

Govt borrowing from central bank jumps four-fold

KARACHI: The government borrowing from the central bank jumped by almost four times during the first seven months of the fiscal year (up to Jan 18) compared to the same period last fiscal year.

The State Bank of Pakistan (SBP) on Friday reported that the federal government borrowed Rs3.98 trillion during the period under review up from Rs1.05tr during the same period last fiscal year.

Government borrowing from the central bank, which rises and falls in a quarterly manner, is usually undertaken for routine liquidity management or to roll over older debt. Contrary to the trend, since August 2018, government's borrowings from the SBP have not fallen back to their former levels when the fiscal year began i.e. Rs3.67tr.

According to latest data released by the SBP, as of Jan 18, the total outstanding stock of government borrowing from the SBP stood at Rs7.65tr.

The spike in borrowing comes amid lack of interest by investors in government securities during recent auctions. Banks are reluctant to invest in government papers in expectations of higher interest rates. As a result, T-bill auctions have seen virtually no participation in tenors above three months, and the amount realised has been far below the prescribed target.

The last auction, held on Jan 16, saw a slight revival of interest in government papers as it fetched Rs280 billion against a target of Rs600bn. But all of this was concentrated in three-month tenors, revealing banking sector's expectations of further rate hikes in the coming monetary policy announcements.

Given low levels of interest by scheduled banks in government debt and low revenue collection, the government appears to be borrowing increasingly from the SBP to make up the shortfall.

The present government has so far retired Rs2.94tr of debt from scheduled banks in the ongoing fiscal year against a net retirement of Rs463bn in the same period last year.

The retirement has come on the back of banking sectors' unwillingness to roll over longer tenor papers as they wait for the interest rate tightening cycle to peak.

Both, the borrowing from the SBP and retiring the scheduled banks' debts is much higher than the last fiscal year. The debt retirement of the scheduled banks is six times higher than the amounts recorded during the same period last fiscal year. In FY18, the total government borrowing was at Rs1.226tr against total debt retirement of Rs107.9bn.

The borrowing from State Bank usually means more printing of notes and is considered highly inflationary.

Meanwhile, the SBP's latest data shows that private sector credit has almost doubled during the period from July, 2018 to Jan 18, 2019.

The private sector credit off take during this period was Rs506bn compared to Rs216bn in the previous fiscal.