

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

**Review of
Monetary Developments**

November FY2020-21

Broad money (M2) expanded by Rs.377.28 billion (1.80% growth) during 1st July 2020 to 4th Dec 2020 as compared to its expansion of Rs.338.37 billion (1.90%) during the corresponding period of last year.

Net Foreign Assets (NFA) of the banking system expanded by Rs.519.24 billion during the period under review as compared to their expansion of Rs.432.68 billion during the corresponding period of last year. Net Domestic Assets (NDA) of the banking system contracted by Rs.141.97 billion as compared to their contraction of Rs.94.31 billion during the corresponding period of last year. Currency in circulation expanded by Rs.163.09 billion as compared to its expansion of Rs.485.07 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 04-11-2020)

- Broad money expanded by 1.80% as compared to its expansion of 1.90% during the corresponding period of last year.
- Net Foreign Assets (NFA) of the banking system expanded by Rs.519.24 billion during the period under review as compared to their expansion of Rs.432.68 billion during the corresponding period of last year.
- NDA contracted by Rs. 141.97 billion as compared to its contraction of Rs.94.31 billion during the corresponding period of last year.
- Credit to private sector declined by Rs.14.979 billion as compared to its expansion of Rs.79.22 billion last year.
- For budgetary financing, government net retirement to SBP was Rs. 325.268 billion as compared to its expansion of Rs. 7.990 billion in last year.
- For budgetary support, Govt. borrowed from scheduled banks to Rs. 576.378 billion as compared to Rs.487.812 billion were borrowed last year in the same period.

Monetary Aggregates (Rs. Billion)			
Factors Affecting Broad Money (M2) Growth	Stocks at End Jun-2020 ^p	Monetary Impact since 1 st July to	
		04-Dec-20	06-Dec-19
A. Net Foreign Assets (NFA) of the Banking System	-517.834	519.244	432.679
<i>Growth</i>			
B. Net Domestic Assets of the Banking System (1+2+3)	21,425.8	-141.968	-94.311
<i>Growth</i>		<i>-0.66%</i>	<i>-0.49%</i>
1. Net Government Sector Borrowing (a+b+c)	14,547.2	171.317	433.817
a. Borrowings for Budgetary Support	13,748.3	251.110	495.802
i. From SBP	6,538.8	-325.268	7.990
ii. From Scheduled Banks	7,209.5	576.378	487.812
b. Commodity Operations	813.4	-80.952	-63.321
c. Others	-14.5	1.160	1.337
2. Credit to Non-Government Sector (a+b+c+d)	8,372.4	-30.492	68.703
a. Credit to Private Sector	6,862.8	-14.979	79.220
b. Credit to Public Sector Enterprises (PSEs)	1,490.5	-18.398	-11.218
c. PSE Special Account-Debt Repayment with SBP	-24.2	0	0
d. Credit to Non-Banking Financial Institutions (NBFIs)	43.3	2.885	0.701
3. Other Items (Net)	-1,493.8	-282.974	-596.831
Broad Money (M2) (A+B)	20,908.0	377.276	338.368
<i>Growth</i>		<i>1.80%</i>	<i>1.90%</i>
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 increased to US\$ 46 million from US\$ -9,639 million in FY July-Nov 2019 to US -9,685 million in FY July-Nov 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. 251.110 billion during July-Nov, 2020. Government retired Rs. 325.268 billion to SBP and borrowed Rs. 576.378 billion from scheduled banks. Last year, during this period government net borrowing was Rs. 495.802 billion. Government borrowed Rs 7.990 billion from SBP and borrowed Rs. 487.812 billion from commercial banks. Under commodity operations, government retired Rs. 80.952 billion to the banking system as compared to retirement of Rs. 63.321 billion during the corresponding period of last year.

Credit to Private sector contracted by Rs. 14.979 billion during July-Nov 2020 compared with last year expansion of Rs 79.220 billion. Stock of Loans to Private Sector Business during June 2020 and October 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 etc. have increased while loans to Manufacturing, Mining and Quarrying and Transportation & Storage etc. have declined.

Loan to Private Sector (Business)

(Million
Rupees)

Description	June-20	Oct-20 ^P	Difference
PRIVATE SECTOR (BUSINESS)	5,270,749	5,189,207	-81,542
Agriculture, forestry and fishing	280,216	291,755	11,539
Mining and quarrying	82,989	73,450	-9,539
Manufacturing	3,291,451	3,141,257	-150,194
Electricity, gas, steam and air conditioning supply	491,843	508,951	17,108
Construction	126,166	138,103	11,937
Wholesale and retail trade; repair of motor...	429,557	449,012	19,455
Transportation and storage	119,515	117,690	-1,825
Information and communication	159,188	162,827	3,639

Credit to public sector Enterprises (PSEs) contracted by Rs. 18.398 billion during July-Nov, 2020 as compared to its contraction of Rs. 11.218 billion during the same period of last year. Credit provision to Non-Banking Financial Institutions (NBFIs) increased by Rs. 2.885 billion as compared to last year's credit expansion of Rs. 0.701 billion during the same period of last year.

Conclusion

During July-Nov 2020, Government net borrowing stood at Rs. 2521.1 billion as compared to borrowing of Rs. 495.8 billion during the same period. Last Government has adopted policy of borrowing from SBP and returned Rs. 325.3 billion to SBP. 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 after the improvement of COVID-19 as there is no change in policy rate i.e. 7% since June FY20. Inflation as measured by CPI (national) during November registered at 8.3 percent (YoY) as compared to an increase of 8.9% in the previous month and 12.7 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 tamed slightly, primarily due to recent improvement in the supply side & perishable commodities. Average inflation is now expected to remain between 7-9 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.
