4

Fiscal Policy and Public Debt

Fiscal deficit increased slightly in H1-FY24, as upsurge in expenditure overshadowed increase in revenue. The surge in expenditure was largely driven by higher interest payments, while primary expenditure also registered an increase. Total revenue, on the other hand, rose on the back of non-tax revenue, while tax revenue also edged up. As growth in revenue outpaced the increase in primary expenditure, total expenditure excluding interest payments, primary balance posted a higher surplus in H1-FY24. Increase in fiscal deficit, nevertheless, led to further accumulation in public debt, mostly sourced from domestic commercial banks.

4 Fiscal Policy and Public Debt

4.1 Fiscal Trends and Policy Review[1]

Fiscal deficit increased to 2.3 percent of GDP in H1-FY24 from 2.0 percent in the same period last year (**Table 4.1**). The increase in deficit, notwithstanding a considerable growth in revenue, was driven by a relatively larger increase in expenditure (in terms of GDP) on account of surge in mark-up payments (**Table 4.2**).[2] Nonetheless, primary balance posted a larger surplus of 1.7 percent of GDP in H1-FY24 compared to 1.1 percent in H1-FY23. The provinces cumulatively contributed 0.3 percent of GDP to consolidated surplus during H1-FY24, higher than 0.1 percent in the same period last year.

The improvement in primary balance in H1-FY24 is not only consistent with the budget estimates, but also higher compared to the average of last five comparable periods (**Table 4.2**). Further, a proportionate increase in total revenue and current expenditure (in terms of GDP) helped contain the revenue deficit at 1.6 percent of GDP in H1-FY24, same as in H1-FY23.

Consolidated Fiscal Indicators **Table 4.1**

	billion Rupees				Growth (percent)			
	FY23	FY24			FY23	FY24		
	H1	Q1	Q2	H1	H1	Q1	Q2	H1
1. Total revenue (a+b)	**4,698.9**	**2,685.8**	**4,168.2**	**6,854.0**	**18.8**	**33.2**	**55.4**	**45.9**
(a) Tax revenue	3,731.9	2,216.9	2,617.4	4,834.3	16.9	24.4	34.2	29.5
o/w FBR taxes	3,428.8	2,041.5	2,427.7	4,469.2	17.4	24.9	35.3	30.3
(b) Non-tax	967.1	468.8	1,550.9	2,019.7	26.4	99.6	111.8	108.8
2. Total expenditure (a+b+c)	**6,382.4**	**3,665.8**	**5,596.0**	**9,261.8**	**19.8**	**29.7**	**57.3**	**45.1**
(a) Current expenditure	6,061.2	3,172.6	5,392.0	8,564.6	29.6	25.0	53.0	41.3
o/w Mark-up payments	2,573.1	1,379.6	2,840.4	4,220.0	77.1	44.6	75.4	64.0
(b) Development expenditure & net lending	636.6	282.4	378.8	661.2	11.4	28.4	-9.1	3.9
o/w PSDP	590.9	286.5	386.7	673.2	4.5	30.7	4.1	13.9
(c) Statistical discrepancy	-315.4	210.8	-174.9	35.9	-	-	-	-
Non-interest (total)/Primary expenditure	*3,809.4*	*2,268.9*	*2,772.8*	*5,041.8*	*-1.7*	*22.1*	*42.2*	*32.4*
3.Overall budget balance	**-1,683.5**	**-980.1**	**-1,427.7**	**-2,407.8**	-	-	-	-
percent of GDP	*-2.0*	*-0.9*	*-1.3*	*-2.3*	-	-	-	-
4.Primary balance	**889.6**	**399.6**	**1,412.7**	**1,812.2**	-	-	-	-
percent of GDP	*1.1*	*0.4*	*1.3*	*1.7*	-	-	-	-
5. Revenue balance	**-1,362.3**	**-486.9**	**-1,223.8**	**-1,710.6**	-	-	-	-
percent of GDP	*-1.6*	*-0.5*	*-1.2*	*-1.6*	-	-	-	-
6. Financing (a+b)	**1,683.5**	**980.1**	**1,427.7**	**2,407.8**	-	-	-	-
External (net)	-296.3	442.4	166.0	608.4	-	-	-	-
Domestic (net)	1,979.8	537.6	1,261.8	1,799.4	-	-	-	-

Source: Ministry of Finance

[1] *Fiscal balance* is total revenue minus total expenditure; *primary balance* is fiscal balance adjusted for interest payments; *revenue balance* is total revenue minus total current expenditure; *primary expenditure* is non-interest (total) consolidated expenditure.

[2] Total expenditure increased by 1.2 percent of GDP, whereas, total revenue rose by 0.9 percent of GDP over and above same period last year.

Performance of Consolidated Fiscal Indicators Compared to Last Five Years **Table 4.2**

	Growth Rates - H1			As percent of GDP					
				Actual - H1			Budget Estimates (Annual)		
	FY19-23 Avg.	FY23	FY24	FY19-23 Avg.	FY23	FY24	FY19-23 Avg.	FY23	FY24
Total revenue	15.4	18.8	45.9	5.9	5.6	6.5	-	-	-
Federal tax	15.1	17.4	30.3	4.2	4.1	4.2	11.1	9.6	8.9
Federal NTR	31.9	28.5	116.5	1.2	1.1	1.8	3.0	2.5	2.8
Total expenditure	15.2	19.8	45.1	8.0	7.6	8.8	16.2	12.2	13.7
Current expenditure	19.2	29.6	41.3	7.2	7.2	8.1	-	-	-
o/w Mark-up payments	30.7	77.1	64.0	2.5	3.1	4.0	5.6	5.1	6.9
Development expenditure & net lending	5.0	11.4	3.9	0.9	0.8	0.6	-	-	-
Primary expenditure	10.0	-1.7	32.4	5.5	4.5	4.8	-	-	-
Fiscal balance	-	-	-	**-2.1**	**-2.0**	**-2.3**	**-6.0**	**-4.9**	**-6.5**
Primary balance	-	-	-	**0.4**	**1.1**	**1.7**	**-0.6**	**0.2**	**0.4**

Source: Ministry of Finance and SBP staff calculations

The increase in total revenue as percent of GDP was largely contributed by non-tax revenue, followed by a modest increase in tax revenue (**Table 4.2**). The increase in tax revenue was led by direct taxes, particularly income tax collected from the corporate profits, as well as individuals' earnings on bank deposits and investment in government securities. Contribution of indirect taxes was also substantial, largely supported by higher sales tax collection. Tax measures announced in the Finance Act 2023, including broadening of scope of super tax and increase in FED on beverages, amid higher inflation and interest rate as well as PKR depreciation, bolstered tax collection during H1-FY24. Substantial increase in non-tax revenue was mainly due to higher SBP profit and petroleum development levy (PDL) collection on the back of higher interest rates and PDL rates, respectively. In addition, provincial own tax efforts also resulted in increased tax collection, especially from sales tax on services.

Total expenditure also increased in terms of GDP, because of surge in both mark-up and primary expenditures. Increase in mark-up payments was driven by the government's increased reliance on domestic borrowings in a high interest rate environment. Moreover, the government's lack of restraint on primary expenditure warranted additional borrowing that further inflated mark-up payments in H1-FY24.

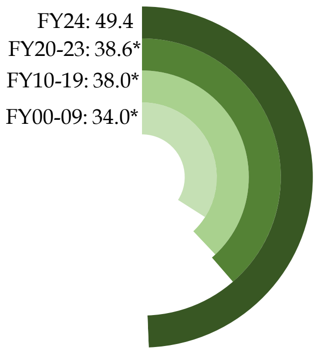
Primary expenditure saw a broad-based increase, led by subsidies, running of civil government, and grants. Increase in subsidies, the largest non-interest contributor, is mainly due to higher disbursement of power subsidies, particularly to Independent Power Producers (IPPs) to contain power sector circular debt under the Circular Debt Management Plan FY24. Development expenditure also increased, as higher provincial spending more than offset contraction in federal Public Sector Development Programme (PSDP).

In line with the trends in fiscal deficit, public debt rose by 7.1 percent in H1-FY24. Despite some increase in external financing after securing IMF's SBA, most of the accumulation was due to domestic debt. Significant increase in the issuance of long-term instruments (PIBs and Ijara Sukuks) amid retirement of T-bills lengthened the maturity profile of the public debt stock. However, the repayment capacity of the government deteriorated, as growth in domestic interest payments considerably outpaced growth in FBR taxes.

It is important to highlight that sustaining the fiscal consolidation achieved in H1-FY24 is crucial for stemming accumulation in public debt, reducing debt servicing burden, and bringing down inflation. This warrants deep-rooted tax policy interventions beyond rate changes, like expanding the tax base, to boost tax revenue up to potential. At the same time, the government needs to restrain spending on subsidies and grants to PSEs through privatization of loss-making entities. This is also critical for creating fiscal space for social and development spending.

Share of Direct Taxes in Total Federal Taxes in H1 **Figure 4.1**

percent



* Averages

Source: Ministry of Finance

4.2 Revenue

Total revenue grew by 45.9 percent in H1-FY24, considerably higher than 18.8 percent growth in H1-FY23 (**Table 4.1**). As a result, total revenue as percent of GDP edged above the average during the last five years (**Table 4.2**). Non-tax revenue was the major contributor, while tax revenue to GDP also inched up slightly.

Tax Revenue

Tax revenue increased by 29.5 percent in H1-FY24, compared to 16.9 percent in H1-FY23. Federal taxes continued to remain major driver, while provincial tax revenue also made positive contribution through GST on services. The federal, i.e. FBR, taxes grew by 30.3 percent, surpassing the target for H1-FY24 by Rs 1,040 billion (**Table 4.3**). Continuing the FY23 trend, direct taxes remained the main contributor. Share of the direct taxes reached almost half of the total collection in H1-FY24, highest in the last 25 years (**Figure 4.1**).

Within the direct taxes, voluntary payments showed strong growth, primarily consisting of advance taxes from corporates. Withholding taxes also witnessed robust growth, particularly on bank interest and securities, contracts, salaries, and imports. Furthermore, indirect taxes also saw a broad-based growth of 12.2 percent in H1-FY24 after remaining almost flat in the corresponding period of last year. Higher sales tax and FED collections, followed by customs, were the major contributors to growth in indirect taxes, (**Table 4.3**).

FBR Tax Collection in H1 **Table 4.3**

growth in percent; contribution in percentage points

	billion Rupees		Growth		Contribution in Growth*		Percent of Target
	FY23	FY24	FY23	FY24	FY23	FY24	FY24
1. Direct taxes	**1,525.7**	**2,148.9**	**49.4**	**40.9**	**17.3**	**18.2**	**119.8**
Import	149.2	188.4	5.8	26.2	0.8	2.6	-
Domestic	1,376.4	1,960.5	56.2	42.4	48.5	38.3	-
2. Indirect taxes	**1,903.2**	**2,320.4**	**0.2**	**21.9**	**0.1**	**12.2**	**-**
Sales tax	1,272.0	1,515.3	-0.2	19.1	-0.2	12.8	87.9
Import	824.9	925.8	-7.5	12.2	-5.3	7.9	-
Domestic	447.1	589.4	16.7	31.8	5.0	11.2	-
Federal excise duty	164.3	264.6	12.3	61.0	0.9	5.3	99.4
Import	5.8	16.0	-51.9	178.0	-4.3	6.3	-
Domestic	158.5	248.5	18.3	56.8	16.8	54.8	-
Customs	466.9	540.5	-2.1	15.8	-0.5	3.9	84.2
Grand total (1+2)	**3,428.8**	**4,469.2**	**17.4**	**30.3**	**-**	**-**	**101.0**

* Contribution to growth is calculated on the basis of constituents
Note: Tax revenue numbers reported by FBR and Ministry of Finance may not tally exactly
Sources: Federal Board of Revenue (Provisional), and SBP staff calculations

A combination of federal tax measures introduced in FY23 and FY24 (via Finance Act 2023 in June 2023, and earlier through the Finance (Supplementary) Act 2023 in February 2023) and economic factors, like higher inflation and interest rate, and PKR depreciation, explain the federal tax performance in H1-FY24. However, it is worth highlighting that growth in FBR tax collection in real terms is not that impressive, given 28.8 percent inflation and 22.3 percent depreciation of PKR in H1-FY24 vis-a-vis last year.

a) Tax Measures

The tax measures primarily aimed at meeting higher revenue target through changes in the tax rates and rationalization of tax expenditure, given the expectation of a subdued recovery in economic activity and increase in overall expenditure. The salient tax measures are summarized as follows.

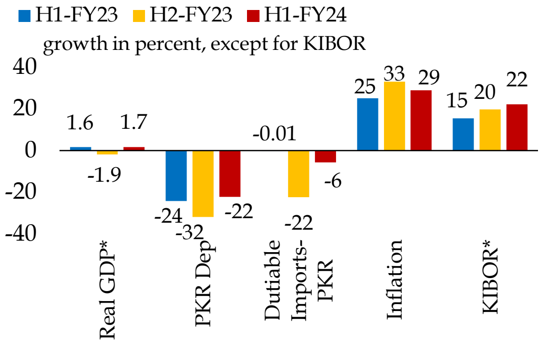
One, the government made two amendments to super tax: (i) the scope of the super tax was widened by increasing the number of tax slabs from four to seven, and the tax net expanded by including all persons across the board (earlier it was applicable to 16 types of businesses only), ensuring progressivity and uniformity; and, (ii) purview of the super tax was extended to include capital gains on disposal of securities, with National Clearing Company Pakistan Limited (NCCPL) assigned to collect it along with capital gains tax.[3] Two, the income tax

[3] Super tax ranging from 2 to 4 percent was imposed on incomes of high-earning persons in FY16 with the goal to provide for rehabilitation of temporarily displaced persons. Later, in FY23, section 4B was replaced by new section 4C, "Super tax on high earning persons". For more details on the graduated new tax rates introduced under section 4C, see **Chapter 4, The State of Pakistan's Economy Annual Report FY23**.

slabs were revised to ensure progressivity. Three, withholding tax (WHT) on supply of goods and services and execution of contracts was increased.

Four, the WHT on import of goods by commercial importers was increased from 5.5 percent to 6.0 percent. Moreover, the mode of advance tax on large vehicles (2001cc and above) was changed from fixed amount to graduated rates, with non-ATL (Active Taxpayers List) buyers paying 200 percent higher tax. Higher taxes on local or imported cars were, in part, meant to dilute the adverse revenue impact of declining auto sales. These measures partly led to five times higher tax payments made by domestic automobile companies in Q1-FY24.[4,5] Moreover, withholding tax collected at import stage increased by about 25 percent in H1-FY24.

Key Economic Factors and Growth in Tax Revenue **Figure 4.2**



Note: Most figures are rounded off to whole numbers;
* One Week
Sources: PBS, FBR, & SBP

Five, the basis of the advance tax on builders and developers was changed to area and size of the building or real estate development project, rather than the sales turnover. In addition, the government further increased WHT on the sale and purchase of immovable property from 2 percent to 3 percent.[6]

Six, the general sales tax rate was raised from 17 percent to 18 percent on goods in February 2023, and from 18 percent to 25 percent on locally manufactured cars and import of over 800 tariff lines covering non-essential items in March 2023.[7, 8]

Seven, in an effort to reduce tax expenditure, the government rationalized sales tax on the following: i) increase in concessional GST from 12 percent to 15 percent for tier-1 retailers of assorted goods[9]; ii) imposition of five percent GST on DAP fertilizer sales, which was earlier exempted from such tax. Moreover, condition of minimum covered area of shops for tier-1 retailers was removed, thereby enhancing the scope of tier-1

[4] Data source: SBP Quarterly Financial Statements Analysis for Non-Financial Companies for quarter ending September 2023
[5] It may be noted here that these statistics represent five auto companies registered with PSX, which means imports of CBU cars are excluded. Moreover, these tax payments constitute all kinds of taxes, including corporate income tax, super tax (where applicable), WHT, sales tax.
[6] The WHT is 200 percent and 350 percent more for non - ATL sellers and buyers of property, respectively.
[7] Those items included complete built units of cars and appliances; juices and aerated water; confectionery; articles of jewelry, among others.
[8] These measures contributed to a substantial increase in GST collection: domestic GST collection rose by 16.8 percent, 28.9 percent, and 31.8 percent in H1-FY23, H2-FY23, and H1-FY24, respectively; whereas GST collection at import stage showed 12.2 percent growth in H1-FY24, after posting consecutive declines in the preceding two halves.
[9] These goods include finished fabrics, locally manufactured finished articles of textile, textile made-ups, leather and artificial leather, among others.

retailers by including more retailers in the list.[10]

Last, FED was imposed on fertilizers, whereas its rate was increased for sugary fruit juices and syrups. Earlier in FY23, the government had twice increased FED on cigarettes. These measures led to a sizeable contribution of FED in growth of overall taxes in H1-FY24.[11]

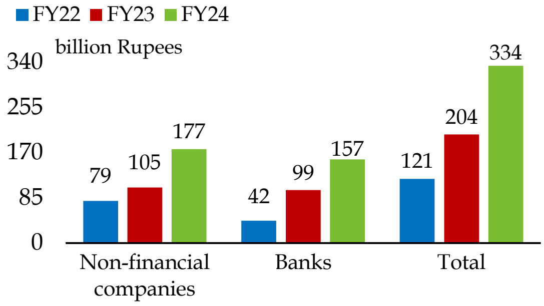
b) Economic Factors

Economic activity, as reflected by quarterly GDP and high frequency indicators moderately recovered, which supported the growth in tax collection in H1-FY24 (**Figure 4.2**). Further, PKR depreciation compared to last year and elevated inflation and interest rates had positive spillovers for tax revenue.

Data on revenue spinners shows that advance taxes contributed two-fifths in growth of overall direct tax collection in H1-FY24. Performance of these taxes is traced to a considerable increase in corporate profits (**Figure 4.3**). Interest earnings, amid higher government borrowing in a high interest rate environment, provided major boost to banks' profit, which increased by nearly 75 percent in Q1-FY24.[12] Moreover, profit of non-financial institutions also jumped by 61 percent in the first quarter in the backdrop of moderately recovering economy, softening cost of sales, and a decent growth in sales combined with elevated inflation.[13]

Prevailing higher interest rates also boosted collections from individuals' earning from profit-bearing accounts with banks, as well as investments in government securities. This is worth highlighting that individuals tend to save and invest more in government securities during the times of high interest rates, as reflected in the quarterly flows of saving deposits and the pattern of accepted non-competitive bids (**Figures 4.4a & 4.4b**).[14]

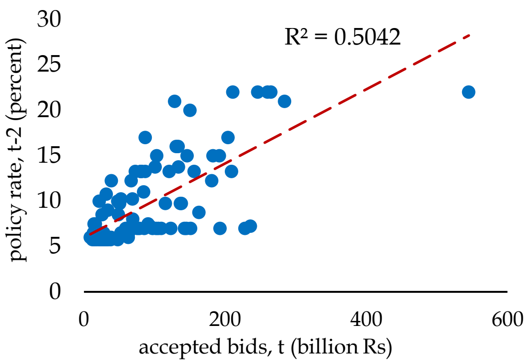
Corporate Income Tax - Q1 **Figure 4.3**



Note: 1) Calculated as difference b/w profit before & after tax; 2) there are 100 different entitites under the head of non-financial companies
Sources: State Bank of Pakistan; Quarterly Analysis of Selected Non-Financial Companies (SBP)

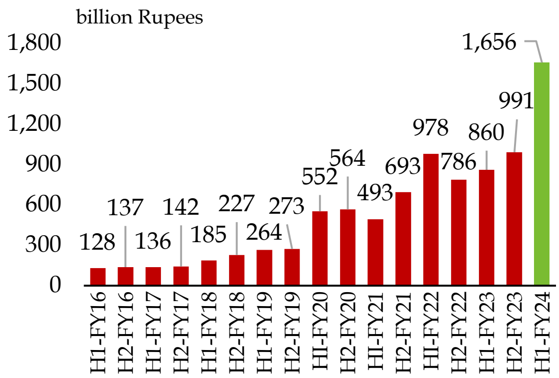
[10] FBR makes distinction for tier-1 retailers in order to streamline, digitalize, and automate collection of sales tax from retailers in an efficient manner, with the aim to improve tax base and collection.
[11] FED's contribution in total taxes increased from 0.6 percentage points in H1-FY23 to 2.9 percentage points in H1-FY24.
[12] It may be noted here that profit before tax of the banks, who maintain books on calendar year basis, saw 81 percent increase during Jan-Sep 2023. Data source: Financial Soundness Indicators, State Bank of Pakistan.
[13] Cumulative sales of PSX-registered non-financial firms (100 in total) were up by 14.4 percent in Q1-FY24, whereas cost of sales rose by 9.0 percent. Data source: SBP Quarterly Financial Statements Analysis for Non-Financial Companies for period ending September 2023
[14] For an illustration on relation between interest rate and saving deposits, see Figure 3.8 in **Chapter 3**.

Non-competitive Bids and Interest Rate **Figure 4.4a**



Note: The scatter plot covers data from July 2015 to December 2023
Source: State Bank of Pakistan

Trend of Non-competitive Bids **Figure 4.4b**



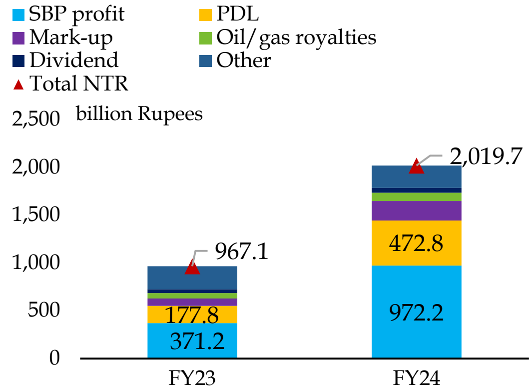
Source: State Bank of Pakistan

The PKR depreciation cushioned the revenue impact of falling import values in dollar terms during H1-FY24 compared to H1-FY23.[15] Assuming there were no depreciation vis-à-vis same period last year, PKR-denominated dutiable imports would have declined by 26.7 percent in H1-FY24, instead of actual decline of 5.7 percent.[16] This, along with tax measures taken in the budget, led import-related taxes to increase in H1-FY24, as opposed to decline last year.

Non-tax Revenue

Non-tax revenue (NTR) grew strongly in H1-FY24, on the back of SBP profit transfers, PDL collection, and mark-up receipts on federal loans to PSEs and provinces (**Figures 4.5)**. SBP profit, the leading contributor to the NTR, reflected impact of higher interest rate and increased liquidity injections amid high government borrowing from banks. In case of PDL revenue, gradual increase in the PDL rate on petroleum products to Rs 60 per litre boosted collections, offsetting the impact of lower POL sales in the first half.[17] Provincial NTR, however, showed

Composition of Non-tax Revenue in H1-FY24 **Figure 4.5**



Source: Ministry of Finance

[15] Tax liabilities at import stage are calculated in PKR terms. Value of PKR against USD was 22.1 percent lower in H1-FY24 than H1-FY23. It is worth highlighting here that PKR has appreciated by end-December relative to end-June 2023, but has depreciated compared to end-December 2022 (see **Chapter 5**).
[16] The alternate growth rate is calculated by converting US$-denominated imports in H1-FY24 into PKR equivalent using average exchange rate of H1-FY23.
[17] PDL on petrol was increased from Rs 50 to Rs 55 per litre on July 01, 2023, and Rs 60 on September 01, 2023. Levy on HSD increased to Rs 55 on October 16, 2023, and Rs 60 on November 01, 2023.

Federal Expenditure **Table 4.4**

	billion Rupees				Growth (percent)			
	FY23	FY24			FY23	FY24		
	H1	Q1	Q2	H1	H1	Q1	Q2	H1
Total expenditure (a+b)	4,567.1	2,347.1	4,491.9	6,839.0	23.2	24.2	67.8	49.7
(a) Current expenditure	4,390.2	2,263.8	4,319.8	6,583.6	31.0	22.2	70.3	50.0
Mark-up payments	2,573.1	1,379.6	2,840.4	4,220.0	77.1	44.6	75.4	64.0
Domestic	2,273.5	1,252.3	2,465.6	3,717.8	73.2	49.9	71.4	63.5
Foreign	299.6	127.3	374.8	502.2	113.4	7.1	107.4	67.6
Defence affairs/ services	638.9	343.1	414.5	757.6	22.7	9.6	27.2	18.6
Pension	321.2	203.3	201.1	404.4	27.6	18.6	34.2	25.9
Running of civil govt.	226.7	131.9	170.5	302.4	8.0	28.9	37.1	33.4
Subsidies	196.6	2.5	372.8	375.3	-37.3	-97.3	258.7	90.9
Grants (provinces/others)	433.7	203.4	320.5	523.9	-28.1	-7.4	49.7	20.8
Provinces	44.6	26.1	28.3	54.4	-17.6	27.6	17.4	22.1
Others	389.2	177.3	292.2	469.5	-29.1	-11.0	53.8	20.6
(b) Development expenditure & net lending	177.0	83.3	172.1	255.3	-50.1	127.0	22.7	44.3
PSDP	161.7	52.6	99.6	152.1	-43.9	-29.5	14.2	-5.9
Grants to provinces	25.3	11.6	10.1	21.7	-71.4	54.3	-43.3	-14.2
Net lending	15.2	30.7	72.5	103.2	-77.0	-181.1	36.5	578.1
Provinces	-30.5	34.8	80.4	115.2	-	-	-	-
Others	45.7	-4.1	-7.9	-12.0	-	-	-	-
Non-interest (total) expenditure	*1,994.1*	*967.5*	*1,651.5*	*2,619.0*	*-11.5*	*3.4*	*56.0*	*31.3*

Source: Ministry of Finance

only slight improvement in H1-FY24 compared to a year ago.

4.3 Federal Expenditure[18]

Federal expenditure grew by nearly 50 percent in H1-FY24, compared to 23.3 percent in the same period last year (**Table 4.4**). About 62 percent of the increase in expenditure (in absolute terms) was contributed by higher mark-up payments, followed by subsidies, defence, grants, pensions and running of civil government.

In H1-FY24, mark-up payments jumped by 64 percent to Rs 4.2 trillion, which was around 94 percent of FBR taxes and 87 percent of the total tax revenue. This reflects the impact of rising interest rates, both domestic and global, as well as accumulation in public debt in view of consistently large fiscal deficit in the past few years. Due to reduced external inflows, particularly in FY23, the government had to rely more on domestic borrowing at relatively much higher rates. The debt instruments, particularly 3-month T-bills that were issued aplenty in Q4-FY23

[18] i) This section covers federal expenditure, and not the consolidated federal and provincial expenditure presented in **Table 4.1**; ii) Federal expenditure number, wherever mentioned and discussed in this section, is calculated by subtracting statistical discrepancy from "Total Federal Expenditure" published in the Ministry of Finance Fiscal Operations reports.

Ratio of Mark-up Payments to Key Fiscal Indicators **Table 4.5**

average quarterly flows in billion Rupees

	FY18	FY19	FY20	FY21	FY22	FY23	H1-FY24
Mark-up payments	375.0	522.8	654.9	687.4	795.6	1,424.0	2,110.0
Domestic	330.7	455.2	578.3	631.0	707.1	1,267.8	1,858.9
Foreign	44.3	67.6	76.7	56.5	88.5	190.0	251.1
Mark-up payments as percent of							
Total expenditure	31.8	36.9	38.1	38.0	34.0	50.3	62.9
Current expenditure	39.3	43.5	43.0	43.3	37.7	52.4	64.1
Gross revenue receipts	31.9	47.1	45.3	43.9	43.4	64.1	65.4
Net revenue receipts*	60.5	102.6	79.9	77.9	85.1	122.3	105.2

*equals gross federal revenue receipts adjusted for NFC transfers to provinces
Source: Ministry of Finance

and Q1-FY24, matured during H1-FY24, leading to large mark-up payments.[19] Primary federal expenditure also grew notably in H1-FY24, in contrast to a contraction observed in the same period last year. Subsidies, running of civil government, and grants mainly led this expansion. On the other hand, federal PSDP declined, and growth in spending on pension and defence services decelerated. It is important to note that higher interest payments have reduced fiscal space for development and social spending in last few years (**Table 4.5**).

In case of subsidies, the government had earmarked much larger share of FY24 budget, with power subsidies dominating the mix with 83 percent share (**Table 4.6**). Overall power subsidies rose in H1-FY24, despite government passing on generation cost to end-consumers in the form of regular tariff adjustments and retracting subsidies to industry. Subsidies to Independent Power Producers (IPPs) in H1-FY24 was almost three times that of last year, mainly in respect of capacity payments.[20] These disbursements are part of government's plan to contain the stock of power circular debt in FY24 at FY23 level, as per the Circular Debt Management Plan (CDMP) FY24 agreed with the IMF. Furthermore, power distribution companies (especially K-Electric) also received higher subsidies in the first half under tariff differential, indicating inflated cost of power generation.

It may be noted that industries received no power and gas subsidies in H1-FY24, compared to about Rs 34 billion disbursed in the corresponding period of last year (**Table 4.6**). This was in line with elimination of budget allocation for these subsidies to industries, with resources diverted to power producers and distributors.[21]

[19] For more details on interest payments, see **Section 4.5 – Public Debt**
[20] Capacity payments to IPPs, part of retail tariff as per the Power Purchase Agreements, are not entirely collected from end-consumers due to various structural issues in the power value chain, including T&D losses, low bill recoveries, and power theft, among others. Government provides subsidies to IPPs to compensate that somewhat, and stem circular debt accumulation.
[21] Among these subsidies, there was only a small allocation of Rs 7.0 billion for K-Electric under industrial support package in FY24 against Rs 20 billion last year.

Breakup of Subsidies **Table 4.6**

billion Rupees

	Annual BE		Actual - H1 (p)	
	FY23	**FY24**	**FY23**	**FY24**
1) Power subsidies	**535**	**880**	**122**	**325**
IPPs	180	310	31	131
Tariff differential	295	513	55	194
KESC (including arrears)	60	298	11	116
Inter Disco	225	150	43	49
AJK	3.0	55	0	25
Tube wells	7.0	10	0.9	3.1
Industry support	40	7	22	0
Other	20	50	14	0
2) Non-power subsidies	**129.0**	**184.2**	**74.3**	**50.7**
LNG/RLNG (industry)	40.0	0.0	11.1	0.0
Gas (domestic consumers)	25.0	29.0	6.3	0.0
Fertilizer plants	15.0	25.0	6.7	10.0
Utility Stores	12.0	30.0	8.8	7.7
Other	37.0	100.2	41.5	33.0
Total subsidies (1+2)	**664.0**	**1,064.3**	**196.6**	**375.3**

Source: Ministry of Finance

In the case of grants, there was a trend reversal from H1-FY23, as these increased by 20.6 percent in H1-FY24. Major factors driving the increase included disbursements in respect of contingent liabilities of PSEs and reimbursement of T.T. charges for home remittances.[22] In terms of budget allocation, government had set aside higher sum of grants for FY24, with major additional grants for BISP and ECP, in light of increase in BISP outreach and General Elections, respectively.[23]

Expenditures on running of the civil government grew by 33.4 percent in H1-FY24, compared to 8.0 percent in H1-FY23 (**Table 4.4**). This increase was because of an upward revision in the salaries of the federal employees amid high inflation.[24] Similarly, pension expenditure grew at a slightly slower pace at 25.9 percent in H1-FY24 compared to H1-FY23, as the government increased pensions of the federal employees by 17.5 percent.[25]

4.4 Provincial Fiscal Operations

Provincial fiscal accounts posted a cumulative surplus of 0.3 percent of GDP in H1-FY24, up from 0.1 percent in H1-FY23 (**Table 4.7**). The higher surplus indicates a relatively higher growth in revenue vis-à-vis expenditure. Both higher federal transfers and increase in provincial own tax and non-tax revenues have contributed to 33.9 percent growth in cumulative provincial revenue. Substantially higher federal loans, on net basis, also contributed to overall higher provincial revenue.

[22] SBP increased the reimbursement rate from SAR 20/- to SAR 30/- on September 21, 2023 (effective from 30 days later). Source: EPD Circular Letter No. 14 of 2023

[23] Number of beneficiary families rose from 7.6 million in CY2022 to 9.0 million in CY2023. Quarterly stipend under Benazir Kafaalat Program increased from Rs 7,000/- per family to Rs 8,750/-. Likewise, the number of children receiving scholarships under Benazir Taleemi Wazaif increased from 2.6 million in 2022 to 7.52 million in 2023. BISP management expects to add 300,000 more families to its main program. Source: BISP Press Release; https://bisp.gov.pk/SiteImage/Misc/files/7-7.pdf

[24] Increase in ad-hoc allowance of officers as on June 30, 2023 by cadre: BPS 1 to 16 at 35% of basic pay, BPS 17-22 at 30 percent of basic pay. Last year, it was 15 percent across the board. Source: https://www.finance.gov.pk/circulars/circular_04072023_1.pdf

[25] Source: Ministry of Finance (www.finance.gov.pk/circulars/circular_05072023_2.pdf)

Consolidated Provincial Fiscal Accounts in H1 **Table 4.7**

	billion Rupees			Growth (percent)	
	FY19-23 Avg.	FY23	FY24	FY23	FY24
Total Revenue (a+b+c)	**1,868.5**	**2,293.1**	**3,070.9**	**2.6**	**33.9**
as percent of GDP	*3.2*	*2.7*	*2.9*		
a) Federal tax transfer (NFC)	1,475.9	1,880.0	2,435.3	11.0	29.5
b) Provincial own revenue (i + ii)	299.4	373.7	444.2	10.3	18.9
i) Provincial taxes	244.5	303.0	365.1	11.7	20.5
Sales Tax on Services	134.8	186.3	230.0	27.9	23.4
ii) Provincial non-tax	54.9	70.7	79.2	4.5	12.0
Others including forest	43.8	68.5	63.8	48.6	-6.8
c) Federal loans & transfers/grants	93.2	39.4	191.4	-80.6	386.1
Loans (net)	7.0	-30.5	115.2	-	-
Grants	86.2	69.9	76.2	-51.0	9.0
Total expenditure	**1,586.8**	**2,191.9**	**2,781.5**	**24.9**	**26.9**
as percent of GDP	*2.7*	*2.6*	*2.6*		
Current expenditure	1,321.5	1,733.3	2,074.0	24.1	19.7
Development expenditure	287.0	454.4	542.8	24.2	19.4
Statistical discrepancy	-36.1	4.1	164.7	-	-
Overall balance	**281.6**	**101.2**	**289.4**	**-79.0**	**186.1**
as percent of GDP	*0.5*	*0.1*	*0.3*		

Source: Ministry of Finance

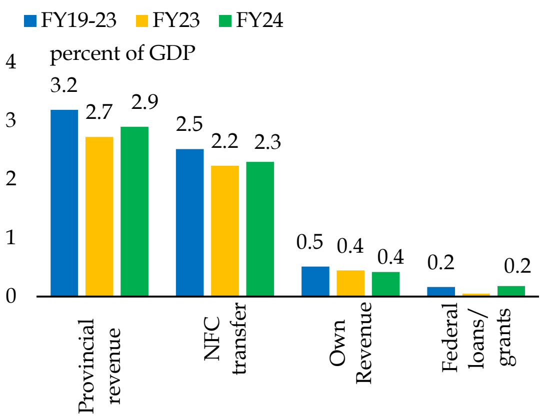
Within the provincial own revenue, provincial tax revenue grew by 20.5 percent in H1-FY24 compared to 11.7 percent in H1-FY23, mainly on account of GST on services. Provincial non-tax revenue also inched up with KPK receiving Rs 12.6 billion in profits from hydroelectricity in H1-FY24.

Provincial expenditure grew by nearly 27 percent in H1-FY24 compared to about 25 percent growth in H1-FY23. The growth in H1-FY24 was also broad-based, with current and development expenditures rising at almost same pace. Current expenditure rose across all provinces in line with the increase in salaries and pensions of the government employees.[26] Moreover, there was a notable spike in spending on public order and safety and education affairs. On the development expenditure side, Sindh and Balochistan led the increase, whereas Punjab and KPK saw a decline. Both provinces spent more resources on agriculture and food, as well as social protection projects.

It is worth mentioning here that while provincial surplus during H1-FY24 exceeded the last year's level, it is still lower compared to the average surplus in H1 during FY19-23. This is because revenue has been falling, while expenditure has remained almost unchanged, in terms of GDP (**Table 4.7**). Decline in both the federal transfers and provincial own revenue overtime explain

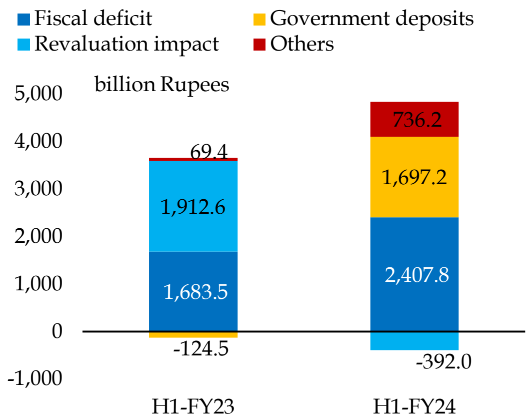
[26] All four provinces increased salaries and pensions for provincial employees following the announcement of the same by Ministry of Finance for federal employees (Footnote 24).

Performance of Provincial Revenue in H1 **Figure 4.6**



Source: Ministry of Finance & staff calculations

Sources of Change in Public Debt **Figure 4.7**



Source: State Bank of Pakistan

the squeezing revenue, and hence the lower provincial surplus (**Figure 4.6**).[27]

4.5 Public Debt

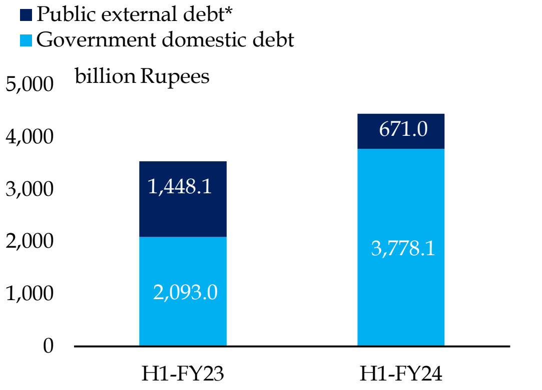
Pakistan's total debt & liabilities rose at a slightly slower pace of 6.1 percent, compared to 7.7 percent increase in the same period of last year. Similarly, the pace of accumulation in public debt slightly decelerated to 7.1 percent in H1-FY24 from 7.2 percent in the same period a year ago. This was mainly because of slower accumulation of external debt, following the appreciation of PKR against the US dollar between end-June 2023 and end-December 2023.[28,29] The increase in public debt in H1-FY24 primarily reflects the fiscal deficit, which is contrary to the last year when PKR depreciation had also contributed in debt accumulation (**Figure 4.7**). Moreover, the government also borrowed to build cash buffers in view of the upcoming lumpy maturities of government securities.[30]

In terms of public debt composition, the government relied more on domestic sources to finance the deficit in the wake of reduced availability of external funding. Accordingly, the share of domestic debt in total public debt increased during H1-FY24 (**Figure 4.8**).

Furthermore, the maturity profile of the public debt improved during H1-FY24. A substantial rise in the stock of PIBs and Ijara Sukuks amid retirement of T-bills increased the maturity profile of domestic debt, while repayment of the most short-

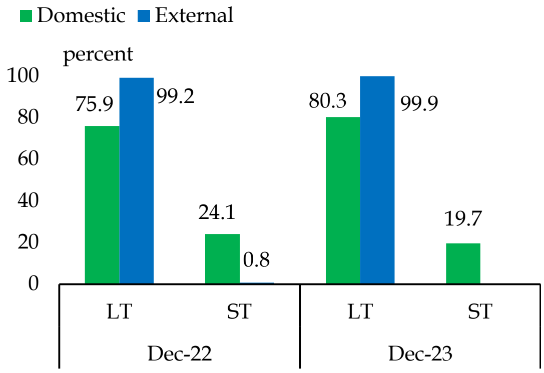
[27] Size of Federal NFC transfers to provinces, the largest source of revenue for provinces, depend on FBR tax collections in any given period. Lower the FBR tax, lower the NFC transfers, both in relation to GDP.
[28] The growth is calculated by dividing the difference of stock at the end of December 2023 and stock at End-June 2023 (End-December 2023 stock – End-June 2023 stock), by the stock at the end of June 2023 ((End-December 2023 stock – End-June 2023 stock)/End-June 2023 stock)).
[29] The external debt grew by only 2.8 percent in PKR terms during H1-FY24, compared to 8.0 percent in H1-FY23. However, in US Dollars, there was a noticeable growth of 4.4 percent in the first half of FY24 compared to decline of 2.6 percent in the same period last year.
[30] This is evident from increase in government deposits held with the SBP.

Change in Composition of Public Debt **Figure 4.8**



* including debt from IMF
Source: State Bank of Pakistan

Composition of Public Debt in H1 **Figure 4.9**

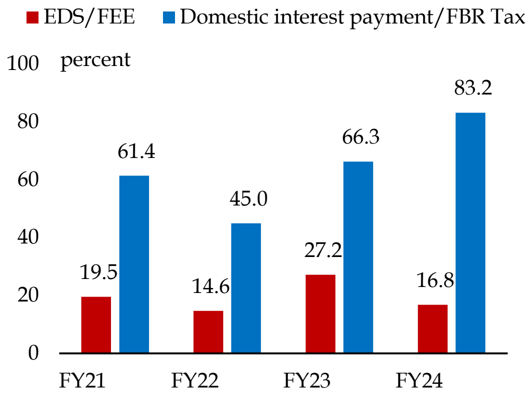


LT: Long-term ST: Short-term
Source: State Bank of Pakistan

term commercial debt and the increase in relatively longer-term bilateral debt lengthened maturity profile of external debt maturity profile (**Figure 4.9**).[31] These developments have considerably reduced the rollover risk. However, the repricing risk still persists as the bulk of domestic financing was raised through floating rate instruments.[32]

The repayment capacity of the government somewhat deteriorated during H1-FY24, compared to the first half of FY23 (**Figure 4.10**).[33] In particular, the ratio of domestic mark-up payments to FBR taxes increased significantly, indicating that domestic interest payments outgrew tax revenue by much larger amount compared to the same period last year. However, the external debt servicing (EDS)-to-foreign exchange earnings (FEE) ratio improved on the back of lower principal payments and a slight increase in foreign exchange earnings.

Repayment Capacity of Government in H1 **Figure 4.10**



Sources: Ministry of Finance & State Bank of Pakistan

[31] The lengthening of domestic debt maturity profile by issuing more PIBs and Shariah-Compliant instruments and retiring short-term debt is consistent with the government's Medium-Term Debt Management Strategy (MTDS) FY23-FY26.
[32] Floating rate instruments' coupon payments (or rental rates) are linked to 3-month and 6-month T-bills. The change in interest rates of T-bills will subsequently result in higher interest payments on these instruments. While there are expectations of no change or decrease in the policy rate, persistent inflation may cause the policy rate to rise further, leading to high coupon payments on floating instruments.
[33] Repayment capacity is gauged by two ratios: i) domestic mark-up payments-to-FBR taxes, and ii) external debt serving (EDS)-to-foreign exchange earnings (FEE).

Government Domestic Debt and Liabilities in H1 **Table 4.8**

billion Rupees

	Stock		Flows		Share in Domestic Debt Stock (in percent)		Growth over June Stock (in percent)	
	Dec-22	Dec-23	FY23	FY24	Dec-22	Dec-23	FY23	FY24
I. Permanent debt, of which	23,829.6	30,889.5	2,985.9	4,868.0	71.8	72.5	14.3	18.7
GOP Ijara Sukuk	2,644.6	4,419.0	364.8	1,268.4	8.0	10.4	16.0	40.3
Pakistan Investment Bonds	20,301.2	25,608.7	2,614.2	3,599.5	61.2	60.1	14.8	16.4
Prize Bonds	381.6	382.6	7.0	0.1	1.2	0.9	1.9	0.0
II. Floating debt, of which	6,156.3	8,369.8	-647.7	-965.4	18.6	19.7	-9.5	-10.3
Market Treasury Bills	6,091.1	8,288.4	-661.3	-980.8	18.4	19.5	-9.8	-10.6
III. Unfunded debt, of which	3,073.2	2,831.6	-262.8	-94.9	9.3	6.6	-7.9	-3.2
NSS (Net of Prize Bonds)	2,961.1	2,742.0	-247.2	-76.5	8.9	6.4	-7.7	-2.7
IV. Foreign currency instruments	9.5	378.3	0.9	-5.5	0.0	0.9	9.8	-1.4
V. Naya Pakistan Certificates (residents only)	109.7	118.7	16.8	-24.0	0.3	0.3	18.0	-16.8
Government domestic debt (I+II+III+IV+V)	**33,178.4**	**42,587.9**	**2,093.0**	**3,778.1**	**100.0**	**100.0**	**6.7**	**9.7**

Source: State Bank of Pakistan

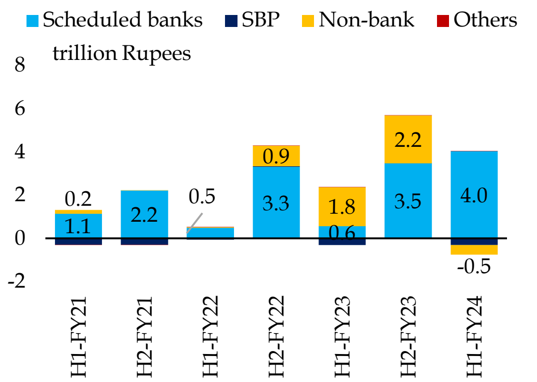
Domestic Debt

The stock of domestic debt has been rising persistently over the last few years.[34] This reflects higher fiscal deficit, combined with increased government reliance on domestic sources, especially banks. The increase in domestic debt during H1-FY24 was almost 1.8 times the size in H1-FY23 (**Table 4.8**).

In contrast to H1-FY23, almost entire increase in domestic debt in H1-FY24 was sourced from scheduled banks, mainly through PIBs and GoP Ijara Sukuks (**Figure 4.11**).[35] Meanwhile, non-bank entities also switched from T-bills and NSS to PIBs and GoP Sukuks, as the market expected either a status quo or decrease in the interest rates.[36] Resultantly, there was net retirement in T-bills and National Saving Schemes (NSS).

Although the stock of PIBs increased during H1-FY24, its share in total domestic debt remained lower than last year (**Figure**

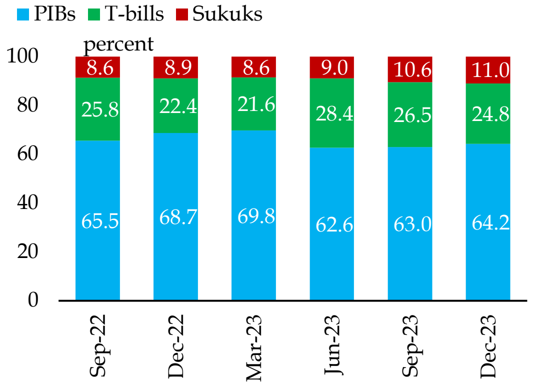
Institution-wise Holding of Domestic Debt in H1 **Figure 4.11**



Source: State Bank of Pakistan

[34] See The State of Pakistan's Economy Annual Report FY22 and Annual Report FY23
[35] Although overall most of the amount in H1-FY24 was raised through T-bills, on net of maturity basis, major debt was raised through PIBs and GoP Ijara Sukuks (**Table 3.4**).
[36] In H1-FY23, non-banks had utilized their resources to invest in government securities, mainly T-bills, leading to rise in their share in domestic debt holding.

Outstanding Stock of Government Securities -- Instrument-wise **Figure 4.12**



Source: State Bank of Pakistan

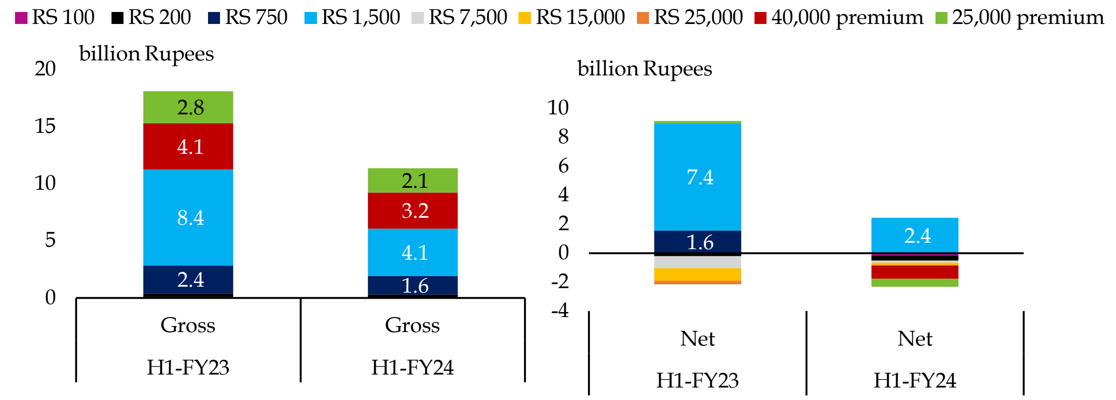
4.12 & Table 4.8). This is attributed to fewer issuance of PIBs because of investors' increased interest in T-bills in the last quarter of FY23, which led to decreasing share of PIBs in the subsequent quarters.

Another reason for decrease in the share of PIBs was growing tilt of investors towards GoP Ijara Sukuks during H1-FY24, with the accepted amounts concentrated in 5-year variable rental rate (VRR) and 3-year fixed rental rate (FRR) instruments.[37] This helped the government to maintain a mixed profile of Ijara Sukuks, which could lower cost of borrowing during times of monetary easing.[38]

The cost of PIBs increased in the first half of FY24 compared to H1-FY23 due to higher coupon rates. Furthermore, the share of two-year and three-year PIBs declined from around 45.6 percent at end-December 2022 to 40.4 percent at end-December 2023.

The net inflows in prize bonds decelerated during H1-FY24 on the back of lower investments, as well as slight increase in outflows (**Figure 4.13**). As discussed earlier, this is due to shift in investment of non-bank from prize bonds and NSS to relatively high yielding government securities.

Gross and Net Inflows in Prize Bonds **Figure 4.13**



Source: Central Directorate of National Savings

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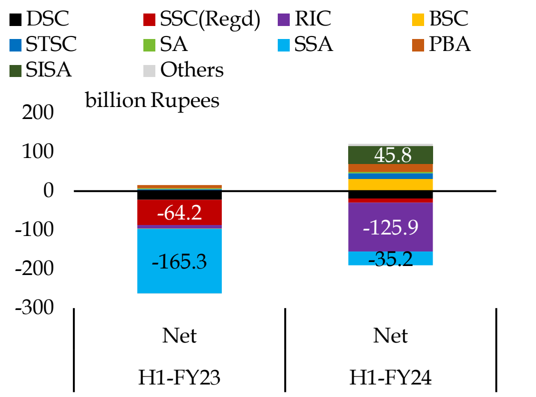
[37] See **Chapter 3** for details.

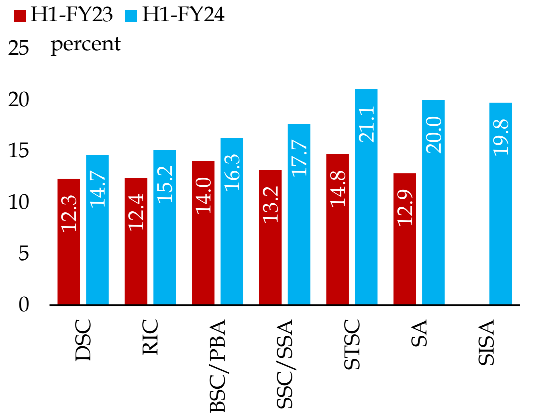
[38] As most of the outstanding debt in sukuks is concentrated in 5-Year VRR, decrease in policy rate will lead to reduced profit payments on Sukuks.

Flows in NSS (Net of Prize Bonds) **Figure 4.14**



Source: Central Directorate of National Savings

Average Profit Rates on NSS Instruments **Figure 4.15**



Source: Central Directorate of National Savings

Nonetheless, there were lower net outflows from NSS – net of prize bonds—in H1-FY24 due to the introduction of new instruments, along with an increase in profit rates on existing, as well as new instruments (**Figure 4.14 and Figure 4.15**).[39] There were net inflows in Behbood Saving Certificates (BSC), Short-term Saving Certificates (STSC), Saving Accounts (SA) and Pensioners' Benefit Account (PBA). However, there were net outflows from Defense Saving Certificates (DSC), Regular Income Certificates (RIC), Special Saving Accounts (SSA) and Special Saving Certificates (SSC) because these instruments offered lower interest rates compared to others. This led to overall net outflows from NSS.

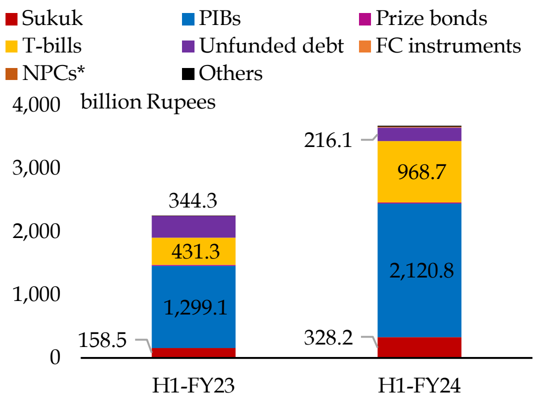
To facilitate investors further, the government digitized all national saving schemes in Q1-FY24. Another initiative was raising debt through Capital Markets Institutions (including Pakistan Stock Exchange (PSX), Central Depository Company (CDC) and NCCPL, to diversify investors' base during the first half of FY24.[40] Under this initiative, the government carried out its first auction of fixed-rate 1-year Ijara Sukuk on PSX in December 2023 with a target of Rs 30 billion. The market showed keen interest by offering Rs 478 billion, with non-banks contributing about 90 percent.[41] Going forward, the PSX platform can attract non-banks' investment in government securities. Nevertheless, raising debt through capital market can be more effective if primary dealers in government securities auctions are barred from bidding on PSX platform.

Interest/profit payments on domestic debt

Domestic interest/profit payments rose by 63.2 percent during H1-FY24.[42] The

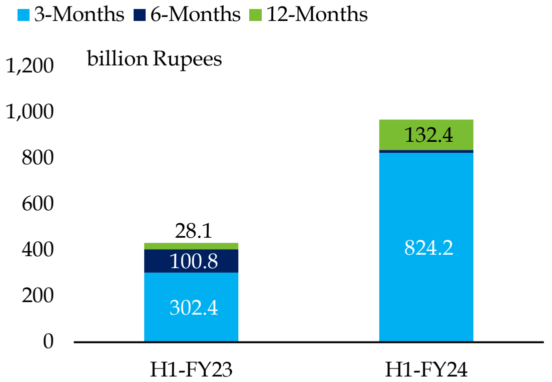
[39] The government introduced Shariah-complaint instruments: Sarwa Islamic Savings Accounts (SISA) and Sarwa Islamic Term Accounts (SITA) in Q4-FY23. During H1-FY24, most of the net inflows resulted from SISA.
[40] This is based on public debt issuance guideline for Annual Borrowing Plan FY24.
[41] Source: Annual borrowing Plan FY24, Debt Management Office, Finance Division, Government of Pakistan
[42] The government paid around Rs 3.9 trillion in the first half of FY24 compared to Rs 2.3 trillion in H1-FY23.

Interest Payments on Domestic Debt Figure 4.16a



*residents only
Source: State Bank of Pakistan

Interest Payments on T-bills Figure 4.16b



upsurge mainly emanated from PIBs, GoP Ijara Sukuks and 3-month T-bills, on the back of higher stock and increased interest rates (**Figures 4.16a & 4.16b**). However, interest payments on NSS decreased significantly due to lower stock amid continuous net outflows (**Figure 4.16c**).

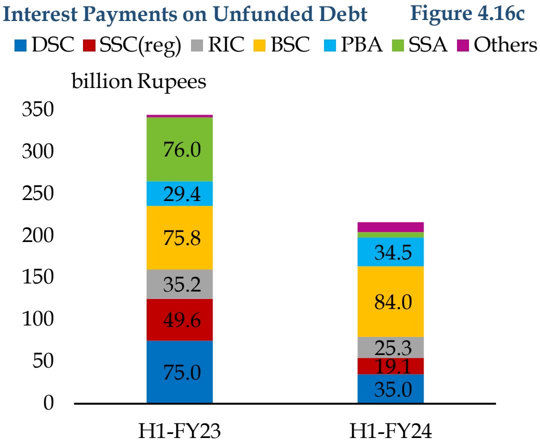
4.6 Public External Debt & Liabilities

The outstanding stock of public external debt increased by US$ 3.7 billion during H1-FY24, compared to a decline in the same period last year (**Table 4.9**). Higher external financing, as well as depreciation of the US Dollar against other international currencies, contributed to addition in public external debt.

Most of the external loan was from bilateral and multilateral sources, following the IMF's SBA program. The major inflows originated from friendly countries, especially Saudi Arabia and the UAE, followed by multilateral sources and the IMF. The deposits of US$ 1.0 billion from the UAE, however, became part of the foreign exchange liabilities.[43]

After the Staff-Level Agreement (SLA) with the IMF on SBA in June 2023, the Fitch rating agency upgraded Pakistan's credit rating in July 2023.[44] This, along with

Interest Payments on Unfunded Debt Figure 4.16c



Source: State Bank of Pakistan

[43] Foreign exchange liabilities are not part of public external debt.
[44] The SLA required Pakistan to make commitments with friendly countries for more financing to meet its large external financing needs. This agreement took place after Saudi Arabia and the UAE committed to deposit US$ 3.0 billion.

Government's External Debt in H1 **Table 4.9**

million US$

	Stock		Flows		Share in Ext. Debt Stock (in percent)		Growth over June Stock (in percent)	
	Dec-22	Dec-23	FY23	FY24	Dec-22	Dec-23	FY23	FY24
Public External debt (1+2), *of which*	**86,564.8**	**87,761.8**	**-2,273.1**	**3,711.6**	**100.0**	**100.0**	**-2.6**	**4.4**
1. Government debt	**78,948.9**	**80,165.4**	**-2,992.1**	**3,239.3**	**91.2**	**91.3**	**-3.7**	**4.2**
i) Long term (>1 year), of which	**78,261.3**	**80,066.1**	**-2,330.6**	**3,300.3**	**90.4**	**91.2**	**-2.9**	**4.3**
Paris club	8,459.2	7,541.1	-772.5	-359.9	9.8	8.6	-8.4	-4.6
Multilateral	36,375.8	38,813.6	2,353.0	1,450.5	42.0	44.2	6.9	3.9
Other bilateral	18,034.8	19,644.1	-18.4	2,071.9	20.8	22.4	-0.1	11.8
Euro/Sukuk global bonds	7,800.0	7,800.0	-1,000.0	-	9.0	8.9	-11.4	-
Commercial loans/credits	6,894.1	5,611.3	-2,587.1	47.5	8.0	6.4	-27.3	0.9
Naya Pakistan Certificates (non-residents only)	657.7	628.3	-295.4	93.9	0.8	0.7	-31.0	17.6
ii) Short term (<1 year)	**687.6**	**99.3**	**-661.5**	**-61.0**	**0.8**	**0.1**	**-49.0**	**-38.1**
2. From IMF	**7,615.9**	**7,596.3**	**719.0**	**472.4**	**8.8**	**8.7**	**10.4**	**6.6**
i) Federal government	5,386.9	5,069.3	1,191.7	-299.8	6.2	5.8	28.4	-5.6
ii) Central bank	2,229.0	2,527.0	-472.7	772.2	2.6	2.9	-17.5	44.0
Foreign exchange liabilities, of which	**10,979.3**	**11,938.6**	**-155.0**	**1,107.5**	**12.7**	**13.6**	**-1.4**	**10.2**
Central bank deposits	2,700.0	3,700.0	-	1,000.0	3.1	4.2	-	37.0

Source: State Bank of Pakistan

disbursement of US$ 1.2 billion by the IMF in July 2023, paved the way for inflows from other multilateral sources.

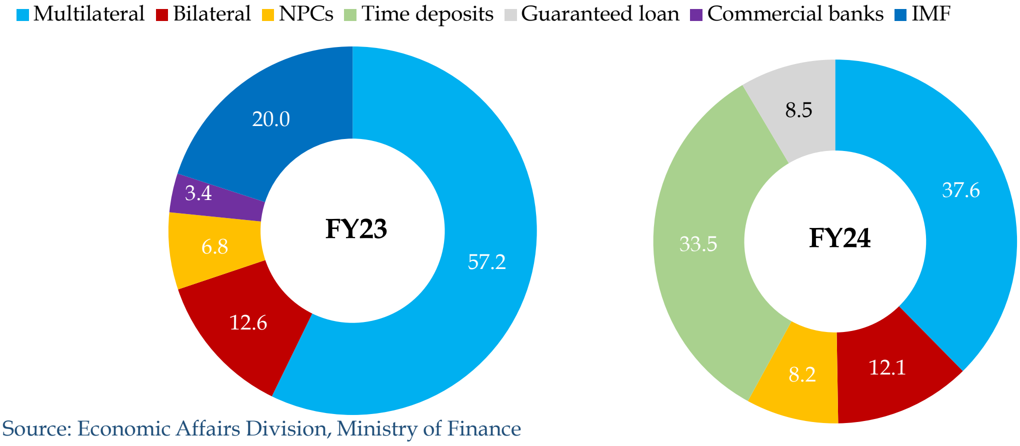
The improvement in external inflows, accompanied by decline in CAD, during the first quarter of FY24 led to decrease in Pakistan's risk premium during the first half of FY24. Consequently, the net inflows in loans/credit from commercial banks and NPCs (held by non-residents) increased in the first half. Rise in profit rates on NPCs in October 2023 also increased inflows in this category.

As per Economic Affairs Division (EAD) data, which only documents central government debt, more than one-third of the inflows were from multilateral institutions, primarily World Bank (WB), Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB) and Islamic Development Bank (IDB). Another one-third were time deposits. The remaining inflows included loans from friendly countries, particularly Saudi Arabia; guaranteed loan from China National Aero-Technology Import and Export Corporation (CATIC); and NPCs held by non-residents only (**Figure 4.17** & **Figure 4.18**).[45]

Unlike previous years, where more than half of the external financing was meant

[45] According to EAD's data, the GoP received gross external disbursements of around US$ 6.0 billion in the first half of FY24 compared to around US$ 5.8 billion during H1-FY23. The US$ 1.2 billion loan that is disbursed by the IMF and the US$ 1.0 billion deposits of the UAE government in the central bank were not reflected in EAD's data because these are reflected central bank balance sheet. The IMF's loan was for balance of payment purposes, whereas the deposits of the UAE government was given directly to the central bank.

Category-wise Share of Gross External Disbursements in H1 **Figure 4.17**



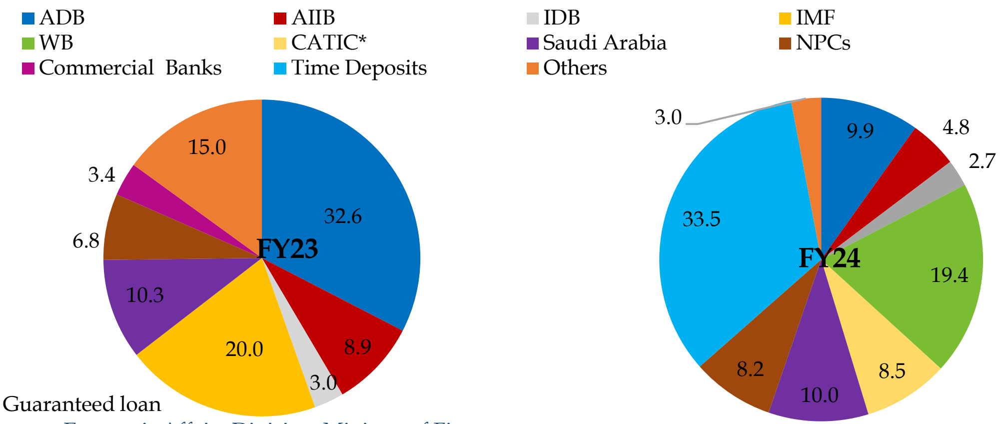
Source: Economic Affairs Division, Ministry of Finance

for program/budgetary support, this share decreased to below fifty percent in H1-FY24. Meanwhile, the share of project financing/aid nearly tripled to 44.3 percent during H1-FY24. Multinational institutions such as ADB and AIIB dominated funds for project financing, while the World Bank inched up its contribution to project aid (**Table 4.10**).

External Debt Servicing[46]

The external debt servicing declined during H1-FY24 on the back of lower scheduled principal repayments (**Table 4.11**). However, there was a rise in interest payments largely due to higher London Inter-Bank Offered Rate (LIBOR)/Secured Overnight Financing Rate (SOFR) in the first half of FY24.[47] With around 37 percent

Breakup of Gross External Disbursements during H1 **Figure 4.18**



* Guaranteed loan
Source: Economic Affairs Division, Ministry of Finance

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[46] External debt servicing includes both principal and interest payments.
[47] The average USD SOFR rose to 5.3 percent in H1-FY24 from around 3.0 percent during H1-FY23. Source: https://www.global-rates.com/en/interest-rates/sofr/historical/2023/

Gross External Disbursement and Utilization during H1 **Table 4.10**

million US$

	Project		Program/Budgetary Support		Others		Total	
	FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24
ADB	273.2	584.0	1,629.3	5.4	-	-	1,902.5	589.4
AIIB	21.4	287.0	500.0	-	-	-	521.4	287.0
IDB	16.3	60.0	-	-	161.0*	100.0*	177.3	160.0
IMF	-	-	1,166.2	-	-	-	1,166.2	-
WB	423.3	1,034.1	267.5	123.9	-	-	690.8	1,157.9
CATIC**	-	508.3	-	-	-	-	-	508.3
IFAD	14.0	17.7	21.5	5.4	-	-	35.5	23.1
China	54.9	42.2	-	-	-	-	54.9	42.2
Saudi Arabia	0.2	0.2	-	-	600.0***	595.2***	600.2	595.4
USA	14.0^	20.1^	-	5.0	-	-	14.0	25.1
Korea	18.5	12.4	-	-	-	-	18.5	12.4
NPCs	-	-	394.8	491.5	-	-	394.8	491.5
Commercial Banks	-	-	200.0	-	-	-	200.0	-
Time Deposits	-	-	-	2,000.0	-	-	-	2,000.0
Others	76.1	95.9	-	-	-	-	62.2	75.9
Total	**898.1**	**2,641.8**	**4,179.3**	**2,631.2**	**761.0**	**695.2**	**5,838.4**	**5,968.2**

Note: The total may vary due to round-off impact *Short-term credit **Guaranteed loan (China) ***Oil facility

Source: Economic Affairs Division, Ministry of Finance

of the external loans contracted on floating rate, the uptick in SOFR resulted in increased interest payments.[48]

Nonetheless, the mark-ups paid on international commercial loans, short-term multilateral debt and NPCs (held by non-residents only) declined during H1-FY24 due to reduction in stock of debt under these heads in FY23. Meanwhile, mark-up on Foreign Exchange Liabilities rose during the first half of FY24.

Public External Debt Servicing in H1 **Table 4.11**

million US$

	Total		Principal		Interest	
	FY23	FY24	FY23	FY24	FY23	FY24
1. Public external debt (a + b + c)	**8,908.8**	**5,537.4**	**7,512.2**	**3,701.4**	**1,396.6**	**1,836.1**
a. Long-term govt. debt, of which	**7,460.4**	**4,269.2**	**6,231.5**	**2,756.0**	**1,228.9**	**1,513.2**
Paris Club	621.4	685.5	520.9	603.2	100.5	82.3
Multilateral	1,112.0	1,443.9	823.5	896.1	288.6	547.8
Other Bilateral	802.1	1,254.4	554.6	857.8	247.5	396.5
Euro/Sukuk global bonds	1,319.4	291.3	1,000.0	-	319.4	291.3
Commercial loans /credits	2,960.3	173.7	2,722.4	-	237.9	173.7
NPCs	645.1	420.5	610.1	398.9	35.0	21.6
b. To the IMF	**623.2**	**1,088.3**	**480.1**	**784.3**	**143.2**	**304.0**
c. Short-term govt. debt	**825.2**	**179.9**	**800.7**	**161.0**	**24.5**	**18.9**
2. Foreign exchange liabilities	**111.3**	**152.6**	**-**	**-**	**111.3**	**152.6**

Source: State Bank of Pakistan

[48] This is based on end-June 2023 data. Source: Annual Debt Review & Public Debt Bulletin (FY2022-23), Ministry of Finance.