

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

**Review of
Monetary Developments (M2)**

July-March FY20-21*

Introduction

M2 is the measure of money supply in an economy. It plays an important role in forecasting issues like inflation which in turn affects the economy in general, in terms of consumer spending and business etc. Volume of money supply or liquidity in the banking system is generated by changes in Net Foreign Assets (NFA) and Net Domestic Assets (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. NDA of the banking system consists broadly of (i) government sector borrowings, (ii) credit to non-government sector, and (iii) other items.

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

Monetary Aggregates (Rs. Billion)			
Factors Affecting Broad Money (M2) Growth	Stocks at End Jun-2020^P	Monetary Impact since 1st July to	
		09-April - 21	10-April- 20
A. Net Foreign Assets (NFA) of the Banking System	-516.153	1090.144	741.247
B. Net Domestic Assets of the Banking System (1+2+3)	21,424.1	200.382	774.299
1. Net Government Sector Borrowing (a+b+c)	14,547.2	162.095	960.405
a. Borrowings for Budgetary Support	13,748.3	277.787	1,103.475
i. From SBP	6,538.8	-1508.841	-627.450
ii. From Scheduled Banks	7,209.5	1786.628	1730.925
b. Commodity Operations	813.4	-122.135	-149.613
c. Others	-14.5	6.443	6.543
2. Credit to Non-Government Sector (a+b+c+d)	8,372.4	369.913	335.911
a. Credit to Private Sector	6,862.8	399.728	341.995
b. Credit to Public Sector Enterprises (PSEs)	1,490.5	-36.009	-7.292
c. PSE Special Account-Debt Repayment with SBP	-24.2	0	0
d. Credit to Non-Banking Financial Institutions (NBFIs)	43.3	6.194.	1.207
3. Other Items (Net)	-1,495.5	-331.626	522.017
Broad Money (M2) (A+B)	20,908.0	1290.526	1515.546
<i>growth</i>		<i>6.17%</i>	<i>8.52%</i>
<i>Source: State Bank of Pakistan</i>			

Analysis of Factors Affecting Broad Money (M2)

The expansion in NFA of the banking system indicates improvement in external sector as current account balance stood surplus at US\$ 0.959 billion during July-March, FY21 as compared to deficit of US\$ -4.147 billion during last year of the corresponding period. One of the important reasons for this improvement was a considerable increase in workers' remittances which reached \$21.468 billion during Jul-March FY21. 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, remittances also offset the deficit in balance of trade which is US \$ 20.019 billion during July-March, FY21.

Under the head of NDA, 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. 277.787 billion during July-April FY21. Government retired Rs. 1508.841 billion to SBP and borrowed Rs. 1786.628 billion from scheduled banks. Last year, during this period government net borrowing was Rs 1103.475 where Government retired Rs -627.450 billion to SBP and borrowed Rs. 1730.925 billion from commercial banks. Government has adopted the policy of returning to SBP. Under commodity operations, government retired Rs -122.135 billion to the banking system as compared to retirement of Rs. -149.613 billion during the corresponding period of last year.

Credit to Private sector expanded by Rs. 399.728 billion during July-April FY21 compared to last year expansion of Rs 341.995 billion. Stock of Loans to Private Sector Business during June 2020 and March 2021 and their variation are shown in the following table; Loans to Agriculture, forestry and fishing, Mining, Manufacturing, Electricity, gas, steam and air conditioning supply, Construction, and Information and communication etc. have increased while loans to Real Estate activities etc. have faced significant declined.

Highlights (During 01-07-2020 to March, 2021)

- Broad money expanded by 6.17% as compared to its expansion of 8.52% during the corresponding period of last year.
- Net Foreign Assets (NFA) of the banking system expanded by Rs. 1090.144 billion during the period under review as compared to their expansion of Rs. 741.247 billion during the corresponding period of last year.
- NDA expanded by Rs. 200.382 billion as compared to its expansion of Rs. 774.299 billion during the corresponding period of last year.
- Credit to private sector extended by Rs. 399.728 billion as compared to its expansion of Rs. 341.995 billion in last year.
- The borrowing for budgetary financing by the government from SBP contracted by Rs. 1508.841 billion (debt retirement) as compared to its contraction by Rs. 627.450 billion during reference period last year.
- For budgetary support, Govt. borrowed from scheduled banks to Rs. 1786.628 billion as compared to Rs. 1730.925 billion borrowed last year in the same period.

CREDIT/LOANS CLASSIFIED BY BORROWERS

Rs. In Million

Description	June-20	March-21	Difference
PRIVATE SECTOR (BUSINESS)	5,271,036	5,551,050	280,014
Agriculture, forestry and fishing	280,216	281,124	908
Mining and quarrying	82,989	84,616	1,627
Manufacturing	3,290,273	3,454,099	163,826
Electricity, gas, steam and air conditioning supply	491,843	548,855	57,012
Construction	129,561	138,460	8,899
Wholesale and retail trade; ...	429,343	442,893	13,550
Transportation and storage	119,607	119,428	-179
Information and communication	159,242	161,981	2,739
Real estate activities	29,439	26,856	-2,583

Credit to public sector Enterprises (PSEs) contracted by around Rs.36 billion during July-April, 09 as compared to its contraction of Rs.7.3 billion for the same period during last year. Credit provision to Non-Banking Financial Institutions (NBFIs) increased by Rs.6.194 billion as compared to last year's credit expansion of Rs.1.207 billion.

Conclusion

The growth in Broad money has been recorded by 6.17% during July - April 2021. The growth owes to the expansion in Net Foreign Assets (NFA) of the banking system by Rs. 1090.144 billion during the period under review as compared to their expansion of Rs. 741.247 billion during the corresponding period of last year. The NDA also recorded an expansion of 200.382 during the reference period as compared to the expansion of 774.299 during the corresponding period, last year. Further expansion of M2 is expected in the coming months as there is no change in policy rate i.e. 7% since June FY20 however, the emergence of 3rd wave of COVID-19 may affect its expansion. Inflation as measured by CPI (national) during March, 2021 was registered at 9.1 percent (YoY) as compared to 8.7 % during previous month and 10.2 percent during the corresponding month of last year. Average inflation is now expected to remain between 7-9 percent during FY21 as per SBP's projections. Government in consultation with all stakeholders is proactively taking measures to control the general price level of daily use items at country level.

Monetary aggregates are an indicator of economic stability. The expansions in the monetary aggregates may increase inflation on one hand which can be contained through real sector growth. The prevailing interest rate may be maintained at the existing level for future to lessen the pressure exerted on economy in the midst of Pandemic restrictions faced by the economy.

* The data for Broad Money supply represents the position as of April 9, 2021, available on SBP website, whereas the data for rest of the indicators i.e. BMP6 and Credit/ Loan Classifications is until March, 2021.