

Govt mops up Rs275bn through MTBs

KARACHI: The federal government Wednesday raised some Rs 275 billion through the auction for short-term government papers.

Analysts said that banks have aggressively participated in the MTBs auction to park their liquidity at higher rates as the monetary policy is due this month to review the interest rate for next two months.

The State Bank of Pakistan (SBP), on January 15, 2020, conducted the auction for the sale of 3-month, 6-month and 12-month Market Treasury Bills (MTBs) and received bids amounting to Rs 1.113 trillion with a realized amount of Rs 1.051 trillion. Bids worth Rs 695.421 billion were received for 3-month T-bills, Rs 148.097 billion for 6-month while 12-month T-bills fetched bids amounting to Rs 269.434 billion. The federal government borrowed some Rs 274.764 billion (with a realized amount Rs 258.805 billion) through the auction for MTBs held Wednesday against the target of Rs 400 billion set for this auction.

Bids amounting to Rs 170.385 billion were accepted for 3-month at 13.4694 percent, down 2 basis points. Some Rs 22.347 billion were borrowed at 13.2890 percent against 6-month MTBs and bids amounted to Rs 82.032 billion were accepted against the sale of 12-month T-bills at 13.1340 percent. Total acceptance in the auction inclusive of Non-Competitive bids was Rs 327.104 billion.

Within the banking system, a clear shift was observed in the source of the budgetary financing during this fiscal year. Unlike last year, when the government had borrowed heavily from the State Bank to retire commercial bank debt, this year it has borrowed heavily from commercial banks to retire the SBP debt.

This shift was due to the IMF condition for bailout program. Under the Extended Fund Facility (EFF) program of the IMF, Pakistan had committed not to borrow from the SBP to finance its deficit. This commitment was limited not just to achieving zero quarterly borrowings, but also to refrain from rolling over the maturing SBP debt.

In addition, the commercial banks are also desire to invest in government papers due to higher interest rate followed by tight monetary policy.

The higher margins of government securities have also attracted massive foreign investment. According to SBP, foreign investment in T-bills in cumulative net inflows Special Convertible Rupee Accounts (SCRA) has surged to \$1.7 billion during this year from July 1, to January 15, 2020.