Chapter 5

Money and Credit

The global economic activity continued to improve since 2016 and is estimated to rise by 3.8 percent in 2017 and further 3.9 percent in 2018 and 2019. The pickup in growth is broad based and driven by stronger growth in Euro area and Asia, supported by improved external factors, favourable global financial conditions and a recovery in advanced economies.

In Pakistan, monetary policy stance remained broadly accommodative during FY2017 on the back of stability in the money and foreign exchange market. Consequently, private sector credit witnessed expansion in response to favorable monetary policy and broad based growth was observed in real sector.

The Credit to private sector (CPS) has increased to Rs 747.9 billion in FY2017 compared to Rs 446.5 billion in FY2016. On year on year (YoY) basis, it registered a growth of 16.8 percent. CPS in terms of GDP inched up to 5 years high during FY2017. Private businesses availed major financing for fixed investment and working capital during FY2017.

During FY2018 the economy continued to benefit from higher development spending, accommodative monetary policy and progress on CPEC related projects along with global economic recovery. The recent data shows that credit to private sector has seen expansion of Rs 469.2 billion during 01Jul-30Mar, FY2018 compared to the expansion of Rs 438.6 billion in the comparable period of last year, thus posted average growth of 9.03 percent during the period under review as compared to 9.9 percent last year. On (YoY) basis as on 30th Mar FY2018, CPS registered growth of 15.9 percent compared to 13.4 percent witnessed in the same period last year.

By type of finance, total loans to private sector businesses increased to Rs 344.8 billion during Jul-Feb FY2018 compared to Rs 301.0 billion in the same period last year. Credit demand for fixed investment contained to Rs147.9 billion against Rs158.0 billion in the comparable period of last year. Credit disbursement for working capital increased to Rs 151.5 billion during the period under review compared to Rs 92.9 billion during the corresponding period of last year.

A number of domestic developments including better energy supply, increase in manufacturing activity, improved security conditions, investors’ confidence, contained inflation and increase in CPEC related activities remained instrumental for banking sector to follow a sustained growth path. The momentum continued in CY17 with the assets of the banking sector recording YoY growth of 15.9 percent to reach Rs 18.3 trillion. Capital Adequacy Ratio (CAR) at 15.8 percent as of end December 2017 is stronger and higher than the minimum required level of 11.275 percent. Similarly, asset quality has also improved and NPLs to loans ratio came down from 10.1 percent in CY16 to 10 years low 8.4 percent in CY17.

Monetary Policy Stance

Accommodative monetary policy played an effective role in Pakistan for conducive macroeconomic environment. The cautious monetary policy was centered on consolidating the gains from historic-low policy rate at 5.75 percent till January, FY2018 and striking a balance between subdued inflation and emerging pressures on external accounts. The SBP has changed the monetary policy stance in January 2018 by 25 bps to 6 percent to anchor expected rise in inflation in view of reversal of international oil and commodities prices and to address domestic demand pressure as well as exchange rate movement. In March 2018, the Monetary Policy Committee decided to maintain policy rate at 6.0 percent for the next two months to see impact of policy.

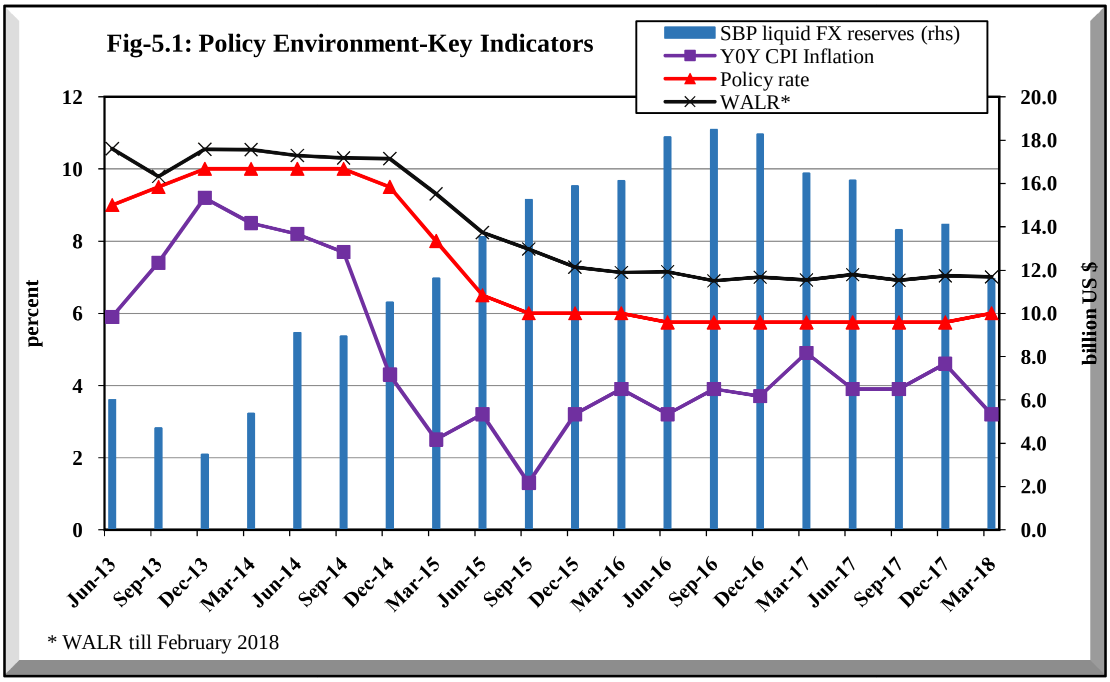


Table -5.1: Policy Rate	
w.e.f	Policy rate
Jun-13	9.0
Sep-13	9.5
Nov-13	10.0
Nov-14	9.5
Jan-15	8.5
Mar-15	8.0
May-15	6.5
Sep-15	6.0
May-16	5.75
Jan-18 till Date	6.0
Source: State Bank of Pakistan	

Recent Monetary and Credit Developments

During 01 Jul-30 Mar, FY2018 money supply (M_2) observed an expansion of Rs 770.9 billion (growth of 5.29 percent) compared to expansion of Rs 756.1 billion (5.9 percent) in the same period last year. Net Foreign Assets (NFA) point contribution in Broad money reduced to 3.24 percent during 01 Jul- 30 Mar, FY2018 against the contraction of 2.22 percent in the comparable period of FY2017. Net Domestic Assets (NDA) point contribution in broad money increased to 8.53 percent during the period under review against expansion of 8.12 percent recorded in the same period of FY2017. However, the overall money supply (M2) growth remained balanced during the period under review as compared to last year.

Similarly, reserve money growth contained at 5.6 percent during 01 Jul-30 Mar, FY2018 as compared to the growth of 7.9 percent during the comparable period of last year. The growth in SBP's NDA remained at 18.16 percent compared to 15.97 percent in the comparable period of last year whereas SBP's NFA contracted by 55.7 percent against the contraction of 24.8 percent during same period last year. Consequently, reserve money growth remained subdued during the period under review as growth in SBP's NDA was more than offset by a sharp contraction in NFA of the SBP.

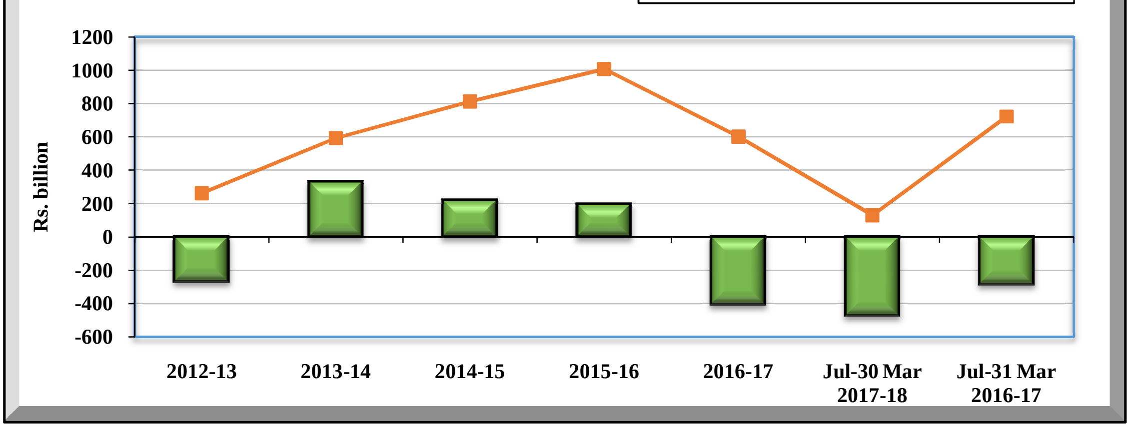
Table 5.2: Profile of Monetary Indicators Rs billion

	FY17 (Stocks)R	30-Mar-18	31-Mar-17
Net Foreign Assets(NFA)	602.0	-472.8	-284.8
Net Domestic Assets(NDA)	13,978.8	1,243.7	1,040.9
Net Government Borrowing	8,955.6	804.2	568.7
Borrowing for budgetary support	8,282.1	858.3	704.0
From SBP	2,350.1	2,236.7	801.6
from Scheduled banks	5,932.0	-1,378.5	-97.5
Credit to Private Sector (R)	5,197.5	469.2	438.6
Credit to PSEs	822.8	174.0	197.0
Broad Money	14,580.9	770.9	756.1
Reserve Money	4,868.0	272.0	314.3
Growth in M2 (%)	13.7	5.29	5.90
Reserve Money Growth (%)	22.5	5.6	7.9

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

Within Broad Money, Net Foreign Assets (NFA) of the banking sector reduced to Rs 472.8 billion during 01 Jul-30 Mar, FY2018 as compared to the contraction of Rs 284.8 billion last year. Within NFA, NFA of SBP which was negative as on end-June 2017, declined further by Rs 461.5 billion during the period as compared to the decline of Rs 155.2 billion in last year. The NFA of scheduled banks declined by Rs 11.2 billion compared to contraction of Rs 129.7 billion during same period last year. NFA of SBP declined during the period under review due to high financing needs for current account deficit and foreign debt servicing payments.[1]

Fig-5.2: Net Foreign Asset



The NDA of the banking sector witnessed an expansion of Rs 1,243.7 billion (8.9 percent) during 01 Jul-30 Mar, FY2018 as compared to the expansion of Rs1,040.9 billion (8.8 percent) in the same period last year. Within NDA, NDA of SBP witnessed expansion of Rs 664.5 billion compared to expansion of Rs 375.7 billion in comparable period of last year. The NDA of scheduled banks increased by Rs 579.2 billion compared to Rs 665.2 billion during the same period last year.

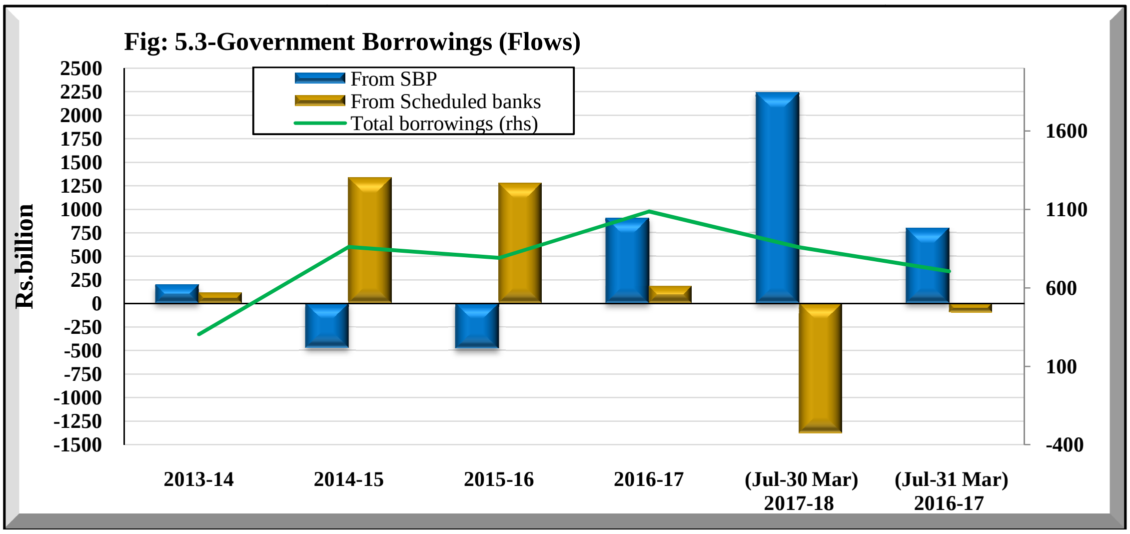
During 01 Jul- 30 Mar, FY2018 credit to Public Sector Enterprises (PSEs) increased by Rs174.0 billion compared to Rs196.9 billion in the comparable period of FY2017. PSEs borrowing during the period under review shows financing requirement for the completion of certain projects. Consequently, the overall NDA of the banking sector remained balanced due to steady demand for private sector and PSEs credit and increase in government borrowing from the banking sector.

[1] First Quarterly Report, FY18, SBP

Government Bank Borrowing

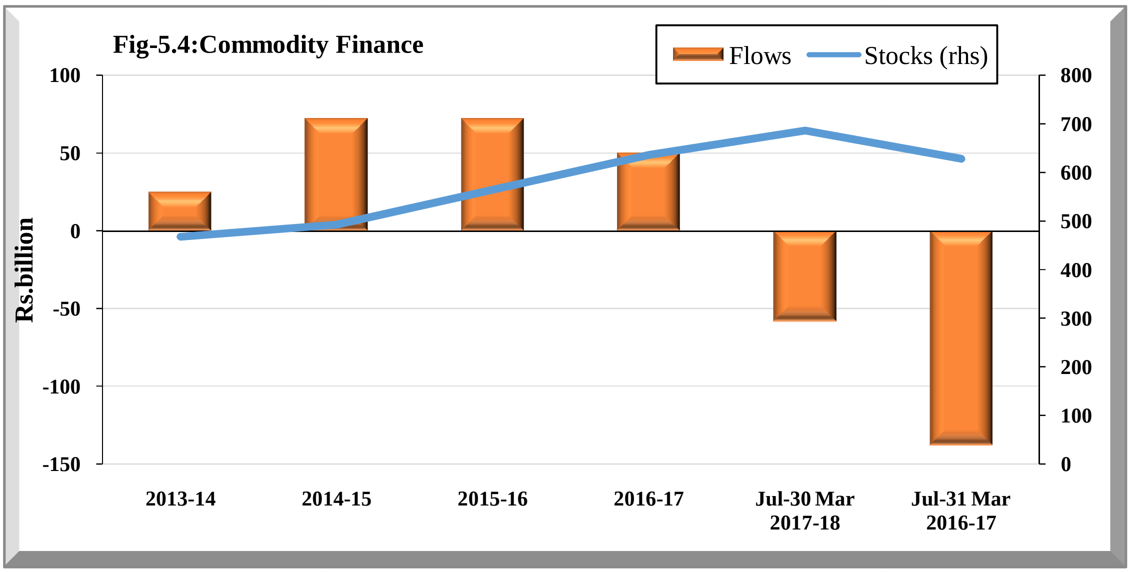
During the period 01 Jul-30 Mar FY2018, government borrowing for budgetary support stood at Rs 858.3 billion against the borrowing of Rs 704.0 billion in the corresponding period of FY2017. During the period under review, government borrowed Rs 2,236.7 billion from SBP as compared to the borrowing of Rs 801.6 billion in the comparable period last year. Conversely, government retired Rs 1,378.5 billion to Scheduled Banks during 01 Jul-30 Mar FY2018 against the retirement of Rs 97.5 billion last year. Whereas, net government borrowing from the banking system reached to Rs 804.2 billion during 01 Jul-30 Mar, FY2018 compared to Rs 568.7 billion over the previous year.

Following the pattern of last year, the government continued to borrow from SBP for budgetary support and retired to scheduled banks on net basis.



Commodity Finance

During the period 01 Jul- 30 Mar, FY2018 loans for commodity finance witnessed a net retirement of Rs 58.4 billion compared to the net retirement of Rs 137.9 billion in the comparable period of last year, the outstanding stock of commodity financing amounted to Rs 628.1 billion compared with Rs 498.7 billion during same period of last year.



In FY 2017, the outstanding stock of commodity financing increased significantly to Rs 686.5 billion from Rs 636.6 billion during the corresponding period of FY2016, and posted a growth 7.84 percent in FY2017 compared the growth of 12.8 percent in FY2016.

During the period 01 Jul-23 Feb, FY2018 loans for wheat financing observed a net retirement of Rs 42.9 billion against the retirement of Rs 126.8 billion during the corresponding period of FY 2017. The outstanding stock of wheat remained higher to Rs 549.3 billion compared to Rs 413.4 billion during the comparable period of last year.

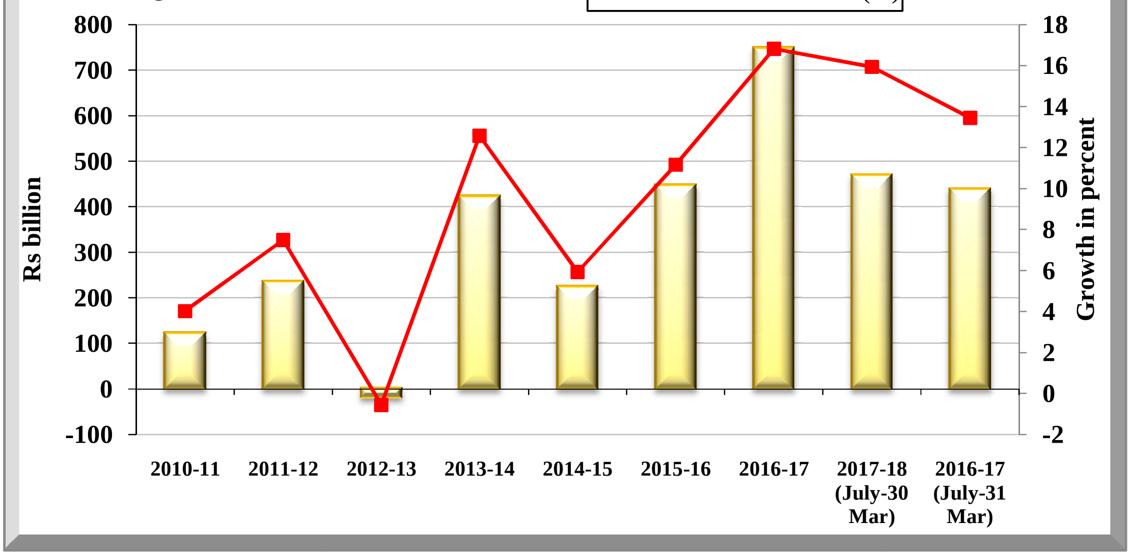
The fertilizer financing witnessed the net retirement of Rs 1.4 billion during 01 Jul-23 Feb, FY2018 compared with the retirement of Rs 5.994 billion in the comparable period of last year. On the other hand, sugar sector retired Rs 0.861 billion during 01 Jul-23 Feb, FY 2018 compared to borrowing of Rs 4.249 billion during the same period of last year.

Credit to Private Sector[2]

During FY2017, favorable macroeconomic indicators, accommodative monetary policy and historic low policy rate remained instrumental in expansion of private sector credit cycle.

Private businesses availed major portion of financing for fixed investment and working capital during FY2017. Manufacturing sector remained the major beneficiary that borrowed credit both for fixed investment and working capital, of which the main active borrowers were the sugar, grain milling (wheat and rice), dairy, textiles, and cement sectors. Financing requirement for working capital increased during FY2017 due to increase in input prices of cotton and coal.

Fig-5.5: Credit to Private Sector



The recent data reveals that credit to private sector has seen expansion of Rs 469.2 billion during 01 Jul-30 Mar, FY2018 compared to the expansion of Rs 438.6 billion in the comparable period of last year, thus posted average growth of 9.03 percent during the period under review as compared to 9.9 percent last year. On YOY basis as on 30th Mar FY2018, CPS observed growth of 15.9 percent compared to 13.4 percent witnessed in the same period last year.

[2] Islamic Financing, Advances (against Murabahaetc), 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 Month Stocks				Jul-Feb (Flows)		Average (Jul-Feb) Growth Rates		YoY Growth	
	Jun-16	Feb-17	Jun-17	Feb-18	FY2017	FY2018	FY2017	FY2018	Jun-17	Feb-18
Overall Credit (1 to 5)	4,041.9	4,403.3	4,754.3	5,145.7	361.4	391.4	8.9	8.2	17.6	16.9
1. Loans to Private Sector Business	3,337.3	3,638.3	3,962.2	4,307.0	301.0	344.8	9.0	8.7	18.7	18.4
A. Agriculture	285.1	286.5	297.5	306.7	1.4	9.2	0.5	3.1	4.3	7.1
B. Mining and Quarrying	26.5	31.9	40.3	44.4	5.4	4.1	20.4	10.2	51.8	38.9
C. Manufacturing	1,915.3	2,122.5	2,299.6	2,506.0	207.2	206.3	10.8	9.0	20.1	18.1
Textiles	612.3	697.1	695.1	818.6	84.8	123.5	13.8	17.8	13.5	17.4
D. Electricity, gas and water supply	305.2	348.4	365.3	423.7	43.3	58.4	14.2	16.0	19.7	21.6
E. Construction	97.6	109.2	138.6	146.8	11.6	8.2	11.9	5.9	42.1	34.5
F. Commerce and Trade	265.5	281.3	308.2	341.5	15.8	33.2	5.9	10.8	16.1	21.4
G. Transport, storage and communications	181.8	177.1	211.0	224.0	-4.7	13.0	-2.6	6.2	16.0	26.5
I. Other private business n.e.c	42.2	50.5	54.5	43.6	8.3	-10.9	19.8	-20.1	29.1	-13.8
2. Trust Funds and NPOs	14.2	13.2	16.8	16.9	-1.0	0.0	-6.9	0.2	18.6	27.5
3. Personal	433.5	474.1	504.5	567.1	40.7	62.7	9.4	12.4	16.4	19.6
4. Others	8.2	4.4	6.2	2.4	-3.9	-3.8	-47.0	-61.1	-24.5	-44.6
5. Investment in Security & Shares of Private Sector	248.6	273.2	264.6	252.3	24.6	-12.3	9.9	-4.6	6.4	-7.7

Source: State Bank of Pakistan

Overall credit grew by 8.2 percent during Jul-Feb, FY2018 against 8.9 percent of the comparable period of last year. Sector wise growth demonstrates that loans to private sector business witnessed growth of 8.7 percent during Jul-Feb, FY2018 against 9.0 percent in same period of last year.

Credit to Private Sector Businesses (PSBs), which availed major share of PSC, reached Rs 344.8 billion during Jul-Feb, FY2018 as compared to Rs 301.0 billion in the corresponding period of FY2017. The expansion in PSBs during FY2018 mainly came from all major sectors such as: Electricity, Gas and Water supply grew by (16.0 percent), Commerce & Trade (10.8 percent), Mining and Quarrying (10.2 percent), Manufacturing (9.0 percent) of which Textile (17.8 percent) and Transport, Storage & Communications (6.2 percent).The broad based expansion in private sector loans during Jul-Feb FY2018 primarily in Manufacturing sector received a share 59.8 percent (Rs 206.3 billion), followed by textile (35.8 percent or Rs 123.5 billion), Electricity, Gas and Water supply (16.9 percent or Rs 58.4 billion), Commerce and Trade (9.6 percent or Rs 33.2 billion), and Transport, Storage & Communications (3.8 percent or Rs13.0 billion).

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

Description	Total credit		Working capital		Fixed investment		Trade financing	
	(Jul-Feb) FY17	(Jul-Feb) FY18	(Jul-Feb) FY17	(Jul-Feb) FY18	(Jul-Feb) FY17	(Jul-Feb) FY18	(Jul-Feb) FY17	(Jul-Feb) FY18
Total loans to private businesses	301.0	344.8	92.9	151.5	158.0	147.9	50.2	45.3
of which								
1) Manufacturing	207.2	206.3	67.9	85.1	92.9	82.2	46.4	39.0
i) Textiles	84.8	123.5	41.8	75.5	21.5	30.4	21.4	17.6

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

Description	Total credit		Working capital		Fixed investment		Trade financing	
	(Jul-Feb) FY17	(Jul-Feb) FY18	(Jul-Feb) FY17	(Jul-Feb) FY18	(Jul-Feb) FY17	(Jul-Feb) FY18	(Jul-Feb) FY17	(Jul-Feb) FY18
Spinning, weaving and finishing	71.0	103.7	35.1	73.3	20.2	33.0	15.7	(2.7)
ii) Chemicals	(10.2)	(47.6)	(30.4)	(36.7)	19.9	(2.8)	0.2	(8.1)
Fertilizer	(26.2)	(60.7)	(35.1)	(48.6)	9.5	(5.3)	(0.6)	(6.8)
iii) Food products & beverages	83.1	29.1	56.9	(25.9)	23.0	31.6	3.2	23.5
Rice processing	11.1	33.7	5.2	26.5	0.7	0.8	5.2	6.3
Edible oil and ghee	(5.0)	18.3	(1.9)	8.7	1.4	3.0	(4.5)	6.6
Sugar	72.3	(8.7)	52.7	(27.1)	13.8	15.3	5.8	3.1
iv) Basic and fabricated metal	(5.6)	17.7	(4.5)	15.9	2.0	(0.7)	(3.1)	2.5
v) Rubber, plastics and paper	(3.2)	1.7	(3.6)	2.7	0.2	(1.5)	0.2	0.5
vi) Electrical equipment	4.4	26.0	3.4	22.2	1.5	2.6	(0.6)	1.3
vii) Cement	12.1	33.3	0.8	13.0	7.9	17.8	3.4	2.5
2) Electricity, gas & water supply	43.3	58.4	13.0	46.9	27.6	13.5	2.7	(2.0)
3) Transport, storage & Communicatons	(4.7)	13.0	(10.8)	(1.5)	6.8	16.3	(0.6)	(1.8)
Road transport	1.1	3.1	(0.0)	(0.3)	1.1	3.4	(0.0)	(0.0)
4) Construction	11.6	8.2	1.2	(1.6)	11.2	9.3	(0.8)	0.5
Road infrastructure	9.5	(0.3)	4.2	(0.2)	6.4	(0.2)	(1.1)	0.0
5) Real estate activities	9.1	16.3	(0.3)	7.7	6.1	7.5	3.3	1.0
6) Agriculture	1.4	9.2	4.6	1.6	(2.8)	8.6	(0.4)	(0.9)

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

Source: State Bank of Pakistan

By type of finance, total loans to private sector businesses increased to Rs 344.8 billion during Jul-Feb FY2018 as compared to Rs 301.0 billion in the same period last year. Despite some sector specific issues, such as delayed crushing of sugarcane and lower off-take of Urea, the businesses availed relatively higher credit for working capital. Credit demand for fixed investment contained to Rs 147.9 billion against Rs 158.0 billion in the comparable period of last year. Credit disbursement for working capital increased to Rs 151.5 billion compared to Rs 92.9 billion during the corresponding period of last year. Credit demand for fixed investment remained lower compared to last year on account of maturing of investment projects in power, construction and cement sectors which contained additional credit demand.

CPEC related activities and government's continued focus on bridging the infrastructure gap has attracted investments and reinvestments in allied industries resulting increase in credit demand in cement, transport & communication, iron and steel sectors. Textile and export oriented sectors' credit demand increased due to positive response on exports from the advanced economies, specifically the US and EU.

Within textiles sector, the spinning and weaving were the major beneficiaries availing fixed investment and working capital loan under the LTFF schemes, which were offered at very attractive rates.

Bank's portfolio for fixed investment loans continued to increase primarily due to favorable policy stance alongwith positive business sentiments over the medium term. This trend augurs well for credit growth in future.

Table-5.5: Consumer Financing **Rs billion**

	July-February (Flows)		Growth(%)	
Description	**FY2017**	**FY2018**	**FY2017**	**FY2018**
Consumer Financing	42.0	47.8	13.2	12.3
1) For house building	6.5	12.7	13.4	20.9
2) For transport i.e. purchase of car	23.5	31.1	21.0	20.7
3) Credit cards	3.2	4.7	12.5	15.6
4) Consumers durable	0.8	0.9	100.4	54.4
5) Personal loans	8.2	-1.6	6.2	-1.1
6) Other	-1.4	8.7	-24.9	209.3

Source: State Bank of Pakistan

During Jul-Feb, FY2018, Consumer financing posted a significant growth of 12.3 percent (Rs 47.8 billion) compared with 13.2 percent (Rs 42.0 billion) during the comparable period of last year. Of which, house building loans registered a considerable growth of 20.9 percent and stood at Rs12.7 billion during Jul-Feb, FY2018 against 13.4 percent (Rs 6.5 billion) during the comparable period of last year. House building finance witnessed a significant growth attributable to banks that diversified their portfolios in favor of high yielding assets. Moreover, consumer durable witnessed a phenomenal growth of 54.4 percent during Jul-Feb, FY2018 compared to 100.4 percent growth during the same period of last year. Conversely, auto financing observed highest share of consumer loans and increased to Rs 31.1 billion (20.7 percent) compared to Rs 23.5 billion (21.0 percent) during last year. Auto financing increased due to prudent monetary policy and historic low policy rate which contributed significantly to higher car sales in the country. Moreover, personal loan registered net retirement of Rs 1.6 billion during first eight months of CFY against the net expansion of Rs 8.2 billion in the comparable period of last year. The consumer financing momentum remained positive on account of consumer durable, house building and auto financing 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-February)	
	FY2017	**FY2018**	**FY2017**	**FY2018**
5 Major Comm. Banks	342.0	516.0	204.4	292.0
ZTBL	102.5	125.0	46.7	51.9
Domestic Private Banks	137.6	200.0	78.1	112.9
P.P.C.B.L	12.5	15.0	5.9	6.1
Microfinance Banks	60.1	100.0	55.2	79.6
MFIs/RSPs	34.3	25.0	10.9	18.1
Islamic Banks	11.0	20.0	7.8	9.3
Total	700.0	1,001.0	409.0	570.0

Source: State Bank of Pakistan

For CFY2018, agriculture credit disbursement target has been kept at Rs 1,001.0 billion compared to the target of Rs 700.0 billion last year. The actual disbursement during FY2017 was Rs 704.5 billion. During the period Jul-Feb FY2018, overall credit disbursement increased by 39.4 percent to Rs 570.0 billion compared to Rs 409.0 billion in the same period of last year. The disbursement share remained 56.9 percent of the target during the period Jul-Feb of CFY. 5 Major commercial banks disbursed an amount of Rs 292.0 billion or 56.6 percent of its target thus remained 42.9 percent higher (Rs 204.4 billion) during the comparable period of last fiscal year.

Box-I: SBP initiatives for financial inclusion in Agriculture Financing during FY2018

Agriculture Financing

In line with Government's priority for agriculture, SBP continues to facilitate enhanced outreach of formal credit to farmers. SBP has been following a multifaceted approach to sensitize banks to adopt agri-financing as a viable business line. Developments under some of the initiatives undertaken for promotion of agricultural finance are provided below:

Credit Guarantee Scheme for Small and Marginalized Farmers (CGSSMF) was implemented to encourage financial institutions to provide working capital credit facilities to small ticket size holders without having adequate collateral (acceptable to banks). Under the scheme, Participatory Financial Institutions (PFIs) have been assigned credit disbursement targets of Rs 2 Billion. Since its inception, more than 50,000 borrowers have been financed under the scheme.

A Mandatory Crop Loan Insurance Scheme (for five major crops i.e. wheat, cotton, rice, sugarcane and maize) was introduced in 2008 in order to mitigate default risk of farmers and provide repayment assurance to banks especially in case of natural calamities. This scheme is mandatory for small farmers having land holding up to 25 acres and government is bearing the cost of premium on account of small farmers' of up to 2% per crop per season. Since its inception, more than 3.8 million borrowers have been benefitted from this scheme.

SBP, in collaboration with the Securities & Exchange Commission of Pakistan (SECP), banks, insurance companies, provincial livestock and dairy departments has developed Livestock Loan Insurance Scheme (LLIS). The scheme was launched on November 1, 2013 and covers all livestock loans up to Rs 5 million for purchase of animals. Under LLIS, the borrowers are covered against natural death of animals or mortality due to any disease, flood, heavy rains, windstorm and accidents. GoP is bearing cost of premium (up to 4% per annum) in case of small farmers obtaining credit from banks for up to 10 animals.

SBP is also promoting Value Chain (VC) Financing and has published reports of six main value chains in the country: i) Potato, ii) Tobacco, iii) Beef, iv) Dairy , v) Basmati Rice, and vi) Aquaculture and Inland Fishery. SBP successfully rolled out agri. value chain financing, wherein, credit disbursement targets and number of borrowers have been assigned to 11 banks/ MFBs. Under pilot project, Rs 5 billion were disbursed to around 4,500 farmers. Target of Agri. Value Chain Financing for FY2018 is Rs 10 billion.

Support towards innovations in agricultural financing: SBP has introduced various projects with the objective to introduce and implement the modern and innovative international best practices to support innovations in agricultural financing .These include:

SBP is facilitating the banks in developing the linkages with Land Revenue authorities for utilization of computerized land records for disbursements of agricultural financing. SBP has made remarkable efforts for system's integration for exchange of information, provide online access/issuance of passbook and creation of charge etc on individual basis. SBP is also facilitating a pilot project in Sindh with one bank and Sindh Board of Revenue for utilization of electronic land records for swift loan processing. Further, some of the large banks have finalized MOUs with Sindh BoR for using its automated record.

SBP has facilitated the Government of Punjab in designing and implementation of the E-Credit scheme wherein E-Passbook and other automated land revenue records, accessible through an online portal, are being used by 6 participating financial institutions to provide interest free loans to small farmers. So far over 250,000 loans have been provided to farmers in 03 cropping seasons starting from Rabi 2016.

SBP, in collaboration with University of Agriculture, Faisalabad (UAF), is supporting a pilot project wherein borrowers of three participating banks will be provided technical advisory for crop management and yield enhancement through the use of modern technology & quality inputs, precision agriculture, timely availability of money and guidance through service providers. The information gathered through Drone/UAV technology will also be beneficial for the banks in assessing their portfolio quality and taking timely corrective measures where necessary. Under this project, 3000 acres of 600 farmers of 22 villages were scanned and surveyed. Proposal for scaling up the project to other districts are underway.

Source: State Bank of Pakistan

Monetary Assets

Monetary asset (M2) comprises of currency in circulation, demand deposits, time deposits and resident's foreign currency deposits. During the period 01 Jul- 30 Mar, FY2018 Money supply (M2) observed a growth of 5.29 percent against the growth of 5.9 percent in the same period of last year. Whereas Y-o-Y basis it remained at 13.0 percent as on 30th March, FY 2018.

Currency in Circulation (CIC)

During the period 01 Jul-30 Mar, FY 2018, CIC increased to Rs 173.5 billion (4.4 percent) against Rs 151.1 billion (4.5 percent) in the comparable period of last year, however, it posted YoY growth of 17.2 percent as on 30th March, FY2018. The currency-to-M2 ratio increased to 26.6 percent as on 30th March, 2018 compared to 25.7 percent during the comparable period of last year.

Table-5.7: Monetary Aggregates Rs million

Items	End June		01 July-30 March	
	2016	2017	FY2017	FY2018
A.Currency in Circulation	3,333,784	3,911,315	3,484,918	4,084,856
Deposit of which:				
B. Other Deposits with SBP	18,756	22,692	18,818	22,983
C.Total Demand &Time Deposits incl.RFCDs	9,472,313	10,646,875	10,077,180	11,243,949
of which RFCDs	587,258	655,340	602,089	741,541
Monetary Assets Stock (M2) A+B+C	12,824,853	14,580,882	13,580,916	15,351,788
Memorandum Items				
Currency/Money Ratio	26.0	26.8	25.7	26.6
Other Deposits/Money ratio	0.1	0.2	0.1	0.1
Total Deposits/Money ratio	73.9	73.0	74.2	73.2
RFCD/Money ratio	4.6	4.5	4.4	4.8
Income Velocity of Money	2.4	2.3	_	_

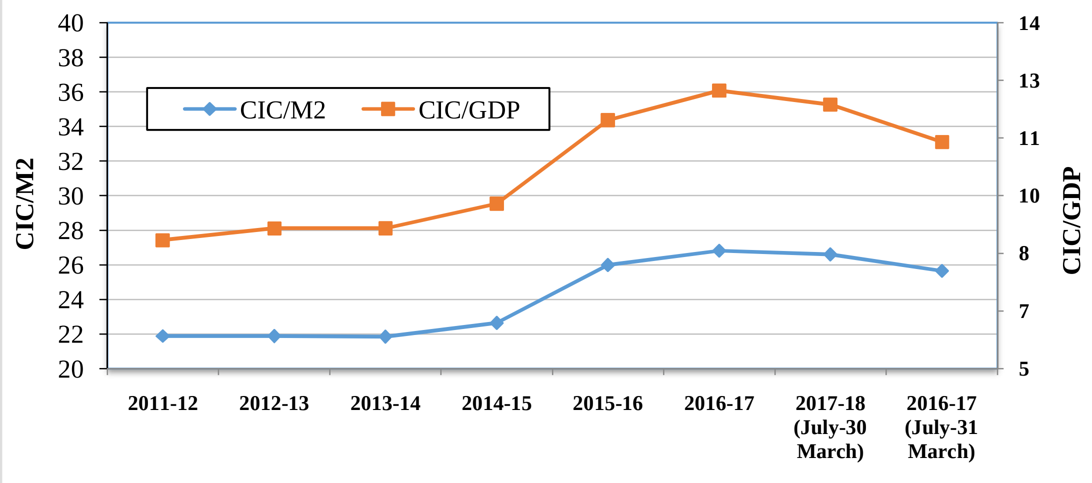
Source: State Bank of Pakistan

Deposits

During the period 01 Jul-30 Mar, FY2018 bank deposits reached to Rs 597.1 billion (5.6 percent) against Rs 604.9 billion (6.4 percent) in the comparable period of last year. Consequently, currency-to-deposit ratio increased to 36.3 as on March 30, 2018 compared to 34.6 in last year.

In contrast, Resident Foreign Currency Deposits (RFCD) increased by Rs 86.2 billion during 01 Jul-30 Mar, FY2018 compared with Rs14.8 billion during the same period last year.

Fig-5.6: Currency in Circulation% of M2 &GDP



Monetary Management

Table-5.8: Average Outstanding Open Market Operations1 — Rs billion

	FY15	FY16	FY17	FY18*
Full Year	**418.6**	**1,268.9**	**1,045.8**	**1,385.5**
Q1	63	1,082.9	1,094.0	1,440.9
Q2	281	1,287.6	861.3	1,530.5
Q3	683.2	1,323.8	961.1	1,171.1
Q4	744.1	1,383.3	1,267.2	

1: The data does not include the impact of outright OMOs.
*: Updated upto March 27, 2018
Note: (+) amount means net Injections.
(-) amount means net mop-up.

During the period under review FY2018, liquidity conditions in the interbank market were relatively tight due to less retirement by private sector, government's fresh budgetary borrowing from scheduled banks and FX operations. In order to manage the liquidity pressures, SBP proactively intervened in the interbank market via open market operations to keep the overnight rates close to the policy rate. As a result, the average outstanding OMOs net injections increased to Rs 1.17 trillion during first nine months of CFY2018 compared to Rs 961.1 billion during the same period last year.

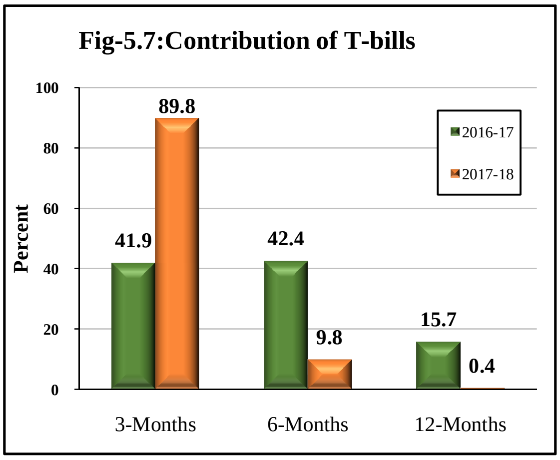
Table-5.9: Market Treasury bills Auctions — Rs million

	Jul-Jun			Jul-Mar					
	FY2017			Offered		Accepted		W.A.Rate*	
	Offered	Accepted	W.A Rate*	FY2017	FY2018	FY2017	FY2018	FY2017	FY2018
3-Months	5,287,269	3,824,534	5.9	3,756,514	13,339,720	2,441,329	10,976,213	5.9	6.1
6-Months	4,632,304	2,974,251	5.9	3,918,854	1,371,631	2,471,538	1,198,292	5.9	6.0
12-Months	1,708,636	936,611	5.9	1,628,197	86,054	915,996	47,687	5.9	6.0
Total	**11,628,209**	**7,735,396**		**9,303,565**	**14,797,405**	**5,828,863**	**12,222,192**		

Source: State Bank of Pakistan

During Jul-Mar, FY2018 market offered a total amount of Rs 14,797.4 billion for T-Bills against Rs 9,303.6 billion in the same period of FY2017. T-Bills witnessed large share of investment in 3 months as it contributed 89.8 percent of total accepted amount followed by 9.8 percent in 06 months and 0.4 percent in 12 months. Market offered total amount of Rs 218.7 billion during the first nine months of CFY2018 under PIB auction as compared to Rs 1,556.1 billion in the same period of last fiscal year. Heavy investment was seen in 3 years PIBs which constituted 42.0 percent of total accepted amount followed by 39.7 percent in 10 years and 18.2 percent in 5 years.

During the period under review, the entire mobilization from scheduled banks was against T-Bills of which market had a preference for the 3 months instrument which reflects the bank's profitability decision reliance on short term strategy. On the contrary, bank's appetite for PIBs remained out of favor. Market accepted under PIBs instruments just 0.45 percent of T-Bills accepted amount. This preference indicates the inflation expectation after Rs depreciation and anticipation of policy reversal in short run[3].



[3]Second Quarterly Report FY2018, SBP

Table-5.10: Pakistan Investment Bonds Auctions — Rs million

PIBs	Jul-Jun			Jul-Mar				W.A Rate	
	Offered	Accepted	W.A Rate	Offered		Accepted			
	FY2017			FY2017	FY2018	FY2017	FY2018	FY2017	FY2018
3 Years	1,039,668	522,756	6.3	888,051	157,928	420,569	23,376	6.3	6.4
5 Years	451,788	239,114	6.8	419,533	24,085	230,375	10,150	6.8	6.9
10 Years	266,846	132,147	7.8	245,778	36,761	127,823	22,095	7.8	7.9
15 Years	-	-	-	-	-	-	-	-	-
20 Years	2,743	-	-	2,743	0	-	-	-	-
30 Years	-	-	-	-	-	-	-	-	-
Total	**1,761,045**	**894,017**		**1,556,105**	**218,774**	**778,767**	**55,621**		

Note: Accepted amount include non-competitive bids as well as short sell accommodation.

Source: State Bank of Pakistan

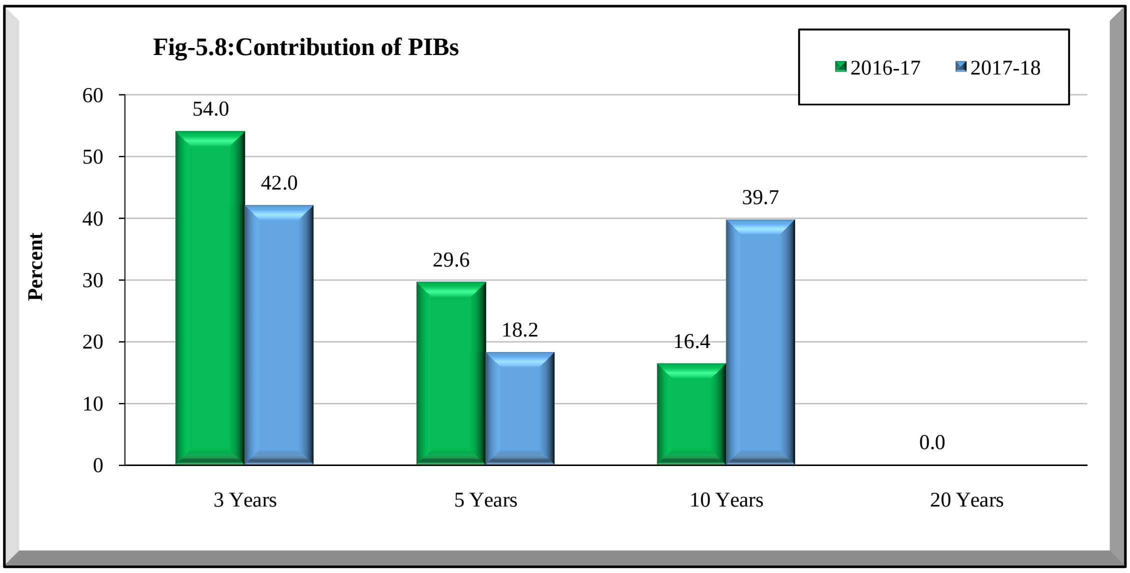
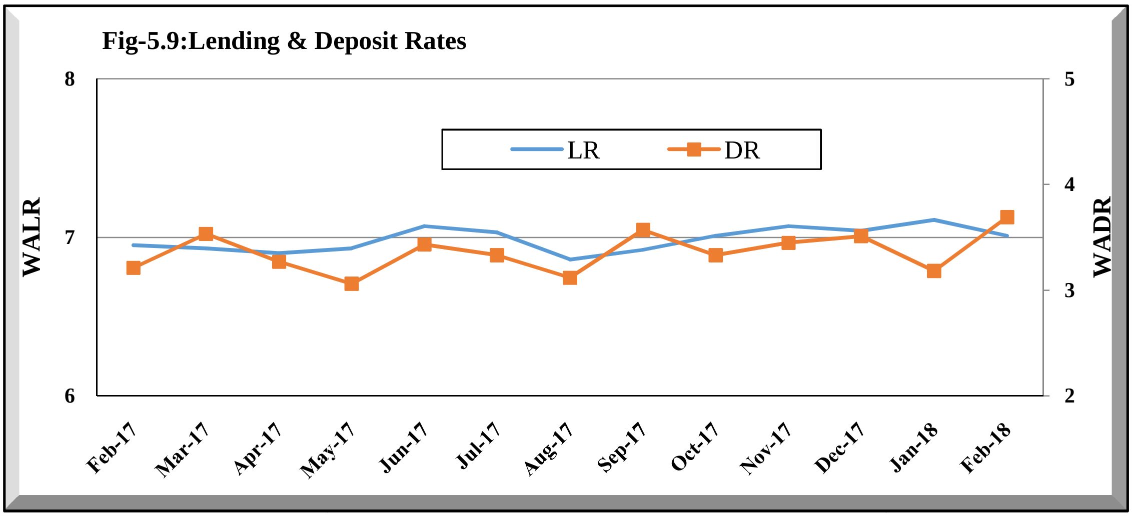


Table-5.11: Lending & Deposit Rates(W.A)

	LR	DR	Spread
Feb-17	6.95	3.21	3.74
Mar-17	6.93	3.53	3.40
Apr-17	6.90	3.27	3.63
May-17	6.93	3.06	3.87
Jun-17	7.07	3.43	3.64
Jul-17	7.03	3.33	3.70
Aug-17	6.86	3.12	3.74
Sep-17	6.92	3.57	3.35
Oct-17	7.01	3.33	3.68
Nov-17	7.07	3.45	3.62
Dec-17	7.04	3.51	3.53
Jan-18	7.11	3.18	3.93
Feb-18	7.01	3.69	3.32

Source: State Bank of Pakistan

Weighted Average Lending Rate (WALR) on gross disbursements increased by 6 bps during first eight months of CFY from 6.95 percent in Feb 2017 to 7.01 percent in Feb, 2018 due to expected increase in policy rate and liquidity conditions in the interbank market. Similarly, Weighted Average Deposit Rate (WADR) offered on fresh deposits increased from 3.21 percent in Feb, 2017 to 3.69 percent in Feb 2018. Consequently, banking spread which generally refers to the cost of channelling funds through intermediaries and is the difference of lending and deposit rates decreased by 42 bps from 3.74 percent in Feb 2017 to 3.32 percent in Feb 2018.



Similarly, the average lending rate on outstanding loans also reduced from 7.99 in Feb, 2017 to 7.69 percent in Feb, 2018. The average deposit rate reduced to 2.92 percent in Feb 2018 compared to 3.02 percent in Feb, 2017.

Financial Sector

Table-5.12: Highlights of the Banking Industry

	CY13	CY14	CY15	CY16	CY17
Key Variables (Rs billion)					
Total Assets	10,487	12,106	14,143	15,831	18,342
Investments (net)	4,313	5,310	6,881	7,509	8,729
Advances (net)	4,110	4,447	4,816	5,499	6,513
Deposits	8,311	9,230	10,389	11,798	13,012
Equity	943	1,207	1,323	1,353	1,381
Profit Before Tax (ytd)	162	247	329	314	266.8
Profit After Tax (ytd)	112	163	199	190	157.8
Non-Performing Loans	607	605	605	605	592.5
Non-Performing Loans (net)	139	122	91	90	75.6
Key FSIs (Percent)					
NPLs to Loans (Gross)	13.3	12.3	11.4	10.1	8.4
Net NPLs to Net Loans	3.4	2.7	1.9	1.6	1.2
Net NPLs to Capital	14.7	10.1	7.7	7.3	5.8
Provision to NPL	77.1	79.8	84.9	85	87.2
ROA (Before Tax)	1.6	2.2	2.5	2.1	1.6
Capital Adequacy Ratio (all banks)	14.9	17.1	17.3	16.2	15.8
Advances to Deposit Ratio	49.5	48.2	46.4	46.6	50.1

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

With the evolving financial landscape, SBP continues to bring improvements in its regulatory and supervisory framework. These changes aim at adopting international best practices and creating an enabling environment for the banking industry. SBP has collaborative arrangements with domestic financial sector regulators that supports its holistic supervision of the banking sector in the context of the overall financial sector. Further, it has signed Memorandums of Understanding (MOUs) with 20 jurisdictions for supervisory cooperation.

A number of domestic developments including better energy supply, increase in manufacturing activity, improved security conditions, investors' confidence, contained inflation and increase in CPEC related activities remained instrumental for banking sector to follow a sustained growth path. The momentum continued in CY17 with the assets of the banking sector recording YoY growth of 15.9 percent to reach Rs 18.3 trillion. Advances to the private sector have been dominant (75.9 percent of total advances in CY17) and witnessed YoY expansion of 18.4 percent in CY17.

Further, the alignment of regulatory capital requirements in Pakistan with best international practices coupled with high profitability also helped in achieving strong solvency. Capital Adequacy Ratio (CAR) of 15.8 percent as of end December 2017 which is stronger and higher than the minimum required level of 11.275 percent.

Similarly, asset quality has also improved and NPLs to loans ratio came down from 10.1 percent in CY16 to 10 years low of 8.4 percent in CY17. Net NPLs ratio reduced from 1.6 percent to 1.2 percent in December, 2017 on YoY basis.

Financial Development

The financial development is considered in general as a key to economic development and growth. Financial depth or deepening can be measured through many proxies, but M2-to-GDP ratio is considered as the most comprehensive and commonly used measure. Increasing M2/GDP ratio mainly indicates more developed and efficient financial sector.

In case of Pakistan, this ratio has shown positive and increasing trend since FY 2012 due to several regulatory reforms and policy initiatives by SBP to ensure an efficient and sound financial sector. Monetary assets which were 36.6 percent of GDP in FY 2011 increased to 45.6 percent in FY 2017. While as on 30th March, FY2018, M2/GDP ratio remained 44.6 percent compared to 42.5 percent observed in the same period of last year. However, the ratio is expected to increase further in future on account of ongoing financial reforms in financial sector with the objective to strengthen the financial depth.

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
2016-17	45.6
01 July-30 March	
2016-17	42.5
2017-18	44.6

Aiming to this, SBP is constantly bringing improvement in the legal, regulatory and supervisory framework including Compliance Risk Management guidelines have been developed with best international practices, while Anti Money Laundering (AML)/Combating Financing of Terrorism (CFT) Regulations have been aligned with the Financial Acton Task force (FATF) recommendations, measures for improvement in foreign exchange regime including successful implementation of Electronic Import Form (EIF) called Web based One Customs (WeBOC), broadening and implementation of National Financial Inclusion Strategy, Financial Literacy Initiatives and strengthening of financial market infrastructure including provision of digital financial services etc.

Box-II: Financial Reforms

Key reforms/measures taken during the current period and further developments in the existing reforms are listed below:

- **Legal Reforms:**

- SBP proposed amendments in Section 15 of the **Financial Institutions (Recovery of Finances) Ordinance, 2001 (FIRO)** which were promulgated in August 2016. These amendments would facilitate early recovery of defaulted loans and minimize defaults. SBP is presently in the process of drafting rules for effective implementation of new amendments.
- Further, **Corporate Restructuring Companies Act 2016 (CRCA)**, which provides for establishment and regulation of corporate restructuring companies, was enacted in June, 2016. These companies would be

tasked with inter-alia resolution of NPLs in agreement with financial institutions and restructuring of distressed companies. SECP has notified draft CRCA rules for public comments.

- Subsequent to enactment of **Deposit Protection Corporation (DPC) Act 2016**, the preparatory arrangements to operationalize DPC are being carried out. In this respect, SBP has appointed its Managing Director while Federal Government has appointed members of Board of Directors (BoDs) of DPC recently. DPC has also initiated work on draft Deposit Protection Rules and Regulations which will be issued after necessary approvals from the Board.

➢ **Regulatory Reforms:**

- The State Bank of Pakistan, in line with best international practices, has developed guidelines on **'Compliance Risk Management'** to provide banking industry a uniform and systematic approach for identification, assessment and management of compliance risk.
- To support the growth of credit to the retail sector and small & medium enterprises (SMEs), the regulatory retail portfolio limit under Basel Capital Framework has been enhanced from Rs 75 million to Rs 125 million.
- SBP has been actively taking measures to prevent use of banking channel for money laundering/ terrorist financing. **Anti Money Laundering (AML)/Combating Financing of Terrorism (CFT) Regulations** have been aligned with the Financial Action Task Force (FATF) recommendations and covers all essential aspects of preventive and control measures as per risks involved
- In order to further improve the **foreign exchange regime** of the country, following measures were taken to facilitate importers/exporters as also to introduce online reporting:
  - With the successful implementation of Electronic Import Form (EIF) module called Web based One Customs (WeBOC) in August, 2016, SBP has done away with many paper-related submissions. To facilitate importers, it has been decided to do away with the requirement of submission of original shipping documents for making payment against goods imported on open account basis. Further, exporters have been allowed to directly dispatch shipping documents to the consignees or their agents in the country of final destination in case of exports other than against L/C or advance payment.
  - To further improve the trade related foreign exchange monitoring, submission of Form-E related data to SBP has been made electronic through the Data Acquisition Portal (DAP).

➢ **Supervisory Reforms:**

- Recognizing emerging technology related risks in the banking sector, the regular full scope inspection of banks/DFIs/microfinance banks and exchange companies was extended to include information system inspection of selected institutions. Further, thematic inspections involving assessment of human resource practices in banks, Foreign Direct Investments, compliance to FATF recommendations and inspection of Government accounts opening /operations have been conducted in FY FY2018. Special reviews of write-off cases in compliance of Section 25 AA of Banking Companies' Ordinance, 1962 were also conducted during the year.
- A revised framework for Inspection of Information Systems of banks, DFIs, MFBs and a new inspection manual for Branchless Banking Operations on Risk Based methodology are currently under development.
- SBP has taken significant leap in updating its existing supervisory methodology to a forward looking supervisory methodology i.e. **Risk Based Supervision (RBS).** The adopted approach aims to help SBP in better understanding the risk at the institution level. Development of Risk based supervision framework is underway and going forward it is expected to help SBP in prioritizing supervisory resources and articulating responses to financial stress besides enabling more structured profiling of financial institutions.

➢ **Financial Market Infrastructure**

SBP envisages provision of digital financial services especially through promoting development of a modern and robust payment system without compromising financial stability. SBP, in cooperation with representatives from internal stakeholders as well as World Bank, is formulating a National Payment Systems Strategy and developing key payment infrastructure.

Key achievements to strengthen and promote Payment System regime are **Designated Payment Systems framework (DPS)** to strengthen risk management of payment systems operators/providers in Pakistan**,** SBP in consultation with all stakeholders has revised the **Prism Operating Rules** to better align them with International Standards, SBP further intends to work on a multi-pronged strategy such as Micro

Payment Gateway (MPG) and Automated Clearing House (ACH) to promote digital financial services in the country for both retail and wholesale payments.

➢ **Broadening of Financial Net**

Promoting financial inclusion is one of the key strategic goals under SBP vision 2020, which will be achieved through focusing on: 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 and Implement financial literacy initiatives

➢ **National Financial Inclusion Strategy (NFIS)-Implementation Progress**

NFIS's governance and national coordination platform remained fully operational to implement reforms and initiatives documented under the strategy. To achieve the primary objective of increasing financial inclusion, focused efforts were undertaken to:

- Promote Digital Transaction Accounts (DTAs) and reach scale through bulk payments,
- Expand and diversify access points,
- Improve capacity of financial service providers and
- Increase levels of financial awareness.

Key achievements in the current period include:

a. On January 11, 2017 the **Digital Transaction Account Scheme – Asaan Mobile Account (AMA)** Scheme was approved by NFIS Council. The scheme aims to facilitate 2-minute account opening process and allow transactions with a basic/feature mobile phone from anywhere, at any time. Under this scheme, customers will remotely open Branchless Banking (BB) accounts of their choice and use all financial products & services available at AMA platform accessed through a unified USSD platform. The Scheme is currently in developmental phase and finalization of its governance, business and operational aspects and designing & execution of mass media campaign to build awareness is under progress.

b. In order to facilitate mass enrollment of Digital Transactional Accounts (DTAs), NADRA has reduced the verification cost to Rs10/- to meet low cost KYC requirements for opening of Branchless Banking (BB) accounts.

c. BB agents conduct banking transactions on behalf of their customers .Such transactions are being settled on daily basis and attract withholding tax when withdrawals exceed Rs 50,000 limit. It was, therefore, recommended to the NFIS Council that Federal Board of Revenue (FBR) may consider adjustment of withholding tax on cash withdrawals by the BB agents to the extent of disbursements made to their clients. The proposal was approved under Finance Bill FY2018 and the relaxation has been provided to the agents.

d. Under NFIS, State Bank of Pakistan has designed a scheme for promotion of home remittances through Mobile Wallet (MWallet) which was launched by the Prime Minister of Pakistan on 22-Dec-2017. The scheme incorporates a new category of branchless banking accounts titled **'Home Remittance Account - HRA'** to promote swift and cost-effective way of receiving remittances from abroad. The branchless banking providers have also been advised to upgrade their systems, controls and procedures to incorporate the requirements laid down for the Branchless Banking Home Remittances Accounts.

Source: State Bank of Pakistan

Islamic Banking

Islamic banking industry has grown considerably since its re-launch in 2001-02. As of December 31, 2017, the industry's asset base has reached to Rs 2.3 trillion, a growth of 22.6 percent (12.4 percent of the overall banking system assets) while deposits stand at Rs1.9 trillion, a growth of 19.8 percent (14.5 percent of the overall banking industry's deposits). In terms of number of providers, 5 full-fledged Islamic banks and 16 Islamic banking branches of conventional banks are providing Shariah compliant products and services through their network of 2,581 branches spread across 111 districts of the country. Further, Islamic Banking Divisions of conventional banks have increased their outreach for deposit mobilization through 1,277 Islamic Banking Windows.

Table - 5.14: Islamic Banking Industry	CY11	CY12	CY13	CY14	CY15	CY16	CY17
Total Assets (Rs billion)	641.0	837.0	1,014.0	1,259.0	1,610.0	1,853.0	2,272.0
Total Deposits (Rs billion)	521.0	706	868.0	1,070.0	1,375.0	1,573.0	1,885.0
Share in Banks' Assets (Percent)	7.8	8.6	9.6	10.4	11.4	11.7	12.4
Share in Banks' Deposits (Percent)	8.4	9.7	10.4	11.6	13.2	13.3	14.5

Source: State Bank of Pakistan

Investments (net) of Islamic banking industry increased by Rs 9.0 billion (1.8 percent) during the period under review and recorded at Rs 534 billion by end December, 2017. Financing and related assets (net) of Islamic banking industry increased by Rs 172 billion (16.6 percent) during the fourth quarter of CY17 and reached to Rs 1,207 billion compared to Rs 1,035 billion in the previous quarter. Profit before tax of IBI was recorded at Rs 23.0 billion by end December, 2017 compared to Rs 17.0 billion in the same quarter last year. Other profitability indicators including ROA (before tax) and ROE (before tax) were recorded at 1.1 percent and 17.1 percent, respectively.

Mode wise breakup of financing (gross) demonstrates that share of Diminishing Musharaka remained higher in overall financing of IBI followed by Musharaka and Murabaha. It is pertinent to mention that share of Musharaka increased from 15.6 percent in CY16 to 22.0 percent in CY17.

Table 5.14 (a): Financing Products by Islamic banks — **Percent share**

Mode of Financing	CY11	CY12	CY13	CY14	CY15	CY16	CY17
Murabaha	43.8	39.7	40.6	30.1	24.5	15.8	13.2
Ijara	10.4	9.2	7.7	7.7	6.6	6.8	6.4
Musharaka	2.4	0.8	6.7	11	14	15.6	22
Mudaraba	0.1	0.2	0.2	0.1	0	0	0
Diminishing Muskaraka	32	35.7	30.8	32.6	31.7	34.7	30.7
Salam	2.4	3	4	4.5	5.3	4.4	2.8
Istisna	4.4	7.2	5.6	8.3	8.6	8.4	8.2
Qarz/Qarz-e-Hasna	0.0	0.0	0.0	0.0	0.0	0.02	0.1
Others	4.4	4.3	4.4	5.6	9.3	14.3	16.7
Total	100	100	100	100	100	100	100

Source: State Bank of Pakistan

Microfinance

During FY2018, the State Bank of Pakistan (SBP) continued to play its vital role for enhancing of financial inclusion in the country. Promotion of digital financial services is the top priority of SBP while implementing National Financial Inclusion Strategy (NFIS). Moreover, the Microfinance Banks (MFBs) have been encouraged to increase their outreach for greater usage of micro-banking services for under privileged segments especially those living in the rural and remote areas.

At the close of quarter ended December, 2017 around 51 institutions were involved in microfinance services which included eleven deposit taking microfinance banks (MFBs) while others were Non-Bank Microfinance Companies (NB-MFCs).

All together the microfinance sector witnessed 48.0 percent growth in its aggregate microcredit portfolio which grew by Rs 65.7 billion to Rs 202.7 billion as of December, 2017 from Rs 136.9 billion in corresponding period last year. The number of borrowers also registered a growth of 26.8 percent and increased to over 5.8 million.

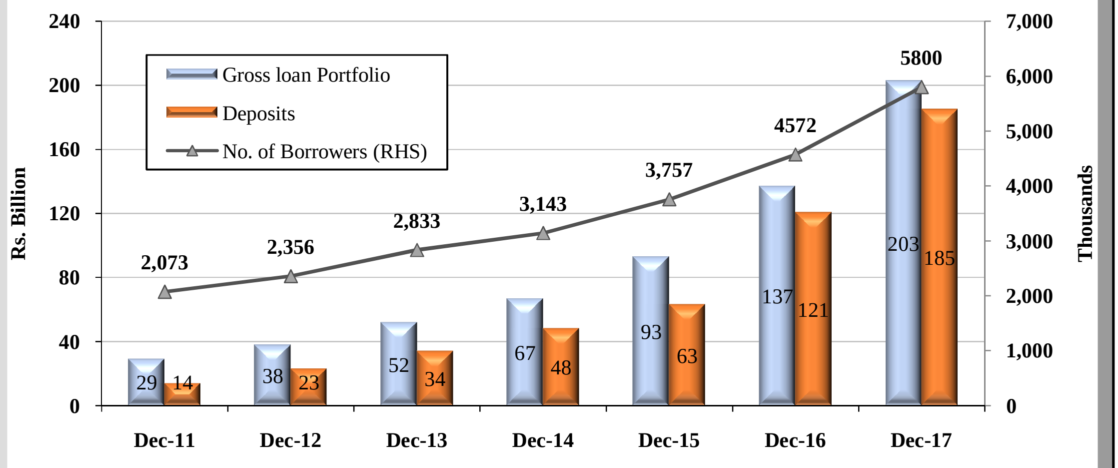
The NB-MFCs continued to serve a larger number of borrowers (56.1 percent), while

MFBs has taken a lead in terms of the aggregate value of loans (67 percent) with an average loan size of Rs 53,338/- which is more than twice the size of loans offered by their non- banking contestant (Rs 20,580/-).

On a YoY basis, the sector has been able in expanding its retail business network by including 453 new business locations and reached to 3,673 across the country as of December, 2017.

In order to enable MFBs to serve the microenterprise credit requirements, SBP has enhanced the loan size to Rs 1.0 million for microenterprises from Rs 0.5 million.

Fig-5.10: Growth of Microfinance Industry



At the close of 2nd quarter of FY18, eleven microfinance banks (MFBs) were involved in extending complete range of micro-banking services. The aggregate loan portfolio of MFBs grew by 50.2 percent to Rs 135.7 billion as compared to Rs 90.4 billion in the corresponding period last year. Likewise, the number of borrowers increased from 1.9 million to 2.5 million and registered an increase of 30.7 percent. Moreover, MFBs were able to restrict NPLs at 1.8 percent at the end of the reporting period.

The combined equity base of MFBs also witnessed 33.5 percent increment (i.e. Rs 8.2 billion) to reach Rs 32.5 billion at the close of the period. With regard to comprehensive asset base of the MFBs, it also registered a strong growth of 44.5 percent rising to Rs 246.2 billion with an increment of Rs 75.8 billion.

The deposit base of MFBs managed to reach Rs 185 billion, compared to Rs 120.6 billion in the same period last year with a corresponding increase of 53.4 percent in outreach of deposit services which was available to over 27.8 million depositors. At the close of the period MFBs were successfully operating through a network of 873 branches.

Branchless Banking (BB) Performance

During CY2017, the Branchless Banking (BB) indicators exhibited an encouraging growth. The number of accounts were opened 17.3 million, exhibiting 86.6 percent rise to reach 37.3 million accounts. The BB agents recorded 12.75 percent rise to reach 405,671 agents. These agents served as the points of presence for the previously excluded socio economic class to provide them access to basic financial services.

A total of 647.6 million transactions of Rs 2.8 trillion were conducted through the BB channel during CY2017.

To focus on the previously neglected dimension of financial inclusion, few MFBs were allowed to evaluate the feasibility of digital credit in the country. The MFBs are offering digital credit via pilot project, wherein small ticket sized loans (Rs 1000-3500) are being offered to the customers for short tenures of 7, 15 and 30 days. The findings of this project will pave a way in setting the course of action for digital credit in future.

SBP has initiated capacity building of BB agents nationwide scale. The agent's training curriculum offered by banks only covered limited areas of BB operations, and thus substantial knowledge gap exists among the BB agents. To address the issue, SBP has developed a universal curriculum for capacity building of the BB agents in consultation with the industry. Phase-1 of the project has been completed, in which two Train-the-Trainers sessions have been conducted and 73 officers from banks have been trained on this curriculum. These officers will further impart training to their respective agents nationwide under phase-2 of this program, which is due to start shortly.

Insurance Sector

The insurance sector in Pakistan comprises of 9 life insurers including two family takaful operators, 41 non-life insurers including three general takaful operators, and one state-owned national reinsurer. The largest share in life insurance market is occupied by the State Life Insurance Corporation of Pakistan (SLIC), which is a state-owned entity and National Insurance Company Limited (NICL) that is state-owned company has the largest share in non-life insurance market. The NICL enjoys the statutory monopoly of underwriting the risks related to public property under Section 166 of the Insurance ordinance, 2000. The only reinsurer of the industry, the government-owned Pakistan Reinsurance Company limited (PRCL) continues to benefit from a mandatory minimum 35 percent share in the area of non-life treaty reinsurance. Some of the SECP's major achievements in respect of the insurance sector during July 2017 to December 2017:

Issuance of Directive for Corporate Insurance Agents (excluding banks) and Technology Based Distribution Channels, 2018: The regulatory directive issued for corporate insurance agents (excluding banks) and technology-based distribution channels, which prescribe the regulatory requirements regarding conduct of business through these channels. The directive also tends to rationalize the Enhanced Due Diligence (EDD) requirement for insurance policies distributed through technology-based distribution channels and prescribes the maximum annual premium threshold under which, the insurance policies will be subject to simplified Customer Due Diligence (CDD) requirements. The directive also sets out guidance in respect of maintaining minimum consumer protection standards while distributing insurance through technology-based channels such as storage and safety of policyholder data, communication of all terms and conditions through mobile/ Internet, manner of exiting the agency agreement etc.

Local insurance companies allowed to issue dollar-denominated insurance policies: A circular has been issued stipulating the documentary requirements for insurers desirous to obtain recommendation letter from the SECP for issuance of US dollar-denominated insurance policies. The recommendation letter is a mandatory document required to be submitted to the SBP while submitting an application for issuance of dollar-denominated insurance policy through the authorized dealer. The circular requires submission of copy of bilateral agreement or any other document as evidence to bilateral agreement, in case such policies are required to be issued for projects undertaken in Pakistan, as a part of bilateral agreement between GoP and a foreign country/multilateral agency. In case of issuance of dollar-mandated policy required to meet the condition of foreign currency (FCY) loan, documentary evidence establishing permission given by the SBP in this regard, is required. Other requirements include minimum insurer financial strength rating of insurer and coinsurer, if any, proposed reinsurance solution and other details regarding the risk(s) to be insured.

Initiatives taken under National Financial Inclusion Strategy (NFIS): In order to implement the National Financial Inclusion Strategy (NFIS) adopted by the Government of Pakistan, a Technical Committee on Insurance (TCI) has undertaken various initiatives such as; consultation with the National Database Registration Authority (NADRA) for reduction in NADRA verification cost for micro-insurance policies, consultation with provincial education bodies for incorporation of insurance related content in academic curriculum, and follow up with the relevant ministries for legislative improvements in laws governing the compulsory group life insurance and motor third party liability insurance.

Resolution of policyholder complaints: From July to December 2017, the SECP received 402 complaints of which, 291 complaints have been resolved/ disposed of, 82 complaints were forwarded to alternative dispute resolution channels, i.e. Federal Insurance Ombudsman (FIO) and small dispute resolution committees (SDRCs), while 29 complaints were under process as on December 31, 2017. Through the complaints resolution function of the SECP, compensation of Rs 34.3 million were provided to aggrieved policyholders who had filed their complaints with the SECP.

Conclusion

Accommodative monetary policy played an effective role in Pakistan for conducive macroeconomic environment. The cautious monetary policy was centered on consolidating the gains from historic-low policy rate at 5.75 percent till January, FY2018 and striking a balance between subdued inflation and emerging pressures on external accounts. Prospects of high growth and inflation within comfortable bounds during FY2018 accompanied by some challenges as higher current account deficit alongwith high fiscal deficit create a challenge for monetary policy outcome. As a result, SBP has changed the monetary policy stance in January 2018 by 25 bps to 6 percent to anchor expected rise in inflation in view of reversal of international oil and commodities prices and to address domestic demand pressure as well exchange rate movement. Alongside SBP continued to proactively managed interbank liquidity to keep the overnight rates close to the policy rate that is supporting the availability of credit.

Indeed, the credit to the private sector grew by Rs 469.2 billion during first nine months of CFY2018 as compared to Rs 438.6 billion in the corresponding period last year.

However, active monetary management as well as visible improvements in exports and remittances due to recent adjustments stemming from greater exchange rate flexibility is expected to unfold gradually in the coming months. In March 2018, the Monetary Policy Committee decided to maintain policy rate at 6.0 percent for the next two months to see impact of policy. Current monetary policy stance will support in strengthening further gains going forward.