

Money, Prices & Fiscal Policy Section
Ministry of Planning, Development & Special Initiatives

**Review of
Monetary Developments**

October FY2020-21

Broad money (M2) expanded by Rs.76.132 billion (0.36% growth) during 1st July 2020 to 30th Oct 2020 as compared to its expansion of Rs.115.357 billion (0.65%) during the corresponding period of last year.

Net Foreign Assets (NFA) of the banking system expanded by Rs.314.749 billion during the period under review as compared to their expansion of Rs.295.705 billion during the corresponding period of last year. Net Domestic Assets (NDA) of the banking system contracted by Rs.238.618 billion as compared to their contraction of Rs.180.348 billion during the corresponding period of last year. Currency in circulation contracted by Rs.18.342 billion as compared to its expansion of Rs.359.416 billion during the corresponding period of last year.

Provisional data on monetary aggregates is given in the table below:

Overview (During 01-07-2020 to 30-10-2020)

- Broad money expanded by 0.36% as compared to its expansion of 0.65% during the corresponding period of last year.
- NFA expanded by Rs.314.749 billion as compared to their expansion of Rs.295.705 billion during the corresponding period of last year.
- NDA contracted by Rs.238.618 billion as compared to its contraction of Rs.180.348 billion during the corresponding period of last year.
- Credit to private sector declined by Rs. 49.364 billion as compared to its contraction of Rs. 6.569 billion last year.
- For budgetary financing, government net retirement to SBP was Rs. 215.905 billion as compared to its contraction of Rs. 57.336 billion last year.
- For budgetary support, Govt. borrowed from scheduled banks to Rs. 429.491 billion as compared to Rs.338.991 billion were borrowed last year.

Monetary Aggregates (Rs. Billion)			
Factors Affecting Broad Money (M2) Growth	Stocks at End Jun-2020 ^P	Monetary Impact since 1 st July to	
		30-Oct-20	01-Nov-19
A. Net Foreign Assets (NFA) of the Banking System	-514.920	314.749	295.705
<i>Growth</i>		-56.15%	-15.49%
B. Net Domestic Assets of the Banking System (1+2+3)	21,422.7	-238.618	-180.348
<i>Growth</i>		-1.11%	-0.93%
1. Net Government Sector Borrowing (a+b+c)	14,565.4	142.785	296.417
a. Borrowings for Budgetary Support	13,766.5	213.586	331.655
i. From SBP	6,557.0	-215.905	-57.336
ii. From Scheduled Banks	7,209.5	429.491	388.991
b. Commodity Operations	813.4	-71.897	-37.093
c. Others	-14.5	1.096	1.855
2. Credit to Non-Government Sector (a+b+c+d)	8,368.0	-52.217	0.822
a. Credit to Private Sector	6,862.8	-49.364	-6.569
b. Credit to Public Sector Enterprises (PSEs)	1,490.5	-15.266	7.169
c. PSE Special Account-Debt Repayment with SBP	-24.2	0	0
d. Credit to Non-Banking Financial Institutions (NBFIs)	38.9	12.414	0.222
3. Other Items (Net)	-1,510.7	-329.185	-477.586
Broad Money (M2) (A+B)	20,907.8	76.132	115.357
<i>Growth</i>		0.36%	0.65%
Source: State Bank of Pakistan			

Analysis of Factors Affecting Broad Money (M2)

Volume of money supply or liquidity in the banking system is generated by changes in NFA and NDA. NFA shows whether a country is a creditor or debtor nation by measuring its external assets and liabilities. In other words, it depicts cumulative change in its current account balance. The expansion in NFA of the banking system indicates improvement in external sector as current account balance stood at US\$ 1,162 million during Jul-Oct FY20 as compared to US\$ -1,419 million during last year of the corresponding period. Trade deficit decreased to US\$ 226 million from US\$ -7,759 million in FY July-Oct 2019 to US - 7,533 million in FY July-Oct 2020.

NDA of the banking system consists broadly of (i) government sector borrowings, (ii) credit to non-government sector, and (iii) other items. Under these heads, contraction was registered for government sector borrowings, credit to non-government sector and in other items. For budgetary support, net government sector borrowings from the banking system stood at Rs. 213.586 billion during July-Oct, 2020. Government retired Rs. 215.905 billion to SBP and borrowed Rs. 429.491 billion from scheduled banks. Last year, during this period government net borrowing was Rs. 296.417 billion. Government retired Rs 57.336 billion to SBP and borrowed Rs. 388.991 billion from commercial banks. Under commodity operations, government retired Rs. 71.897 billion to the banking system as compared to retirement of Rs. 37.093 billion during the corresponding period of last year.

Credit to Private sector contracted by Rs. 49.364 billion during July-Oct 2020 compared with last year contraction of Rs 6.569 billion. Stock of Loans to Private Sector Business during June 2020 and September 2020 and their variation are shown in the following table; Loans to Agriculture, forestry and fishing, Wholesale and retail trade and Electricity, gas, steam and air conditioning supply Construction and Transportation & Storage etc. have increased while loans to Manufacturing, Mining and Quarrying, etc. have declined.

Loan to Private Sector (Business)

	(Million Rupees)		
	June-20	Sept-20 ^P	Difference
PRIVATE SECTOR (BUSINESS)	5,270,749	5,169,800	-100,949
Agriculture, forestry and fishing	280,216	283,912	3,696
Mining and quarrying	82,989	79,663	-3,326
Manufacturing	3,291,451	3,134,015	-157,436
Electricity, gas, steam and air conditioning supply	491,843	501,374	9,531
Construction	126,166	132,792	6,626
Wholesale and retail trade; repair of motor vehicles and motorcycles	429,557	447,133	17,576
Transportation and storage	119,515	121,310	1,795
Information and communication	159,188	162,972	3,784

Credit to public sector Enterprises (PSEs) contracted by Rs. 15.266 billion during July-Oct, 2020 as compared to its expansion of Rs. 7.169 billion during the same period of last year. Credit provision to Non-Banking Financial Institutions (NBFIs) increased by Rs. 12.414 billion as compared to last year's credit expansion of Rs. 0.222 billion during the same period of last year.

Conclusion

During July-Oct 2020 debt retirements usually take place under NDA, the contraction of NDA on account of debt retirements stood lesser than the expansion of NFA and resulted in positive growth of broad money. An expansion of M2 will take place in the coming months as there is no change in policy rate i.e. 7% since June FY20. Inflation as measured by CPI (national) during October registered at 8.9 percent (YoY) as compared to an increase of 9.0% in the previous month and 11.0 percent during the same month last year. Policy rate is determined on the basis of core inflation (non food - non energy) which is 5.6% and less than the policy rate. At the same time, the forecast for inflation has risen slightly, primarily due to recent supply side shocks to food prices. Average inflation is now expected to remain below 10 percent during FY21. Government in consultation with all stakeholders is proactively taking measures to control the general price level of daily use items at country level.