Inefficient private sector lives off taxpayers' money: ex-SBP governor

Kazim Alam

KARACHI: Former central bank governor Syed Salim Raza came out on Monday with all guns blazing against the subsidy-guzzling private sector that survives on taxpayer money despite massive inefficiencies.

Addressing a seminar held by the Pakistan Institute of Development Economics, the former governor of the State Bank of Pakistan (SBP) said the government has taken a step back from economic planning in the last few decades, which has resulted in an inefficient private sector and "pockets of industrialisation with big gaps".

"Our entire private sector lives off massive subsidies," said Mr Raza who led the SBP from 2009 to 2010.

He also criticised the widely celebrated Temporary Economic Refinancing Facility (TERF), a long-term subsidy scheme for the import of machinery launched during the pandemic.

Advises govt to borrow from mutual funds instead of banks

"It's a 10 per cent subsidy. And a bulk of (Rs500 billion) has gone into textile plants. More into spinning, a little less into weaving. So we're back to yarn and cloth. It hasn't gone into garments... into anything that can give an edge to our textile so they can compete against the rest of the world. Was this useful? What are we going to do with big businesses, which have such an influence on how policies are made?"

Mr Raza spoke at length about the problem of domestic debt, which has become a "serious choke" on the government's capacity to spend. Growing debt repayments result in a higher fiscal deficit and clog up the balance sheets of commercial banks, he said.

"About 80pc of government borrowing is through banks, which is an astronomical figure compared to other emerging markets. More than 45pc would be very rare anywhere else," he said.

As much as 54pc of loanable assets of banks are now invested in government securities, he said. This is in addition to about 12-15pc of lending by banks that's government-guaranteed, leaving about 33pc for the rest of the market, he said.

"Because the government is so depended on banks, it pays a premium to borrow from them... This is absurd. This is illogical. Does the government bail out banks or do the banks bail out the government? It should be the other way around," he said.

The solution to this structural problem, in Mr Raza's view, is for the government to ditch banks and start borrowing from mutual funds. “Create domestic mutual funds, get bank depositors move out of low-paying time deposits to high-paying treasury bills through fund managers. Those fund managers can be government. NIT [National Investment Trust] can become one of those,” he said, drawing the government’s attention to the “enormous amounts of money” that it can mobilise out of banks and into its own mutual funds.

It will bring down the government’s borrowing rates and raise the ones that banks pay to depositors. The government will emerge as the benchmark against which all interest rates will be marked up, he said.

“This happens all over the world. There is more US government security paper held in money market funds — 10 times more — than held by banks. It is the total reverse here,” he said.

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