

# MONEY AND CREDIT

The role of the financial system is to intermediate between lenders and borrowers, providing a menu of saving vehicles with differing risk and return characteristics. Financial intermediaries help the investors find the financing they need, taking into account the returns and risks on the project they wish to undertake. In carrying out their functions, financial intermediaries reduce transaction costs for savers and investors and help reduce problems of asymmetric information that are inherent in the relationships between investors and entrepreneurs. For a given level of saving, more efficient intermediation increases the productivity of investment. It seems obvious that the more efficient the financial system is, the stronger would be the economic growth.

The global economy for some time has enjoyed good economic growth and increasing depth in financial markets, accompanied by the significant financial innovation. This growth co-existed with a combination of favorable economic indicators, with relatively benign inflation levels, low risk premia, and an easy access to finance even in the midst of continuing global imbalances. Until recently, the risk associated with such development seemed to be contained; however gains from the benign macroeconomic environment of the last few years have been dealt with a severe blow in the form of liquidity crunch triggered by the US sub-prime mortgage crisis. These events have brought to the forefront some global economic and financial vulnerabilities whose prolonged impact could pose certain risks given that the world is more integrated today than ever before.

Pakistan has made a significant progress in improving the health and soundness of the banking and financial sector over the last two decades. During this period of transformation, the financial sector of Pakistan has evolved into a more

progressive and dynamic module of the economy, both in response to the financial sector reforms and to the growing financing needs of an expanding economy. In response to the growing demands of financial globalization, Pakistan's financial system is starting to integrate with international financial markets. Financial integration was particularly expedited in FY07 in which record high foreign portfolio investment was received in stock market as well as through the issuance of GDRs. Additionally, with the rising strength of the corporate sector and vigorous expansion plans, the central bank is in the process of initiating External Commercial Borrowing (ECB), which at the moment is approved on a transactional basis. This liberalization measure will provide an opportunity to the corporate sector to raise external loans for project finance, bond floatation, structured finance and Islamic products.

In Pakistan, the composition of financial sector gives credence that the overall dependence on the banking sector has increased in the last few years. Given the scope and requirements of the private sector, growth in the banking sector is essential. Encouragingly, the outreach of the banking sector continues to improve, with diversified pattern in ownership, both foreign and local, and with the expanding network of commercial banks, microfinance institutions and Islamic banks in all parts of the country. Alongside these developments, ongoing financial sector reforms are paving the way for a more diversified financial sector, equipped to facilitate the economic growth process. Financial sector assets have recorded a remarkable growth in recent years. Strong growth of mutual fund—being managed by professional and reputable asset management firms—is largely attributed to the improved performance of the domestic financial markets, and points to the gradual but steadfast process of diversification of

the financial sector. These developments augur well for financial stability as well as meeting the goal of enhancing financial services penetration.

### Monetary Policy Stance

The process of tightening of monetary policy began in FY05 from a broadly accommodative one to more aggressive. The moderate interest rates, together with broad-based private sector credit demand helped in raising industrial production. This has resulted in acceleration in monetary expansion. Therefore, heightened activity also fed a gradual rise in core inflation. The government's mid December 2004 decision to lift the freeze on domestic POL prices raised inflationary expectations, forcing a more aggressive tightening of monetary policy. It was in April 2005 that the SBP raised its discount rate by 150 basis points (bps) to 9 percent, and further to 9.5 percent in July'06 with the same objective of controlling inflation. Demand pressures were still high, as reflected by high growth in credit to private sector, rising imports resulting in the widening of the current account deficit and an expansionary fiscal policy envisaged in the Federal Budget 2006-07. In FY07, inflation target of 6.5 percent was surpassed by 1.3 percentage points, primarily because of demand pressures as reflected by widening fiscal and current account deficits and double-digit food inflation. During FY08, the SBP continued with tight monetary policy stance, thrice raising the discount rate and increased the Cash Reserve Requirement (CRR) and Statutory Liquidity Requirement (SLR). During H1-FY08, the SBP raised the policy rate by 50bps to 10 percent effective from August 1<sup>st</sup>, 2007. Furthermore, the SBP zero rated the CRR for all deposits of one year and above maturity to encourage greater resource mobilization of longer tenor and 7 percent CRR for other demand and time liabilities. In H2-FY08 the SBP further tightened Monetary Policy by raising discount rate by 50bps to 10.5 percent. Furthermore, the CRR was raised for deposits upto one year maturity by 100bps to 8 percent while leaving term deposits of over a year zero rated. The objective was to give incentives to commercial banks to mobilize long term deposits. In the light of continued inflationary buildup and increasing pressures in the foreign exchange market, the SBP announced a package of monetary measures on

May 21, 2008 that includes; (i) an increase of 150 bps in discount rate to 12 percent; (ii) an increase of 100 bps in CRR and SLR to 9 percent and 19 percent, respectively for banking institutions (iii) introduction of a margin requirement for the opening of letter of credit for imports (excluding food and oil) of 35 percent, and (iv) establishment of a floor of 5 percent on the rate of return on profit and loss sharing and saving accounts.

### Monetary and Credit Development

In order to improve the effectiveness of monetary policy and avoid ambiguities in sending out policy signals, the SBP has abolished the Annual Credit Plan (ACP). This was a long awaited measure, following the removal of credit ceilings which made the Credit Plan redundant. Since broad money (M2) was the only intermediate target in the monetary policy framework, SBP continued to prescribe targets of NFA, NDA, government borrowings and private sector credit. It is expected that the abolishment of ACP will help remove the uncertainties emanating from multiple targets of monetary aggregates.

A sharp jump in monetary aggregates during the last month of FY07 pushed the aggregate M2 growth for the year to 19.3 percent. This strikingly higher growth in M2 was caused entirely by a phenomenal rise in NFA in FY07. For 2007-08, the SBP had assumed that with real GDP growth target of 7.2 percent and inflation target of 6.5 percent, broad money (M2) supply growth should grow by 13.7 percent. The money supply growth during July- May<sup>1</sup> of the current fiscal year slowed to 9 percent compared to 14 percent during the corresponding period of FY07 (Table-5.1). The FY 08 growth in M2 is entirely attributable to a rise in net domestic assets (NDA) of the banking system due to high government borrowings for budgetary support, as the NFA registered a contraction during the period, mainly reflecting the weaknesses in country's external balance of payment. The monetary tightening has been successful in moderating the exceptional rise in private sector credit growth seen in recent years to levels consistent with its long term trends. However, the impact of this desirable moderation in private

<sup>1</sup> Pertains to 10 May for FY08 and 12 May for FY07

sector growth on M2 was more than offset by continued strong budgetary borrowings of the government from the banking system. The NDA of the banking system registered an expansion of

Rs.656 billion during Jul-May FY08 compared with an expansion of Rs.395 billion during the corresponding period of last year.

**Table-5.1 Profile of Monetary Indicators***(Rs. billion)*

	<b>Jul-May*</b> <b>2006-07</b>	<b>Jul-May*</b> <b>2007-08</b>
<b>1.Net government sector Borrowing(a+b+c)</b>	<b>185.84</b>	<b>423.02</b>
a .Borrowing for budgetary support	212.36	362.06
b.Commodity operations	-26.42	60.86
c.Others	-0.09	0.09
<b>2.Credit to Non-government Sector (d+e+f+g)</b>	<b>273.98</b>	<b>414.39</b>
d.Credit to Private Sector	263.43	369.85
e.Credit to Public Sector Enterprises (PSEs)	10.40	44.33
f. PSEs Special Account-Debt repayment with SBP	-0.23	-0.03
g.Other Financial Institutions(SBP credit to NBFIs)	0.38	0.24
<b>3.Other Items(net)</b>	<b>-64.29</b>	<b>-180.69</b>
<b>4.Net Domestic assets (NDA)</b>	<b>395.54</b>	<b>656.72</b>
<i>Growth</i>	<i>14.67%</i>	<i>21.32%</i>
<b>5.Net Foreign Assets (NFA)</b>	<b>84.59</b>	<b>-289.84</b>
<b>6.Monetary Assets(M2)</b>	<b>480.12</b>	<b>366.89</b>
<i>Growth</i>	<i>14.09%</i>	<i>9.03%</i>

\*pertains to 10th May for F08 and 12th May for FY07

Source: SBP

### Analysis of Monetary Indicators

#### Bank Credit to Government

The net bank credit to the government for financing commodity operations and budgetary support amounted to Rs. 423 billion during July-May FY08 against Rs.185 billion during the same

period last year. Credit to government for commodity operations expanded by Rs. 60 billion during July-May FY08 as compared to contraction of Rs.26 billion during the same period last year, while credit to government for budgetary support increased to Rs. 362 billion.

**Table-5.2 Monetary Indicators(Growth Rates)***(Percent)*

<b>Indicators</b>	<b>FY 05</b>	<b>FY 06</b>	<b>FY 07</b>	<b>Jul-May*</b>	<b>Jul-May*</b>
				<b>2006-07</b>	<b>2007-08</b>
Net Bank Credit to Government Sector	13.9	11.63	11.14	22.29	45.66
Bank Credit to Private Sector	34.36	23.47	17.3	12.23	14.91
Net Domestic Assets(NDA)	22.15	16.05	14.23	14.67	21.32
Net Foreign Assets (NFA)	9.22	11.52	38.65	11.9	-29.43
Money Supply(M2)	19.12	15.07	19.32	14.09	9.03

\*pertains to 10th May for F08 and 12th May for FY07

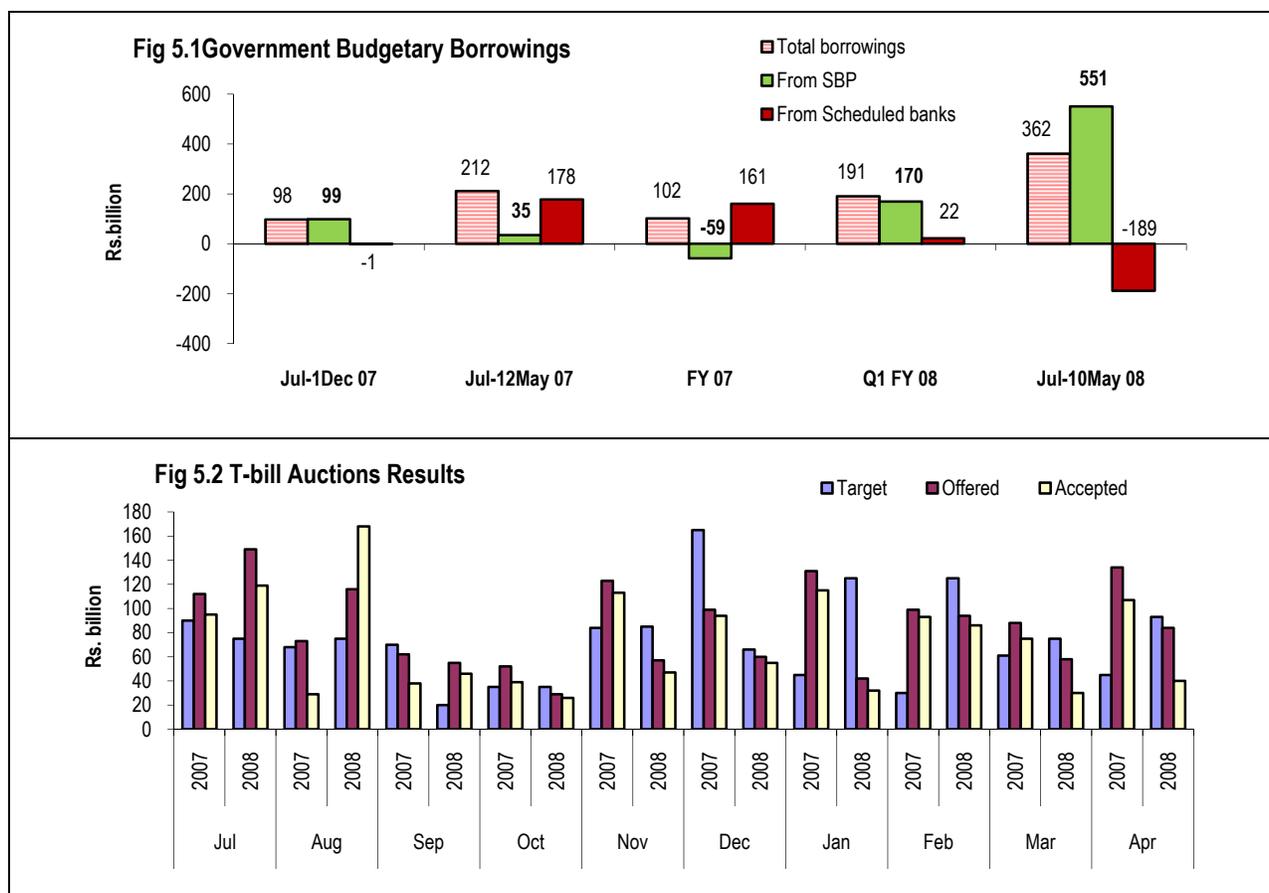
Source: SBP

In the current fiscal year, domestic and external shocks of extra-ordinary proportions caused large slippages on the fiscal side. The financing plan of the fiscal deficit also affected by these shocks. The overall fiscal deficit of Rs.398 billion was to be financed by external sources(Rs.193 billion), and domestic sources (Rs 131 billion).The remaining Rs. 75 billion was to come from privatization proceeds. Within domestic sources, Rs 81 billion financing was to come from banking sources while

the remaining Rs 50 billion was to come from non-banking sources. The domestic and external shocks not only increased the size of the fiscal deficit but they also changed the composition of financing. The borrowing requirements increased from Rs. 324 billion (the net of privatization proceeds) to Rs. 683.4 billion (with no privatization proceeds)- an increase of 111 percent. External resource inflows were adversely affected by these shocks and against the budgeted level of Rs.193 billion,

only Rs.119.4 billion is likely to materialize. Pakistan could not complete the transaction of GDRs of the National bank of Pakistan and could not launch sovereign and exchangeable bonds. Furthermore; some of the lending from the multilateral banks could not be materialized. These developments had adversely impacted the external resource inflows which remained below the budgeted level. Thus, the brunt of adjustments on the financing side fell on domestic sources. Against the budgeted financing of Rs 131 billion from domestic sources, it increased to Rs 564 billion. Within domestic sources, the bulk (82.2 percent) of financing came from banks while the remaining Rs 100 billion or 17.8 percent came from non-bank sources. Most importantly, the borrowings from the State Bank of Pakistan reached at an alarming level which is posing serious complications for the conduct of monetary policy. On cumulative basis, as on May 10, 2008 government has borrowed Rs.551 billion from SBP

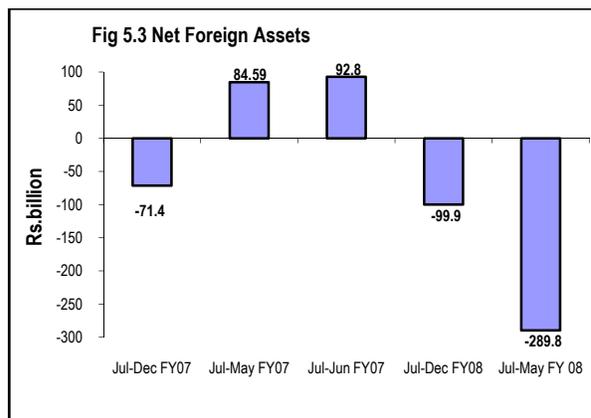
during the current fiscal year, which has almost doubled the stock of MRTBs with SBP to Rs.945.9 billion. To put this in perspective, the July-May FY08 borrowings are twice the net borrowings seen during the preceding three years (Fig 5.1). The reliance on central bank borrowing is partly an outcome of scheduled banks' reduced interest in government papers. It may be pointed out that the government had borrowed substantially from the scheduled banks during Q1-FY08. This trend however changed completely in subsequent quarters when scheduled banks showed little interest in the T-bill auctions. This probably reflects strong seasonal demand for private sector credit as well as attractive returns on such loans and tight liquidity conditions in the inter-bank market. In addition, the expectations regarding changes in discount rate in the monetary policy statement for H2-FY08 also limited the scheduled banks' participation in the auctions of the government securities. (Fig 5.2)



**Net Domestic Assets**

Due to phenomenal rise in government sector borrowings from the banking system, net domestic assets of the banking system registered a strong growth (21.32 percent) during July-May FY08 compared to the growth (14.67 percent) recorded during corresponding period of last year. The SBP has contributed the most to the overall NDA expansion mainly due to the strong growth in the government borrowings from the Central Bank. Credit to public sector enterprises which registered an expansion of Rs.44 billion in contrast to Rs.10 billion during the corresponding period last year also contributed to the current rise in NDA. This growth in the credit to PSEs is attributable to delays in settlement of oil price differential claims of one public sector oil marketing company (OMC), and the credit extension to the electricity distribution companies.

issuance of GDRs, sovereign bonds, receipts of lower-than-expected logistics support, decline in foreign investment, lower inflows from multilateral development banks, and SBP’s decision to provide foreign exchange to support a part of oil payments even when the oil prices are at their historic high levels.

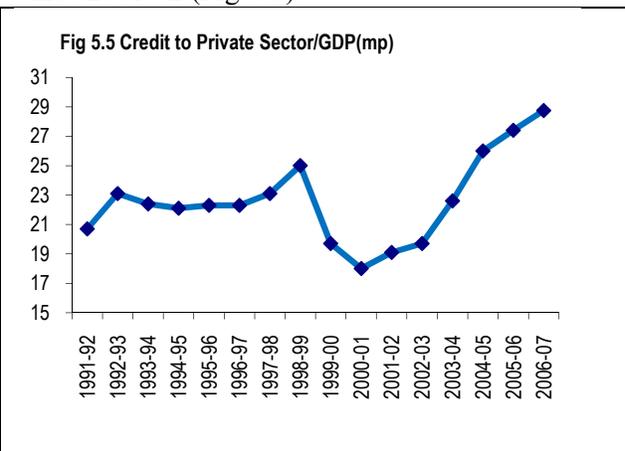
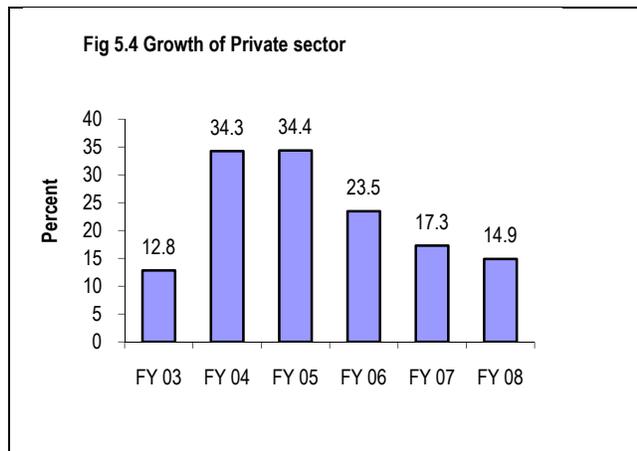


**Net Foreign Assets (NFA)**

NFA of the banking system registered a net contraction of Rs.289 billion during July-May FY08 compared to an expansion of Rs.84billion during the corresponding period last year. This contraction in NFA is attributable to delays in

**Credit to Private Sector**

Credit to private sector grew by 14.9 percent during July-May FY08 as against 12.2 percent in the same period of last year. Credit to private sector as percent of GDP is continuously rising since 2001-02 (Fig-5.5).



Net credit to private sector stood at Rs.369 billion during July-May FY08 compared with Rs. 263 billion in the same period last year. Private sector credit was growing at a slower pace till January 2008 compared to previous year, gathered momentum thereafter. The key factors contributing

to recent acceleration in private sector credit growth include: (i) rise in working capital requirements due to higher input costs; (ii) the need for bridge financing to settle price differential claims of the OMCs and IPPs; and (iii) the higher fixed investment in the month of March 2008.

**Table-5.3 Private sector credit (Flows)** (Rs.billion)

Sectors	Jul-Mar	
	FY07	FY08
<b>Overall Credit (I to V)</b>	267.5	368.0
I.Loans to Private Sector business	203.2	304.7
<i>A.Agriculture</i>	10.5	12.1
<i>B.Mining And Quarrying</i>	0.3	4.7
<i>C.Manufacturing</i>	119.0	193.1
<i>Textiles</i>	21.6	94.2
<i>D.Electricity,gas and water</i>	12.3	37.3
<i>E.Construction</i>	10.3	15.0
<i>F.Commerce and Trade</i>	15.9	28.5
<i>G.Transport,storage and communications</i>	13.9	4.0
<i>H.Services</i>	18.4	10.0
<i>I.Other Private Business</i>	2.9	-1.2
II.Trust funds and NPOs	0.6	0.5
III.Personal	38.8	21.2
IV.Others	4.1	-0.6
V.Investment in Securities and Shares	20.8	42.2

Source:SBP

A look on advances to private sector (Table 5.3) suggests that, while the increase in raw material prices did cause acceleration in credit demand in a few industries, the increase in interest rates had put significant downward pressures on credit demand especially in industries that are capable of generating cash flows internally, sufficient to meet working capital requirements. It must also be kept in mind that the credit by the banking sector is also being supplemented by other sources of financing. The private sector is using non-bank finances, thus shifting part of the credit demand away from the banking sources. In particular, besides banks, non-bank financial institutions are meeting the financing demand of the private sector through their investment in debt instruments (TFCs and Sukuk). It may be pertinent to note that most of the private sector TFC's and Sukuk's have been used to refinance bank credit. Availability of foreign investment and loans has also played an important role in softening the demand for bank credit particularly in telecommunication sector. It appears that demand for fixed investment loans has moderated in a number of industries. However, this does not necessarily suggests a slowdown in economic activity as (a) the moderation in fixed investment demand in cement, construction and textile is more of a reflection of the fact that these industries had already expanded their capacities in recent years; and (b) some of the industries are

financing their expansion projects through other sources, such as foreign currency loans (e.g., telecom), foreign investments (telecom, chemical) and floatation of debt instruments (e.g., chemical, cement, real estate and ship yard) in the domestic market. Further, the demand for fixed investment is expected to grow substantially in the power and refinery sector.

The commencement of financing private sector power projects will provide a boost to private sector credit growth. It is also likely that companies which met their demand from external borrowings in earlier periods would revert to domestic markets given the expected widening of spread overseas. Although the SBP kept the liquidity conditions tight in inter-bank market throughout FY08, the impact on commercial bank's ability to lend was weaker by a number of factors such as increase in bank's paid up capital, more than required capital adequacy of banks, increase in non-performing loans, particularly in consumer financing, SME, corporate and internal cash generation through increased profitability, the continued process of mergers and acquisitions, up-gradation of the risk management systems in a few banks and a slight deterioration in credit quality have prevented a few banks from aggressive lending.

**Sectoral Analysis:**

Manufacturing, power, and commerce made major contributions in the growth of net advances. In contrast, contribution from services, construction, personal and others was significantly lower during Jul-Mar FY08 compared to the corresponding period of FY07.

**Agriculture Sector:** The gross disbursement to agri-sector grew by 24.8 percent to Rs 138.6 billion) during Jul-Mar FY08 compared with 21.9 percent in the same period of last year (Table-5.4). Production loans rose by 28.5 percent to Rs.125.4 billion from Rs.97.6 billion last year; while the development loans declined to Rs.13.1 billion from Rs.13.6 billion during the same

period. Commercial banks gross disbursement during Jul-Mar FY07 grew to Rs.95.1 billion. An encouraging factor regarding disbursement of agricultural credit was the increasing role of private domestic banks vis-à-vis traditional lender, ZTBL. The share of private domestic banks in total disbursement increased from 14.5 percent (Rs 16 billion) during Jul-Mar FY07 to 21.6 percent (Rs.29.9 billion) during Jul-Mar FY08. On the other hand, share of ZTBL declined from 36.8 percent (Rs.40.8 billion) during Jul-Mar FY07 to 28.5 percent (Rs.39.5 billion) during Jul-Mar FY08. Among the major commercial banks, National Bank of Pakistan continued its dominance, followed by Habib Bank Limited, MCB Bank, Allied Bank of Pakistan Limited, and United Bank Limited.

**Table-5.4 Targets and Actual Disbursement of Agriculture Loans** (Rs.billion)

Name Of Banks	Actual Disbursement (July-March)					
	FY 07			FY 08		
	Pro Loans	Dev Loans	Total	Pro Loans	Dev Loans	Total
<b>I. Total Commercial Banks (A+B)</b>	<b>57.2</b>	<b>7.9</b>	<b>65</b>	<b>88.6</b>	<b>6.5</b>	<b>95.1</b>
<b>A. Major Commercial Banks</b>	<b>42.8</b>	<b>6.1</b>	<b>49</b>	<b>61.6</b>	<b>3.5</b>	<b>65.1</b>
1. Allied Bank of Pakistan Limited	4.5	0.1	4.5	8.8	0.1	8.8
2. Habib Bank Limited	9.3	4	13.3	14.1	0.8	14.9
3. Muslim Commercial Bank Limited	5.2	0.1	5.4	13.4	0.5	13.9
4. National Bank of Pakistan	17.5	1.5	19	19.4	1.2	20.6
5. United Bank Limited	6.3	0.4	6.7	6	0.8	6.9
<b>B Private Domestic Banks</b>	<b>14.3</b>	<b>1.7</b>	<b>16.1</b>	<b>27</b>	<b>3</b>	<b>30</b>
<b>II. Total Specialized Banks (1+2)</b>	<b>40.4</b>	<b>5.7</b>	<b>46.2</b>	<b>36.8</b>	<b>6.6</b>	<b>43.5</b>
1. Zarai Taraqati Bank Limited	36.9	4	40.9	33.6	6	39.6
2. P.P.C.B	3.6	1.7	5.3	3.3	0.7	3.9
<b>Grand Total (I+II)</b>	<b>97.6</b>	<b>13.6</b>	<b>111</b>	<b>125.4</b>	<b>13.1</b>	<b>138.6</b>

Source: SBP

**Power Sector:** The demand for advances was significantly higher in power sector during Jul-Mar FY08. Indeed, the rise in working capital loans incorporated the impact of delays in payment from WAPDA to IPPs, whereas growth in fixed investment loans reflects the impact of capacity expansion in private sector power projects.

**Manufacturing:** Credit to manufacturing sector rose to Rs.193 billion during Jul-Mar FY08 compared to Rs.119 billion in Jul-Mar FY07. This higher growth was mainly driven by higher advances to the textile sector (Rs.94.2 billion in the FY08 as compared to Rs.21.6 billion in the same

period last year); excluding the textile industry, the growth in advances to manufacturing sector has decelerated.

**Construction:** Advances to construction sector rose to Rs.15 billion during Jul-Mar FY08 Rs.10.3 billion in the corresponding period last year. The issuance of privately placed Sukuks for financing new projects probably explains lower demand for fixed investment loans from this sector. Besides rising housing demand, the increase in domestic raw material prices for construction mainly explains the higher demand for working capital requirement in this sector during Jul-Mar FY08.

**Consumer Loans:** Advances to consumer loans slowed and reached to only Rs.16.6 billion during Jul-Mar FY08 from Rs.35.2 billion in the preceding year (Table 5.5). The decline in consumer loans is evident in all categories (except mortgage finance). In particular, deceleration in the growth of auto finance was attributed to (1) lower demand for automobiles due to increase in prices of locally produced cars, and (2) risk aversions of banks following recovery issues (e.g., one of the banks has even suspended auto finance scheme).

### Monetary Assets

The Components of monetary assets (M2) include: Currency in Circulation, Demand Deposit, Time Deposit, Other Deposits (Excluding IMF A/C, counterpart) and Resident's Foreign Currency

Deposits (RFCDs). The developments in these components during the July-May FY08 of the current fiscal year are presented below (Table-5.6)

Consumer Financing	Change During Jul-Mar	
	FY 07	FY 08
1.House Building	9	10.2
2.Transport i.e purchase of cars etc	7.6	3.4
3.Credit cards	7	1.8
4.Consumer Durables	-0.4	0.7
5.Personal Loans	11.9	0.4
6.Others	-0.1	0.1
<b>Total</b>	<b>35.2</b>	<b>16.6</b>

*Source: SBP*

Items	End June		July-May*	
	2006	2007	2006-07	2007-08
A. Currency in Circulation	740,390	840,181	874,171	1,026,284
<i>Deposit of which:</i>				
B. Other Deposits with SBP	4,931	7,012	6,113	4,341
C. Total Demand & Time Deposits incl. RFCDs	2,661,584	3,217,962	3,006,745	3,411,470
of which RFCDs	195,501	207,312	199,955	234,882
<b>Monetary Assets Stock (M2) A+B+C</b>	<b>3,406,905</b>	<b>4,065,155</b>	<b>3,887,029</b>	<b>4,432,041</b>
<b>Memorandum Items</b>				
Currency/Money Ratio	21.7	20.7	22.5	23.2
Other Deposits/Money ratio	0.1	0.2	0.2	0.1
Total Deposits/Money ratio	78.1	79.2	77.4	77.0
RFCd/Money ratio	5.7	5.1	5.1	5.3
Income Velocity of Money	2.1	2		

\*pertains to 10th May for F08 and 12th May for FY07

*Source: SBP*

*Note: Compilation of M1 based on weekly data has been discontinued. Now M1 is being compiled on the basis of monthly returns and is given in Table 2.1 which would be published in the monthly Statistical Bulletin of SBP from April 2008 in Table 2.1.*

- i. Excluding IMF A/c No 1 & 2 SAF Loans A/c, deposits money banks, counterpart funds, deposits of foreign central banks, foreign governments.*
- ii. Excluding inter-bank deposits of federal and provincial governments and foreign constituents and international organizations etc.*
- iii. Income Velocity of money is defined by the State Bank as GDP at current factor cost/quarterly average of Monetary Assets (M2)*

### Currency in Circulation

As shown in the Table 6.6, currency in circulation during July-May FY 08 increased to Rs.186 billion from Rs.133 billion during the same period of last year. The currency in circulation constituted 23.2

percent of the money supply (M2) as against 22.5 percent in the same period last year.

### Deposits

During July-May FY08, demand and time deposits has declined to Rs.165 billion as compared to

Rs.340 billion in the same period of last year. On the other hand, RFCs has registered an increase and reached to Rs. 27 billion as compared to Rs.4 billion in the same period last year.

The M2/GDP ratio, which is an indicator of financial development continued to exhibit a rising trend since 1990-00 from 36.9 percent to 46.6 percent in 2006-07. In March 2008, however, M2/GDP ratio was 42 percent as compared to 43.4 percent in the corresponding period of last year (see Table 5.7).

**Table-5.7 Key Indicators of Pakistan's Financial Development**

Years	M2/GDP	DD+TD/M2
1999-00	36.9	74.6
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
<u>July-March</u>		
2006-07	43.4	72.3
2007-08	42.0	72.5

*Source: SBP*

### Monetary Management

The Money market in Pakistan has developed substantially since the process of liberalization of the financial system began in the early 1990s. A vibrant inter-bank money market not only helps to transmit monetary policy signals but also provides stability to financial institutions through meeting short-term liquidity requirement with relative ease and at competitive rates. The focus of SBP's monetary management in FY08 was to improve the transmission of policy rates to the retail rates by draining the excess liquidity from the money market and keeping the overnight rates close to the discount rate. The tight monetary stance adopted since April 2005, did help in containing inflationary pressures in the economy. Nevertheless, high monetary growth towards the end of FY07 and substantial increase in

government borrowing from SBP during current fiscal year along with shortage in food supply, started to dilute the impact of a tight monetary policy stance. To contain the rising inflationary pressures in the economy, SBP therefore continued with a tight monetary stance during the current fiscal year, as the risk of inflation was outweighing the risk of economic growth. The SBP raised its policy rate by 250 basis points in the monetary policy statements and revised CRR for demand and time liabilities and SLR in the upward direction. Complement to the tight monetary policy stance, the SBP continued recourse to Open Market Operation (OMOs) more frequently to manage liquidity at the desired levels in the inter-bank market. (The SBP moped up Rs.766 billion during July-Mar FY07 against the injection of Rs.118 billion as compared to Rs.700 billion against the injection of Rs.72 billion in corresponding period of last year.)

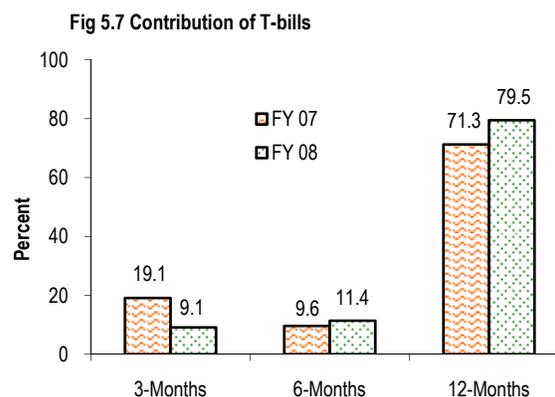
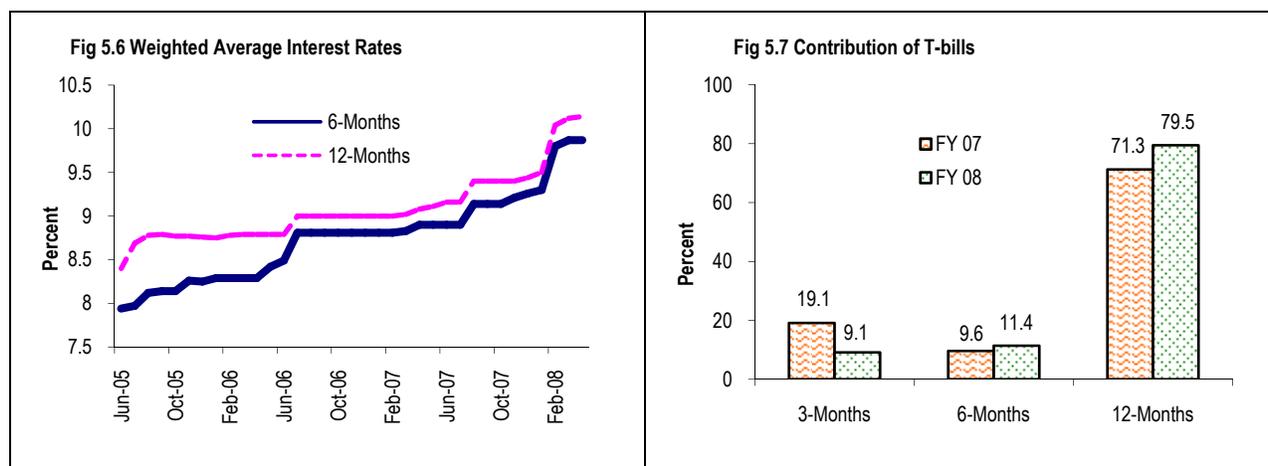
**Table-5.8 Summary of OMOs** (Rs.billion)

	Injection		Absorption	
	FY 07	FY 08	FY 07	FY 08
Jul			133.5	141.8
Aug	21.2		105.7	228.3
Sep			87	71.3
Oct		40.9	81.3	
Nov			61.9	124.7
Dec	25.8		117.2	69
Jan		27.5	60.2	52.3
Feb			11.7	70.9
Mar	25	49.55	42.1	8.1
<b>Total</b>	<b>72</b>	<b>118</b>	<b>700.5</b>	<b>766.4</b>

*Source: SBP*

The impact of tight monetary stance and liquidity management began to translate into a rise in other interest rates, with varied magnitude, at different stages of the economy. For instance, 6 months T-bills cutoff witnessed an increase of 97 basis points to 9.9 percent during Jul-Apr FY08. Similarly, 6 months and 12-months KIBOR also increased by 77 basis points and 63 basis points to 10.38 percent and 10.71 percent respectively at end April 2007 in the same way,

6-months repo rates depicted an increase of 133 basis points to 9.98 percent during Jul-Apr FY08.



**Table-5.9 Market treasury bills Auctions**

(Rs million)

	Jul-Jun			Jul-Mar					
	FY 2006-07			Offered		Accepted		*W.A Rate	
	Offered	Accepted	*W.A Rate	FY 07	FY 08	FY 07	FY 08	FY 07	FY 08
3-Months	186,652	136,102	8.5	182,802	49,625	133,152	45,225	8.5	9.1
6-Months	125,483	90,433	8.7	99,320	64,325	66,920	56,395	8.6	9.4
12-Months	787,636	661,786	9.0	561,683	568,790	496,433	393,605	8.9	9.6
<b>Total</b>	<b>1,099,771</b>	<b>888,321</b>		<b>843,805</b>	<b>682,740</b>	<b>696,505</b>	<b>495,225</b>		

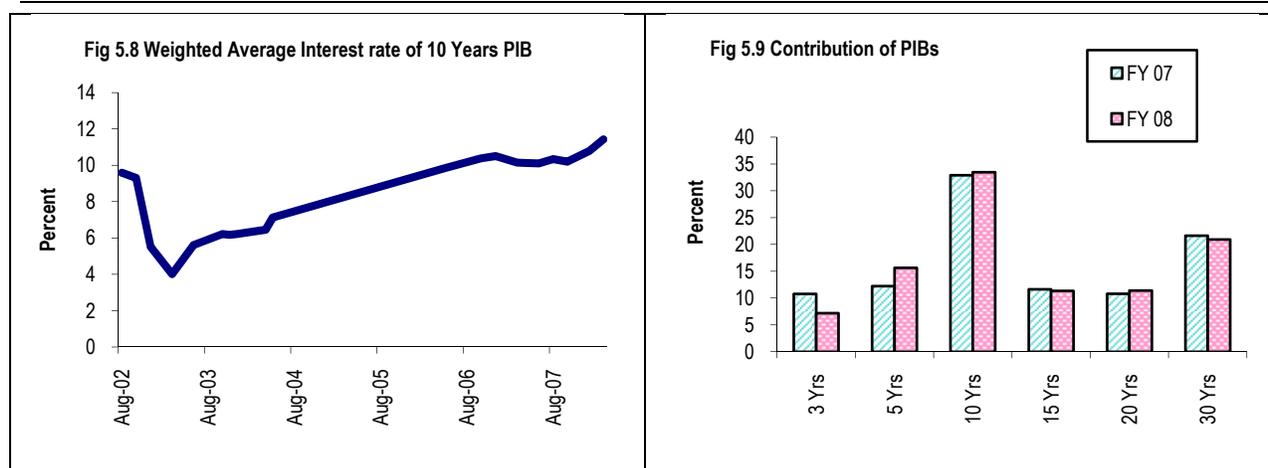
\* Average of maximum and minimum rates

Source: SBP

The SBP accepted Rs.495 billion from the primary market of T-Bills during the first nine months of FY08 as compared to Rs.696 billion in FY07 (Table-5.9). Market offered a total amount of Rs. 682 billion in first nine months of FY 08 as compared to Rs.843 billion in the same period of last year. In the first nine months of FY07 heavy investment was in 12 months T-bills which constituted almost 80 percent of the total accepted amount due to the fact that 12-months T-bills provided the highest interest earnings with zero risk in the short run (Fig-5.7).

In order to develop the bond market, and to reduce the cost of funds for financing the fiscal deficit in the long run, Government has started PIBs auctions since December 2000. In FY07, the supply of long term government paper started to pick up pace as the government started to hold primary auctions of

PIBs in a more regular and predictable manner. Regarding long-term interest rates, an important development in FY07 was the extension of yield curve to 30 years. Interest rates of long term government securities also registered increase due upward revision of discount rate, and yield curve moved in the upward direction in the range of 81 to 110 basis points approximately. The SBP mopped up Rs. Rs.68 billion from the primary market of PIBs during the first nine months of FY08 as compared to Rs.37 billion in the same period of FY07 (Table-5.10). Market offered a total amount of Rs.133 billion in first nine months of FY08 as compared to Rs.100 billion in the same period of last year. In the first nine months of FY07 heavy investment was in 10 years PIBs which constituted almost 33 percent of the total accepted amount. (Fig 5.9).

**Table-5.10 Pakistan Investment Bonds Auctions***(Rs.million)*

PIBs	Jul-Jun			Jul-Mar					
	FY 2006-07			Offered		Accepted		*W.A Rate	
	Offered	Accepted	*W.A Rate	FY 07	FY 08	FY 07	FY 08	FY 07	FY 08
3 Years	36,982	10,882	9.54	21,770	11,044	3,982	4,953	9.53	10.11
5 Years	39,799	10,174	9.77	17,407	21,177	4,523	10,777	9.82	10.30
10 Years	65,986	30,211	10.31	26,030	58,805	12,170	23,038	10.18	10.81
15 Years	12,750	9,250	10.95	9,850	14,876	4,300	7,801	11.01	11.49
20 Years	20,200	11,250	11.28	13,150	9,550	4,000	7,850	11.39	11.69
30 Years	23,300	16,100	11.61	12,000	17,600	8,000	14,400	11.68	11.91
<b>Total</b>	<b>199,017</b>	<b>87,867</b>		<b>100,207</b>	<b>133,052</b>	<b>36,975</b>	<b>68,819</b>		

\* Average of maximum and minimum rates

Source:SBP

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

	LR	DR	Spread
Jun-06	9.9	2.9	7.0
Jul-06	10.2	3.1	7.2
Aug-06	10.6	3.1	7.5
Sep-06	11.0	3.2	7.8
Oct-06	11.1	3.4	7.7
Nov-06	11.0	3.6	7.4
Dec-06	11.2	3.7	7.5
Jan-07	10.7	3.7	6.9
Feb-07	10.5	3.8	6.7
Mar-07	10.6	3.9	6.6
Apr-07	10.6	3.9	6.7
May-07	10.6	4.0	6.5
Jun-07	10.3	4.0	6.3
Jul-07	10.4	4.0	6.4
Aug-07	10.5	4.1	6.4
Sep-07	10.5	4.1	6.3
Oct-07	11.0	4.1	6.8
Nov-07	10.7	4.1	6.6
Dec-07	11.0	4.1	6.8
Jan-08	10.8	4.2	6.6
Feb-08	10.8	4.2	6.6
Mar-08	10.9	4.2	6.7

Source:SBP

At the second stage of monetary transmission, changes in SBP policy rate translated into an increase in financial institutions' lending and deposit rates (Table 5.11). The spread between the lending and deposit rates has also decreased from 7 percent in June 2006 to 6.7 percent in March 2007. However, W.A. lending rate has declined by 10 basis points during December 2007 to March 2008. In the Interim Monetary Policy Measures announced by the State Bank, all banks are required to pay a minimum interest rate of 5 percent on saving deposit products; aimed at encouraging people to save more.

### Pakistan's Financial Sector Performance

Financial stability in Pakistan has benefited from structural transformation of the banking sector and wide-ranging policy initiatives of the State Bank. The country's prudential regulatory regime has been crafted to promote and preserve financial sector stability. The regulatory framework encourages (i) financial sector growth,

diversification and innovation, (ii) healthy competition and risk taking to ensure a sustainable and aggressive income stream, (iii) opportunities for enhancing the franchise value of banks, (iv) prudent behavior and effective risk management and loan provisioning requirement are stringent enough to discourage infection of loan portfolio, and (v) safeguarding social obligations and consumer interests. Financial sector stability has been further fostered by strengthening of bank's system wide capital base. Financial stability will further benefit from State Bank efforts to operationalize a Real-time Gross Settlement System (RTGS) named as PRISM (Pakistan Real Time Inter-bank settlement

Mechanism) in June 2008 that will allow shift from traditional paper-based, end-of-the-day settlement system to electronic payment system for large value, low volume inter-bank funds' transfers and settlements. Financial sector is now predominantly owned by the private sector which presents some new challenges. The State Bank of Pakistan is now working to develop an adequate policy framework for consumer protection, development of *Financial Safety Nets* such as Deposit Insurance, and a well-laid out 'Lender of last resort' procedure. The framework would strike a balance between enhancing consumer protection and minimizing moral hazard concerns.

	FY 00	FY01	FY02	FY03	FY04	FY05	FY06	FY07
Investment Banks	40,989	30,862	27,001	37,936	35,568	51,041	54,527	41,458
Modaraba	15,278	15,561	17,456	15,973	18,026	21,572	23,927	25,186
Leasing	<b>41,141</b>	48,384	46,948	46,842	44,806	53,635	63,999	63,956
Discount Houses	1,805	1,395	1,527	1,987	1,341	1,504	1,834	1,417
Venture Capital Companies	1,027	346	272	854	1,005	3,200	4,131	4,061
Mutual Funds	25,347	24,175	29,094	57,180	103,080	136,245	177,234	313,661
<b>Total Assets</b>	<b>125,587</b>	<b>120,723</b>	<b>122,298</b>	<b>160,772</b>	<b>203,826</b>	<b>267,197</b>	<b>325,652</b>	<b>449,739</b>
	CY 00	CY 01	CY 02	CY 03	CY 04	CY 05	CY 06	CY 07
DFIs	91,496	61,145	68,729	78,803	94,752	107,811	116,939	n.a.
Housing Finance	22,264	23,599	22,434	21,562	19,493	18,657	19,702	n.a.
Insurance	n.a.	112,558	129,066	150,330	172,992	201,665	244,657	n.a.
<b>Total Assets</b>	<b>113,760</b>	<b>197,302</b>	<b>220,229</b>	<b>250,695</b>	<b>287,237</b>	<b>328,133</b>	<b>381,298</b>	

Source: SBP

### Commercial Banks

The impressive performance of Pakistan's banking sector has attracted considerable FDI into the industry in recent years. Commercial banks in Pakistan operate on a sound capital base with a commendable record of financial performance, particularly in the last 3 years.

In Jul-Dec 2007-08, total number of branches of banks was 8233 as compared to 7890 in 2006-07; there has been an increase of 343 branches in the first six months of FY07. Assets of all banks showed a net expansion of Rs.203.1 billion in the first six months of FY08 and stood at Rs.5155 billion as compared to Rs.4351 billion in the same period of last year. An acceleration in private sector credit contributed to increase in scheduled banks' assets. The total deposits of all banks registered an increase of Rs.168 billion in the first

six months of FY08 and reached at the level of Rs.3852 billion as compared to Rs. 3255 billion recorded in the same period of last year. Net investment of the banks showed an increase of Rs.95 billion in Jul-Dec FY08 mainly contributed by the private banks amounting to Rs.934 billion as compared to Rs.601 billion for the six months of last year. (Table 5.13)

The banking sector of Pakistan in recent years has undergone a visible change as about 80 percent of the banking assets are now controlled by the private sector. While this has yielded significant benefits in the form of increased competition, product innovation, technological up-gradation and diversification of business activities, a host of new risks have also surfaced. This has necessitated the adoption of international best practices by the banks/DFIs in classification and provisioning

against their loans and advances portfolio to banking system.  
further strengthen the soundness and stability of

**Table-5.13 Performance of Scheduled Banks**

	30-Jun-07	Jul-Dec	
		2006-07	2007-08
<b>1.No.of Branches</b>	<b>7890</b>	<b>7852</b>	<b>8233</b>
Nationalized Commercial Banks	1696	1690	1715
Private Banks	5625	5597	5935
Specialized Banks	534	534	534
Foreign Banks	35	31	49
<b>2.Assets (Rs.Billion)</b>	<b>4952</b>	<b>4351.9</b>	<b>5155.1</b>
Nationalized Commercial Banks	964	836.2	1017.2
Private Banks	3611	3173	3845.2
Specialized Banks	123	119	119.9
Foreign Banks	253.8	223.8	172.9
<b>3.Net Advances (Rs.Billion)</b>	<b>2498.9</b>	<b>2427.7</b>	<b>2694</b>
Nationalized Commercial Banks	464.7	429.7	488.7
Private Banks	1838.4	1807.2	2044.4
Specialized Banks	71.5	70.6	72.2
Foreign Banks	124.2	120.2	88.7
<b>4.Deposits (Rs.Billion)</b>	<b>3683.7</b>	<b>3255</b>	<b>3852</b>
Nationalized Commercial Banks	756	665.6	813.1
Private Banks	2745.2	2425.8	2907.8
Specialized Banks	13.6	13.5	13.5
Foreign Banks	168.9	150.1	117.6
<b>5.Net Investments (Rs.Billion)</b>	<b>1180.3</b>	<b>836.7</b>	<b>1275.5</b>
Nationalized Commercial Banks	243.9	179.9	298.7
Private Banks	879.7	601.7	934.5
Specialized Banks	14.9	16.6	15.8
Foreign Banks	41.8	38.5	26.5

Source:SBP

The NPLs are the most important indicator of determining the asset quality of any bank because the gross NPLs to gross advances and net NPLs to net advances are considered as key indicators of quality of lending. As on 30th September 2007, the gross NPLs of the banking system recorded at Rs.163 billion and gross NPLs to gross advances were at 6.5%.For the financial results of 2008, commercial banks were needed to provide Rs 24 billion excess provisioning as per SBP's directive regarding Forced Sales Value (FSV) of collateral. On the basis of the provision provided by the commercial banks against non-performing loans, the net NPLs to net advances ratio rose to 2.4% .In December 2007, the State Bank of Pakistan withdrew the benefit of FSV against all non performing loans (NPLs) for calculating provisioning requirement which directly hampered the profits of entire banking sector. Hence, the

banks have to go for 100 percent provisioning against the NPLs. However, liquid assets are being subtracted to calculate provisioning against NPLs. Therefore, the banks will show fewer profits due to higher provisioning against their NPLs. Earlier, there was an option for the banks to shelter the actual required provisioning by showing collateral process higher than the actual value. Due to FSV, major impact would result in high recovery of NPLs. The SBP further elaborated that the classified loans and advances that have been guaranteed by the government would not require provisioning. According to an analysis; private commercial banks will face biggest impact for SBP provisioning policy while foreign banks would face the least impact. The SBP's timely decision to eliminate the benefit of FSV of collateral will help the banks to improve their loan quality and recovery rate going forward. The measure taken by

SBP to streamline the financial sector is seen as a positive step and will help the banks to strengthen their balance sheets.

### Islamic banks

Initially conceived in response to a faith-based logic of conforming to the principles of *Shariah* in all spheres of life, the astounding growth of the Islamic Financial Industry also drew on the wealth accumulation in oil-rich countries in the ensuing years, and reflects its potential of financially viable and lucrative segment of the global financial system. Islamic Financial Institution (IFIs) have been successful in tapping the previously excluded market on faith-based considerations, as well as the already included segment on preference-based

considerations, by giving them the opportunity to choose between the two parallel modes of financing and investment.

The Islamic Financial industry in Pakistan has grown substantially since the launch of SBP's focused strategy to promote a parallel Islamic Banking system in 2001. This performance is commendable for such a short period, given that other countries have achieved similar levels of growth in their respective Islamic banking industries after several years of existence. Besides banks, IFIs in Pakistan include Islamic Mutual Funds, Shariah-compliant housing finance services, takaful companies and modarabas. Sukuk issuances have also attracted considerable attention in recent years.

	FY03	FY04	FY05	FY06	FY07	FY08 (March)
Assets of the Islamic banks	12,915	44,143	71,493	119,294	205,212	200,415
Deposits of the Islamic Banks	8,397	30,185	49,932	83,740	146,945	141,933
Share in Banks Assets	0.50%	1.40%	2.10%	2.90%	4.20%	4.10%
Share in Bank Deposits	0.40%	1.25	1.90%	2.80%	4.10%	3.90%

The overall deposits of IBIs at the end of February 2008 stood at Rs.141,933 million and reflected a share of 3.9 percent in banks assets as compared to 0.4 percent only in FY03, the downward trend in FY 08 as compared to last year was inline with the decreasing trend in deposits of all banks that began in January 2008. Total assets of the Islamic banks reached at Rs.200,415 million from Rs.12,915 million in FY03 and contributed 4.1 percent in banking assets till end of February 2008 (Table 5.14). The industry has over the years managed to

offer a wide array of products encompassing almost the entire range of modes of Islamic financing that are able to cater to the needs of majority of the sectors of the economy. The segments covered by the industry include Corporate / Commercial, Agriculture, Consumer, Commodity financing, SME Sector, Treasury and Financial institutions and manufacturing and Services concerns through various Shariah complaint modes.

**Table 5.14 (a) Financing Products by Islamic banks (%age)**

Mode of Financing	FY03	FY04	FY05	FY06	FY07	FY08(March)
Murabaha	79.4	57.4	44.4	48.4	38.9	38.7
Ijara	16.5	24.8	29.7	29.7	25.4	24.2
Musharaka		1	0.8	0.8	0.9	1.3
Mudaraba					0.3	0.2
Diminishing Muskaraka	1.2	5.9	14.8	14.8	25.1	24.8
Salam	1.6	0.7	1.9	1.9	1.4	1.6
Istisna		0.4	1.4	1.4	0.9	2.4
Qarz/Qarz-e-hasna						
Others	1.3	9.8	3	3	7.1	6.7

The highest share in financing products of Islamic banks is contributed by Murabaha, Ijara, and Diminishing Musharaka in FY08 (March).As the

industry develops, SBP continues to provides an enabling environment for Islamic Banks. Work is underway on the development of Bait-ul-Maal

certificates to provide a sovereign instrument for liquidity management, and risk management guidelines have been issued.

### Microfinance Institutions

The operations of MFIs, including Microfinance Banks (MFBs), Non-Government Organizations (NGOs), Rural Support programs (RSPs) and Commercial Financial Institutions (CFIs) have witnessed significant improvements, which are reflected in almost all aspects of the microfinance industry. Number of new MFBs branches has grown, total assets have increased, products are being gradually diversified, outreach is being extended, branch network is being expanded and growth has been achieved in the total number of borrowers and advances.

With a focus on expanding microfinance reach to 3 million borrowers by 2010, a strategy for *Expanding Microfinance Outreach* (EMO) has been developed by the SBP which was approved by the Government in February 2007. The EMO strategy stresses on the fact that commercialization of the sector is key to financial and social sustainability.

**Table 5.15 Disbursement of Loans by Microfinance Banks** (Rs.million)

Institution	2006-07	July-March	
		2006-07	2007-08
Khushali Banks	3610900	2355041	2590058
Microfinance Banks ( Others)	2500968	1875405	2298604
<b>Total</b>	<b>6111868</b>	<b>4230446</b>	<b>4888662</b>

During Jul-Mar 2008, Khushali Bank, which leads the microfinance sector in Pakistan disbursed loans amounting Rs.2.6 billion as compared to Rs.2.3 billion in the same period last year. While the share of all other microfinance banks in loan disbursement increased to Rs. 2.3 billion in Jul-Mar FY08 from Rs. 1.8 billion in the Jul-Mar FY07.

### Small and Medium Enterprises

The importance of the SME sector cannot be overemphasized in the overall industrial development of a country. SMEs constitute nearly

90% of all the enterprises in Pakistan; they employ 80% of the non-agriculture labor force; and their share in the annual GDP is nearly 40%. During FY08, credit to SME sector has decreased to Rs.18 billion from Rs.30 billion during FY07. Mining, Electricity, Commerce and other private business sector registered in crease while Manufacturing, Services, Communication, Construction sectors recorded a substantial decrease.

**Table-5.16 Credit to SME** (Rs .million)

Sector	Stocks		Flows	
	Jun-06	Jun-07	FY 07	FY 08
Mining and Quarrying	822	790	172	303
<b>Manufacturing</b>	153147	160791	15628	5856
Ship Breaking	959	539	-526	-284
Electricity and Gas	1872	2681	860	1534
<b>Commerce and Trade</b>	123723	126457	1599	5447
<b>Services</b>	23163	30831	4973	-1892
Transport and Communications	9711	11956	553	72
Construction	12976	16370	1802	-335
Other Private Business	32318	34809	5032	7360
<b>Total</b>	<b>358692</b>	<b>385223</b>	<b>30091</b>	<b>18059</b>

Source:SBP

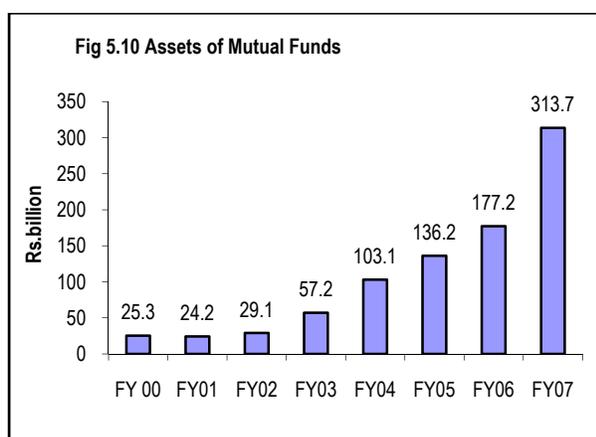
### Non-Bank Financial institutions (NBFIs)

The major objective of the introduction of the concept of NBFCs i.e. Non-Banking Finance Companies in 2002, was to enable the existing (mainly) single-product institutions serving specific market niches, to offer a whole variety and range of financial products though a one window operation akin to universal banking, subject to compliance with the prescribed progressively-tiered regulatory requirements. It was expected that consolidation of different financial services under one umbrella would lead to the emergence of stronger, well-capitalized entities, which will provide a fillip for the future development of the non-bank financial sector.

The key market players in the non-bank financial sector of Pakistan are non-banking Finance Companies (NBFCs), mutual funds, modarabas and Development Finance Institutions (DFIs). The non-bank financial sector has historically played

an important role in the mobilization and channeling of savings in the financial system. The NBFIs have, in recent years benefited from an environment of low interest rates coupled with high economic growth but have been unable to create an impact as well-functioning, specialized financial intermediaries.

The success story among NBFIs is that of mutual funds. The mutual fund sector is rapidly growing in Pakistan and accounted for the largest chunk in total assets of non-bank financial sector. Between FY00 to FY 07, net assets of mutual funds have grown by more than 12 times to reach Rs.313 billion from Rs.25 billion only in FY 00.



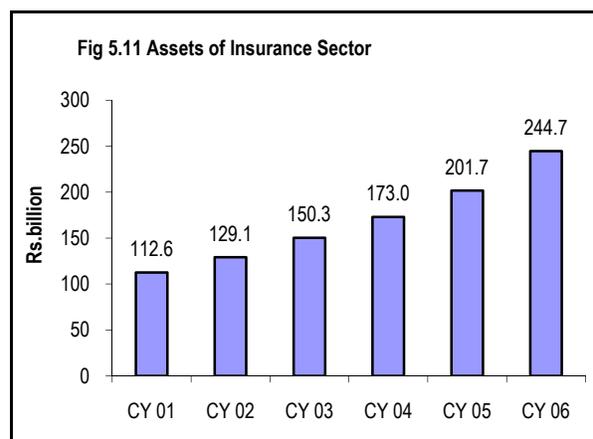
### Insurance Sector

The role of the insurance sector is significant in promoting the stability, not just of the financial sector, but also of the overall macroeconomic environment as it provides protection against uncertainty to economic agents by an equitable transfer of risk. Life insurance companies in particular, due to the long –term nature of their premiums, are also among the large institutional investors for capital and money market instruments.

The insurance sector in Pakistan consisting of life, non-life and the sole reinsurance company (PRCL), has seen considerable improvements since 2001 on account of rise in the demand for insurance by corporate, households and public

sector entities. However, with two-thirds of the population living in the rural areas and low per capita income, the insurance sector faces various hurdles in its growth.

The growth in insurance sector is reflected in the increase in premiums and profitability, as well as assets for both life and non-life insurance. Private sector companies have launched innovative products in the recent past, such as livestock and crop insurance, which will help promote the quality of bank’s lending to agriculture sector.



The low insurance penetration highlights the need for concerted efforts to bring about reforms that would increase the competitiveness and outreach of Pakistan’s insurance industry. As a step in this direction, Insurance Ordinance 2000 has laid out targets that will help the expansion of the industry in the coming years, for instance, the recent increase in capital requirements will result in the emergence of stronger players in the industry. Appointment of the Insurance Ombudsman is another measure which would also go a long way in boosting the confidence of the public by setting complaints expeditiously. Other insurance sector reforms envision the privatization of State Life Insurance Corporation (SLIC), the largest state owned operator in the life insurance sector. Moreover, Postal Life Insurance is planned to be brought under the ambit of the Insurance Ordinance 2000. Foreign investment rules in the insurance sector have also been amended in order to attract FDI in the sector.



Table 5.1

## COMPONENTS OF MONETARY ASSETS

Stock Rs. in million	2001	2002	2003	2004	2005	2006	2007	FY 08	
								March 07	Mar-08 (P)
1. Currency Issued	396,548	462,095	527,557	617,508	712,480	791,834	901,401	887,301	1,048,617
2. Currency held by SBP	1,905	1,865	2,565	2,960	3,107	3,005	3,148	3,162	2,855
3. Currency in title of Scheduled Banks	19,178	26,414	30,415	36,432	43,472	48,439	58,072	49,615	63,761
4. Currency in circulation (1-2-3)	375,465	433,816	494,577	578,116	665,901	740,390	840,181	834,524	982,001
5. Other deposits with SBP <sup>1</sup>	11,292	13,847	3,499	2,116	3,335	4,931	7,012	5,595	3,850
6. Scheduled Banks Total Dposits <sup>2</sup>	1,139,287	1,304,214	1,580,399	1,905,260	2,291,408	2,661,584	3,217,962	2,948,582	3,422,237
Resident Foreign Currency									
7. Deposits (RFCD)	154,154	157,456	126,138	145,694	180,295	195,501	207,312	200,484	234,882
8. MI	1,275,615	1,494,140	1,797,361	2,174,736	2,512,214	2,720,685	3,155,635	2,896,466	3,365,665
9. Monetary assets (4+5+6)	1,526,044	1,751,877	2,078,475	2,485,492	2,960,644	3,406,905	4,065,155	3,788,701	4,408,088
10. Growth rate (%)	9.0	14.8	18.6	19.6	19.1	15.1	19.3	11.2	8.4
Memorandum									
1. Currency / Money ratio	24.6	24.8	23.8	23.3	22.5	21.7	20.7	22.0	22.3
2. Demand Deposits / Money ratio	24.6	24.0	29.2	31.8	32.1	31.9	65.0	63.7	65.0
3. Time Deposits / Money ratio	40.0	41.5	40.7	39.0	39.2	40.5	9.0	8.9	7.3
4. Other Deposits / Money ration	0.7	0.8	0.2	0.1	0.1	0.1	0.2	0.1	0.1
5. RFCD / Money ration	10.1	9.0	6.1	5.9	6.1	5.7	5.1	5.3	5.3
6. Income Velocity of Money <sup>3</sup>	2.6	2.5	2.5	2.4	2.4	2.1	2.0		

P : Provisional

- 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)

## Explanatory Notes:

- a Data series on monetary aggregates other than M1 are based on weekly returns reported by scheduled banks to SBP.
- b Data series on M1 aggregates (as Sr. # 8) is issued on monthly returns reported by scheduled banks to SBP and published in Statistical Bulletin from April 2008.
- c 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 private sector deposits which have now being included in government deposits.
- d Totals may not tally due to separate rounding off

TABLE 5.2

## CAUSATIVE FACTORS ASSOCIATED WITH MONETARY ASSETS

		(Rs million)							
		1991	1992	1993	1994	1995	1996	1997	1998
		<u>A. End June Stock</u>							
1	Public Sector Borrowing (net) (i + ii + iii + iv + v + vi + vii)	201174	270165	345167	373433	426520	495047	574023	630745
i	Net Budgetary Support	194501	257074	322772	345917	382336	434062	504562	552580
ii	Commodity Operations	18675	22869	30204	36786	41519	47377	53079	63664
iii	Zakat Fund etc.	-12002	-9778	-7809	-9270	-11465	-12522	-15392	-18518
iv	Utilization of privatization proceeds by Govt./WAPDA	-	-	-	-	-	-	36434	37657
v	Use of Privatization proceeds/ NDRP Fund for Debt Retirement	-	-	-	-	14130	26130	-4660	-5749
vi	Payment to HBL on A/C of HC&EB	-	-	-	-	-	-	-	287
2	Non-Government Sector	260962	292381	352954	392820	462357	531064	602828	696672
i	Autonomous Bodies <sup>1</sup>	9374	10661	14594	13744	16955	20121	29196	28302
ii	Net Credit to Private Sector & PSCEs	251588	281720	338360	379076	445402	510943	573632	668370
a.	Private Sector	221062	251311	309595	352363	416094	478701	546814	632025
b.	Public Sector Corp. other than 2(i)	30526	30409	28765	26713	29308	32242	26818	36345
3	Counterpart Funds	-330	-151	-546	-388	-464	-617	-736	-650
4	Other Items (Net)	-36857	-41500	-52846	-46537	-74705	-58844	-61621	-45290
5	Domestic Credit (1+2+3+4)	424949	520895	644729	719328	813708	966650	1114494	1281477
6	Foreign Assets (Net)	-24305	-15326	-49339	-15930	11027	-27971	-61260	-75157
7	Monetary Assets (5+6)	400644	505569	595390	703398	824735	938679	1053234	1206320
		<u>B. Changes over the year (July-June)</u>							
8	Public Sector Borrowing (net) (i + ii + iii + iv + v + vi + vii)	27438	68991	75002	28266	53087	68527	80933	56722
i	Net Budgetary Support	38332	62573	65698	23145	36419	51726	72457	48018
ii	Commodity Operations	-5315	4194	7335	6582	4733	5858	5702	10585
iii	Zakat Fund etc.	-5579	2224	1969	-1461	-2195	-1057	(2870)	(3126)
iv	Utilization of privatization proceeds by Govt./WAPDA	-	-	-	-	-	-	10304	1223
v	Use of Privatization proceeds/ NDRP Fund for Debt Retirement	-	-	-	-	14130	12000	-4660	287
vi	Payment to HBL on A/C of HC&EB	-	-	-	-	-	-	0	0
9	Non-Government Sector	21702	31419	60573	39866	69537	63429	61879	83414
i	Autonomous Bodies <sup>1</sup>	592	1287	3933	-850	3211	3166	-242	-894
ii	Net Credit to Private Sector & PSCEs	21110	30132	56640	40716	66326	60263	62121	84308
a.	Private Sector	25096	30249	58284	42768	63731	57329	59907	74781
b.	Public Sector Corp. other than 2(i)	-3986	-117	-1644	-2052	2595	2934	2214	9527
10	Counterpart Funds	178	179	-395	158	-76	-153	-119	86
11	Other Items (Net)	4362	-4643	-11346	6309	-28168	21139	5152	26761
12	Domestic Credit Expansion (8+9+10+11)	53680	95946	123834	74599	94380	152942	147845	166983
13	Foreign Assets (Net)	5712	8979	-34013	33409	26957	-38998	-33289	(13897)
14	Monetary Expansions (13+14)	59392	104925	89821	108008	121337	113944	114556	153086

(Contd.)

TABLE 5.2

## CAUSATIVE FACTORS ASSOCIATED WITH MONETARY ASSETS

(Rs million)

	1999	2000	2001	2002	2003	2004
<u>A. Stock End June</u>						
1 Public Sector Borrowing (net) (i + ii + iii + iv + v + vi + vii)	583598	661832	601870	677054	598623	656729
i Net Budgetary Support	505887 8	545850 8	4998888 8	567208	511186	574886
ii Commodity Operations	67309	107403	95311	100642	74047	65873
iii Zakat Fund etc.	(21793)	(23616)	(25524)	(22991)	(18805)	(16224)
iv Utilization of privatization proceeds by Govt./WAPDA	37657	37657	37657	37657	37657	37657
v Use of Privatization proceeds/ NDRP Fund for Debt Retirement	(5749)	(5749)	(5749)	(5749)	(5749)	(5749)
vi Payment to HBL on A/C of HC&EB	287	287	287	287	287	287
2 Non-Government Sector	816710	842752	902603	921596	1048162	1363669
i Autonomous Bodies <sup>1</sup>	41351	68637	75240	60159	55370	34293
ii Net Credit to Private Sector & PSCes	775359	774115	827363	861437	992892	1329376
a. Private Sector	735887	754190	750211	841057	949030	1274245
b. Public Sector Corp. other than 2(i)	43124	28826	37036	35563	32386	53852
c. PSEs Special Account Debt Repa	(3652)	(8901)	(12241)	(15183)	(18802)	(22108)
d. Other Financial Institutions (NBFi)	0	0	52357	37877	30278	23387
3 Counterpart Funds	(589)	(611)	(562)	(536)	(586)	(628)
4 Other Items (Net)	(73544)	(59087)	(6202)	(67463)	(107258)	(116405)
5 Domestic Credit (1+2+3+4)	1326175	1444886	1497707	1530651	1539041	1903367
6 Foreign Assets (Net)	(45629)	(44254)	28338	230718	539664	583190
7 Monetary Assets (5+6)	1280546	1400632	1526046	1761370	2078704	2486556
<u>B. Changes over the year (July-June)</u>						
8 Public Sector Borrowing (net) (i+ii+iii+iv+v+vi+vii)	(74824) #	78234	(46731)	22177	(78361)	58106
i Net Budgetary Support	(75193) 8#	39963 8	(32315) 8@	14313	(55952)	63700
ii Commodity Operations	3645	40094	(12508)	5331	(26595)	(8174)
iii Zakat Fund etc.	(3275)	(1823)	(1908)	2533	4186	2581
iv Utilization of privatization proceeds by Govt./WAPDA	-	-	-	-	-	-
v Use of Privatization proceeds/ NDRP Fund for Debt Retirement	-	-	-	-	-	-
vi Payment to HBL on A/C of HC&EB	-	-	-	-	-	-
9 Non-Government Sector	119214	26044	69194 @	18993	148539	315407
i Autonomous Bodies <sup>1</sup>	13049	3125 7	11573 7	(15081)	(4789)	(21077)
ii Net Credit to Private Sector & PSCes	106165	22916	57620 @	34074	153328	336484
a. Private Sector	103038	18303	48633 @	52969	167723	325215
b. Public Sector Corp. other than 2(i)	6779	9862 7	12327	(1473)	(3177)	21466
c. PSEs Special Account Debt Repa	(3652)	(5249)	(3340)	(2942)	(3619)	(3306)
d. Other Financial Institutions (NBFi)	0	0	0	(14480)	(7599)	(6891)
10 Counterpart Funds	61	(22)	49	26	(50)	(42)
11 Other Items (Net)	246 #	14457	30863	(12040)	(61674)	(9147)
12 Domestic Credit Expansion (8+9+10+11)	44697	118711	53374	29156	8454	364326
13 Foreign Assets (Net)	29529	1375	72654	206168	308946	43526
14 Monetary Expansions (13+14)	74226	120086	126028	235324	317400	407852

(Contd)

7 The difference in flow data is due to change in the composition of autonomous bodies.

8 Special Account-Debt Repayment Adjusted.

# Adjusted for Rs 28.5 billion on account of Adhoc Treasury Bills created to offset the government losses due to the unification of exchange rate

@ The difference in flow data is due to change in the total number of PSES

TABLE 5.2

## CAUSATIVE FACTORS ASSOCIATED WITH MONETARY ASSETS

(Rs million)					
	2005	2006	2007	End March	
				2007	2008 P
<b>A. Stock End June</b>					
1 Public Sector Borrowing (net) (i + ii + iii + iv + v + vi + vii)	752515	833686	926530	909342	1238722
i Net Budgetary Support	646682	708037	810053	829901	1119187
ii Commodity Operations	87836	107762	98552	61722	101239
iii Zakat Fund etc.	(14198)	(14308)	(14269)	(14476)	(13899)
iv Utilization of privatization proceeds by Govt./WAPDA	37657	37651	37657	37657	37657
v Use of Privatization proceeds/ NDRP Fund for Debt Retirement	(5749)	(5749)	(5749)	(5749)	(5749)
vi Payment to HBL on A/C of HC&EB	287	287	287	287	287
2 Non-Government Sector	1782368	2190769	2576474	2461120	2955791
i Autonomous Bodies <sup>1</sup>	32224	36979	58148	39958	81627
ii Net Credit to Private Sector & PSCEs	1750144	2153790	2518326	2421162	2874164
a. Private Sector	1712093	2113890	2479608	2385708	2832887
b. Public Sector Corp. other than 2(i)	44838	47237	46010	42756	48427
c. PSEs Special Account Debt Repayment	(23714)	(23225)	(23478)	(23446)	(23504)
d. Other Financial Institutions (NBFIs)	16927	15889	16187	16144	16353
3 Counterpart Funds	(539)	(546)	(519)	(509)	(533)
4 Other Items (Net)	(204929)	(327346)	(422223)	(360492)	(507986)
5 Domestic Credit (1+2+3+4)	2329415	2696564	3080263	3009461	3685994
6 Foreign Assets (Net)	636938	710341	984982	779240	722094
7 Monetary Assets (5+6)	2966352	3406905	4065155	3788701	4408088
<b>B. Changes over the year (July-June)</b>					
8 Public Sector Borrowing (net) (i+ii+iii+iv+v+vi+vii)	95785	86879	92844	75656	312191
i Net Budgetary Support	71796	67063	102015	121864	309135
ii Commodity Operations	21963	19926	(9210)	(46040)	2687
iii Zakat Fund etc.	2026	(110)	39	(168)	370
iv Utilization of privatization proceeds by Govt./WAPDA	-	-	-	-	-
v Use of Privatization proceeds/ NDRP Fund for Debt Retirement	-	-	-	-	-
vi Payment to HBL on A/C of HC&EB	-	-	-	-	-
9 Non-Government Sector	418699	408401	385705	270351	379317
i Autonomous Bodies <sup>1</sup>	(2069)	4755	21169	2979	23479
ii Net Credit to Private Sector & PSCEs	420768	403646	364536	267372	355838
a. Private Sector	437848	401797	365718	271819	353279
b. Public Sector Corp. other than 2(i)	(9014)	2399	(1227)	(4481)	2418
c. PSEs Special Account Debt Repayment	(1606)	489	(253)	(221)	(25)
d. Other Financial Institutions (NBFIs)	(6460)	(1038)	298	255	166
10 Counterpart Funds	88	(7)	27	37	(14)
11 Other Items (Net)	(88525)	122416	(94877)	(33147)	(85763)
12 Domestic Credit Expansion (8+9+10+11)	426048	372857	383699	312897	605731
13 Foreign Assets (Net)	53748	73403	274551	68899	(262798)
14 Monetary Expansions (13+14)	479796	446260	658250	381796	342934

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.

Source: State Bank of Pakistan

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 8207 million being mark up debited to the borrowers account

5 Credit to NHA by commercial Banks.

6 Credit to NHA and CAA by commercial banks

Note: Figures in the parentheses represent negative signs.

P : Provisional

TABLE 5.3

## SCHEDULED BANKS POSITION BASED ON WEEKLY RETURNS: LIABILITIES AND ASSETS

(Rs million)

Outstanding Amount at end June	1993	1994	1995	1996	1997	1998	1999	2000	2001
<b>LIABILITIES</b>									
1. Capital (paid-up) and Reserves									
Demand liabilities in Pakistan	36,011	43,770	50,533	56,255	60,935	91,060	75,632	79,648	88,581
2. Inter-banks Demand Liabilities	12,822	14,532	16,787	13,281	13,722	10,991	7,968	8,580	12,282
2.1 Borrowing	(1,436)	(2,878)	(5,104)	(115)	(407)	(78)	(61)	(43)	(34)
2.2 Deposits	(11,386)	(11,654)	(11,683)	(13,166)	(13,315)	(10,913)	(7,907)	(8,537)	(12,248)
3. Deposits (General)	217,711	256,188	296,739	339,408	358,457	411,361	454,072	475,281	527,672
4. Other Liabilities	9,112	12,578	16,500	19,224	21,654	25,120	38,491	47,420	42,870
5. Total Demand Liabilities (2+3+4)	239,645	283,298	330,026	371,913	393,833	447,472	500,531	531,281	582,824
<b>TIME LIABILITIES IN PAKISTAN</b>									
6. Inter-banks Time Liabilities	4,937	7,181	9,059	5,509	5,422	10,658	8,633	6,300	4,705
6.1 Borrowing	(3,976)	(3,333)	(5,998)	(2,965)	(3,618)	(7,744)	(5,845)	(5,674)	(3,668)
6.2 Deposits	(961)	(3,848)	(3,061)	(2,544)	(1,804)	(2,914)	(2,788)	(626)	(1,037)
7. Time Deposits (General)	270,343	342,368	405,882	495,677	571,574	628,076	661,401	652,279	712,978
8. Other Liabilities	3,920	4,812	3,388	4,737	5,369	7,141	8,329	10,759	9,494
9. Total Time Liabilities (6+7+8)	279,200	354,361	418,329	505,923	582,365	645,875	678,363	669,338	727,177
10. Total Demand and Time Liabilities	518,845	637,659	748,355	877,836	976,198	1,093,347	1,178,894	1,200,619	1,310,001
11. Borrowing From SBP	64,577	70,583	82,668	56,914	77,999	113,919	142,147	141,016	139,367
12. Borrowing from Banks Abroad	14,614	14,217	14,280	13,424	14,622	16,518	22,089	16,657	15,169
13. Money at Call and Short Notice in Pakistan	6,584	6,721	8,350	8,070	5,370	7,768	17,528	42,469	30,293
14. Other Liabilities	505,570	640,164	743,430	897,892	993,960	264,981	298,019	321,224	400,517
15. Total Liabilities	1,146,201	1,413,114	1,647,616	1,910,391	2,129,084	1,587,593	1,734,309	1,801,633	1,983,928
16. Total Statutory Reserves	26,271	32,219	37,835	44,295	49,078	55,056	59,821	59,287	64,651
16.1 On Demand Liabilities	(12,311)	(14,501)	(16,919)	(18,999)	19,960	(22,762)	(25,903)	(26,135)	(28,527)
16.2 On Time Liabilities Assets	(13,960)	(17,718)	(20,916)	(25,296)	(29,118)	(32,294)	(33,918)	(33,152)	(36,124)
<b>ASSETS</b>									
17. Cash in Pakistan	11,301	13,959	16,363	19,328	17,821	18,769	18,870	19,468	19,178
18. Balances with SBP	48,745	63,746	78,503	63,502	89,756	84,740	100,335	153,371	147,962
19. Other Balances	8,920	14,814	11,012	14,516	16,864	18,210	19,116	18,250	18,033
20. Money at Call and Short Notice in Pakistan	7,002	7,062	8,814	8,989	5,772	8,903	18,095	43,509	31,179
21. 17+18+19+20 as % of 10	14.6	15.6	15.3	12.1	13.2	11.9	13.3	19.5	16.5
<b>FOREIGN CURRENCY</b>									
22. Foreign Currency held in Pakistan	2,194	4,261	3,017	3,667	4,647	2,706	2,981	2,222	4,788
23. Balances with Banks Abroad	6,190	7,899	8,163	16,545	10,918	21,798	39,019	46,619	70,856
24. Total Foreign Currency	8,384	12,160	11,180	20,212	15,565	24,504	42,000	48,841	75,644
<b>BANK CREDIT ADVANCES</b>									
25. To Banks	7,830	8,616	13,482	5,449	3,690	5,687	4,402	5,788	3,657
26. To Others	308,992	347,868	413,811	474,731	552,522	644,049	725,852	801,154	866,490
27. Total Advances	316,822	356,484	427,293	480,180	556,212	649,736	730,254	806,942	870,147
28. Bills Purchased and Discounted	44,149	52,483	59,649	62,511	70,675	63,073	63,774	69,554	75,504
29. Total Bank Credit	360,971	408,967	486,942	542,691	626,887	712,809	794,028	876,496	945,651
30. 29 as % of 10	69.6	64.1	65.1	61.8	64.2	65.2	67.4	73.0	72.2
<b>INVESTMENT IN SECURITIES AND SHARES</b>									
31. Central Government Securities	140,124	147,076	166,687	144,922	134,417	123,647	115,671	115,536	101,161
32. Provincial Government Securities	3,727	3,345	3,340	3,338	2,399	2,148	1,969	1,730	1,836
33. Treasury Bills	35,660	83,443	90,059	137,110	167,945	235,388	204,160	103,790	123,889
34. Other Investment in Securities & Shares	31,331	32,632	35,210	42,512	39,023	40,900	69,069	65,993	70,048
35. Total Investment in Securities and Shares	210,842	266,496	295,296	327,882	343,784	402,119	390,869	287,049	296,934
36. 35 as % of 10	40.6	41.8	39.5	37.4	35.2	36.8	33.2	23.9	22.7
37. Other Assets	490,036	625,910	739,506	913,271.0	1,012,645	254,970	255,378	252,114	340,220
38. Advance Tax Paid	-	-	-	-	-	49,332	69,564	72,941	78,205
39. Fixed Assets	-	-	-	-	-	13,237	26,054	29,594	30,922
40. Total Assets	1,146,201	1,413,114	1,647,616	1,910,391	2,129,084	1,587,593	1,734,309	1,801,633	1,983,928
41. Excess Reserves (18-16)	22,474	31,523	40,668	19,207	40,678	29,684	40,514	94,048	83,311

Contd.

TABLE 5.3

## SCHEDULED BANKS POSITION BASED ON WEEKLY RETURNS: LIABILITIES AND ASSETS

Outstanding Amount at end June	2002	2003	2004	2005	2006	2007	(Rs million)	
							2007	2008 P
<b>LIABILITIES</b>								
1. Capital (paid-up) and Reserves								
Demand liabilities in Pakistan	85,886	112,230	131,225	190,652	315,414	484,296	430,537	561,557
2. Inter-banks Demand Liabilities	13,261	9,937	20,755	22,993	28,608	54,796	45,472	35,910
2.1 Borrowing	(10)	(1)	(15)	(99)	0	0	0	0
2.2 Deposits	(13,251)	(9,936)	(20,740)	(22,894)	(28,608)	54,796	45,472	35,910
3. Deposits (General)	609,657	785,333	1,014,947	1,211,674	1,350,011	2,889,589	2,631,817	3,139,258
4. Other Liabilities	47,333	53,352	56,532	70,107	97,266	137,089	128,930	163,956
5. Total Demand Liabilities (2+3+4)	670,251	848,622	1,092,234	1,304,774	1,475,885	3,081,474	2,806,219	3,339,125
<b>TIME LIABILITIES IN PAKISTAN</b>								
6. Inter-banks Time Liabilities	2,104	3,991	4806	10,756	25,759	3,861	8,775	5,889
6.1 Borrowing	(659)	(621)	(1878)	(1,024)	0	0	0	0
6.2 Deposits	(1,445)	(3,370)	(2928)	(9,732)	(25,759)	3,861	8,775	5,889
7. Time Deposits (General)	803,749	903,153	1,026,919	1,231,745	1,490,182	512,565	465,880	474,671
8. Other Liabilities	12,808	16,020	20,703	27,288	34,236	69,786	62,934	81,119
9. Total Time Liabilities (6+7+8)	818,661	923,164	1,052,428	1,269,789	1,550,177	586,212	537,589	561,679
10. Total Demand and Time Liabilities	1,488,912	1,771,786	2,144,662	2,574,563	3,026,061	3,667,686	3,343,808	3,900,804
11. Borrowing From SBP	135,556	137,882	162,335	185,068	198,725	269,109	252,056	234,002
12. Borrowing from Banks Abroad	12,642	21,243	9872	6,245	2,953	7,015	6,146	9,781
13. Money at Call and Short Notice in Pakistan	31,877	28,551	27,479	22,243	172,893	220,941	135,765	196,087
14. Other Liabilities	546,159	468,312	527,452	645,616	168,011	136,119	148,762	200,637
15. Total Liabilities	2,301,032	2,540,004	3,003,025	3,624,387	3,884,057	4,785,167	4,317,075	5,102,867
16. Total Statutory Reserves	73,677	87,893	105,955	127,041	148,585	229,338	209,117	247,899
16.1 On Demand Liabilities	(32,850)	(41,934)	(53,574)	(64,089)	72,364	211,867	193,252	231,225
16.2 On Time Liabilities Assets	(40,828)	(45,959)	(52,381)	(62,952)	76,221	17,471	15,864	16,674
<b>ASSETS</b>								
17. Cash in Pakistan	26,414	30,415	36,432	43,462	48,439	58,072	49,615	63,761
18. Balances with SBP	124,883	140,077	151,406	188,092	202,501	307,433	254,653	293,274
19. Other Balances	27,268	31,306	36,762	49,021	56,460	65,656	49,669	43,827
20. Money at Call and Short Notice in Pakistan	32,831	28,686	30,444	22,166	232,535	239,031	158,854	199,049
21. 17+18+19+20 as % of 10	14.2	13.0	12.0	11.8	17.8	18.0	15.0	15.0
<b>FOREIGN CURRENCY</b>								
22. Foreign Currency held in Pakistan	5,003	5,435	4,806	6,777	6,449	7,463	9,225	9,459
23. Balances with Banks Abroad	89,416	68,578	60,976	116,627	93,387	170,509	151,551	106,365
24. Total Foreign Currency	94,419	74,013	65,782	123,404	99,836	177,972	160,776	115,825
<b>BANK CREDIT ADVANCES</b>								
25. To Banks	1,626	253	63	190	0	0	0	0
26. To Others	894,524	988,572	1,258,022	1,680,491	2,079,056	2,379,226	2,276,247	2,722,452
27. Total Advances	896,150	988,825	1,258,085	1,680,681	2,079,056	2,379,226	2,276,247	2,722,452
28. Bills Purchased and Discounted	75,588	80,687	99,924	120,480	135,924	145,707	142,268	128,439
29. Total Bank Credit	971,738	1,069,512	1,358,009	1,801,161	2,214,980	2,524,932	2,418,515	2,850,891
30. 29 as % of 10	65.3	60.4	63.3	70.0	73.2	69.0	72.0	73.0
<b>INVESTMENT IN SECURITIES AND SHARES</b>								
31. Central Government Securities	154,292	191,709	240,842	173,788	177,860	174,425	166,260	184,250
32. Provincial Government Securities	1,728	1,234	77	77	77	76	76	76
33. Treasury Bills	231,507	412,449	408,438	415,016	411,691	655,921	539,777	598,507
34. Other Investment in Securities & Shares	83,493	118,234	132,026	140,453	165,598	235,330	186,058	287,226
35. Total Investment in Securities and Shares	471,020	723,626	781,383	729,334	755,227	1,065,753	892,171	1,070,059
36. 35 as % of 10	31.6	40.8	36.4	28.3	25.0	29.0	27.0	27.0
37. Other Assets	456,377	353,842	442,162	563,552	195,096	211,141	204,508	251,006
38. Advance Tax Paid	64,270	49,789	53,879	42,386	6,423	8,144	7,866	16,300
39. Fixed Assets	31,812	38,738	46,766	61,809	72,560	127,031	120,447	198,876
40. Total Assets	2,301,032	2,540,004	3,003,025	3,624,387	3,884,057	4,785,167	4,317,075	5,102,867
41. Excess Reserves (18-16)	51,206	52,184	45,451	61,051	53,916	78,095	45,536	45,375

Figures in the parentheses represent negative sing, \* : Contra Items, P : Provisional

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 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 nad above. Accordingly, time deposits with tenor of less of than one year will become part of demand deposits.

TABLE 5.4

## INCOME VELOCITY OF MONEY

End June Stock	(Rs billion)			
	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	2.7
2000-01	1275.6	1,526.04	9.0	2.6
2001-02	1494.14	1,751.88	14.8	2.5
2002-03	1797.36	2,078.48	18.6	2.3
2003-04	2174.74	2,485.49	19.6	2.3
2004-05	2512.21	2,960.64	19.1	2.4
2005-06	2720.68	3,406.91	15.1	2.1
2006-07	3155.63	4,065.16	19.3	2.0
End March				
2006-07		3,788.70	11.2	
2007-08		4,408.09	8.4	

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 30-04-2008)

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<u>Public Sector Commercial Banks</u>		20	ABN AMRO Bank Pakistan Limited
1	First Women Bank Ltd.	21	Habib Metropolitan Bank Limited
2	National Bank of Pakistan	22	JS Bank Limited
3	The Bank of Khyber	23	Standard Chartered Bank (Pakistan) Limited
4	The Bank of Punjab	24	Emirates Global Islamic Bank
		25	Dawood Islamic Bank Limited
<u>Specialized Scheduled Banks</u>		<u>Foreign Banks</u>	
1	Industrial Development Bank of Pakistan	1	Al-Baraka Islamic Bank B.S.C. (E.C.)
2	The Punjab Provincial Co-operative Bank	2	Citibank N.A.
3	SME Bank Limited	3	Deutsche Bank A.G.
4	Zarai Taraqiat Bank Limited	4	The Hong Kong & Shanghai Banking Corporation Limited
		5	Oman International Bank S.A.O.G.
		6	The Bank of Tokyo - Mitsubishi UFJ Limited
<u>Private Local Banks</u>		<u>Development Financial Institutions</u>	
1	Allied Bank Limited	1	House Building Finance Corporation
2	Askari Bank Limited	2	Investment Corporation of Pakistan
3	Bank Al Falah Limited	3	Pak Kuwait Investment Company of Pakistan (Pvt) Limited
4	Bank Al Habib Limited	4	Pak Labya Holding Company (Pvt) Limited
5	My Bank Limited	5	Pak Oman Investment Company (Pvt) Limited
6	Creacent Commercial Bank Limited	6	Pakistan Industrial Credit & Investment Corp. Ltd.
7	NIB Bank Limited	7	Saudi Pak Industrial & Agricultural Investment company (Pvt) Limited
8	Faysal Bank Limited		
9	Habib Bank Limited	<u>Micro Finance Banks</u>	
10	KASB Bank Limited	1	Khushhali Bank
11	MCB Bank Limited	2	Network Micro Finance Bank Limited
12	Meezan Bank Limited	3	The First Micro Finance Bank Limited
13	Atlas Bank Limited	4	Rozgar Micro Finance Bank Limited
14	Saudi Pak Commercial Bank Limited	5	Tameer Micro Finance Bank Limited
15	Soneri Bank Limited	6	Pak Oman Micro Finance Bank Limited
16	United Bank Limited		
17	Arif Habib Bank Limited		
18	Dubai Islamic Bank Pakistan Limited		
19	Bank Islami Pakistan Limited		

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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		Precious	Stock	Merchan-		Real	Financial		Total
End of		Metal	Exchange	dise	Machinery	Estate	Obli-	Others	Advances*
			Securities				gations		
<b>I. INTEREST BEARING</b>									
1999	Jun	13.39	14.15	13.89	15.19	14.08	14.95	14.29	14.47
		(15.57)	(14.16)	(13.91)	(15.18)	(14.49)	(15.13)	(16.11)	(14.88)
	Dec	11.41	13.79	14.56	14.17	13.75	13.14	14.07	14.09
		(16.50)	(13.44)	(14.35)	(14.30)	(14.78)	(13.25)	(16.29)	(14.75)
2000	Jun	11.10	13.76	13.67	13.15	12.23	13.65	13.34	13.25
		(11.81)	(13.45)	(13.83)	(13.15)	(13.73)	(14.03)	(13.98)	(13.77)
	Dec	11.53	13.57	12.88	13.82	12.90	13.49	12.93	13.08
		(12.73)	(12.82)	(13.68)	(13.74)	(13.62)	(13.56)	(13.36)	(13.58)
2001	Jun	11.75	13.54	13.69	13.50	12.84	13.07	12.05	13.07
		(13.87)	(14.06)	(13.59)	(13.55)	(13.86)	(13.00)	(13.87)	(13.64)
2002	Jun	8.10	11.27	13.12	13.56	12.72	13.88	12.47	13.00
		(8.14)	(11.70)	(13.13)	(13.67)	(12.98)	(13.81)	(13.39)	(13.29)
2003	Jun	12.01	11.97	9.39	15.66	12.63	7.74	10.66	11.87
		(12.01)	(11.82)	(9.67)	(15.68)	(12.86)	(7.66)	(11.49)	(12.35)
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)
<b>II. ISLAMIC MODES OF FINANCING</b>									
1999	Jun	11.27	15.69	15.12	15.75	13.76	14.49	15.00	14.82
		(10.01)	(15.39)	(15.03)	(15.92)	(14.92)	(14.57)	(15.87)	(15.23)
	Dec	10.91	14.42	14.82	15.41	13.57	13.89	14.74	14.49
		(16.28)	(14.51)	(14.68)	(15.45)	(14.84)	(13.86)	(15.82)	(14.96)
2000	Jun	10.61	13.12	13.48	14.31	13.08	13.42	13.83	13.54
		(11.10)	(13.48)	(14.07)	(14.39)	(14.39)	(13.40)	(14.94)	(14.27)
	Dec	11.24	13.51	13.54	14.48	12.97	13.15	14.07	13.59
		(11.32)	(13.68)	14.01	(14.53)	(14.24)	(13.09)	(15.09)	(14.24)
2001	Jun	11.02	13.47	13.39	14.53	13.31	13.84	14.03	13.65
		(11.28)	(13.57)	(13.88)	(14.42)	(14.52)	(13.86)	(14.78)	(14.24)
2002	Jun	9.30	13.09	12.85	13.70	13.47	13.32	13.32	13.20
		(9.50)	(13.33)	(12.73)	(13.81)	(14.05)	(13.22)	(14.00)	(13.52)
2003	Jun	11.43	5.92	7.50	9.39	11.47	7.79	10.31	9.19
		(11.43)	(5.77)	(7.95)	(9.54)	(12.08)	(8.62)	(10.84)	(9.71)
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)

Source: State Bank of Pakistan

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

TABLE 5.7

## SALE OF GOVERNMENT SECURITIES THROUGH AUCTION

								(Rs Million)
Fiscal Year/ Securities	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01
<b>MARKET TREASURY BILLS*</b>								
<b>A. Three Months Maturity</b>								
Amount Offered								
i) Face Value	-	-	-	-	-	147,735	82,245	107,720
ii) Discounted Value	-	-	-	-	-	143,719	80,670	105,147
Amount Accepted								
i) Face Value	-	-	-	-	-	45,985	21,085	72,720
ii) Discounted Value	-	-	-	-	-	44,893	20,725	70,984
Weighted Average Yield Accepted								
i) Minimum % p.a.	-	-	-	-	-	6.660	6.931	6.849
ii) Maximum % p.a.	-	-	-	-	-	14.616	8.958	12.221
<b>B. Six Months Maturity</b>								
Amount Offered								
i) Face Value	-	-	-	-	-	343,937	205,980	115,753
ii) Discounted Value	-	-	-	-	-	322,564	197,165	109,916
Amount Accepted								
i) Face Value	-	-	-	-	-	102,669	85,515	69,538
ii) Discounted Value	-	-	-	-	-	96,161	81,909	66,066
Weighted Average Yield Accepted								
i) Minimum % p.a.	-	-	-	-	-	10.599	7.092	7.138
ii) Maximum % p.a.	-	-	-	-	-	15.740	10.355	12.876
<b>C. Twelve Months Maturity</b>								
Amount Offered								
i) Face Value	-	-	-	-	-	283,038	181,014	75,122
ii) Discounted Value	-	-	-	-	-	247,934	164,416	67,584
Amount Accepted								
i) Face Value	-	-	-	-	-	78,960	51,200	54,017
ii) Discounted Value	-	-	-	-	-	69,148	46,514	48,431
Weighted Average Yield Accepted								
i) Minimum % p.a.	-	-	-	-	-	10.098	7.584	7.777
ii) Maximum % p.a.	-	-	-	-	-	16.000	10.871	12.935
<b>2 Pakistan Investment Bonds(PIBs)**</b>								
<b>A. Amount Offered</b>								
03 Years Maturities								
	-	-	-	-	-	-	-	8,534
05 Years Maturities								
	-	-	-	-	-	-	-	6,674
10 Years Maturities								
	-	-	-	-	-	-	-	43,606
<b>B. Amount Accepted</b>								
a) 3 Years Maturities								
i) Amount Accepted(Face Val	-	-	-	-	-	-	-	46,123
ii) Weighted average Yield #								4677
a) Minimum % p.a.	-	-	-	-	-	-	-	12.427
b) Maximum % p.a.	-	-	-	-	-	-	-	12.486
b) 5 Years Maturities								
i) Amount Accepted(Face Val	-	-	-	-	-	-	-	5,317
ii) Weighted average Yield #								
a) Minimum % p.a.	-	-	-	-	-	-	-	12.946
b) Maximum % p.a.	-	-	-	-	-	-	-	13.000
c) 10 Years Maturities								
i) Amount Accepted(Face Val	-	-	-	-	-	-	-	36,129
ii) Weighted average Yield #								
a) Minimum % p.a.	-	-	-	-	-	-	-	13.955
b) Maximum % p.a.	-	-	-	-	-	-	-	14.004

(Contd.)

Note \*: MTBs was introduced in 1998-99

\*\*: PIBs was introduced in 2000-01

Table 5.7

## SALE OF GOVERNMENT SECURITIES THROUGH AUCTION

							(Rs. million)	
No.	Securities	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	July-March 2007-08
1	Market Treasury Bills							
A	Three Month Maturity							
	Amount Offered							
	i) Face value	128,358	109,106	216,637	1,011,659	389,173	186,652	49,625
	ii) Discounted value	125,693	108,332	214,315	1,002,708	382,026	183,039	48,596
	Amount Accepted							
	i) Face value	72,862	29,231	115,575	724,359	210,541	136,102	45,225
	ii) Discounted value	71,429	29,042	115,174	716,768	206,768	133,484	44,288
	Weighted Average Yield							
	i) Minimum % p.a.	5.362	1.658	0.995	2.017	7.549	8.315	8.687
	ii) Maximum % p.a.	12.150	5.815	1.702	7.479	8.326	8.689	9.548
B	Six Month Maturity							
	Amount Offered							
	i) Face value	287,853	747,018	328,990	470,885	182,112	125,483	64,325
	ii) Discounted value	276,882	731,354	326,114	460,185	173,289	120,197	61,426
	Amount Accepted							
	i) Face value	163,665	349,009	158,430	256,914	69,752	90,433	56,395
	ii) Discounted value	157,934	341,225	157,256	251,166	67,094	86,629	53,867
	Weighted Average Yield							
	i) Minimum % p.a.	5.645	1.639	1.212	2.523	7.968	8.485	8.902
	ii) Maximum % p.a.	12.555	12.404	2.076	7.945	8.487	8.902	9.822
C	Twelve Month Maturity							
	Amount Offered							
	i) Face value	202,984	695,425	476,719	136,713	555,757	787,636	568,790
	ii) Discounted value	187,339	665,337	466,729	128,569	509,202	717,951	516,955
	Amount Accepted							
	i) Face value	84,568	264,938	241,019	70,688	459,440	661,786	393,605
	ii) Discounted value	78,444	253,908	236,421	65,799	422,647	607,211	359,740
	Weighted Average Yield							
	i) Minimum % p.a.	6.383	2.356	1.396	2.691	8.456	8.786	9.159
	ii) Maximum % p.a.	11.984	6.941	2.187	8.401	8.791	9.160	10.124

(Contd.)

Note \*: MTBs was introduced in 1998-99

\*\*: PIBs was introduced in 2000-01

Table 5.7

## SALE OF GOVERNMENT SECURITIES THROUGH AUCTION

		(Rs. in million)						
No.	Securities	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	July-March 2007-08
2	Pakistan Investment Bond							
A.	Amount Offered	238,360	211,963	221,291	8,016	16,012	199017	133,052
	03 Years Maturity	46,124	26,074	38,514	2,400	3,896	36982	11,044
	05 Years Maturity	47,346	45,620	58,840	2,603	6,526	39799	21,177
	10 Years Maturity	144,890	140,268	93,041	3,013	5,590	65986	58,805
	15 Years Maturity	-	-	14,316	0	0	12750	14,876
	20 Years Maturity	-	-	16,579	0	0	20200	9,550
	30 Years Maturity	-	-	-	-	-	23300	17600
B.	Amount Accepted	107,695	74,848	107,658	771	10,161	87867	68,818
	(a) 03 Years Maturity.							
	(i) Amount Accepted	24,819	9,651	14,533	100	2,846	10882	4,953
	(ii) Weighted Average Yield #							
	(1) Minimum % p.a.	8.356	1.792	3.734	0.000	9.158	9.311	9.619
	(2) Maximum % p.a.	12.475	7.952	4.235	0.000	9.389	9.778	10.604
	(a) 05 Years Maturity.							
	(i) Amount Accepted	24,382	14,369	27,765	427	4,075	10174	10,777
	(ii) Weighted Average Yield #							
	(1) Minimum % p.a.	9.392	3.119	4.867	0.000	9.420	9.528	9.796
	(2) Maximum % p.a.	12.994	8.887	5.270	0.000	9.646	10.002	10.800
	(a) 10 Years Maturity.							
	(i) Amount Accepted	58,194	50,828	51,606	244	3,240	30211	23,038
	(ii) Weighted Average Yield #							
	(1) Minimum % p.a.	10.420	4.014	6.168	0.000	9.8005	10.106	10.179
	(2) Maximum % p.a.	13.981	9.587	7.127	0.000	9.8454	10.507	11.434
	(a) 15 Years Maturity. *							
	(i) Amount Accepted	-	-	6,996	0	-	9250	7,801
	(ii) Weighted Average Yield #							
	(1) Minimum % p.a.	-	-	7.683	0.000	-	10.85	11.103
	(2) Maximum % p.a.	-	-	8.994	0.000	-	11.058	11.868
	(a) 20 Years Maturity. *							
	(i) Amount Accepted	-	-	6,757	0	-	11250	7,850
	(ii) Weighted Average Yield #							
	(1) Minimum % p.a.	-	-	8.706	0.000	-	11.173	11.375
	(2) Maximum % p.a.	-	-	8.993	0.000	-	11.392	11.998
	(a) 30 Years Maturity.							
	(i) Amount Accepted	-	-	-	-	-	16100	14400
	(ii) Weighted Average Yield #							
	(1) Minimum % p.a.	-	-	-	-	-	11.546	11.588
	(2) Maximum % p.a.	-	-	-	-	-	11.680	12.239

Note \*: MTBs was introduced in 1998-99

\*\* : PIBs was introduced in 2000-01