

**Borrowing from SBP reaches historic high**

ISLAMABAD: The Khan administration's borrowing from the State Bank of Pakistan has reached a historic high – Rs 3.8 trillion during the last five months while previously no government had exceeded Rs 3.4 trillion.

Informed sources told Business Recorder that this heavy reliance on borrowing from the SBP will have serious implication on its projected non tax revenue in the current fiscal year. Sources further stated that the difference between the present and previous administrations was that while the latter relied heavily on external borrowing from commercial banks (around \$ 7 billion), issuance of Eurobonds/sukuk bonds (total of around \$7 billion with \$ 1 billion maturing in the current year onwards) and traditional borrowing from multilaterals to maintain exchange rate a particular level the incumbent government is also relying heavily on borrowing from the SBP.

The present government inherited a much higher external deficit and consequently higher financing needs compared to lower external account deficit and lower financing needs in fiscal year 2013-14. And as a result of massive external borrowing by the previous government net inflows have been negative during the past five months.

Sources in the Ministry of Finance stated that the Khan administration has borrowed: (i) Rs 3.8 trillion from SBP primarily because banks were not ready to lend as they anticipated a further increase in the discount rate. This accounts for the addition of short term maturity of domestic debt increasing from 48 percent to 58 percent; and (ii) the increase in the discount rate has increased debt servicing by Rs 500 billion in the current fiscal year, which means more financing is required to finance the deficit. These two measures have added Rs 2 trillion to the debt.

The depreciation of the rupee has impacted negatively on the external debt liabilities as depreciation of one rupee adds Rs 100 billion to external debt liability, sources stated.

No serious effort to broaden the tax base to deal with the debt is yet evident, analysts told Business Recorder.

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