

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

**Review of
Monetary Developments**

December FY2020-21

Broad money (M2) expanded by Rs.811.12 billion (3.88% growth) during 1st July 2020 to 25th Dec 2020 as compared to its expansion of Rs.652.94 billion (3.670%) during the corresponding period of last year.

Net Foreign Assets (NFA) of the banking system expanded by Rs.511.66 billion during the period under review as compared to their expansion of Rs.838.19 billion during the corresponding period of last year. Net Domestic Assets (NDA) of the banking system expanded by Rs.299.45 billion as compared to their contraction of Rs.185.25 billion during the corresponding period of last year. Currency in circulation expanded by Rs.162.19 billion as compared to its expansion of Rs.440.83 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 25-12-2020)

- Broad money expanded by 3.88% as compared to its expansion of 3.67% during the corresponding period of last year.
- Net Foreign Assets (NFA) of the banking system expanded by Rs.511.66 billion during the period under review as compared to their expansion of Rs.838.19 billion during the corresponding period of last year.
- NDA expanded by Rs. 299.45 billion as compared to its contraction of Rs.185.25 billion during the corresponding period of last year.
- Credit to private sector extended by Rs.118.270 billion as compared to its expansion of Rs.118.069 billion last year.
- For budgetary financing, government net retirement to SBP was Rs. 535.795 billion as compared to its contraction of Rs. 750.251 billion in last year.
- For budgetary support, Govt. borrowed from scheduled banks to Rs. 1001.795 billion as compared to Rs.1111.746 billion were

Monetary Aggregates (Rs. Billion)			
Factors Affecting Broad Money (M2) Growth	Stocks at End Jun-2020 ^P	Monetary Impact since 1 st July to	
		25-Dec-20	27-Dec-19
A. Net Foreign Assets (NFA) of the Banking System	-516.153	511.664	938.189
B. Net Domestic Assets of the Banking System (1+2+3)	21,424.1	299.455	-185.247
<i>Growth</i>		1.40%	-0.96%
1. Net Government Sector Borrowing (a+b+c)	14,547.2	393.667	298.332
a. Borrowings for Budgetary Support	13,748.3	465.889	361.494
i. From SBP	6,538.8	-535.907	-750.251
ii. From Scheduled Banks	7,209.5	1001.795	1111.746
b. Commodity Operations	813.4	-73.319	-64.398
c. Others	-14.5	1.098	1.237
2. Credit to Non-Government Sector (a+b+c+d)	8,372.4	113.764	127.830
a. Credit to Private Sector	6,862.8	118.270	118.069
b. Credit to Public Sector Enterprises (PSEs)	1,490.5	-8.139	9.033
c. PSE Special Account-Debt Repayment with SBP	-24.2	0	0
d. Credit to Non-Banking Financial Institutions (NBFIs)	43.3	3.633	0.729
3. Other Items (Net)	-1,493.8	-207.977	-611.410
Broad Money (M2) (A+B)	20,908.0	811.118	652.942
<i>Growth</i>		3.88%	3.67%
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\$ 1,640 million during Jul-Nov FY20 as compared to US\$ -1,745 million during last year of the corresponding period. Trade deficit increased to US\$ 692 million from US\$ -11,671 million in FY July-Dec 2019 to US\$ -129,363 million in FY July-Dec 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. 465.889 billion during July-Dec, 2020. Government retired Rs. 535.907 billion to SBP and borrowed Rs. 1001.795 billion from scheduled banks. Last year, during this period government net borrowing was Rs. 361.494 billion. Government retired Rs 750.251 billion to SBP and borrowed Rs. 1111.746 billion from commercial banks. Under commodity operations, government retired Rs. 73.319 billion to the banking system as compared to retirement of Rs. 64.398 billion during the corresponding period of last year.

Credit to Private sector expanded by Rs. 118.270 billion during July-Dec 2020 compared with last year expansion of Rs 118.069 billion. Stock of Loans to Private Sector Business during June 2020 and November 2020 and their variation are shown in the following table; Loans to Agriculture, forestry and fishing, Electricity, gas, steam and air conditioning supply, Construction, Wholesale and retail trade and Information and communication 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	Nov-20 ^P	Difference
PRIVATE SECTOR (BUSINESS)	5,270,749	5,234,197	-36,552
Agriculture, forestry and fishing	280,216	293,115	12,899
Mining and quarrying	82,989	71,951	-11,038
Manufacturing	3,291,451	3,183,141	-108,310
Electricity, gas, steam and air conditioning supply	491,843	494,415	2,572
Construction	126,166	143,707	17,541
Wholesale and retail trade; repair of motor...	429,557	455,513	25,956
Transportation and storage	119,515	119,494	-21
Information and communication	159,188	169,300	10,111

Credit to public sector Enterprises (PSEs) expanded by Rs. 118.270 billion during July-Dec, 2020 as compared to its expansion of Rs. 118.069 billion during the same period of last year. Credit provision to Non-Banking Financial Institutions (NBFIs) increased by Rs. 3.633 billion as compared to last year's credit expansion of Rs. 0.729 billion during the same period of last year.

Conclusion

During July-Dec 2020, Government net borrowing stood at Rs. 393.667 billion as compared to borrowing of Rs. 298.332 billion during the same period. Government has adopted policy of returning to SBP and returned Rs. 535.907 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 December registered at 8.0 percent (YoY) as compared to an increase of 8.3% in the previous month and 12.6 percent during the same month last year. Policy rate is determined on the basis of core inflation (non-food - non energy) which is 5.6% 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.
