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As interest rates rose in FY20, money poured into govt securities: SBP data

KARACHI: The deposits of banks increased by 12 per cent year-on-year basis while their total investments — mainly in government securities — jumped 40pc during the outgoing fiscal year, reported the State Bank of Pakistan on Tuesday.

The total deposits of banks rose by 12.2pc to Rs16.229 trillion by June end, compared to Rs14.458tr in same period last — an increase of 1.771tr. Overall money supply of the country increased by almost 16pc in FY20, compared to 11.3pc last year. But private sector lending remained severely depressed throughout the year as advances grew at a meagre 1.2pc in the same period.

Another report of the State Bank showed that the investment in the government papers reached record high as it crossed the mark of Rs11tr.

Bank investments jumped 40pc as advances crept up by 1.2pc

Data breakdown showed that scheduled banks invested Rs7.888tr into government papers while non-bank entities and corporates collectively put in Rs3.5tr.

The T-bills attracted Rs6.052tr while investment in PIBs till June 30 was Rs5.27tr. The government papers were highly lucrative before March as the returns were over 12.5pc but with the emergence of Covid-19, the SBP began a series of policy rate cuts – slashing it by a cumulative 625 basis points to 7pc.

The total investment of scheduled banks jumped by 40pc during a year as it reached Rs10.681tr till June, increasing by Rs3.057tr over Rs7.624tr in same period last year. Most of this money went into the government securities.

Even before the emergence of Covid-19, domestic trades and industry wasn't borrowing much from banks mainly on account of the high interest rate of 13pc, and now it has taken a further hit.

"On the other hand, banks remained reluctant to fresh lending. Despite various initiatives such as space in capital requirements, increase in borrowing limits and extension in regulatory credit limits announced by the SBP overall loan growth remained flat during the last quarter of the FY20," said a report of JS Research on Tuesday.