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Government Borrowing Soars to Record Levels

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Pakistan's commercial banks have pushed lending to the government to an unprecedented 103% of total deposits, starving the private sector of credit, according to recent data. This article explores the implications of this trend, its impact on economic growth, and the urgent need for reforms to prioritize private enterprise.

In June 2025, the Investment-to-Deposit Ratio (IDR) hit 103%, surpassing total deposits of Rs35.5 trillion, as banks funneled funds into risk-free government securities, per The Express Tribune. This surge, up 608 basis points year-on-year, reflects banks' preference for safe government paper over private sector loans, which grew only 8.7% to Rs13.5 trillion. The Advance-to-Deposit Ratio (ADR) fell to 38.1%, signaling a sharp decline in private credit, per Arif Habib Limited (AHL). "Banks are prioritizing government lending due to its safety," said AHL economist Ali Najib, noting the private sector's struggle amid high inflation and a 22% policy rate.

The State Bank of Pakistan (SBP) has injected Rs14 trillion into banks through Open Market Operations (OMOs), enabling this lending spree. This creates a cycle where banks profit risk-free while the government avoids direct SBP borrowing, banned by the International Monetary Fund (IMF) since 2019 to curb inflation. However, this crowds out private businesses, stifling innovation and job creation. "The private sector is the real engine of growth, yet it's being choked," warned Sana Tawfik of AHL, highlighting the economic distortion caused by government reliance on bank funds.

With interest payments projected to exceed Rs8 trillion this fiscal year, Pakistan's fiscal health is precarious. A one-point rate hike adds Rs200-250 billion in costs, per The Express Tribune. While banks benefit, the broader economy suffers as businesses face credit shortages, hindering expansion. The government's failure to address structural issues, like energy sector debt, exacerbates the crisis. Pakistan must shift toward policies that incentivize private lending and reduce fiscal deficits to foster sustainable growth, lest this borrowing binge undermine long-term economic stability.