



Quarterly Report on Foreign Economic Assistance

July –September 2022

Ministry of Economic Affairs
Government of Pakistan

PREFACE

Preparation of the '*Quarterly Report on Foreign Economic Assistance*' is a regular feature of the Economic Affairs Division (EAD). 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 discusses the total commitments from the developing partners with the Government of Pakistan during the 1st quarter of FY 2022-23; 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, EAD. An electronic copy of the bulletin is available on EAD's Website (www.ead.gov.pk).

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

Dr. Muhammad Arshad
Chief (Policy)

Islamabad, February, 2023

EXECUTIVE SUMMARY

Foreign Economic Assistance (FEA) promotes economic development and provides 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 in the first quarter of FY 2022-23 (i.e. July 2022 to September 2022) in the form of 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 422 million in the period under review. These commitments comprised of financing agreements signed with foreign commercial banks, multilateral & bilateral development partners. Of these commitments, the largest share was committed by the Commercial Banks i.e. 47%, followed by the Islamic Development Bank (IsDB) (38% of the total commitments). In terms of project financing, USD 49.8 million was committed to Rural Development and the Poverty Reduction Sector.

During this period (i.e. July 2022 to September 2022), total disbursements of USD 2,234 million were made under the project and program loans/grants by the World Bank, ADB, and IsDB, being the largest contributors amongst the multilateral development partners. In the bilateral category, Saudi Arabia was the largest contributor to total disbursements in the specified time. In terms of project financing, the Environment Sector received the largest share of disbursements, i.e. 32% of the total project financing.

External financing is an important source for developing countries including Pakistan as it can be productive for the economic growth. 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 September, 2022 Pakistan's total external public debt stood at USD 86.5 billion, in comparison to USD 88.8 billion on 30th June, 2022.

In terms of debt servicing of external public loans, the Government repaid USD 2,588 million during the first quarter of FY 2022-23. Of this, repayments of the principal amount stood at USD 2,063 million, whereas, repayments on account of interest were USD 525 million. Furthermore, the net transfers of the Government's external public debt were USD 142 million. This indicates that the flow of funds marginally increased during the 1st quarter of FY 2022-23.

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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
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
UK	United Kingdom
UN	United Nations
USA	United States of America

CHAPTER 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, provided bilaterally or through multilateral institutions such as the World Bank, the Asian Development Bank (ADB), Islamic Development Bank (IsDB), Asian Infrastructure Investment Bank (AIIB), United Nations (UN), etc. The purpose of obtaining FEA is to undertake social and economic development projects with a larger and more sustainable impact on public welfare. Foreign-assisted programs also help developing countries achieve higher and more sustainable economic growth through the adoption of economic reforms and greater economic integration. It provides immediate relief to developing countries facing fiscal imbalances and facilitates them in achieving their intended development objectives.

The Government of Pakistan has been receiving foreign assistance mainly to achieve two major strategic objectives: (a) sustainable social and economic growth as envisioned in its development plans as well as for achieving SDGs targets so as to reduce poverty and inequality; and (b) to address the fiscal imbalances for enhanced macroeconomic stability.

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 during the period July, 2022 to September, 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).

1.1. Recording Procedure

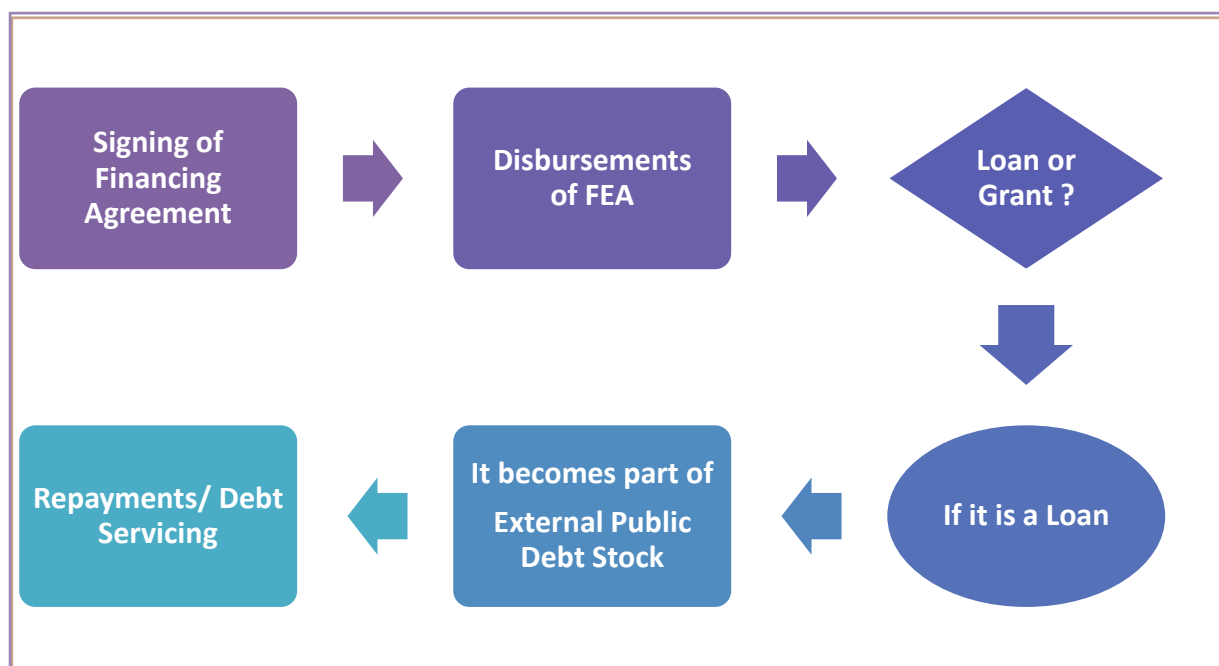
The Rules of Business, 1973, empower EAD to compile, maintain records and analyze FEA obtained from all foreign governments and organizations. Accordingly, EAD maintains a database, DMFAS, to record the details of FEA committed or disbursed by the development

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.

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

- Upon approval of a foreign-funded project/program from the competent forum (i.e. CDWP or ECNEC), a Financing Agreement is signed by EAD with the respective development partner(s);
- The Agreement provides details of the amount of the loan or grant that will be disbursed during the tenure of the Agreement which broadly covers project/program activities, terms and conditions of loan/grant including interest rate, commitment or other charges, if any, and amortization schedule;
- Once the Agreement is signed, it is recorded in EAD's database as a "Commitment". The Executing Agency, depending upon the requirements of the project/program, initiates a withdrawal application and sends it to the respective development partner;
- After scrutiny, the development partner disburses the amount directly to the project assignment account maintained by the Executing Agency and intimates EAD accordingly; and
- Upon confirmation by the development partner or the Executing Agency, the amount is entered in EAD's database as "Disbursements".

If the disbursed amount is against a grant, then no repayment is involved, and it does not become part of the external public debt stock. However, in the case of a loan, the disbursed

amount becomes part of the external public debt stock. 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 portfolio reviews of foreign-funded projects/programs to ensure quick disbursements and optimal utilization as well as to facilitate the sponsoring/executing agency for timely completion of projects/programs.

CHAPTER 2

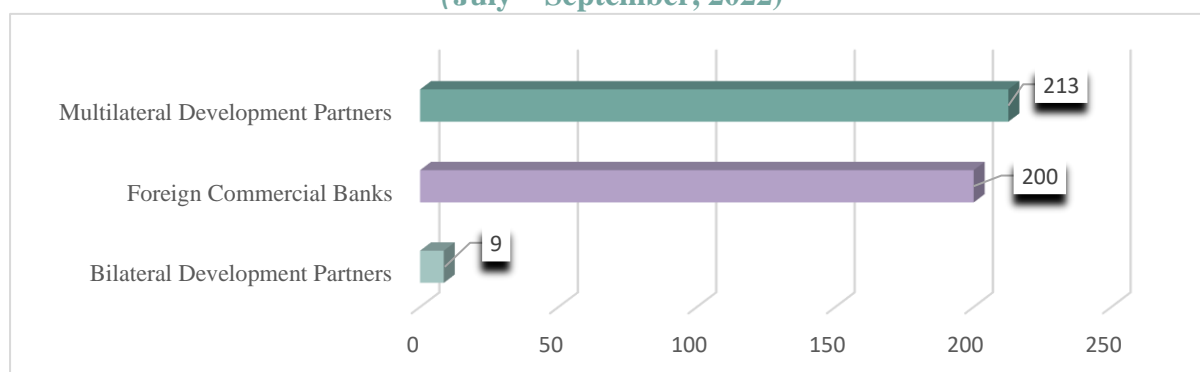
NEW COMMITMENTS

The amount in FEA committed by the development partners during the the period under review is referred to as ‘New Commitments’ and is 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 the Finance Division, Law and Justice Division, and relevant sponsoring/executing agencies 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 international financial institutions and capital markets in the shape of foreign commercial loans and through the issuance of Eurobonds/Sukuk to stabilize foreign exchange reserves and provide budgetary/balance of payments support.

During 1st quarter of FY 2022-23, the Government of Pakistan signed new agreements worth USD 422 million with development partners, being 18% of the commitments of the corresponding period of last year. Out of the total new agreements, USD 213 million worth of financing agreements were signed with multilateral development partners, USD 200 million with foreign commercial banks, and USD 9 million with bilateral partners. (see **Figure 2**).

Figure 2: Composition of New Commitments (USD Million)

(July – September, 2022)



Data Source: DMFAS Database

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

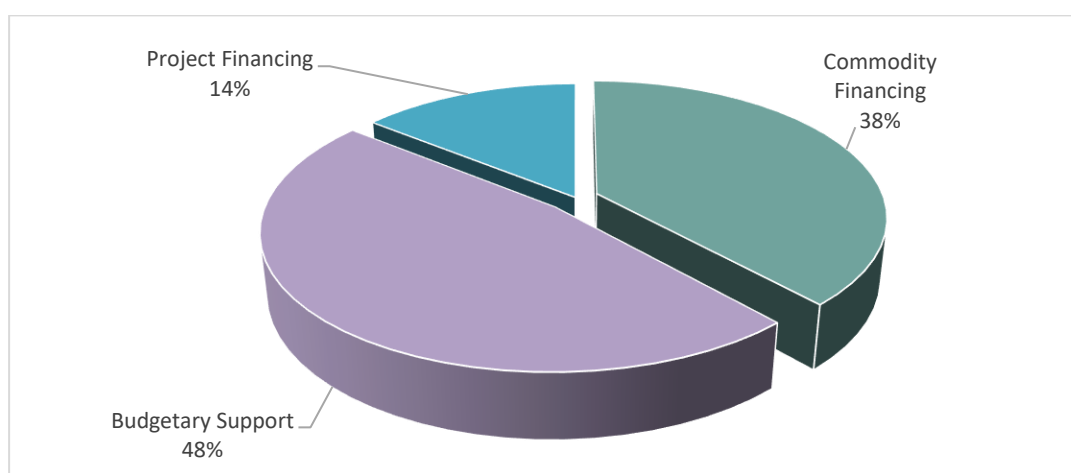
Among the multilateral development partners, IsDB emerged as the largest partner in terms of new commitments of FEA of USD 161 million (38% of total commitments) followed by IFAD (USD 50 million).

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 positions 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.

During 1st quarter (Jul - Sep) of FY 2022-23, out of the total commitments of USD 422 million, an amount of USD 200 million (or 48% of the total commitments) was earmarked as budgetary support, arranged through foreign commercial banks, for easing out financial constraints on the foreign reserves side. An amount of USD 161 million (or 38% of the total) was allocated for commodity financing (see **Figure 3**) and 14% of the total commitments to project financing. However, no program financing was committed during the period under consideration.

Figure 3 Mode of Commitments
(July – September, 2022)



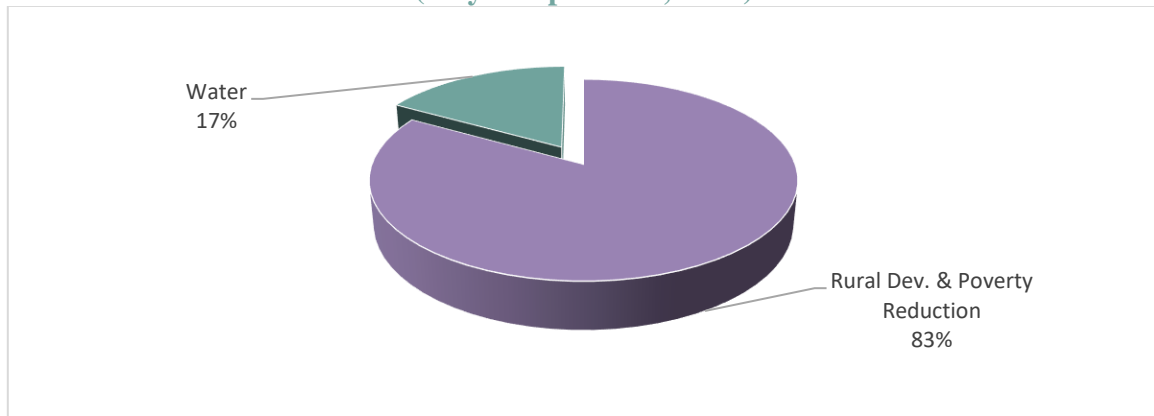
Source: DMFAS Database

2.2. Sectoral Distribution of New Commitments⁴

During the period under review, the Government committed USD 60 million as project financing for rural development & poverty reduction and water sectors of the economy. The sectoral composition of the new commitments reflects the priority development objectives of the Government and is summarized in **Figure 4**.

Figure 4: Sector-wise Composition of New Commitments (Project Financing)

(July – September, 2022)



Source: DMFAS Database

⁴ Since program and commercial financing are mainly for the budgetary support, this section only analyzed the sectoral distribution of project financing.

CHAPTER 3

DISBURSEMENTS

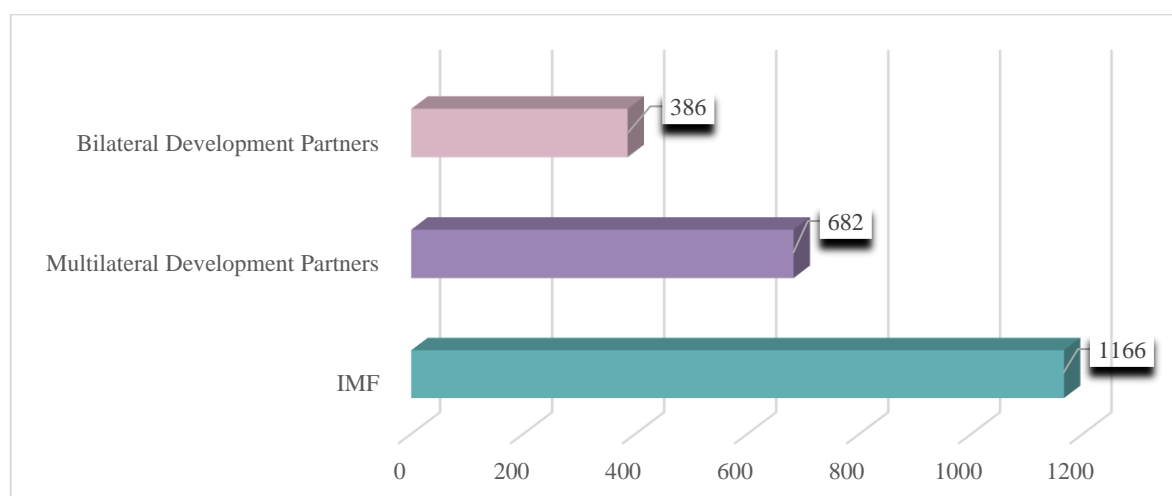
Disbursements of FEA represent the total amount of funds received by the Government from its development partners. Direct comparison of past and current disbursements with new commitments is methodologically counterintuitive as the new commitments are planned to be disbursed in the future over five to six years, whereas disbursements during a given period are the cumulative sum of current disbursements against new and old commitments.

3.1. Composition of Disbursements

During the period July-September, 2022, disbursements amounting to USD 2,234 million were mainly received in the shape of 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 1,166 million or 52% of total disbursements were received from International Monetary Fund;
- b) USD 682 million or 30% of total disbursements were from multilateral development partners, mainly from World Bank, ADB, and IsDB (ST); and
- c) USD 386 million or 17% of the total disbursement were from bilateral development partners; mainly from Saudi Arabia.

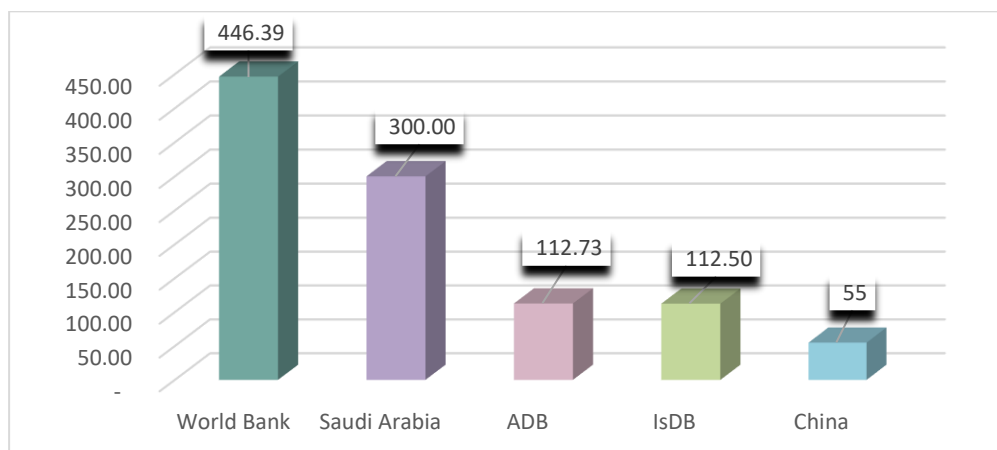
**Figure 5: Composition of Foreign Economic Assistance (USD Million)
(July – September, 2022)**



Source: DMFAS Database

Details of the disbursements made by development partners are summarized in **Figure 6**. The World Bank disbursed USD 446 million (20% of the total disbursements), disaggregated as USD 158 million for program financing and USD 288 million for project financing. Similarly, Saudi Arabia disbursed USD 300 million followed by ADB (USD 112 million).

Figure 6: Donor-wise Composition of Foreign Economic Assistance (USD Million)
(July – September, 2022)

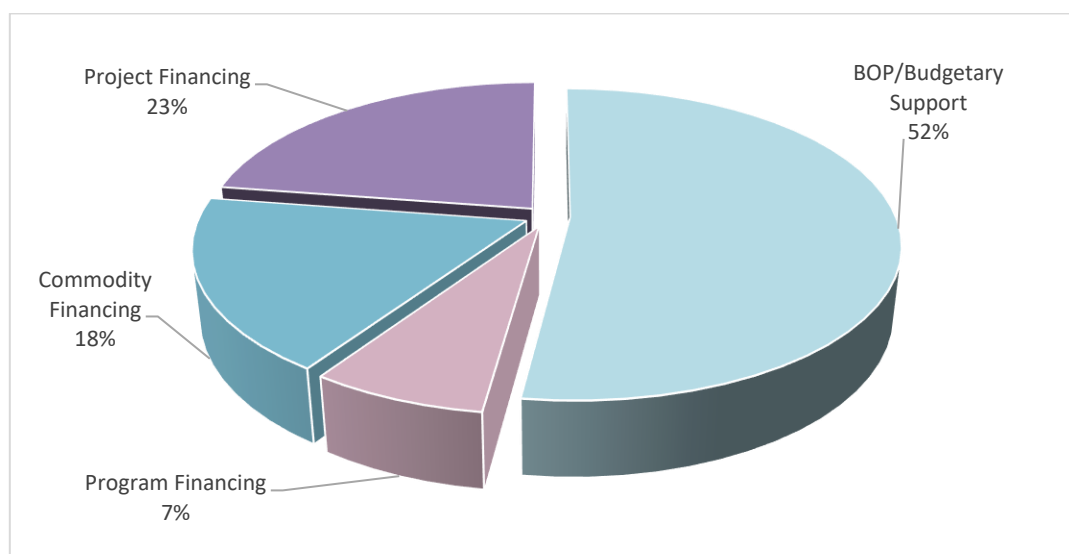


Source: DMFAS Database

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, 7% of the total disbursements were program financing (see **Figure 7**). An amount of USD 1,166 million (or 52% of the total) was obtained from IMF (as indicated above) as budgetary support to ease out the financial constraints on the foreign reserves side and USD 504 million (or 23% of the total) as project financing. The remaining 18% of the disbursements were received for commodity financing purposes.

Figure 7: Mode of Disbursements
(July – September, 2022)

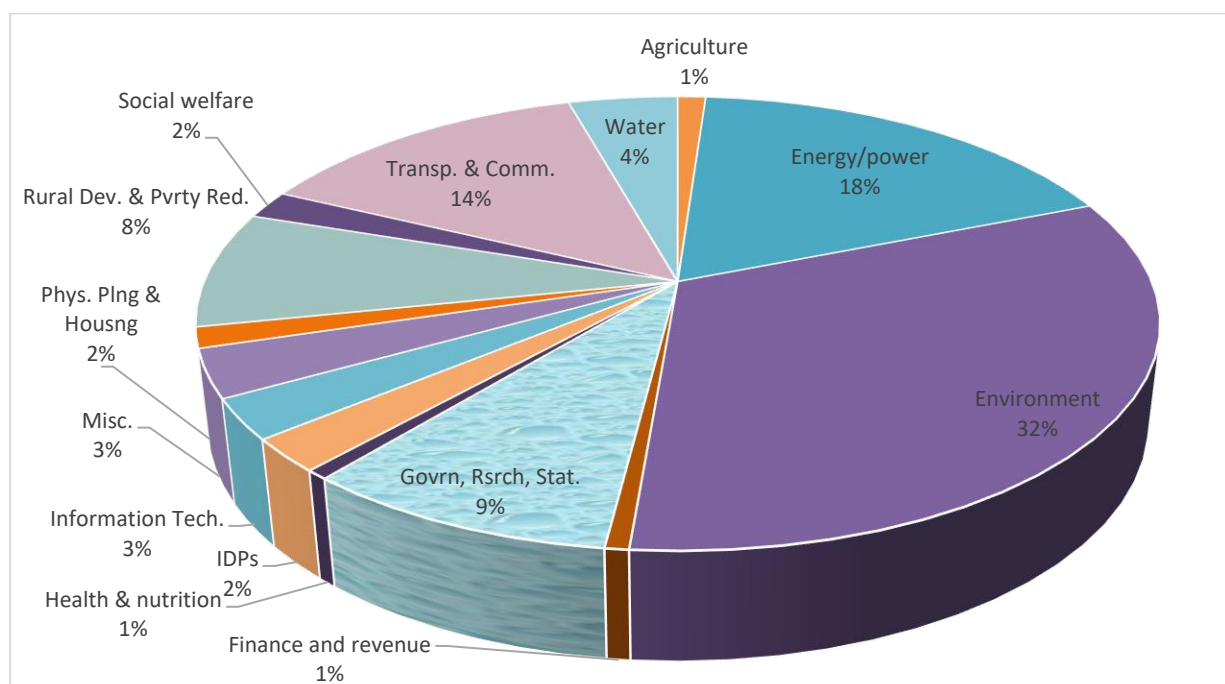


Source: DMFAS Database

3.3. Sectoral Distribution of Disbursements

Sectoral distribution of the disbursements under project financing of USD 504 million represents the priorities of the Government and is summarized in **Figure 8**. During the 1st quarter of FY2022-23, the largest share of disbursements i.e. 32% of the total project financing was received for the environment sector, followed by energy & power having an 18% share. The transport & communication sector has a 14% share, followed by the governance, research & statistics having a 9% share in total project financing.

Figure 8: Sector-wise Composition of FEA (Project Assistance)
(July – September, 2022)



Source: DMFAS Database

CHAPTER 4

EXTERNAL PUBLIC DEBT

External financing has become an important source for developing countries including Pakistan, for financing development interventions and generating economic activity in the economy. It not only improves the efficiency in resource allocation and economic growth but also helps the Government in augmenting its limited financial resources allocated for the provision of public goods and services such as health, education, social safety nets, etc. On 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 economies worldwide rely on debt inflows to meet the shortfall in existing resources and to cover budget deficits.

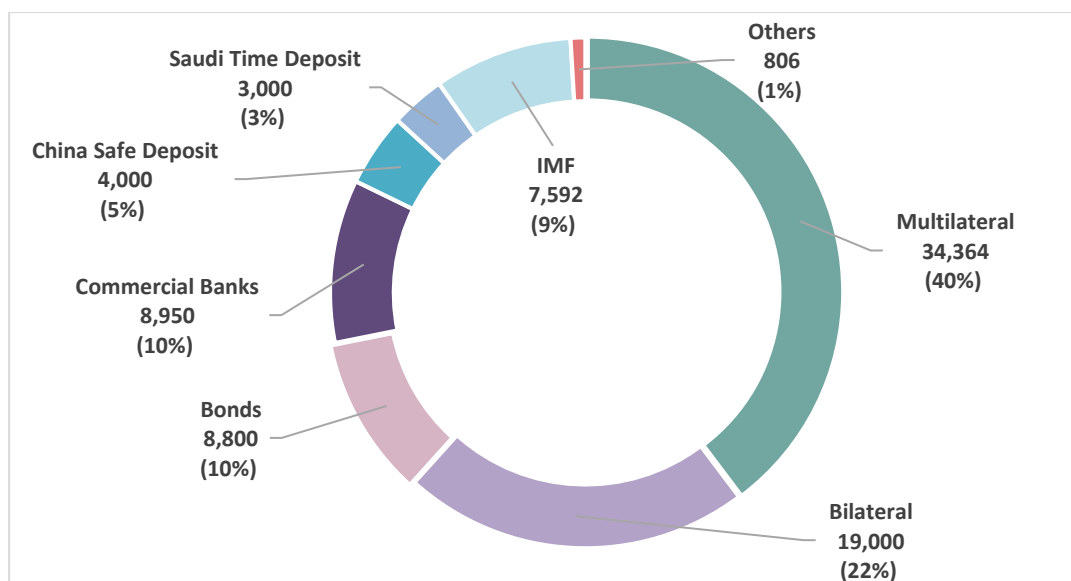
Borrowing can be productive for the economic growth of developing countries if the economic returns are higher than the cost of borrowed funds, with special focus on creation of income generating assets. While external debt is useful for the growth of the economy, dependence on it must be closely monitored and managed. A prudent external debt management strategy coupled with strong institutional arrangements is necessary for managing external debt and improving the repayment capacity of the country.

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 of the IMF, whereas, External Debt is the sum of external public debt, external debt owed by the public sector enterprises, and external debt owed by the private sector including multinational corporations, banks, and other private institutions etc.

4.1. Composition of External Public Debt

As of 30th September, 2022, Pakistan's total external public debt stood at **USD 86.5** billion. The composition of external public debt is summarized in **Figure 9**. More than 70% (i.e. USD 60.9 billion) of the total external public debt was from multilateral and bilateral development partners including IMF, having concessional terms and longer maturity, 21% (i.e. USD 17.8 billion) from international capital markets and foreign commercial banks, and 8% (i.e. USD 7.0 billion) of the total external public debt constitutes deposits from friendly countries.

**Figure 9: Composition of External Public Debt – USD 86,512 Million
(As of 30th September, 2022)**



Source: DMFAS Database

4.2. External Public Debt Servicing

The Government paid an amount of USD 2,588 million during the period July – September 2022 on account of debt servicing of external public loans. This consists of principal repayment of USD 2,063 million and interest payments of USD 525 million (see **Table 1**).

**Table 1: External Public Debt Servicing (USD Million)
(July – September, 2022)**

Lender/ Creditor	Debt Servicing		
	Principal	Interest	Total
Foreign Commercial Banks	400	86	486
Bonds	-	72	72
IMF	201	47	248
ADB	240	34	274
World Bank	214	69	283
IsDB (Short Term)	446	14	460
China	405	111	516
Saudi Arabia	89	36	125
Japan	23	3	27
IsDB (Long Term)	19	7	26
France	12	1	13
Kuwait	6	1	8
Others	6	45	51
Total	2,063	525	2,588

Source: DMFAS Database

4.3. Net Transfers

Net transfers is also a critical variable for analyzing the overall external public debt stock. Net transfers indicate any increase or decrease in the external public debt stock and are calculated as the difference between the external public loans received and their repayments made to foreign creditors during a specific period. A positive balance reflects an increase in external debt stock while a 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 142 million⁵ (see **Table 2**) whereas it was USD 2,065 million during the corresponding period last year.

Table 2: Net Transfers (USD Million)

Source	External Loan Inflow	External Loan Outflow	Net Transfers
Multilateral Development Partners	664	925	-261
Foreign Commercial Banks	0	400	-400
Bilateral Development Partners	375	537	-162
IMF	1,166	201	965
Grand Total	2,205	2,063	142

Source: DMFAS Database

⁵ Since 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.

CHAPTER 5

CONCLUSION

Foreign economic assistance is being obtained to undertake the socio-economic development of the country. During the 1st quarter of FY 2022-23, the government continued to engage its development partners for rural development and poverty reduction. It also engaged commercial banks to meet its immediate foreign exchange requirements.

The disbursed amount in the shape of program financing, project financing, commodity financing and budgetary support helped government to support wide-ranging economic reforms, execute development activities and provide support to its balance of payments position.

The composition of the external public debt remained satisfactory as more than two-thirds of the total external public debt is on concessional terms with longer maturity. However, a small portion (i.e. one-fifth) of the external public debt (i.e. commercial borrowings and bonds) entails higher interest rates..
