

2023-2024
3RD QUARTERLY REPORT
(July-March)
Foreign Economic Assistance



Government of Pakistan
Ministry of Economic Affairs
Policy Analysis & Development (PA&D) Wing

Preface

Ministry of Economic Affairs (MoEA) has prepared '*3rd Quarterly Report on Foreign Economic Assistance (Jul-Mar 2023-24)*', to provide an overview of Pakistan's external inflows, external outflows, external public debt and debt servicing. The report provides useful information for academia, researchers, economists, policy makers and local & international development partners on the external economic assistance position of Pakistan.

The report comprises of 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 period Jul-Mar 2023-24; Chapter 3 narrates the total disbursements made by the development partners during the specified period and Chapter 4 deals with external public debt and its servicing.

Data for the report is obtained from the Debt Management and Financial Analysis System (DMFAS) Database managed by the Debt Recording and Reporting Center (DRRC), MoEA.

We hope that this report will be useful for all the readers/stakeholders. Comments and suggestions for further improvements of this report are welcome and may be emailed to policy-I.ead@gmail.com

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Chief (Policy)

Islamabad, August 2024

Executive Summary

Foreign Economic Assistance (FEA) promotes 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 disbursed to the Government of Pakistan from bilateral and multilateral development partners for the period July-March 2023-24, both loans and grants. For this purpose, data is obtained from the Debt Management & Financial Analysis System (DMFAS) database (MoEA).

In terms of new commitments, the Government of Pakistan signed new agreements worth US\$ 2,166 million in the period Jul-Mar 2023-24. These commitments consist of US\$ 2,144 from multilateral development partners while US\$ 22 million from bilateral development partners. Out of these commitments, 28% were committed for BoP/budgetary support to strengthen foreign exchange reserves and stabilize the exchange rate, 26% as program financing, 37% as project financing, and 9% as commodity financing. During the period Jul-Mar 2023-24, largest financing i.e., US\$ 253 million was secured for Energy/Power sector.

From Jul-Mar 2023-24, disbursements of US\$ 6,904 million were mainly under the project and program loans/grants from multilateral development partners, bilateral development partners and international financial institutions (IFIs). The World Bank, ADB and AIIB were the largest contributors among multilateral development partners contributing US\$ 1,482 million, US\$ 666 million and US\$ 304 million respectively. On the bilateral side, Saudi Arabia emerged as the primary contributor to the total disbursements during the specified period disbursing US\$ 657 million followed by China with US\$ 576 million disbursement.

External financing plays a pivotal role in the advancement of developing nations like Pakistan, serving as a catalyst for sustainable economic growth and progress. 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 31st March 2024, Pakistan's total external public debt amounted to US\$ 86,683 million.

The Government paid US\$ 8,086 million during the period Jul-Mar 2023-2024 on account of debt servicing of external public loans. Of this, principal repayments were US\$ 5,363 million and interest payments were US\$ 2,723 million. Furthermore, the net transfers to the government's external public debt resulted in a positive balance, amounting to US\$ 909 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
MoEA	Ministry of Economic Affairs
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
IBRD	International Bank for Reconstruction & Development
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

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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, Asian Development Bank (ADB), Islamic Development Bank (IsDB), Asian Infrastructure Investment Bank (AIIB), United Nations (UN), 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 loan/grant) received by the Government of Pakistan from multilateral and bilateral development partners from Jul-Mar 2023-2024. Data is obtained from the Debt Management and Financial Analysis System (DMFAS) database maintained by the Debt Recording and Reporting Centre (DRRC) of the Ministry of Economic Affairs (MoEA).

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

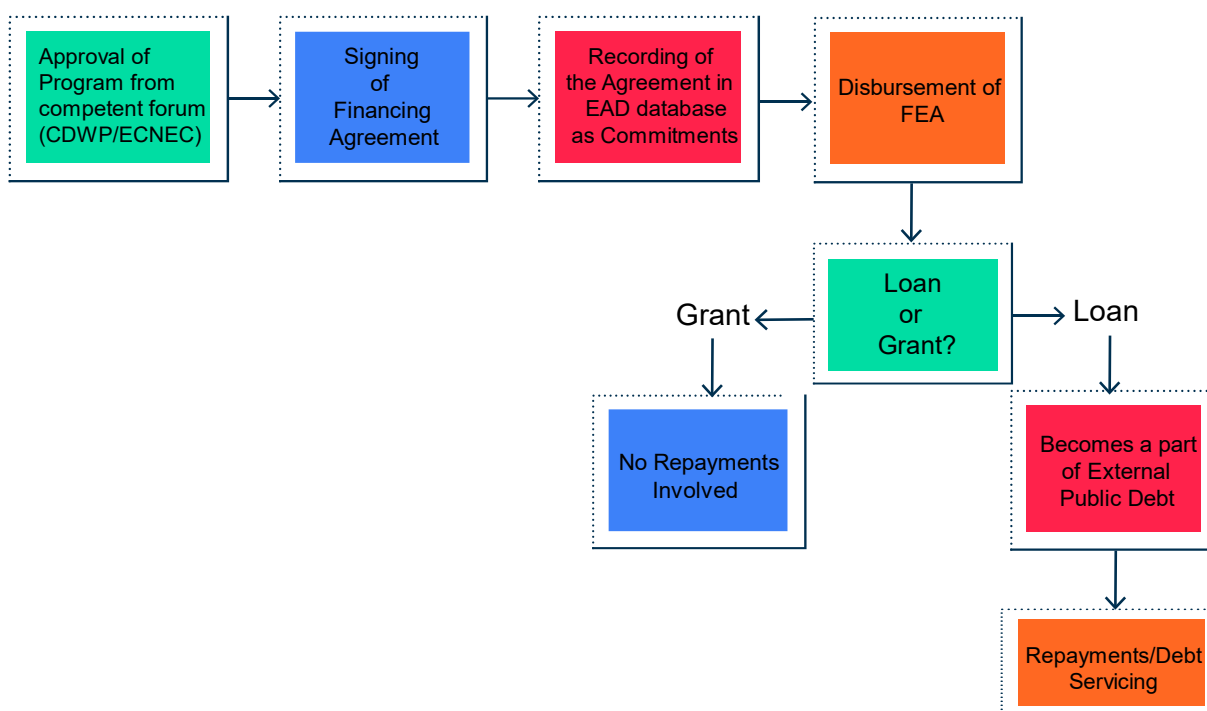
- (a) sustainable social and economic growth as envisioned in its development plans as well as to meet SDGs targets specifically to reduce poverty and inequality; and*
- (b) address the fiscal imbalances for enhanced macroeconomic stability.*

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

1.1 Recording Procedure

The Rules of Business, 1973, empowers the MoEA to compile and analyze FEA obtained from all multilateral and bilateral sources. Accordingly, MoEA 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, MoEA

Based on the amortization schedule, the repayment of the loan is managed by MoEA which coordinates with the relevant sponsoring/executing agencies, 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, 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 years². The new commitments are recorded by the MoEA after the signing of the “financing instruments” with the development partners. MoEA 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 MoEA’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.



New Commitments

- For the period Jul-Mar 2023-24, Government of Pakistan signed new agreements worth US\$ 2,166 million as commitments
- US\$ 2,144 million with multilateral development partners
- US\$ 22 million with bilateral development partners

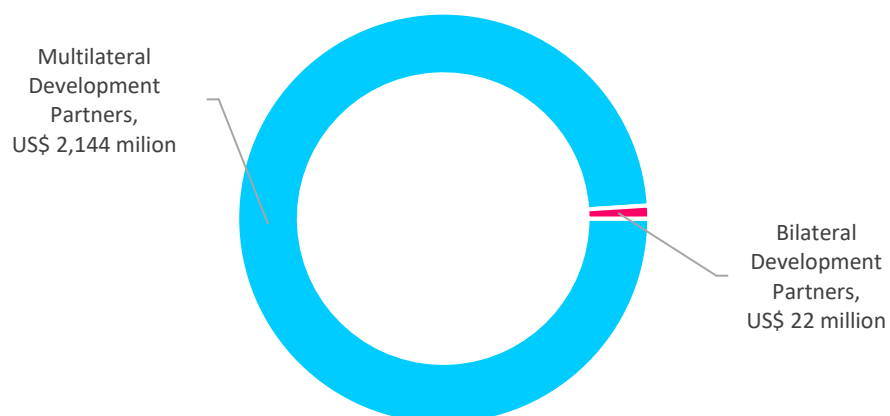


Among multilateral development partners, the following emerged as the largest partners in terms of new commitments of FEA, during the period under review:

- World Bank committed US\$ 888 million (41% of multilateral partners)
- ADB committed US\$ 706 million (33% of multilateral partners)
- AIIB committed US\$ 250 million (12% of multilateral partners)

² The disbursement period is dependent upon the execution period of the project/program.

Figure 2: Composition of New Commitments (US\$ Million)



Source: MoEA

2.1. Mode of Commitments

FEA in Pakistan is broadly categorized as project financing, program financing, commodity financing and 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, 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

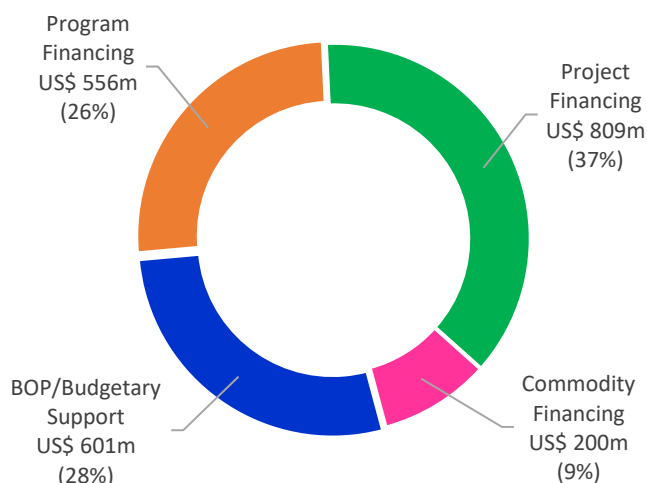
of crude oil mainly from IsDB and SFD oil facility.

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 (US\$ 2,166 million) agreed during the period Jul-Mar 2023-24, US\$ 601 million (28% of the total commitments) were committed for BOP/budgetary support to strengthen the foreign exchange reserves

and stabilize the exchange rate. US\$ 556 million, constituting 26% of the total commitments, were committed for program financing through contributions from the World Bank and the Asian Development Bank (ADB). An amount of US\$ 809 million (37% of the total commitments) was earmarked for project financing followed by commodity financing of US\$ 200 million (9% of the total commitments) (Figure 3).

Figure 3: Mode of Commitments (US\$ Million)



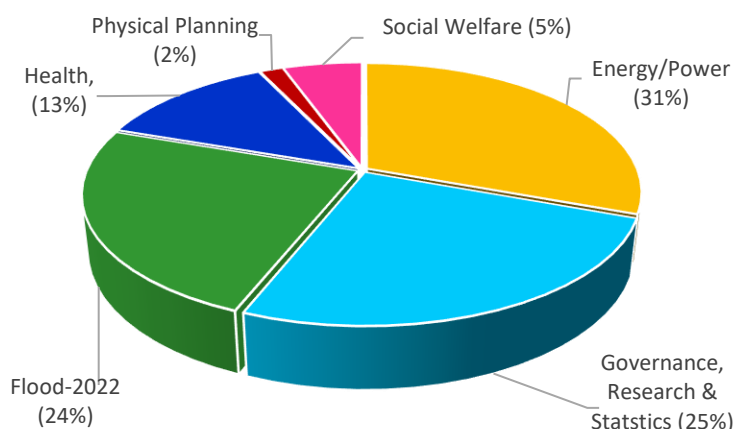
Source: MoEA

2.2. Sectoral Distribution of Commitments

The sectoral composition of the new commitments reflects the priority development objectives of the Government.

During the period Jul-Mar 2023-24, the Government secured US\$ 809 million as project financing focusing mainly on Energy/Power, Floods-2022, Governance, Research & Statistics and Health & Nutrition sectors.² (Figure 4).

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



Source: MoEA

² Since program and commercial financing are mainly for the budgetary support, this section only analyzed the sectoral distribution of project financing.

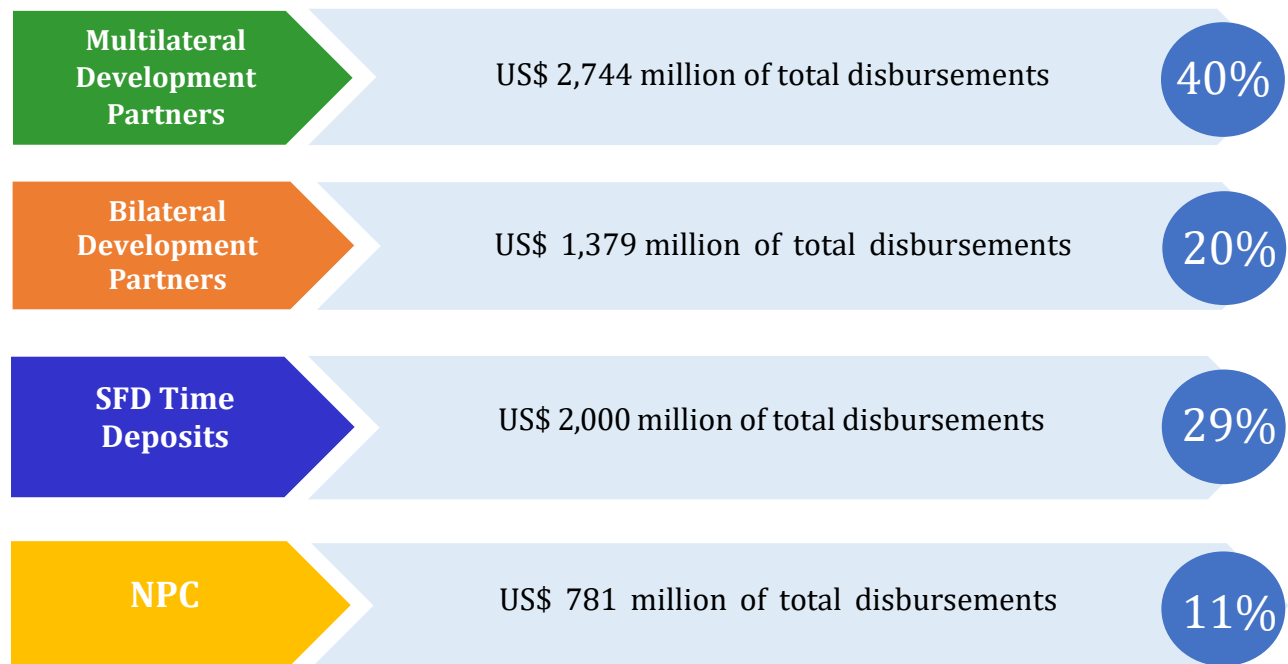
3. Disbursements

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

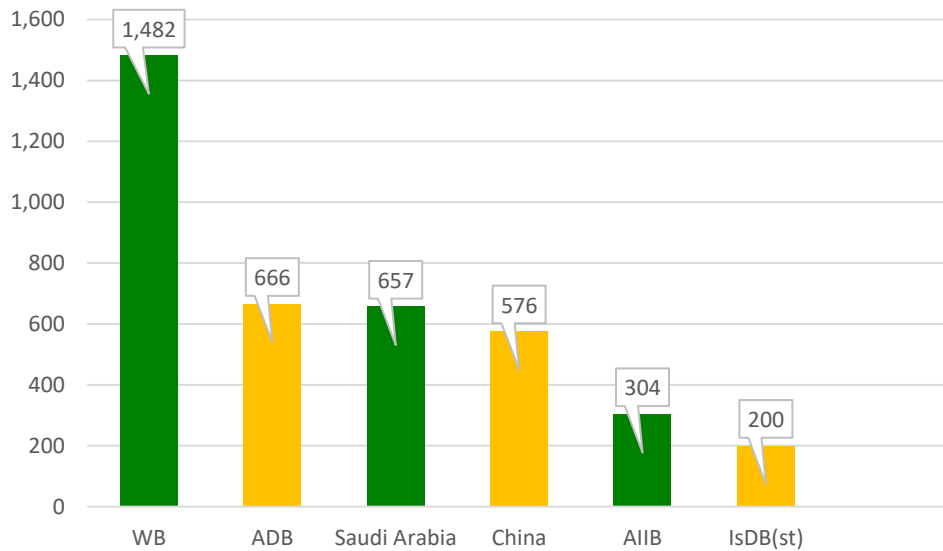
Disbursements of US\$ 6,904 million during Jul-Mar 2023-24 were mainly under the projects and program loans/grants from multilateral development partners, bilateral development partners and international financial institutions (IFIs).

Figure 5: Composition of Disbursements of Foreign Economic Assistance (US\$ Million)



Amongst multilateral development partners, the World Bank, ADB, and AIIB were the largest development partners with disbursements of US\$ 1,482 million (54% of total multilateral disbursement), US\$ 666 million (24% of total multilateral disbursement), and US\$ 304 million (11% of total multilateral disbursement) respectively. On the bilateral side, Saudi Arabia disbursed the largest amount, totaling US\$ 657 million. China emerged as the second largest disbursement partner disbursing US\$ 576 million. **(Figure 6).**

Figure 6: Major Donor Disbursements in Foreign Economic Assistance (USD Million)



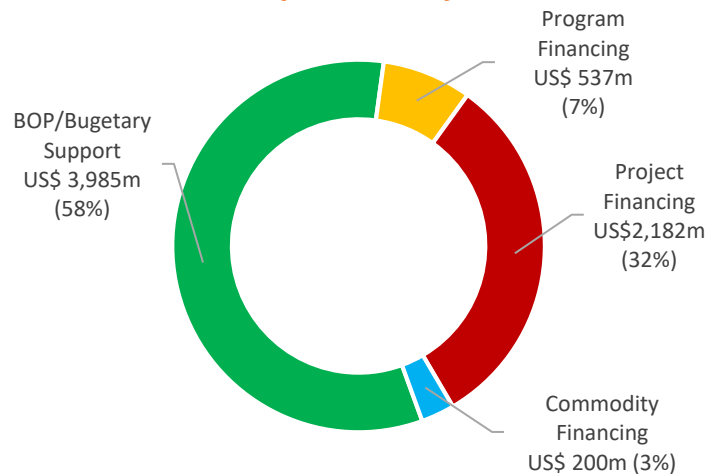
Source: MoEA

3.2. Mode of Disbursements

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

During the period Jul-Mar FY 2023-24, US\$ 3,985 million (58 percent of the total disbursements i.e., US\$ 6,904 million) were obtained for balance of

Figure 7: Mode of Disbursements (USD Million)



Source: MoEA

payment/budgetary support to strengthen the foreign exchange reserves and stabilize the exchange rate. The total disbursements realized under project financing were recorded as US\$ 2,182 million followed by program financing of US\$ 537 million and commodity financing of US\$ 200 million **(Figure 7)**.

3.3. Sectoral Distribution of Disbursements

Sectoral distribution of the disbursements under project financing (i.e., US\$ 2,182 million) 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.

During the period Jul-Mar 2023-24, the share of disbursements under Energy & Power were US\$ 404 million, Floods-2022 US\$ 234 million, Construction US\$ 200 million, Agriculture US\$ 155 million, Transport & Communication US\$ 154, Health & Nutrition US\$ 144 million, Governance Research & Statistics US\$ 105 million, Water US\$ 97 million and Physical Planning & Housing US\$ 61 million in the total project assistance **(Table: 1)**.

**Table 1: Sector-wise Composition of Disbursements
Project Assistance (US\$ Million)**

Economic Sector	Disbursements Jul-Mar (2023-24)
Energy & Power	404
Floods-2022	234
Construction	200
Agriculture	155
Transport & Communication	154
Health & Nutrition	144
Governance, Research & Statistics	105
Water	97
Physical Planning & Housing	61
Others	628
Total	2,182

Source: MoEA

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 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 saving-investment gap. 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.

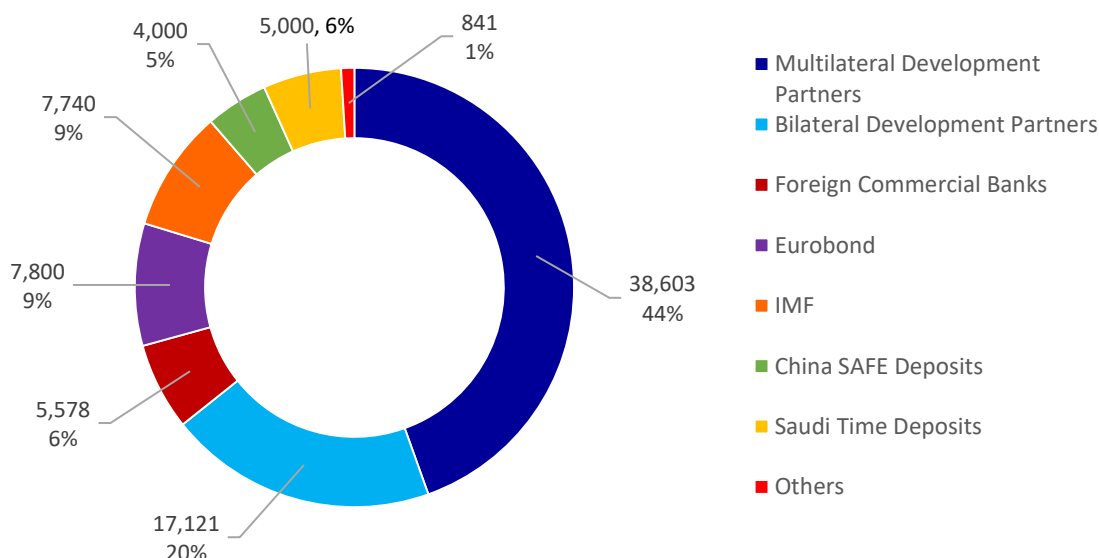
4.1. Composition of External Public Debt

As of 31st March 2024, the total external public debt of the government was US\$ 86,683 million (see **Table 2**). Around 64% of the total external public debt was obtained from multilateral and bilateral sources having concessional terms and longer maturity (**Figure 8**).

Table 2: Total External Public Debt (US\$ Million)

Source	Amount
Multilateral Development Partners	38,603
Bilateral Development Partners	17,121
Foreign Commercial Banks	5,578
Eurobond	7,800
IMF	7,740
China SAFE Deposits	4,000
Saudi Time Deposits	5,000
Others	841
Total	86,683

**Figure 8: Composition of External Public Debt (US\$ Million)
(As of 31st March 2024)**



Source: MoEA

4.2. External Public Debt Servicing

The Government paid an amount of US\$ 8,086 million from Jul – Mar 2023-24 on account of debt servicing of external public loans. This consists of principal repayment of US\$ 5,363 million and interest payments of US\$ 2,723 million (see **Table 3**).

Table 3: External Public Debt Servicing (US\$ Million)

Lender/Creditor	Debt Servicing		
	Principal	Interest	Total
IMF	1,239	461	1,700
Saudi Arabia	1,107	46	1,153
ADB	645	388	1,033
World Bank	606	299	905
China	185	238	423
Foreign Commercial Banks	-	343	343
Bonds	-	331	331
China Safe Deposits	-	236	236
Japan	225	29	254
France	156	30	186
KSA Deposits	-	152	152
NPC	625	34	659
Others	575	136	711
Total	5,363	2,723	8,086

Source: MoEA

4.3. Net Transfers

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 public debt stock while a negative balance depicts a decrease in external public debt stock.

During the period Jul-Mar 2023-24, net transfers to the Government's external public debt resulted in a positive balance, totaling US\$ 909 million, indicating an increase in the external public debt stock³ (see **Table 4**).

Table 4: Net Transfers (US\$ Million)

Financial Source	External Loan Inflow	External Loan Outflow	Net Transfers
Multilateral	2,711	1,548	1,163
Bilateral	780	1,951	-1,171
IMF	0	1,239	-1,239
SFD Time Deposit	2,000	0	2000
NPC	781	625	156
Grand Total	6,272	5,363	909

Source: MoEA

4.4. Conclusion

During the period Jul-Mar 2023-24, the disbursed amount in the shape of program financing, project financing, commodity financing and budgetary support helped the Government to support wide-ranging economic reforms, execute development activities and provide support to its balance of payments position. Ongoing collaborations with development partners were also focused on the realization of the pledges made in the aftermath of the floods of 2022.

A significant share, i.e., 64% of the total external public debt, is secured on concessional terms with extended maturities. Hence, a prudent external debt management strategy is being followed to optimize the benefits of foreign economic assistance and bolstering the overall economic resilience of the country.

³ 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.