Chapter 5

MONEY AND CREDIT

Prudent Monetary Policy in times of crisis is more than a strong defense. It generally moved to manage the supply of money in the economy to achieve twin objectives- price stability and output growth. The global economy seems to move on a gradual recovery path from the challenges of pandemic and Russia-Ukraine conflict. China is rebounding strongly after reopening of its economy. Global supply-chain disruptions are slowing down, while the disturbances to energy and food markets caused by the Russia-Ukraine conflict are receding. Simultaneously, synchronized tightening of monetary policy by most central banks should start to materialize desired dividends, with inflation rebound toward targets.

The global growth will bottom out at 2.8 percent in 2023 before rising modestly to 3.0 percent in 2024. Global inflation will decrease gradually from 8.7 percent in 2022 to 7.0 percent in 2023 and expected to reach at 4.9 percent in 2024.

However, an emerging challenge and most worrisome issue is the sharp monetary policy tightening during 2022 have serious side effects for the financial sector. Yet the global financial system is showing considerable strains, however, recent banking turmoil in the US as well as financial instability in the Europe, triggered significant emergency responses by central banks to prevent further instability. Shares of banks in major emerging market economies have experienced little contagion from the banking turmoil in the US and Europe.[1]

Policies with immediate impact ensuring a durable fall in inflation: With inflation still well above targets for most economies, the priority remains reducing inflation and ensuring that expectations stay anchored while containing financial market strains and minimizing the risk of further turbulence.

Relating to SBP monetary policy with global perspective, Pakistan economy is facing global headwinds on domestic inflation and macroeconomic imbalances. Aiming to this, SBP has initially started monetary policy normalization since September 2021 to counter inflationary pressures and to control macroeconomic imbalances. During September 2021 to April 2023, SBP has increased the policy rate by 1400 bps to 21 percent. At first round, economy has witnessed some exchange rate stability but inflationary pressures remained persistent. Afterwards, economy had suffered with flood which changed the whole scenario. Economy is confronting with both domestic and global challenges, which further aggravate the situation and create complex scenario for monetary policy direction. SBP has continued with monetary tightening which paid off some dividends for external sector stability. But inflationary and exchange rate depreciation pressures remained persistent. So, it’s time to re-think about monetary policy around the world and to learn lessons from evolving and challenging situation for global output and inflation stabilization.

Box-I: Direction of Global Monetary Policy, New Challenges and Lessons

During the COVID-19 crisis, government spending increased significantly in the form of stimulus packages across the globe. Fiscal expansion seems to have been a primary driver of inflation, particularly in advanced economies. But as spending was increasing, countries were hit by supply shocks, which added further to inflationary pressures.

[1]https://www.imf.org/en/Blogs/Articles/2023/04/11

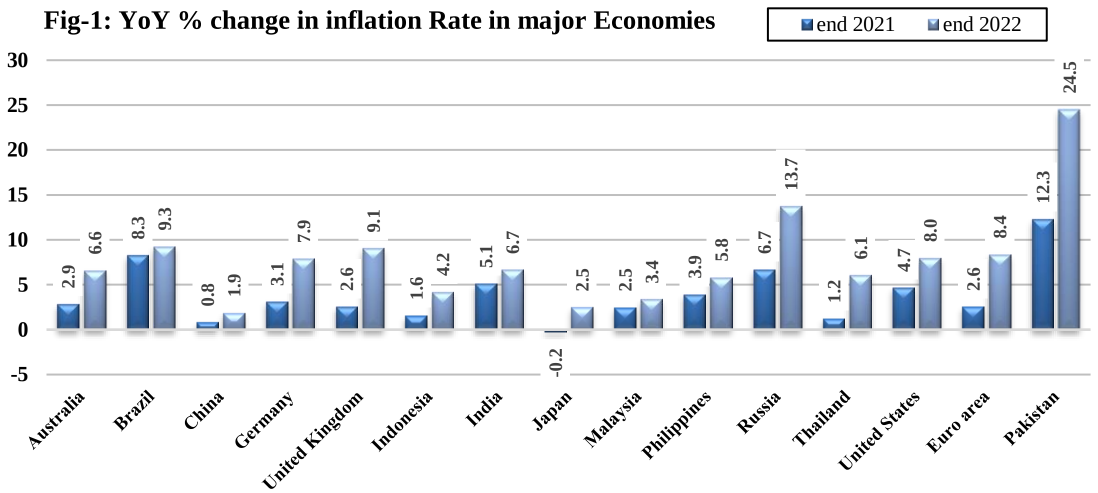
Powerful non-economic forces – the COVID-19 pandemic and the Russia-Ukraine conflict reshaped economic developments in 2022. As the 2022 progressed, an expansion that observed in 2021- lost some momentum, with supply constraints, COVID variants and geo-political tensions blowing headwinds.

Against this backdrop, global inflation soared to multi-decade highs. At first, higher inflation was considered transitory, but it proved persistent and broadening over time. In response, central banks generally brought forward the timing and pace of policy tightening. Higher inflation and shifting expectations of the policy response led to bouts of financial market volatility with financial conditions tightening substantially in 2022. The mixture of these forces makes a challenging future outlook of global economy.

In several Emerging Market Economies (EMEs), central banks responded quickly to rising inflation. By early 2022 major central banks of these economies had started to remove accommodation. The Central Bank of China was an important exception; it eased as the economy softened and inflation remained subdued.

In Advanced Economies (AEs), central banks responded more slowly to macroeconomic shocks. Initially, many attempted to "look through" seemingly transitory higher inflation. But as the 2022 progressed, central banks wound back their forward guidance, signaling an earlier start of policy normalization.

Fig-1: YoY % change in inflation Rate in major Economies



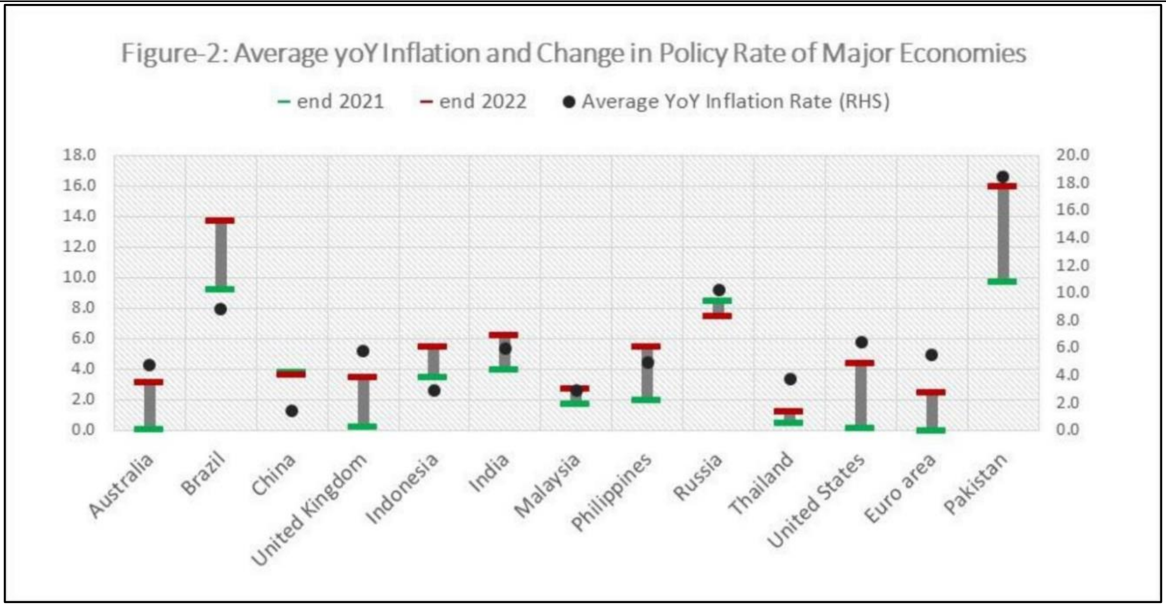
The Federal Reserve (FED) and the European Central Bank (ECB) have both embarked on their most aggressive monetary tightening cycle in decades in response to soaring inflation. The inflationary pressures appeared first in America and headline inflation outpaced in other major developed markets, peaking at 9% on YoY basis in June 2022, a 40-year high. Peak inflation in the Euro Area has come later, at a record high level of 10.7% YoY basis in October 2022 due to the region's heavy exposure to gas supply disruptions and Russia-Ukraine conflict rather than a post-COVID surge in domestic demand.

Although inflation is likely to ease steadily in 2023, it is expected that interest rates to stay at peak level until mid-2024, with important implications for global economy.

Table 5.1: Current policy Rate in Selected Economies* (%)

Ghana	29.5
Pakistan	20.0
Egypt	18.25
Chile	11.25
Brazil	13.75
US	4.65
Mexico	7.88
Bangladesh	4.00
India	6.50
UK	4.25
Phillipines	6.25

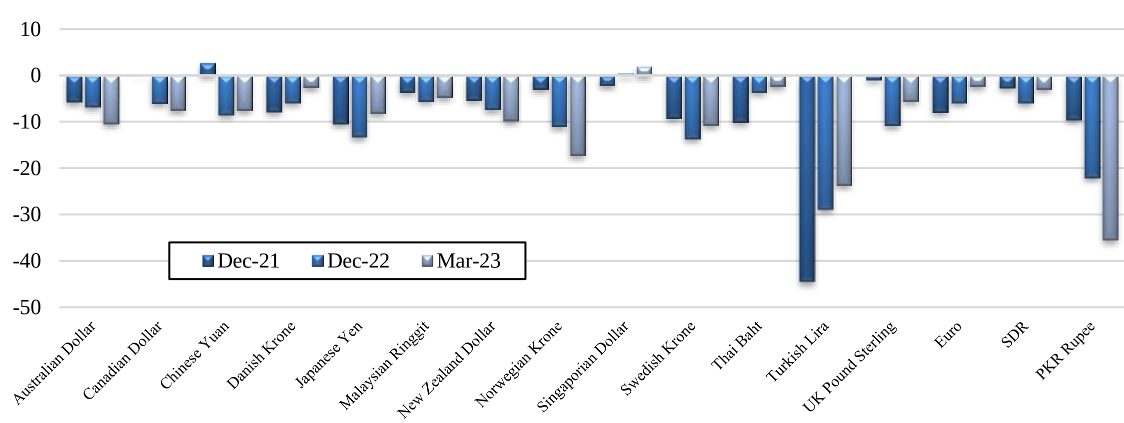
* March 2023
Source: Haver Analytics, CBRates.com



Box-II: The Changing Nexus between Commodity Prices and the US Dollar

After reaching a record high level in 2022, the USD depreciated slightly against the Euro and other major currencies at the start of 2023 as US inflation began to ease back and the ECB started to raise policy rate more aggressively, in line with the FED decisions.

Fig-5.3: App (+) & Dep(-) of Respective Currency against US $



Commodity prices and the value of the USD have recently moved up and down in tandem. Most remarkably, they both surged in 2021 and 2022 and subsequently weakened together. This was a marked departure from the standard pattern whereby dollar strength goes hand in hand with weaker commodity prices. Since most commodities are priced in dollars and movements in USD have amplified commodity price swings in terms of local currency.

Abrupt co-movement between the USD and the commodity prices may be due to temporary and structural factors. Temporary factors include the macro-financial stability consequences of higher commodity prices, which provoked a flight-to-safety into the USD, and the more rapid monetary policy tightening in the United States than in other major economies. Structural ones include the United States' emergence as a net energy exporter, which has seen the dollar behave like a "commodity currency". The commodity price-dollar nexus may have changed temporarily due to the specific nature of the shocks to the global economy in 2022.

It is expected that another modest dollar depreciation in 2023 will observed as inflation eases slightly faster in the US than in the Euro area and as the FED-ECB interest rates differential narrows further. Nonetheless, the dollar will remain strong by recent historical standards throughout 2023 and into early 2024, when the global economic outlook stabilizes and the interest rates differential with other major central banks begins to narrow further.[2]

Monetary Policy Stance in Pakistan

FY2022 ended with significant economic growth of 6.1 percent alongwith macroeconomic imbalances, emerging inflationary pressures, historic high imports bill and trade deficit and depleting FX reserves resulted in depreciation of PKR. The growth stemmed from conducive policy environment for real sector growth included expansionary fiscal and monetary policies.

Table-5.2: Policy rate (%)

w.e.f	Policy rate
26/06/2020	7.00
21/09/2021	7.25
22/11/2021	8.75
15/12/2021	9.75
08/04/2022	12.25
24/05/2022	13.75
13/07/2022	15.00
28/11/2022	16.00
24/01/2023	17.00
03/03/2023	20.00
05/04/2023	21.00

Source: State Bank of Pakistan

Lagged impact of pro-growth polices at the time of COVID, translated in excessive aggregate demand. Coupled with global challenges and series of macroeconomic shocks including multiple waves of COVID-19, lingering supply chain disruptions, commodity super-cycle, the outbreak of Russia-Ukraine conflict and global monetary policy tightening, particularly in the US, which transfers pressures on emerging market currencies included Pakistan.

As these shocks started to materialize and reflected in high-frequency indicators, SBP started monetary policy normalization since September 2021 from 7.0 percent, which was kept unchanged for the last 15 months. Cumulatively, the policy rate increased by 675 bps to 13.75 percent during FY22. Moreover, SBP also introduced other measures to counter demand-side pressures on import payments. These measures includes an increase in the cash reserve requirement (CRR) for commercial banks (average by one percentage point to 6 percent and minimum to 4.0 percent), tightening of prudential regulations (PRs) for consumer and auto financing[3], and twice imposition of cash margin restrictions (CMRs) on additional imported items (114 items in Sep-2021 and 177 items in Apr-2022). In addition, it was decided to increase the frequency of monetary policy reviews from six to eight times a year, with a view to making the process of monetary policy formulation more responsive to the fast-changing situation.

At the start of FY2023, the economy was confronting both domestic and external challenges, domestic economic activity was expected to moderate due to contractionary monetary and fiscal policies. However, flash flood has further aggravated the challenging economic situation and deteriorated economic growth prospects.

In the first meeting of current fiscal year (CFY) held in July 2022, policy rate was increased by 125 bps to 15 percent with the objective to contained domestic demand and prevent de-anchoring of inflation expectations. Moreover, in this decision the rates of export finance scheme (EFS) and long-term financing facility

[2] Bis.org

[3] PRs effectively prohibited financing for imported vehicles, and tightened regulatory requirements for financing of domestically manufactured/ assembled vehicles of more than 1000 CC engine capacity and other consumer finance facilities like personal loans and credit cards. Also, the maximum tenure of auto finance facility was reduced from 5 years to 3 years for vehicles above 1000 CC engine displacement and from 7 years to 5 years for vehicles up to 1000 CC engine displacement.

For more details, see the SBP's press release titled 'State Bank of Pakistan revises Prudential Regulation for Consumer Financing to moderate import and demand growth', dated September 23, 2021.

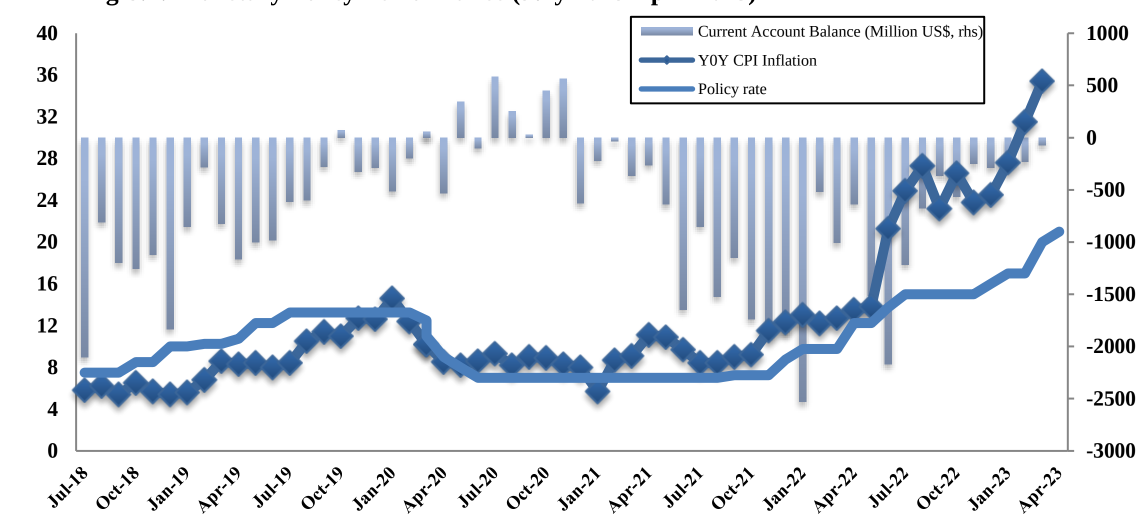
(LTFF) were linked to the SBP policy rate with discount of 500 bps.

Over to the next two meetings held in August and October 2022, policy rate was kept unchanged at 15 percent on account of observed desired developments of moderate domestic demand, inflation remained in line with expectations and altered economic outlook due to flood.

Policy rate was increased by 100 bps each in subsequent two meetings held in November 2022 and January 2023. The decisions were made on account of strong and persistent broad-based inflationary pressures than expected.

The situation further deteriorated after fiscal and external adjustments which changed the inflation outlook for FY2023 to 27-29 percent against the November 2022 projection of 21-23 percent. In response to this, policy rate was further increased by 300 bps to 20 percent in meeting held in March and further by 100 bps to 21 percent in April 2023. Cumulatively, policy rate increased by 725 bps during Jul-Apr FY2023.

Fig-5.4: Monetary Policy Performance (July 2018-April 2023)



Recent Monetary and Credit Developments

During 01st July-31st March FY2023, broad money (M2) has witnessed an increase of Rs 1,193.7 billion (growth of 4.3 percent) as compared to Rs 698.4 billion (growth of 2.9 percent) during same period last year. Within M2, Net Foreign Assets (NFA) of banking system decreased by Rs 2060.6 billion as compared decline of Rs 1197.7 billion last year. NFA's point contribution has decreased to 7.4 percent as compared to negative contribution of 4.9 percent during same period last year. This shows deteriorated external sector position and depleting FX reserves. On the other hand, Net Domestic Assets (NDA) of the banking sector increased by Rs 3254.2 billion (point contribution of 11.7 percent) as compared to Rs 1896.2 billion (point contribution of 7.8 percent) during same period last year. A significant growth in NDA is offset by negative growth of NFA, which contained growth of M2 during the period under review (Table 5.3).

Table - 5.3: Profile of Monetary Indicators Rs billion

	FY2022 (Stocks)	Flows			
		FY21	FY22	31-Mar-23	01-Apr-22
Net Foreign Assets (NFA)	-753.2	1,240.9	-1,478.0	-2060.6	-1197.7
Net Domestic Assets (NDA)	28,355.9	2,148.8	4,782.9	3254.2	1896.2
Net Government Borrowing	19,622.9	1,717.9	3,357.7	2389.7	883.4

Table - 5.3: Profile of Monetary Indicators Rs billion

	FY2022 (Stocks)	Flows			
		FY21	FY22	31-Mar-23	01-Apr-22
Borrowing for Budgetary Support	18,506.5	1,625.2	3,133.0	2414.5	938.5
From SBP	5,141.4	-1,206.3	-191.1	405.8	52.4
From Scheduled Banks	13,365.0	2,831.5	3,324.1	2008.8	886.1
Credit to Private Sector	9,241.2	766.2	1,612.1	302.2	1199.3
Credit to Public Sector Enterprises (PSEs)	1,393.4	-53.8	-43.3	197.1	4.2
Broad Money	27,602.6	3,389.7	3,304.9	1193.7	698.4
Reserve Money	9,326.5	983.6	663.1	816.7	391.5
Growth in M2 (%)		16.2	13.6	4.32	2.87
Reserve Money Growth (%)		12.8	7.7	8.76	4.52

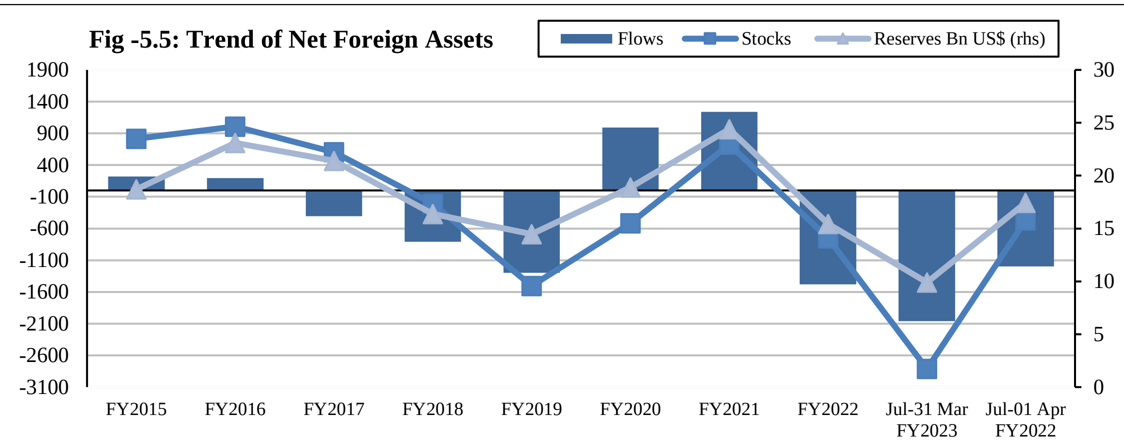
Source: SBP

The NFA of SBP observed contraction of Rs 1,665.8 billion during the period under review as compared decline of Rs 1197.7 billion in last year. This decline was observed on account of payment pressures due to high international commodity prices and exchange rate depreciation. In addition, the scheduled repayments of external debt increased the gross financing requirements of the country. However, in the absence of adequate external inflows, these payments were partially financed by drawdown in SBP reserves during the period under review.

Whereas, NFA of scheduled bank decreased by Rs 394.8 billion as compared an increase of Rs 62.9 billion in last year, shows increase in foreign liabilities of commercial banks. On the contrary, NDA of SBP observed expansion of Rs 2,617.5 billion against Rs 1,420.3 billion in last year. On the other hand, NDA of scheduled banks witnessed expansion of Rs 636.7 billion against expansion of Rs 475.9 billion in last year. The significant expansion in NDA was observed primarily due to higher budgetary borrowing. Therefore, M2 growth completely stemmed from growth in NDA which partially offset by contraction in NFA growth.

Reserve Money (RM) grew by 8.8 percent (Rs 816.7 billion) during 1st Jul-31st March, FY2023 as compared to growth of 4.5 percent (Rs 391.5 billion) during same period last year. RM grew more than double compared to last year, entirely came from growth in NDA of SBP, which partially offset by negative NFA of SBP.

Fig -5.5: Trend of Net Foreign Assets

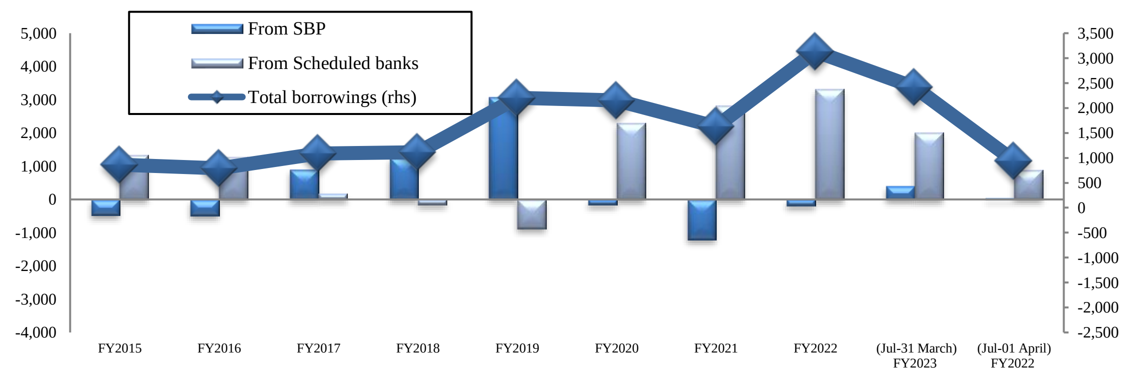


Credit to Public Sector Enterprises (PSEs) observed an increase of Rs 197.1 billion as compared to an expansion of Rs 4.2 billion during same period last year.

Government Borrowing

During the period 01st Jul-31stMar, FY2023, Government borrowing for budgetary support increased to Rs 2414.5 billion as compared to Rs 938.5 billion during the same period last year. During July-March, FY2023, budget deficit financing from domestic sources stood at Rs 3761.5 billion as compared Rs 1,584 billion during same period last year. This increased in financing requirements elevated pressure on domestic banking system due to absence of adequate external loan inflows. Resultantly, net government borrowing from banking system stood at Rs 2,389.7 billion as compared to the government borrowing of Rs 883.4 billion during the same period last year.

Fig 5.6: Flows of Government Borrowings (in billions of rupee)



Commodity Finance

Commodity operation means advances provided either to Government, public sector corporations and private sector for the procurement of commodities such as cotton, rice, wheat, sugar, fertilizer, etc. Both federal and provincial governments borrow from scheduled banks to finance their purchases of commodities.[4] The proceeds from the sale of such commodities are subsequently used to retire commodity borrowing.

Commodity finance witnessed net borrowing of Rs 229.7 billion (posted growth of 25.4 percent) in FY2022 against borrowing of Rs 90.6 billion (growth of 11.1 percent) in FY2021. The outstanding stock of commodity finance amounted to Rs 1,133.7 billion in FY2022 as compared to Rs 904.0 billion in FY2021. Borrowing for commodity finance during FY2022 is mainly reflected the borrowing of Rs 1,011.6 billion by wheat procurement agencies from banking system as compared to Rs 788.2 billion in FY2021.

During 01st Jul-31stMar FY2023, loans for commodity finance observed a net retirement of Rs 22.1 billion as compared to Rs 56.5 billion during comparable period last year.

During July-24th March FY2023, loans for wheat financing witnessed a net retirement of Rs 58.5 billion as compared to the retirement of Rs 45.6 billion during same period last year. Likewise, loans for sugar financing shows net borrowing of Rs 23.5 billion during the period under review as compared to the retirement of Rs 8.6 billion in last year. Fertilizer financing witnessed net borrowing of Rs 12.7 billion against net retirement of Rs 5.1 billion last year. Rice financing shows net borrowing of Rs 13 million as compared to the net retirement of Rs 15.0 million in last year. Likewise, Cotton financing observed net borrowing of Rs 173 million as compared to the net borrowing of Rs 82.0 million last year.

Credit to Private Sector[5]

During FY2022, credit to private sector increased to Rs 1,612.1 billion (growth of 21.1

[4]Glossary, Monthly Statistical Bulletin, SBP

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

percent) as compared to Rs 766.2 billion (growth of 11.2 percent) in FY2021. The significant growth of credit to private sector is mainly stemmed from both working capital and fixed investment credit demand. Working capital credit demand increased on account of expansion in economic activities and increase in cost of production. Similarly, fixed investment credit demand augmented from concessionary financing schemes including the LTFF and the Temporary Economic Refinance Facility (TERF).

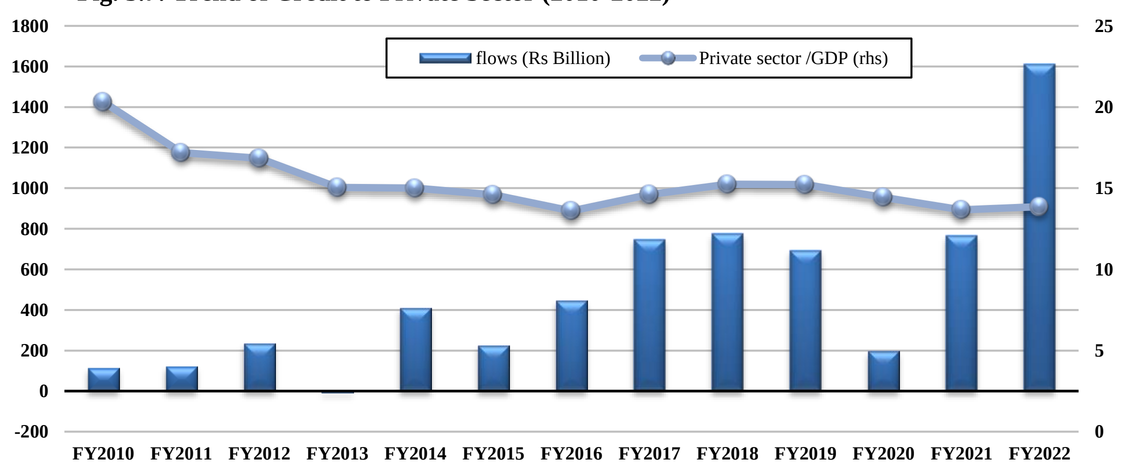
Working capital loans significantly increased by Rs 698.8 billion in FY2022 against Rs 169.5 billion in FY2021. On the other hand, short terms loans also increased on account of expansion in real sector economic activities, particularly LSM and export-led activities. Sectoral distribution shows that with in manufacturing sector, textile sector availed major share of loans in FY2022. Beside, elevated commodity prices and depreciation of PKR have increased credit demand of sectors related to the import dependency, such as cotton, paper & paper board and refined petroleum product.

Fixed investment loans increased substantially to Rs 451.4 billion in FY2022 as compared to an increase of Rs 203.5 billion in FY2021. A significant credit growth was observed for machinery import and capacity expansion. Credit demand stemmed from textile, cement, telecommunication and power sector to expand their operations in FY2022.

During 1st July-31stMarch FY2023, private sector credit increased by Rs 302.3 billion as compared to Rs 1,199.3 during same period of last year. On average, it has posted growth of 3.3 percent as compared to growth of 15.7percent in last year. On YoY basis, it has posted growth of 8.1 percent as on 31stMarch, 2023 as compared to the growth of 20.8 percent in last year.

Credit demand declined due to host of domestic and global factors, such as slow-down in domestic economic activities, uncertain economic environment, high cost of borrowing, low export demand due to global growth pessimistic prospects and financial turbulence.

Fig. 5.7: Trend of Credit to Private Sector (2010-2022)



Sectoral Analysis

Overall, private sector credit revealed a declining trend and reduced from Rs 1,162.6 billion (growth of 17.0 percent) during July-March, FY2022 to Rs 257.3 billion (growth of 3.1 percent) during July-March FY2023.

The sectoral distribution of private sector credit indicates that loans to private sector businesses decreased to Rs 271 billion during July-March FY2023 as compared an increase of Rs 1002.2 billion during comparable period last year. Contraction of loans has been observed in both the working capital and fixed investments loans during the period under review. Accordingly, working capital loans reached at Rs 113.4 billion during July-March FY 2023 against Rs 608.7 billion during same period last year. On the other hand, fixed investment loans reached to Rs 147.5 billion against Rs 333.1 billion in last year.

Table -5.4: Sector-wise Private Sector Credit Distribution

Loans Classified by Borrowers (By Type of Finance) (Rs billion)

Position at the end of March 2023 Based on ISIC 4 Classifications of Private Sector Businesses	Total credit		Working capital		Fixed investment		LTFF		EFS	
Description	(Jul-Mar) FY2022	(Jul-Mar) FY2023	(Jul-Mar) FY2022	(Jul-Mar) FY2023	(Jul-Mar) FY2022	(Jul-Mar) FY2023	(Jul-Mar) FY2022	(Jul-Mar) FY2023	(Jul-Mar) FY2022	(Jul-Mar) FY2023
Loans to Private Sector Business	1002.2	271.2	608.7	113.4	333.1	147.5	202.9	9.3	101.1	-52.2
A. Agriculture, forestry and fishing	22.4	12.5	12.9	-1.2	8.5	13.8	0.6	0.1	0.1	-0.2
B. Mining and quarrying	1.1	4.5	-4.3	7.3	5.4	-2.8	0.0	0.0	-0.1	-0.1
C. Manufacturing	789.0	277.4	566.3	139.6	213.9	136.1	194.9	11.0	99.4	-44.4
10 - Manufacture of food products	148.7	84.1	134.1	89.1	13.9	-5.1	15.1	0.2	15.3	-2.1
a- Wheat Processing	-20.7	-30.4	-21.1	-30.8	0.4	0.4	0.2	0.7	-0.1	0.0
b- Rice Processing	62.4	50.0	57.1	47.6	5.1	2.5	0.8	-0.1	10.4	-1.5
13 - Manufacture of textiles	334.1	146.0	235.3	100.5	94.6	46.3	94.6	-4.5	64.8	-23.5
19 - Manufacture of coke and refined petroleum products	25.5	46.4	21.1	44.9	4.5	1.4	1.4	-0.1	0.0	0.9
20 - Manufacture of chemicals and chemical products	24.5	-11.9	3.9	-31.3	20.5	19.4	16.5	2.9	5.0	0.3
D. Electricity, gas, steam and air conditioning supply	30.0	-10.7	3.7	-1.7	26.4	-9.1	-1.7	-1.3	-0.3	0.0
E. Water supply; sewerage, waste management and remediation activities	0.8	-8.4	1.4	-8.3	-0.6	-0.1	0.0	0.0	0.0	0.0
F. Construction	31.0	7.2	-1.2	9.4	-5.7	1.7	-5.3	1.1	0.0	0.0
G. Wholesale and retail trade; repair of motor vehicles and motorcycles	46.1	-28.2	38.2	-24.4	6.0	-16.8	0.1	-2.0	0.7	-6.3
H. Transportation and storage	14.0	-7.8	10.2	-0.9	3.1	-6.8	1.8	0.2	0.0	0.0
I. Accommodation and food service activities	-1.6	-3.3	-2.4	-1.1	0.8	-1.3	1.4	0.7	0.1	-0.2
J. Information and communication	66.8	45.9	-5.7	9.4	72.5	35.4	9.2	-0.2	2.8	0.9
K. Real estate activities	5.9	-1.5	0.8	-0.2	-0.2	-3.1	0.1	0.0	0.0	0.0
L. Professional, scientific and technical activities	-0.5	2.3	-1.4	0.7	0.9	1.0	1.7	0.0	0.1	-0.2
M. Administrative and support service activities	-3.9	-3.0	-1.6	-8.4	-2.2	5.5	0.4	-0.1	-1.5	-1.1
N. Education	4.4	-3.8	-1.4	-1.1	0.5	-0.7	-0.2	-0.2	0.0	0.0
O. Human health and social work activities	-0.8	-2.1	-1.0	-0.4	0.1	-1.0	0.6	-0.1	0.0	0.0
P. Arts, entertainment and recreation	-0.2	-1.1	0.1	-0.2	-0.5	-1.2	0.0	0.0	0.0	0.0
Q. Other service activities	-2.0	-8.8	-6.0	-4.9	4.3	-3.0	-0.7	0.0	-0.2	-0.5

Source: SBP

With regard to the consumer financing, during July-March FY2023, consumer financing observed the same behavior as the private sector credit (Table 5.5). Consumer financing shows retirement of Rs 21.1 billion (2.3 percent reduction) as compared to Rs 143.6 billion (growth of 20.3 percent) during same period last year. Consumer loans demand curtailed due to reduction of consumer financing in automobile sector. For instance, loans for transport sector curtailed from Rs 55.5 billion in July-March FY2022 to retirement of Rs 50.9 billion in July-March FY 2023, registering a negative growth of 13.8 percent.

Table-5.5: Consumer Financing Rs billion

Description	July-March (Flows)		Growth (%)*	
	FY2022	**FY2023**	**FY2022**	**FY2023**
Consumer Financing	143.6	-21.1	20.3	-2.3
1) For house building	66.6	14.1	64.3	7.0
2) For transport i.e. purchase of car	55.5	-50.9	18.0	-13.8
3) Credit cards	13.9	16.4	25.2	22.6
4) Consumers durable	1.4	-0.5	23.5	-6.2
5) Personal loans	6.2	-0.2	2.6	-0.1
6) Other	0.2	-0.2	24.0	-18.4

* Growth is calculated on the basis of Stocks.

Source: State Bank of Pakistan

House-building sector has witnessed meager growth of 7.0 percent (Rs 14.1 billion) during July-March FY2023 against a significant growth of 64.3 percent (Rs 66.6 billion) in last year. Housing and construction finance decelerated amid rise in cost of construction, temporary halted in fresh disbursements under the schemes of Mera Pakistan Mera Ghar, rising domestic policy uncertainty, and a slowdown in construction activities.

Monetary Liabilities

Monetary liabilities include currency in circulation, demand deposits, time deposits and resident foreign currency deposits.

Currency in Circulation (CiC)

During 01stJuly-31stMarch FY2023, CiC observed an increase of Rs 700.1 billion (growth of 9.2 percent) against expansion of Rs 401.2 billion (growth of 5.8 percent) during same period last year. As a result, currency-to-M2 ratio reached at 28.7 percent as on 31st March as compared 29.2 percent during same period last year.

Table-5.6: Monetary Aggregates (Stocks position) Rs million

Items	As on End June		As on 31st March	
	2021	2022	2021-22	2022-23
A. Currency in Circulation	6,909,937	7,572,465	7,311,109	8,272,602
Deposit of which:				
B. Other Deposits with SBP	68,004	95,319	84,185	90,778
C. Total Demand &Time Deposits incl. RFCDs	17,319,755	19,934,849	17,600,851	20,432,923
of which RFCDs	1,046,150	1,212,791	1,122,176	1,347,159
Monetary Assets Stock (M2) A+B+C	24,297,696	27,602,634	24,996,145	28,796,304
Memorandum Items (%)				
Currency/Money (M2)	28.4	27.4	29.2	28.7
Other Deposits/Money (M2)	0.3	0.3	0.3	0.3
Total Deposits/Money (M2)	71.3	72.2	70.4	71.0
RFCD/Money (M2)	4.3	4.4	4.5	4.7

Source: State Bank of Pakistan

Deposits

During 01st July-31st March FY2023, bank deposits mobilization (including demand, time and Resident Foreign Currency Deposits (RFCD) increased by Rs 498.1 billion (growth of 2.5 percent) as compared an increase of Rs 281.1 billion (growth of 1.6 percent) during same period last year. Within deposits, demand deposits increased by 629.5 billion as compared to an increase of Rs 276.3 billion during same period last year. Deposit mobilization has increased amid high interest rates and favorable returns on bank deposits.

Whereas, time deposits decreased by Rs 265.8 billion as compared decline of Rs 71.2 billion in last year. On the contrary, RFCDs increased by Rs 134.4 billion against an increase of Rs 76.0 billion last year on account of massive PKR depreciation (around 28 percent) during Jul-Mar, FY2023. As a result, currency-to-deposits ratio stood at 40.5 percent as of 31stMarch, 2023 as compared to 41.5 percent in last year.

Monetary Management

The liquidity conditions in inter-bank money market remained relatively strained during July-March FY23 as compared to the same period last year. The average outstanding Open Market Operations (OMOs) almost doubled and soared to a highest level of Rs 6,520.5 billion during the review period as compared to Rs 2,641.8 billion in the same period last year. The government's increased reliance on scheduled banks for its financing needs in the absence of central bank borrowing, affected the liquidity conditions of commercial banks.

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

	FY18	FY19	FY20	FY21	FY22	FY23
Full Year	**1,228.7**	**(23.8)**	**1,103.2**	**1,291.1**	**2,615.3**	**5,759.9**
Q1	1,440.9	1,035.2	1,337.7	1,048.3	2,127.2	5,323.0
Q2	1,530.5	-257.6	912.8	822.8	1,875.0	5,436.1
Q3	1,123.5	-641.2	892.4	1,158.0	2,641.8	6,520.5
Q4	813.1	-247.4	1,270.0	2,135.2	3,817.3	

[1]: 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

During July-March FY2023, market offered a total amount of Rs 28,808.9 billion in primary auction for T-Bills, slightly higher than Rs 26,426.5 billion offered amount during same period last year. Within the offered amount, the Government has raised Rs 15,514.6 billion (54 percent of the offered amount) in the T-Bill's auction as compared to last year accepted amount of Rs 12,959.5 billion (49.0 percent of the offered amount). The acceptance for the tenors under T-Bills mainly generated within 3 months. During July-March FY2023, around 89.4 percent of outstanding T-Bills acceptance for 3-months, followed by 7.3 percent for 12-months and 3.2 percent under 6-months, indicating market's expectations of further tightening of monetary policy stance in near future because market offered a significant amount at higher rates.

During July-March FY2023, Government remained inclined towards floating rate long-term debt instrument that is Pakistan Investment Bonds (PIBs). Market offers Rs 3,587.6 billion under fixed rate PIBS which is around 33.0 percent of offered amount, while for floaters, the market offered Rs 7,179.8 billion, 67.0 percent of the offered amount. Keeping in view higher yields demanded by the market relative to prevailing cut-offs, the Government accepted only Rs 968.9 billion from fixed coupon PIBs (16.6 percent of the accepted amount). In this backdrop, floaters helped the Government to raise medium-to-long term debt. Given these favourable traits of floaters, the Government was able to raise Rs 4,861.4 billion via issuances of floating rate PIBs (83.4 percent of accepted amount). Moreover, 2Y quarterly coupon PIBs remained the market's most favored instrument floaters which contribute around 44 percent of floaters accepted amount.

Fig-5.8:Contribution of T-bills (July-March)

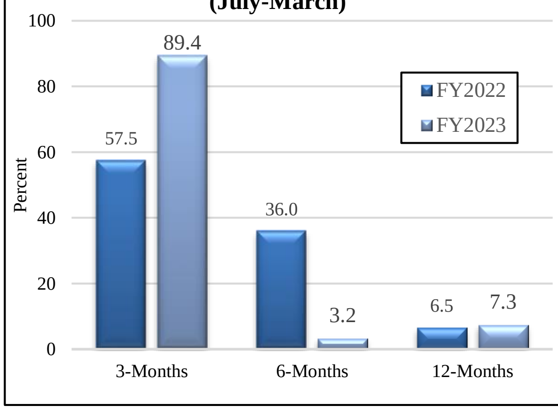
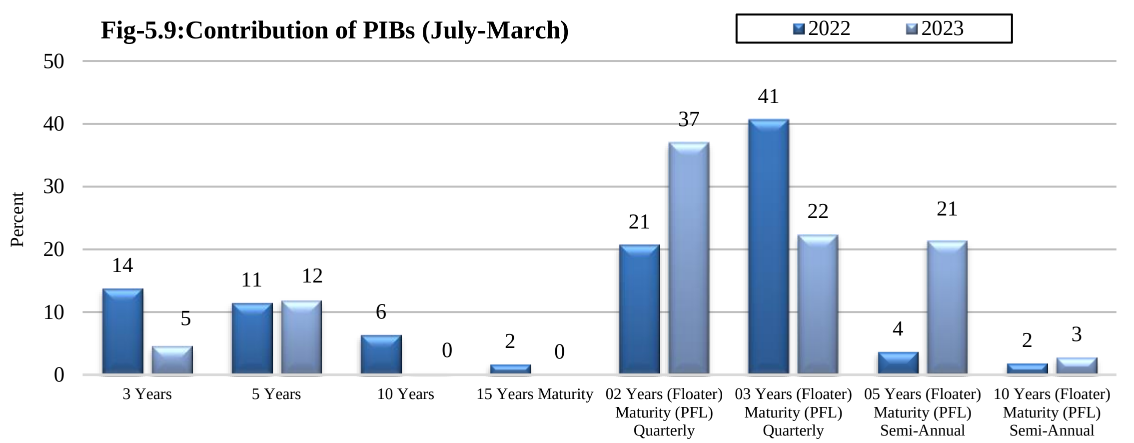
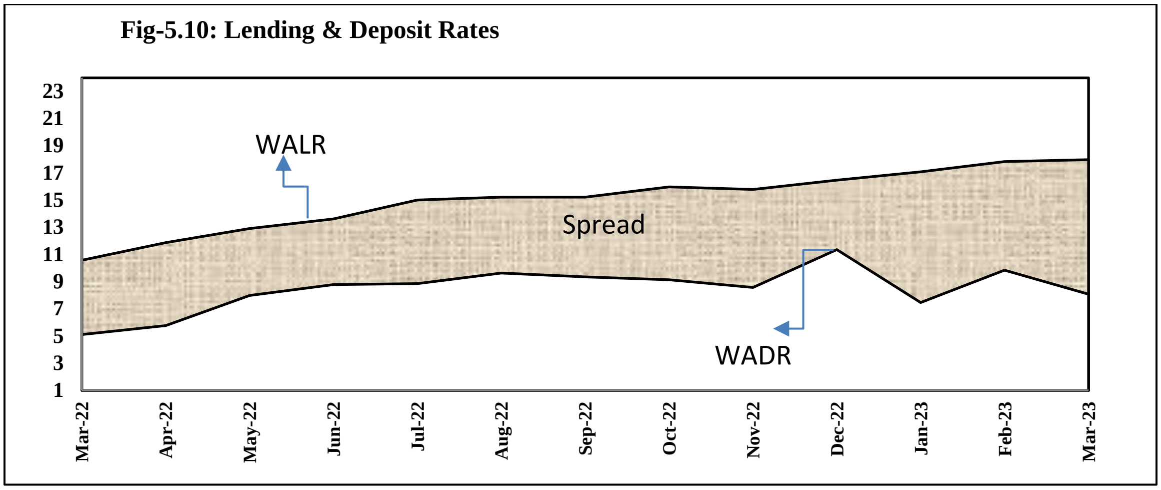


Fig-5.9:Contribution of PIBs (July-March)



In the presence of persistent high inflationary pressures, an aggressive monetary tightening has been adopted and policy rate increased by 8.8 percent to 21 percent during last 12 months. The pass-through effect of tight monetary policy stance on Weighted Average Lending Rate (WALR) was increased from 10.6 percent on gross disbursement in March 2022 to 18.0 percent in March 2023. Similarly, Weighted Average Deposit Rate (WADR) offered on fresh deposits also increased from 5.1 percent in March 2022 to 8.1 percent in March 2023. Accordingly, banking spread (difference between the lending and deposit rates and the cost of channeling funds through intermediaries) increased from 5.5 percent in March 2022 to 9.9 percent in March 2023.



Financial Sector

To create conducive and enabling environment for the banking industry, the SBP continued to play its regulatory and supervisory role during FY2023.

Financial Performance and Standing of Banking Sector

The banking sector performed reasonably well during CY22.[6] For instance, asset-base of the banking sector expanded by 19.1% (YoY) in CY22 (19.6% growth in CY21). The expansion was mainly due to increase in investments and advances. During the reviewed period, advances recorded robust growth with major push from domestic private advances with growth of 16.4% on YoY basis.

Deposits of the banking sector grew at relatively slower pace of 8.0% on YoY basis and reached to Rs 23.5 trillion by end Dec-22 (17.3% expansion in CY21). Likewise, current accounts contributed 67.7% increase in total deposits on YoY basis, followed by increase in rate sensitive deposits (i.e. saving and fixed deposits).

Asset Quality indicators of the lending portfolio improved as the infection ratios, such as gross Non Performing Loans (NPLs) to gross loans, fell to 7.3% by end Dec-22 from 7.9% end Dec-21. The ratio of net NPLs to net loans marginally rose to 0.8% (0.7% in Dec-21) and the ratio of net NPLs to Capital rose to 4.6% by end Dec-22 (4.0% at end Dec-21). However, these ratios remained their lowest levels over the last two decades.

The solvency indicators, such as Capital Adequacy Ratio (CAR), of banking sector improved and reached to 17.0% by end Dec-22 (16.7% at end Dec-21) due to higher growth in regulatory capital. The prevailing CAR was well above the domestic and international minimum benchmarks of 11.5% and 10.5%, respectively. With steady earnings and low NPLs and capital impairment ratio, the solvency of the banking sector remained comfortable.

Table -5.8: Highlights of the Banking Sector Industry

	CY16	CY17	CY18	CY19	CY20	CY21	CY22
Key Variables (Rs. billion)							
Total Assets	15,831	18,342	19,682	21,991	25,124	30058	35,796
Investments (net)	7,509	8,729	7,914	8,939	11,935	14554	18,400
Advances (net)	5,499	6,512	7,955	8,249	8,292	10121	11,818
Deposits	11,798	13,012	14,254	15,953	18,519	21720	23,461
Equity	1,353	1,381	1,406	1,658	1,862	1942	2,086
Profit Before Tax (ytd)	314	267	243	304	411	451	703
Profit After Tax (ytd)	190	158	149	171	244	264	336
Non-Performing Loans	605	593	680	761	829	860	924
Non-Performing Loans (net)	90	76	110	141	97	75	97

[6] CY indicate Calendar Year

Table -5.8: Highlights of the Banking Sector Industry

	CY16	CY17	CY18	CY19	CY20	CY21	CY22
Key Financial Sector Indicators (percent)							
NPLs to Loans (Gross)	10.1	8.4	8	8.6	9.2	7.9	7.3
Net NPLs to Net Loans	1.6	1.2	1.4	1.7	1.2	0.7	1
Capital Adequacy Ratio (all banks)	16.2	15.8	16.2	17	18.6	16.7	17
Advances to Deposit Ratio	46.6	50.1	55.8	51.7	44.8	46.6	50.4

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

Source: State Bank of Pakistan

Financial Development

Table 5.9: Financial Depth

Years	M2/GDP
2010-11	36.6
2011-12	38.1
2012-13	39.6
2013-14	39.6
2014-15	41.0
2015-16	44.1
2016-17	45.7
2017-18	46.2
2018-19	40.6
2019-20	44.0
2020-21	43.5
2021-22	41.2
31st March	
2021-22	37.5
2022-23	34.0

Source: EA Wing Calculation, Finance Division

Financial sector development is an important determinant of economic growth. It promotes economic growth through capital accumulation and technological progress by increasing the savings rates, mobilizing and pooling savings, producing information about investment, facilitating and encouraging the inflows of foreign capital, as well as optimizing the allocation of capital.

Countries with well-developed financial systems tend to grow faster over long periods of time. A large body of empirical evidence suggests that the effect of financial development on economic growth is causal: financial development is not simply an outcome of economic growth but also it contributes to this growth. Additionally, it also reduces poverty and inequality by broadening access to finance to the poor and vulnerable groups, facilitating risk management by reducing abrupt shocks, increasing investments and productivity that result in higher income generation.

Financial sector development can enhance the growth of small and medium sized enterprises (SMEs) by providing access to finance.

Financial development (i.e. financial depth) can be measured by different macroeconomic variables such as domestic credit to the private sector as a percentage of GDP, broad money, M2) as a percentage of GDP, and stock market capitalization as percentage of GDP, among others. However, in this survey financial depth is measured by M2/GDP ratio (in percent), which is widely used as an indicator of financial sector deepening (Table 5.9), where higher values represent a more developed financial sector. This ratio has witnessed a substantial increase from 36.6 percent in FY2011 to 41.2 percent in FY2022, indicating a gradual development of financial sector due to various reform measures by the SBP for the development of financial system in Pakistan.

Box-III: Financial Sector Reforms during July-March FY2023

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

Strengthening of Regulatory and Supervisory Environment

SBP, in line with the international best practices, introduced a comprehensive set of reforms to enhance supervision and resilience of the banking system.

- **Supervisory Reforms**
  - **Removal of Pakistan from FATF's Grey List**

The FATF team conducted an on-site visit of Pakistan from 29th August 2022 to 2nd September 2022 to assess progress of Pakistan under the FATF's Action Plans of 2018 and 2021. The continued engagement of Finance Division, EAD and SBP with FATF/APG officials was fruitful, as Pakistan has been removed from the FATF.

- **Foreign Exchange (FX) Regime**
  - **International Trade**
    - **Automated Issuance & Verification of Electronic Proceeds Realization Certificate (ePRC) & Statement of PRCs**

For the facilitation of non-resident Pakistanis and their resident counterparts, Authorized Dealers (ADs) were advised to automate the process of issuance and verification of ePRCs, on account of the receipt of remittances from abroad. This initiative has facilitated the beneficiaries of inward remittance in Pakistan as they can now retrieve their ePRC and S-PRC from the Bank's PRC portal on few clicks, without submitting request, visiting or following up the bank.[7]

- **Special Regulatory Measures to Support Software, IT Service Companies & Freelancers**

Various regulatory measures have been taken by SBP to encourage the software/ IT service companies and freelancers engaged in the export of services to earn and repatriate their export proceeds to Pakistan, and retain up to 35 percent of their proceeds in form of FCY, in exporters' special foreign currency retention accounts (SFCA).[8]

- **Utilization of Funds held in Exporters' Special Foreign Currency Account**

To facilitate exports of goods /services, SBP has enhanced the scope of utilization of funds available in their Special Foreign Currency Accounts covering additional avenues such as, payments for software purchasing, hosting and licensing subscription, etc.[9]

- **Remittances**
  - **Extended Home Remittances Channel to Receive Donation/ Charity from Abroad**

In order to deal with an unprecedented climate catastrophe observed in Pakistan, realizing the need of the hour, the scope of Pakistan Home Remittances Channel has been extended to accept home remittance inflows received as donation/charity.[10]

- **Exchange Companies (ECs)**
  - **Incentivizing Exchange Companies for Mobilization of Home Remittance**

SBP in coordination with the Government of Pakistan, has motivated the ECs to further mobilize the home remittances, by providing them an incentive of PKR 1 for each USD of home remittance surrendered in interbank market.

- **Connecting Overseas Pakistanis with the Banking System of Pakistan**
  - **Roshan Pension Plan**

Roshan Pension Plan (RPP) has been introduced as another useful addition in the product suite of Roshan Digital Account (RDA). RPP is an exclusive product for the Non- Resident Pakistanis (NRPs) and Pakistani Origin Card (POC) holders to digitally and remotely contribute in RPP financially securing their post retirement life.

- **Roshan Digital Business Account (RDBA)**

In order to facilitate the business entities incorporated abroad with majority shareholding of NRPs, the authorized dealers/banks have been given general permission to open and maintain RDBAs of such entities. This landmark initiative taken by SBP will strengthen the business alliances of NRP owned entities abroad with their homeland Pakistan.

- **Reinforcing Measures for Financial Stability and Systemic Risk Assessment**

SBP has instituted regulatory and supervisory framework that is in line with the best international practices. SBP is continuously working to strengthen the safety nets for enhancing the stability of the banking sector. SBP issued "Regulations for Lender of Last Resort (LOLR) facility under Section 17G of the SBP Act, 1956" in FY2022 with the objective to prevent liquidity stress in a scheduled bank from causing the insolvency, avoid or minimize the possibility of deposit run; and protect and maintain the stability and integrity of the banking and payments systems. Further, the deposit insurance coverage limit is doubled from PKR 250,000 per depositor to PKR 500,000 per depositor for eligible deposits.

- **National Financial Inclusion Strategy (NFIS)**

  SBP adopted the extended NFIS in 2019, after meeting the headline targets of 50% adult population to have a bank account, as envisioned in NFIS 2015-20. The NFIS 2023 action plan, to be executed during 2019-23, has set the vision to achieve inclusive economic growth through enhancement in access to bank accounts, promotion of access to finance to SMEs, farmers, low-cost housing and provision of Shariah compliant banking solutions. NFIS 2023 outlines the national vision, framework, action plan and headline targets of 65 million digital active transaction accounts including 20 million women owned accounts by 2023.

- **Measures Taken to Promote Digital Financial Services**
  - **Regulatory Reforms for Promotion of Digitization**
    - **Guidelines for Downtime of Digital Channels/Services**

      In order to increase transparency, accountability, and prompt resolution of downtime in digital banking channels in Pakistan, SBP advised banks, microfinance banks (MFBs), Electronic Money Institutions (EMIs), Payment System Operators/Providers (PSOs/PSPs), to report all planned and unplanned downtimes in their digital banking channels. In this regard, all Regulated Entities (REs) are required to notify their customers and SBP at least one week in advance of any planned activity that may result in a service disruption of digital banking channels. For emergency downtimes of 30 minutes or more, the REs must report immediately to SBP and their customers, using the reporting templates provided by SBP.

    - **Broadening Access via Non-Bank Fin-techs**

      One of the reasons for high level of financial exclusion is bank's inability to innovate and having limited outreach. SBP has provided enabling regulatory framework for Fin-techs to offer innovative digital payment services in Pakistan. To enable Fin-techs, SBP issued the Rules for Payment Systems Operators (PSOs) and Payment Service Providers (PSPs) and regulations for Electronic Money Institutions (EMIs) in 2014 and 2019 respectively. SBP has fast tracked the licensing process of EMIs and during the year under review, four EMIs are live with commercial operations whereas six entities are in different phases of approval such as in-principle approvals and pilot operations. As of December 31, 2022 the outstanding e-money balance stood at PKR 1.4 billion with more than 1.2 million wallets and 1.8 million payment cards.

    - **Roshan Digital Account (RDA)**

      Another key initiative that enables NRPs to open and operate account without lengthy documentation. As of March 31, 2023, 549,445 overseas Pakistanis from 175 countries have opened accounts and have sent funds valuing USD 5.9 billion.[11]

Source: State Bank of Pakistan

Islamic Banking

Assets of Islamic Banking Industry (IBI) posted YoY growth of 29.5 percent in CY22, marginally lower than growth of 30.6 percent observed in CY21. Similarly, deposits of IBIs witnessed growth of 22.6 percent in CY22 compared to growth of 24.3 percent in CY21.

The network of IBI consisted of 22 Islamic banking institutions (6 full-fledged Islamic Banks (IBs) and 16 conventional banks having standalone Islamic Banking Branches (IBB) are providing Shariah compliant products and services through their network of 4,396 branches spread across 129 districts of the country by end December, 2022. In addition to branches, 1,516 Islamic banking windows (dedicated counters at conventional branches) are also providing

[7]https://www.sbp.org.pk/epd/2022/FEC5.htm
[8]https://www.sbp.org.pk/epd/2023/FECL2.htm
[9]https://www.sbp.org.pk/epd/2023/FECL3.htm
[10]https://www.sbp.org.pk/epd/2022/FECL14.htm
[11] Data Source: https://www.sbp.org.pk/RDA/Progress.html

Shariah compliant Islamic banking services.

Breakup of the data between IBs and IBBs shows that the share of IBs and IBBs in overall assets of IBI was registered at 54.5 percent and 45.5 percent, respectively by the end of September, 2022.

Table- 5.10: Islamic Banking Industry

	CY17	CY18	CY19	CY20	CY21	CY22*
Total Assets (Rs. Billion)	2,272.0	2,658.0	3,284	4,269	5,577	7220
Total Deposits (Rs billion)	1,885.0	2,203.0	2,652	3,389	4,211	5161
Share in Banks' Assets (Percent)	12.4	13.5	14.9	17	18.6	20.3
Share in Banks' Deposits (Percent)	14.5	15.5	16.6	18.3	19.4	22

* Provisional

Source: State Bank of Pakistan

Table -5.11: Financing Products by Islamic banks (Percent Share)

Mode of Financing	CY17	CY18	CY19	CY20	CY21	CY22
Murabaha	13.2	13.6	12.9	13.7	13.6	12.0
Ijara	6.4	6.2	5.7	4.8	4.4	4.2
Musharaka	22.0	19.9	19.8	22.7	24.9	25.2
Mudaraba	0.0	0.0	0.0	0.0	0.0	0.0
Diminishing Muskaraka	30.7	33.3	34.1	33.6	33.8	34.8
Salam	2.8	2.4	2.6	1.9	2.0	1.6
Istisna	8.2	9.1	9.5	8.3	8.3	9.3
Qarz/Qarz-e-Hasna	0.1	0.0	0.0	0.0	0.0	0.1
Others	16.7	15.5	15.4	15.0	13.0	12.8
Total	100.1	100.0	100.0	100.0	100.0	100.0

Source: State Bank of Pakistan

Mode-wise financing breakup revealed that Diminishing Musharaka has highest share in overall financing of IBI followed by Musharaka and Murabaha in CY22.

Microfinance

The Microfinance Banks (MFBs) posted positive growth in terms of number of borrowers, gross loan portfolio and average loan balance during FY2023 despite continued to struggle and recover from the adversities inflicted by the COVID-19 pandemic and floods of 2022. However, many borrowers of MFBs were unable to honor their debt obligations, which in turn placed MFBs under considerable financial stress owing to escalated loan loss provisioning and charging off overdue facilities.

Table-5.12: Microfinance Industry Major Indicators (Rs billions)

Indicators	FY2022	FY2023*	Annual Growth (%)
Number of Branches	3,823	4,058	6.1
No. of Borrowers	8,122,085	9,092,247	12
Gross loan portfolio	392.6	491.2	25.1
Average Loan Balance (in Rs.)	48,335	54,031	11.8

*up to December 2022

Source: PMN MicroWatch, various issues

As of December 2022, around 36 institutions providing microfinance services. Out of 36 MFBs, 12 are deposit taking, 01 Islamic Banking Institutions (that is, MCB Islamic Bank), while rest are non-bank microfinance providers. The microfinance industry players operated through 4,058 branches spread in 139 districts across the country.

Table -5.13: Microfinance Banking Indicators (Rs billions)

Indicators	FY22 (Dec 21)	FY23 (Dec 22^P)	Annual Growth (%)
No. of Borrowers	4,667,422	5,328,686	14.2
Gross Loan Portfolio	290.2	361.7	24.6
Average Loan Balance (in Rs.)	62,176	67,880	9.2
Deposits	423	515.1	21.9
No. of Depositors	75,526,797	90,779,276	20.2
Equity	56.7	44.8	-20.9
Assets	582.1	754.1	29.6
Borrowings	59	67.2	13.95
NPL	5.16%	6.70%	29.84

Source: Financial Soundness Indicators, SBP.

Branchless Banking (BB) Performance

SBP's measures regarding the use of Digital Payment Services have further pushed the growth trajectory. The number of agents, mobile wallets and deposits witnessed significant growth during CY22.

Table -5.14: Branchless Banking Indicators

BB Indicators	CY21	CY22	Growth (%)
Number of Agents	587,547	622,884	6
Number of Accounts	78,809,751	97,096,597	23
Deposits (Rs In millions)	65,580	88,488	35
No. of transactions ('000')	2,501,293	3,049,483	22
Value of transactions (Rs in millions)	8,971,352	12,601,739	40

Source: Agricultural Credit & Microfinance Department, SBP.

Outlook

FY2023 started with global and domestic uncertainties, surrounded the economic prospects. Pakistan external environment faced many headwinds on account of rising government borrowing costs and capital outflows which exacerbated fiscal and BoP pressures as in many developing countries. The situation further aggravated with emergence of catastrophic flood, altered the economic outlook. To control persistent inflationary pressures, to contained domestic demand and external sector imbalances, SBP continued with monetary tightening, which provide desired dividends. Accordingly, external sector remained resilient which provide given some cushion to FX Reserves.

Contained domestic economic activities discouraged private sector credit demand during July-March FY2023 and major drag came from lower working capital loans. Besides, fixed investment loans also declined during the period.

On the other hand, weak growth prospects, high debt servicing cost along with contained economic activities and lower demand also impacted on resource mobilization. Thus, FY2023 is moving with challenges, seeking balanced policy mix for stabilization.

Over the next FY, it is expected that inflationary pressures will gradually recede and further decrease to a single digit in FY2025. Accordingly, monetary policy decisions will be determined.

Over the medium term, sustainable growth requires economic fundamentals-based balanced growth policies. Sufficient investment is needed to increase production capacity and productivity in the economy to realize the high growth of potential output. Stabilizing the output gap demands accommodative fiscal and prudent monetary policy to ensure balance growth path.

TABLE 5.1

COMPONENTS OF BROAD MONEY (M2)

Rs million

Stock	End June					
	2018	2019	2020	2021	2022	2022-23 (Mar)
1. Currency Issued	4,644,900	5,294,754	6,468,725	7,288,807	8,002,583	8,764,876
2. Currency held by SBP	1,181	1,199	1,201	568	552	347
3. Currency in tills of Scheduled Banks	255,891	343,516	325,508	378,302	429,566	493,218
4. Currency in circulation (1-2-3)	4,387,828	4,950,039	6,142,016	6,909,937	7,572,465	8,271,312
5. Other deposits with SBP*	26,962	33,636	41,218	68,004	95,319	96,335
6. Scheduled Banks Total Deposits**	11,582,372	12,814,820	14,724,770	17,319,755	19,934,849	20,428,951
7. Resident Foreign Currency Deposits (RFCD)	829,355	1,109,780	1,074,511	1,046,150	1,212,791	1,483,438
8. Broad Money (4+5+6)	15,997,162	17,798,494	20,908,004	24,297,697	27,602,634	28,796,598
9. Growth rate (%)	9.7	11.3	17.5	16.2	13.6	4.3
Memorandum						
1. Currency / Money ratio	27.4	27.8	29.4	28.4	27.4	28.7
2. Demand Deposits / Money ratio	63.0	62.8	60.6	63.2	64.3	63.3
3. Time Deposits / Money ratio	4.2	3.0	4.7	3.8	3.5	2.5
4. Other Deposits / Money ratio	0.2	0.2	0.2	0.3	0.3	0.3
5. RFCD / Money ratio	5.2	6.2	5.1	4.3	4.4	5.2
6. Income Velocity of Money***	2.4	2.4	2.3	2.3	2.4	-

P : Provisional R : Revised **Source: State Bank of Pakistan**

*** : The deposits of other institutions are part of 'other deposits' from July 03, 2020 onwards.**

**** : Excluding inter banks deposits and deposits of federal and provincial governments, foreign constituents and international organization etc.**

***** : Income velocity of money is estimated using GDP (from PBS) at current prices (with latest base)/ Average of two periods monetary assets (M2)-only in case where full year monetary data is available.**

TABLE 5.2

CAUSATIVE FACTORS ASSOCIATED WITH BROAD MONEY (M2)

Rs million

		2018	2019	2020	2021	2022	2022-23 (Mar)
		A. Stock End June					
1.	Public Sector Borrowing (net)						
	(i + ii + iii)	10,199,670	12,336,664	14,547,233	16,265,119	19,622,850	21,999,903
	i. Net Budgetary Support	9,392,960	11,596,468	13,748,309	15,373,463	18,506,467	20,908,359
	ii. Commodity Operations	819,680	756,416	813,435	903,999	1,133,655	1,111,585
	iii. Zakat Fund etc.	-12,971	-16,220	-14,510	-12,344	17,273	-20,041
2.	Non-Government Sector	7,033,598	8,072,803	8,372,428	9,114,395	10,695,839	11,348,657
	i. Autonomous Bodies*	324,787	285,745	258,059	266,372	303,771	314,333
	ii. Net Credit to Private Sector &PSEs	6,708,811	7,787,058	8,114,369	8,848,024	10,392,067	11,034,323
	a. Private Sector	5,972,968	6,666,505	6,862,862	7,629,069	9,241,217	9,258,346
	b. Public Sector Corp. other than 2(i)	743,413	1,108,476	1,232,463	1,170,373	1,089,675	1,274,446
	c. PSEs Special Account Debt Repayment	-24,244	-24,244	-24,244	-24,244	-24,244	-24,244
	d. Other Financial Institutions (NBFIs)	16,675	36,321	43,288	72,825	85,419	525,775
3.	Counterpart Funds	-530	-560	-534	-534	-530	-530
4.	Other Items (Net)	-1,027,153	-1,103,333	-1,494,971	-1,806,007	-1,962,285	-1,725,181
5.	Domestic Credit (1+2+3+4)	16,205,586	19,305,575	21,424,157	23,572,973	28,355,874	31,622,849
6.	Foreign Assets (Net)	-208,423	-1,507,081	-516,153	724,723	-753,240	-2,826,250
7.	Broad Money (5+6)	15,997,162	17,798,494	20,908,003	24,297,696	27,602,634	28,796,598
		B. Changes over the year (July-June)					
8.	Public Sector Borrowing (net)						
	(i+ii+iii)	1,244,073	2,136,994	2,210,569	1,717,885	3,357,731	2,377,054
	i. Net Budgetary Support	1,110,887	2,203,507	2,151,841	1,625,155	3,133,004	2,401,892
	ii. Commodity Operations	133,172	-63,264	57,019	90,565	229,656	-22,070
	iii. Zakat Fund etc.	14	-3,249	1,709	2,166	4,929	-2,768
9.	Non-Government Sector	1,022,331	1,039,205	299,625	741,967	1,581,443	652,818
	i. Autonomous Bodies*	74,543	-39,042	-27,686	8,313	37,400	10,562
	ii. Net Credit to Private Sector & PSCEs	947,788	1,078,247	327,311	733,654	1,544,044	642,256
	a. Private Sector*	775,495	693,537	196,357	766,207	1,612,148	17,129
	b. Public Sector Corp. other than 2(i)	170,859	365,064	123,987	-62,090	-80,699	184,771
	c. PSEs Special Account Debt Repayment	0	0	0	0	0	0
	d. Other Financial Institutions (NBFIs)	1,433	19,646	6,967	29,537	12,594	440,356
10.	Counterpart Funds	0	-30	25	0	5	0
11.	Other Items (Net)	-39,651	-76,180	-391,638	-311,036	-156,279	237,104
12.	Domestic Credit Expansion (8+9+10+11)	2,226,753	3,099,989	2,118,582	2,148,817	4,782,901	3,266,975
13.	Foreign Assets (Net)	-810,473	-1,298,658	990,928	1,240,876	-1,477,963	-2,073,010
14.	Monetary Expansion (12+13)	1,416,280	1,801,332	3,109,510	3,389,693	3,304,937	1,193,965

P : Provisional R: Revised **Source: State Bank of Pakistan**

*** : Autonomous bodies are WAPDA (PEPCO), OGDCL, SSGC, SNGPL, PIA, Pakistan Steel and Pakistan Railway.**

Note: w.e.f December 31, 2022 Scheduled Banks credit to NBFIs, earlier reported under credit to private sector is reclassified as credit to NBFIs and become part of other Financial Institutions

TABLE 5.3

SCHEDULED BANKS' CONSOLIDATED POSITION BASED ON LAST WEEKEND POSITION OF LIABILITIES & ASSETS

Rs million

Item Description	2018	2019	2020	2021	2022	2022-23 (Mar)
Assets						
Cash & Balances with Treasury Banks	1,349,450	1,966,692	1,408,559	1,528,246	2,308,137	2,069,842
Balances with other Banks	186,038	195,992	212,150	213,911	330,061	479,249
Lending to Financial Institutions	612,681	717,249	843,513	966,673	858,227	1,570,640
Investments	8,178,723	7,624,217	10,681,288	13,615,840	16,441,736	19,215,683
Gross Advances	7,361,622	8,096,771	8,202,328	8,831,088	10,771,563	11,834,916
Less: Provision for Non- Performing Advances	463,772	488,093	546,797	629,039	672,486	715,541
Advances – Net of Provision	6,897,850	7,608,677	7,655,531	8,202,049	10,099,077	11,119,375
Operating Fixed Assets	417,591	468,981	567,753	635,575	716,433	823,141
Deferred Tax Assets	52,835	59,834	56,161	70,764	107,049	183,027
Other Assets	715,125	943,951	950,083	908,754	1202,385	1,942,709
Total Assets	**18,410,293**	**19,585,594**	**22,375,037**	**26,141,812**	**32,063,106**	**37,403,665**
Liabilities						
Bills Payable	230,357	299,737	245,363	322,389	358,528	298,706
Borrowings	3,014,680	2,412,023	2,865,768	4,097,113	6,725,049	9,291,655
Deposits and other Accounts	13,062,787	14,458,307	16,229,036	18,695,178	21,490,459	23,579,638
Sub-ordinated Loans	79,460	108,670	126,296	112,732	136,828	162,669
Liabilities Against Assets Subject to Finance Lease	20	0	2,134	1,823	10,134	12,687
Deferred Tax Liabilities	22,070	22,591	47,329	17,288	5,847	35,024
Other Liabilities	577,934	803,227	964,493	997,101	1,300,389	1,841,252
Total Liabilities	**16,987,306**	**18,104,555**	**20,480,420**	**24,243,625**	**30,027,234**	**35,221,631**
Net Assets	**1,422,987**	**1,481,039**	**1,894,617**	**1,898,187**	**2,035,872**	**2,182,034**
Represented by:						
Paid up Capital / Head Office Capital Account	525,796	546,922	556,465	561,451	584,837	606,789
Reserves	285,610	340,060	357,675	379,965	440,578	519,689
Un-appropriated / Un-remitted Profit	440,846	480,816	618,864	696,938	870,554	1,004,227
Sub total	1,252,252	1,367,798	1,533,004	1,638,354	1,895,969	2,130,705
Surplus/ (Deficit) on Revaluation of Assets	170,736	113,241	361,613	259,833	139,904	51,329
Total	**1,422,988**	**1,481,039**	**1,894,617**	**1,898,187**	**2,035,875**	**2,182,034**

Source: State Bank of Pakistan

TABLE 5.4

LIST OF DOMESTIC, FOREIGN BANKS AND DFIs

Public Sector Commercial Banks

1. **First Women Bank Ltd.**
2. **National Bank of Pakistan**
3. **Sindh Bank Limited**
4. **The Bank of Khyber**
5. **The Bank of Punjab**

Specialized Scheduled Banks

1. **The Punjab Provincial Co-operative Bank**
2. **Industrial Development Bank Limited (IDBL)**
3. **SME Bank Limited**
4. **Zarai Taraqiati Bank Limited**

Private Local Banks

1. **Allied Bank Limited**
2. **Albarka Bank Pakistan Limited***
3. **Askari Bank Limited**
4. **Bank Al Falah Limited**
5. **Bank Al Habib Limited**
6. **Bank Islami Pakistan Limited***
7. **Dubai Islamic Bank Pakistan Limited***
8. **Faysal Bank Limited***
9. **Habib Bank Limited**
10. **Habib Metropolitan Bank Limited**
11. **JS Bank Limited**
12. **MCB Bank Limited**
13. **MCB Islamic Bank***
14. **Meezan Bank Limited***
15. **Samba Bank Limited**
16. **Silk Bank Limited**
17. **Soneri Bank Limited**
18. **Standard Chartered Bank (Pakistan) Limited**
19. **Summit Bank Limited**
20. **United Bank Limited**

Foreign Banks

1. **Citibank N.A.**
2. **Deutsche Bank A.G.**
3. **Industrial and Commercial Bank of China Limited**
4. **Bank of China Limited**

Development Financial Institutions

1. **House Building Finance Company Limited**
2. **PAIR Investment Company Limited**
3. **Pak Kuwait Investment Company of Pakistan (Pvt) Limited**
4. **Pak Libya Holding Company (Pvt) Limited**
5. **Pak Oman Investment Company (Pvt) Limited**
6. **Pak-Brunai Investment Company Ltd**
7. **Pak-China Joint Investment Co. Ltd**
8. **Pakistan Mortgage Refinance Company Limited**
9. **Saudi Pak Industrial & Agricultural Investment Company (Pvt) Limited**

Micro Finance Banks

1. **Advans Pakistan Microfinance Bank**
2. **Apna Microfinance Bank Ltd**
3. **FINCA Microfinance Bank Ltd**
4. **Khushhali Microfinance Bank**
5. **Mobilink Microfinance Bank (Formerly Waseela Microfinance Bank)**
6. **NRSP Microfinance Bank Ltd**
7. **Pak Oman Microfinance Bank Ltd**
8. **Sindh Microfinance Bank Limited**
9. **Telenor Microfinance Bank Ltd**
10. **HBL Microfinance Bank (Formerly The First Microfinance Bank)**
11. **U Microfinance Bank Limited**

*** : Full fledged Islamic Banks**

Source: State Bank of Pakistan

TABLE 5.5

SECURITY AND NATURE WISE WEIGHTED AVERAGE LENDING RATES / FINANCING RATES (ALL SCHEDULED BANKS)*

(Percent)

As at the End of		Precious Metal	Stock Exchange Securities	Merch-andise	Machi-nery	Real Estate	Financial Oblig-ations	Others	Unse-cured Advances	Total Advances
Conventional Banking										
2019	Jun	11.20	12.34	10.32	11.74	11.09	10.74	11.88	28.12	11.64
		(11.20)	(12.41)	(10.19)	(11.58)	(11.09)	(10.74)	(12.00)	(28.12)	(11.56)
	Dec	12.67	14.08	11.20	12.89	11.55	12.01	14.08	26.14	12.92
		(12.67)	(13.79)	(10.99)	(12.64)	(11.53)	(11.65)	(13.80)	(26.14)	(12.42)
2020	Jun	14.13	10.79	8.87	9.60	9.25	8.65	10.96	28.20	10.30
		(14.13)	(10.73)	(8.60)	(9.69)	(9.25)	(8.71)	(10.96)	(28.20)	(10.10)
	Dec	10.58	7.85	6.91	7.83	7.24	7.01	8.06	27.42	8.03
		(10.58)	(7.83)	(6.84)	(7.80)	(7.24)	(6.90)	(7.80)	(27.42)	(7.96)
2021	Jun	10.40	8.38	6.63	7.85	6.80	7.19	8.78	28.30	8.16
		(10.40)	(8.37)	(6.51)	(7.68)	(6.80)	(7.07)	(9.51)	(28.30)	(8.13)
	Dec	11.30	9.06	7.48	8.67	7.86	8.60	8.94	28.77	8.83
		(11.30)	(9.04)	(7.49)	(8.52)	(7.86)	(8.48)	(9.31)	(28.77)	(8.88)
2022	Jun	12.52	11.86	9.94	11.33	9.89	11.13	12.57	30.10	11.60
		(12.52)	(11.70)	(9.74)	(10.76)	(9.88)	(10.95)	(12.54)	(30.10)	(11.27)
	Dec	17.72	15.47	14.17	13.83	12.91	14.12	16.29	31.49	15.00
		(17.72)	(15.38)	(13.90)	(13.32)	(12.90)	(13.97)	(16.74)	(31.49)	(14.70)
Islamic Banking										
2019	Jun	-	11.26	10.99	11.07	10.87	9.31	11.34	5.76	11.13
		-	(8.00)	(10.95)	(10.90)	(10.87)	(9.31)	(11.23)	(5.24)	(10.99)
	Dec	-	10.95	11.59	12.63	12.14	10.35	12.92	12.92	12.40
		-	(7.13)	(11.53)	(12.63)	(12.16)	(10.35)	(11.85)	(10.52)	(11.96)
2020	Jun	-	13.12	9.55	11.10	10.30	9.30	10.56	10.81	10.38
		-	(11.43)	(9.46)	(11.16)	(10.25)	(8.83)	(10.20)	(10.74)	(10.19)
	Dec	-	7.96	7.50	8.41	7.75	6.57	7.40	9.82	7.68
		-	(9.56)	(7.51)	(8.42)	(7.71)	(6.48)	(7.32)	(9.82)	(7.72)
2021	Jun	-	8.90	6.84	8.01	7.59	5.03	7.71	16.06	7.53
		-	(8.93)	(6.79)	(7.99)	(7.48)	(5.03)	(7.66)	(16.06)	(7.44)
	Dec	-	7.12	7.55	9.08	8.46	5.20	7.93	16.45	8.14
		-	(7.02)	(7.54)	(9.04)	(8.33)	(5.20)	(7.68)	(16.45)	(8.14)
2022	Jun	-	12.70	10.14	11.30	10.27	9.29	11.26	23.66	10.82
		-	(12.65)	(9.90)	(11.23)	(10.22)	(8.86)	(10.11)	(23.66)	(10.46)
	Dec	-	14.64	13.06	14.03	12.79	11.25	14.64	27.70	13.76
		-	(14.58)	(12.73)	(13.89)	(12.63)	(11.04)	(13.25)	(27.70)	(13.17)

R: Revised

Source: State Bank of Pakistan

* : Weighted average rates shown in parentheses represent Private Sector

TABLE 5.6

SALE OF MARKET TREASURY BILLS THROUGH AUCTION

Rs million

No.	Securities	2018	2019	2020	2021	2022	2023 (Jul-Mar)
	Market Treasury Bills						
A.	**Three Months Maturity**						
	Amount Offered						
	i) Face value	19,826,420	23,757,544	14,913,709	15,505,232	17,474,185	20,474,326
	ii) Discounted value	19,549,300	23,222,877	14,486,853	15,250,389	17,044,574	19,697,772
	Amount Accepted						
	i) Face value	16,231,950	18,866,489	8,811,853	8,698,476	11,833,518	13,871,870
	ii) Discounted value	16,005,555	18,448,036	8,554,064	8,556,387	11,533,971	13,342,738
	Weighted Average Yield						
	i) Minimum % p.a.	5.9902	6.7575	7.6896	6.4267	7.2103	15.5734
	ii) Maximum % p.a.	6.7595	12.7454	13.7490	7.4418	15.1193	21.0644
B.	**Six Months Maturity**						
	Amount Offered						
	i) Face value	1,620,207	120,484	4,345,673	9,989,084	11,998,595	3,601,336
	ii) Discounted value	1,560,051	101,275	4,115,593	9,627,168	11,432,459	3,307,530
	Amount Accepted						
	i) Face value	1,271,001	8,928	1,705,828	5,585,878	5,318,275	503,202
	ii) Discounted value	1,233,895	8,502	1,613,386	5,384,224	5,071,332	465,411
	Weighted Average Yield						
	i) Minimum % p.a.	6.0093	7.8526	7.4786	6.4666	7.4292	15.6806
	ii) Maximum % p.a.	6.8322	12.6958	13.9498	7.7463	14.9545	21.9567
C.	**Twelve Months Maturity**						
	Amount Offered						
	i) Face value	86,406	29,073	14,210,931	2,462,402	5,378,274	4,733,216
	ii) Discounted value	78,882	15,431	12,653,509	2,287,089	4,811,666	4,025,403
	Amount Accepted						
	i) Face value	47,687	500	4,649,744	580,918	1,492,526	1,139,509
	ii) Discounted value	44,979	443	4,133,139	542,086	1,324,154	977,904
	Weighted Average Yield						
	i) Minimum % p.a.	6.0273	13.1500	7.2892	6.5475	7.6000	15.6655
	ii) Maximum % p.a.	6.0386	13.1500	14.2169	7.7908	15.1503	21.4865

Note : Amount includes Non-competitive Bids.

Source: State Bank of Pakistan

TABLE 5.7

SALE OF PAKISTAN INVESTMENT BONDS THROUGH AUCTION

Rs million

No.	Securities	2018	2019	2020	2021	2022	2023 (Jul-Mar)
	Pakistan Investment Bonds						
A.	Amount Offered (Face Value)	348,935	3,156,891				
	02 Years (Floater) Maturity (PFL) Quarterly				213,423	1,383,367	2,996,832
	03 Years Maturity	235,367	976,869	2,389,228	1,181,021	1,856,725	861,901
	05 Years Maturity	48,467	653,189	1,643,278	866,330	2,020,087	1,705,866
	07 Years Maturity	-	-	-	-	-	-
	10 Years Maturity	65,101	815,509	1,216,358	445,052	1,885,183	1,014,089
	03 Years (Floater) Maturity (PFL) Semi-Annual			84,100	1,193,302	-	
	05 Years (Floater) Maturity (PFL) Semi-Annual			48,500	776,785	359,750	1,846,128
	10 Years (Floater) Maturity (PFL) Semi-Annual		706,324	1,445,471	384,124	71,900	200,314
	03 Years (Floater) Maturity (PFL) Quarterly				365,931	2,620,598	2,136,518
	05 Years (Floater) Maturity (PFL) Quarterly				107,600	-	-
	10 Years (Floater) Maturity (PFL) Quarterly				130,050	-	-
	15 Years Maturity	-	-	22,925	96,589	96,051	5,700
	20 Years Maturity	-	5,000	22,659	72,061	10,529	-
	30 Years Maturity	-	-	-	-	0	-
B.	Amount Accepted (Face Value)	101,732	1,183,510				
	(a) 02 Years (Floater) Quarterly Maturity (PFL)						
	(i) Amount Accepted				175,664	908,867	2,155,703
	(ii) Cut-Off Price						
	(1) Minimum Cut-Off Price				99.5239	99.0272	98.3956
	(2) Maximum Cut-Off Price				99.6467	99.6516	99.2090
	(b) 03 Years Maturity.						
	(i) Amount Accepted	37,915	418,859	1,102,152	479,261	551,365	264,483
	(ii) Weighted Average Yield						
	(1) Minimum % p.a.	6.4029	12.0002	7.5239	7.2359	8.6626	13.7633
	(2) Maximum % p.a.	7.4677	13.6770	14.1519	9.3344	13.9550	18.0500
	(c) 03 Years (Floater) Maturity (PFL) Semi-Annual**						
	(i) Amount Accepted			60,552	624,763		
	(ii) Margin* / Cut-Off Price						
	(1) Minimum bps / Cut-Off Price			45bps	98.8132		
	(2) Maximum bps / Cut-Off Price			45bps	100.4413		
	(d) 03 Years (Floater) Quarterly Maturity (PFL)						
	(i) Amount Accepted				228,976	1,683,880	1,301,691
	(ii) Cut-Off Price						
	(1) Minimum Cut-Off Price				98.9923	97.2128	96.5547
	(2) Maximum Cut-Off Price				99.2323	99.2531	97.8357
	(e) 05 Years Maturity						
	(i) Amount Accepted	14,932	199,680	612,849	301,239	663,029	690,156
	(ii) Weighted Average Yield						
	(1) Minimum % p.a.	6.8960	9.2500	7.8740	8.2139	9.1602	13.0568
	(2) Maximum % p.a.	8.4795	13.7687	13.7740	9.8296	13.0731	13.4666

(Contd…)

TABLE 5.7

SALE OF PAKISTAN INVESTMENT BONDS THROUGH AUCTION

Rs million

No.	Securities	2018	2019	2020	2021	2022	2023 (Jul-Mar)
	(f) 05 Years (Floater) Maturity (PFL) Semi-Annual**						
	(i) Amount Accepted			34,500	306,271	129,562	1,244,358
	(ii) Margin* / Cut-Off Price						
	(1) Minimum bps / Cut-Off Price			49bps	98.1794	98.2095	95.4203
	(2) Maximum bps / Cut-Off Price			49bps	100.4845	98.2660	96.3515
	(g) 05 Years (Floater) Quarterly Maturity (PFL)						
	(i) Amount Accepted				90,500		
	(ii) Cut-Off Price						
	(1) Minimum Cut-Off Price				97.9779		
	(2) Maximum Cut-Off Price				98.0119		
	(h) 7 Years Maturity						
	(i) Amount Accepted	-	-				
	(ii) Weighted Average Yield						
	(1) Minimum % p.a.	-	-				
	(2) Maximum % p.a.	-	-				
	(i) 10 Years Maturity						
	(i) Amount Accepted	48,885	253,195	332,797	149,729	563,210	14,294
	(ii) Weighted Average Yield						
	(1) Minimum % p.a.	7.9359	12.8267	8.4767	8.8570	9.8230	12.2197
	(2) Maximum % p.a.	8.6999	13.6820	13.4548	10.2140	13.0576	12.2197
	(j) 10 Years (Floater) Maturity (PFL) Semi-Annual**						
	(i) Amount Accepted	-	-	723,417	136,707	64,553	159,517
	(ii) Margin* / Cut-Off Price						
	(1) Minimum bps / Cut-Off Price	-	-	70 bps	100	100	93.0004
	(2) Maximum bps / Cut-Off Price	-	-	75 bps	101.0536	100	93.8497
	(k) 10 Years (Floater) Quarterly Maturity (PFL)						
	(i) Amount Accepted	-	-	-	98,542	-	-
	(ii) Cut-Off Price						
	(1) Minimum Cut-Off Price	-	-	-	95.2412		
	(2) Maximum Cut-Off Price	-	-	-	95.2853		
	(l) 15 Years Maturity						
	(i) Amount Accepted	-	-	16,800	64,000	59,000	-
	(ii) Weighted Average Yield						
	(1) Minimum % p.a.	-	-	9.6640	9.7020	10.4000	
	(2) Maximum % p.a.	-	-	10.4540	10.0000	10.4000	
	(m) 20 Years Maturity						
	(i) Amount Accepted	-	-	6,113	62,061	-	-
	(ii) Weighted Average Yield						
	(1) Minimum % p.a.	-	-	10.5100	10.3400		
	(2) Maximum % p.a.	-	-	11.7999	10.5624		
	(n) 30 Years Maturity						
	(i) Amount Accepted	-	-	-	-	-	-
	(ii) Weighted Average Yield						
	(1) Minimum % p.a.	-	-	-	-		
	(2) Maximum % p.a.	-	-	-	-		

Source: State Bank of Pakistan

*** : The benchmark for coupon rate is defined in clause 'B' of DMMD Circular No. 9 dated May 07, 2018.**

**** : Margins quoted ober benchmark rate in fresh auctions of floating rate PIB (PFL)**

Note:

1: A special issuance in PFL-SA 10 Years Issued by GoP to Independent Power Producer (IPPs) against their receivables from GoP on 4th June, 2021 (Rs 28,905.1 Million) and on 29-Nov-21 (Rs 43,322.80 Million)

2: Amounts include non-competitive bids & short sale accommodation as well.