

Our Correspondent

Govt borrowed only Rs3.44 trillion to finance budget deficit: ministry

ISLAMABAD: The Ministry of Finance on Tuesday explained that total debt and liabilities increased by Rs10.33 trillion in the last fiscal year, however, the government has just borrowed Rs3.44 trillion to finance its budget deficit.

In a statement issued here on Tuesday night, the Finance Ministry stated that the government has borrowed only Rs3.44 trillion to finance its budget deficit during FY 2018-19 while the figure of Rs11 trillion being reported in a section of the media as increase in Total Debt and Liabilities requires certain clarifications.

The MoF has maintained that Total Debt and Liabilities actually increased by Rs10.33 trillion (from Rs29.88 trillion to Rs40.21 trillion) during FY 2018-19. It is useful to analyse the growth in each of the five distinct components of the overall debt and liabilities figure.

First, the Total Public Debt increased by Rs7.75 trillion during FY 2018-19, out of which (a) Rs3.44 trillion (44%) was borrowed for meeting the budget deficit; (b) Rs3.03 trillion (39%) was due to currency depreciation; (c) Rs1.02 trillion (13%) is offset by higher cash balances necessary for effective cash management as the government is committed to zero borrowing from State Bank of Pakistan (SBP) in future; and (d) Rs0.26 trillion (3%) is difference between face value (which is used for recording of debt) and the realized value (which is recorded as budgetary receipt) of Pakistan Investment Bonds (PIB) issued during the year.

Second, Foreign Exchange Liabilities of State Bank of Pakistan (SBP) increased by Rs1.09 trillion. These liabilities arise due to foreign currency deposits placed by different countries and institutions with the SBP. The increase was largely (Rs0.73 trillion or 67%) due to increase in foreign currency deposits, a positive development, and partly (Rs0.36 trillion or 33%) due to currency depreciation.

Third, Public Sector Entities (PSE) Debt increased by Rs0.65 trillion. PSEs borrow in line with their business plans. The increase was largely (Rs0.50 trillion or 77%) due to additional borrowings and partly (Rs0.15 trillion or 23%) due to currency depreciation.

Fourth, Debt for Commodity Operations decreased by Rs0.06 trillion which is also positive. Finally, private sector's external debt increased by Rs0.9 trillion. This is not the government's liability and is included in Total Debt and Liabilities because of its implications for foreign exchange reserves. The increase was largely (Rs0.75 trillion or 83%) due to currency depreciation and partly (Rs0.15 trillion or 17%) due to additional borrowings.

In view of the above, out of the total increase of Rs10.33 trillion in Total Debt and Liabilities, only Rs3.44 trillion (33%) has been spent on financing of fiscal deficit and Rs0.5 trillion (5%) has been borrowed by PSEs for spending on their financing needs. Retirement of Rs0.06 trillion (-1%) is a welcome development, whereas increase of Rs0.26 trillion (3%) is due to accounting policy relating to long-term bonds.

Increase of Rs4.27 trillion (41%) is due to currency depreciation which is a consequence of the wrong exchange rate, industrial, and trade policies of the previous government that led to large and unsustainable current account deficits and ultimately to sharp exchange rate adjustment.

Increases to the extent of Rs1.02 trillion (10%) in government's cash balances and Rs0.73 trillion (7%) in SBP's foreign exchange liabilities should not be interpreted as debt because these are offset by cash balances of government and liquid assets of SBP. Additional borrowing of Rs0.15 trillion (2%) by private sector from external sources is a healthy sign indicating private sector's capacity to borrow from abroad for local investments, the statement concluded.