Chapter 5

MONEY AND CREDIT

A sound and efficient financial system plays a vital role in economic growth and development of the country. In fact, it helps to convert savings into investment. It provides a secure platform for carrying out economic transactions and helps in a smooth and quick transmission of changes in monetary policy stance to the real economy. On the other hand, an underdeveloped financial system not only disrupts financial intermediation but can also undermine the efficacy of monetary policy, intensifies capital flight and pressures on exchange rate, and prolongs economic downturn.

The COVID-19 pandemic has triggered an unprecedented human and health crisis. In an attempt to contain the spread of the virus, necessary measures, including lockdowns and social distancing, have restricted the economic activity, which in turn, may have implications for financial stability. In the wake of COVID-19 outbreak, market volatility spiked and borrowing costs have soared, particularly in risky credit markets. Emerging and frontier markets have witnessed the sharpest portfolio flow reversal on record. Consequently, it has increased the risk that borrower's inability to service their debts would put pressure on banks, leading to strains on credit markets.

Thus, within three months, the 2020 outlook has shifted from the expected growth of more than 3 percent globally to a sharp contraction of negative 3 percent, much worse than the output loss seen during the 2008-09 global financial crisis.[1]An extended period of disruption in the financial market may lead to a credit crunch for non-financial borrowers, further intensifying the economic downturn.

Weakening economic activity and increased downside risks buffeted by the outbreak of COVID-19 have prompted the countries across the globe to take swift actions. In this regard, central banks globally have taken bold and decisive actions by easing monetary policy and using unconventional monetary policy tools, including assets purchases and providing liquidity to the financial system in an effort to lean against the tightening in financial conditions and maintain the flow of credit to the economy. Policy rates are now near zero in many advanced economies.

Before the outbreak of COVID-19, there were signs of recovery in Pakistan's economy primarily reflecting the cumulative effect of stabilization and regulatory measures taken during the current financial year. Inflation has started to fall after reaching its peak in January 2020. This improvement is now subject to risks arising from the global and the domestic spread of COVID-19.

[1] World Economic Outlook IMF, April 2020

State Bank of Pakistan (SBP) has introduced various measures to mitigate the adverse effect on public and economy. The focus is on reducing the impact of COVID-19 on economic growth and employment and ensuring the stability of the banking and payment system.

Monetary Policy Stance

The SBP adopted tight policy stance throughout FY2019 in order to contain the demand pressures and anchor inflation expectations. The policy rate was increased by cumulative 575 bps in six decisions taken during the year. At the start of current fiscal year, SBP raised the policy rate by 100 bps to 13.25 percent in July FY2020, keeping in view the high inflationary pressures from exchange rate depreciation and the expected increase in short-term inflation due to adjustments in utility prices and other measures announced in Budget FY2020. The policy rate remained unchanged at 13.25 percent in subsequent monetary policy meetings held in September, November and January.

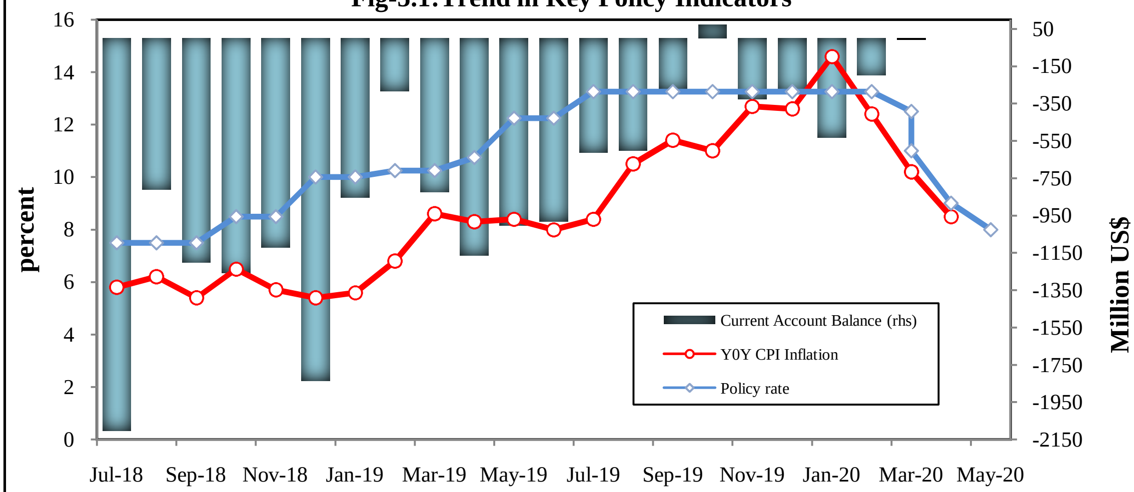
Table-5.1: Policy Rate

w.e.f	Policy rate
Jan-15	8.5
Mar-15	8.0
May-15	6.5
Sep-15	6.0
May-16	5.75
Jan-18	6.0
May-18	6.5
Jul-18	7.5
Oct-18	8.5
Dec-18	10.0
Feb-19	10.25
Apr-19	10.75
May-19	12.25
Jul-19	13.25
17th Mar-20	12.50
24th Mar-20	11.00
16th Apr-20	9.00
15th May-20 till date	8.00

Source: State Bank of Pakistan

With the outbreak of COVID-19, which changed global and domestic economic landscape, SBP has changed its policy stance in March 2020 when Monetary Policy Committee (MPC) in its meeting held on 17th March 2020 decided to reduce policy rate from 13.25 to 12.50 percent. The decision primarily based on the expectations of lower inflation in near future in the backdrop of deceleration in domestic food prices, sharp fall in global oil prices and sustained improvements in the current account.

Fig-5.1:Trend in Key Policy Indicators



The COVID-19 pandemic caused a slowdown in economic activity and increased uncertainty about the future. So, in order to mitigate likely impact of Coronavirus on economy, MPC cut policy rate by 150 bps to 11 percent during the same month. The worsening outlook for global and domestic scenario convinced MPC to cut the policy rate in April 2020 by a further 200 bps to 9 percent. However, SBP has further reduced the policy rate by 100 bps to 8 percent in light of improved inflation outlook in May 2020. A cumulative cut in policy rate by 525 bps in two months is expected to provide cushion to growth and employment, and support for recovery as pandemic subsides.

Other Measures by State Bank of Pakistan to fight COVID-19

Amid the growing concerns of COVID–19 pandemic related to the safety of the public, economic impact, and financial stability, SBP has taken a number of regulatory relief measures. Following are the salient features:

i. To support the workers and employees, a temporary Refinance Scheme for Payment of Wages and Salaries to the Workers and Employees of Business Concerns has been announced under which:
   a) Loans to businesses that commit to not lay off workers for the next three months will be available to finance 3 months of wages from April to June 2020.
   b) The SBP will finance up to 100 percent of wages and salaries of businesses with an average 3- month wage bill of up to Rs 500 million or 75 percent of 3 months wage bill, whichever is higher with maximum financing of Rs 1 billion.
   c) The end rate that will be charged from the borrowers will be up to 5 percent p.a. Tax filers would be eligible for 2 percent subsidy and will be charged an interest rate of 3 percent.

ii. For manufacturing, SBP announced a 'Temporary Economic Refinance Facility (TERF)' and its Shariah compliant version to stimulate new investment. Under this scheme:
   a. The SBP will refinance banks to provide financing at maximum per project to Rs 5 billion with end-user rate of 7 percent p.a. for 10 years for setting up of new industrial units;
   b. All manufacturing industries, with the exception of power sector where SBP has another refinance facility for renewable energy, are eligible to avail financing under the scheme.

iii. For export-oriented industries and manufacturing concerns SBP has extended the facility for import of raw material, spare parts and machinery.

iv. To support the health sector SBP has announced a 'Refinance Facility for Combating COVID-19 (RFCC)', under which:
   a. SBP will refinance banks to provide financing at a maximum end-user rate of 3 percent for 5 years for the purchase of equipment to detect, contain and treat the Coronavirus;
   b. Allowed financing against existing equipment and purchase of refurbished equipment for creating special facility/isolation ward to deal with COVID-19;
   c. Maximum coverage of 60 percent of civil works for setting up separate /isolation

facility has also been enhanced to 100 percent;

d. Allowed to make Import Advance Payment and Import on Open Account, without any limit, for the import of medical equipment, medicines and other ancillary items;

e. Enhanced financing limit of a single hospital/ medical center under its RFCC from Rs 200 million to Rs 500 million.

v. To facilitate exporters and importers

a. The SBP has reduced the performance requirement from twice to one-and-a-half times to get cheaper credit;

b. extension in time period by 6 months to meet performance requirements;

c. extension in time period to ship goods from six to twelve months;

d. relaxation in conditions for Long Term Financing Facility from 50 percent, or USD 5 million, to 40 percent or USD 4 million for all the borrowings under LTTF during the period January 01, 2020 to September 30, 2020;

e. SBP has also allowed banks to enhance the time period for realization of exports proceeds from existing requirement of 180 days to 270 days on a case-by-case basis where the delay is related to COVID-19 and for import of goods from existing requirement of 120 days to 210 days;

f. Limits on advance payments for imports increased from USD 10,000/ to USD 25,000/.

vi. The SBP has reduced the capital conservation buffer by 100 basis points to 1.5 percent;

vii. Increased the regulatory limit on extension of credit to SMEs by 44 percent from Rs 125 million to Rs 180 million;

viii. Relaxation of the debt burden ratio for consumer loans from 50 percent to 60 percent which will accommodate almost 2.3 million individuals;

ix. Allowing banks to defer clients’ payment of principal on loan obligations by one year;

x. Relaxation of regulatory criteria for restructured/rescheduled loans for borrowers who require relief beyond the extension of principal repayment for one year.

xi. Margin call requirement of 30 percent vis-à-vis banks' financing against listed shares has been significantly reduced to 10 percent

xii. Banks/DFIs have been advised to suspend the dividend distribution for the next two quarters, which will further increase the resilience of banking sector and improve their ability to provide much needed credit support to the real economy.

xiii. Announced temporary regulatory measures to maintain banking system soundness and sustain economic activity. Following are the salient features of the measures being taken;

a. Waived all charges on fund transfers through online banking channels such as Inter Bank Fund Transfer (IBFT) and SBP's Real Time Gross Settlement System for customers.

b. Efficient Clearing of Cheques through (i) Direct Cheque Deposit Facility under which a crossed cheque may be presented by payee/beneficiary directly into paying/drawee bank and, (ii) to collect cheque from registered addresses of their customers upon their request (iii) drop box facility to drop cheques installed in selected branches.

c. Strengthening Cyber Resilience of Financial Institutions: SBP advised financial institution that; (i) only authorized users of shill access internal IT resources (ii) to ensure that their cyber security policies cater to risks of spying, interception, and modification (iii) to establish dedicated Cyber Threat Intelligence Units (CTI-U) and Emergency Response Teams (ERTs) to minimize and control the damage resulting from cyber security incidents (iv) caution in handling emails with suspicious/work-related subject line, attachment, or hyperlink.

xiv. In order to minimize the risk of COVID-19 spread due to biometric verifications and physical interactions of public at agent locations, SBP has advised following measures to Authorized Financial Institutions(AFIs):

a. Extended deadline for Biometric Verification of Level - 1 accounts till September 30, 2020 to enable customers to open and use BB platform for financial services.

b. Allowed Authorized Financial Institutions (AFIs) to introduce Biometric Verification through smart phone applications after complying with NADRA's security standards.

c. Encouraged AFIs to use digital channels for agent on-boarding with an objective of increasing financial services access points.

Recent Monetary and Credit Developments

Broad money expanded by Rs 1,481.3 billion during 01 Jul-24 Apr, FY2020 compared with Rs 540.6 billion last year. This higher money growth was due to a sharp expansion in the NFA of the banking system, specifically of the SBP. Net Foreign Assets (NFA) point contribution has increased to 5 percent during the period under review compared with the negative growth of 5.6 percent in the same period last year. NDA point contribution stood at 3.3 percent reflecting government spending to fight against the COVID-19 spread and provide relief to the population. Thus, overall money supply grew by 8.3 percent during the period under review.

Table-5.2: Profile of Monetary Indicators Rs Billion

	FY2019 (Stocks) R	24-Apr-20	26-Apr-19
Net Foreign Assets(NFA)	-1,507.1	893.7	-890.4
Net Domestic Assets(NDA)	19,305.6	587.6	1,431.0
Net Government Borrowing	12,336.7	911.7	825.9
Borrowing for budgetary support	11,596.5	1,023.9	990.9
From SBP	6,691.9	-736.5	3,204.7
From Scheduled banks	4,904.6	1,760.4	-2,213.9
Credit to Private Sector (R)	6,666.5	304.7	581.0
Credit to PSEs	1,394.2	-10.6	312.1
Broad Money	17,798.5	1,481.3	540.6
Reserve Money	6,573.4	549.1	488.0
Growth in M2 (%)	11.3	8.3	3.4
Reserve Money Growth (%)	19.9	8.4	8.9

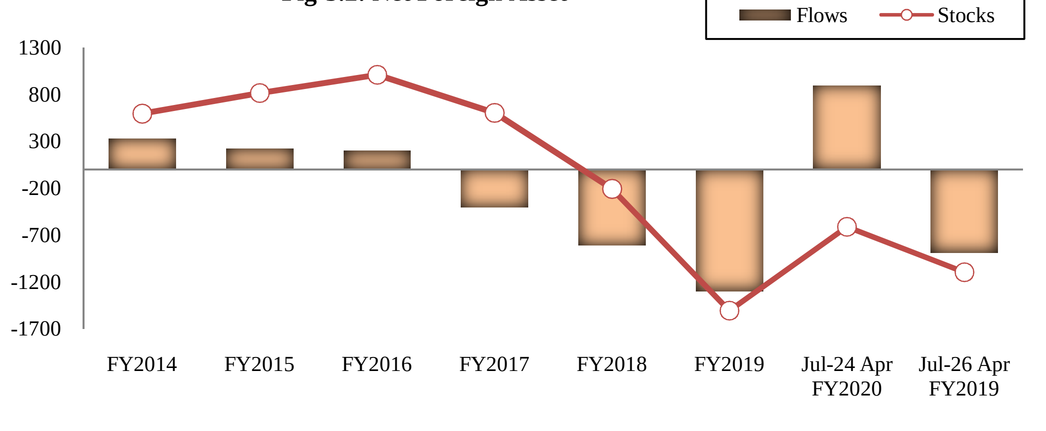
R: Revised
Source: Weekly Profile of Monetary Aggregates, State Bank of Pakistan

Reserve money grew by 8.4 percent (Rs 549.1 billion) during 01 Jul-24 Apr, FY2020 as compared to 8.9 percent (Rs 488 billion) during the comparable period last year. The increase in reserve money has been observed on account of a substantial rise in SBP's NFA. The NFA of SBP increased by Rs 902.7 billion during 01 Jul – 24 Apr, FY2020 against a sharp contraction of Rs 743.8 billion in the same period last year. On the other hand, NDA of SBP declined by Rs 353.7 billion against the increase of Rs 1,231.8 billion during the corresponding period last year as government has discontinued its borrowing from SBP.

Within broad money, the NFA of the banking sector expanded by Rs 893.7 billion during 01 July-24 Apr, FY2020 against the contraction of Rs 890.4 billion in the same period last year. The increase in NFA reflects the improvement in the country's external account (relatively high remittances inflows, higher foreign investment, and increase in loan disbursements from the IMF Extended Fund Facility (EFF), activation of the Saudi oil facility, and other commitments of support from multilateral and bilateral partners). While the expansion in net domestic assets remained moderate and stood at Rs 587.6 billion against the expansion of Rs 1,431 billion in the corresponding period last year. The growth in NDA decelerated due to low growth in credit to private sector (PSC) and net retirement of credit to public sector enterprises (PSEs), reflecting the economic slowdown.

During FY2020, broad money (M2) witnessed an expansion of Rs 1,481.3 billion (8.3 percent) during 01 July-24 Apr, FY2020 against the increase of Rs 540.6 billion (3.4 percent) in the comparable period last year. The expansion during FY2020 so far has been driven by a substantial rise in NFA, whereas NDA of the banking system showed deceleration.

Fig-5.2: Net Foreign Asset



Credit to private sector (CPS) flows stood at Rs 693.5 billion during FY2019 against Rs 775.5 billion last year. CPS stood at Rs 304.7 billion during 01 Jul-24 Apr, FY2020 as compared to the expansion of Rs 581 billion in the corresponding period. As a part of stabilization measures, SBP initially increased the policy rate to contain the demand pressure and to improve inflation outlook. Consequently, slowdown in economic activities and high cost of borrowing triggered a decrease in credit demand.

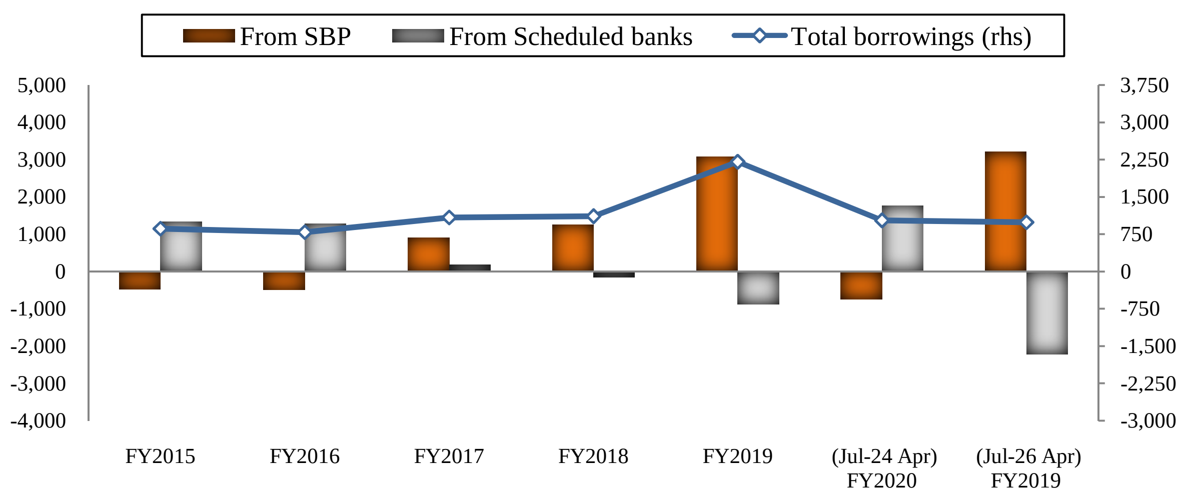
During 01 Jul-24 Apr FY2020, Credit to Public Sector Enterprises (PSEs) witnessed a retirement of Rs 10.6 billion against the borrowing of Rs 312.1 billion during the same period of last year.

Government Bank Borrowing

The government has borrowed Rs 1,023.9 billion for budgetary support during 01 Jul-24 Apr, FY2020 compared to Rs 990.9 billion in the same period last year. Increased availability of funding from external and non-bank sources led to lower net budgetary requirement from banking system till February 2020. An abrupt increase in budgetary borrowing has been observed since the outbreak of the epidemic, which affected government revenues and required emergency spending.

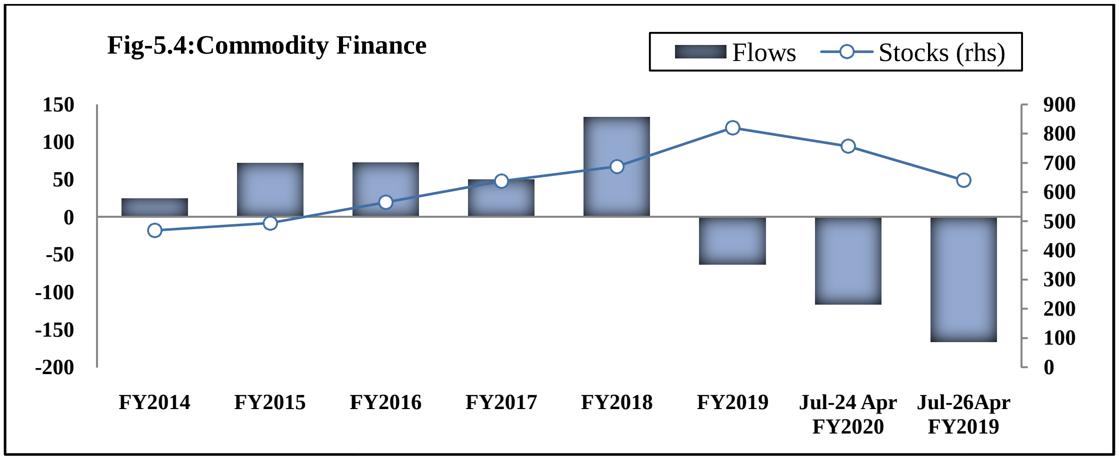
As the government had committed not to borrow from the SBP to finance its deficit under IMF's Extended Fund Facility (EFF) program, most of the financing need was met through scheduled banks. Government has borrowed Rs 1,760.4 billion from scheduled banks, as opposed to net retirement of Rs 2,213.9 billion in the corresponding period. On the other hand, Rs 736.5 billion was retired to the SBP, compared to borrowing of Rs 3,204.7 billion in the same period last year. Net government sector borrowing thus remained at Rs 911.7 billion during the period under review compared with Rs 825.9 billion last year.

Fig-5.3: Government Borrowings (Flows) (Rs billion)



Commodity Finance

Commodity finance refers to advances provided to government, public sector corporations or private sector for the procurement of commodities such as cotton, rice, wheat, sugar, fertilizer, etc. The outstanding stock of commodity finance shows a negative growth of 7.7 percent in FY2019 and reached to Rs 756.4 billion against Rs 819.7 billion last year. In terms of flows, commodity finance witnessed a net retirement of Rs 63.3 billion in FY2019 as compared to an increase of Rs 133.2 billion last year. These retirements mainly reflected the ease in cash flow of wheat procuring agencies, which were able to pay back Rs 73.1 billion to the banking system during FY2019.



Loans for commodity finance observed a net retirement of Rs 116.5 billion during 01 Jul-24 Apr, FY2020 as compared with the net retirement of Rs 166.7 billion in the corresponding period last year. The outstanding stock of commodity financing stood at Rs 639.9 billion as on 24 Apr, FY2020 as compared to Rs 652.9 billion in the same period last year.

During Jul-Mar, FY2020, loans for wheat financing recorded a net retirement of Rs 109.4 billion compared to the retirement of Rs 174.1 billion in the corresponding period of last year. The outstanding stock of wheat decreased to Rs 544.8 billion compared to Rs 553.2 billion in the same period of last year.

The fertilizer financing observed a net retirement of Rs 3.3 billion during Jul-Mar, FY2020 compared to the borrowing of Rs 5.1 billion in the corresponding period of last year. Whereas, financing for sugar sector shows the borrowing of Rs 6.2 billion against the borrowing of Rs 2.7 billion in the same period of last year. Rice financing also observed net retirement of Rs 0.84 billion during the period under review as compared to the borrowing of Rs 0.08 billion last year. Retirement of wheat is one of the major contributors of net contraction in loans for commodity finance, others are fertilizer and rice.

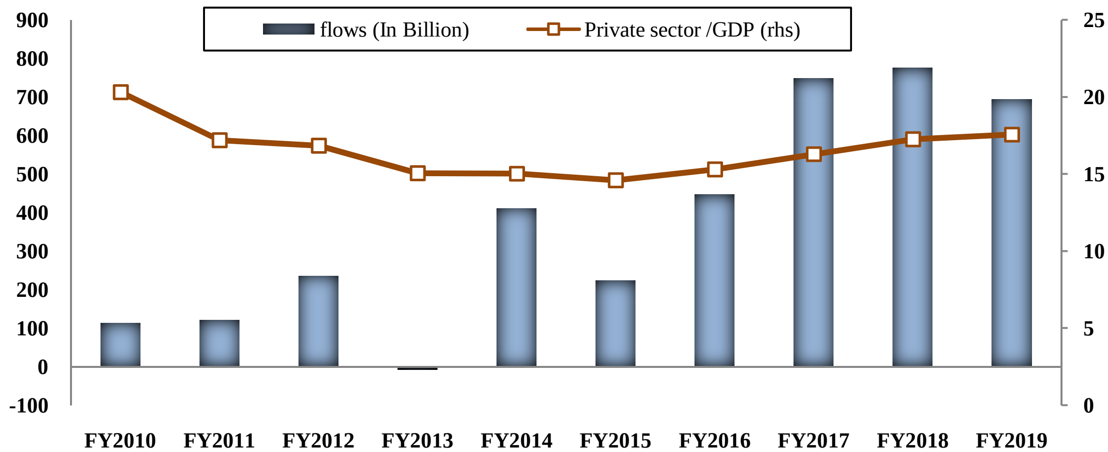
Credit to Private Sector[2]

Private sector credit remained subdued and reached to Rs 693.5 billion in FY2019 compared with Rs 775.5 billion in FY2018. Decrease in credit demand was primarily due to the slow economic activities in the industrial sector and decline in imports.

The growth in private sector credit (PSC) decelerated, reflecting the slowdown in domestic economic activities along with the higher cost of borrowing and lately due to suspended production activities amid COVID-19 lockdown which resulted in a halt in repayments. The overall credit to private sector witnessed an expansion of Rs 304.7 billion during 01 Jul – 24 Apr FY2020, which is substantially lower than the net expansion of Rs 581 billion in the corresponding period of FY2019. On average, it has posted a growth of 4.6 percent against the growth of 9.7 percent in the previous year. On Year-on-Year (YoY) basis, it has shown a growth of 6.4 percent as on 24th April, FY2020.

[2]Islamic Financing, Advances (against Murabaha etc), Inventories and other related Items previously reported under Other Assets have been reclassified as credit to private sector.

Fig-5.5: Credit to Private Sector



Sectoral Analysis

Table: 5.3 - Credit to Private Sector* Rs Billion

Sectors	End Month Stocks				Jul-Mar (Flows)		Average (Jul-Mar) Growth Rates	
	June-18	March-19	June-19	March-20	FY2019	FY2020	FY2019	FY2020
Overall Credit (1 to 5)	**5,481.9**	**6,069.8**	**6,086.6**	**6,291.9**	**587.8**	**205.3**	**10.7**	**3.4**
1. Loans to Private Sector Business	**4,594.7**	**5,149.4**	**5,173.5**	**5,360.8**	**554.7**	**187.3**	**12.1**	**3.6**
A. Agriculture	305.5	295.8	301.5	286.3	-9.7	-15.2	-3.2	-5.0
B. Mining and Quarrying	42.7	55.3	68.0	75.9	12.6	7.9	29.4	11.7
C. Manufacturing	2,707.6	3,159.6	3,128.9	3,366.6	452.0	237.7	16.7	7.6
D. Textiles	807.0	980.8	919.6	1,111.1	173.9	191.5	21.5	20.8
E. Electricity, gas and water supply	399.5	458.7	484.0	531.4	59.1	47.4	14.8	9.8
F. Construction	164.4	152.6	153.7	124.3	-11.8	-29.4	-7.1	-19.1
G. Commerce and Trade	377.0	434.1	477.3	433.8	57.1	-43.5	15.2	-9.1
H. Transport, storage and Communications	234.2	230.9	106.6	118.8	-3.2	12.2	-1.4	11.4
I. Other private business n.e.c	45.0	49.9	69.2	50.4	5.0	-18.8	11.0	-27.2
2. Trust Funds and NPOs	**19.3**	**18.0**	**18.5**	**18.4**	**-1.3**	**-0.1**	**-6.7**	**-0.5**
3. Personal	**606.2**	**655.7**	**674.3**	**708.1**	**49.5**	**33.8**	**8.2**	**5.0**
4. Others	**4.0**	**5.0**	**3.2**	**1.5**	**1.0**	**-1.7**	**24.5**	**-53.2**
5. Investment in Security & Shares of Private Sector	**257.7**	**241.6**	**217.2**	**203.2**	**-16.0**	**-14.0**	**-6.2**	**-6.5**

* The sector-wise data for FY2019 and FY2020 may not be fully comparable, as the flows for H1-FY2019 are based on ISIC 3.1 whereas the flows for H1-FY2020 are based on ISIC 4.0 classification.

Source: State Bank of Pakistan

Due to the slowdown in the economic activity, overall credit remained subdued at 3.4 percent and stood at Rs 205.3 billion during Jul-Mar FY2020. Private Sector Businesses (PSBs), received 91.3 percent of overall credit and amounted to Rs 187.3 billion during the period under review. Sectors which posted the higher credit expansion include Mining and Quarrying (11.7 percent) followed by Transport, Storage and Communication (11.4 percent), Electricity, Gas and Water Supply (9.8 percent) and Manufacturing (7.6 percent) of which, Textiles (20.8 percent).

Table 5.4: Loans* to Private Sector Businesses** Billion Rupees

Description	Total credit		Working capital		Fixed investment		Trade financing	
	(Jul-Mar) FY2019	(Jul-Mar) FY2020	(Jul-Mar) FY2019	(Jul-Mar) FY2020	(Jul-Mar) FY2019	(Jul-Mar) FY2020	(Jul-Mar) FY2019	(Jul-Mar) FY2020
Total loans to private businesses	554.7	187.3	369.0	28.8	83.1	(5.2)	102.5	163.8
of which								
1) Manufacturing	452.0	237.7	290.8	42.9	51.6	19.1	109.6	175.7
Textiles	173.9	191.5	101.8	42.3	19.0	26.2	53.1	123.0
Chemicals	21.1	(7.4)	16.0	(14.5)	(0.1)	1.3	5.1	5.7
Paper and paper products	1.1	(10.7)	0.8	(7.0)	0.1	(3.1)	0.2	(0.7)
Rice processing	41.4	19.1	30.4	8.4	0.1	0.2	11.0	10.5
Sugar	34.9	49.4	9.0	48.7	14.1	(3.4)	11.9	4.1
Rubber and plastic products	3.9	1.8	2.2	(1.7)	(2.3)	(0.7)	3.9	4.2
2) Electricity, gas & water supply	59.1	47.4	15.8	45.6	48.2	3.8	(5.0)	(2.0)
3) Transport, storage &Communications	(3.2)	12.2	8.7	19.0	(16.7)	(6.9)	4.8	0.1
4) Construction	(11.8)	(29.4)	9.2	(18.5)	(20.7)	(9.6)	(0.3)	(1.3)
5) Real estate activities	22.1	2.7	12.6	3.5	9.6	(0.8)	(0.1)	-
6) Agriculture	(9.7)	(15.2)	(1.5)	(6.6)	(9.2)	(7.7)	1.0	(1.0)
7) Mining and Querying	12.6	7.9	7.7	(0.1)	5.6	4.7	(0.7)	3.3

* Loans include advances plus bills purchased & discounted excluding foreign bills.
** The sector-wise data for FY2019 and FY2020 may not be fully comparable, as the flows for H1-FY2019 are based on ISIC 3.1 whereas the flows for H1-FY2020 are based on ISIC 4.0 classification.

Source: State Bank of Pakistan

By type of finance, there was a deceleration in both the working capital and fixed investment due to slowdown in the economic activity. Working capital, which was already lower due to weak demand, was further depressed recently due to shut down in production (in result of lock down) and reached to Rs 28.8 billion during Jul-Mar FY2020.

Strong credit demand for working capital stemmed from manufacturing sector of which major contributors are textiles (Rs 42.3 billion), and sugar (Rs 48.7 billion). Among non-manufacturing businesses, short-term borrowing by the power sector was noteworthy. Another notable increase was recorded in the transport sector, whose working capital borrowing rose by Rs 19 billion during Jul-Mar, FY2020. This mainly represents borrowing by a deep sea port operator that is modernizing its operations.

Demand for fixed investment loans witnessed a contraction of Rs 5.2 billion during Jul-Mar FY2020 as several sectors (mainly power and chemicals) preferred to use their own sources (deposits) to offset their long-term borrowing in an attempt to reduce the high cost of borrowing.

Despite the slowdown in credit to private sector businesses, some sector specific developments contributed positively. For example, cement and textile sectors have been performing well so far on account of recovery in domestic sales and higher exports. Moreover, the outlook seems favorable as government has allowed construction sector to carry out their activities despite the COVID-19 pandemic to support the employment for daily wage earners.

In addition, the SBP has introduced a number of measures and some concessional refinance schemes to address both the demand and supply side conditions for businesses such as Temporary Economic Refinance Facility (TERF), Refinance Facility for Combating COVID-19 (RFCC) and Refinance Scheme for Payment of Wages and Salaries to the Workers and Employees of Business Concerns. All these measures are aimed at facilitating the businesses to remain afloat during the crisis times. On the demand side, a cumulative reduction of 525 bps in the policy rate is expected to address the high cost of borrowing issue.

Table-5.5: Consumer Financing Rs Billion

	July-March (Flows)		Growth (%)*	
Description	**FY2019**	**FY2020**	**FY2019**	**FY2020**
Consumer Financing	43.0	15.5	9.0	2.9
1) For house building	8.3	-5.6	10.0	-6.1
2) For transport i.e. purchase of car	17.7	3.2	9.1	1.5
3) Credit cards	4.0	2.4	10.6	5.5
4) Consumers durable	3.2	1.1	116.9	17.1
5) Personal loans	9.8	14.4	6.1	7.9
6) Other	1.5	-0.2	19.7	-19.8

*Growth is calculated on the basis of Stocks.

Source: State Bank of Pakistan

During Jul-Mar FY2020 demand for consumer financing credit remained subdued at Rs 15.5 billion (growth of 2.9 percent) compared to Rs 43 billion (growth of 9 percent) in the same period of last year. Consumers perceived current fiscal year to be challenging to spend for house building, consumer durable, auto financing and others as overall consumer confidence remained weak with the rising inflation. Consumer financing for transport, credit cards and household durable items decelerated to Rs 3.2 billion, Rs 2.4 billion, Rs 1.1 billion respectively during the period under review. The decline in consumer credit is the obvious outcome of the demand management policies being followed in the period under review.

Consumer financing for house building and other shows a negative growth of 6.1 percent and 19.8 percent respectively. To promote and develop housing finance in Pakistan, SBP has undertaken following initiatives:

- The regulatory relaxations allowed in the area of low-cost housing finance include removal of general reserve requirement, increase in loan to value ratio, lowering of risk weights, exemption from exposure limit on real estate etc.
- To facilitate availability of long-term affordable funding for housing to special segments of society e.g. Widows, Transgender, special persons, SBP shall provide refinance against subsidized low cost housing financing by banks/DFIs (conventional and Islamic).
- Assigned targets for overall housing finance portfolio to banks and targets for low cost housing for special segments to both banks and HBFCL.
- Bank/DFI's exposure in housing finance was excluded from calculating the real estate exposure limit (i.e., 10 percent of the aggregate of advances and investments excluding investments in Government securities).

Monetary Liabilities

Monetary Liabilities includes currency in circulation, demand deposits, time deposits and resident's foreign currency deposits. Money supply shows expansion of 8.3 percent during 01 Jul-24 Apr, FY2020 compared to 3.38 percent corresponding period last year. On YoY basis, it posted a growth of 16.6 percent as on 24th April, 2020.

Currency in Circulation (CiC)

During 01 Jul-24 Apr, FY2020, CiC has witnessed an expansion of Rs 980.3 billion (growth of 19.8 percent) against Rs 389.5 billion (growth of 8.9 percent) comparable period of last year. Currency-to-M2 ratio has increased to 30.8 percent as on 24th April, 2020 against 28.9 percent in the same period last year. The sharp expansion in CiC during the period under review has been observed on account of increase in transactional demand due to higher inflation, and government's measures towards documentation of informal economy. However, the rise in CiC is almost doubled after February 2020, due to lockdown across the country as people are holding cash to meet ends. In addition, cash disbursement under Ehsaas program also attributed to the rise in CiC.

Table 5.6: Monetary Aggregates Rs Million

Items	End June		24 April	
	FY2018	**FY2019**	**FY2019**	**FY2020**
A. Currency in Circulation	4,387,829	4,950,039	4,777,296	5,930,358
Deposit of which:				
B. Other Deposits with SBP	26,963	33,636	34,102	34,981
C. Total Demand &Time Deposits incl. RFCDs	11,582,372	12,814,820	11,726,348	13,314,462
of which RFCDs	829,355	1,109,780	944,686	1,065,250
Monetary Assets Stock (M2) A+B+C	15,997,162	17,798,494	16,537,744	19,279,799
Memorandum Items				
Currency/Money Ratio	27.4	27.8	28.9	30.8
Other Deposits/Money ratio	0.2	0.2	0.2	0.2
Total Deposits/Money ratio	72.4	72	70.9	69.1
RFCD/Money ratio	5.2	6.2	5.7	5.5
Income Velocity of Money	2.3	2.3	_	_

Source: State Bank of Pakistan

Deposits

Bank deposits (including demand, time and Resident Foreign Currency Deposits (RFCD)) surged to Rs 499.6 billion (growth of 3.9 percent) during the period 01 Jul-24 Apr, FY2020 as compared to Rs 144 billion (growth of 1.2 percent) in the corresponding period last year. Both demand and time deposits increased and reached to Rs 167.7 billion and Rs 376.4 billion respectively during the period under review. High returns offered on term deposits and recent reduction in interest rates on National Saving Scheme (NSS) instruments may have contributed to expansion in time deposits. On the contrary, RFCDs shows contraction of Rs 44.5 billion a reflection of gradual appreciation of PKR from end-Jun 2019, which lowered incentive for savings in foreign currency. Another possible reason could be the lower need of foreign currency deposits due to travel restrictions and low trading activities.

Monetary Management

During first quarter of CFY the interbank market observed a stint of liquidity drains as banks 'participation in government securities auctions has increased heavily amid deposit withdrawals. However, net retirement by private sector, PSEs and the government's commodity procurement agencies and net injections by the SBP in the interbank market provided relief to the strain resulting to increase in net injections to Rs 1.34 trillion compared with Rs 1.04 trillion during the same period last year.[3]

Table 5.7: Average Outstanding Open Market Operations[1] Rs Billion

	FY2017	FY2018	FY2019	FY2020*
Full Year	**1,045.8**	**1,228.7**	**(23.8)**	**3.14**
Q1	1,094.0	1,440.9	1,035.2	1,337.7
Q2	861.3	1,530.5	(257.6)	912.8
Q3	961.1	1,123.5	(641.2)	892.4
Q4	1,267.2	813.1	(247.4)	-

[1]: The data does not include the impact of outright OMOs. *: Updated upto End-March 2018
Note: (+) amount means net Injections. (-) amount means net mop-up.
Source: State Bank of Pakistan

In the second and third quarter, outstanding OMO injections remained lower (Rs 912.8 billion and Rs 892.4 billion respectively) as compared to the preceding quarter. This may be attributed to the limited SBP's activity in the interbank market and net retirements by the government to scheduled banks and SBP's foreign exchange purchases[4].

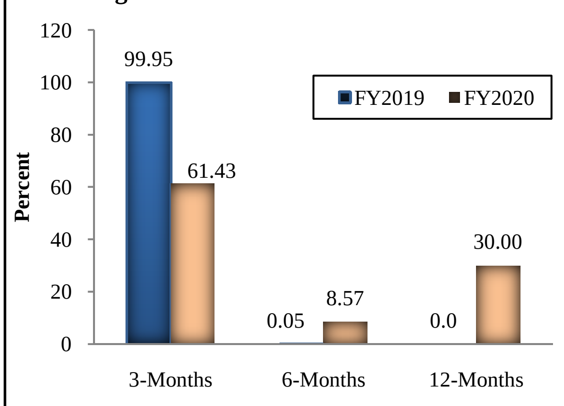
Table 5.8: Market Treasury bills Auctions Rs Million

	Jul-Jun			Jul-Mar					
	FY2019			Offered		Accepted		W.A.Rate*	
	Offered	Accepted	W.A Rate*	FY2019	FY2020	FY2019	FY2020	FY2019	FY2020
3-Months	23,757,544	18,866,489	9.8	14,960,868	12,790,718	13,802,533	8,122,054	8.7	12.5
6-Months	120,484	8,928	10.3	111,444	2,420,952	6,527	1,133,167	9.2	12.6
12-Months	29,073	500	13.2	8,870	11,467,044	0	3,966,446	0.0	12.4
Total	**23,907,101**	**18,875,917**		**15,081,182**	**26,678,714**	**13,809,060**	**13,221,667**		

*Average of maximum and minimum rates
Source: State Bank of Pakistan

Market offered the total amount of Rs 26,678.714 billion for T-Bills during Jul-Mar, FY2020 against Rs 15,081.182 billion in the comparable period last year. During current fiscal year, the government has raised Rs 13,221.7 billion (49.6 percent of the offered amount) in the T-bill's auction compared to last year accepted amount of Rs 13,809.06 billion. A clear shift in banks' behavior has been observed during the auctions in the current fiscal year. During Jul-Mar FY2020, around 61.43 percent of outstanding T-bills comprised of 3 months,

Fig-5.6:Contribution of T-bills



[3]First quarterly Report, FY2020 SBP
[4]Second quarterly Report, FY2020 SBP

whereas the share of 12 months rose to 30 percent (0.0 percent last year) followed by 8.6 percent in 06-months.

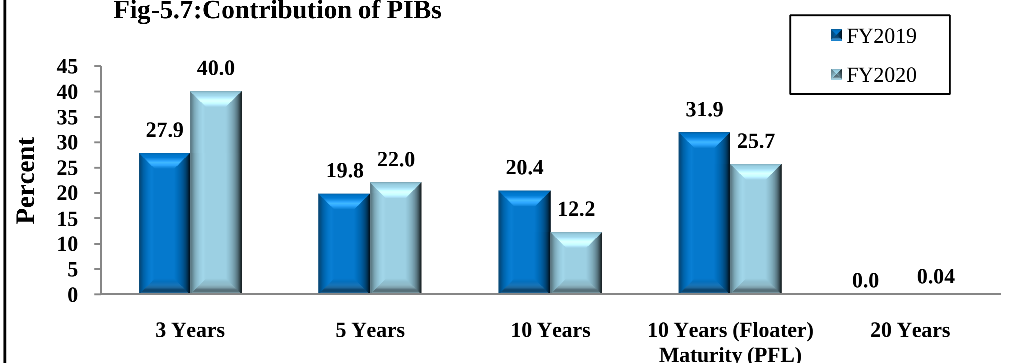
Table 5.9: Pakistan Investment Bonds Auctions Rs Million

PIBs	July-June			Jul-Mar				W.A Rate	
	Offered	Accepted	W.A Rate	Offered		Accepted			
	FY2019			FY2019	FY2020	FY2019	FY2020	FY2019	FY2020
3 Years	976,869	418,859	12.8	520,617	1,872,240	180,322	900,059	12.1	12.8
5 Years	653,189	199,680	11.5	268,914	1,467,540	128,451	494,899	11.0	12.4
10 Years	815,509	253,195	13.3	328,538	1,145,149	132,237	275,183	13.0	12.1
10 Years (Floater) Maturity (PFL)*	706,324	311,776	11.1	477,574	1,233,051	206,434	577,292	Benchmark + 70 bps	14.3
15 Years	0	-	-	-	-	-	-	-	-
20 Years	5,000	-	-	5,000	15,259	-	1,000	-	-
30 Years	0	-	-	-	-	-	-	-	-
Total	**3,156,891**	**1,183,510**		**1,600,643**	**5,733,238**	**647,443**	**2,248,432**		

*: The benchmark for coupon rate is defined in clause 'B' of DMMD Circular No. 9 dated May 07, 2018.
Note: Accepted amount include non-competitive bids as well as short sell accommodation.
Source: State Bank of Pakistan

Market offered a total amount of Rs 5.7 trillion during Jul-Mar, FY2020 under PIB auctions as compared to Rs 1.6 trillion in the same period last year. However, fixed rate PIBs accepted amount stood at Rs 1,671.1 billion against the offered amount of Rs 4,500.2 billion. Heavy investment of fixed rate PIBs witnessed in 3 years as it contributed 53.9 percent of the accepted amount followed by 29.6 percent in 5 years, 16.5 percent in 10 years and 0.1 percent in 20 years. Meanwhile, accepted floating rate PIBs amounted to Rs 577.3 billion under 10 years maturity, 46.8 percent of offered amount. Just like T-bills, the acceptances remained on the lower side, which constrained the liquidity of the long-term bonds in the secondary market[5].

Fig-5.7:Contribution of PIBs



Source: State Bank of Pakistan

Weighted Average Lending Rate (WALR) on gross disbursements also increased from 10.7 percent in March, 2019 to 13.8 percent in Jan 2020 (highest in the current fiscal year), making difficult for private sector to viably meet their liquidity needs through bank borrowings. However, in the month of March 2020 WALR decreases to 12.7 percent. Similarly, Weighted Average Deposit Rate (WADR) offered on fresh deposits also increased from 6.5 percent in March, 2019 to 7.8 percent in Jan, 2020, then eventually

[5] Second quarterly Report, FY2020 SBP

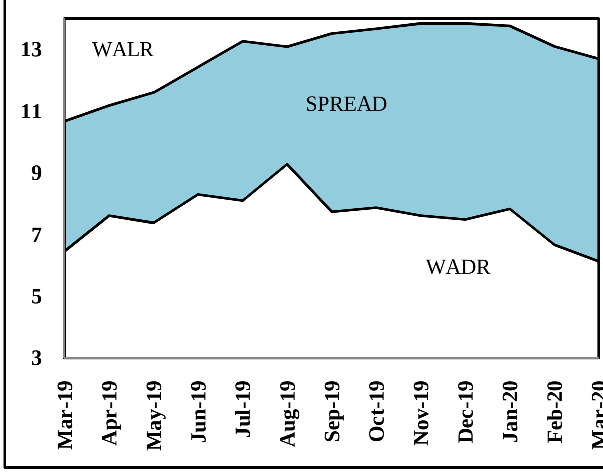
declined to 6.1 percent in March 2020. Resultantly, banking spread which generally refers to the cost of channeling funds through intermediaries and is the difference between the lending and deposit rates increased to 6.6 percent in March 2020 from 4.2 percent in March 2019.

Table-5.10: Lending & Deposit Rates (W.A)

	LR	DR	Spread
Mar-19	10.7	6.5	4.2
Apr-19	11.2	7.6	3.6
May-19	11.6	7.4	4.2
Jun-19	12.4	8.3	4.1
Jul-19	13.3	8.1	5.2
Aug-19	13.1	9.3	3.8
Sep-19	13.5	7.7	5.8
Oct-19	13.7	7.9	5.8
Nov-19	13.8	7.6	6.2
Dec-19	13.8	7.5	6.4
Jan-20	13.8	7.8	5.9
Feb-20	13.1	6.7	6.4
Mar-20	12.7	6.1	6.6

Source: State Bank of Pakistan

Fig-5.8: Lending & Deposit Rates



Financial Sector

Despite the challenges, the banking sector performed reasonably well during CY19. The assets base of the banking sector witnessed a YoY growth of 11.7 percent, higher than the growth of 7.3 percent in CY18. With 13.0 percent (YoY) growth, investments contributed more than 40 percent in the asset expansion during CY19. On the other hand, advances (net) exhibited a modest growth of 3.7 percent as compared to 22.2 percent in CY18. The moderation in advances was due to the sluggish economic activity resulting from the stabilization measures adopted to contain macroeconomic vulnerabilities. The deceleration in advances was broad-based and a visible lower financing demand was observed in textiles, chemicals and pharmaceuticals, and cement sectors. Further, sugar and energy sector observed deleveraging. There was higher uptake of loans by Automobiles (to finance plant operations) and Electronics and Electrical Appliances (to finance import of raw materials).

The profitability of the banking sector rebounded as after-tax profit surged by 14.8 percent in CY19 against the decline of 5.6 percent in CY18. The banking sector remained resilient with Capital Adequacy Ratio (CAR) at 17.0 percent well above the local and international minimum benchmarks of 12.5 percent and 10.5 percent, respectively.

Table 5.11: Highlights of the Banking Sector Industry

	CY15	CY16	CY17	CY18	CY19
Key Variables (Rs billion)					
Total Assets	14,143	15,831	18,342	19,682	21,991
Investments (net)	6,881	7,509	8,729	7,914	8,939
Advances (net)	4,816	5,499	6,512	7,955	8,249
Deposits	10,389	11,798	13,012	14,254	15,953
Equity	1,323	1,353	1,381	1,406	1,658

Table 5.11: Highlights of the Banking Sector Industry

	CY15	CY16	CY17	CY18	CY19
Profit Before Tax (ytd)	329	314	267	243	304
Profit After Tax (ytd)	199	190	158	149	171
Non-Performing Loans	605	605	593	680	761
Non-Performing Loans (net)	91	90	76	110	141
Key FSIs (Percent)					
NPLs to Loans (Gross)	11.4	10.1	8.4	8.0	8.6
Net NPLs to Net Loans	1.9	1.6	1.2	1.4	1.7
Net NPLs to Capital	7.7	7.3	5.8	7.8	8.9
Provision to NPL	84.9	85.0	87.2	83.8	81.4
ROA (Before Tax)	2.5	2.1	1.6	1.3	1.5
Capital Adequacy Ratio (all banks)	17.3	16.2	15.8	16.2	17
Advances to Deposit Ratio	46.4	46.6	50.1	55.8	51.7

Note: Statistics of profits are on year-to-date (ytd) basis.

Source: State Bank of Pakistan

Financial Development

Financial development has shown to be one of the most robust determinants of economic growth. Many countries have undertaken institutional reforms to build a market-oriented financial system in the hope that transition towards market economy will improve productivity, Pakistan is no exception. For the purpose, SBP has undertaken several regulatory and policy measures (detail has been discussed in Box-2) to make the financial sector more compatible and sounder.

Financial development (i.e. financial depth) is measured by macroeconomic variables such as domestic credit to the private sector as a percentage of GDP, money supply measures, and stock market indicators. In table 5.12, financial depth is measured by M2/GDP ratio. The ratio has shown an increasing trend since FY2011 from 36.6 to 46.9 in FY2019, indicating more developed and efficient financial sector in results of SBP's financial reforms. The trend is continued in current fiscal year as the ratio has increased to 46.2 percent during 01 Jul-24 Apr fiscal year 2020 against 43.6 percent in the comparable period last year.

Table 5.12: Financial Depth

Years	M2/GDP
2010-11	36.6
2011-12	38.1
2012-13	39.6
2013-14	39.6
2014-15	41.0
2015-16	44.1
2016-17	45.7
2017-18	46.2
2018-19	46.9
24th April	
2018-19	43.6
2019-20	46.2

Source: EA Wing Calculation, Finance Division

Box-2: Financial Reforms

The robust performance of the banking sector and its financial soundness was contributed by various regulatory and policy reforms undertaken by SBP. Briefly, the key policy reforms are highlighted as below.

Strengthening of Regulatory and Supervisory Environment

SBP, has developed a comprehensive set of reforms to enhance supervision and resilience of the banking system.

Regulatory Reforms

- To further align Anti Money laundering (AML) and Combating the Financing of Terrorism (CFT) with requirements embodied in Financial Action Task Force (FATF) following measures were taken:
  - SBP updated the guidelines to enhance the understanding of Targeted Financial Sanctions (TFS) regimes for Terrorism Financing and Proliferation Financing.
  - SBP introduced "Framework for Managing Risks of Trade Based Money Laundering and Terrorist Financing". Pakistan is among leading countries that have issued Trade Based Money Laundering (TBML) Framework since it is an emerging phenomenon and is important for control of FX leakages perspective.[6]
  - The AML/CFT instructions for Exchange Companies (ECs), both category A and B were revised comprehensively to align with FATF recommendations. In this regard, various guidelines for ECs related to Fit and Proper Criteria, Risk Based Approach (RBA) and Compliance of Government of Pakistan's Notifications issued under United Nations Security Council (UNSC) Resolutions were issued.
- SBP issued revised Framework for Risk Management in Outsourcing Arrangements by Financial Institutions (FIs) to address operational risk by updating the sections pertaining to Group Outsourcing, IT Outsourcing and governance of customers' confidential information. SBP continues to strengthen corporate Governance framework for banks. During the year, SBP advised banks to formulate a comprehensive and transparent remuneration policy for the Chairman and other Directors. Further, along with other features, maximum limits were introduced on Directors' remunerations.
- Following improvements have been made in the foreign exchange regime:
  - To promote ease of doing business in Pakistan, the registration of foreign borrowings/loans and the acquisition of services from abroad by the residents, have been delegated to Authorized Dealers subject to applicable rules and regulations.
  - To facilitate the manufacturing sector and importers cum exporters, Authorized Dealers were allowed to affect advance payment up to USD 25,000, or equivalent thereof, per invoice on behalf of manufacturing concerns and importers cum exporters for import of their own use only.
  - SBP re-launched incentive scheme to promote marketing of product and services related to home remittances, in order to encourage home remittances through formal channels.
  - In order to further facilitate freelancers and pensioners, SBP enhanced the limits for Business to Customer (B2C) and Customer to Business (C2B) transactions through home remittance channel. As per revised instructions, limits for Freelancers have been revised from USD 1,500 to USD 25,000 per individual per month, and pension payments have been increased from Rs 250,000 to USD 2,500 per individual per month.

Supervisory Reforms

- To bring more transparency and strengthen market discipline, SBP has decided to publicly disclose significant enforcement actions through its website.
- SBP has developed a comprehensive inspection framework for Payment Services Providers/Payment System Operators (PSO/PSPs) and Electronic Money Institutions (EMIs) to improve supervision effectiveness and identification of risks.
- The key supervisory initiative underway at SBP is the transition towards 'Risk Based Supervisory (RBS) Framework.[7]
- SBP has effectively engaged banks through written/ verbal follow-ups and supervisory meetings to ensure AML/CFT compliance, monitoring of biometric verification status and other supervisory concerns.

Reinforcing Measures for Financial Stability and Systemic Risk Assessment

- The SBP in coordination with the Ministry of Finance and Securities and Exchange Commission of Pakistan is in the process of formulating and implementing a comprehensive and well-structured Macro

[6] EPD Circular Letter No. 13 of 2019

[7] RBS is a forward-looking approach where the supervisor assesses various business areas of the financial institution, and the associated quality of management and internal controls to identify critical risk areas to direct supervisory attention towards them. The framework has been developed in collaboration with Toronto Centre's (TC), which is expected to conclude by December 2020.

prudential Framework in Pakistan and the work is in the final stages of operationalizing the overarching National Financial Stability Council (NFSC).[8]

- The Deposit Protection Corporation (DPC) has advised all the member banks to appropriately install or update their information systems including software(s)/ database(s) for maintaining a comprehensive depositor-wise database. Additionally, in order to benefit from international collaborations and the rich experience of banking resolution and deposit protection strategies around the globe, Deposit Protection Corporation became an active member of the International Deposit Insurer Association (IADI) in 2019.[9]

Broadening of Financial Net

The developments made on the financial inclusion front during FY2020 are as under:

National Financial Inclusion Strategy (NFIS)

- **NFIS Extended Action Plan 2023:**

  The PM Office has committed to create NFIS transformation office to ensure 100 percent digitization of government payments, along with the commitment to provide necessary support to provincial governments to complete the digital transformation. Moreover, SBP is continuing to serve as NFIS Secretariat.

- **Implementation progress:**

  - **Asaan Mobile Account (AMA) Scheme**: SBP in collaboration with PTA and NADRA is implementing the Asaan Mobile Account (AMA) Scheme to develop an interoperable USSD platform for accessing and usage of digital financial services from anywhere, at any time.[10]
  - **Micro Payment Gateway (MPG):** SBP, with the assistance of Bill & Melinda Gates Foundation and Karandaaz Pakistan is implementing a state of the art faster payment system known as Micro Payment Gateway (MPG), with the objectives of further developing digital financial services, reducing reliance on cash, and driving financial inclusion in Pakistan.
  - **Gender Mainstreaming Policy:** SBP has developed a Policy i.e. "Banking on Equality: Policy to Reduce the Gender Gap in Financial Inclusion". It aims to introduce a gender lens within the financial sector through identified pillars and specific measures, to bring a shift towards women friendly business practices. The policy is currently under consultation process with domestic and international stakeholders, and defines SBP's commitment to promote women's financial inclusion in the country.

- **Progress on Financial Literacy Initiatives**

  In order to enhance the financial education and awareness among the low-income segment population, SBP has taken following initiatives:

  - SBP launched the "National Financial Literacy Program (NFLP)" in 2017. Until February 29, 2020, an accumulated number of 18,508 programs have been conducted by participating banks against the target of 22,080 programs. Furthermore, 551,788 beneficiaries have been imparted financial education against the target of 552,000.
  - SBP, in collaboration with National Institute of Banking and Finance (NIBAF), initiated the roll-out of National Financial Literacy Program for Youth (NFLP-Y). It is a 5-year program, to be implemented in 45 districts to train 1.6 million children, adolescent and youth by March 2023. Among them, 1 million people would benefit through classroom sessions while 0.6 million students would be trained through digital learning platform.

Source: State Bank of Pakistan

Islamic Banking

Assets of Islamic banking Industry (IBI) has grown by 23.5 percent and reached to Rs 3,284

[8] The NFSC will be a joint forum of SBP, Securities & Exchange Commission of Pakistan (SECP) and Ministry of Finance (MoF) to address financial stability related concerns.

[9] The Association promotes cooperation on and carries out research and development work in the fields of deposit protection, financial stability and crises management and facilitate technical assistance on the relevant subjects.

[10] The pilot phase of the scheme, commenced in September 2019, has been completed and after meeting the licensing and procedural requirements, commercial launch of the scheme is expected shortly.

billion in CY19 against Rs 2,658 billion (growth of 17 percent) in CY18. Apart from this, deposits of IBI increased by 20.4 percent and reached to Rs 2,652 billion in CY19 against Rs 2,203 billion (16.9 growth) in CY18. Market share of Islamic Banking assets and deposits in the overall banking industry was registered at 14.9 percent and 16.6 percent, respectively in CY19 against 13.5 and 15.5 percent, respectively in last year.

Table 5.13: Islamic Banking Industry

	CY15	CY16	CY17	CY18	CY19
Total Assets (Rs Billion)	1,610	1,853	2,272	2,658	3,284
Total Deposits (Rs billion)	1,375	1,573	1,885	2,203	2,652
Share in Banks' Assets(Percent)	11.4	11.7	12.4	13.5	14.9
Share in Banks' Deposits (Percent)	13.2	13.3	14.5	15.5	16.6

Source: State Bank of Pakistan

In terms of number of providers, 22 Islamic Banking Institutions (IBIs) (5 full-fledged Islamic banks, 17 conventional are providing an array of Shariah compliant products and services through their network of 3,226 branches spread across 120 districts of the country. During CY19, 375 branches were added to branch network of Islamic banking industry. Further, Islamic Banking branches operated by conventional banks were recorded at 1,373 by end December, 2019.

Investments (net) of IBI upsurge by Rs 2 billion (0.34 percent) during the period under review and recorded at Rs 597 billion by end December, 2019 compared to Rs 595 billion in the previous quarter. Financing and related assets (net) of IBI witnessed expansion of Rs 77 billion (5 percent) during the last quarter of CY19 and stood at Rs 1,623 billion. Of which full-fledged IBs and IBBs of conventional banks registered growth of 4.2 and 6 percent, respectively, for financing and other related assets.

Table 5.14: Financing Products by Islamic banks

Mode of Financing	CY15	CY16	CY17	CY18	CY19
Murabaha	24.5	15.8	13.2	13.6	12.9
Ijara	6.6	6.8	6.4	6.2	5.7
Musharaka	14	15.6	22	19.9	19.8
Mudaraba	0	0	0	0	0
Diminishing Muskaraka	31.7	34.7	30.7	33.3	34.1
Salam	5.3	4.4	2.8	2.4	2.6
Istisna	8.6	8.4	8.2	9.1	9.5
Qarz/Qarz-e-Hasna	0.0	0.02	0.1	0.0	0.0
Others	9.3	14.3	16.7	15.5	15.4
Total	100	100	100	100	100

Source: State Bank of Pakistan

Profit before tax of IBI was recorded at Rs 66 billion by end December, 2019 against Rs 34 billion in the same period of 2018. Profitability ratios like return on assets and return on equity (before tax) were recorded at 2.2 percent and 34.4 percent, respectively by end December, 2019 compared to 1.4 and 22.3 percent, respectively during the same period last year.

In terms of mode wise financing breakup, the share of Diminishing Musharaka remained top in overall financing of IBI followed by Musharaka and Murabaha.

Microfinance

SBP continued to take additional measures besides implementation of ongoing initiatives aimed at enhancing financial inclusion. Moreover, regulatory guidance was also provided to Microfinance Banks (MFBs) in a number of areas.

As of December 2019, the microfinance industry players operated through 4,036 branches spread in 138 districts across the country. Although, industry's retail network decreased marginally owing to increased security and administrative requirements set out by the SECP for NB-MFCs. The performance of the microfinance industry has shown in the table which depicts increasing trend in number of borrowers and number of branches over the period.

Table 5.15: Microfinance Industry Indicators

Indicators	Dec-18	Dec-19	Growth
Number of Branches	6,936,554	7,249,943	4.5
Total No. of Borrowers	274,707	305,753	11.3
Gross loan portfolio (Rs in millions)	4,239	4,036	-4.8
Avg. Loan Balance (Rs)	55,173	47,228	-14.4

Source: State Bank of Pakistan

Table 5.16: Microfinance Banking Indicators Rs Million

Indicators	Mar-19	Mar-20	Growth
No. of Branches	1,087	1,212	11
Number of Borrowers	3,371,695	3,713,374	10
Gross Loan Portfolio	201,268	219,345	9
Deposits	236,021	239,641	2
Number of Depositors	36,111,999	45,800,637	27
Equity	48,443	47,398	-2
Assets	325,221	373,650	15
Borrowings	19,949	26,342	32
NPLs	3%	6%	-

Source: State Bank of Pakistan

As 3rd quarter of FY2020 ended, MFBs were successfully operating through a network of over 1,212 retail outlets. During the period, the combined asset base of MFBs, registered a YoY growth of 15 percent (or Rs 48.4 billion) increasing to Rs 373.6 billion. Similarly, gross loan portfolio of MFBs registered a growth of 9 percent to reach Rs 219.3 billion, as compared to Rs 201.3 billion in the corresponding period last year.

MFBs continued to provide relief to adversely influenced borrowers in eight districts declared as calamity affected by the Government of Sindh namely Tharparkar, Umer Kot, Sanghar, Thatta, Jamshoro, Dadu, Badin and Kamber Shahdad Kot, microfinance banks were advised to undertake all possible measures in line with Prudential Regulation R – 9: 'Rescheduling/ Restructuring of Loans'. As of December 2019 MFBs collectively provided relief of Rs 686 million to 12,892 borrowers in terms of restructuring and rescheduling of loans.

Branchless Banking (BB) Performance

During FY2020, all key indicators of branchless banking exhibited an encouraging growth. As of Dec 2019, 13 branchless banking players were providing basic financial services throughout the country. Performance of the BB has shown in the table below.

Table 5.17: Performance of BB Indicators

Indicators	Mar-19	Mar-20	Growth (%)
Number of Agents	408,980	434,192	6.2
Number of Accounts	51,809,393	48,345,517	-6.7
Deposits (Rs Million)	30,263	31,935	5.5
No. of Transaction (in Thousands)	842,267	1,092,977	29.8
Value of Transactions (Rs Million)	2,980,743	3,646,457	22.3

Source: State Bank of Pakistan

Initiatives for Promotion of Branchless Banking (BB)

In order to enhance the outreach of Branchless Banking operations for achieving the objective of financial inclusion and strengthening the controls related to Money Laundering (ML)/ Terrorist Financing (TF) risks, SBP issued revised Branchless Banking (BB) Regulations for Financial Institutions. The Framework emphasized the prerequisites of Simplified Due Diligence of BB Operations. Other key improvements in the Framework include:

- Gradually phasing out of Person-to-Person (P2P) transfer by June 30, 2020
- Biometric Verification is made mandatory for all Level 1 account
- Complete Biometric verification of all legacy BB accounts
- Enhance monthly limit of BB level 1 account to Rs 200,000/- per month

Conclusion

Proactive Fiscal and Monetary policies have stabilized the economy as the year progressed. Current account deficit, foreign exchange reserves, and primary budget balance witnessed significant improvement in FY2020. Initially, the SBP increased the policy rate to absorb the inflationary pressure in July, FY2020. The move resulted in lower credit demand from the private sector, which slowed down the economic activities. While domestic production and retail trade were adversely affected by the stabilization efforts, they received a major blow when the businesses were shut down amid lockdown to control the COVID-19.

The pandemic caused slowdown in economic activity and increased uncertainty about the future. However, as the inflationary pressures eased because of the declining oil prices and falling demand due to pandemic, the SBP cut the policy rate by cumulative 525 bps to 8 percent in two month. The SBP has also introduced various other measures to lessen the impact on public and economy. It is expected that these measures will invigorate the economy.