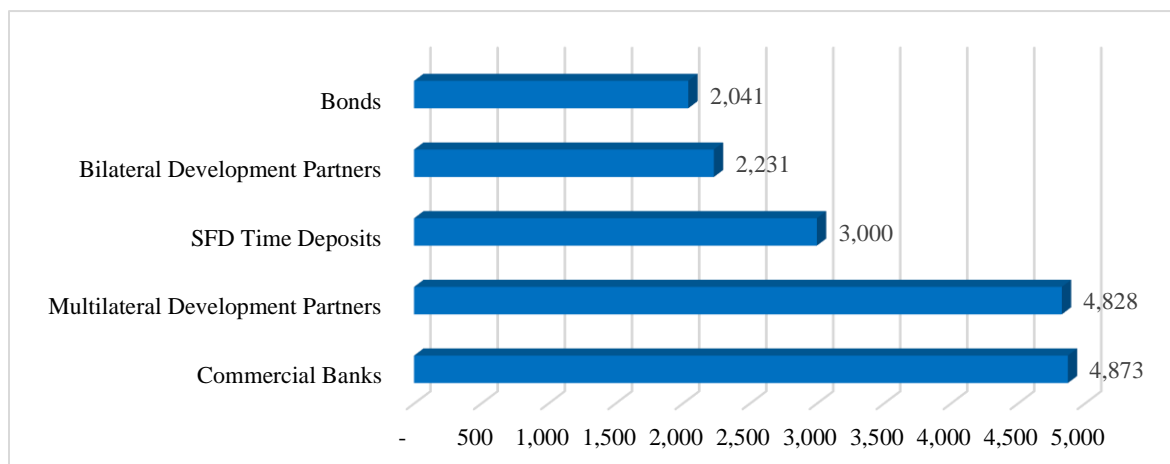
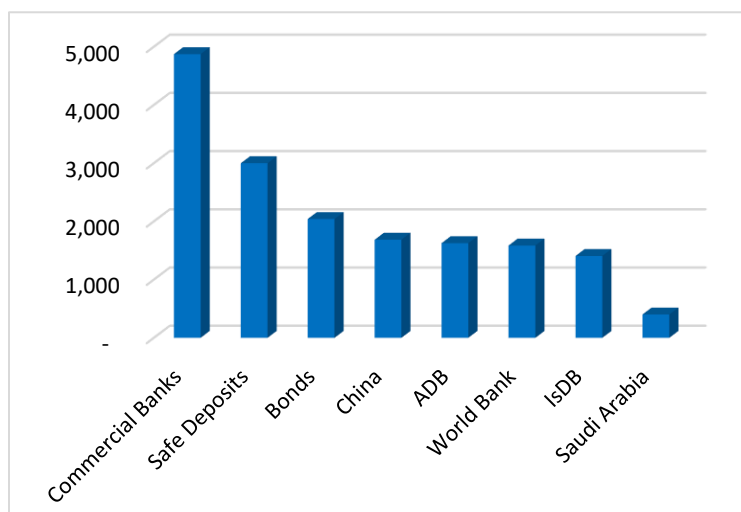


Figure 6 shows that around USD 4,828 million (28% worth of disbursement) came from multilateral development partners. Amongst multilateral development partners, ADB, World Bank and IsDB were the largest development partners with disbursements of USD 1,626 million, USD 1,586 million and USD 1,406 million (10%, 9% and 8% of total disbursements) respectively. On the bilateral side, China disbursed the largest amount of USD 1,685 million followed by Saudi Arabia with USD 401 million.

Figure 5: Donor-wise Disbursements of Foreign Economic Assistance (USD Million)

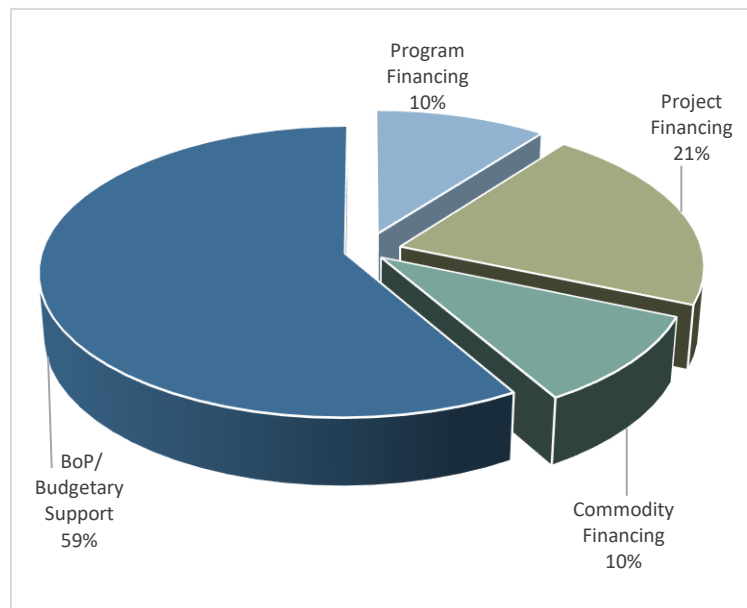


3.2. Mode of Disbursements

FEA is mainly received in the shape of program financing, budgetary support, project financing and commodity financing.

During the period under review, 59% of the total disbursements were obtained for Balance of Payments/ Budgetary support which comprises of bonds worth USD 2,000 million, commercial financing USD 4,873 million and time deposits USD 3,000 million, which have been arranged to strengthen foreign exchange reserves and stabilize exchange rate. In the same way, 21% of the disbursements were obtained under project financing followed by program financing of USD 1,765 million and commodity financing of 1,727 million (see Figure 7).

Figure 6: Mode of Disbursements



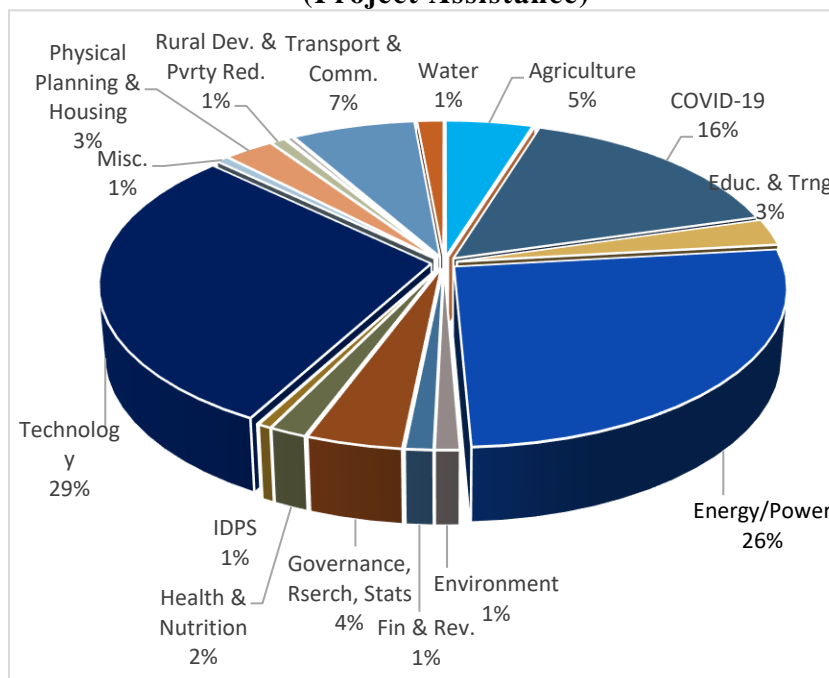
3.3. Sectoral Distribution of Disbursements

Sectoral distribution of the disbursements under project financing represents the sectoral priorities of the Government. Basically, it reflects the sectoral composition of the active portfolio of the total project assistance in the country.

Figure 7: Sector-wise Disbursements of FEA (Project Assistance)

The sectoral composition of project assistance is summarized as follows:

- During FY2021-22, the largest share of disbursements i.e. 26% of the total amount was received in the Energy & Power sector (USD 931 million), followed by Transport & Communication (7%), Agriculture (5%), Governance, Research & Statistics (4%), and Education & Training (3%) in the total project assistance;
- On the other hand, 16% of the total project assistance was received for Covid-19 financing needs, amounting to USD 559 million.



Source: DMFAS Database

4. EXTERNAL PUBLIC DEBT

External financing has become an important source for developing countries including Pakistan in financing development interventions and generating economic activity in the economy. It not only improves efficiency of resource allocation and economic growth but also helps the Government to augment its limited financial resources allocated for the provision of public goods and services such as health, education, social safety nets, etc. On the one hand, it finances mega development projects like dams, power transmissions, roads and rail networks and other infrastructure projects while on the other hand, it provides support to the economy for balance of payments and narrows investment-saving gaps. Most of the economies world-wide rely on debt inflows to meet the shortfall in existing resources and to cover the budget deficits.

Borrowing can be productive for economic growth of developing countries as long as the economic returns are higher than the cost of borrowed funds. While external debt is useful for the growth of the economy, dependence on external debt must be closely monitored and managed. A prudent external debt management strategy coupled with strong institutional arrangements is necessary for managing the external debt and improving the repayment capacity of the country. Debt can be productive if it is used for creating assets that generate positive returns and externalities.

It is important to understand the distinction between external debt and external public debt. External Public Debt represents the external debt owed by the Government including the obligations towards IMF. Whereas, External Debt is the sum of external public debt, external debt owed by the public sector enterprises and the private sector including multinational corporations, banks, and other private institutions.

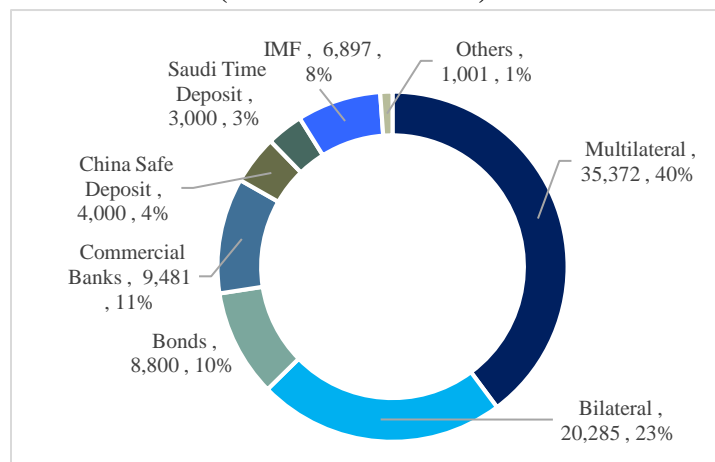
4.1. Composition of External Public Debt

As of 30th June, 2022 the total external debt of the government was USD 88,836 million (see **Table 1**). Around 70% of the total external public debt were obtained from multilateral and bilateral sources having concessional terms and longer maturity (see **Figure 8**).

Table 1: Total External Public Debt (USD Million)

Source	Amount
<i>Multilateral</i>	35,372
<i>Bilateral</i>	20,285
<i>Commercial Banks</i>	9,481
<i>Bonds/Sukuk</i>	8,800
<i>IMF</i>	6,897
<i>China SAFE Deposits</i>	4,000
<i>Saudi Time Deposits</i>	3,000
<i>Others</i>	1,001
Total	88,836

Figure 8: Composition of External Public Debt (As of 30th June 2022)



4.2. External Public Debt Servicing

The Government paid an amount of USD 12,378 million from July 2021 to June 2022 on account of debt servicing of external public loans. This consists of principal repayment of USD 10,355 million and interest payments of USD 2,023 million (see **Table 1**).

Table 2: External Public Debt Servicing (USD Million)

Lender/creditor	Debt Servicing		
	Principal	Interest	Total
Foreign Commercial Banks	5,152	357	5,508
Bonds	1,000	587	1,587
IMF	1,014	140	1,154
ADB	845	150	995
World Bank	683	251	934
IsDB (Short Term)	533	28	561
China	365	136	502
Saudi Arabia	122	73	195
Japan	193	36	230
France	106	28	134
Germany	51	7	58
Others	291	124	415
Total	10,355	1,917	12,272

Source: DMFAS Database

4.3. Net Transfer

Table 3: Net Transfers (USD Million)

Net transfer is also a critical variable in the analyses of the overall external public debt stock. Net transfers indicate any increase or decrease in the external public debt stock and is calculated as the difference between the external public loans received and their repayments made to the foreign creditors during a specific period. A positive balance reflects an increase in external debt stock while negative balance depicts a decrease in external debt stock.

For the period under review, net transfers to the Government's external public debt were USD 6,380 million⁷ (see **Table 2**)

Financing Source	External Loan Inflow	External Loan Outflow	Net Transfers
Multilateral	4,741	2,182	2,559
Foreign Commercial Banks	4,873	5,152	-278
SFD Time Deposits	3,000	0	3,000
Bond Holders	2,000	1,000	1,000
Bilateral	2,120	1,007	1,113
IMF		1,014	-1,014
Grand Total	16,734	10,355	6,380

Source: DMFAS Database

⁷Since net transfers are estimated on actual exchange rate whereas external public debt stock is estimated at a point of time, therefore, due to the difference in exchange rate these two numbers may differ.