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

Review of Monetary Developments

January FY2020-21

Broad money (M2) expanded by Rs.726.68 billion (3.48% growth) during 1st July 2020 to 29th January 2021 as compared to its expansion of Rs.627.01 billion (3.52%) during the corresponding period of last year.

Net Foreign Assets (NFA) of the banking system expanded by Rs.595.45 billion during the period under review as compared to their expansion of Rs.1056.84 billion during the corresponding period of last year. Net Domestic Assets (NDA) of the banking system expanded by Rs.131.22 billion as compared to their contraction of Rs.429.83 billion during the corresponding period of last year. Currency in circulation expanded by Rs.222.14 billion as compared to its expansion of Rs.408.56 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 29-01-2021)

- Broad money expanded by 3.88% as compared to its expansion of 3.52% during the corresponding period of last year.
- Net Foreign Assets (NFA) of the banking system expanded by Rs.595.45 billion during the period under review as compared to their expansion of Rs.1056.84 billion during the corresponding period of last year.
- NDA expanded by Rs. 131.22 billion as compared to its contraction of Rs.429.83 billion during the corresponding period of last year.
- Credit to private sector extended by Rs.283.45 billion as compared to its expansion of Rs.174.838 billion in last year.
- For budgetary financing, government net retirement to SBP was Rs. 610.048 billion as compared to its contraction of Rs. 645.861 billion in last year.
- For budgetary support, Govt. borrowed from scheduled banks to Rs. 893.139 billion as compared to Rs.678.418 billion were

Monetary Aggregates (Rs. Billion)

Factors Affecting Broad Money (M2) Growth	Stocks at End Jun-2020^P	Monetary Impact since 1st July to	
		29-Jan-21	31-Jan-20
A. Net Foreign Assets (NFA) of the Banking System	**-516.153**	**595.456**	**1056.838**
B. Net Domestic Assets of the Banking System (1+2+3)	**21,424.1**	**131.225**	**-429.826**
Growth		*0.61%*	*-2.23%*
1. Net Government Sector Borrowing (a+b+c)	**14,547.2**	**198.202**	**-40.047**
a. Borrowings for Budgetary Support	13,748.3	283.091	32.557
i. From SBP	6,538.8	-610.048	-645.861
ii. From Scheduled Banks	7,209.5	893.139	678.418
b. Commodity Operations	813.4	-87.577	-76.946
c. Others	-14.5	2.688	4.342
2. Credit to Non-Government Sector (a+b+c+d)	**8,372.4**	**287.312**	**173.312**
a. Credit to Private Sector	6,862.8	283.456	174.848
b. Credit to Public Sector Enterprises (PSEs)	1,490.5	-.497	-2.191
c. PSE Special Account-Debt Repayment with SBP	-24.2	0	0
d. Credit to Non-Banking Financial Institutions (NBFIs)	43.3	4.353	0.664
3. Other Items (Net)	**-1,493.8**	**-354.289**	**-563.090**
Broad Money (M2) (A+B)	**20,908.0**	**726.680**	**627.013**
Growth		*3.48%*	*3.52%*
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 surplus at US$ 1,131 million during Jul-Dec FY20 as compared to deficit of US$ -2,032 million during last year of the corresponding period. The main reason of this improvement was a considerable increase in workers' remittances which exceeded $ 2.0 billion for the eighth consecutive month and amounted to $2.3 billion in January 2021, up by 19 percent over January 2020. On cumulative basis, workers' remittances reached $16.5 billion during Jul-Jan FY21, registering 24 percent increase over same period last year. This sustained increase in workers' remittances largely reflects increasing use of banking channel that is attributed to continuous efforts by Government and SBP to attract inflows through official channel, limited cross border travel amid second wave of COVID-19 and flexible exchange rate regime. Furthermore, balance on trade in services has declined from US $ -1,697 during Jul-Dec FY20 million to US $ -977 million during Jul-Dec FY21. The main reason of this decrease is fall in air traveling/ transport abroad due to Covid-19.

Trade deficit increased by US$ 1,143 million from US$ -13,820 million in FY July-Jan 2020 to US -14,963 million in FY July-Jan 2021. The main reasons of this decrease are fall in exports of food, textile and petroleum group items and increase in imports of food, machinery and transport group items.

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, expansion was registered in 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. 283.091billion during July-Jan, 2021. Government retired Rs. 610.048 billion to SBP and borrowed Rs. 893.139 billion from scheduled banks. Last year, during this period government net borrowing was Rs. 32.557 billion. Government retired Rs 645.861 billion to SBP and borrowed Rs.678.418 billion from commercial banks. Under commodity operations, government retired Rs. 87.577 billion to the banking system as compared to retirement of Rs. 76.946 billion during the corresponding period of last year.

Credit to Private sector expanded by Rs. 283.456 billion during July-Jan 2021 compared with last year expansion of Rs 174.838 billion. Stock of Loans to Private Sector Business during June 2020 and Dec 2020 and their variation are shown in the following table; Loans to Agriculture, forestry and fishing, Electricity, gas, steam and air conditioning supply, Construction, and Information and communication etc. have increased while loans to Manufacturing, Mining and Quarrying and Real Estate activists etc. have declined.

CREDIT/LOANS CLASSIFIED BY BORROWERS

Rs. In Million

Description	June-20	Dec-20^{P}	Difference
PRIVATE SECTOR (BUSINESS)	**5,271,036**	**5,490,502**	**219,466**
Agriculture, forestry and fishing	280,216	291,745	11,529
Mining and quarrying	82,989	79,593	-3,396
Manufacturing	3,290,273	3,373,565	83,292
Electricity, gas, steam and air conditioning supply	491,843	532,566	40,722
Construction	131,855	145,268	13,413
Transportation and storage	119,607	119,827	221
Information and communication	159,242	167,578	8,336
Real estate activities	28,492	24,869	-3,624

As per State Bank press release, currently applicants facing difficulties in obtaining housing finance, especially for low cost housing, as banks are reluctant to take the risk of the house not being completed or documentation completion. The completion of housing unit and mortgage creation takes time. In order to address this issue for applicants and banks, the SBP has allowed acceptance of a third party guarantee for this period up to a maximum of one year.

Credit to public sector Enterprises (PSEs) contracted by Rs. 283.456 billion during July-Jan, 2021 as compared to its contraction of Rs. 2,191 billion during the same period of last year. Credit provision to Non-Banking Financial Institutions (NBFIs) increased by Rs. 4,353 billion as compared to last year’s credit expansion of Rs. 0.664 billion during the same period of last year.

Conclusion

During July-Jan 2021, Government net borrowing stood at Rs. 198.202 billion as compared to retiring of Rs. 40.047 billion during the same period. Government has adopted policy of returning to SBP and returned Rs. 610.048 billion to SBP. The expansion of NDA and the expansion of NFA 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 January registered at 5.7 percent (YoY) as compared to an increase of 8.0% in the previous month and 14.6 percent during the same month last year. Policy rate is determined on the basis of core inflation (non-food - non energy) which is 5.4% 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.

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