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T-bills attract largest single-day foreign inflow of $536.1 million

KARACHI: Foreigners snapped up a record $536.1 million, largest single-day inflow ever on January 16, in Pakistan's short-term government securities in an auction, the central bank data showed on Friday, as government bonds drew strong investor interest because of high interest rate.

The State Bank of Pakistan (SBP) data showed that foreign investment in the debt securities, T-bills and Pakistan Investment Bonds, reached $2.26 billion so far during the current fiscal year of 2020.

"The main story is foreigners are lapping up government short-term securities because of the wider interest rate spreads that are offered compared with global rates," an analyst said. "That trend should continue, given that the central bank is expected to keep rate stable at least in the current quarter."

A bulk of investments in the T-bills and PIBs came from investors in the United Kingdom and the United States. Investment from the United Kingdom in T-bills clocked in at $1.38 billion followed by the US with $805 million.

Analysts said the tightened monetary policy, sustainability of a market-based exchange rate system, continued improvement in the country's reserves buffers and implementation of the IMF programme have resulted in the strong recovery in appetite from foreign investors in debt securities.

"We see these flows continuing in the near future as we see interest rates holding at current levels due to inflationary pressures that persist and while exchange expected to remain firm," analyst Shahab Farooq at Next Capital said. Pakistan's short-term securities offer yields of approximately 13 percent, while, interest rates are negative globally. The SBP kept its policy rate unchanged at 13.25 percent in November. Analysts expect the hot money inflows to reach $3 billion in the current fiscal year of 2019/20.

"Concerns about significant outflow of this money are overplayed as interest rates are not expected to soften in 2020," an analyst said. "The SBP wants to lure foreign investors by offering high interest rates to build up its foreign currency reserves."

The central bank, in its last few statements, however clarified that the investment in the debt securities accounts for less than one-fifth of the increase in SBP's net reserve buffers at current levels and the bulk of the increase in the net reserve buffers is accounted for by the continued current account improvement.

The bank also said interest rates have been higher in the past—for example interest rates were around 13.75 percent on average in FY11—but our debt markets did not attract interest from international investors. The government has amended Income Tax Ordinance, 2001 to simply the tax structure and process for non-resident investing in debt instruments and government securities, which would help deepen the capital market, generate greater interest in the longer-dated government securities, and reduce the cost of debt for the government.