

Government of Pakistan
Finance Division

F. No. 14(2) Debt -II/2021 -945

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OFFICE ORDER

Buyback of government securities enables the issuer to retire a portion of its outstanding debt before its maturity. These transactions are categorized as liability management operations. Following benefits could be achieved through buybacks of government securities:

- It could enhance market liquidity by allowing the government to maintain regular issuance of new benchmark securities across the maturity spectrum;
- It can enhance government's ability to exert control over the maturity structure of the debt by selectively targeting the maturities of debt to be repurchased;
- These operations could also be used as a cash management tool, absorbing excess liquidity of the government during any particular period; and
- Government may occasionally be able to reduce the government's interest expense by purchasing "off-the-run" debt and replacing it with lower-yield "on-the-run" debt.

Objectives of GOP's Buyback Program

Internationally, Buyback programs aim to achieve a wide range of objectives for the issuer. The key objectives of GOP's buyback program include:

- Improve cash and liquidity management of the government as part of overall debt management;
- Enhance liquidity, create deep pockets in the longer end of the yield curve and across benchmark tenors, and eliminating illiquid and fragmented issues.

Eligibility Criteria

- Government will only consider buyback against those securities whose outstanding amounts would be less than 0.5 percent of last financial year's GDP;
- Securities with the remaining maturity of less than 2 years would be considered for the buyback;
- The weighted average yield of issues at the time of issuance must be lower or equal to the weighted average yields of the securities at the time of buyback.

Government will not bear any capital loss against such liability management operations.

Auction Criteria

- Buyback operations will be conducted through special auctions as and when decided by the government;
- Government will do buybacks through "Competitive Auction Method".
- Similar to regular auctions, SBP regulations and processes will be applied;
- The target of the Buyback auctions will be determined based on the objectives of the program and market conditions.


Muhammad Zaheer
Section Officer (Debt)

Distributions:

- i) PS to Secretary Finance, Finance Division
- ii) PS to AFS (EF), Finance Division
- iii) PS to AFS (B), Finance Division
- iv) PS to DG (Debt)
- v) Office Order File

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