Chapter 5

Money and Credit

The effective monetary policy remains instrumental in maintaining liquidity in the money market. On account of macroeconomic stability, SBP continued with accommodative monetary policy stance that translated well into stable market interest rate at 5.75 percent, which is the lowest in last 45 years. Historic low interest rate and ongoing stability in money market are the main instruments for private sector credit cycle for fixed investment and for working capital.

Accordingly, credit to private sector increased to Rs.457.4 billion during Jul-21st Apr, FY2017 against Rs.296.8 billion in the same period last year, registering a significant growth of 54.1 percent. Private sector borrowed Rs.155.1 billion for fixed investment during Jul-Mar FY2017 as compared to Rs.140.3 billion availed in the corresponding period last year, registering a growth of 10.5 percent. Loans for working capital increased by Rs.150.9 billion during first nine months of FY2017 compared to Rs.65.4 billion in the same period last year, witnessed significant growth of 130.7 percent. A healthy uptick in private sector credit augurs well for growth.

The financial system remained stable during FY2017. Assets base of the financial sector has expanded at a decent pace of 11.93 percent in CY16 and reached to Rs.15.831 trillion by end December, 2016 as compared to Rs.14.143 trillion as of end December, 2015. NPLs to total loans ratio declined to an eight years' low level of 10.1 percent in Q4CY16. Capital Adequacy Ratio (CAR) at 16.2 percent as of end December 2016 is much stronger and higher than the minimum required level of 10.65 percent.

Monetary Policy Stance

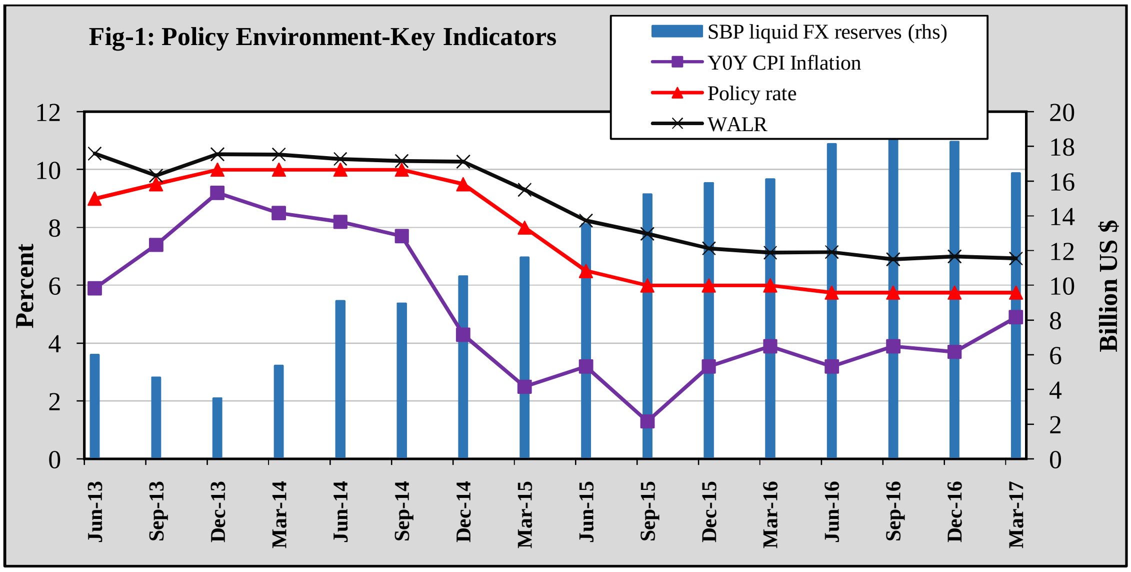
Keeping in view the macroeconomic stability, SBP kept the policy rate at 5.75 percent in May 2016 and maintained the same in the subsequent monetary policy decisions, which is the lowest rate since early 1970s.

Healthy credit expansion, along with higher production of Kharif crops, recovery in LSM/industrial growth, uptick in CPEC related activities in energy sector and favourable business environment supported SBP's decision to keep the policy rate unchanged during FY2017.

Table 5.1: Policy Rate

w.e.f	Policy rate
Jun-13	9.0
Sep-13	9.5
Nov-13	**10.0**
Nov-14	**9.5**
Jan-15	**8.5**
Mar-15	**8.0**
May-15	**6.5**
Sep-15	**6.0**
May-16 till date*	**5.75**

Source: State Bank of Pakistan
***: May 20, 2017**



Recent Monetary and Credit Developments

During the period Jul-21st April, FY2017, Broad Money (M2) witnessed expansion of Rs. 762.2 billion (5.94 percent) compared to the expansion of Rs.667.7 billion (5.92 percent) in the same period last year. Net Domestic Assets (NDA) point contribution in broad money increased to 8.67 percent during July-21st April, FY2017 from 5.02 percent recorded in the same period of FY2016 while Net Foreign Assets (NFA) point contribution in Broad money has reduced to (-2.73 percent) during July-21st April, FY2017 against expansion of 0.90 percent in the comparable period of FY2016.

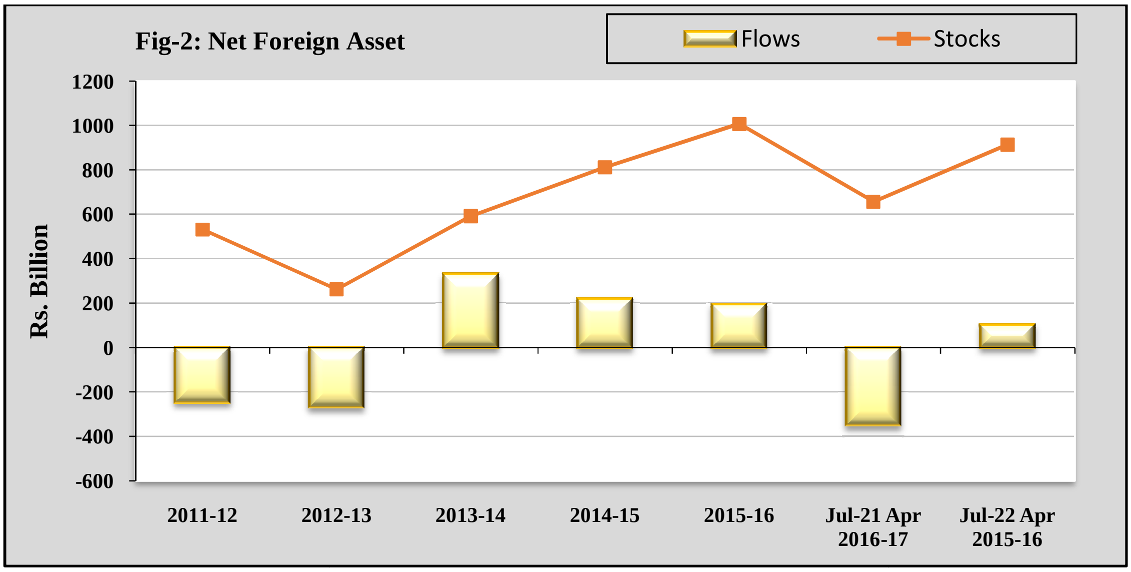
Table 5.2: Profile of Monetary Indicators — **Rs. billion**

	FY16 (Stocks) R	21-Apr-17	22-Apr-16
Net Foreign Assets(NFA)	1007.6	-350.7	101.9
Net Domestic Assets(NDA)	11817.3	1,112.9	565.7
Net Government Borrowing	7819.5	689.9	446.0
Borrowing for budgetary support	7194.8	805.0	536.4
From SBP	1442.2	868.5	-498.5
from Scheduled banks	5752.6	-63.5	1,034.9
Credit to Private Sector (R)	4449.5	457.4	296.8
Credit to PSEs	568.1	198.5	22.3
Broad Money	12824.9	762.2	667.7
Reserve Money	3973.6	470.7	663.4
Growth in M2 (%)	13.7	5.94	5.92
Reserve Money Growth (%)	26.5	11.9	21.1

Source: Weekly Profile of Broad Money & Reserve Money, State Bank of Pakistan

In contrast, reserve money growth remains contained to 11.85 percent during July-21st April, 2016-17 as compared to the growth of 21.11 percent in corresponding period of last year. The growth in SBP's NDA stood at 22.60 percent during the period under review compared to 22.11 percent in the same period of last year while SBP's NFA contracted by (-18.7 percent) compared to the expansion of 17.7 percent during last year. As a result, reserve money growth remained subdued during the period under review.

Within Broad Money, NFA of the banking system during Jul-21st Apr, 2016-17 declined by Rs.350.7 billion, which is in sharp contrast to an expansion of Rs.101.9 billion in the same period of last year. SBP's NFA observed contraction of Rs.193.8 billion during Jul-21st Apr, FY17. The NFA of scheduled banks, which was already negative as on end-June 2016, declined further (by Rs. 156.8 billion) during the period under review. This mainly represented higher FX liabilities incurred by some of the foreign banks operating in the country[1].



The NDA of the banking system observed an expansion of Rs.1,112.9 billion (9.42 percent) during Jul-21st Apr, FY 2017 compared to Rs.565.7 billion (5.40 percent) in the same period of last year. Pick up in credit to the private sector, credit to Public Sector Enterprises (PSEs) and rise in government borrowing from the banking system were the major causative factors of monetary expansion during Jul-21st Apr, FY2017.

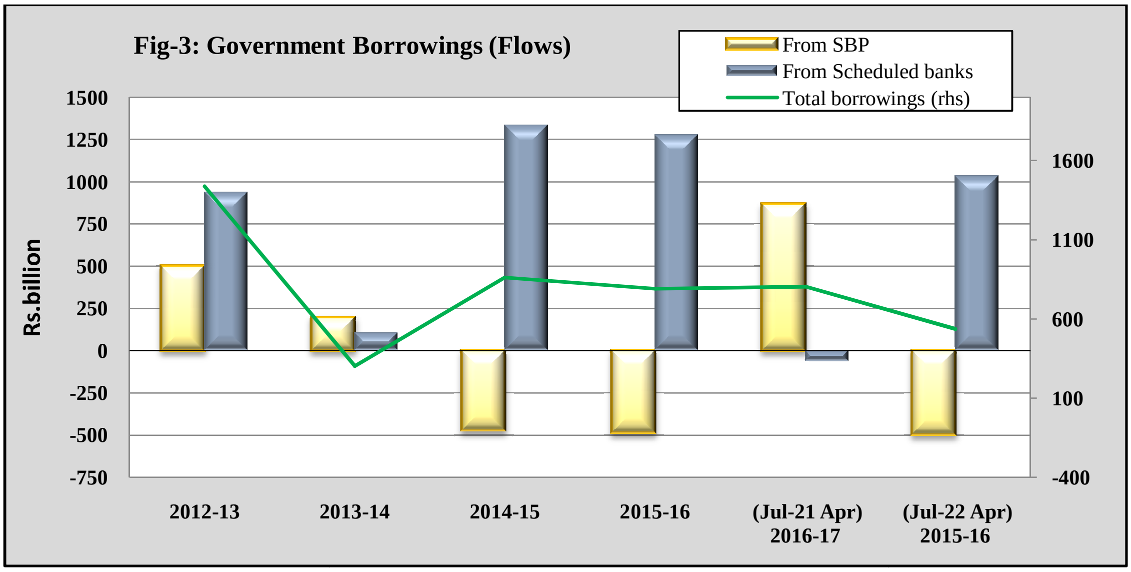
Credit to Public Sector Enterprises (PSEs) increased by Rs.198.5 billion during July-21st Apr, FY 2017 against Rs.22.3 billion in the same period of FY 2016. This expansion is primarily due to increase in financing for the completion of Neelum-Jhelum Power Project[2].

Government Bank Borrowing

During the period 1stJul-21st Apr FY2017, government borrowing for budgetary support amounted to Rs.805.0 billion against the borrowing of Rs.536.4 billion in the same period of FY2016. During the period under review, government borrowed Rs.868.5 billion from SBP compared to the retirement of Rs.498.5 billion in the same period last year. On the other hand, government retired Rs.63.5 billion to Scheduled banks during 1stJul-21st Apr FY2017 against the borrowing of Rs.1,034.9 billion last year. While, net government borrowing from the banking system reached to Rs.689.9 billion against the borrowing of Rs.446.0 billion over the previous year.

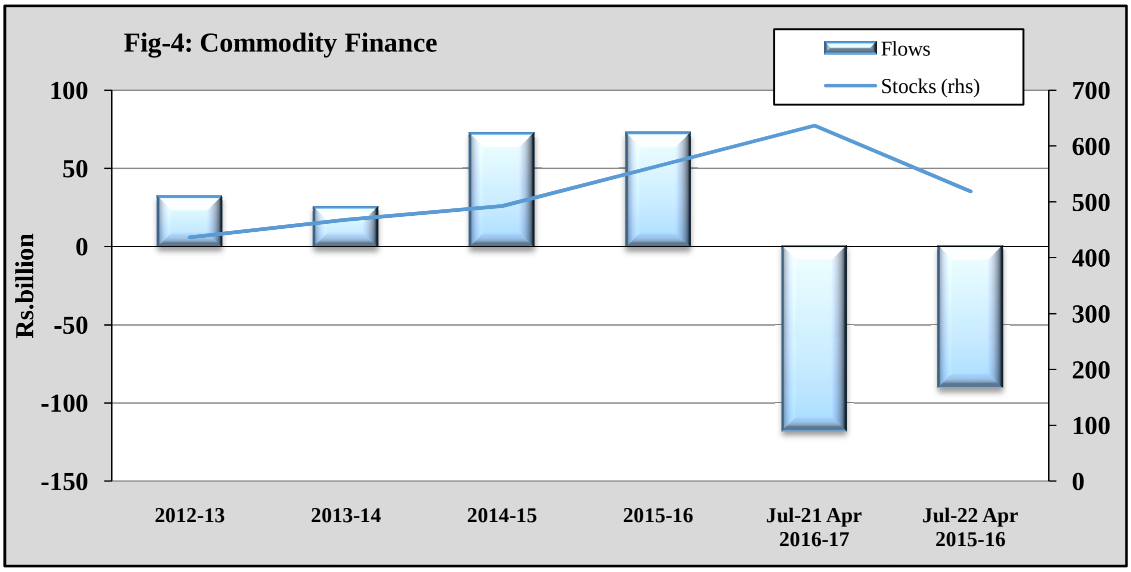
Government borrowing from SBP has a direct impact on reserve money growth and taken as inflationary. In contrast, during the period 1st Jul-21st Apr, FY2017, increase in government borrowing from SBP rather than scheduled banks led to steady fall in the outstanding level of OMO injections in the interbank market. As a result, the growth in SBP's NDA remain balanced and stood at 22.6 percent during the period under review compared to 22.1 percent in same period of last year.

[1] Second Quarterly Report, FY17, SBP
[2] Second Quarterly Report, FY17, SBP



Commodity Finance

Loans for commodity finance observed a net retirement of Rs.117.7 billion during Jul-21st Apr, FY 2017 compared to the net retirement of Rs.90.0 billion during the same period of last year, despite the heavy retirement for commodity finance during the period under review, the outstanding stock of commodity financing reached to Rs. 518.9 billion compared to Rs. 474.5 billion during comparable period of last year.



In FY 2016, the outstanding stock of commodity financing increased significantly to Rs.636.6 billion from Rs.564.5 billion in the comparable period of FY 2015, thus posting a growth 12.8 percent in FY2016 against the growth of 14.6 percent in FY 2015.

During the period Jul-31st Mar, FY2017, loans for wheat financing witnessed a net retirement of Rs. 124.3 billion compared to the retirement of Rs. 113.4 billion during the same period of FY 2016. Although the procurement agencies retired higher amount during the period under review FY2017 compared to FY2016, the outstanding stock of wheat remain higher and stood at Rs.405.9 billion compared to Rs.367.3 billion during the same period of last year and unsold stock still remains higher. The government took certain measures during FY2017 like extension in the subsidy, increase in the limit of wheat export and increase in the regulatory duty on wheat import to do away with such higher level of unsold wheat stock.

The fertilizer financing observed net retirement of Rs.15.99 billion during Jul-31st Mar, FY2017 against the borrowing of Rs. 12.2 billion in the same period of last year. In case of fertilizer, higher retirement during FY2017 due to the government's subsidy program led to a higher take-off both by urea and DAP during Kharif 2016. On the other hand, borrowing for sugar sector remained Rs. 4.25 billion during Jul-31st Mar, FY 2017 compared to Rs. 0.45 billion during corresponding period of last year.

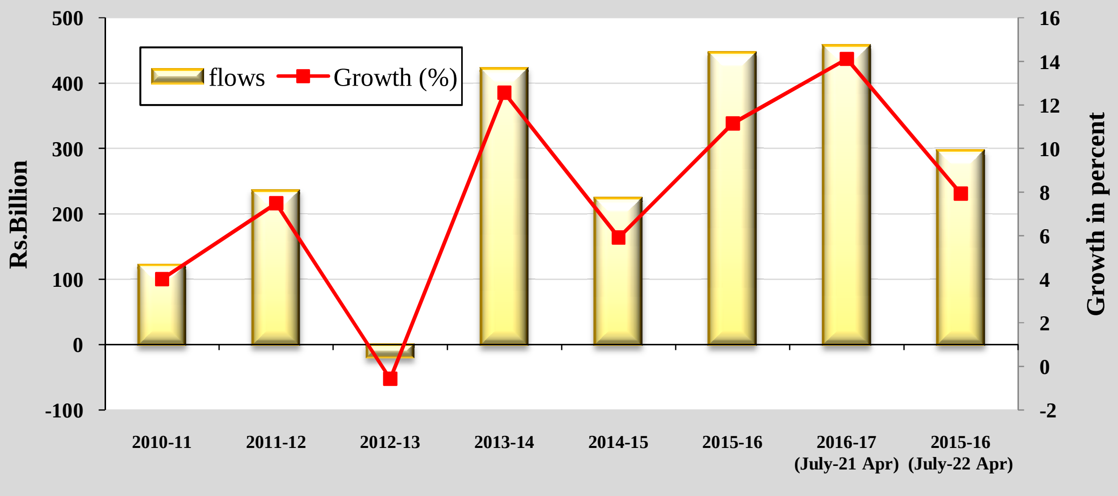
Credit to Private Sector[3]

Fiscal year 2015-16 witnessed a momentous increase in credit to private sector due to accommodative monetary policy stance and multi decade low policy rate, as it registered a net expansion of Rs. 446.5 billion in FY2016, against the net expansion of Rs. 223.8 billion in FY2015. On year on year basis, it posted a growth of 11.2 percent.

Moreover, recent data suggest that credit to private sector increased to Rs. 457.4 billion during Jul-21st Apr, 2016-17 against the expansion of Rs. 296.8 billion in the same period of last year, thus posted average growth of 10.3 percent during the period under review as compared to 7.4 percent last year. On year on year basis as on 21st Apr FY2017, CPS witnessed growth of 14.1 percent against the growth of 7.9 percent recorded in the same period last year.

The significant growth in private sector credit off-take during FY2017 is mainly due to accommodative monetary policy stance, translated to low cost of borrowing which attracted private sector businesses to finance their businesses and investment activities. A large number of sectors including (Mining & Quarrying, Manufacturing, Textile, Fertilizer, Sugar, Electricity, Gas and Water Supply, Construction, Commerce and Trade) availed higher credit not only for working capital but also for fixed investment. A healthy uptick in private sector credit for fixed investment bodes well for overall investment in the country in future.

Fig-5: Credit to Private Sector



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

Sectoral Analysis

Table 5.3: Credit to Private Sector — Rs billion

Sectors	End June Stocks				Jul-Mar (Flows)		Growth Rates	
	June-15	June-16	March-16	March-17	2015-16	2016-17	2015-16	2016-17
Overall Credit (1 to 5)	**3,651.1**	**4,041.9**	**3,914.8**	**4,490.2**	**263.7**	**448.4**	**7.2**	**11.1**
1. Loans to Private Sector Business	**3,015.5**	**3,355.5**	**3,264.5**	**3,723.9**	**249.0**	**368.5**	**8.3**	**11.0**
A. Agriculture	285.4	293.1	284.0	293.2	**-1.4**	**0.1**	**-0.5**	**0.0**
B. Mining and Quarrying	20.8	26.5	19.5	38.3	**-1.3**	**11.8**	**-6.3**	**44.3**
C. Manufacturing	1,704.4	1,915.3	1,910.8	2,175.0	**206.4**	**259.7**	**12.1**	**13.6**
Textiles	549.7	612.3	632.2	699.3	**82.5**	**87.0**	**15.0**	**14.2**
D. Electricity, gas and water supply	267.2	312.8	307.0	351.1	**39.8**	**38.3**	**14.9**	**12.2**
E. Construction	66.0	97.6	92.7	120.0	**26.7**	**22.4**	**40.5**	**23.0**
F. Commerce and Trade	237.0	266.3	248.3	285.6	**11.3**	**19.3**	**4.8**	**7.3**
G. Transport, storage and communications	146.6	182.2	167.5	181.6	**20.9**	**-0.6**	**14.3**	**-0.3**
I. Other private business	288.1	261.8	234.7	279.3	**-53.4**	**17.5**	**-18.5**	**6.7**
2. Trust Funds and NPOs	**14.0**	**14.2**	**14.0**	**13.4**	**0.1**	**-0.8**	**0.6**	**-5.8**
3. Personal	**383.1**	**415.3**	**401.3**	**478.7**	**18.2**	**63.4**	**4.8**	**15.3**
4. Others	**15.2**	**8.2**	**5.4**	**6.5**	**-9.8**	**-1.8**	**-64.5**	**-21.6**
5. Investment in Security & Shares of Private Sector	**223.4**	**248.6**	**229.5**	**267.8**	**6.1**	**19.2**	**2.8**	**7.7**

Source: State Bank of Pakistan

During Jul-Mar, FY2017, overall credit grew by 11.1 percent as compared to 7.2 percent during the same period of last year FY2016. Sector wise growth reveals that loans to private sector business observed growth of 11.0 percent during Jul-Mar, FY2017 compared to 8.3 percent in comparable period of last year.

In flows terms, credit expansion to private business amounted to Rs.368.5 billion during Jul-Mar, FY2017 against Rs.249.0 billion in the comparable period of FY 2016.The expansion in credit to private sector is broad based during FY 2017 and among all major sectors, Mining and Quarrying grew by (44.3 percent), followed by Construction (23.0 percent), Manufacturing (13.6 percent) of which Textile (14.2 percent), Electricity, Gas and Water supply (12.2 percent) and Commerce & Trade (7.3 percent). In term of share, credit off take remained high in Manufacturing sector that received share 70.4 percent of private sector loan (Rs. 259.7 billion), followed by textile (23.6 percent or Rs. 87.0 billion), Electricity, Gas and Water supply (10.4 percent or Rs.38.3 billion) and construction (6.0 percent or Rs.22.4 billion).

Table 5.4: Loans* to Private Sector Businesses — Rs. billion

Description	Total Credit		Working Capital		Fixed Investment		Trade Financing	
	(Jul-Mar) FY16	(Jul-Mar) FY17	(Jul-Mar) FY16	(Jul-Mar) FY17	(Jul-Mar) FY16	(Jul-Mar) FY17	(Jul-Mar) FY16	(Jul-Mar) FY17
Total loans to private businesses	249.0	368.5	65.4	150.9	140.3	155.1	43.3	62.5
of which								
1) Manufacturing	206.4	259.7	116.5	104.5	34.2	97.8	55.7	57.4
i) Textiles	82.5	87.0	58.1	35.5	9.3	26.2	15.1	25.3
Spinning, weaving and finishing	57.9	72.0	49.8	28.5	2.6	26.0	5.5	17.5
ii) Chemicals	33.1	3.3	22.1	(21.2)	7.5	21.0	3.5	3.5
Fertilizer	28.2	(14.8)	19.5	(26.7)	5.9	10.9	2.7	1.0
iii) Food products & beverages	68.7	112.4	42.9	84.9	11.9	21.9	13.9	5.6
Rice processing	10.4	9.3	1.7	3.4	1.5	1.0	7.2	4.9
Edible oil and ghee	3.7	(4.5)	0.8	(1.7)	0.1	0.5	2.9	(3.3)
Sugar	56.9	101.0	51.7	79.3	4.8	15.5	0.4	6.2
iv) Basic and fabricated metal	(3.0)	(0.3)	2.5	(3.3)	0.0	1.4	(5.5)	1.6
v) Rubber, plastics and paper	2.0	(3.9)	0.9	(3.7)	2.3	(2.2)	(1.1)	1.9
vi) Electrical equipment	9.2	6.5	(4.8)	5.4	6.0	1.5	8.1	(0.4)
2) Electricity, gas & water supply	39.8	38.3	13.0	21.7	31.9	14.2	(5.1)	2.4
3) Transport, storage &communications	20.9	(0.7)	(9.2)	(9.4)	30.2	8.8	(0.0)	(0.1)
Road transport	18.4	1.2	0.3	(0.0)	18.1	1.3	(0.1)	(0.0)
4) Construction	26.7	22.4	(2.6)	7.4	28.1	15.8	1.3	(0.8)
Road infrastructure	14.7	12.1	0.6	4.8	13.8	8.4	0.3	(1.1)
5) Agriculture	(1.4)	0.1	(7.4)	2.7	6.1	(2.4)	(0.1)	(0.2)

*Loans include advances plus bills purchased & discounted excluding foreign bills.

Source: State Bank of Pakistan

Credit to private sector by type of finance, all categories (including working capital, fixed investment and trade finance) availed higher credit during Jul-Mar, FY17 compared to corresponding period of last year. The gradual increase in credit disbursement for working capital, fixed investment and trade financing mainly used by major sectors of the economy and primarily evident in Manufacturing of which food and beverages, textile and sugar availed higher credit. Manufacturing sector during FY2017 availed higher share of total loan particularly for working capital. Cement sector off-take higher credit for fixed investment requirement during the period under review on account of increase in construction activities. Credit demand for power projects shifted from fixed investment to working capital during the period Jul-Mar, FY2017. Credit for fixed investment amounted to Rs.155.1 billion (increase by 10.5 percent) during Jul-Mar, FY2017 compared to Rs.140.3 billion in the same period of FY2016, working capital credit reached to Rs.150.9 billion (grew by 130.7 percent) during the first nine months of FY2017 against Rs.65.4 billion in comparable period of last year and trade financing increased to Rs.62.5 billion (expanded by 44.3 percent) during first nine months of FY2017 from Rs.43.3 billion in the same period of last year.

A sustained growth in credit demand needs prudent monetary policy stance, improved business sentiments, decent increase in banks deposits and managed interbank liquidity condition augurs well for growth in private sector going forward.

Table 5.5: Consumer Financing **(Rs. billion)**

	July-March (Flows)		Growth (%)	
Description	**2015-16**	**2016-17**	**2015-16**	**2016-17**
Consumer Financing	17.3	62.1	6.1	20.3
1) For house building	5.1	8.2	12.8	17.1
2) For transport i.e. purchase of car	17.3	26.2	20.4	23.4
3) Credit cards	0.9	3.0	3.6	11.7
4) Consumers durable	0.4	0.8	111.1	100.5
5) Personal loans	-4.2	25.7	-3.3	22.5
6) Other	-2.3	-1.8	-27.3	-31.6

Source: State Bank of Pakistan

During first nine months of CFY 2017, Consumer financing witnessed a significant growth of 20.3 percent (Rs.62.1 billion) against 6.1 percent (Rs.17.3 billion) during the same period of last year. Of which, consumer durable recorded a substantial growth of 100.5 percent during Jul-Mar, FY2017 compared to 111.1 percent during the comparable period of last year. Moreover, house building loans observed a significant growth of 17.1 percent and amounted to Rs.8.2 billion during Jul-Mar, FY2017 as compared to 12.8 percent (Rs.5.1 billion) during the corresponding period of last year. Noticeable improvement in house building financing is primarily due to prudent monetary policy and historic low policy rate. However, auto financing saw an expansion of Rs.26.2 billion (23.4 percent) during first nine months of FY 2017 compared to Rs.17.3 billion (20.4 percent) during the comparable period of last year. Increasing trend since fiscal year 2009-10 in auto financing is mainly due to amendment in regulations for car financing, which allowed banks to finance cars up to 9 years old and high demand for the new model car that started to benefit the sales of local car assemblers, which are expected to post a healthy rise in FY 2017. Moreover, personal loan showed net expansion of Rs.25.7 billion (22.5 percent) during the period under review as compared to the net retirement of Rs.4.2 billion (-3.3 percent) in the same period of last year. The uptick in consumer financing observed during FY2017 on account of significant reduction in Weighted Average Lending Rates (WALRs) of scheduled banks due to enough liquidity on account of large PIB maturities and unprecedented volume of retirements from private businesses during July 2016. As a consequence, consumer financing witnessed significant growth particularly for consumer durable, auto financing, house building loans and personal loans during the period under review.

Table 5.6: Indicative Targets and Actual Disbursement of Agriculture Loans (Rs. billion)

Name Of Banks	Target		Flows July-March	
	2015-16	2016-17	2015-16	2016-17
5 Major Comm. Banks	305.7	340.0	198.8	236.6
ZTBL	102.0	102.5	55.3	57.5
15 Domestic Private Banks	131.8	139.6	84.8	90.2
P.P.C.B.L	12.5	12.5	6.1	6.9
10 Microfinance Banks	40.1	60.1	34.5	61.3
MFIs/RSPs	-	34.3	-	12.2
5 Islamic Banks	7.9	11.0	6.0	8.4
Total	600.0	700.0	385.5	473.1

Source: State Bank of Pakistan

For fiscal year 2016-17, agriculture credit disbursement target was at Rs. 700.0 billion compared to the target of Rs. 600.0 billion in fiscal year 2015-16. The actual disbursement remained at Rs.598.3 billion in FY 2016. During July-March, 2016-17, overall credit disbursement increased to Rs. 473.1 billion compared to Rs. 385.5 billion in the corresponding period of last year, thus posting a growth of 22.7 percent compared the growth of 18.3 percent in last year, the disbursement remained 67.5 percent of the target during July-March of current fiscal year. 5 Major commercial banks disbursed agriculture loans of Rs. 236.6 billion or 69.5 percent of its target which is 19.0 percent higher (Rs. 198.8 billion) during the same period of last fiscal year.

Box-1: SBP initiatives for financial inclusion in Agriculture Financing during FY2017

- **Interest Free Solar Tube well Financing Scheme**: Finance Minister, in his FY 2015-16 budget speech announced an Interest free loan scheme for small farmers (having land holding of up to 12.5 acres) for installation of 30,000 solar powered tube wells over a period of 3 years. Under this scheme, the federal government had concurred to cover the markup cost on behalf of farmers. Based on the aforementioned budgetary announcement, SBP in consultation with banks has developed a scheme for providing interest free loans for installation of solar powered tube wells. The modalities for implementation of the scheme are being finalized by MoF & MNFSR (Ministry of National Food Security and Research).
- **Commodity Management & Warehouse Receipt Financing Rules**: SECP in consultation with stakeholders including SBP, banks have developed a draft Collateral Management Companies (Establishment and Operations) Regulations and submitted for approval. Once the regulations are approved by the Cabinet, the same will be notified by SECP.
- **Simplification of Loan Application for Agri. financing**: In order to simplify the lending process for agriculture financing, revised Loan Application Forms (LAF) for agriculture financing have been developed in consultation with banks and implemented. The loan application form has been categorized into 1) LAF up to Rs.1 million and LAF for above Rs.1 million.
- **Farmers Financial Literacy Programs**: SBP is introducing credit culture amongst farmers through its flagship Farmers Financial Literacy Programs (FFLP). These program are very helpful in spreading financial awareness amongst the target groups. The 1-day training module is specially designed for farmers to increase their understanding of banking services, credit, savings, insurance and documentary requirements for obtaining a loan etc.

In FY 2015-16, 12 FFLP programs were conducted across the country. These programs were attended by 390 ACOs and over 1700 farmers. As per practice, the trained ACOs will serve as master trainers to further spread financial awareness at the grass root level through engagement sessions with farmers.

Source: State Bank of Pakistan

Monetary Assets

Monetary assets (M2) include currency in circulation, demand deposits, time deposits and residents' foreign currency. Money supply (M2) witnessed a growth of 5.94 percent during 1st Jul – 21st Apr, FY2017 as compared to the growth of 5.92 percent in the corresponding period of last year. While Y-o-Y basis it stood at 13.7 percent higher as on 21st April, FY 2017. Growth in M2 is mainly contributed by total demand and time deposits including RFCDs.

Currency in Circulation (CIC)

During the period Jul- 21st Apr, FY 2017, CIC increased by Rs.216.5 billion (6.5 percent) compared to the expansion of Rs.508.6 billion (19.9 percent) in the same period of last year, whereas YoY growth recorded at 15.9 percent as on 21st April, FY2017. The currency-to-M2 ratio has also been increased to 26.1 as on 21st April, 2017 compared 25.6 percent in the same period of last year.

CIC remain contained during the period under review as compared to last year, maturity of PIBs was falling in Q1 FY2017, but these retirements did not have any significant impact on interbank liquidity, as these were completely equalized by lower OMO injections. On the other hand, seasonal retirement of private sector credit created sufficient liquidity for scheduled banks to make up for cash withdrawals related to two eid festivals during Q1, FY2017.The comfortable interbank liquidity situation impacted overnight rates that remained close to the target rate.

Table 5.7: Monetary Aggregates **(Rs. million)**

Items	End June		July-21 April	
	2015	2016	2015-16	2016-17
A. Currency in Circulation	2,554,749	3,333,784	3,063,405	3,550,308
Deposit of which:				
B. Other Deposits with SBP	13,747	18,756	19,320	22,520
C. Total Demand &Time Deposits incl. RFCDs	8,713,648	9,472,313	8,867,092	10,014,229
of which RFCDs	597,760	587,258	592,953	602,089
Monetary Assets Stock (M2) A+B+C	11,282,144	12,824,853	11,949,818	13,587,057
Memorandum Items				
Currency/Money Ratio	22.6	26.0	25.6	26.1
Other Deposits/Money ratio	0.1	0.1	0.2	0.2
Total Deposits/Money ratio	77.2	73.9	74.2	73.7
RFCD/Money ratio	5.3	4.6	5.0	4.4
Income Velocity of Money	2.6	2.5	_	_

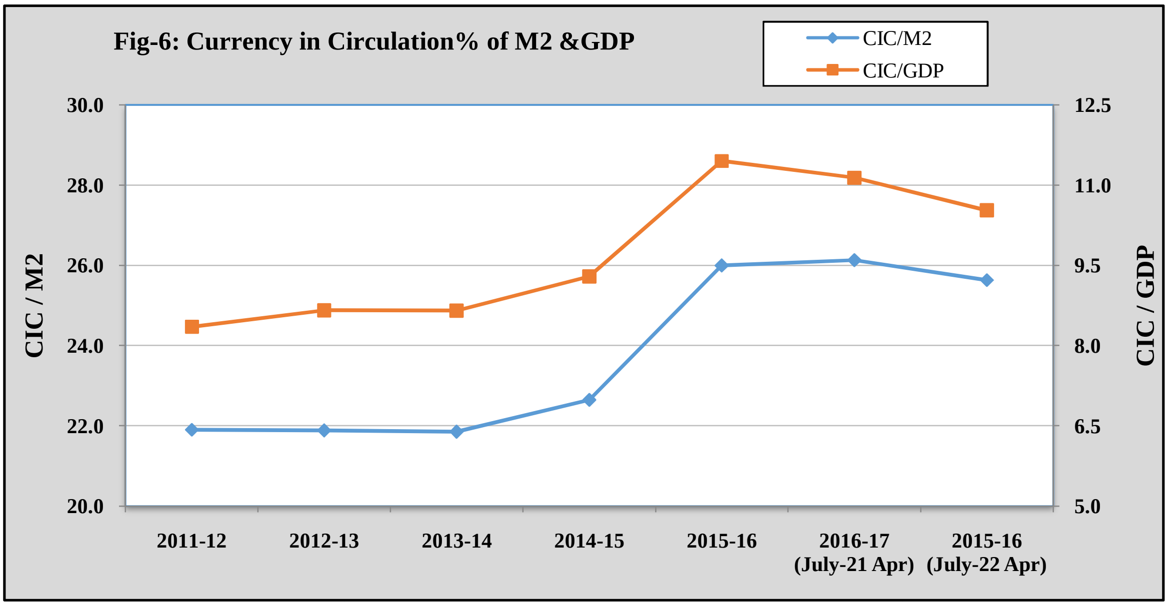
Source: State Bank of Pakistan

Deposits

Bank deposits increased by Rs.541.9 billion (5.7 percent) during Jul-21st Apr, FY2017 compared to the expansion of Rs.153.4 billion (1.8 percent) witnessed in the same period of last year. As a result, currency-to-deposit ratio increased to 35.5 as on April 21, 2017 compared with 34.5 on April 22, 2016. Balanced monetary expansion during the period under review witnessed on account of high currency-to-deposit ratio, which led to a lower money multiplier. "In this context, increasing penetration of formal banking services in the economy – as explicitly laid out in the National Financial Inclusion Strategy – has lately become more important"[4].

Whereas, Resident Foreign Currency Deposits (RFCD) that was negative during last year, increased from (Rs.-4.8 billion) to Rs.14.8 billion during Jul-21st Apr, FY2017.

[4] First Quarterly Report, FY17, SBP



Monetary Management

During first nine months of CFY2017, the government changed its borrowing mix and mobilized funds only from SBP and retired to scheduled banks. Normally, government borrowing from central bank is considered inflationary as it directly impact on reserve money growth. But this impact was balanced through low outstanding OMOs injections during the period under review. The government financing method created comfortable liquidity condition in interbank market, led to continuation of stable policy rate. As a result, a steady fall in the outstanding level of OMO injections were observed during the period under review, which reduced from Rs. 1,323.8 billion at end-March 2016 to Rs.961.1 billion by end-March 2017.

Table 5.8: Average Outstanding Open Market Operations* (Billion Rupees)

	FY2014	FY2015	FY2016	FY2017
Full Year	**53.9**	**418.6**	**1,268.9**	**972.2**
Q1	**-34.7**	**63**	**1,082.9**	**1094.0**
Q2	**-11.8**	**281**	**1,287.6**	**861.3**
Q3	**67**	**683.2**	**1,323.8**	**961.1**
Q4	**196.9**	**744.1**	**1,383.3**	

*: The data does not include the impact of outright OMOs.
Note: (+) amount means net Injections.
(-) amount means net mop-up.
Source: State Bank of Pakistan

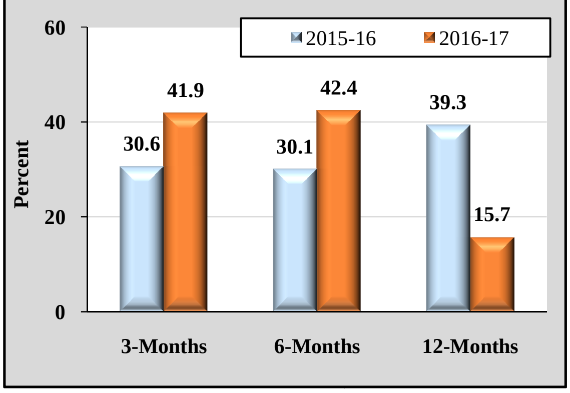
Table 5.9: Market Treasury bills Auctions **(Rs million)**

	Jul-Jun			Jul-Mar					
	2015-16			Offered		Accepted		W.A.Rate*	
	Offered	Accepted	W.A Rate*	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17
3-Months	2,726,618	1,457,485	6.4	2,101,410	3,756,514	1,211,203	2,441,329	6.5	5.9
6-Months	2,873,573	1,629,803	6.4	1,911,162	3,918,854	1,188,603	2,471,538	6.6	5.9
12-Months	3,656,106	1,821,670	6.4	2,759,473	1,628,197	1,554,942	915,996	6.6	5.9
Total	**9,256,297**	**4,908,958**		**6,772,045**	**9,303,565**	**3,954,748**	**5,828,863**		

Source: State Bank of Pakistan

During the period Jul-Mar, FY2017, market offered total amount of Rs.9,303.6 billion T-Bills compared to Rs. 6,772.0 billion during the same period of last year. During the first nine months of CFY 2017, T-Bills contributed 42.4 percent of the total accepted amount in 06 months followed by 41.9 percent in 03-months and 15.7 percent for 12 months.

Fig-7: Contribution of T-bills



During first nine months of CFY 2017, under PIB auction market offered Rs.1,556.1 billion against Rs.2,058.3 billion in comparable period of last year. PIBs witnessed heavy investment in 3 years as it contributed 54.0 percent of total accepted amount followed by 29.6 percent in 5 years and 16.4 percent in 10 years.

Comfortable liquidity condition allowed banks to actively participate in government papers, for instance, with offered around Rs.9.3 trillion amount, the government mobilized Rs.5.8 trillion through T-Bills auction more than 47 percent amount accepted compared to same period of last year without raising the weighted average yield of the auctions.

In case of PIBs, with offer of Rs.1.6 trillion, the government raised less than the last year and accepted Rs.778.8 billion. Scheduled banks participation in the auction of PIBs remained subdued during the period under review. The government rejected all bids for PIBs during the second quarter FY2017 as the government had sufficient financing available from other resources.

Greater tendency for T-Bills over PIBs indicates the market's anticipation of a rise in inflation and a possible bottoming out of policy rate[5].

Fig-8: Contribution of PIBs

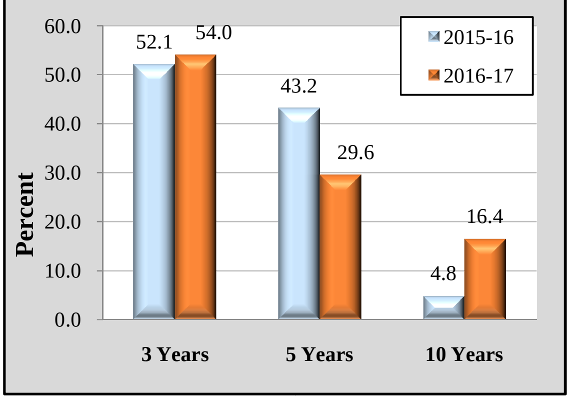


Table 5.10: Pakistan Investment Bonds Auctions (Rs. million)

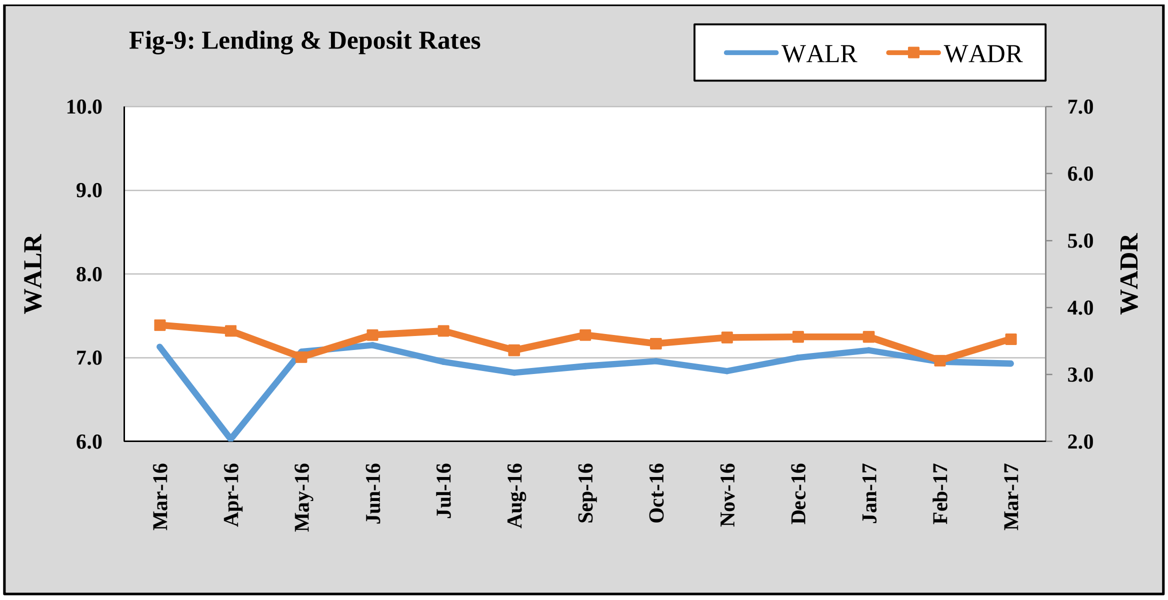
PIBs	Jul-Jun			Jul-Mar				W.A Rate	
	Offered	Accepted	W.A Rate	Offered		Accepted			
	2015-16			2015-16	2016-17	2015-16	2016-17	2015-16	2016-17
3 Years	1,315,268	484,812	7.2	1,083,071	888,051	407,615	420,569	7.2	6.3
5 Years	982,167	407,561	7.9	812,426	419,533	338,021	230,375	8.0	6.8
10 Years	262,487	71,227	8.7	162,758	245,778	37,328	127,823	8.8	7.8
15 Years	-	-	-	-	-	-	-	-	-
20 Years	-	-	-		2,743		-		-
30 Years	-	-	-	-	-	-	-	-	-
Total	**2,559,922**	**963,600**		**2,058,255**	**1,556,105**	**782,964**	**778,767**		

Source: State Bank of Pakistan
Note: Accepted amount include non-competitive bids as well as short sell accommodation.

[5] 2nd Quarterly Report FY17, SBP

Table 5.11: Lending & Deposit Rates(W.A)			
	LR	DR	Spread
Mar-16	7.13	3.74	3.39
Apr-16	6.03	3.65	2.38
May-16	7.07	3.26	3.81
Jun-16	7.15	3.59	3.56
Jul-16	6.95	3.65	3.30
Aug-16	6.82	3.36	3.46
Sep-16	6.90	3.59	3.31
Oct-16	6.96	3.46	3.50
Nov-16	6.84	3.55	3.29
Dec-16	7.00	3.56	3.44
Jan-17	7.09	3.56	3.53
Feb-17	6.95	3.21	3.74
Mar-17	6.93	3.53	3.40
Source: State Bank of Pakistan			

During the first nine months of current fiscal year, following the declining policy rate, Weighted Average Lending Rate (WALR) on gross disbursements also reduced to 6.93 percent in March, 2017 from 7.13 percent in March, 2016, thus reduced by 20 bps and reached its lowest level over a decade. The average WALR shows low cost of borrowing during the first nine months of CFY 2017 that impacted significantly on private sector credit growth during the period. Similarly, Weighted Average Deposit Rate (WADR) offered on fresh deposits also reduced from 3.74 percent in March, 2016 to 3.53 percent in March 2017. As a result, banking spread which generally refers to the cost of channelling funds through intermediaries and is the difference of lending and deposit rates remained almost same at 3.40 percent in March 2017 and 3.39 percent in March 2016.



Similarly, the average lending rate on outstanding loans also reduced from 8.53 in March, 2016 to 7.89 percent in March, 2017. The average deposit rate reduced to 2.99 percent in March 2017 compared to 3.30 percent in March, 2016.

Financial Sector

The banking sector witnessed impressive performance during the last couple of years. Remarkable performance of banking system was primarily due to impressive growth in advances to private sector which has impacts on asset growth. The lagged effect of accommodative monetary policy, steady deposits growth and maturity of PIBs creates sufficient availability of liquidity, CPEC related activities and positive economic outlook are main factors behind the impressive growth in advances. The gross advances to private sector has increased significantly during CY16. Primarily, credit to private sector for working capital, trade financing and fixed investment has shown higher growth during the period under review.

The momentum continued in the FY2017 with asset base, which registered a growth of 11.93 percent and reached to Rs.15.831 trillion by end December, 2016 compared to Rs.14.143 trillion as of end December, 2015. Besides investments, credit to private sector has also started to accelerate. Advances grew with a significant rate of 14.18 percent in CY16 compared to 8.3 percent in CY15. Gradual increase in earning assets has translated into profits before tax of Rs.314 billion during the fourth quarter of CY16 (Rs.329 billion during December, 2015). Further, the alignment of regulatory capital requirements in Pakistan with best international practices coupled with high profitability has helped in achieving strong solvency. Capital Adequacy Ratio (CAR) has slightly declined to 16.2 percent due to rise in advances during CY16 compared to 17.3 percent in CY15 but it is still much stronger and higher than the minimum required level of 10.65 percent.

Similarly, asset quality has also improved and infection ratio has declined from 14.8 percent as of June 2013 to 10.1 percent as of end December, 2016. Also, gross NPLs to loans ratio reduced from 11.4 percent in CY15 to 10.1 percent in CY16. Net NPLs ratio reduced from 1.9 percent to 1.6 percent in December, 2016 on year on year basis.

Table 5.12: Highlights of the Banking Industry

	CY13*	CY14	CY15	CY16
Key Variables (Rs. billion)				
Total Assets	10,487	12,106	14,143	15,831
Investments (net)	4,313	5,310	6,881	7,509
Advances (net)	4,110	4,447	4,816	5,499
Deposits	8,311	9,230	10,389	11,798
Equity	943	1,207	1,323	1,353
Profit Before Tax (ytd)	162	247	329	314
Profit After Tax (ytd)	112	163	199	190
Non-Performing Loans	607	605	605	605
Non-Performing Loans (net)	139	122	91	90
Key FSIs (Percent)				
NPLs to Loans (Gross)	13.3	12.3	11.4	10.1
Net NPLs to Net Loans	3.4	2.7	1.9	1.6
Net NPLs to Capital	14.7	10.1	7.7	7.3
Provision to NPL	77.1	79.8	84.9	85.0
ROA (Before Tax)	1.6	2.2	2.5	2.1
Capital Adequacy Ratio (all banks)	14.9	17.1	17.3	16.2
Advances to Deposit Ratio	49.5	48.2	46.4	46.6

Source: State Bank of Pakistan
Note: Statistics of profits are on year-to-date (ytd) basis.
*** Except CY13, all numbers are based on unaudited financials.**

Financial Development

It is an established fact that well-structured and efficient financial institutions are prerequisite for economic growth. Financial institutions and markets can foster economic growth through easing the exchange of goods and services by providing simple and fast payment services, mobilising and pooling savings from a large number of investors, acquiring and processing information about enterprises and possible investment projects, thus allocating savings to their most productive use and monitoring investment. Each of these functions can influence saving and investment decisions and hence economic growth.

Financial depth can be measured by different proxies, but M2-to-GDP ratio is considered as most comprehensive and commonly used for capturing the overall size of the financial sector. Increasing M2/GDP ratio primarily indicates the well structured and developed financial sector.

Table 5.13: Financial Depth

Years	M2/GDP
2009-10	38.9
2010-11	36.6
2011-12	38.1
2012-13	39.6
2013-14	**39.6**
2014-15	**41.1**
2015-16	**44.1**
July-21 April	
2015-16	**41.1**
2016-17	**42.6**

In case of Pakistan, this ratio has shown positive and increasing trend since FY 2012 due to several regulatory reforms and policy initiatives aimed to ensure a sound and robust financial sector. Monetary assets which were 36.6 percent of GDP in FY 2011 increased to 44.1 percent in FY 2016. While during the period July- 21st Apr, FY2017, M2/GDP ratio increased to 42.6 percent from 41.1 percent witnessed in the comparable period of last year. However, the ratio is expected to increase further in future on account of ongoing financial reforms in financial sector with aim to strengthen the financial depth. Aiming to this, SBP continuously endeavours to bring an improvement in the legal, regulatory and supervisory framework including Basel III standards adopted in Pakistan, AML/CFT regulations are aligned with FATF recommendations, measures for improvement in foreign exchange regime, broadening of National Financial Inclusion Strategy and strengthening of financial market infrastructure etc.

Box-2: Financial Reforms

Some of the recent regulatory measures and policy reforms adopted by SBP are highlighted below:

➢ **Strengthening of Legal, Regulatory and Supervisory Environment**

To strengthen the legal regime, following measures have been adopted by SBP during last year

- In order to facilitate recovery of loans by minimizing defaults, SBP proposed amendments in Section 15 of the **Financial Institutions (Recovery of Finances) Ordinance, 2001 (FIRO)** which were enacted on 13th August 2016.
- Alongside the amendments in FIRO, a new law with the name of **Corporate Restructuring Companies Act 2016** has been enacted in June, 2016 which provides for establishment and regulation of corporate restructuring companies.
- The **Deposit Protection Corporation Bill 2016** was passed by the National Assembly on March 17, 2016 and subsequently passed by the Senate with amendments on June 17, 2016.
- In order to further improve the foreign exchange regime of the country, the amendment in Foreign Exchange Regulation Act, 1947 was passed by the parliament and notified on July 27, 2016.
- To strengthen the capital adequacy framework for the banking sector and to contain systemic risk, SBP adopted Basel III standards in Pakistan in 2013. During 2016, State Bank of Pakistan (SBP) has adopted Basel Committee on Banking Supervision (BCBS) proposed liquidity standards "Liquidity Coverage Ratio (LCR)" and "Net Stable Funding Ratio (NSFR)".
- With the intention to further strengthen corporate governance regime of banks for achieving strategic objectives and in order to ensure proper performance evaluation of Boards, SBP has issued guidelines on performance evaluation of Board of Directors.
- Anti Money Laundering (AML)/Combating Financing of Terrorism (CFT) Regulations are aligned with the Financial Action Task Force (FATF) recommendations and cover all essential aspects of preventive and control measures as per risks involved.

- **Broadening of Financial net-Financial inclusion**

Under SBP strategic plan 2016-2020 known as SBP vision 2020, increasing the financial inclusion has been set as one of the strategic goals which will be achieved through the following:

- Implement the national financial inclusion strategy
- Revise legal framework to remove obstacles to inclusion such as those that inhibit secured lending
- Enable and promote alternative channels for delivery of financial services that meet consumer needs
- Enable and promote Islamic banking
- Implement financial literacy initiatives

- **Financial Market Infrastructure**

State Bank of Pakistan (SBP), being a core contributor to National Payment Systems development, has been playing a key role as a Regulator, Operator and Facilitator in achieving its public policy objectives of safety and efficiency of National Payment Systems. Payment and Settlement Systems infrastructure in Pakistan has been facilitating government, businesses and individuals to discharge their financial obligations and play a critical role not only in smooth functioning of the real economy but also in maintaining financial stability and promoting economic growth.

During FY 2016-17, Pakistan has witnessed substantial developments in both Large Value and Retail Payment Systems. SBP has taken a number of initiatives for developing payments infrastructure and providing an enabling regulatory environment with the objective of improving interoperability, while at the same time, providing more payment options to general public as well as private and public sectors in the country.

- **Responsible Banking Conduct & Financial Consumer Protection**

Financial Consumer Protection or Responsible Banking Conduct is a vital catalyst for Financial Stability and Financial Inclusion. Therefore, one of the key regulatory agendas of State Bank of Pakistan is Enhanced Conduct Regulation and Supervision included: Consumer Grievance Handling Mechanism (CGHM), Conduct Assessment Framework (CAF), Engagements/capacity building of banking industry and Enhanced Conduct Supervision.

Source: State Bank of Pakistan

Islamic Banking

Islamic Banking industry has shown substantial growth. SBP's 5 year strategic plan (2014-18) for Islamic Banking envisions 15 percent market share for this growing segment of banking at the end of 2018. To promote Islamic Banking in the country, SBP has been playing its role through provisioning of necessary legal, regulatory, and supervisory infrastructure and awareness & capacity building initiatives.

Currently, 21 Islamic Banking Institutions (IBIs) including 5 full-fledged Islamic Banks and 16 conventional banks having Islamic Banking branches are providing an array of Shariah compliant products and services through their network of 2,322 branches in 112 districts across the country. Encouragingly, the Islamic Banking industry has surpassed the target of 2000 branches as set in the State Bank of Pakistan's Strategic Plan (2014-18) for Islamic Banking industry. Further, NRSP Microfinance Bank has started offering Islamic microfinance products by establishing a dedicated Islamic microfinance division.

During CY2016, asset base of Islamic Banking Industry (IBI) amounted Rs.1.85 trillion against Rs.1.6 trillion in 2015, thus posted growth of 15.1 percent. Deposits of the Islamic Banking Industry stood at Rs.1.57 trillion in 2016 as compared to Rs.1.4 trillion during 2015, hence registered a growth of 14.4 percent. As a result, share of Islamic Banking in terms of asset in overall banking system increased to 11.7 percent in CY16 from 7.8 percent in CY11.Whereas, deposits share of Islamic Banking increased to 13.3 percent in CY16 from 8.4 percent in CY11.

Table 5.14: Islamic Banking Industry						(Rs. billion)
	CY11	CY12	CY13	CY14	CY15	CY16
Assets of the Islamic banks	641.0	837.0	**1,014.0**	**1,259.0**	**1,610.0**	**1,853.0**
Deposits of the Islamic Banks	521.0	706	**868.0**	**1,070.0**	**1,375.0**	**1,573.0**
Share in Banks Assets (Percent)	7.8	8.6	**9.6**	**10.4**	**11.4**	**11.7**
Share in Bank Deposits (Percent)	8.4	9.7	**10.4**	**11.6**	**13.2**	**13.3**
Source: State Bank of Pakistan						

Net investment of IBI was at Rs.490.0 billion by end December 2016 from Rs.663 billion by end September, 2016, witnessed a decline of 26.1 percent during last quarter of CY16.This was mainly contributed by maturity of Bai Muajjal of Sukuk transaction of IBIs[6]. The share of net financing and investments in total assets (net) of IBI was 44.3 and 26.4 percent respectively, at the end of quarter under review.

Financing and related assets (net) of IBI registered a growth of 20.2 percent during Q4, CY2016 and increased to Rs.821.0 billion. Both Islamic Banks (IBs) and Islamic Banks Branches (IBBs) of Conventional Banks in financing (net) witnessed expansion of Rs.92 billion and Rs.46 billion, respectively.

Profit after tax (PAT) of IBI recorded at Rs. 11.8 billion by end December 2016. During last quarter of CY16, both Return on Equity (ROE) and Return on Assets (ROA) recorded at 0.7 percent and 10.6 percent respectively, during fourth quarter of CY16.

All mode of financing except Murabaha, Salam and Istisna recorded an increasing growth trend during CY16. Diminishing Musharaka maintained the leading role in overall financing of IBI.

Table 5.14: (a) Financing Products by Islamic banks %age share						
Mode of Financing	**CY11**	**CY12**	**CY13**	**CY14**	**CY15**	**CY16**
Murabaha	43.8	39.7	**40.6**	**30.1**	**24.5**	**15.8**
Ijara	10.4	9.2	**7.7**	**7.7**	**6.6**	**6.8**
Musharaka	2.4	0.8	**6.7**	**11**	**14**	**15.6**
Mudaraba	0.1	0.2	**0.2**	**0.1**	**0**	**0**
Diminishing Muskaraka	32	35.7	**30.8**	**32.6**	**31.7**	**34.7**
Salam	2.4	3	**4**	**4.5**	**5.3**	**4.4**
Istisna	4.4	7.2	**5.6**	**8.3**	**8.6**	**8.4**
Others	4.4	4.3	**4.4**	**5.6**	**9.2**	**14.3**
Source: State Bank of Pakistan						

Microfinance

During FY2017, the State Bank of Pakistan (SBP) embarked upon the implementation of the National Financial Inclusion Strategy (NFIS). Across the board adoption of this strategy is an achievement of the central bank in its drive to enhance the level of financial inclusion in an integrated and sustained manner.

The industry maintained its drive over growth trajectory, as microfinance providers were able to realize all-round progress in terms of both outreach and value of services. Concurrently, growing popularity of digital financial services, for their inborn convenience, also continued to receive greater attention from the financial service providers to invest in adoption of technological innovations, human resource besides up graduation and capacity building.

At the close of quarter ended December, 2016 around 51 institutions were involved in providing microfinance services which included

[6] Islamic Banking Bulletin, December 2016.

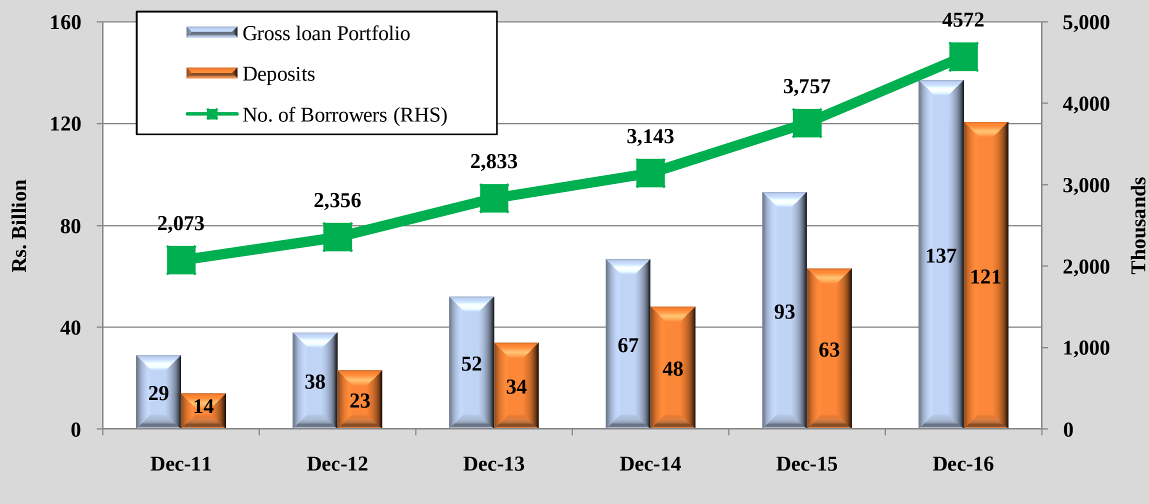
eleven deposit taking microfinance banks (MFBs) while others were Non-Bank Microfinance Institutions (NB-MFIs).

All together the microfinance sector witnessed 47.3 percent growth in its aggregate microcredit portfolio which grew to Rs.136.9 billion as of December, 2016 from Rs.92.99 billion as at end of corresponding period last year. The number of borrowers also registered an impressive growth of 21.7 percent, increasing to around 4.6 million at end the period.

The NB-MFIs continued to serve a large number of borrowers (57 percent), while MFBs took lead in terms of the aggregate value of loans (66 percent) and average loan size of Rs.43,433/- which is more than twice the size of loans offered by their non-banking contestant (Rs.17,739/-).

On a YoY basis, the sector was able to expand its retail business network to 3,220 as of December, 2016 adding 260 new business locations across the country compared to the corresponding period in 2015.

Fig-10: Growth of Microfinance Industry



At the close of 3rd quarter of FY2017, eleven deposit taking microfinance banks (MFBs) were involved in extending complete range of micro-banking services. The aggregate loan portfolio of MFBs grew by 57 percent to reach Rs.100.7 billion compared to Rs.64.0 billion in the corresponding period last year. Likewise, the number of borrowers increased from 1.6 million to 2.08 million registered an increase of 31 percent. Moreover, MFBs were able to restrict NPLs at 2.2 percent (approx.) by the end of March, 2017.

The combined equity base of MFBs also witnessed a 33.5 percent increment (i.e. Rs. 6.4 billion) to reach Rs.25.4 billion at the close of the period. The asset base of the MFBs also registered an encouraging growth of 66 percent, rising to Rs.170.4 billion by March, 2017.

The deposit base of MFBs managed to exceed Rs.120.4 billion, compared to Rs.66.3 billion in March 2016 with a corresponding increase of 109 percent in outreach of deposit services made available to over 22.6 million depositors.

At the close of period MFBs were successfully operating through a network of 712 branches.

Branchless Banking (BB) Performance

Branchless Banking (BB) represents a significantly cheaper alternate to conventional branch- based banking that allows financial institutions to offer financial services outside traditional bank premises by using delivery channels like retail agents, mobile phone etc. At the close of quarter on December 31, 2016 the changes in BB indicators remained encouraging. The numbers of agents rose to

359,806 from 351,912, showing 2 percent growth. The number of BB accounts of the industry increased to 19.9 million from 16.9 million, registering 18 percent growth over the quarter. On the other hand, number of transactions increased to 133.7 million from 110 million in previous quarter.

The aggregate BB deposits base improved to Rs.11.7 billion from Rs.8.5 billion, showing an increase of 39 percent compared to previous quarter. The average deposits per account rose to Rs.587 at the end of December, 2017 from Rs.500 over the previous quarter.

Insurance Sector

The insurance industry in Pakistan is relatively small compared to other developing and regional countries and thus the sector possesses huge potential for expansion and growth. For the (CY2016), the industry's total premium revenue stood around Rs.259 billion ($2.52 billion) as compared to Rs.233 billion ($2.22 billion) as of CY 2015. The insurance penetration and density have also witnessed as upward trend at 0.88 percent and 12.87 for CY 2016, as compared to 0.84 percent and 12.04 for CY 2015. The asset size of total insurance industry as of December 31, 2016 stands at Rs.1159 billion, as compared to Rs.982 billion as of year ended December 31, 2015, which include life insurance sector assets of Rs.929 billion and non-life sector assets of Rs.230 billion.

The non-life insurance sector comprises of 41 insurers, including three general Takaful operators and one state-owned insurer, the National Insurance Company Limited (NICL) with an exclusive mandate to underwrite public property and one state-owned reinsurer i.e. the Pakistan Reinsurance Company Limited (PRCL). Moreover, fourteen (14) non-life insurers have also been authorized by the SECP to undertake window takaful operations in Pakistan. The sector witnessed a growth of 19.7 percent during CY 2016 with the total premium underwritten of over Rs.85 billion.

On the other hand, the life insurance sector comprises of nine life insurers, including two family Takaful operators and one state owned insurer, the State Life Insurance Corporation of Pakistan (SLIC). Moreover, five (5) life insurers have also been authorized by the SECP to undertake window takaful operations in Pakistan. SLIC has maintained its dominancy in the life insurance sector with around 50 percent market share while the remaining 50 percent of the market is shared among the private life insurers. In CY 2016, the life insurance sector witnessed a growth of 7.4 percent, with total premium of Rs.174 billion.

The only reinsurer of the industry – the government-owned PRCL continues to benefit from a mandatory minimum 35 percent share in the area of non-life Treaty Reinsurance.

The major achievements of the SECP in respect of the Insurance Sector for the period July, 2016 to March 2017 is as follows:

Notification of Insurance Rules, 2017- The two sets of insurance subsidiary legislation have been compiled to issue the Insurance Rules, 2017 with primary aim to bring uniformity in the subsidiary legislation while incorporating all the notifications and amendments made under the aforementioned sets of Rules after initial promulgation in 2002.

Insurance Accounting Regulations, 2017- The SECP, in collaboration with the Insurance sub-committee of the Institute of Chartered Accountants of Pakistan (ICAP), has formulated the Insurance Accounting Regulations, 2017 along with the accounting formats, which are part of Insurance Rules, 2017. The objective of the regulations is to harmonize the local accounting standards with the international practices (IFRS's & IAS's).

Code of Corporate Governance for Insurers- The SECP in February 2016 notified the Code of Corporate Governance for Insurers. Post implementation of the Code of Corporate Governance, on the request of the Institute of Chartered Accountants of Pakistan and the Insurance Association of Pakistan, revisions in the Code of Corporate Governance were undertaken and the revised Code of Corporate Governance for insurers was notified in

November 2016. The purpose of formulating a comprehensive corporate governance framework is to improve the governance of the insurance companies keeping in view the best international practices in the insurance sector.

Addition of Register for sharing Group Health Insurance Claims Experience in Centralized Information Sharing Solution for Insurance Industry (CISSH)- A Memorandum of Understanding (MoU) was facilitated by the SECP between the insurance companies underwriting health insurance and the Central Depository Company of Pakistan on July 28, 2016. It is envisaged that this reform will bring substantial improvement in underwriting and will encourage health competitive environment in health insurance business.

Draft Credit and Suretyship (Conduct of Business) Rules, 2016- In order to bring a mechanism for regulation of credit and suretyship business by insurance companies, the SECP has formulated the Draft Credit and Suretyship (Conduct of Business) Rules, 2016 which are issued for public comments. The draft rules are aimed at formulating a comprehensive framework to regulate the guarantee business, thereby ensuring maximum protection of the interests of insurance policyholders and at gaining confidence of the public. The Rules will be promulgated after completion of public consultation through due process of law.

Conclusion

Easy liquidity conditions in money market were observed during FY2017 due to macroeconomic stability, accommodative monetary policy, net retirement of government borrowing to scheduled banks and increase in bank deposits. Historic low interest rate and ongoing stability in money market were the main instruments for private sector credit expansion. A welcome development is the gradual rise in net credit disbursement for all type of finance during first nine months of CFY 2017 including (fixed investment, working capital and trade finance) which suggests increasing economic activities.