

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

**Review of
Monetary Developments (M2)**

February FY20-21

Broad money (M2) expanded by Rs.946.4 billion (4.53% growth) during 1st July 2020 to 26th February, 2021 as compared to its expansion of Rs.880.5 billion (4.95%) during the corresponding period of last year.

Net Foreign Assets (NFA) of the banking system expanded by Rs.592.2 billion during the period under review as compared to their expansion of Rs.1127.0 billion during the corresponding period of last year. Net Domestic Assets (NDA) of the banking system expanded by Rs.354.2 billion as compared to their contraction of Rs.246.4 billion during the corresponding period of last year. Currency in circulation expanded by Rs.326.3 billion as compared to its expansion of Rs.473.3 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 26-02-2021)

- Broad money expanded by 4.53% as compared to its expansion of 4.95% during the corresponding period of last year.
- Net Foreign Assets (NFA) of the banking system expanded by Rs.592.2 billion during the period under review as compared to their expansion of Rs.1127.0 billion during the corresponding period of last year.
- NDA expanded by Rs.354.2 billion as compared to its contraction of Rs.246.4 billion during the corresponding period of last year.
- Credit to private sector extended by Rs.403.6 billion as compared to its expansion of Rs. 250.0 billion in last year.
- For budgetary financing, government net retirement to SBP was Rs.621.1 billion as compared to its contraction of Rs.795.8 billion in last year.
- For budgetary support, Govt. borrowed from scheduled banks to Rs.1050.0 billion as compared to Rs.986.1 billion were borrowed last year in the same period.

Monetary Aggregates (Rs. Billion)			
Factors Affecting Broad Money (M2) Growth	Stocks at End Jun-2020 ^P	Monetary Impact since 1 st July to	
		26-Feb-21	28-Feb-20
A. Net Foreign Assets (NFA) of the Banking System	-516.153	592.223	1126.951
B. Net Domestic Assets of the Banking System (1+2+3)	21,424.1	354.211	-246.427
<i>Growth</i>		1.65%	-1.28%
1. Net Government Sector Borrowing (a+b+c)	14,547.2	301.269	97.616
a. Borrowings for Budgetary Support	13,748.3	428.953	190.283
i. From SBP	6,538.8	-621.074	-795.825
ii. From Scheduled Banks	7,209.5	1050.026	986.109
b. Commodity Operations	813.4	-130.313	-96.916
c. Others	-14.5	2.629	4.249
2. Credit to Non-Government Sector (a+b+c+d)	8,372.4	378.990	241.724
a. Credit to Private Sector	6,862.8	403.573	250.015
b. Credit to Public Sector Enterprises (PSEs)	1,490.5	-29.976	-8.790
c. PSE Special Account-Debt Repayment with SBP	-24.2	0	0
d. Credit to Non-Banking Financial Institutions (NBFIs)	43.3	5.393	0.499
3. Other Items (Net)	-1,495.5	-326.047	-585.766
Broad Money (M2) (A+B)	20,908.0	946.435	880.524
<i>Growth</i>		4.53%	4.95%
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\$ 0.881 billion during July-February FY21 as compared to deficit of US\$ -2.544 billion during last year of the corresponding period. The main reason of this improvement was a considerable increase in workers' remittances which reached \$18.743 billion during Jul-February 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, remittances also offset the deficit in balance of trade which is US \$ 16.083 billion during July-February FY21.

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.301.3 billion during July-February FY21. Government retired Rs. 621.1billion to SBP and borrowed Rs.1050.0 billion from scheduled banks. Last year, during this period government net borrowing was Rs.97.6 billion. Government retired Rs 795.8 billion to SBP and borrowed Rs.986.1 billion from commercial banks. Government has adopted policy of returning to SBP. Under commodity operations, government retired Rs.130.3 billion to the banking system as compared to retirement of Rs.96.9 billion during the corresponding period of last year.

Credit to Private sector expanded by Rs. 403.6 billion during July-February FY21 compared to last year expansion of Rs 250.0 billion. Stock of Loans to Private Sector Business during June 2020 and February 2021 and their variation are shown in the following table; Loans to Agriculture, forestry and fishing, Manufacturing, Electricity, gas, steam and air conditioning supply, Construction, and Information and communication etc. have increased while loans to Construction and Real Estate activists etc. have declined.

CREDIT/LOANS CLASSIFIED BY BORROWERS

Rs. In Million

Description	June-20	February-21	Difference
PRIVATE SECTOR (BUSINESS)	5,271,036	5,520,617	249,581
Agriculture, forestry and fishing	280,216	281,406	1,190
Mining and quarrying	82,989	86,716	3,727
Manufacturing	3,290,273	3,444,248	153,975
Electricity, gas, steam and air conditioning supply	491,843	537,656	45,812
Construction	131,855	129,744	-2,111
Wholesale and retail trade; ...	429,436	448,888	19,453
Transportation and storage	119,607	117,697	-1,909
Information and communication	159,242	159,756	514
Real estate activities	28,492	25,159	-3,333

Credit to public sector Enterprises (PSEs) contracted by Rs.30.0 billion during July-February FY21 as compared to its contraction of Rs.8.7 billion during the same period of last year. Credit provision to Non-Banking Financial Institutions (NBFIs) increased by Rs.5.393 billion as compared to last year's credit expansion of Rs.0.5 billion.

Conclusion

The expansion of NDA and the expansion of NFA resulted in positive growth of broad money. An expansion of M2 is expected in the coming months as there is no change in policy rate i.e. 7% since June FY20. However, due to emergence of 3rd layer of COVID-19 may affect its expansion. Inflation as measured by CPI (national) during February was registered at 8.7 percent (YoY) as compared to an increase of 5.7% in the previous month and 12.4 percent during the same month of last year. 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.
