Chapter 5

Money and Credit

Pakistan's monetary policy aims at stabilizing economic growth through a number of channels. It influences the future expectations of economic activity and inflation. A sound fiscal position is important for achieving macroeconomic stability. This occurs through efficient resource allocation and the mobilization of domestic savings. Because of this, the central bank through its monetary policy and strategies plays an influential role.

The global financial crisis that erupted in late 2007 not only produced the severe worldwide economic contraction, it has also hampered the ability of central banks to successfully manage the economy. In reaction to the crisis, markets of developed economies responded in a variety of ways, such as creating measures aimed at specific sectors, as well as more general stimulus packages aimed at keeping financial institutions buoyant. On the other hand, economic activity in emerging and developing economies remained relatively vigorous on account of strong internal demand. The global economic activity rebounded in 2010 on the back of better macroeconomic performance and continued accommodative macroeconomic policies. Unfortunately, performance slowed later in the year because countries with large public and private debt burdens faced serious problems accessing sovereign debt markets. Consequently, heightened concerns about long term debt sustainability in various parts of the world have posed additional risks, not only to financial stability, but also for the ability to access safe assets.

Box 1
High Demand for Safe Assets

There is a potential threat to global financial stability due to high demand for safe assets. The threat has been driven up on account of heightened uncertainty, regulatory reforms and the extraordinary post-crisis responses of central banks in the advance economies. The supply of safe assets has contracted as the ability of the public and the private sectors to produce such assets has declined. Similarly, the number of countries whose debt is considered safe has fallen. Lack of safe asset scarcity will increase the price of safety and compel investors to move down the safety scale. It will also lead to more short-term spikes in volatility, and shortages of high-grade collateral.

There is a need for flexibility in policy design and implementation for a smooth adjustment in the markets for safe assets. Hence policy makers should strike a balance between the desire to ensure the soundness of financial institutions and the costs associated with potential overly rapid acquisitions of safe assets to meet such goals.

Global Financial Stability Report, April 2012. IMF.

Pakistan's financial sector has not witnessed a direct impact of the global financial crisis due to its limited exposure in international financial markets. However, high inflationary pressures, heightened security risks, power shortages and a high cost of doing business posed numerous challenges for Pakistan's economy. Consequently, all these factors along with the global financial crisis caused a deceleration in the investment rate, a rise in unemployment and poverty, an increase in the debt burden, and a sharp fall in foreign exchange reserves. Moreover, the dearth of financial inflows resulted in a sharp diversion of credit away from the private sector. As a consequence, monetary policy remained under enormous pressure to strike a balance between supporting growth and keeping inflation under watch.

The devastating floods in 2010 and heavy rains in Sindh in 2011 once again brought on a plethora of challenges. The government's efforts to contain the fiscal deficit were undermined by the significant rise in federal and provincial government's expenditures in favor of rehabilitation and reconstruction activities. Moreover, the less than expected external inflows intensified fiscal stress. In addition, changes in key export and import prices in the international markets and the fragile global economic recovery are also affecting domestic economic conditions. Despite the challenges faced by the economy due to flood and security related issues Pakistan holds enormous potential and resilience. This was evident when the fiscal deficit remained within reasonable limits, (i.e 5.9 percent of GDP in 2010-11). The year to year CPI inflation was also recorded at 10.8 percent in March 2012 against 13 percent in the same period of the previous year.

Table 5.1: Policy Rate

Effective from Date	
21-Apr-09	14.0
17-Aug-09	13.0
25-Nov-09	12.5
30-Jan-10	12.5
27-Mar-10	12.5
02-Aug-10	13.0
30-Sep-10	13.5
30-Nov-10	14.0
01-Aug-11	13.5
10-Oct-11	12.0
30-Nov-11 until date	12.0

Source: State Bank of Pakistan

Monetary Policy Stance

The continuation of sound monetary management is central to taking on the multifaceted challenges faced by any economy as it deals with major issues of price stability, control of money supply and rationalization of administered interest rate. In Pakistan, monetary management has mainly focused on controlling inflation. Inflation has persistently remained in double digits in the last few years on account of difficult domestic and external economic environment. Similarly, the heavy reliance on domestic borrowings in the absence of diversified and sustainable financing sources has constricted the availability of credit to the private sector. Furthermore, dried up external financing and insufficient funds from non-bank sources resulted in short-term borrowing from the banking system. Consequently, the banking sector's exposure to government papers has increased significantly.

Given the difficult economic situation, the State Bank of Pakistan (SBP) followed a proactive policy response to shave-off additional demand from the economy. It has also accommodated the fiscal deficit. The SBP adopted an expansionary monetary policy during the fiscal year 2011-12. It slashed the discount rate by 50 bps points to 13.5 percent from 14 percent on the back of an improved fiscal position. The decision continued to show progress, as the consumer price index (CPI) and government borrowings from the Central Bank remained lower than its level at the end of June. However, the rate was further reduced by 150 bps points to 12 percent on October 8th, 2011, in order to boost to private sector credit and investment. Similarly, for a smooth functioning of a payment system and financial stability, SBP has injected substantial short term liquidity in the system.

Nevertheless, risks to macroeconomic stability due to fiscal weakness and decline in foreign inflows have not retreated. The power crisis and the precarious law and order situation are still an impediment to provide an environment conducive for productive activities. Hence, there is a need for a cautious approach to keep the inflation expectations around the medium term targets of 9.5 percent for fiscal year 2012-13 and 8 percent for fiscal year 2013-14. On the other hand increase in government borrowing to finance the budget deficit is adversely affecting the inflation outlook. Keeping the overall macroeconomic situation in view, the SBP has decided to keep the policy rate unchanged at 12 percent w.e.f. April 13, 2012.

Recent Monetary and Credit Development

During the first eleven months of the current fiscal year, July – 11th May 2012 broad money (M2), or money and close substitutes for money, witnessed an expansion of 9.09 percent as compared to 11.47 percent during the same period in 2010-11. The deceleration in money supply is primarily driven by the significant fall in the Net Foreign Assets of the banking system, along with increased government borrowing and a one-off settlement of circular debt. During the first half of the fiscal year 2011-12, a significant decline in capital financial account inflows resulted in depletion of SBP foreign exchange reserves to finance the major part of current account deficit. The profile of monetary indicators for fiscal year 2010-11 and 2011-12 is demonstrated in Table 5.2.

Table 5.2: Profile of Monetary Indicators Rs. Billion

	Jul-14May 2010-11	Jul-11May 2011-12
1. Net government sector Borrowing(a+b+c)	506.5	1,003.3
a. Borrowing for budgetary support	603.3	1,084.4
b. Commodity operations	-101.1	-81.6
c. Others	4.2	0.5
2. Credit to Non-government Sector (d+e+f+g)	118.7	92.9
d. Credit to Private Sector	107.8	234.8
e. Credit to Public Sector Enterprises (PSEs)	10.6	-142.6
f. PSEs Special Account-Debt repayment with SBP	-0.2	0.0
g. Other Financial Institutions(SBP credit to NBFIs)	0.5	0.7
3.Other Items(net)	-143.6	-215.3
4.Net Domestic assets (NDA)	481.6 (9.20%)	880.9 (14.89%)
5.Net Foreign Assets (NFA)	181.1	-272.2
6.Monetary Assets(M2)	662.6 (11.47%)	608.7 (9.09%)

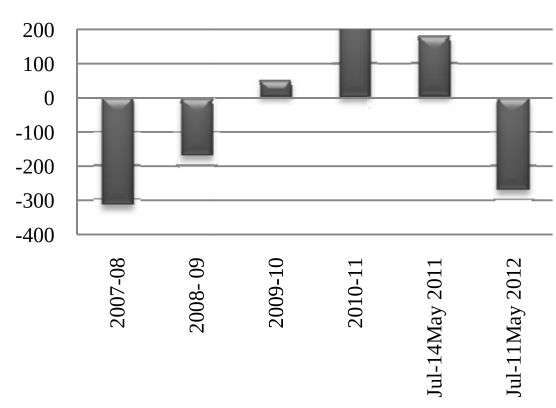
Source: State Bank of Pakistan

Net Domestic Assets (NDA) from July – 11th May 2012 stood at Rs. 880.9 billion against Rs. 481.6 billion during the same period last year, reflecting an increase of 14.9 percent over the last year. The expansion in NDA is mainly due to a rise in demand for private sector credit and government borrowings.

Conversely, Net Foreign Assets (NFA) witnessed a significant contraction on account of reduction in SBP's foreign exchange reserves that arose from the widening current account deficit and deteriorating capital and financial account surpluses. NFA of the banking system during the period under review declined to Rs. 272.2 billion as compared to an increase of Rs. 181.1 billion in the same period of 2010-11.

During July – 11th May 2012, credit to public sector enterprises (PSEs) registered a sharp decline from Rs. 10.6 billion in 2010-11 to Rs. 142.6 billion. Credit to PSEs was mostly concentrated in electricity generation companies, however in November 2011 in order to partially resolve the circular debt issue the government borrowed Rs. 391 billion from commercial banks through 12-month treasury bills and 5-year Pakistan Investment Bonds.

Figure-5.1: Net Foreign Assets

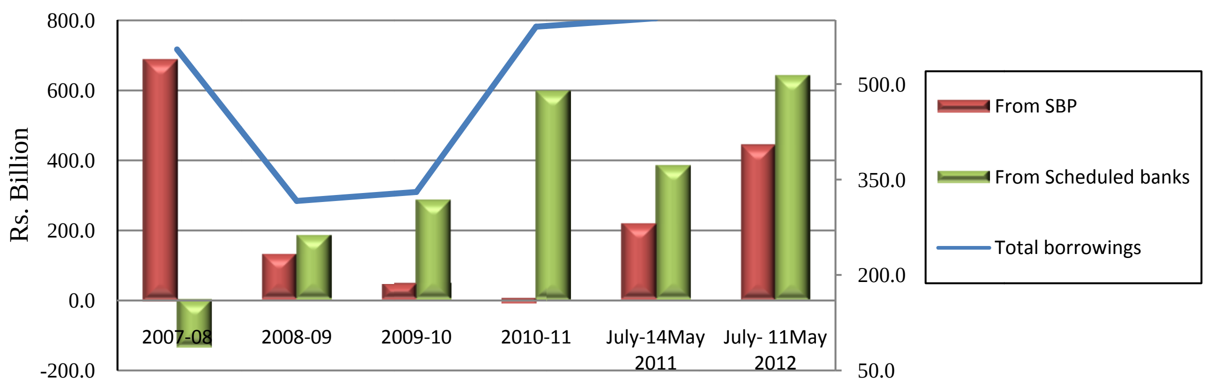


Government Bank Borrowing

The government borrowing from the banking system for budgetary support and commodity operations stood at Rs. 1,003.3 billion during July

– 11th May 2012 on account of rising subsidy on commodities, public sector enterprises' losses and less than target revenue collection. Government borrowing for budgetary support alone stood at Rs 1,084.4 billion as compared to Rs. 603.3 billion in the same period of the last year. The SBP financing has increased to Rs. 442.3 billion as compared to Rs. 217.7 billion. Financing from scheduled banks witnessed a net increase of Rs. 642.1 billion during the period under review against Rs. 385.6 billion last year. Non-bank and external financing for budgetary support was less than expected, compelling the government to borrow from the SBP and scheduled banks.

Figure 5.2: Government Borrowings



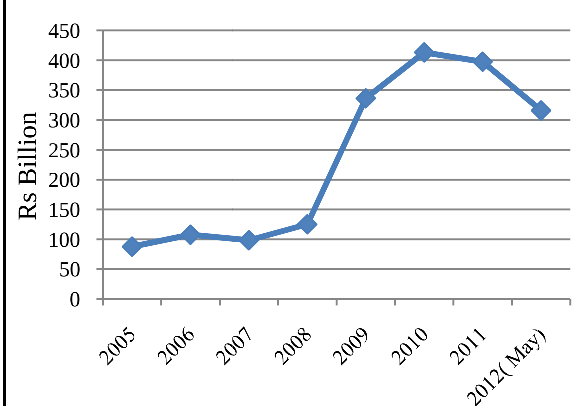
The heavy reliance on the borrowing requirement of the government from the banking system has also led to the sluggish growth in the private sector, under the crowding out effect. According to the recent SBP Amendment Act, 2012, the government borrowing from the SBP is required to be repaid at the end of each quarter and the existing stock is to be retired within eight years.

Commodity Finance

Commodity finance aims to provide short term advances either to the government, public sector corporations or private sector for the procurement of the commodities such as cotton, wheat, rice, sugar and fertilizer.

During July – 11th May 2012, loans for commodity financing registered a net retirement of Rs. 81.6 billion against the retirement of Rs. 101.1 billion in the same period of fiscal year 2010-11. The retirement was primarily concentrated in the second quarter of fiscal year 2012 as the government released Rs. 78 billion to procurement agencies for the settlement of accumulated subsidies. On 11th May, 2012 the stock of government borrowings for commodity operations stood at Rs 315.9 billion (Figure 5.3).

Figure 5.3: Commodity Finance



The government procurement target is 7.72 million tons (MT) of wheat this year, and the support price has been raised to Rs. 1050 per 40 kg for the forthcoming wheat crop. Additionally, decline in international wheat prices has reduced the incentive for its export by the private sector. Therefore, a considerable rise in the credit requirement for wheat procurement is expected during the rest of the months of current fiscal year 2011-12.

Credit to Private Sector

The credit availed by the private sector during July-11th May, 2011-12 stood at Rs 234.8 billion as compared to Rs 107.8 billion in the same period last year. On the other hand year to year growth in private sector credit was 7.5 percent up until 11 May, 2012. There is a strong relationship between private sector credit and economic growth. However, heavy borrowing from the banking system has restricted the credit expansion to the private sector.

The private sector witnessed the highest flow of credit in the second quarter of fiscal year 2011-12 standing at Rs. 282.2 billion. Despite the substantial credit flow, the cumulative private sector credit (PSC) expansion during July – 11th May 2012 was limited to Rs 234.8 billion because of more than usual seasonal retirements in the first quarter of fiscal year 2012.

Credit to Private Sector (Sectoral Analysis)

The revival of private investment in the economy was one of the main concerns for SBP to ease the monetary policy stance in 2011-12. However, the desired boost in private investment demand could not take place due to energy shortages and an unfavorable law and order situation. Additionally, substantial government borrowing has crowded out the private sector from receiving credit. This has limited the availability of credit. Similarly, due to rising non-performing loans (NPLs) banks preferred to invest in liquid assets rather than extending credit to the private sector.

Fig-5.4 : Growth of Private Sector

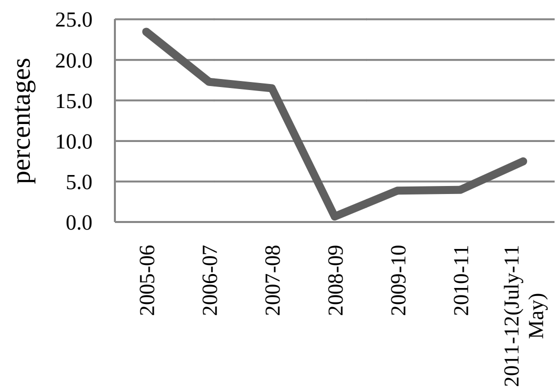


Table 5. 3: Credit to Private Sector — Rs Billion

Sectors	End June Stocks		July-March (Flows)		Growth Rates	
	Jun-10	Jun-11	2010-11	2011-12	2010-11	2011-12
Overall Credit (1 to 5)	2,749.3	2,918.2	228.3	41.6	8.3	1.4
1. Loans to Private Sector Business	2,258.5	2,431.8	222.1	42.9	9.8	1.8
A. Agriculture	169.5	180.5	3.3	10.5	2.0	5.8
B. Mining and Quarrying	17.5	17.9	0.4	-2.8	2.3	-15.7
C. Manufacturing	1,263.6	1,385.4	205.3	65.0	16.2	4.7
Textiles	470.2	514.7	105.5	16.4	22.4	3.2
D. Electricity, gas and water supply	215.5	269.4	28.1	-12.2	13.1	-4.5
E. Construction	67.1	67.7	-0.9	-9.5	-1.4	-14.0
F. Commerce and Trade	229.7	213.7	-18.1	-4.3	-7.9	-2.0
G. Transport, storage and communications	105.1	106.2	-0.6	-2.5	-0.6	-2.3
I. Other private business n.e.c	23.6	29.4	3.6	-1.4	15.1	-4.8
2. Trust Funds and NPOs	13.1	18.0	3.4	-1.0	25.7	-5.4
3. Personal	321.5	294.0	-17.6	-7.8	-5.5	-2.6
4. Others	11.1	16.4	6.7	-0.1	60.6	-0.6
5. Investment in Security & Shares of Private Sector	145.1	158.0	13.6	7.5	9.4	4.7

Source: State Bank of Pakistan

Sector wise growth in credit to the private sector shows that loans to private sector businesses registered a sharp decline. In flow terms, the credit expansion during the period under review stood at Rs. 42.9 billion against Rs. 222.1 billion in July—

March 2011. However, the stocks reached Rs 2474.7 billion in March 2011-12 against the end June stock of Rs 2431.8 billion, reflecting an increase of only 1.8 percent. All of the major sectors, excluding agriculture, registered a decline in credit when compared to last year. Particularly, loans to textile sector are significantly lower than last year. The ample profitability of textile sector in 2010-11, along with subsequent decline in cotton prices in 2011-12 explains the relatively lower requirement for credit during July - May 2012.

The manufacturing sector advanced over 100 percent (Rs 65.0 billion) of total PSC, followed by textiles (38.2 percent), and agriculture (24.5 percent). On the other hand, credit to trade and construction declined by 14 percent, followed by electricity, gas and water supply (4.5 percent), and then commerce and trade (2 percent).

In agriculture, overall credit disbursement by five major commercial banks[1] stood at Rs. 107.6 billion in July—March 2012 as compared to Rs. 93.3 billion in July—March 2011 posting an increase of Rs. 14.4 billion or 15.4 percent. Total credit disbursement to agriculture sector during July-March 2012 surged by 17 percent on year to year basis to Rs. 197.4 billion against total disbursement of Rs. 168.7 billion in the same period of fiscal year 2010-11.

Net decline in consumer financing during July - March 2012 stood at Rs8.5 billion as compared to the decline of Rs 17.4 billion in the comparable period of 2010-11 , thereby registered a decline of 3.9 percent as compared to the decline of 7.1 percent during the period under review.

Table 5.4: Consumer Financing Rs. Billion

Description	July-March		Growth (%)	
	2010-11	2011-12	2010-11	2011-12
Consumer Financing	-17.40	-8.50	-7.10	-3.90
1) For house building	-5.40	-5.20	-10.00	-10.90
2) For transport i.e. purchase of car	-10.60	-5.60	-16.40	-11.00
3) Credit cards	-3.40	-1.70	-12.20	-7.00
4) Consumers durable	0.03	0.10	13.90	37.10
5) Personal loans	0.40	2.70	0.40	3.00
6) Other	1.60	1.20	55.70	27.00

Source: State Bank of Pakistan

Loans for consumer durables witnessed a net expansion of 37.1 percent during July 2011 - March 2012 against 13.9 percent in the same period last year. However, auto loans, mortgages, credit cards and personal loans have consistently been on the decline since January 2008 on account of multiple factors (e.g. fragile economic conditions, rising cost of credit and increasing default). The stock of consumer finance reduced to Rs. 209.1billion in March 2012 from its peak of Rs. 371.3 billion exactly four years earlier.

Each category within the consumer finance segment has registered a persistent increase in the loan infection ratio for the last three years. This increase has been a combination of rising NPLs and declining credit to each category with the exception of consumer durables.

Monetary Assets

The component of monetary assets (M2) include: currency in circulation, demand deposit, time deposits (excluding IMF A/C, counterpart), and resident's foreign currency.

[1] Allied Bank, Habib Bank Limited, MCB Bank Limited, National Bank of Pakistan and United Bank Limited

Table-5.5 Monetary Aggregates (Rs Million)

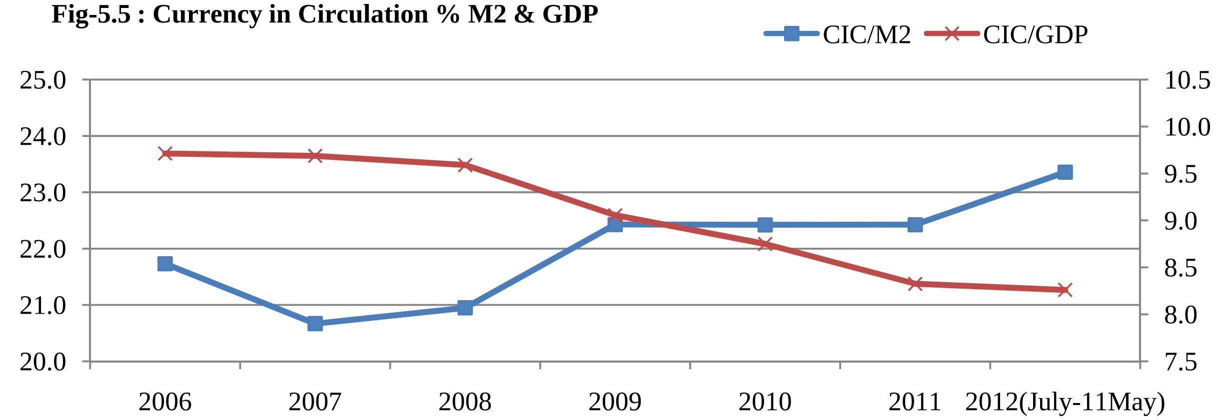
Items	End June		July-11May	
	2010	2011	2010-11	2011-12
A.Currency in Circulation	1,295,385	1,501,409	1,550,840	1,705,749
Deposit of which:				
B. Other Deposits with SBP	6,663	10,145	10,359	11,924
C.Total Demand &Time Deposits incl.RFCDs	4,475,186	5,183,640	4,878,666	5,586,202
of which RFCDs	345,438	374,945	368,012	416,962
Monetary Assets Stock (M2) A+B+C	5,777,234	6,695,194	6,439,864	7,303,874
Memorandum Items				
Currency/Money Ratio	22.4	22.4	24.1	23.4
Other Deposits/Money ratio	0.1	0.2	0.2	0.1
Total Deposits/Money ratio	77.5	77.4	75.8	76.5
RFCD/Money ratio	6.0	5.6	5.7	5.7
Income Velocity of Money	2.7	2.9	2.7	2.7

Source: State Bank of Pakistan

Currency in Circulation

During July – 11th May 2012, currency in circulation (CIC), in flow terms, stood at Rs. 204.3 billion as compared to Rs. 255.5 billion in the same period last year. Similarly, the currency in circulation as percent of money supply (M2) has declined to 23.4 percent in 2011-12 as against 24.1 percent during the same period in 2010-11.

Fig-5.5 : Currency in Circulation % M2 & GDP



Broad money (M2) grew by 9.09 percent during July – 11th May 2012, as compared to an increase of 11.47 percent during the same period last year. The decline in broad money (M2) came from the decline in both currency in circulation and deposit money.

Deposits

During July – 11th May 2012, demand and time deposits stood at Rs. 402.6 billion as against Rs 403.5 billion during the same period last year. Hence the decline in currency in circulation is offset by the increase in demand and time deposits. Similarly, resident foreign currency deposits (RFCDs) have increased to Rs. 42.0 billion as compared to Rs. 22.6 billion during the same period last year.

Monetary Management

Efficient monetary management is crucial in providing a sound and secure financial environment that is favorable for the attainment of both macroeconomic stability and growth. Moreover, a well-developed financial system facilitates the exchange of goods and services by providing payment services. It also allocates society's savings to its most productive use by acquiring and processing the information about enterprises and finds possible investment projects. Finally, it helps diversify and reduce liquidity and inter-temporal risk. A stable financial system is essential for an efficient, deep and liquid market.

The strains on the financial sector and the credit crunch in the aftermath of the global financial crisis led to the closing of many credit lines and erosion various of financial mechanisms. Pakistan's financial markets witnessed a slowdown in deposit mobilization and profitability in the sector. Conversely, the financial sector remained generally immune to the contagion of the unstable financial sector.

Table 5.6: Summary of OMO's Rs. billion

	Injections		Absorptions	
	2010-11	**2011-12**	**2010- 11**	**2011-12**
July	75.05	408.45	20.50	-
August	165.05	640.35	-	-
September	196.55	1025.10	54.40	-
October	36.85	1058.65	171.50	-
November	67.55	1381.45	102.50	-
December	34.10	1418.90	128.55	24.00
January	106.85	969.15	11.50	-
February	119.40	1244.40	51.20	-
March	230.85	1210.90	-	3.00
Total	1,032.25	9357.35	540.15	27.00

Source: State Bank of Pakistan

During the first half of fiscal year 2011-12 reliance on the banking system to fund the government's finances created further challenges to striking a balance between cautious liquidity operations and payment system stability. Furthermore, the excess volatility in short term interest rates increased the challenges of monetary management, mainly due to a sharper deterioration in the external current account deficit, a declining trend of foreign inflows, and a higher currency to deposit ratio. However, other market interest rates, such as KIBOR and the weighted average lending rate (WALR), have largely followed the policy rate reductions. The average spread between the policy rate and the 6 month KIBOR has narrowed to 12 bps after the cumulative 200 bps reduction in the policy rate.

Table 5.7: Market Treasury Bills Auctions Rs. Million

	JUL-JUN			Jul-March					
	FY2010-11			Offered		Accepted		W.A.Rate*	
	Offered	Accepted	W.A Rate*	FY11	FY12	FY11	FY12	FY11	FY12
3-Months	2,837,276	1,668,408	12.8	2,479,501	671,490	1,484,235	363,478	12.8	12.5
6-Months	2,226,878	1,614,552	13.0	1,101,412	1,501,433	809,208	883,012	13.0	12.7
12-Months	908,194	599,015	13.2	437,602	2,086,003	234,144	1,239,758	13.2	12.8
Total	5,972,348	3,881,975		4,018,515	4,258,926	2,527,587	2,486,247		

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

The SBP accepted Rs. 2486.2 billion from the primary market of T-bills during July 2011 - March 2012 as compared to Rs. 2527.6 billion during the same period of fiscal year 2010-11. The market offered a total amount of Rs. 4259 billion during the first nine months of current fiscal year 2011-12.

In an anticipation of a further cut in the policy rate in October 2011 and onwards investment in longer tenure papers increased. During the first nine months of 2011-12 months T-bills, accounted for 49.9 percent of the total accepted amount followed by 35.5 percent in 6 months T-bills

Figure-5.6: Contribution of T-bills

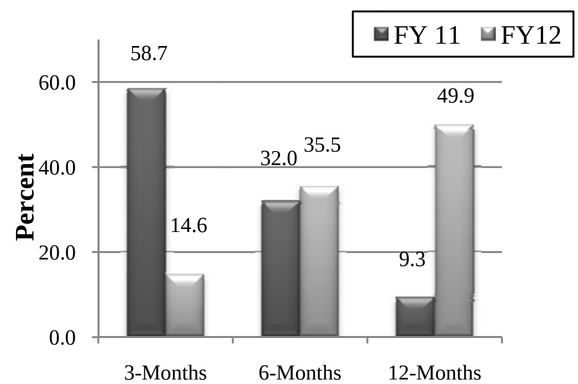


Fig-5.7: Weighted Average Interest Rates

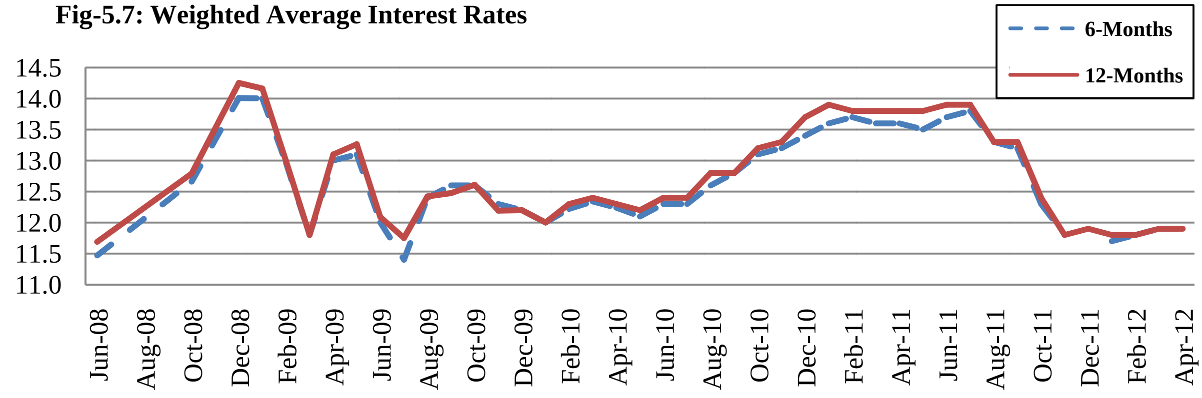


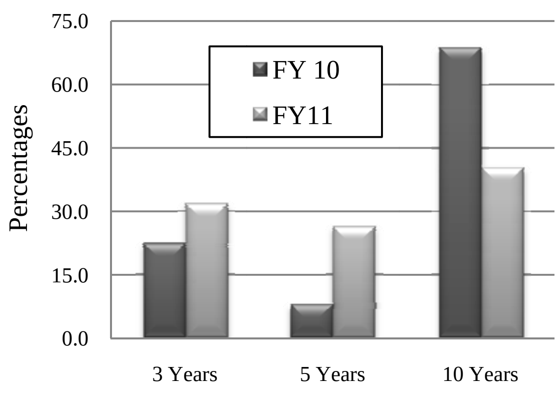
Table 5.8: Pakistan Investment Bonds Auctions — Rs. Million

PIBs	Offered	Accepted	*W.A Rate	Offered		Accepted		*W.A Rate	
	Jul-Jun			Jul-March					
	FY 2010-11			FY 11	FY12	FY 11	FY 12	FY 11	FY 12
3 Years	81,960	49,712	14.0	42,227	74,171	18,684	50,607	14.0	12.8
5 Years	33,306	16,668	13.3	18,662	57,277	6,674	41,938	13.3	12.6
10 Years	176,840	101,355	14.1	111,246	108,032	57,537	64,370	14.1	12.8
15 Years	2,966	460	14.1	2,031	2,446	BR	2,262	Nil	13.5
20 Years	7,875	875	14.2	6,500	200	525	0	14.2	0.0
30 Years	12,413	225	14.2	11,113	210	BR	0	Nil	0.0
Total	315,360	169,295		191,779	242,336	83,420	159,177		

Source:SBP
* : Average of Minimum and Maximum rates

During 2011-12, the SBP rose up to Rs. 159.2 billion from the primary market of Pakistan Investment Bonds (PIBs) as compared to Rs. 83.4 billion in the same period last year. The market offered a total amount of Rs. 242.3 billion in the first nine months of the fiscal year 2011-12 against Rs. 191.8 billion in 2010-11.

Figure- 5.8: Contribution of PIBs



During the period under review, heavy investment occurred in 10 years PIBs which constituted almost 40.4 percent of the total accepted amount.

Table 5.9: Lending and Deposit Rates Weighted Average (W.A.)

	LR	DR	Spread
Dec-10	14.20	7.41	6.79
Jan-11	14.22	7.20	7.02
Feb-11	14.19	6.99	7.20
Mar-11	14.24	7.09	7.15
Apr-11	14.37	7.35	7.02
May-11	14.21	7.45	6.76
Jun-11	14.25	7.22	7.03
Jul-11	14.62	7.46	7.16
Aug-11	14.22	7.40	6.82
Sep-11	14.28	8.40	5.88
Oct-11	13.97	8.03	5.94
Nov-11	13.58	7.48	6.10
Dec-11	13.23	7.06	6.17
Jan-12	13.18	7.12	6.06
Feb-12	13.14	7.03	6.11
Mar-12	12.80	6.98	5.82

Source: State Bank of Pakistan

The weighted average lending rate (including zero mark-up) on outstanding loans stood at 12.80 percent while the weighted average deposit rate (including zero mark-up) stood at 6.98 percent in March 2012. This resulted in a spread of 5.82 percent. The decline in the weighted average lending rate is due to the lag involved in contracting fresh loans in the new declining interest rate environment and the decline in banks return on government securities.

It is pertinent to mention that since the Central Bank was following a tight monetary policy until August 2011 and the interest rates were moving up, the banking spread remained high. Consequently, there was a lackluster movement in deposit rates.

Pakistan's Financial Sector

A well-developed financial sector plays an important role in overall economic development, as it mobilizes savings for productive investment, facilitates capital inflows and remittances from abroad, and stimulates investment in both physical and human capital. It includes banks, stock exchanges, credit unions, insurance companies, microfinance institutions and money lenders. Hence a sound and stable financial sector contributes to economic and social development.

Commercial Banks

The asset base of the banking system and its key elements posted a strong growth trend, particularly in terms of the deposit base. However, the asset mix of the banking system shifted further toward investment, as banks continued to invest in government papers and bonds of public sector enterprises (PSEs). On a Year to year basis the asset base of the banking system registered an increase of 15 percent and stood at Rs. 8207 billion in December 2011 as compared to Rs. 7138 billion in December 2010.

Table 5.10: Highlights of the Banking System **Rs billion**

	CY*05	CY06	CY07	CY08	CY09	Dec-10	Sep-11	Dec-11
Total Assets	3,660	4,353	5,172	5,628	6,516	7,138	7,763	8,207
Investments (net)	800	833	1,276	1,087	1,737	2,142	2,845	3,053
Advances (net)	1,991	2,428	2,688	3,173	3,240	3,349	3,263	3,341
Deposits	2,832	3,255	3,854	4,218	4,786	5,450	5,769	6,238
Equity	292	402	544	563	660	697	753	784
Profit Before Tax (PBT)	94	124	107	63	81	111	116	170

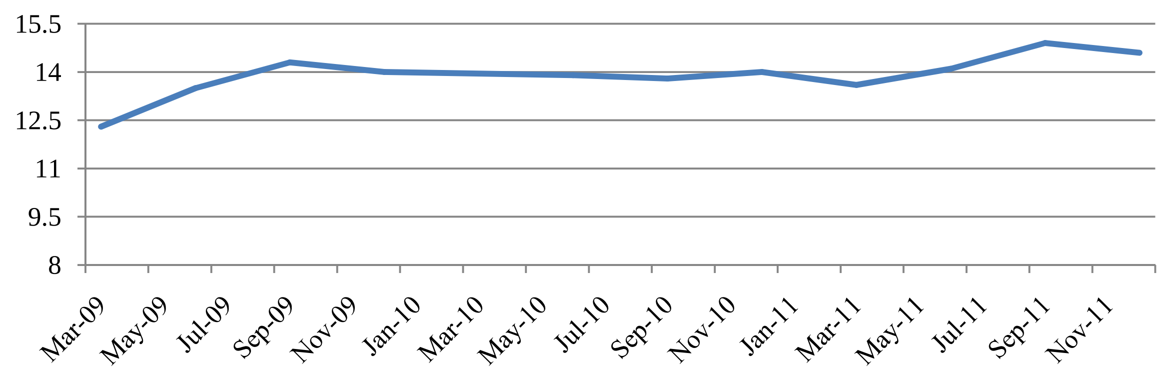
Table 5.10: Highlights of the Banking System								Rs billion
	CY*05	CY06	CY07	CY08	CY09	Dec-10	Sep-11	Dec-11
Profit After Tax (PAT)	63	84	73	43	54	65	76	110
Non-Performing Loans	177	177	218	359	446	548	613	607
Non-Performing Loans (net)	41	39	30	109	134	182	210	202
	Base-I		Base-II					
Capital Adequacy Ratio (all banks)	11.3	12.7	12.3	12.3	14.0	14.0	14.9	14.6

Source: State Bank of Pakistan
* Calendar year

The deposits of the banking system increased to Rs. 6238 billion in December 2011 from Rs. 5450 billion in December 2010 thus posted a growth of 14.4 percent year to year basis.

With continuous growth in the non-performing loans (NPLs) since CY07, credit risk has been a major challenge for banks. NPLs reached Rs. 607 billion in December 2011 against Rs. 548 billion recorded in December 2010. The capital adequacy ratio also increased to 14.6 percent from 14 percent during the period under review (Table 5.9).

Fig-5.9: Capital Adequacy Ratio (percent)



BOX-2
Financial Development

Financial development in reference to the increase in the ratio of money supply to GDP suggests that the more liquid money is available in the economy, the more opportunities exist in economy for sustainable economic growth. Therefore, the development of the financial system (financial deepening) is interlinked with the economic development of any country.

Considering M2 as a proxy for the size of the financial sector, increase in M2/GDP ratio reveals that in nominal terms the financial assets are growing faster than the non financial assets. In case of Pakistan, the financial market has shown great resilience in the wake of global financial crisis due to low integration with global financial markets.

Table5.11: Key Indicators of Pakistan's Financial Development

Years	M2/GDP	DD+TD/M2
2000-01	36.7	75.4
2001-02	40.0	75.4
2002-03	43.1	76.2
2003-04	44.9	76.8
2004-05	45.1	77.6
2005-06	45.0	72.5
2006-07	46.6	74.1
2007-08	44.7	73.3
2008-09	39.2	72.0
2009-10	39.4	71.5
2010-11	37.1	71.8
July-May		
2010-11	35.0	70.0
2011-12	34.9	70.1

Table 5.11 suggests that the M2 to GDP ratio has shown a rising trend since 2000-01 with growing economic activity and rose from 36.7 percent to 47 percent in 2006-07. The ratio

started to decline gradually and stood at 37.1 percent in 2010-11. During July —May 2012 M2 to GDP ratio has declined further to 34.9 percent as compared to 35 percent in the same period last year on account of the pressure to the liquidity profile of the financial markets mainly due to the rising government's borrowing needs. On the other hand another significant ratio DD + TD/M2, which represents monetary depth, has also shown the declining trend since 2004-05 by decreasing from 77.6 percent to 71.8 percent in 2010-11. This is the period when the monetary policy stance changed from accommodating to tightening. However, reduced policy rate by 200 bps to 12 percent during the current fiscal year 2011-12, resulted in a slight increase of 70.1 percent during July 2011—May 2012 from 70 percent during the same period last year.

In an effort to improve financial deepening and competition in the banking system, SBP is already encouraging depositors to put their savings in government securities through Investor's Portfolio Securities (IPS) accounts which may lead to better returns on deposits over time. Moreover, in May 2008, SBP introduced a minimum percent floor on all categories of Savings/PLS Saving Products. Consequently, average deposit rate of all saving related products increased from 2.1 percent to 5.25 percent, with no significant change thereafter. The saving deposits category now account for 38 percent of all bank deposits and 52 percent of total number of deposit accounts.[1]

Islamic Banking

The Islamic banking industry in Pakistan has maintained a strong and sustainable growth momentum in the wake of fragile economic conditions. Over the past six years it has witnessed an average growth of 30 percent.

Table 5.12: Islamic Banks Rs. Billion

	CY05	CY06	CY07	CY08	CY09	Dec-10	Dec-11
Assets of the Islamic banks	71.5	119.3	205.9	276.0	366.3	477.0	641.0
Deposits of the Islamic Banks	49.9	83.7	147.4	201.6	282.6	390.1	521.0
Share in Banks Assets	1.95%	2.79%	3.98%	4.90%	5.60%	6.68%	7.80%
Share in Bank Deposits	1.75%	2.62%	3.82%	4.78%	5.90%	7.16%	8.40%

Source: Islamic Banking Department, State Bank of Pakistan
*Provisional data

The asset base of the industry reached Rs. 641 billion reflecting 34 percent Year to year (YOY) growth, while the share in bank assets increased to 7.8 percent from 6.7 percent during the period under review. The growth in assets is mainly attributed to financing and investment that together grew by 40 percent year to year basis. On the other hand deposits reached to Rs. 521 billion depicting YOY growth of 34 percent by end of Dec 2011. Thus it contributed 8.4 percent in banks deposits against 7.2 percent in Dec 2010. Similarly operating performance indicators also witnessed encouraging performance in 2011, as non-performing financing (NPFs) declined while return on assets (ROA) and return on equity (ROE) both remained higher than that of overall banking industry average.

The breakup of financing in CY11 indicates that Murabaha dominates followed by Diminishing Musharaka and Ijara with all other modes constituting a relatively small share.

Microfinance

The Government of Pakistan and the SBP remain committed to promoting microfinance as a long term strategy to broaden access to financial services by the low income segments, thus improving their livelihood and income generating opportunities.

[1] Monetary Policy statement, April, 2011-12

Table 5.13: Financing Products by Islamic banks							%age
Mode of Financing	**CY05**	**CY06**	**CY07**	**CY08**	**CY09**	**CY10**	**CY11**
Murabaha	44.4	48.4	44.5	36.5	42.3	44.9	43.8
Ijara	29.7	29.7	24.0	22.1	14.2	12.7	10.4
Musharaka	0.5	0.8	1.6	2.1	1.8	2.9	2.4
Mudaraba			0.3	0.2	0.4	0.2	0.1
Diminishing Muskaraka	12.8	14.8	25.6	28.9	30.4	29.5	32.0
Salam	0.6	1.9	1.4	1.8	1.2	1.4	2.4
Istisna	1.4	1.4	1.0	2.9	6.1	5.8	4.4
Others	12.1	3.0	1.6	5.4	3.6	2.6	4.4

Source : State Bank of Pakistan

The overall microfinance sector witnessed loan portfolio growth of 13 percent over the year. Its gross loan portfolio stood at Rs. 28.84 billion as the quarter ended in December 2011 with 2.07 million active borrowers. On the deposit side, the number of depositors of Micro Finance Banks (MFBS) increased to 1.44 million with a deposit base of Rs. 13.6 billion as of March 31, 2012.

The overall performance of the sector remained positive in spite of the various challenges including the heavy floods/rains that adversely affected various parts of the country especially Sindh, for the second consecutive year. The loan portfolio growth is attributable to the recent microfinance sector strategy that stresses the need for microfinance providers to diversify portfolio in different economic and geographic segments. The NPLs of microfinance banks have also dropped to two (2) percent as the quarter ended in March 2012 against 5.29 percent in March 2011 depicting effectiveness of the credit process. The sector was able to expand its retail network to 1,739 business locations across the country.

Table 5.14: Microfinance Industry Indicators

Year	Institution	Number of MFBs	Number of Branches	Total No. of Borrowers	Gross loan portfolio (Rs. In '000)	Average Loan Size (Rs)	Total No. of Depositors	Deposits (Rs. In '000)
Dec-08	MFBs	7	271	542,641	6,461,462	11,907	254,381	4,115,667
	MFIs	20	1,186	1,190,238	11,952,000	14,940	-	-
	Total	27	1,457	1,732,879	18,413,462	10,626	254,381	4,115,667
Dec-09	MFBs	8	284	703,044	9,004,000	13,576	459,024	7,099,206
	MFIs	21	1,159	1,123,001	12,719,000	11,326	-	-
	Total	29	1,443	1,826,045	21,723,000	12,131	459,024	7,099,206
Dec-10	MFBs	8	284	717,141	10,528,000	20,151	780,294	10,289,000
	MFIs	21	1,252	1,342,395	14,966,000	17,180	-	-
	Total	29	1,536	2,059,536	25,494,000	18,385	780,294	10,289,000
Dec-11	MFBs	9	303	733,931	14,650,000	19,691	1,362,202	13,927,066
	MFIs	23	1,436	1,339,140	14,195,000	10,600	-	-
	Total	32	1,739	2,073,071	28,845,000	13,914	1,362,202	13,927,066

Source: State Bank of Pakistan

Microfinance Policy Initiatives

The policy framework for microfinance has evolved in tandem with sector growth. It encourages private sector participation by supporting a multi-institutional approach. The regulatory instructions are developed in view of the present market situation and MFBs' preparedness allowing adequate room for further innovation and market development. During the past two consecutive years Pakistan was globally ranked first by the "Economist Intelligence Unit" (EIU) of the Economist magazine, in terms of microfinance regulatory framework via its reports released in 2010 and 2011.

In September, 2011 the Waseela Microfinance Bank was granted a license under the "Microfinance Institutions Ordinance, 2001" to operate nationwide. In addition, the Auriga Group acquired the district wide Network Microfinance Bank with the intent of upscaling its operations as a nation wise MFB. Also in the same month, the general provisioning requirement for MFBs was withdrawn in cases where loans were backed by liquid securities, gold, or other cash collateral with appropriate margin. However, in case of all other loans, microfinance banks shall maintain general provision of 1%.

In March 2012, the State Bank has revised Prudential Regulations No. 10 and 11 for MFBs to facilitate lending to microenterprise segment. For these purposes, the term microenterprise shall mean projects or businesses in trading, manufacturing, services, and agriculture sectors that lead to livelihood improvement and income generation. Microenterprises are undertaken by micro-entrepreneurs who are either self-employed or employ few individuals; these businesses do not exceed 10 employees and they excluded seasonal labor.

The revisions will facilitate lending of up to Rs. 500,000 to eligible microenterprises. Moreover, MFBs that previously were unable to tap the microenterprise market constraints of lending up to Rs. 150,000 under the general loans category will now be able to upscale their credit operations.

Box-3
Program's initiatives:

SBP is playing a pivotal role in promoting inclusive finance through implementation of government and donor funded programs. These programs are managed with the objective of enhancing the provision of financial services to unbanked segments especially to the poor and marginalized population through sustainable models. The updates on government programs and SBP market interventions are as follows:

1. Financial Inclusion Program (FIP):

FIP is implemented with grant assistance of 50 million pounds from the UK Government's Department for International Development (DfID). SBP has successfully launched a number of market interventions under FIP since 2008. Progress under each of these interventions is as follows:

a. The Institutional Strengthening Fund (ISF) was launched to strengthen institutional and human resource capacity of MFB is in order to enhance scale and sustainability of microfinance services. So far funding support of Rs. 819 million has been approved for 19 microfinance providers including top and middle tier MFBs and MFIs as well as the Pakistan Microfinance Network. The grant covers 22 projects addressing institutional strengthening needs of the grantee institutions for capacity building/ HR training, IT development, business plan/ strategic reviews, market research, branchless banking, corporate governance, credit ratings, remittances, and treasury functions, and others.

b. Microfinance Credit Guarantee Facility (MCGF) was launched to mobilize wholesale commercial funding for microfinance providers through partial guarantees to commercial banks. So far, fourteen (14) guarantees with a total exposure of Rs. 957 million have been issued for mobilizing Rs. 3,275million.

c. Credit Guarantee Scheme (CGS) for Small and Rural Enterprises aims to facilitate credit to small and rural businesses through partial guarantees. So far partner banks have booked guarantees of Rs. 1,107 billion against sanctioned loans of Rs. 2.711 billion for 3,846 small and rural enterprises by the end of March 2012.

d. Financial Innovation Challenge Fund (FICF): was launched in May 2011. It aims to foster innovations and test new markets, lower cost of delivery, enable systems and procedures to be more efficient and provide new ways of meeting the unmet demand for financial services. A number of applications were received under the 1st round and the selected applicants will be announced after due process.

2. Improving Access to Financial Services Fund (IAFSF)

The following interventions have been taken under IAFSF:

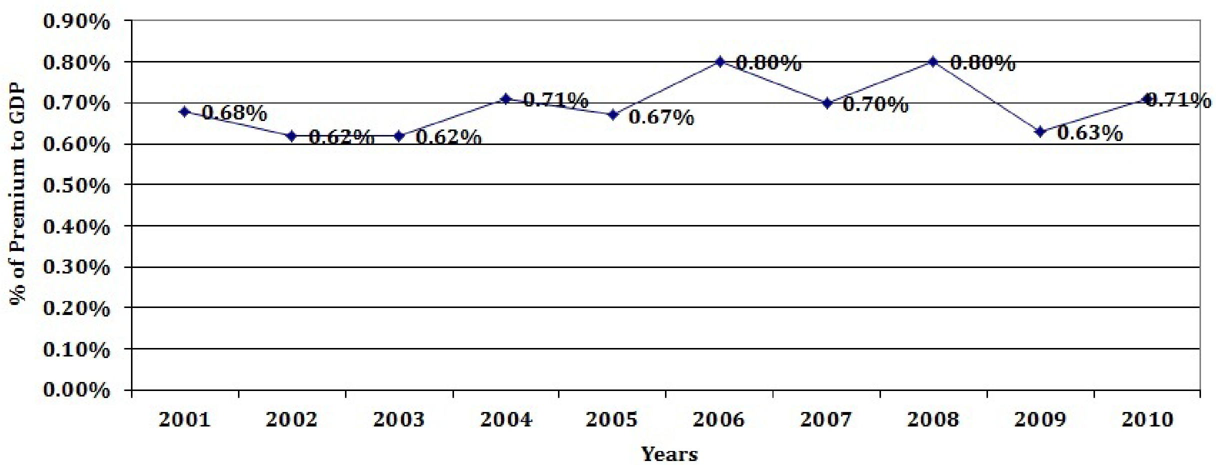
a. Nationwide Financial Literacy Program has been launched in January 2012 to disseminate basic education about financial concepts, products and services to the masses.

b. Grass Root Level Training Programs on Microfinance is a series of 40 individual training programs expected to benefit 1000 participants from various microfinance providers. So far 12 training Programs have been organized.

Insurance Sector

The insurance industry in Pakistan is relatively small compared to its counterparts in the region. The insurance penetration and density remained modest as compared to other jurisdictions while the insurance sector remained underdeveloped relative to its potential. As of December 2010, the industry's total premium revenue stands at Rs. 100.58 billion.

Fig-5.10: Insurance Penetration in Pakistan



Box-4
Way Forward

1. **Development of New Insurance Law:** SECP is considering embarking upon the initiative of revamping of insurance laws in Pakistan. The derived benefits will include a new regulatory and supervisory framework encompassing enhanced reserves and capital requirements, insurance industry's risk-focused surveillance mechanisms, training and capacity building to support the implementation of the improvised insurance regulatory framework. Under this new regime, certain new regulations will also be introduced where no such framework exists currently such as regulations for reinsurance, regulations for insurance & reinsurance brokers, regulations for alternate distribution channels, regulations for disclosure requirements and consumer protection, regulations for Takaful Investment Products, and others.

2. **Voluntary Pension Schemes by Insurance companies:** Although there are already nine (9) Pension Funds

operating under the Voluntary Pension System Rules, 2005, none of the insurers have so far ventured in this area while registering itself under these rules. The SECP intends to make the existing Rules more conducive and equally attractive for insurers by initiating a consultative process with the relevant stakeholders and encouraging the insurance companies to offer voluntary pension products.

3. Development of Crop Insurance in Pakistan: The agriculture sector contributes approximately 21 percent to Pakistan's GDP and generates about 45 percent of employment. It also contributes to the economic growth of the country by supplying raw materials to the industry as well as for export purposes. With the proliferation of numerous initiatives launched by the public and private sector, including the access to financial services in rural areas, it has become imperative that measures be taken to mitigate risks to which farmers are exposed. It is a known fact that agricultural production can increase if the vagaries of nature and the risks associated with it can be better managed. While, the majority of areas of our agricultural economy are exposed to adverse weather events such as floods and droughts, crop diseases and other disasters, the immediate need is to provide it with a carefully designed tool to mitigate such inherent risks. As the apex regulator of the insurance industry, it is the endeavor of SECP to develop and promote the agricultural insurance in order to ensure the well-being of the economy. Also, while augmenting the efforts of government whereby it formed a crop insurance scheme in year 2008 and the recent interest to develop a scheme available to all farmers of the country involved in the cultivation of the major crops, there is a need of bringing all stakeholders, including SECP, State Bank of Pakistan, insurance industry, agriculture and livestock development departments/ agencies, together to articulate the development of crop insurance in Pakistan. SECP will be working to help in building a market-based approach in the design and pricing of crop insurance products.

Conclusion

Pakistan’s financial institutions are doing the utmost to continue to respond to the global economic and financial volatility. Although Pakistan was not heavily affected by the financial crisis of 2007, it is taking every precaution in how it moves forward to support growth and monitor inflation. Efforts continue in avoiding high inflationary pressures, mitigating heightened security risks, eliminating power shortages and providing a lower cost of doing business, in order to boost Pakistan’s economy. With evidence of its past resilience in rough economic times, the future roles of money and credit in Pakistan remain optimistic.

Table 5.1

COMPONENTS OF MONETARY ASSETS

Stock Rs. in million	End June 2004	2005	2006	2007	2008	2009	2010	2011 R	2012 Mar. P
1. Currency Issued	617,508	712,480	791,834	901,401	1,054,191	1,231,871	1,385,548	1,608,641	1,762,090
2. Currency held by SBP	2,960	3,107	3,005	3,148	2,900	2,693	2,491	2,380	2,148
3. Currency in title of Scheduled Ba	36,432	43,472	48,439	58,072	68,966	77,006	87,673	104,852	101,810
4. Currency in circulation (1-2-3)	578,116	665,901	740,390	840,181	982,325	1,152,173	1,295,385	1,501,409	1,658,133
5. Other deposits with SBP[1]	2,116	3,335	4,931	7,012	4,261	4,662	6,663	10,145	9,000
6. Scheduled Banks Total Dposits[2]	1,905,260	2,291,408	2,661,584	3,217,962	3,702,556	3,980,384	4,475,186	5,183,640	5,573,451
7. Resident Foreign Currency Deposits (RFCD)	145,694	180,295	195,501	207,312	263,430	280,364	345,438	374,945	416,962
8. Monetary assets (4+5+6)	2,485,492	2,960,644	3,406,905	4,065,155	4,689,143	5,137,219	5,777,234	6,695,194	7,240,584
9. Growth rate (%)	19.6	19.1	15.1	19.3	15.3	9.6	12.5	15.9	8.1
Memorandum									
1. Currency / Money ratio	23.3	22.5	21.7	20.7	20.9	22.4	22.4	22.4	22.9
2. Demand Deposits / Money ratio	31.8	32.1	31.9	65.0	65.5	62.4	62.2	61.6	60.1
3. Time Deposits / Money ratio	39.0	39.2	40.5	9.0	7.8	9.6	9.3	10.2	11.1
4. Other Deposits / Money ration	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.2	0.1
5. RFCD / Money ration	5.9	6.1	5.7	5.1	5.6	5.5	6.0	5.6	5.8
6. Income Velocity of Money[3]	2.4	2.4	2.1	2.3	2.3	2.6	2.7	2.9	

P : Provisional R: Revised

1 Excluding IMF A/c Nos 1 & 2 SAF Loans A/c deposits money banks, counterpart funds, deposits of foreign central banks and foreign governments.

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

3 Income velocity of money is taken as GDP at current factor cost / quarterly average of monetary assets (A2)

TABLE 5.2

CAUSATIVE FACTORS ASSOCIATED WITH MONETARY ASSETS

(Rs million)

		2006	2007	2008	2009	2010	2011 R	2012 Mar. P
		A. Stock End June						
1	Public Sector Borrowing (net)							
	(i + ii + iii + iv + v + vi + vii)	833,686	926,530	1,508,541	2,034,304	2,440,941	3,020,510	3,861,126
	i Net Budgetary Support	708,037	810,053	1,364,604	1,681,022	2,011,459	2,601,622	3,534,390
	ii Commodity Operations	107,762	98,552	125,423	336,202	413,191	397,488	304,576
	iii Zakat Fund etc.	-14,308	-14,269	-13,681	-15,114	-15,904	-10,795	-10,036
	iv Utilization of privatization							
	proceeds by Govt./WAPDA	37,651	37,657	37,657	37,657	37,657	37,657	37,657
	v Use of Privatization proceeds/							
	NDRP Fund for Debt Retirement	-5,749	-5,749	-5,749	-5,749	-5,749	-5,749	-5,749
	vi Payment to HBL on A/C of HC&EB	287	287	287	287	287	287	287
2	Non-Government Sector	2,190,769	2,576,474	3,019,924	3,189,994	3,388,800	3,547,345	3,604,183
	i Autonomous Bodies1	36,979	58,148	84,415	109,675	70,479	68,283	70,456
	ii Net Credit to Private Sector	2,153,790	2,518,326	2,932,536	3,080,319	3,318,321	3,479,062	3,533,726
	& PSCEs							
	a. Private Sector	2,113,890	2,479,608	2,889,814	2,906,897	3,019,822	3,141,151	3,341,659
	b. Public Sector Corp. other than 2(i)	47,237	46,010	52,866	180,330	304,554	343,255	196,797
	c. PSEs Special Account Debt Repayment	-23,225	-23,478	-27,597	-23,683	-23,683	-23,915	-23,915
	d. Other Financial Institutions (NBFIs)	15,889	16,187	16,425	16,776	17,628	18,571	19,185
3	Counterpart Funds	-546	-519	-543	-500	-503	-498	-498
4	Other Items (Net	-327,346	-422,223	-506,291	-582,434	-597,285	-652,416	-760,086
5	Domestic Credit (1+2+3+4)	2,696,564	3,080,263	4,021,631	4,641,364	5,231,953	5,914,941	6,704,725
6	Foreign Assets (Net)	710,341	984,892	667,511	495,855	545,281	780,253	535,859
7	Monetary Assets (5+6)	3,406,905	4,065,155	4,689,143	5,137,218	5,777,234	6,695,194	7,240,584
		B. Changes over the year (July-June)						
8	Public Sector Borrowing (net)							
	(i+ii+iii+iv+v+vi+vii)	86,879	92,844	582,011	525,763	406,636	579,569	840,616
	i Net Budgetary Support	67,063	102,015	554,551	316,418	330,437	590,163	932,768
	ii Commodity Operations	19,926	-9,210	26,871	210,779	76,989	-15,703	-92,912
	iii Zakat Fund etc.	-110	39	588	-1,433	-790	5,109	760
	iv Utilization of privatization				0	0	0	0
	proceeds by Govt./WAPDA	-	-	-	0	0	0	0
	v Use of Privatization proceeds/				0	0	0	0
	NDRP Fund for Debt Retirement	-	-	-	0	0	0	0
	vi Payment to HBL on A/C of HC&EB	-	-	-	0	0	0	0
9	Non-Government Sector	408,401	385,705	443,449	170,070	198,806	158,544	56,838
	i Autonomous Bodies1	4,755	21,169	26,268	25,260	-39,196	-2,196	2,173
	ii Net Credit to Private Sector & PSCEs	403,646	364,536	414,210	147,783	238,002	160,740	54,665
	a. Private Sector	401,797	365,718	410,206	17,083	112,926	121,328	200,508
	b. Public Sector Corp. other than 2(i)	2,399	-1,227	6,856	127,464	124,224	38,701	-146,458
	c. PSEs Special Account Debt Repayment	489	-253	-119	3,914	0	-232	0
	d. Other Financial Institutions (NBFIs)	-1,038	298	238	351	852	943	614
10	Counterpart Funds	-7	27	-24	43	-3	5	0
11	Other Items (Net)	122,416	-94,877	-84,068	-76,143	-14,850	-55,131	-107,670
12	Domestic Credit Expansion (8+9+10+11)	372,857	383,699	941,369	619,733	590,589	682,988	789,784
13	Foreign Assets (Net)	73,403	274,551	-317,380	-171,656	49,427	234,972	-244,394
14	Monetary Expansions (13+14)	446,260	658,250	623,988	448,075	640,016	917,960	545,390

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

1 Till end June 1996 autonomous bodies consisted of WAPDA, OGDC, PTC, NFC, and PTV, thereafter their composition has been changed as WAPDA, OGDC, PTC, SSGC SNGPL, KESC and Pakistan Railways.

2 Adjusted for SAF loans amounting to Rs 7371 million

3 Adjusted for Rs 5278 million to exclude the impact arising due to mark up debited to the borrowers account.

4 Adjusted for Rs 8207million being mark up debited to the borrowers account

5 Credit to NHA by commercial Banks.

6 Credit to NHA and CAA by commercial banks

TABLE 5.3

SCHEDULED BANKS POSITION BASED ON WEEKLY RETURNS: LIABILITIES AND ASSETS

(Rs million)

Outstanding Amount at end June	2006	2007	2008	2009	2010	2011 R	2012 Mar. P
LIABILITIES							
1. Capital (paid-up) and Reserves	315,414	484,296	551,313	639,098	669,863	724,112	798,891
DEMAND LIABILITIES IN PAKISTAN							
2. Inter-banks Demand Liabilities	28,608	54,796	35,856	60,235	69,679	88,478	78,173
2.1 Borrowing	0	0	0	0	0	0	0
2.2 Deposits	(28,608)	54,796	35,856	60,235	69,679	88,478	78,173
3. Deposits (General)	1,350,011	2,889,589	3,352,974	3,473,440	3,965,680	4,601,452	4,810,506
4. Other Liabilities	97,266	137,089	169,897	218,283	227,436	251,625	291,258
5. Total Demand Liabilities (2+3+4)	1,475,885	3,081,474	3,556,727	3,751,958	4,262,795	4,941,556	5,179,937
TIME LIABILITIES IN PAKISTAN							
6. Inter-banks Time Liabilities	25,759	3,861	6,344	17,470	11,883	3,817	1,399
6.1 Borrowing	0	0	0	0	0	0	0
6.2 Deposits	(25,759)	3,861	6,344	17,470	11,883	3,817	1,399
7. Time Deposits (General)	1,490,182	512,565	522,843	684,685	770,992	905,350	1,040,810
8. Other Liabilities	34,236	69,786	87,554	86,659	93,947	105,214	112,693
9. Total Time Liabilities (6+7+8)	1,550,177	586,212	616,741	788,814	876,823	1,014,381	1,154,901
10. Total Demand and Time Liabilities	3,026,061	3,667,686	4,173,469	4,540,772	5,139,617	5,955,937	6,334,839
11. Borrowing From SBP	198,725	269,109	213,293	293,641	321,127	359,278	559,596
12. Borrowing from Banks Abroad	2,953	7,015	5,287	9,139	9,211	14,403	31,347
13. Money at Call and Short Notice in Pakistan	172,893	220,941	169,637	192,979	218,179	174,488	131,821
14. Other Liabilities	168,011	136,119	218,672	323,587	423,774	458,099	492,953
15. Total Liabilities	3,884,057	4,785,167	5,331,671	5,999,217	6,781,771	7,686,317	8,349,447
16. Total Statutory Reserves	148,585	229,338	316,878	187,598	213,140	247,078	258,997
16.1 On Demand Liabilities	72,364	211,867	316,878	187,598	213,140	247,078	258,997
16.2 On Time Liabilities Assets	76,221	17,471	0	0	0	0	0
ASSETS							
17. Cash in Pakistan	48,439	58,072	68,966	77,006	87,673	104,852	101,810
18. Balances with SBP	202,501	307,433	414,098	278,432	288,067	342,501	364,306
19. Other Balances	56,460	65,656	63,622	80,986	80,458	103,921	80,899
20. Money at Call and Short Notice in Pakistan	232,535	239,031	157,218	185,049	228,906	162,696	122,173
21. 17+18+19+20 as % of 10	17.8	18.0	17.0	13.7	13.3	12.0	11
FOREIGN CURRENCY							
22. Foreign Currency held in Pakistan	6,449	7,463	11,009	13,518	15,482	14,797	17,718
23. Balances with Banks Abroad	93,387	170,509	132,081	149,837	110,694	98,656	118,572
24. Total Foreign Currency	99,836	177,972	143,090	163,356	126,176	113,453	136,290
BANK CREDIT ADVANCES							
25. To Banks	0	0	0	0	0	0	0
26. To Others	2,079,056	2,379,226	2,802,674	3,085,495	3,233,176	3,340,283	3,449,255
27. Total Advances	2,079,056	2,379,226	2,802,674	3,085,495	3,233,176	3,340,283	3,449,255
28. Bills Purchased and Discounted	135,924	145,707	140,864	148,693	158,269	193,307	193,240
29. Total Bank Credit	2,214,980	2,524,932	2,943,537	3,234,188	3,391,445	3,533,590	3,642,495
30. 29 as % of 10	73.2	68.8	70.5	71.2	66.0	59.0	57
INVESTMENT IN SECURITIES AND SHARES							
31. Central Government Securities	177,860	174,425	173,171	214,164	248,753	464,936	728,062
32. Provincial Government Securities	77	76	76	0	0	0	0
33. Treasury Bills	411,691	655,921	559,825	756,955	1,105,957	1,577,897	2,001,900
34. Other Investment in Securities & Shares	165,598	235,330	286,960	385,035	506,303	530,571	379,659
35. Total Investment in Securities and Shares	755,227	1,065,753	1,020,032	1,356,154	1,861,013	2,573,404	3,109,622
36. 35 as % of 10	25.0	29.1	24.4	29.9	36.2	43.0	49
37. Other Assets	195,096	211,141	301,166	349,537	423,040	455,531	489,026
38. Advance Tax Paid	6,423	8,144	18,178	47,136	58,459	71,091	70,734
39 Fixed Assets	72,560	127,031	201,764	227,373	236,534	225,277	232,094
40. Total Assets	3,884,057	4,785,167	5,331,671	5,999,217	6,781,771	7,686,317	8,349,447
41. Excess Reserves (18-16)	53,916	78,095	97,220	90,834	74,928	95,423	105,309

Figures in the parentheses represent negative sign, P : Provisional, R: Revised

Source: State Bank of Pakistan

Note : Effective 22 July 2006, demand & time deposits have been re-classified in accordance with BSD circular no. 9 2006 dated 18 July 2006. the time deposits of less than 6 months are included in demand deposits for the purpose of CRR & SLR

- Definition of time & demand liabilities as mentioned in BSD circular no 9 dated 18 July 2008 have been revised. As per new definition, time liabilities will included deposits with tenor of one year and above. Accordingly, time deposits with tenor of less than one year will become part of demand deposits.

TABLE 5.4

INCOME VELOCITY OF MONEY

(Rs billion)

End June Stock	Narrow Money M1	Monetary Assets (M2) (Rs million)	Growth Percentage	Income Velocity of Monetary Assets (M2)
1980-81	73.56	104.62	13.2	2.7
1981-82	80.93	116.51	11.4	2.7
1982-83	96.54	146.03	25.3	2.7
1983-84	103.45	163.27	11.8	2.7
1984-85	118.97	183.91	12.6	2.7
1985-86	134.83	211.11	14.8	2.6
1986-87	159.63	240.02	13.7	2.5
1987-88	185.08	269.51	12.3	2.6
1988-89	206.36	290.46	7.8	2.7
1989-90	240.16	341.25	17.5	2.7
1990-91	265.14	400.64	17.4	2.7
1991-92	302.91	505.57	26.2	2.7
1992-93	327.82	595.39	17.8	2.3
1993-94	358.77	703.40	18.1	2.4
1994-95	423.14	824.73	17.2	2.4
1995-96	448.01	938.68	13.8	2.4
1996-97	443.55	1,053.23	12.2	2.5
1997-98	480.33	1,206.32	14.5	2.3
1998-99	643.04	1,280.55	6.2	2.4
1999-2000	739.03	1,400.63	9.4	2.2
2000-01	1,275.61	1,526.04	9.0	2.6
2001-02	1,494.14	1,751.88	14.8	2.5
2002-03	1,797.36	2,078.48	18.6	2.3
2003-04	2,174.74	2,485.49	19.6	2.3
2004-05	2,512.21	2,960.64	19.1	2.4
2005-06	2,720.68	3,406.91	15.1	2.4
2006-07	3,155.63	4,065.16	19.3	2.3
2007-08	4,339.50	4,689.14	15.3	2.3
2008-09	3,621.22	5,137.21	9.6	2.6
2009-10	-	5,777.23	12.5	2.7
2010-11 R	-	6,695.20	15.9	2.9

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

Explanatory Note:

a: It may be noted that data series of M1 from 2000-01 is not comparable as compilation of M1 based on weekly data has been discontinued by the SBP. Now M1 is being compiled on the basis of monthly returns and will be reported in the monthly statistical Bulletin of the SBP beginning from April 2008 in its table 2.1

b: The stock data of M2 has been revised since June 2002 due to treatment of privatization commission deposits with NBP as government deposits. These deposits were previously included in private sector deposits which have now being included in government deposits.

TABLE 5.5

LIST OF DOMESTIC, FOREIGN BANKS AND DFIs (As on 31-12-2011)

Public Sector Commercial Banks

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

Specialized Scheduled Banks

1. The Punjab Provincial Co-operative Bank
2. SME Bank Limited
3. Zarai Taraqiati Bank Limited
4. Industrial Development Bank of Pakistan

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. BankIslami Pakistan Limited
7. Burj Bank Ltd
8. Dubai Islamic Bank Pakistan Limited
9. Faysal Bank Limited
10. Habib Bank Limited
11. KASB Bank Limited
12. MCB Bank Limited
13. Meezan Bank Limited
14. NIB Bank Limited
15. Samba Bank Limited
16. SILK Bank Limited
17. Soneri Bank Limited
18. United Bank Limited
19. Summit Bank Limited
20. Habib Metropolitan Bank Limited
21. JS Bank Limited
22. Standard Chartered Bank (Pakistan) Limited

Foreign Banks

1. Citibank N.A.
2. Deutshe Bank A.G.
3. HSBC Bank Middle East Limited
4. Oman International Bank S.A.O.G.
5. The Bank of Tokyo - Mitsubishi UFJ Limited\
6. Barclays Bank PLC (Pakistan)
7. Industrial and Commercial Bank of China Limited

Development Financial Institutions

1. HBFC
2. Pak-Brunai Investment Company Ltd
3. Pak-China Investment Co. Ltd
4. Pak-Iran Joint Investment Co. Ltd
5. Pak Kuwait Investment Company of Pakistan (Pvt) Limited
6. Pak Libya Holding Company (Pvt) Limited
7. Pak Oman Investment Company (Pvt) Limited
8. Saudi Pak Industrial & Agricultural Investment company (Pvt) Limited

Micro Finance Banks

1. Khushhali Bank
2. Network Micro Finance Bank Limited
3. The First Micro Finance Bank Limited
4. Rozgar Micro Finance Bank Limited
5. Tameer Micro Finance Bank Limited
6. Pak Oman Micro Finance Bank Limited
7. Kashaf Microfinance Bank
8. National Rural Support Programme (NRSP)

Source: State Bank of Pakistan and Finance Division.

TABLE 5.6

SCHEDULED BANKS IN PAKISTAN (Weighted Average Rates of Return on Advances)

(Percent)

As at the End of		Precious Metal	Stock Exchange Securities	Merchan-dise	Machinery	Real Estate	Financial Obli-gations	Others	Total Advances*
I. INTEREST BEARING									
2004	Jun	9.20	6.01	6.89	11.21	9.08	7.08	9.04	8.41
		(9.20)	(6.01)	(7.08)	(11.77)	(9.08)	(7.03)	(9.05)	(8.54)
2005	Jun	8.51	6.86	6.09	4.59	6.68	6.76	8.86	7.01
		(8.51)	(8.29)	(6.01)	(4.07)	(6.68)	(6.70)	(9.02)	(7.01)
2006	Jun	11.58	14.84	8.68	8.55	10.23	10.31	9.59	9.71
		(11.58)	(14.09)	(8.51)	(8.55)	(10.23)	(10.31)	(9.99)	(9.66)
2007	Jun	10.87	11.37	10.73	11.07	12.30	11.05	10.76	11.25
		(10.87)	(12.11)	(10.68)	(11.06)	(12.30)	(11.05)	(10.81)	(11.30)
	Dec	11.45	10.36	9.82	11.09	12.85	10.02	11.93	11.64
		(11.45)	(10.42)	(9.82)	(11.09)	(12.85)	(10.02)	(11.98)	(11.66)
2008	Jun	13.62	12.37	11.78	13.16	12.21	13.32	13.02	12.53
		(13.62)	(12.60)	(11.77)	(13.16)	(12.21)	(13.32)	(13.14)	(12.57)
	Dec	14.64	13.88	13.83	12.05	13.60	16.55	13.74	13.60
		(14.64)	(14.11)	(13.83)	(12.04)	(13.60)	(16.55)	(13.52)	(13.66)
2009	Jun	14.86	12.15	13.45	11.91	14.14	15.30	13.21	13.54
		(14.86)	(10.11)	(13.07)	(11.91)	(13.75)	(15.27)	(13.10)	(13.54)
	Dec	14.07	11.62	12.38	12.78	13.70	12.43	12.35	12.66
		(14.07)	(10.28)	(12.17)	(12.78)	(13.70)	(11.87)	(11.99)	(12.48)
2010	Jun	14.85	13.86	10.90	9.63	12.77	12.07	13.02	12.20
		(14.85)	(14.30)	(9.77)	(9.63)	(12.77)	(12.07)	(13.20)	(12.03)
	Dec	14.72	13.36	11.69	12.02	12.48	13.45	12.92	12.36
		(14.72)	(12.30)	(11.32)	(11.95)	(12.47)	(13.45)	(12.81)	(12.19)
2011	Jun	15.78	12.42	11.33	11.11	12.01	11.04	12.85	12.01
		(15.78)	(13.26)	(10.50)	(11.11)	(12.01)	(11.04)	(12.69)	(11.72)
	Dec	14.78	10.20	11.53	8.89	11.46	13.12	12.90	11.81
		(14.78)	(9.95)	(11.27)	(8.85)	(11.46)	(13.12)	(12.88)	(11.68)
II. ISLAMIC MODES OF FINANCING									
2004	Jun	10.86	4.86	5.73	6.61	9.27	5.88	8.34	7.19
		(10.86)	(5.28)	(5.96)	(6.81)	(9.68)	(5.82)	(9.01)	(7.60)
2005	Jun	9.03	7.15	7.93	7.80	10.16	8.21	10.15	8.94
		(9.03)	(7.17)	(7.95)	(7.88)	(10.22)	(8.19)	(10.67)	(9.13)
2006	Jun	10.66	10.03	9.63	9.14	11.23	9.25	12.37	10.68
		(10.66)	(10.20)	(9.66)	(9.20)	(11.26)	(9.25)	(12.90)	(10.83)
2007	Jun	12.04	11.26	10.11	10.80	11.92	10.43	13.02	11.57
		(12.04)	(11.34)	(10.03)	(10.84)	(11.92)	(10.49)	(13.40)	(11.68)
	Dec	9.70	11.27	10.26	10.76	11.80	10.58	12.93	11.55
		(9.70)	(11.41)	(10.23)	(10.82)	(11.79)	(10.62)	(13.26)	(11.65)
2008	Jun	11.75	12.87	11.53	12.26	12.11	11.23	13.90	12.48
		(11.75)	(12.93)	(11.55)	(12.22)	(12.12)	(11.23)	(14.21)	(12.55)
	Dec	15.02	15.76	14.42	14.62	13.51	15.00	15.89	14.72
		(15.02)	(15.66)	(14.19)	(14.67)	(13.49)	(15.02)	(15.96)	(14.72)
2009	Jun	14.18	15.01	14.19	14.20	13.27	15.83	15.08	14.31
		(14.18)	(15.03)	(13.73)	(14.10)	(13.30)	(16.79)	(15.20)	(14.30)
	Dec	14.18	13.61	12.10	12.72	12.71	11.93	14.88	13.22
		(14.14)	(14.02)	(12.18)	(12.70)	(12.71)	(11.55)	(14.96)	(13.10)
2010	Jun	15.08	14.26	13.16	13.81	12.25	13.59	14.83	13.73
		(15.74)	(14.34)	(12.80)	(13.79)	(12.24)	(13.67)	(14.94)	(13.52)
	Dec	15.20	13.80	13.01	13.10	12.24	12.86	14.59	13.43
		(15.20)	(13.59)	(12.69)	(13.18)	(12.23)	(12.79)	(14.82)	(13.23)
2011	Jun	16.24	11.04	12.81	13.74	12.57	12.81	14.73	13.55
		(16.24)	(14.41)	(12.36)	(14.22)	(12.53)	(12.83)	(14.43)	(13.32)
	Dec	13.50	13.06	13.40	14.18	12.46	12.42	15.04	13.83
		(13.50)	(13.21)	(13.17)	(14.14)	(12.46)	(12.51)	(14.92)	(13.62)

* : Weighted average rates shown in parentheses represent Private Sector.

Source: State Bank of Pakistan

Table 5.7

SALE OF GOVERNMENT SECURITIES THROUGH AUCTION

(Rs. million)

No.	Securities	2005-06	2006-07	2007-08	2008-09	2009-10*	2010-11	2011-12 March
1	Market Treasury Bills *							
A	Three Month Maturity							
	Amount Offered							
	i) Face value	389,173	186,652	157,946	1,413,218	571,993	2,837,276	671,490
	ii) Discounted value	382,026	183,039	154,340	1,372,004	556,452	2,742,436	650,281
	Amount Accepted							
	i) Face value	210,541	136,102	139,771	975,798	239,467	1,668,408	363,478
	ii) Discounted value	206,768	133,484	136,574	947,622	232,985	1,619,861	353,669
	Weighted Average Yield							
	i) Minimum % p.a.	7.549	8.315	8.687	11.451	11.3063	12.084	11.562
	ii) Maximum % p.a.	8.326	8.689	11.316	13.855	12.9679	13.577	13.518
B	Six Month Maturity							
	Amount Offered							
	i) Face value	182,112	125,483	91,476	272,584	868,334	2,226,878	1,501,433
	ii) Discounted value	173,289	120,197	87,279	255,885	818,516	2,087,195	1,413,516
	Amount Accepted							
	i) Face value	69,752	90,433	78,242	176,401	406,896	1,614,552	883,012
	ii) Discounted value	67,094	86,629	74,673	165,626	383,593	1,538,590	831,464
	Weighted Average Yield							
	i) Minimum % p.a.	7.968	8.485	8.902	11.668	11.3806	12.316	11.626
	ii) Maximum % p.a.	8.487	8.902	11.472	14.011	12.597	13.736	13.762
C	Twelve Month Maturity							
	Amount Offered							
	i) Face value	555,757	787,636	658,709	931,293	1,765,589	908,194	2,086,003
	ii) Discounted value	509,202	717,951	598,425	823,027	1,572,033	799,172	1,851,389
	Amount Accepted							
	i) Face value	459,440	661,786	441,130	332,008	931,787	599,015	1,239,758
	ii) Discounted value	422,647	607,211	402,784	294,106	830,606	527,018	1,100,712
	Weighted Average Yield							
	i) Minimum % p.a.	8.456	8.786	9.16	11.778	11.4644	12.431	11.690
	ii) Maximum % p.a.	8.791	9.16	11.688	14.261	12.6091	13.907	13.907
	* : MTBs was introduced in 1998-99							

* : Amount Includes Non-Compatitive Bids as well

(Contd.)

Table 5.7

SALE OF GOVERNMENT SECURITIES THROUGH AUCTION

(Rs. in million)

No.	Securities	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10*	2010-11*	2011-12 March*
2	Pakistan Investment Bonds **								
A.	Amount Offered	8,016	16,012	199,017	141,853	12,640	140,520	321,936	243,987
	03 Years Maturity	2,400	3,896	36,982	11,260	9,523	21,163	81,960	74,171
	05 Years Maturity	2,603	6,526	39,799	21,311	4,410	13,427	33,306	57,277
	07 Years Maturity	-	-	-	-	-	5,900	6,576	1,650
	10 Years Maturity	3,013	5,590	65,986	61,593	25,254	69,800	176,840	108,032
	15 Years Maturity	0	0	12,750	16,138	2,536	3,560	2,966	2,446
	20 Years Maturity	0	0	20,200	11,750	3,500	12,120	7,875	200
	30 Years Maturity	-	-	23,300	19,800	7,000	14,550	12,413	210
B.	Amount Accepted	771	10,161	87,867	73,584	25868	64732	169295	
	(a) 03 Years Maturity.								
	(i) Amount Accepted	100	2,846	10,882	5,169	4,165	11,645	49,712	50,617
	(ii) Weighted Average Yield #								
	(1) Minimum % p.a.	0.000	9.158	9.311	9.619	13.697	12.2081	13.898	12.079
	(2) Maximum % p.a.	0.000	9.389	9.778	12.296	13.883	13.551	14.200	13.431
	(a) 05 Years Maturity								
	(i) Amount Accepted	427	4,075	10,174	10,777	3,023	7,177	16,668	41,939
	(ii) Weighted Average Yield #								
	(1) Minimum % p.a.	0.000	9.420	9.528	9.796	14.335	12.294	12.276	12.108
	(2) Maximum % p.a.	0.000	9.646	10.002	10.800	14.336	12.563	14.277	13.141
	(a) 7 Years Maturity								
	(i) Amount Accepted	-	-	-	-	2,935	2,175	Bids Rejec	-
	(ii) Weighted Average Yield #								
	(1) Minimum % p.a.	-	-	-	-	14.3273	12.4159	0	0
	(2) Maximum % p.a.	-	-	-	-	14.7041	12.696	0	0
	(a) 10 Years Maturity								
	(i) Amount Accepted	244	3,240	30,211	23,875	8,509	39,399	101,355	64,370
	(ii) Weighted Average Yield #								
	(1) Minimum % p.a.	0.000	9.8005	10.106	10.179	14.472	12.4261	14.017	12.156
	(2) Maximum % p.a.	0.000	9.8454	10.507	13.411	14.864	12.7046	14.248	13.499
	(a) 15 Years Maturity								
	(i) Amount Accepted	0	-	9,250	8,613	1,236	1,035	460	2,262
	(ii) Weighted Average Yield #								
	(1) Minimum % p.a.	0.000	-	10.85	11.108	14.750	12.293	14.098	13.501
	(2) Maximum % p.a.	0.000	-	11.058	13.441	15.356	12.9231	14.108	13.501
	(a) 20 Years Maturity								
	(i) Amount Accepted	0	-	11,250	9,050	1,500	1,525	875	0
	(ii) Weighted Average Yield #								
	(1) Minimum % p.a.	0.000	-	11.173	11.373	15.700	13.099	14.138	0.000
	(2) Maximum % p.a.	0.000	-	11.392	13.855	15.700	13.922	14.199	0.000
	(a) 30 Years Maturity								
	(i) Amount Accepted			16,100	16,100	4,500	1,775	225	0
	(ii) Weighted Average Yield #	-	-						
	(1) Minimum % p.a.	-	-	11.546	11.588	14.608	13.5507	14.186	0
	(2) Maximum % p.a.	-	-	11.680	14.118	16.225	13.7493	14.187	0

* : Amount Includes Non-Compatitive Bids as well

Source: State Bank of Pakistan

** : PIBs was introduced in 2000-01