

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

**Review of
Monetary Developments**

August FY2020-21

Broad money (M2) contracted by Rs. 162.42 billion (-0.78% growth) during 1st July 2020 to 28th August 2020 as compared to its contraction of Rs. 130.45 billion (-0.73%) during the corresponding period of last year.

Net Foreign Assets (NFA) of the banking system expanded by Rs. 325.96 billion during the period under review as compared to their expansion of Rs. 299.45 billion during the corresponding period of last year. Net Domestic Assets (NDA) of the banking system contracted by Rs. 488.39 billion as compared to their contraction of Rs. 429.90 billion during the corresponding period of last year. Currency in circulation expanded by Rs. 73.51 billion as compared to its expansion of Rs. 346.92 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 28-08-2020)

- Broad money contracted by -0.78% as compared to its contraction of -0.73% during the corresponding period of last year.
- NFA contracted by -63.30% as compared to its contraction of -19.87% during the corresponding period of last year.
- NDA contracted by -2.28% as compared to its contraction of -2.23% during the corresponding period of last year.
- Credit to private sector declined by Rs. 160.3 billion as compared to its contraction of Rs. 89.9 billion last year.
- For budgetary financing, government net retirement to SBP was Rs. 129.0 billion as compared to its expansion of Rs. 61.5 billion last year. Borrowed from scheduled banks amounted to Rs. 333.1 billion as compared to Rs.491.9 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	
		28-Aug-20	30-Aug-19
A. Net Foreign Assets (NFA) of the Banking System	-514.920	325.9	299.4
<i>Growth</i>		-63.30	-19.87%
B. Net Domestic Assets of the Banking System (1+2+3)	21,422.7	-488.4	-429.9
<i>Growth</i>		-2.28%	-2.23%
1. Net Government Sector Borrowing (a+b+c)	14,565.4	-160.1	48.7
a. Borrowings for Budgetary Support	13,766.5	-129.0	61.5
i. From SBP	6,557.0	-462.1	-430.4
ii. From Scheduled Banks	7,209.5	333.1	491.9
b. Commodity Operations	813.4	-30.4	-11.8
c. Others	-14.5	-0.60	-0.99
2. Credit to Non-Government Sector (a+b+c+d)	8,368.0	-160.9	-104.1
a. Credit to Private Sector	6,862.8	-160.3	-89.9
b. Credit to Public Sector Enterprises (PSEs)	1,490.5	-2.2	-14.5
c. PSE Special Account-Debt Repayment with SBP	-24.2	0	0
d. Credit to Non-Banking Financial Institutions (NBFIs)	38.9	1.5	0.27
3. Other Items (Net)	-1,510.7	-167.4	-374.4
Broad Money (M2) (A+B)	20,907.8	-162.4	-130.4
<i>Growth</i>		-0.78%	-0.73%
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\$ 424 million during Jul-Aug FY20 as compared to US\$ -613 million during last year of the corresponding period. Trade deficit decreased from US\$ -1,862 million in August 2019 to US -1,696 million in August 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. -129.06 billion during July-Aug, 2020. Government retired Rs. 462.1 billion to SBP and borrowed Rs. 333.1 billion from scheduled banks. Last year, during this period government net borrowing was Rs. 61.5 billion. Government retired Rs 430.4 billion to SBP and borrowed Rs.491.9 billion from commercial banks. Under commodity operations, government retired Rs. 30.4 billion to the banking system as compared to retirement of Rs. 11.8 billion during the corresponding period of last year.

Credit to Private sector contracted by Rs.160.3 billion during July-Aug 2020 compared with last year contraction of Rs 89.9 billion. Stock of Loans to Private Sector Business during July 2019 and July 2020 and their variation are shown in the following table; Loans to Manufacturing, Mining and Quarrying, Information and communication etc. have increased while loans to Agriculture, forestry and fishing, Wholesale and retail trade and Construction etc. have declined.

(Million Rs.)

	Stock July-19	Stock July-20 ^P	Variation
Loans to Private Sector Business	5,080,864	5,168,076	87,212
Agriculture, forestry and fishing	303,695	278,932	-24,763
Mining and quarrying	61,824	75,937	14,113
Manufacturing	3,087,167	3,202,495	115,328
Electricity, gas, steam and air conditioning supply	495,267	488,964	-6,303
Construction	134,412	126,202	-8,210
Wholesale and retail trade; repair of motor vehicles and motorcycles	451,471	420,629	-30,842
Transportation and storage	108,036	118,487	10,451
Information and communication	134,889	159,142	24,252

Credit to public sector Enterprises (PSEs) were contracted by Rs. 2.2 billion during July-Aug, 2020 as compared to their retirement of Rs. 14.6 billion during the same period of last year. Credit provision to Non-Banking Financial Institutions (NBFIs) increased by Rs. 1.5 billion as compared to last year's credit expanded by Rs. 0.27 billion during the same period of last year.

Conclusion

During July-Aug 2020 debt retirements usually take place under NDA, the contraction of NDA on account of debt retirements dominated the expansion of NFA and resulted in negative growth of broad money. A sharp expansion of M2 will take place in the coming months as the reduction in policy rate in last quarter of FY20 is expected to be work in desired direction. Inflation as measured by CPI (national) during August registered at 8.2 percent (YoY) as against 10.5 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. Therefore, there is need to keep the policy rate intact as the prevailing rate. Government in consultation with all stakeholders is proactively taking measures to control the general price level of daily use items at country level.