Punjab budget 2017-18: Punjab to raise funds from capital market

Provincial Finance Minister Ayesha Ghaus Pasha arrives at the Punjab Assembly building for the Punjab Budget Session 2017-18 on June 2 in Lahore.—INP

Punjab is expected to become the first province to directly borrow Rs25 billion from domestic debt markets by selling bonds, during the next financial year.

“The government plans to raise debt from the capital market through issuance of (provincial) government securities,” the budget documents for FY2017-2018 say.

The funds thus raised will be used to “enhance the size of the provincial annual development programme (of Rs635bn for the next fiscal year).

The provincial securities are to be issued with the help of the State Bank of Pakistan (SBP) and will be classified in two categories: Punjab Treasury Bills (PTBs), and Punjab Savings and Investment Bonds (PSIBs).

The provincial T-bills are discount instruments with maximum maturity of one year or less and bonds are coupon bearing fixed rate instruments with maturities of more than one year, the budget documents explain. The securities will be tradable in the secondary market, which will help discover and determine the market-based pricing of the Punjab government’s debt.

The float will help the provincial government diversify the maturity profile of its debt since these can be issued for a variety of tenor.

“(This) will have a positive impact on the repayment capacity and creditworthiness of the Punjab government,” the budget documents elaborate. “The issue will provide the provincial government access to potential lenders and investors like pension funds, provident funds, mutual funds, insurance companies, corporate treasuries, individuals, and so on in addition to domestic banks.”

The debt secured through the sale of provincial securities will form just less than four per cent of its planned development investment next year.

The Shahbaz Sharif government has decided to borrow a small portion of money required to increase the size of its development programme under a previous National Economic Council (NEC) permission to the provinces to borrow from the domestic debt market a total of 0.5pc of GDP (gross domestic product) according to the National Finance Commission (NFC) award formula.

The federal government last month raised the limit for procurement of domestic debt to 0.85pc of GDP as the provinces were demanding it be enhanced to 1pc of GDP. However, the new NEC decision is yet to be notified.

At present, Punjab's limit for domestic debt procurement is calculated to be Rs61.75bn.

The government also plans to launch municipal bonds at a later stage for raising money for investments and development at the district level as well.

"We had the option of borrowing from banks flushed with liquidity these days to raise the funds for our development programme in one go.

"But we are choosing to start a bond programme to develop a sub-national bond programme instead of direct borrowing from the banking system," a senior Punjab finance department official told Dawn after the announcement of the new budget.

He claimed that the debt thus raised will cost the provincial government less than bank borrowings.

Officials say the province plans to issue the debt in instalments every three months (rather than mopping it up in one go) to generate float and create a cycle to leverage for investment without burdening the budget with huge repayment demands. Besides, it will help the government keep the window open for emergency borrowing from the market.

The official said the finance department had already drafted a provincial law — Fiscal Debt Responsibility Law— which would soon be brought to the cabinet for approval. It restricts the use of domestic debt (raised through the sale of government papers or borrowings from banks) for investment and development purposes alone to boost sustainable economic growth.

“The federal government’s decision does not stop the provinces from using the funds raised from the domestic debt market for unproductive spending. But the passage of the provincial draft law will hopefully put certain restrictions on the mode of borrowing, quantum and use.”

It is unclear if the government intends to launch the bonds before the passage of the draft law.

“Unless you put restrictions on the use of the debt for productive investments and development projects, you will end up adding to the burden of debt on the provincial finances and taxpayers,” the official argued.

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