

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

**Review of
Monetary Developments**

Sept FY2020-21

Broad money (M2) expanded by Rs. 103.43 billion (0.49% growth) during 1st July 2020 to 02nd Oct 2020 as compared to its expansion of Rs. 28.66 billion (0.16%) during the corresponding period of last year.

Net Foreign Assets (NFA) of the banking system expanded by Rs. 289.14 billion during the period under review as compared to their expansion of Rs. 233.40 billion during the corresponding period of last year. Net Domestic Assets (NDA) of the banking system contracted by Rs. 185.70 billion as compared to their contraction of Rs. 204.73 billion during the corresponding period of last year. Currency in circulation contracted by Rs. 20.25 billion as compared to its expansion of Rs. 385.35 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 02-10-2020)

- Broad money expanded by 0.49% as compared to its expansion of 0.16% during the corresponding period of last year.
- NFA contracted by -56.15% as compared to its contraction of -15.49% during the corresponding period of last year.
- NDA contracted by -0.87% as compared to its contraction of -1.06% during the corresponding period of last year.
- Credit to private sector declined by Rs. 122.4 billion as compared to its contraction of Rs. 49.4 billion last year.
- For budgetary financing, government net retirement to SBP was Rs. 292.4 billion as compared to its contraction of Rs. 1,508.3 billion last year. Borrowed from scheduled banks amounted to Rs. 518.0 billion as compared to Rs.1,767.7 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	
		02-Oct-20	04-Oct-19
A. Net Foreign Assets (NFA) of the Banking System	-514.920	289.1	233.4
<i>Growth</i>		-56.15%	-15.49%
B. Net Domestic Assets of the Banking System (1+2+3)	21,422.7	-185.7	-204.7
<i>Growth</i>		-0.87%	-1.06%
1. Net Government Sector Borrowing (a+b+c)	14,565.4	163.1	233.4
a. Borrowings for Budgetary Support	13,766.5	225.6	259.5
i. From SBP	6,557.0	-292.4	-1,508.3
ii. From Scheduled Banks	7,209.5	518.0	1,767.7
b. Commodity Operations	813.4	-61.8	-25.1
c. Others	-14.5	-0.72	-0.94
2. Credit to Non-Government Sector (a+b+c+d)	8,368.0	-130.6	-63.9
a. Credit to Private Sector	6,862.8	-122.4	-89.9
b. Credit to Public Sector Enterprises (PSEs)	1,490.5	-12.5	-49.4
c. PSE Special Account-Debt Repayment with SBP	-24.2	0	0
d. Credit to Non-Banking Financial Institutions (NBFIs)	38.9	4.5	0.12
3. Other Items (Net)	-1,510.7	-218.2	-374.1
Broad Money (M2) (A+B)	20,907.8	-103.4	28.6
<i>Growth</i>		0.49%	0.16%
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\$ 805 million during Jul-Aug FY20 as compared to US\$ -1,214 million during last year of the corresponding period. Trade deficit increased from US\$ -2,001 million in Sept 2019 to US -2,391 million in Sept 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. 225.63 billion during July-Sept, 2020. Government retired Rs. 292.4 billion to SBP and borrowed Rs. 518.0 billion from scheduled banks. Last year, during this period government net borrowing was Rs. 259.4 billion. Government retired Rs 1,508.3 billion to SBP and borrowed Rs. 1,767.7 billion from commercial banks. Under commodity operations, government retired Rs. 61.8 billion to the banking system as compared to retirement of Rs. 25.1 billion during the corresponding period of last year.

Credit to Private sector contracted by Rs.122.4 billion during July-Sept 2020 compared with last year contraction of Rs 49.4 billion. Stock of Loans to Private Sector Business during June 2020 and August 2020 and their variation are shown in the following table; Loans to Wholesale and retail trade and Electricity, gas, steam and air conditioning supply etc. have increased while loans to Agriculture, forestry and fishing, Manufacturing, Mining and Quarrying, Construction and Transportation & Storage etc. have declined.

Loan to Private Sector (Business)

	(Million Rupees)		
	June-20	Aug-20 ^P	Difference
PRIVATE SECTOR (BUSINESS)	5,270,749	5,145,334	-125,415
Agriculture, forestry and fishing	280,216	279,651	-565
Mining and quarrying	82,989	73,272	-9,717
Manufacturing	3,291,451	3,150,923	-140,528
Electricity, gas, steam and air conditioning supply	491,843	498,674	6,830
Construction	126,166	113,556	-12,610
Wholesale and retail trade; repair of motor vehicles and motorcycles	429,557	445,606	16,048
Transportation and storage	119,515	118,265	-1,249

Credit to public sector Enterprises (PSEs) contracted by Rs. 12.6 billion during July-Sept, 2020 as compared to its retirement of Rs. 14.6 billion during the same period of last year. Credit provision to Non-Banking Financial Institutions (NBFIs) increased by Rs. 4.5 billion as compared to last year's credit expansion of Rs. 0.13 billion during the same period of last year.

Conclusion

During July-Sept 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 September registered at 9.0 percent (YoY) as against 11.4 percent during the same month last year. Policy rate is determined on the basis of core inflation (non food - non energy) which is 5.5% 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.