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Unchanged discount rate: SBP decision to play havoc with budget deficit, says expert

ISLAMABAD: The State Bank of Pakistan's decision to keep discount rate unchanged at 13.25 percent will play havoc with the budget deficit as one percent policy rate exceeds deficit to the tune of Rs130 billion on per annum basis.

The Ministry of Finance has estimated that the one percent hike in policy rate translates into increasing budget deficit to the tune of Rs130 billion on annual bases. "When real interest rate stands at 8 percent what is the justification to keep policy rate unchanged at 13.25 percent," said top official sources while talking to The News here on Monday.

Former Secretary Finance and renowned economist Dr Waqar Masood on Monday wondered on the policy rate being unchanged at 13.25 percent by the State Bank of Pakistan and said that this persistent policy would severely impact possibility of revival plan of the economy and it would also negatively hit the budget deficit estimates of the country.

He was of the view that one could only be amazed that why higher interest rate would continue for four months period persistently without having any economic justification and there was need to analyse heavy cost incurred to the national economy because of this flawed policy.

On other hand, the debt owed by central government ballooned by Rs1.23 trillion in first month (July 2019) in order to create buffer stocks, however, Adviser to PM on Finance Dr Abdul Hafeez Shaikh took stance that net addition in debt was just Rs26 billion mainly because of windfall gains of overvaluation of exchange rate.

The Adviser to PM on Finance had stated in his press briefing on Sunday that the budget deficit stood at Rs276 billion but the net addition in government's borrowing was just standing at Rs26 billion. The average exchange rate slashed down from Rs163 against US dollar to Rs159.7 a dollar so the overvaluation of exchange rate provided benefits to the tune of Rs250 billion.

The PTI led government raised over Rs2 trillion debt in last two months (June and July 2019) as first buffer of over Rs1 trillion was made part of the budget deficit of the last fiscal year 2018-19 while another over Rs1 trillion was raised in July 2019 through treasury bills (TBs) to create buffer stocks to finance the deficit in the current fiscal year as and when required. "After slapping ban on borrowing from the State Bank of Pakistan (SBP), the government raised over Rs1 trillion to create buffer stocks in order to finance the budget deficit," top official sources confirmed to The News here on Monday.

The official sources said that there was no need to analyse debt situation on monthly basis because the government abandoned borrowing from the central bank and the debt maturity on short term basis would be done through created buffer stocks. He said the government borrowed over Rs2 billion through T bills but also retired the same amount in August 2019. "There is need to analyse debt situation on annual basis as the surge in debt stocks will almost be equivalent to the requirement of financing the budget deficit by end of the fiscal year", he added.

In coming October, the official said that the government would have to arrange maturity of short term debt to the tune of Rs2.2 trillion. In order to avoid dictation of the banks, the government would continue with the policy of buffer stocks and gradually the raised money through auction of T bills would be reduced in the range of Rs500 to 700 billion.