MONEY AND CREDIT

6.1 Introduction

The development of financial markets and institutions is a critical and inextricable part of the economic growth. Financial sector deepening (financial development that includes not only an expansion in the financial sector, but also an improvement in institutions so that the financial system can allocate capital to its more productive uses more efficiently) and economic growth are empirically linked. In countries with better financial development, an efficient financial system ameliorates market distortions and reduces information and transaction costs. It thus identifies and funds good business opportunities, mobilizes domestic savings, monitors the performance of businesses, enables the trading, hedging and diversification of risk and facilitates the exchange of goods and services.

The banking sector of Pakistan was nationalized and public sector financial institutions were expanded during the early 1970s, based on the objectives of directing banking activities towards national socio-economic objectives and ensuring complete security of depositor's funds. The dominance of the public sector in banking sector and non-bank financial institutions, coupled with centralized policies marked with administered interest rates, domestic credit controls, high reserve requirements, use of captive banking system to finance large budgetary requirements of the government and controls on international capital flows were responsible for deterioration of financial institutions and their inability to play a vital role in economic growth of the country

There has been a remarkable improvement in Pakistan's financial sector as it initiated a broad-based program of reforms in the early 1990s.The pace of reforms; however, has increased manifold since 2000. Some of the key reforms included privatization of a number of financial institutions, rightsizing of banks and Development Financial Institutions (DFIs) through restructuring and improvement in corporate governance by promoting transparency and disclosure. Other reforms included strengthening of the legal framework to expedite recovery of stuck-up loans by promulgating a new recovery law, revision of Prudential Regulations (PRs) for corporate/commercial banking to accommodate four separate categories viz. Risk Management, Corporate Governance, Know Your Customer (KYC), Anti Money laundering and Operations as well as issuance of separate Prudential regulations for SMEs, consumer and agriculture financing.

The healthy competition among banks, lower taxation and reduction in non-performing loans brought about a lowering of average interest rate. Banks and financial institutions are free to set their own lending and deposit rates. As a result of successful reforms in the financial sector the M2/GDP ratio, which is an indicator of financial deepening and development has been showing rising trend since 1990-91.M2/GDP ratio has increased from 39.3 percent in 1990-91 to 45 percent in 2005-06.Credit to private sector/GDP ratio is also rising from 21.7 percent in 1990-91 to 27.4 percent in 2005-06.

Monetary policy stance of the SBP has undergone considerable changes over the last several years switching from an easy (2000-03) to a broadly accommodative stance (2003-04) and then from a gradual tightening (2004-05) to an aggressive tightening stance till date. During the fiscal year 2006-07, the SBP took several additional policy measures in different phases as part of monetary policy tightening. In the first phase, the SBP raised the Statutory Liquidity Ratio (SLR) from 15 percent to 18 percent and Cash Reserve Ratio (CRR) for commercial banks from 5 to 7 percent. The SBP also raised the discount rate (policy rate) from 9 percent to 9.5 percent. The increase in interest rates was in conformity with the international rising trends and these measures were also taken to curtail the lending ability of the commercial banks to the private sector. It aimed to curb strong domestic demand that was one of the main driving forces for fueling inflation

As a result of tight monetary policy pursued during the year, the credit growth to private sector slowed considerably from 19.8 percent during Jul-May 12 last year to 12.4 percent in the current year--the slowest credit growth in the last four years. The volume of credit also declined substantially in the same period clearly suggesting that the policy stance has considerable success in shaving off excess demand in the economy. The disaggregated data shows that the impact of tight monetary policy was felt considerably in textiles, cement, commerce and personal loans. However, other factors also contributed to slower growth in private sector credit during the current fiscal year that included the availability of non-bank finance to private sector including credit from non-banking financial institutions (NBFIs); availability of foreign private loans and issuance of corporate bonds in international capital market by private sector companies; mergers and acquisition in the banking industry; and continuous monitoring by the SBP of the personal loans not being used for speculative activities.

Notwithstanding a considerable slower growth in credit to private sector during the year, the overall, money supply (M2) grew sharply to 14 percent as against a growth of 12.1 percent in the same period last year for a variety of reasons. Most important factor that contributed to an increase in money supply was a sharp increase in net foreign assets (NFA) of the banking system owing to the considerable improvement in the country's external balance of payments. A higher government borrowing for budgetary support was yet another reason for sharper increase in money supply. The SBP's support to export sector also contributed to a relatively sharper increase in money supply during the year.

6.2 Credit Plan 2006-07

The State Bank of Pakistan prepared the Credit Plan for the year 2006-07 with a view to maintaining price stability and promoting economic growth. In the light of continued tight monetary policy the Credit Plan for the year 2006-07 projected broad money expansion at 13.6 percent (Rs.459.9 billion).This projection was based on targeted GDP growth of 7 percent and inflation target of 6.5 percent. The monetary expansion was kept marginally below the projected nominal GDP growth over 14 percent in view of monetary overhang that has built up from excessive yearly monetary expansion since 2002-03(18 percent average annual growth during FY 03 to FY 06) and rising inflation. The projected monetary expansion during FY 07 was expected to result primarily from the build up in the net domestic assets (NDA) (Rs.450.1 billion) and a moderate rise in the net foreign assets (NFA) (Rs.9.8 billion).Within the NDA, the government sector was estimated to avail bank credit of Rs.130.1 billion with budgetary borrowings at Rs.120.1 billion and commodity operations at Rs.10 billion. Credit to non-government sector was estimated at Rs.395 billion with private sector absorbing Rs.390 billion and PSEs utilizing Rs.5 billion (Table-6.1)

6.3 Monetary and Credit Development during 2006-07

The money supply during Jul-May 12'2007 of the current fiscal year expanded by Rs.477.9 billion or 14 percent as against an expansion of Rs358.2 billion or 12.1 percent in the same period last year (Table-6.1).The high monetary growth during this period was caused mainly by a sharp rise in net foreign assets of the banking system as the growth in net domestic assets of the banking system accelerated only slightly. Pakistan has seen large foreign inflows during the period which has resulted in an expansion of the NFA of the banking system. The NFA portrayed an expansion of Rs.88.1 billion as against the target of Rs.9.8 billion .The major factors responsible for large foreign exchange inflows included a relatively higher growth in workers' remittances and foreign investment (both FDI and portfolio), foreign inflows through Global Depository Receipts (GDRs), PTCL privatization proceeds and relatively slower increase in trade-related foreign currency loans.

While the increase in NFA reflects the improvement in country's external account; the higher growth in NDA was caused entirely by a sharp increase in government sector borrowings that more than offset the deceleration in the credit to non-government sector. The NDA of the banking system registered an expansion of Rs.389.68 billion during Jul-May FY 07 compared with Rs.314.38 billion expanded during the corresponding period of the preceding year. The sustainability of private sector credit take-off (Rs.273.9 billion) and sizable government borrowings for budgetary support (Rs.212 billion) were the major factors responsible for the current hefty build up in NDA.

Table-6.1 Profile of Monetary Indicators (Rs. million)

	Credit Plan 2006-07	July-12 May 2005-06	July-12 May 2006-07
1.Net government sector Borrowing (a+b+c)	130100	63859	185496
a .Borrowing for budgetary support	120100	73466	212018
b.Commodity operations	10000	-8947	-26424
c.Net Effect of Zakat Fund/Privatization	0	-660	-98
2.Credit to Non-government Sector (d+e+f)	395000	344017	273983
d.Credit to Private Sector	390000	339912	263429
e.Credit to Public Sector Enterprises (PSEs)	5000	5411	10173
f.Other Financial Institutions(SBP credit to NBFIs)	0	-1306	381
3.Other Items(net)	-75000	-93493	-69799
4.Net domestic assets (NDA)	450100	314383	389680
5.Net Foreign assets (NFA)	9800	43822	88194
6.Monetary Assets(M2)	459900	358205	477874
(Growth)	13.46%	12.08%	13.99%

Source:SBP

Table-6.2 Monetary Indicators(Growth Rates) (Percent)

Indicators	FY 05	FY 06	July-12May 2005-06	July-12May 2006-07
Net Bank Credit to Government Sector	14.6	12.1	8.5	22.0
Bank Credit to Private Sector	34.4	23.5	19.9	12.5
Net Domestic Assets(NDA)	22.4	17.1	13.5	14.3
Net Foreign Assets (NFA)	9.2	8.1	6.9	12.8
Money Supply(M2)	19.3	15.2	12.1	14.0

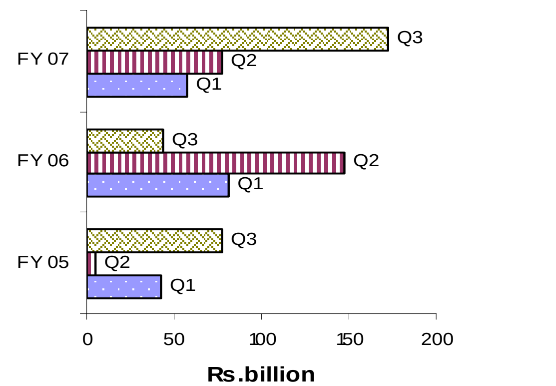
Source: SBP

6.4 Analysis of Monetary Indicators

6.4.1 Bank Credit to Government

The net bank credit to the government for financing commodity operations and budgetary support amounted to Rs.185.5 billion against the annual target of Rs.130.1 billion and net government sector borrowing of RS.63.8 billion during the same period last year. While credit to government for commodity operations declined by Rs.26.4 billion, reflecting retirement on this account, credit to government for budgetary support swelled to Rs.212 billion against the annual target of Rs.120 billion. According to analysis, budgetary borrowings from banking sector till the Jul-Feb FY 07 were less than half of that in the corresponding period last year. It was March 2007 onwards that this picture changed completely and the budgetary borrowings exceeded those in the previous year (Fig-6.1).Specifically, during Mar-Apr FY 06, the realization of Euro bond issuance and PTCL privatization proceeds had enabled the government to retire most of the budgetary borrowings from the domestic banking system during the period. As these external inflows were not available to the government in Mar-Apr FY 07; government financed its budgetary requirements through domestic bank borrowings (see Fig 6.1). Within the banking sector, the scheduled banks provided the bulk of budgetary finance during Jul-May FY 07; sharply in contrast with corresponding period last year when the SBP was directly financing the budgetary needs. However, with the inflows of receipts from the issuance of Euro bond and other expected external inflows before the current fiscal year, the picture will change substantially and government borrowings for budgetary support may come back to the target for the year.

Fig-6.1 Quarterly trends in Budgetary borrowings



6.4.2 Bank Credit to Private Sector

Growth in private sector slowed from 19.85 percent during July-May FY 06 to 12.46 percent during Jul-May FY 07; the lowest credit growth in the last four years (see Fig-6.2). The volume of credit also declined substantially in the said period showing that monetary policy has been reasonably successful in reducing excess demand in the economy. However credit to private sector as percent of GDP is rising since 1990-91 from 21.7 percent to 27.4 percent in 2005-06 (Fig-6.3)

Fig-6.2 Private Sector Credit Growth

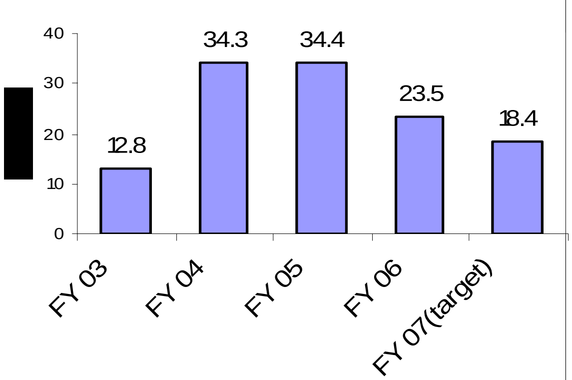
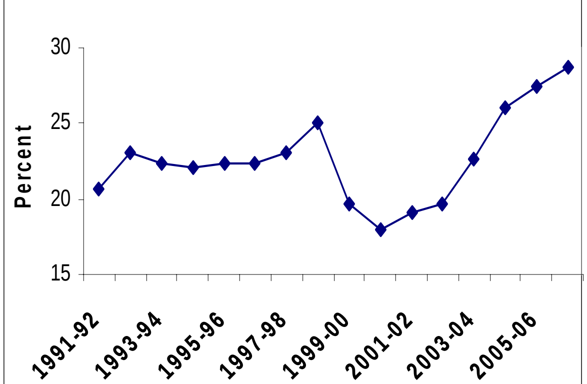


Fig-6.3 Private Sector Credit as % of GDP



Besides interest rate increases, other contributory factors for a slowdown in private sector credit were;(1) the availability of non-bank finance to the private sector, including credit from NBFIs, increase in foreign private loans and issuance of corporate bonds in international market by the private sector companies (2) banks following more conservative credit assessment given the expanded borrowers' data available through CIB ; (3) mergers and acquisition in the banking industry[1]; and(4) the SBP's continuous emphasis on monitoring the personal loans as well as under other schemes to ensure the minimum use of bank credit to finance speculative activities. In fact, a significant contribution to the realized FY 07 credit growth was due to the provision of concessional financing facilities extended to the export sector by the SBP.

Table-6.3 Private sector Advances Rs.million)

Sectors	Jul-Mar	
	FY06	FY07
Overall Credit	312460	267482
I. Advances to Private Sector business	233049	203194
A. Agriculture	-1367	10535
B.Fishing	-585	-113
C.Mining And Quarrying	1231	345
D.Manufacturing	132033	119039
E.Ship breaking and waste	1217	-263
F.Electricity,gas and water	2375	12323
G.Construction	9015	10314
H.Commerce and Trade	51227	15873
I.Transport,storage and communications	5737	13888
J.Services	21586	18360
K.Other Private Business	10581	2893
II.Trust funds and NPOs	1628	620
III.Personal	67231	38819
IV.Others	-6478	4067
V.Investment in Securities and Shares	17030	20783

Source:SBP

Nevertheless, the disaggregated data shows that the slowdown in private sector credit during Jul-Apr FY 07 was not only concentrated in few sectors; but was concentrated in few banks as well. The bank wise data shows that excluding the privatized banks, the credit to private sector has decelerated only slightly[2].

A sectoral analysis of the data shows that within *business sector*, the major slowdown came from the commerce and trade sector (the growth of which was only one third of the growth in the preceding year), textiles, cement industries and personal loans. The slowdown in trade financing during Jul-Feb FY 07 is in line with the slowdown in aggregate trade volume deceleration in growth. However, the composition of trade financing during Jul-Feb FY 07 is in contrast with Jul-Feb FY 06. Foreign currency loans, on the other hand, lost their attractiveness for domestic exporters because of declining spread between the cost of FE-25 and EFS loans.

Within the *agriculture sector*, government had increased its target by 23% to Rs.160 billion compared with Rs.130billion of FY 06.The gross disbursement to agri-sector grew by 22% to Rs.111 billion during Jul-Mar FY 07 compared with an expansion of 23.5% (Rs.91billion) during the same period of last year (Table-6.4).Production loans rose by 28.3% to Rs.98 billion from Rs.76 billion last year; while the development loans declined to Rs.13.5 billion from Rs.15 billion during the same period. Commercial banks gross disbursement during Jul-Mar FY07grew by 12.2% to Rs.65billion and the commercial banks maintained the lead in terms of credit disbursement over the traditional dominance of Zarai Taraqiati Bank. The credit performance of small private domestic banks also improved marginally as their credit share rose to 14.5 (Rs.16.1 billion) from 12 %(Rs.11 billion) of the last year. The share of production loans in fiscal year 2006-07 increased to almost 88 percent from 83.5 percent last year. The share of commercial banks in production loans jumped to 88 percent in Jul-Mar 2006-07 from 81 percent last year. It appears that commercial banks have

[1] The banks that merged during Jul-Apr FY 07 registered an expansion of Rs.13.6 billion compared with Rs.28.8 billion in the preceding year.

[2] Privatized banks include HBL,MCB,ABL,and UBL

concentrated more in production loans than development loans but the lack of demand for development loans cannot be ruled out as its share in total credit disbursement also declined from 16.5 percent to 12 percent.

Table-6.4 Targets and Actual Disbursement of Agriculture Loans (Rs.million)

Name Of Bank	Actual Disbursement (July-March)					
	FY 06			FY 07		
	Production Loans	Development Loans	Total	Production Loans	Development Loans	Total
I. Total Commercial Banks (A+B)	**46981**	**10972**	**57953**	**57185**	**7859**	**65044**
A. Major Commercial Banks	**37641**	**9332**	**46973**	**42939**	**6123**	**48962**
1.Allied Bank of Pakistan Limited	3637	71	3708	4470	78	4548
2.Habib Bank Limited	9795	6113	15907	9256	4015	13270
3.Muslim Commercial Bank Limited	3871	224	4095	5244	124	5368
4.National Bank of Pakistan	14803	1917	16721	17525	1500	19025
5.United Bank Limited	5534	1007	6541	6343	406	6749
B Private Domestic Banks	**9340**	**1640**	**10980**	**14346**	**1736**	**16082**
II.Total Specialized Banks(1+2)	**29121**	**4086**	**33208**	**40448**	**5703**	**46151**
1.Zarai Taraqiati Bank Limited	25666	3361	29027	36893	3989	40881
2.P.P.C.B	3455	725	4181	3556	1714	5270
Grand Total (I+II)	**76102**	**15059**	**91161**	**97633**	**13562**	**111195**

Source:SBP

Table 6.5 Acceleration/Deceleration in Advances to Private Sector Business-Major Sectors

Accelerating	Decelerating
Manufacturing	
Coke and refined petro products	Made-up textiles
Machinery and equipment	Carpets and rugs
Sports goods	Leather
Wearing apparel, readymade	Spinning,weaving and finishing
Electrical machinery	Manufacture & distribution of gase
Basic Metals	Transport & equipment
Medicinal pharmaceuticals	Fertilizers and nitrogen
Grain mills	Knit wear
Edible oil and ghee	Sugar
	Cement
Non-Manufacturing	
Production and Trans of electricity	Radio and television
Health	Building
Collection & distribution of water	Mining and Quarrying
Hotel and restaurants	Transport & equipment
Infrastructure	Commerce and Trade
Education	Real Estate
Telecommunications	Ship breaking and waste
Fishing	
Growing of crops	
Livestock	

Source:SBP

Advances to manufacturing sector decelerated to reach 13.2 percent during Jul-Mar FY 07 compared with 17.5 percent in the preceding year. Within the manufacturing sector, advances to textile industry registered major slowdown during Jul-Mar FY 07 attributed mainly to certain industry specific factors. Specifically, more than half of the manufacturing units registered a higher growth in off-take of working capital loans while rest of the units observed slower growth.

Demand from the *utilities segment* has been weak in the past but has picked up (65.3 percent during Jul-Mar FY 07 as compared to 15.4 percent for the corresponding period last year). According to information available from Private Power & Infrastructure Board (PPIB) which facilitates Independent Power Producers (IPPs), future projects currently under evaluation will add approximately 13,399 MW to Pakistan's power generation capacity at an estimated cost of USD 12.8 billion. Assuming a 70:30 debt equity structure translates into a credit requirement of approximately Rs. 540 billion for which various domestic and international debt options may be explored by the sponsors of the different projects.

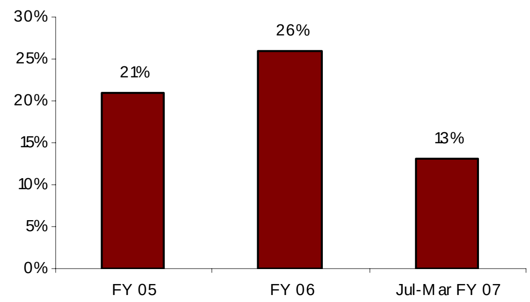
A *construction boom* is well underway in Pakistan though a large proportion remains in the informal sector. As construction cost mount, more of this activity is expected to come in the formal sector thus fueling demand for credit. Some international construction firms such as Emaar, Al-Ghurair, and Meindhart have already started operations in Pakistan. At the same time the Karachi Stock Exchange (KSE) saw its first listing of a real estate development company in CY 07 suggesting that the domestic construction industry is finally coming of age. Advances to construction sector remained strong at 24.6 percent during Jul-Mar FY 07, although a little lower than 28.7 percent in Jul-Mar FY 06.This was caused primarily by the increased financing needs of infrastructure related construction activities. In addition, the rise in raw material prices, especially the international metal prices, have also led to increase in financing needs of construction sector.

After registering an extraordinary growth of 70.5 percent in Jul-Mar FY 05, the consumer loans have been exhibiting a deceleration; dropping to 31.6 percent in Jul-Mar FY 06 and 11.9 percent in Jul-Mar FY 07(Fig-6.4). While the Jul-Mar FY 06 slowdown also incorporated some base effect; the slowdown in Jul-Mar FY 07 was caused primarily by the increase in interest rates as well as more restrained lending by banks. The deceleration in auto loans, in particular, was the largest contributor in total decline of private sector credit, the slowdown was attributed to three reasons;(1) the increase in interest rates;(2) low demand for automobiles as a result of increase in prices of domestic cars and low interest of consumer in imported cars;(3) high insurance charges that have increased the effective cost of automobile financing[3] and (4) increased number of bad debts due to interest rates increases that resulted in a relatively more cautious lending by the banks.

Personal loans witnessed significant deceleration during Jul-Mar FY 07.In addition to increased cost of financing, the mandatory use of Credit Information Bureau (CIB) data by banks is also cited as a major reason in the slowdown of personal loans. In addition, the SBP has given much emphasis on the need to ensure closed monitoring of personal loans so that these loans are not utilized for speculative activities

[3]Insurance is compulsory for auto financing from banks. Most of the car insurance companies have made it compulsory for the insurance holders to use costly car tracking devices

Fig-6.4 Share of Consumer Financing in total Private Sector Credit



6.4.3 Net Domestic Assets (NDA)

Growth in Net Domestic Assets grew by 14.28 percent during Jul-May FY 07 as against 13.50 percent increase during the corresponding period in the previous year. The higher growth in NDA was caused entirely by a sharp growth in credit to government sector (Rs.185 billion). The rise in government borrowings more than offset the impact of a sharp slowdown in credit to non-government sector.

6.4.4 Net Foreign Assets (NFA)

Following the significant improvement in country's external account, the NFA of the banking system registered an expansion of Rs.88.2 billion during Jul-May FY 07.The increase in NFA looks particularly high especially when compared with Rs.9.8 billion initial estimate in the Credit Plan for FY 07 and a sizable low expansion of Rs.43.8 billion during the same period last year.

Major factors responsible for the current expansion in NFA include, relatively high remittances inflows, influx of foreign exchange mainly through GDRs, a relatively high foreign investment (both FDI and Portfolio), foreign private loans and increase in loan disbursements from Asian Development Bank. Within the banking system, so far, the growth in NFA stemmed entirely from scheduled banks'NFA where most of the private sector foreign exchange flows were directed. The increase in SBP NFA,in contrast, during Jul-May FY 07 were a little lower than in Jul-May FY 06 mainly due to relatively lower government sector external inflows in the former period.

Specifically, despite a substantially lower inter bank US dollar injections, the SBP NFA increased by Rs 34.85 billion during Jul-May FY 07 as compared with a net expansion of Rs.71.7 billion during the same period of FY 06. The NFA of the scheduled banks showed an expansion of Rs.177.17 billion during Jul-May FY 07 compared to Rs.1.8 billion during Jul-May FY 06.This higher expansion is mainly explained by high foreign investment (both direct and portfolio), a sluggish demand for FE-25 loans by the business sector and significantly higher inflows of workers' remittances during Jul-Apr FY 07.And most of the increase in scheduled bank's NFA came during the Q3-FY 07 when the overall external account balance turned into a surplus(Fig-6.5). In addition to a narrowing trade deficit and an increase in foreign direct investments, a noticeable increase was also observed in Special Convertible Rupee Accounts (SCRA) balances during Q3-FY 07 which has even higher than the combined increase in SCRA during Q1 and Q2-FY 07.Although SBP purchased major part of foreign exchange from inter-bank market during Q3-FY 07; the volume of purchases was not sufficient to offset the impact of these inflows.

6.4.5 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 first nine months of the current fiscal year are presented below (Table-6.6).

Table-6.6 Monetary Aggregates (Rs million)

Items	End June		July-12 May	
	2005	2006	2005-06	2006-07
Narrow Money (M1) (1+2+3)	**1624234**	**1840581**	**178564**	**1480980**
Currency in Circulation	665901	740390	111046	133781
Demand Deposits with banks	954998	1095260	66953	1346017
Other Deposits with SBP	3335	4931	565	1182
Time Deposits with Banks	1161823	1380418	171546	-1008089
Resident's foreign Currency Deposits	180295	195501	8094	4984
Monetary Assets Stock (M2) (1+2+3+4+5)	2966352	3416500	358204	477875
As Percent of M2				
Currency in Circulation	22.45	21.67	31.0	28.0
Demand Deposits with banks	32.19	32.06	18.7	281.7*
Other Deposits with SBP	0.11	0.14	0.2	0.2
Time Deposits with Banks	39.17	40.40	47.9	-211.0*
Resident's foreign Currency Deposits	6.08	5.72	2.3	1.0

Source:SBP

*. Sharp increase in demand deposits and equally sharp decline in time deposits simply reflect the change in classification done by the SBP. Effective from 22 July 2006, demand and time deposits have been re-classified in accordance with BSD Circular No 9 2006 dated 18th July 2006. Time deposits of less than 6 months are included in demand deposits for the purpose of CRR and SLR.

6.4.5.i Currency in Circulation

As shown in the Table 6.6, currency in circulation during July-May FY 07 increased by 18.1 percent as against an expansion of 16.7 percent during the same period of last year. A high growth in currency in circulation reflects increased level of economic activities. The currency in circulation constituted 28 percent of the money supply (M2) as against 31 percent in the same period last year. The decline in the share of currency in circulation reflects the rise in monetization of the economy.

6.4.5.ii Deposit with Scheduled Banks

During Jul-May FY 07 demand deposits has increased by 122.89 percent as compared to their increase of 7 percent in the same period of last year. Time deposits on the other hand showed a decline of 73 percent as compared to their increase of 14.8 percent in the comparable period of last year.[4]

[4] *. Sharp increase in demand deposits and equally sharp decline in time deposits simply reflect the change in classification done by the

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 45 percent in 2005-06.In March 2007, M2/GDP ratio was 43.6 percent as compared to 42.7 percent in the corresponding period of last year (see Table 6.7).

Table-6.7 Key Indicators of Pakistan's Financial Development

Years	M2/GDP	M1/M2	DD+TD/M2	TD/M2
1999-00	36.9	52.8	74.6	39.2
2000-01	36.7	49.9	75.4	40.0
2001-02	40.0	49.8	75.4	41.3
2002-03	43.1	53.2	76.2	40.7
2003-04	44.9	55.2	76.8	39.0
2004-05	45.1	54.8	77.6	39.2
2005-06	45.0	53.9	72.5	40.4
Jul-Mar				
2005-06	42.7	54.2	71.1	34.2
2006-07	43.6	85.9*	72.6*	8.9

Source: SBP

* It may be noted that it is not comparable with the previous periods due to change in classification by the SBP (See Annexure-A).

6.5 Interest Rate Environment

The interest rate structure is one of the most important indicators of the financial sectors. It is also an important determinant of credit flow to the private sector and overall investment activities. Lower lending rates and liberal credit policy encourage higher flow of credit to the private sector while rising lending rate and tight monetary policy which are essential tools for controlling inflationary pressures, restrict credit flow to the private sector. Consistent with its objective of shaving off domestic demand with a view to reducing inflation, the SBP not only raised reserve requirements for banks with effect from July 22, 2006 but also increased the discount rate by 50 bps to 9.5 percent.

In addition, SBP continued further with its frequent open market operations (OMO's) to drain excess liquidity from the inter-bank market. (Specifically, SBP conducted 58 OMOs during July-April FY 07 and moped up Rs.789.3 billion against the injection of Rs.72 billion as compared to Rs.485.9billion against the injection of Rs.382.8 billion in corresponding period of last year.)

Table-6.8 Summary of Open Market Operations

(Rs.billion)

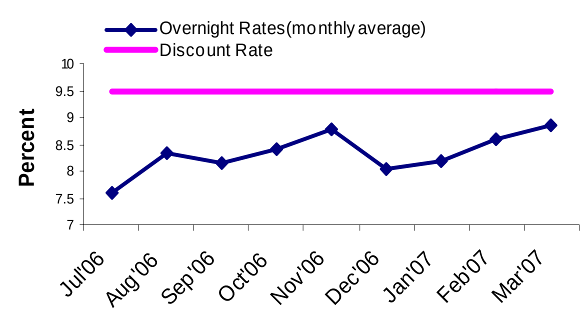
	Injection		Absorption	
	FY 06	FY 07	FY 06	FY 07
Jul			46.8	133.5
Aug	8.3	21.2	65.2	105.7
Sep			69.7	87
Oct	38.6		9	81.3
Nov	74.1		26.5	61.9
Dec		25.8	95.9	117.2
Jan	111.5		67.1	60.2
Feb	42.8		64.7	11.7
Mar	10.7	25	41.1	42.1
Apr	96.9			88.8
Total	**382.8**	**72**	**485.9**	**789.3**

Source:SBP

This is evident from a persistent narrow spread between discount rate and overnight rate throughout July-Feb FY07 period (Fig-6.6).

Finally in order to improve liquidity management in the inter-bank market, SBP raised the daily minimum reserve requirement for banks effective from January18th2007. At the same time, SBP was also concerned about the recent slowdown in export growth and growing long term investment needs in textile industry. Accordingly, SBP first lowered the export refinance rate in July 2006, thereby reducing the cost of financing to industry to around 300 bps below market rates. This is in addition to long term financing for export oriented projects (LTF-EOP) which is extended at 4-5 percent or 600-700 bps below market rates for 3-7 years.

Fig-6.6 Weighted Average Overnight Rates



SBP. Effective from 22 July 2006, demand and time deposits have been re-classified in accordance with BSD Circular No 9 2006 dated 18th July 2006. Time deposits of less than 6 months are included in demand deposits for the purpose of CRR and SLR.

In addition, SBP also raised the cut-off yield on 6 months and 12 months *Treasury Bills* which had increased gradually by 41 and 29 basis points to 8.9%and 9.07%, respectively during July-March FY 07 (Fig-6.7).Strong demand for T-Bills continued in the current fiscal year as market offered a total amount of Rs.843.81 billion in first nine months of FY 07. The SBP accepted Rs.696.51 billion from the primary market of T-Bills during the first nine months of FY 07 as compared to Rs.739.73 billion in FY 06 (Table-6.9).This heavy investment from scheduled banks in government papers was due to increase in Rupee liquidity at their disposal (The increase in liquidity stemmed mainly from a strong deposit growth, a slowdown in credit off take and SBP's large US $ purchases from the inter- bank). In the first nine months of FY 07 heavy investment was in 12 months T-bills which constituted 71.28%, which registered an increase of 9.17% as compared to corresponding period of last year (Fig-6.8)

Fig-6.7 Weighted Averagerates of returns on T-bills

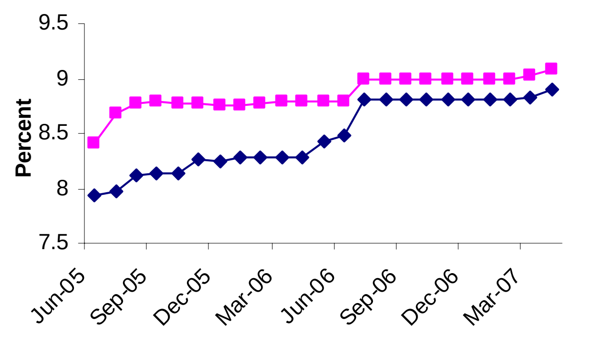


Fig-6.8 Percentage Contribution of T-bills

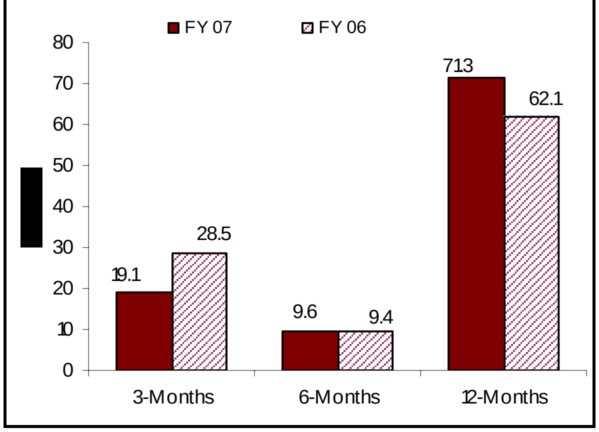


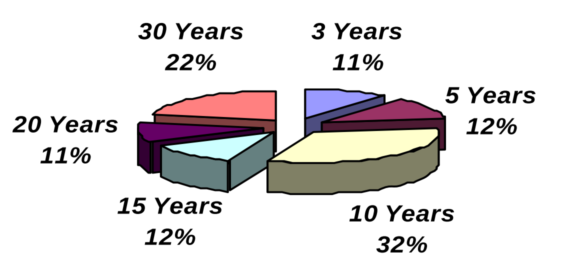
Table-6.9 Market Treasury Bills Auctions (Rs million)

MTB	2005-06			July-March 2006-07		
	Offered	Accepted	*W.A Rate	Offered	Accepted	*W.A Rate
3-Months	389,173	210,541	7.9	182,802	133,152	8.5
6-Months	182,112	69,752	8.2	99,320	66,920	8.6
12-Months	555,757	459,440	8.6	561,683	496,433	8.9
Total	**1,127,042**	**739,733**		**843,805**	**696,505**	

*Average of maximum & minimum rates *Source:SBP*

Interest rates of 3, 5 and 10 years maturities of the *Pakistan Investment bonds (PIBs)* exhibit an increase in the range of the 14 basis points to 33 basis points during the FY 07 over last year. The SBP conducted four PIBs auctions till March 2007 and launched 30 years paper for the first time in December 2006 which was highly appreciated by market players and it constituted 22% of the total accepted amount of PIB during July-March 2006-07(Fig-6.9).All the PIB auctions in aggregate have witnessed a great participation from the market. Total offered amount was Rs.100 billion; most

Fig-6.9 Percentage Contribution of PIBs



importantly from institutional investors, which suggests that the long-term government paper is re-gaining the confidence of investors and continuity of PIB issuance would also enable them to invest their liquidity in government papers and manage their balance sheet in more innovative ways. The lengthening of maturities on both assets and liabilities side could also help in diverting resources from working capital needs towards investment. (Table-6.10)

Table-6.10 Pakistan Investment Bonds Auctions (Rs.million)

Tenure	2005-06			2006-07 (Jul-Mar)		
	Offered	Accepted	W.A Rates	Offered	Accepted	W.A Rates
3 Years	3,896	2,846	9.39	21,770	3,982	9.53
5 Years	6,526	4,075	9.65	17,407	4,523	9.82
10 Years	5,590	3,240	9.85	26,030	12,170	10.18
15 Years				9,850	4,300	11.01
20 Years				13,150	4,000	11.39
30 Years				12,000	8,000	11.68
Total	**16,012**	**10,161**		**100,207**	**36,975**	

*Average of maximum & minimum rates

Source:SBP

Table-6.11 Lending & Deposit Rates(W.A)

	2005-07		
	LR	DR	Spread
Jun-05	8.2	1.9	6.4
Jul-05	9.1	2.1	7.0
Aug-05	9.0	2.2	6.8
Sep-05	9.5	2.2	7.3
Oct-05	9.7	2.3	7.4
Nov-05	9.8	2.4	7.4
Dec-05	9.5	2.6	7.0
Jan-06	9.8	2.6	7.1
Feb-06	10.2	2.8	7.4
Mar-06	10.1	2.8	7.4
Apr-06	10.3	2.9	7.4
May-06	10.2	2.9	7.3
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

Source:SBP

As shown in Table 6.11,the weighted average lending rate has increased by 240 basis points in a period of 21 months from June 2005 to March 2007 from 8.2 percent in June 2005 to 10.6 percent in March 2007.In fact, during the first nine months of the current fiscal year(Jul-Mar),W.A lending rate has increased by 70 basis points or from 9.9 percent in June 2006 to 10.6 percent in March 2007.The spread between the lending and deposit rates has also increased from 6.4 percent in June 2005 to 6.6 percent in March 2007.However,W.A.lending rate has declined by 60 basis points during December 2006 to March 2007 showing enormous liquidity in the banking system, particularly during the third quarter of the fiscal year when foreign inflows surged in Pakistan.

6.5.1 Impact of Rising Interest Rates

The tight monetary stance for almost two years (i.e., since April 2005), and measures of further tightening adopted at the beginning of FY 07 did help in moderating inflation in the country. The impact is, however, visible only in non-food inflation, which has come down to 5.5 % YoY in March 2007 from 8.4% and 7.5% in February 2006 and June 2006, respectively. On the other hand, in seven out of the first nine months of FY 07, food inflation was recorded in double digits. Given that food items constitute 40.3% of overall CPI basket, higher inflation in the former has restrained the downward movement in headline inflation.

6.6 Performance Evaluation of Financial Sector

The Financial sector in Pakistan comprises of commercial banks, development financial institutions (DFI), micro finance companies (Leasing companies, investment banks, discount houses, housing finance companies, Venture capital companies, mutual funds, modarbas, stock exchanges and insurance companies. As of

September 2006 there were 4 public sector banks, 4 specialized banks, 23 local private commercial banks, 10 foreign banks, and 6 micro finance banks and 7 DFIs.

6.6.1 Commercial Banks

The banking sector has had an exceptional run since the last few years as profitability has risen by 76% on an annual basis due both to rapid economic growth and prevailing macroeconomic conditions. Economic growth has led to a surge in consumer spending and banks have capitalized on this trend by expanding their consumer product portfolio (see Table-6.12 for details).

Table-6.12 Performance of Scheduled Banks

	July-March	
	2005-06	2006-07
1.No.of Branches	7503	7852
— a. Domestic Banks	7415	7747
— b.Foreign Banks	88	105
2.Assets (Rs.billion)	4029.3	3733.5
— Nationalized Commercial Banks	827	720.6
— Private Banks	2704	2533.9
— Specialized Banks	118.7	114.6
— Foreign Banks	379.6	364.4
3.Net Advances (Rs.billion)	2160.6	2036.3
— Nationalized Commercial Banks	389.3	355.6
— Private Banks	1516.7	1438.6
— Specialized Banks	66.5	61.7
— Foreign Banks	188.1	180.4
4.Deposits (Rs.billion)	3090.5	2852.2
— Nationalized Commercial Banks	663	571.8
— Private Banks	2142.7	2010.3
— Specialized Banks	13.2	11.9
— Foreign Banks	271.6	258.2
5.Net Investments (Rs.billion)	857.8	870.3
— Nationalized Commercial Banks	202.3	190.2
— Private Banks	573.3	578.7
— Specialized Banks	21.6	21.6
— Foreign Banks	60.6	79.8
6.Gross Non-Performing Loans (Rs.billion)	183.8	176.7
— Nationalized Commercial Banks	39.6	39
— Private Banks	99.8	98.1
— Specialized Banks	42.4	37.6
— Foreign Banks	2	2
7.Loans Recovery ratio to Gross NPLs	26	12.7
— Nationalized Commercial Banks	4.6	0.7
— Private Banks	3.7	5.0
— Specialized Banks	10.3	4.9
— Foreign Banks	7.4	2.1

Source: SBP

With the increasing significance of consumer spending in economic growth, the banking sector presents a very attractive investment opportunity. Unlike other industries, bank present an exposure to a diversified consumer segment base, thus reducing the risk associated with a single industry.

In 2006-07, total number of branches of domestic banks was 7747 as compared to 7415 in 2005-06; there has been an increase of 332 branches in the first nine months of FY 07.

Assets of all banks show a net contraction of Rs.275.8 billion in the first nine months of FY 07 as compared to same period of FY 06.A deceleration in private sector credit and higher contraction in Other Items Net (OIN) contributed to slowdown of scheduled bank's assets.

Growth in credit has decelerated during July-Feb 07 by Rs.124.3 billion, close analysis of the data shows that the slowdown primarily stems from deceleration in fixed investment loans as the working capital requirements have actually accelerated. Credit growth is expected to accelerate as structural factors are resolved and the infrastructure projects come online

The total deposit during July-March FY 07 showed a decline of Rs.238 billion as compared with the same period of last year. A disaggregation of deposit mobilization within the banking groups shows that most of the slowdown is registered in domestic private banks due to mergers and acquisitions activities in the whole year. The deposit mobilization of foreign banks and the large privatized banks, on the other hand, has remained higher. It is interesting to observe that returns offered by private sector commercial banks on deposits which were the lowest during July-Feb 06 among banking groups.Duing Jul-Feb FY 07, these banks raised deposit rates by 256 basis points and now operating with the highest deposit rates. Despite this sharp increase in deposit rates, the deposits of public sector banks registered net decline.

Net Investment of the banks has registered an increase of Rs.12.5 billion in FY07 mainly contributed by the foreign banks amounting Rs.79.8 billion as compared to Rs.60.6billion for the nine months of FY 06.

Loan Penetration should get a boost from electronic banking as debit and credit gain wider acceptance due to their convenience factor. The number of both ATM and credit card holders is increasing in excess of 50% annually. With MCB just having entered the segment and ABL planning to re-launch its credit card business the segment should continue to see robust growth.

E-banking has already been introduced by a number of banks in Pakistan while the government is reportedly trying to improve access to banking further through the use of m-banking (mobile).Out of the 6 banks in our universe 3 are already providing e-banking facilities with at least one more is about to join their ranks(see Table-6.13).

Table-6.13 Electronic Banking Statistics

Period	On-line Branches	No. of ATMs	ATM Transaction (Million No.)	Value of ATM Transaction (Million Rs)	Credit card Amount Outstanding (Million Rs.)
Jun'05	2897	1028	8.56	43810	19340
Dec'05	3265	1217	7.94	46675	27099
Jun'06	3555	1612	10.1	60809	33538
Dec'06	3947	1948	12.5	77656	39198

Source: SBP

Asset quality of all banks has steadily been rising as both NPLs and Net NPLs in absolute Rupee terms have been declining .The NPL for the first nine months of 2006-07 is recorded to be Rs.176.7billion as compared to last year amount of Rs.183.8 billion, overall there is a decline of 3.9%. Private Commercial Banks has reduced its gross non-performing loans by 1.7% and Specializes Bank contributed with a reduction of 11.3%. Foreign banks stock of net performing loans recorded no change as was observed in first nine months of 2005-06. Cash recovered against the non-performing in the first nine months of 2006-07 is less than that of recovered in the same period of 2005-06.There is a reduction of 13.3% in loan recovery to gross NPLs ratio as compared to the same period last year,. Nationalized Commercial Banks recovered 0.7%,Specialized banks 4.9%,foreign banks 2.1%,and private commercial contributed cash recovery of 5% as compared to 3.7% in same period of 2005-06.The overall industry has however improved in its NPL coverage ratio since CY 00.

There has been a significant **Merger and Acquisition (M & A) activity** within the banking industry over the last couple of years. This has been driven at times by the desire to achieve scale and other times by attractive investment opportunities. Out of 8 public sector commercial banks 4 have been privatized with 3 of the transactions taking place over a 3 year period from CY 02 to CY 04.Two of the privatizations attracted foreign interest with one being acquired by a consortium of the Bestway Group (UK) and Abu Dhabi Group (UAE) and the other being acquired by the Aga Khan Fund for Economic Development (AKFED).Standard Chartered recently acquired a 96% stake in the Union bank, a domestic bank for approximately USD 487 million, a transaction driven by the desire to gain scale. ABN Amro has acquired Prime Commercial Bank.

Two transactions have been driven purely as investment opportunities over the last 2 years. One involved Temasek Holdings(Singapore) acquiring approximately 75% stake in NIB Bank while SAMBA(Saudi Arabia)is currently in the process of acquiring a 68% stake in Crescent Commercial Bank.

6.6.2 Microfinance Banks

Microfinance emerged in the 1970s as social innovators bean to offer financial services to the working poor-those who were previously considered'un-bankable'because of their lack of collateral. Once given the opportunity, not only did clients of MFIs expand their businesses and increase their incomes, but their high repayment rates demonstrated that the poor are capable of transforming their own lives given the chance. This model of lending disapproved all conventional thinking. Microfinance has become one of the most sustainable and effective tools in the fight against global poverty

Microfinance sector in Pakistan has recorded substantial growth over the past six years as an outcome of a conducive policy and regulatory framework as well as supportive investments undertaken by the Government of Pakistan towards the development of the sector. This is evident by the increase in the number of retail Institutions, more than ten fold increase in number of clients to nearly a million over the period, entry of the greenfield specialized microfinance banks, diversification in products and expansion in distribution network across some of the most resource constrained of the country. The outreach within the sector remains pre-dominantly rural while new players prefer to expand more in urban territories and six specialized microfinance banks as a group having the largest proportion of microfinance clients in the market. These developments have encouraged the evolution of micro sector such as microfinance networks, rating agencies, top audit firms having enhanced their capacities to engage with the microfinance industry as well as deepening of the central bank credit bureau to cater to microfinance clients.

Khushali Bank continues to lead and is the largest microfinance Institution in the country in term of its network, clients and portfolio. The bank has a presence in 85 districts of the country through a network of 110 service outlets and processed over a million loans worth Rs.10 billion across 550,000 households with a portfolio that is pre-dominantly rural. Expanding access to low income households across marginalized territories remains a priority and highlights of the year where the opening of branches in Khyber and Kurrum agencies of the Federally Administered Tribal Area besides launch of a network across the eight district affected by the earthquake in North West Frontier Province and Azad Jammu and Kashmir under the Emergency Livelihood Restoration Program funded by the Government.

The business strategy for the future is to pursue portfolio consolidation and maintaining momentum in terms of client growth and outreach that will lead to improving sustainability of the Institution with a greater focus on improving client service and retention. These efforts will contribute towards achieving the sectoral goal for reaching 3 million households by 2010 set by the Government.Government of Pakistan has also sought assistance from the ADB to support a reforms program, aimed at improving access to credit and other financial services and to launch a Capacity Building Project to promote the development of microfinance by expanding microfinance outreach and services to the poorest.

6.6.3 Small and Medium Enterprise Sector

The importance of Small and medium Enterprise Sector in achieving and sustaining higher levels of growth in the economy is now well recognized based upon the fact that SMEs are a source of low cost employment. They play a key role in achieving fair and equitable distribution of wealth as well as in fostering a self-help and entrepreneurial culture in the economy. In FY 07, credit disbursed to SME for various sectors was Rs.28.3 billion as compared to Rs.40.593 billion in FY 06.Major contribution was towards the value addition of manufacturing sector which constituted 43.3 % of the total credit disbursed(Table-6.14).

SME Bank responds to the need of Small and Medium Entrepreneurs by providing them with the necessary financial assistance in the form of medium to long term funds.

The bank and its leasing company both financed 1402 SMEs during the year 2006 by extending to them record credit of Rs.1.95 billion

During 2006, bank's disbursements rose to an all time high and surged to Rs.1.25 billion. The number of clients served rose to 1117 and since inception the bank has financed Rs.3.56 billion and served 5966 clients. Deposit rate rose by 67 % during the year 2006. During 2006 the bank, as policy decision, has suspended the recovery of loans extended to earthquake victims. This portfolio stands at Rs.33 million.

The Government of Pakistan assisted by the Asian Development Bank (ADB) engaged in working on a Rs.8 billion SME Sector development. This program apart from others aspects of policy issues relating to SME sector of Pakistan, also envisages restructuring of SME Bank Limited.

At the end of 2006, the bank has met key performance indicators/milestones on schedule as it has paid Rs.4963 million to SBP up to December 31, 2006 against outstanding Credit Lines and bank has increased Paid-up Capital to Rs.2000million.Now bank is heading towards Privitization.In this regard Privatization commission (PC) has constituted a transaction committee and PC has initiated formalities on February 12, 2007.

Table-6.14 Credit to SME (Rs.million)

Sector	Stocks			Flows		
	Jun'05	Feb'06	Jun'06	Feb'07	FY 06	FY 07
Fishing	880	845	913	693	(36)	(220)
Mining and Quarrying	782	646	822	1018	-136	196
Manufacturing	**140207**	**154680**	**153147**	**168067**	**14473**	**14920**
Ship Breaking	568	610	959	414	43	-545
Electricity and Gas	1784	1801	1872	2786	17	914
Commerce and Trade	**103676**	**125585**	**123723**	**127688**	**21909**	**3965**
Services	**19682**	**24068**	**23163**	**25160**	**4386**	**1996**
Transport and Communications	8536	9919	9711	9994	1383	283
Construction	11521	11568	12976	14663	46	1686
Other Private Business	28650	27158	32318	37405	-1492	5087
Total	**316289**	**356880**	**359605**	**387888**	**40593**	**28283**

Source:SBP

Box.1 SME SECTOR DEVELOPMENT PROGRAMME 2007-08

There has been sustained and successful efforts during 2006-07 in creating institutional environment that effectively supports the growth, competitiveness and resilience of SMEs

- The flag post of SME was announcement of the SME Policy that has set the premises for generation of a new entrepreneurial culture and business environment for SMEs.The policy is being disseminated through workshops and seminars across the country. In order to provide legal support to its implementation, the SME Act is underway.
- In support of the SME policy, various labor laws have been revisited through an extensive consultative process with stakeholders. As a result, new policy directions in the form of Labor Protection policy and Labor Inspection Policy have been released with necessary amendments incorporated in the Factories Act. The twin policies are expected to go a long way in ensuring worker's welfare in the SME Sector.
- Cluster development has been further amplified by initiating Common Facility Centre in all provinces with focus on process-technology related services for collective up-gradation of SME clusters. The first CFC Sanitary ware Development Centre is being set up in Gujranwala.
- SME Business Support Fund is successfully engaged in extending its helpful hand to SMEs for improving production, marketing, financial and HR management. While 28 projects have been patronized for cost-sharing, 30 are under consideration with another 58 in pipeline.
- The government has spent Rs.142 million on SME Sector Development programme.It is expected to reserve another Rs.380 million during 2007-08

Annexure-A

Monetary and Credit Control Measures, 2006-07

1. On 14th July 2006, SBP decided to refinance under the Export Finance Schemes (EFS) with immediate effect shall be 6.5% p.a. The commercial banks shall, however, ensure that where financing facilities are extended by them to the exporters for availing refinance facilities under EFS, their maximum margin/ spread does not exceed 1 % p.a. The final rate of EFS to the borrowers shall, therefore not exceed 7.50 percent p.a.(SBP refinance rate 6.50% p.a. +1 % p.a. spread of the banks) as against prevailing rate of 9% p.a.

2. On July 18,2006 SBP decided to revise the reserve requirements with effect from 22 July,2006 as under:

   i) Cash Reserve Requirement (CRR)

      a) Weekly average of 7% (subject to daily minimum of 4%) of total

      b) Demand Liabilities (including Time Deposits with tenor of less than 6 months); and

      c) Weekly average of 3 % (subject to daily minimum of 1 %) of total Time Liabilities (including Time Deposits with tenor of 6 months and above)

   ii) Statutory Liquidity Requirements (SLR)

      18 % (excluding CRR) of total Time and Demand Liabilities.

3. On July 29, 2006 SBP decided that with effect from 31st July, 2006 the minimum rate of return to be paid by recipients of financing facilities from SBP for meeting temporary liquidity shortage and SBP 3-day Repo facility against Government of Pakistan Market Treasury Bills and Federal/Pakistan Investment Bonds has been enhanced by 50 basis points i.e. from 9% to 9.5% p.a.

4. To meet the large unmet demand in microfinance sector and to strengthening institutional capacities of MFBs, the existing legal 7 regulatory framework was changed through Prudential Regulations for MFBs, which mainly relate to increase in maximum loan size, investment of surplus fund, minimum income threshold, submission of audited financial statements, and declaration of Fidelity and Secrecy. The revised Prudential Regulations for MFBs were enforced with immediate effect.

5. To contain intra-day money market rate volatility SBP with effect from 19th January 2007 decided to raise the daily minimum requirements for Cash Reserves to 6% and 2% of demand and time liabilities respectively for all banks/DFIs including Islamic Banks. While the weekly average CRR was kept unchanged at 7% and 3% of demand and time liabilities respectively.

6. In order to create awareness and to facilitate the public in making informed decisions, on July 14th 2006 SBP decided that henceforth banks/DFIs shall make complete disclosures of the lending and deposit rates of all consumer products offered by then by posting this information on their websites as well as prominently displaying on entrance/ or window of their branches. In order to facilitate comparison, banks/DFIs would also disclose annualized percentage rates on all consumer products.

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TABLE 5.1

COMPONENTS OF MONETARY ASSETS

(Rs million)

Stocks at end June (a)	1993	1994	1995	1996	1997	1998	1999	2000
1. Currency Issued	178,933	199,070	232,589	253,908	262,589	293,263	308,542	376,997
2. Currency held by SBP	768	624	647	470	627	1,572	1,955	1,851
3. Currency in tills of Scheduled Banks	11,301	13,738	16,363	19,328	17,821	18,769	18,870	19,468
4. Currency in circulation (1-2-3)	166,864	184,708	215,579	234,110	244,141	272,922	287,717	355,677
5. Scheduled Banks demand deposits (b)	156,509	168,554	202,505	207,108	192,275	200,997	349,115	375,397
6. Other Deposits with SBP (c)	4,449	5,506	5,055	6,791	7,135	6,412	6,212	7,959
7. M1 (4+5+6)	327,822	358,768	423,139	448,009	443,551	480,331	643,044	739,033
8. Scheduled Banks Time Deposits (b)	206,294	252,497	296,521	344,713	386,801	447,433	516,586	549,124
9. Resident Foreign Currency Deposits	61,274	92,134	105,073	145,958	222,882	278,556	120,917	112,475
10. Total Monetary Assets(M2) (7+8+9)	595,390	703,399	824,733	938,680	1,053,234	1,206,320	1,280,547	1,400,632
11. Growth Rate (%)	17.8	18.1	17.2	13.8	12.2	14.5	6.2	9.4
<u>Memorandum Items</u>								
1. Currency/Money Ratio	28.0	26.3	26.1	24.9	23.2	22.6	22.5	25.4
2. Demand Deposits/Money Ratio	26.3	24.0	24.6	22.1	18.3	16.7	27.3	26.8
3. Time Deposits/Money Ratio	34.6	35.9	36.0	36.7	36.7	37.1	40.3	39.2
4. Other Deposits/Money Ratio	0.7	0.8	0.6	0.7	0.7	0.5	0.5	0.6
5. RFCD/Money ratio	10.3	13.1	12.7	15.5	21.2	23.1	9.4	8.0
6. Income Velocity of Money (d)	2.3	2.4	2.4	2.5	2.4	2.4	2.3	2.4

(Contd.)

a. Last working day.
b. Excluding inter-bank deposits and deposists of federal and provincial governments and foreign constituents.
c. Excluding IMF A/C Nos 1&2, SAF Loans, deposits money banks. counter-part funds, deposits of foreign central banks, Foreign governments and International organizations.
d. Income velocity of money is defined by the State Bank as GDP at current factor cost/quarterly average of Monetary Assets.
Note: Totals may not tally due to rounding.

TABLE 5.1

COMPONENTS OF MONETARY ASSETS

(Rs million)

Stocks at end June (a)	2001	2002	2003	2004	2005	2006	End March 2006	End March 2007 P
1. Currency Issued	396,548	462,095	527,557	617,508	712,480	791,834	792,549	887,301
2. Currency held by SBP	1,905	1,865	2,565	2,960	3,107	3,005	2,812	3,162
3. Currency in tills of Scheduled Banks	19,178	26,414	30,415	36,432	43,472	48,439	44,927	49,615
4. Currency in circulation (1-2-3)	375,465	433,816	494,577	578,116	665,901	740,390	744,810	834,524
5. Scheduled Banks demand deposits (b)	374,675	429,175	608,170	791,413	954,998	1,095,260	1,011,644	2,416,604
6. Other Deposits with SBP (c)	11,292	13,847	3,499	2,116	3,335	4,931	3,566	5,595
7. M1 (4+5+6)	761,432	876,838	1,106,246	1,371,645	1,624,235	1,840,581	1,760,020	3,256,723
8. Scheduled Banks Time Deposits (b)	610,458	727,076	846,321	969,217	1,161,823	1,380,418	1,296,092	335,823
9. Resident Foreign Currency Deposits	154,154	157,456	126,138	145,694	180,295	195,501	188,389	200,484
10. Total Monetary Assets(M2) (7+8+9)	1,526,044	1,761,370	2,078,705	2,486,556	2,966,352	3,416,500	3,244,501	3,793,030
11. Growth Rate (%)	9.0	15.4	18.0	19.6	19.3	15.2	9.4	11.0
Memorandum Items								
1. Currency/Money Ratio	24.6	24.6	23.8	23.2	22.4	21.7	23.0	22.0
2. Demand Deposits/Money Ratio	24.6	24.4	29.3	31.8	32.2	32.1	31.2	63.7
3. Time Deposits/Money Ratio	40.0	41.3	40.7	39.0	39.2	40.4	39.9	8.9
4. Other Deposits/Money Ratio	0.7	0.8	0.2	0.1	0.1	0.1	0.1	0.1
5. RFCD/Money ratio	10.1	8.9	6.1	5.9	6.1	5.7	5.8	5.3
6. Income Velocity of Money (d)	2.4	2.2	2.3	2.2	2.2	2.3		

Source: State Bank of Pakistan

a. Last working day.

b. Excluding inter-bank deposits and deposists of federal and provincial governments and foreign constituents.

c. Excluding IMF A/C Nos 1&2, SAF Loans, deposits money banks. counter-part funds, deposits of foreign central banks, Foreign governments and International organizations.

d. Income velocity of money is defined by the State Bank as GDP at current factor cost/quarterly average of Monetary Assets.

P. Provisional

Note: Totals may not tally due to rounding.

TABLE 5.2

CAUSATIVE FACTORS ASSOCIATED WITH MONETARY ASSETS

(Rs million)

	1991	1992	1993	1994	1995	1996	1997	1998
				A. End June Stock				
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 Bodies1	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
				B. Changes over the year (July-June)				
8 Public Sector Borrowing (net)								
(i + ii + iii + iv + v + vi + vii)	27438 [2]	68991	75002	28266	53087	68527	80933	56722
i Net Budgetary Support	38332 [2]	62573	65698	23145	36419	51726	72457 [9]	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/								-1089
NDRP Fund for Debt Retirement	-	-	-	-	14130	12000	-4660	287
vi Payment to HBL on A/C of HC&EB						-	0	0
vii Others						-	-	-
9 Non-Government Sector	21702	31419	60573	39866	69537	63429	61879 [4,9]	83414 [*]
i Autonomous Bodies1	592	1287	3933	-850	3211	3166	-242 [7]	-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 [3]	59907 [4]	74781
b. Public Sector Corp.								
other than 2(i)	-3986	-117	-1644	-2052	2595	2934	2214 [7,9]	9527
10 Counterpart Funds	178	179	-395	158	-76	-153	-119	86 [*]
11 Other Items (Net)	4362	-4643	-11346	6309	-28168	21139 [3]	5152 [4,9]	26761
12 Domestic Credit Expansion								
(8+9+10+11)	53680 [2]	95946	123834	74599	94380	152942	147845	166983
13 Foreign Assets (Net)	5712 [2]	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
		A. Stock End June				
1	Public Sector Borrowing (net) (i + ii + iii + iv + v + vi + vii)	583598	661832	601870	677054	598623
	i Net Budgetary Support	505887 8	545850 8	4998888 8	567208	511186
	ii Commodity Operations	67309	107403	95311	100642	74047
	iii Zakat Fund etc.	(21793)	(23616)	(25524)	(22991)	(18805)
	iv Utilization of privatization proceeds by Govt./WAPDA	37657	37657	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	816710	842752	902603	921596	1048162
	i Autonomous Bodies1	41351	68637	75240	60159	55370
	ii Net Credit to Private Sector & PSCEs	775359	774115	827363	861437	992892
	a. Private Sector	735887	754190	750211	841057	949030
	b. Public Sector Corp. other than 2(i	43124	28826	37036	35563	32386
	c. PSEs Special Account Debt Repa	(3652)	(8901)	(12241)	(15183)	(18802)
	d. Other Financial Institutions (NBFI	0	0	52357	37877	30278
3	Counterpart Funds	(589)	(611)	(562)	(536)	(586)
4	Other Items (Net	(73544)	(59087)	(6202)	(67463)	(107258)
5	Domestic Credit (1+2+3+4)	1326175	1444886	1497707	1530651	1539041
6	Foreign Assets (Net)	(45629)	(44254)	28338	230718	539664
7	Monetary Assets (5+6)	1280546	1400632	1526046	1761370	2078704
		B. Changes over the year (July-June)				
8	Public Sector Borrowing (net) (i+ii+iii+iv+v+vi+vii)	(74824) #	78234	(46731)	22177	(78361)
	i Net Budgetary Support	(75193) 8'#'	39963 8	(32315) 8@	14313	(55952)
	ii Commodity Operations	3645	40094	(12508)	5331	(26595)
	iii Zakat Fund etc.	(3275)	(1823)	(1908)	2533	4186
9	Non-Government Sector	119214	26044	69194 @	18993	148539
	i Autonomous Bodies1	13049	3125 7	11573 7	(15081)	(4789)
	ii Net Credit to Private Sector & PSCEs	106165	22916	57620 @	34074	153328
	a. Private Sector	103038	18303	48633 @	52969	167723
	b. Public Sector Corp. other than 2(i	6779	9862 7	12327	(1473)	(3177)
	c. PSEs Special Account Debt Repa	(3652)	(5249)	(3340)	(2942)	(3619)
	d. Other Financial Institutions (NBFI	0	0	0	(14480)	(7599)
10	Counterpart Funds	61	(22)	49	26	(50)
11	Other Items (Net)	246 #	14457	30863	(12040)	(61674)
12	Domestic Credit Expansion (8+9+10+11)	44697	118711	53374	29156	8454
13	Foreign Assets (Net)	29529	1375	72654	206168	308946
14	Monetary Expansions (13+14)	74226	120086	126028	235324	317400

(Contd)

TABLE 5.2

CAUSATIVE FACTORS ASSOCIATED WITH MONETARY ASSETS

(Rs million)

		2004	2005	2006	End March 2006	End March 2007 P
		A. Stock End June				
1	Public Sector Borrowing (net)					
	(i + ii + iii + iv + v + vi + vii)	656729	752515	843281	780317	913671
	i Net Budgetary Support	574886	646682	717632	707916	834230
	ii Commodity Operations	65873	87836	107762	54800	61722
	iii Zakat Fund etc.	(16224)	(14198)	(14308)	(14594)	(14476)
	iv Utilization of privatization proceeds by Govt./WAPDA	37657	37657	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	1363669	1782368	2190769	2128366	2461120
	i Autonomous Bodies1	34293	32224	36979	35579	39958
	ii Net Credit to Private Sector & PSCEs	1329376	1750144	2153790	2092787	2421162
	a. Private Sector	1274245	1712093	2113890	2056287	2385708
	b. Public Sector Corp. other than 2(i	53852	44838	47237	43937	42756
	c. PSEs Special Account Debt Repa	(22108)	(23714)	(23225)	(23059)	(23446)
	d. Other Financial Institutions (NBFI	23387	16927	15889	15622	16144
3	Counterpart Funds	(628)	(539)	(546)	(536)	(509)
4	Other Items (Net	(116405)	(204929)	(305434)	(284996)	(345600)
5	Domestic Credit (1+2+3+4)	1903367	2329415	2728071	2623151	3028682
6	Foreign Assets (Net)	583190	636938	688429	621350	764348
7	Monetary Assets (5+6)	2486556	2966352	3416500	3244501	3793030
		B. Changes over the year (July-June)				
8	Public Sector Borrowing (net)					
	(i+ii+iii+iv+v+vi+vii)	58106	95785	90766	27802	70390
	i Net Budgetary Support	63700	71796	70950	61234	116598
	ii Commodity Operations	(8174)	21963	19926	(33036)	(46040)
	iii Zakat Fund etc.	2581	2026	(110)	(396)	(168)
9	Non-Government Sector	315407	418699	408401	345998	270351
	i Autonomous Bodies1	(21077)	(2069)	4755	3355	2979
	ii Net Credit to Private Sector & PSCEs	336484	420768	403646	342643	267372
	a. Private Sector	325215	437848	401797	344194	271819
	b. Public Sector Corp. other than 2(i	21466	(9014)	2399	(901)	(4481)
	c. PSEs Special Account Debt Repa	(3306)	(1606)	489	655	(221)
	d. Other Financial Institutions (NBFI	(6891)	(6460)	(1038)	(1306)	255
10	Counterpart Funds	(42)	88	(7)	3	37
11	Other Items (Net)	(9147)	(88525)	(100504)	(80066)	(40167)
12	Domestic Credit Expansion (8+9+10+11)	364326	426048	398656	293736	300611
13	Foreign Assets (Net)	43526	53748	51491	(15587)	75919
14	Monetary Expansions (13+14)	407852	479796	450147	278149	376530

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

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

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
LIABILITIES									
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
TIME LIABILITIES IN PAKISTAN									
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 Libilities (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)
ASSETS									
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
FOREIGN CURRENCY									
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
BANK CREDIT ADVANCES									
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
INVESTMENT IN SECURITIES AND SHARES									
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 & Sahres	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	296934
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	913271.0	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

(Rs million)

Outstanding Amount at end June		2002	2003	2004	2005	2006	End March 2006	End March 2007 P
LIABILITIES								
1.	Capital (paid-up) and Reserves							
	Demand liabilities in Pakistan	85,886	112,230	131225	190,652	315,414	316,659	430,537
2.	Inter-banks Demand Liabilities	13,261	9,937	20755	22,993	28,608	17,832	45,472
2.1	Borrowing	(10)	(1)	(15)	(99)	0	0	0
2.2	Deposits	(13,251)	(9,936)	(20740)	(22,894)	(28,608)	(17,832)	(45,472)
3.	Deposits (General)	609,657	785,333	1014947	1,211,674	1,350,011	1,229,009	2,631,817
4.	Other Liabilities	47,333	53,352	56532	70,107	97,266	101,014	128,930
5.	Total Demand Liabilities (2+3+4)	670,251	848,622	1092234	1,304,774	1,475,885	1,347,856	2,806,219
TIME LIABILITIES IN PAKISTAN								
6.	Inter-banks Time Liabilities	2,104	3,991	4806	10,756	25,759	25,015	8,775
6.1	Borrowing	(659)	(621)	(1878)	(1,024)	0	0	0
6.2	Deposits	(1,445)	(3,370)	(2928)	(9,732)	(25,759)	(25,015)	(8,775)
7.	Time Deposits (General)	803,749	903,153	1026919	1,231,745	1,490,182	1,402,987	465,880
8.	Other Liabilities	12,808	16,020	20703	27,288	34,236	27,943	62,934
9.	Total Time Libilities (6+7+8)	818,661	923,164	1052428	1,269,789	1,550,177	1,455,945	537,589
10.	Total Demand and Time Liabilities	1,488,912	1,771,786	2144662	2,574,563	3,026,061	2,803,800	3,343,808
11.	Borrowing From SBP	135,556	137,882	162335	185,068	198,725	186,060	252,056
12.	Borrowing from Banks Abroad	12,642	21,243	9872	6,245	2,953	7,480	6,146
13.	Money at Call and Short Notice in Pakistan	31,877	28,551	27479	22,243	172,893	149,779	135,765
14.	Other Liabilities	546,159 *	468,312 *	527452	645,616	168,011	166,076	148,762
15.	Total Liabilities	2,301,032	2,540,004	3003025	3,624,387	3,884,057	3,629,853	4,317,075
16.	Total Statutory Reserves	73,677	87,893	105955	127,041	148,585	138,048	209,117
16.1	On Demand Liabilities	(32,850)	(41,934)	(53574)	(64,089)	72,364	66,501	193,252
16.2	On Time Liabilities Assets	(40,828)	(45,959)	(52381)	(62,952)	76,221	71,546	15,864
ASSETS								
17.	Cash in Pakistan	26,414	30,415	36432	43,462	48,439	44,927	49,615
18.	Balances with SBP	124,883	140,077	151406	188,092	202,501	165,055	254,653
19.	Other Balances	27,268	31,306	36762	49,021	56,460	53,112	49,669
20.	Money at Call and Short Notice in Pakistan	32,831	28,686	30444	22,166	232,535	154,933	158,854
21.	17+18+19+20 as % of 10	14.2	13.0	12.0	11.8	17.8	14.9	15.3
FOREIGN CURRENCY								
22.	Foreign Currency held in Pakistan	5,003	5,435	4806	6,777	6,449	7,027	9,225
23.	Balances with Banks Abroad	89,416	68,578	60976	116,627	93,387	67,567	135,289
24.	Total Foreign Currency	94,419	74,013	65782	123,404	99,836	74,594	144,514
BANK CREDIT ADVANCES								
25.	To Banks	1,626	253	63	190	0	0	0
26.	To Others	894,524	988,572	1258022	1,680,491	2,079,056	1,973,785	2,276,247
27.	Total Advances	896,150	988,825	1258085	1,680,681	2,079,056	1,973,785	2,276,247
28.	Bills Purchased and Discounted	75,588	80,687	99924	120,480	135,924	127,822	142,268
29.	Total Bank Credit	971,738	1,069,512	1358009	1,801,161	2,214,980	2,101,607	2,418,515
30.	29 as % of 10	65.3	60.4	63.3	70.0	73.2	75.0	72.3
INVESTMENT IN SECURITIES AND SHARES								
31.	Central Government Securities	154,292	191,709	240842	173,788	177,860	180,830	166,260
32.	Provincial Government Securities	1,728	1,234	77	77	77	334	76
33.	Treasury Bills	231,507	412,449	408438	415,016	411,691	433,955	539,777
34.	Other Investment in Securities & Sahres	83,493	118,234	132026	140,453	165,598	157,877	186,058
35.	Total Investment in Securities and Shares	471020	723626	781383	729334	755227	772996	892171
36.	35 as % of 10	31.6	40.8	36.4	28.3	25.0	27.6	26.7
37.	Other Assets	456,377 *	353,842 *	442162	563,552	195,096	186,606	220,770
38.	Advance Tax Paid	64,270	49,789	53879	42,386	6,423	7,133	7,866
39	Fixed Assets	31,812	38,738	46766	61,809	72,560	68,889	120,447
40.	Total Assets	2,301,032	2,540,004	3003025	3,624,387	3,884,057	3,629,853	4,317,075
41.	Excess Reserves (18-16)	51,206	52,184	45451	61,051	53,916	27,007	45,536

*: Excluding Contra Items

Source: State Bank of Pakistan

Note: Figures in the parentheses represent negative sing.

P: Provisional

TABLE 5.4

INCOME VELOCITY OF MONEY

(Rs million)

End June Stock	Money Supply (M1) (Rs million)	Monetary Assets (M2) (Rs million)	Income Velocity of Monetary Assets (M2)
1980-81	73,560	104,621	2.7
1981-82	80,926	116,510	2.7
1982-83	96,542	146,025	2.7
1983-84	103,445	163,267	2.7
1984-85	118,968	183,905	2.7
1985-86	134,831	211,111	2.6
1986-87	159,625	240,023	2.5
1987-88	185,080	269,514	2.6
1988-89	206,359	290,457	2.7
1989-90	240,157	341,251	2.7
1990-91	265,141	400,644	2.7
1991-92	302,908	5,055,569	2.7
1992-93	327,822	595,390	2.3
1993-94	358,768	703,399	2.4
1994-95	423,139	824,733	2.4
1995-96	448,009	938,680	2.4
1996-97	443,551	1,053,234	2.5
1997-98	480,331	1,206,320	2.3
1998-99	643,043	1,280,546	2.4
1999-2000	739,033	1,400,632	2.7
2000-01	761,432	1,526,044	2.6
2001-02	876,838	1,761,370	2.5
2002-03	1,106,246	2,078,705	2.3
2003-04	1,371,645	2,486,556	2.2
2004-05	1,624,235	2,966,352	2.2
2005-06	1,840,581	3,416,500	2.3
End March			
2005-06	1,760,020	3,244,501	
2006-07 P	3,256,723	3,793,030	

P:Provisonal

Source: State Bank of Pakistan

TABLE 5.5

MONEY SUPPLY (M1, M2, M3)

(Rs billion)

End Period Stocks (last working day)	Narrow Money (M1)a	% Change	Monetary Assets (M2)a	% Change	Broad Money (M3)a	% Change
1980-81	73.56	18.7	104.62	13.2	116.80	13.2
1981-82	80.93	10.0	116.51	11.4	133.87	14.4
1982-83	96.54	19.3	146.03	25.3	176.68	32.0
1983-84	103.45	7.2	163.27	11.8	206.90	17.1
1984-85	118.97	15.0	183.91	12.6	238.87	15.5
1985-86	134.83	13.3	211.11	14.8	277.63	16.2
1986-87	159.63	18.4	240.02	13.7	330.87	19.2
1987-88	185.08	15.9	269.51	12.3	392.67	18.7
1988-89	206.36	11.5	290.46	7.8	432.19	10.1
1989-90	240.16	16.4	341.25	17.5	504.16	16.6
1990-91	265.14	10.4	400.64	17.4	569.40	12.9
1991-92	302.91	14.2	505.57	26.2	679.17	19.3
1992-93	327.82	8.2	595.39	17.8	777.37	14.4
1993-94	358.77	9.4	703.4	18.1	922.22	18.6
1994-95	423.14	17.9	824.73	17.2	1083.73	17.5
1995-96	448.01	5.9	938.68	13.8	1254.23	15.7
1996-97	443.55	(1.0)	1053.23	12.2	1435.48	14.5
1997-98	480.33	8.3	1206.32	14.5	1669.23	16.3
1998-99	643.04	33.9	1280.55	6.2	1921.47	15.1
1999-2000	739.03	14.9	1400.63	9.4	2137.19	11.7
2000-01	761.43	3.0	1526.04	9.0	2313.87	8.3
2001-02	876.84	15.2	1761.37	15.4	2640.94	14.1
2002-03	1,106.25	26.2	2078.71	18.0	3102.00	17.5
2003-04	1,371.64	24.0	2486.56	19.6	3517.00	13.4
2004-05	1,624.12	18.4	2966.35	19.3	3975.50	13.0
2005-06	1,840.58	13.3	3416.50	15.2	4423.40	11.3
End March						
2005-06	1,760.02	8.4	3244.50	9.4	4263.40	7.2
2006-07 P	3,256.72	76.9	3793.03	11.0	4837.50	9.4

Source: Finance Division/SBP

(P) Provisional

TABLE 5.6

LIST OF DOMESTIC, FOREIGN BANKS AND DFIs (As on 30-09-2006)

Nationalized Scheduled Banks

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

Specialized Scheduled Banks

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

Private Local Banks

1 Allied Bank Limited
2 Askari Commercial Bank Limited
3 Bank Al Falah Limited
4 Bank Al Habib Limited
5 My Bank Limited
6 Creacent Commercial Bank Limited
7 NIB Bank Limited
8 Faysal Bank Limited
9 Habib Bank Limited
10 KASB Bank Limited
11 MCB Bank Limited
12 Meezan Bank Limited
13 Metropolitan Bank Limited
14 Atlas Bank Limited
15 PICIC Commercial Bank Limited
16 Prime Commercial Bank Limited
17 Saudi Pak Commercial Bank Limited
18 Soneri Bank Limited
19 Union Bank Limited
20 United Bank Limited
21 Arif Habib Rupali Bnak Limited
22 Dubai Islamic Bank Pakistan Limited
23 Bank Islami Pakistan Limited

Foreign Banks

1 ABN Amro Bank N.V.
2 Al-Baraka Islamic Bank B.S.C. (E.C.)
3 American Express Bank Limited
4 Bank of Tokyo Mitsubishi Limited
5 Citibank N.A.
6 Deutshe Bank A.G.
7 Habib Bank A.G. Zurich
8 Hong Kong & Shanghai Banking Corporation Limited
9 Oman International Bank S.A.O.G.
10 Standard Chartered Bank

Development Financial Institutions

1 House Building Finance Corporation
2 Investment Corporation of Pakistan
3 Pak Kuwait Investment Company of Pakistan (Pvt) Limited
4 Pak Labya Holding Company (Pvt) Limited
5 Pak Oman Investment Company (Pvt) Limited
6 Pakistan Industrial Credit & Investment Corp. Ltd.
7 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

Source: State Bank of Pakistan and Finance Division.

TABLE 5.7

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									
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)
	Dec	5.98	8.01	5.76	7.53	8.47	9.69	9.79	8.18
		(6.05)	(8.50)	(5.47)	(7.57)	(8.47)	(9.69)	(9.80)	(8.16)
2006	Jun	11.58	14.84	8.68	8.55	10.23	10.31	7.59	9.91
		(11.58)	(14.09)	(8.51)	(8.55)	(10.23)	(10.31)	(9.99)	(9.66)
	Dec	11.50	11.73	9.41	9.70	11.90	10.09	11.43	11.00
		(11.50)	(12.43)	(9.33)	(9.90)	(11.90)	(10.09)	(11.68)	(11.11)
II. ISLAMIC MODES OF FINANCING									
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)
	Dec	7.72	9.94	9.65	9.27	10.88	9.47	11.31	10.33
		(7.72)	(10.00)	(9.68)	(9.25)	(10.90)	(9.44)	(11.80)	(10.47)
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)
	Dec	10.04	10.56	10.02	10.60	11.21	9.73	12.46	11.13
		(10.04)	(10.59)	(10.02)	(10.57)	(11.23)	(9.74)	(12.83)	(11.22)

Source: State Bank of Pakistan

* Weighted average rates shown in parentheses represent Private Sector.

TABLE 5.8

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
MARKET TREASURY BILLS*								
A. Three Months Maturity								
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. Six Months Maturity								
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
C. Twelve Months Maturity								
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
2 Pakistan Investment Bonds(PIBs)**								
A. Amount Offered								58,814
03 Years Maturities	-	-	-	-	-	-	-	8,534
05 Years Maturities	-	-	-	-	-	-	-	6,674
10 Years Maturities	-	-	-	-	-	-	-	43,606
B. Amount Accepted	-	-	-	-	-	-	-	46,123
a) 3 Years Maturities								4677
i) Amount Acepted(Face Val	-	-	-	-	-	-	-	
ii) Weighted average Yield #								
a) Minimum % p.a.	-	-	-	-	-	-	-	12.427
b) Maximum % p.a.	-	-	-	-	-	-	-	12.486
b) 5 Years Maturities								
i) Amount Acepted(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 Acepted(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 5.8

SALE OF GOVERNMENT SECURITIES THROUGH AUCTION

(Rs. million)

No.	Securities	2001-02	2002-03	2003-04	2004-05	2005-06	July-March 2006-07
1	Market Treasury Bills						
A	Three Month Maturity						
	Amount Offered						
	i) Face value	128,358	109,106	216,637	1,011,659	389,173	182,802
	ii) Discounted value	125,693	108,332	214,315	1,002,708	382,026	179,265
	Amount Accepted						
	i) Face value	72,862	29,231	115,575	724,359	210,541	133,152
	ii) Discounted value	71,429	29,042	115,174	716,768	206,768	130,592
	Weighted Average Yield						
	i) Minimum % p.a.	5.362	1.658	0.995	2.017	7.549	8.3148
	ii) Maximum % p.a.	12.150	5.815	1.702	7.479	8.326	8.6503
B	Six Month Maturity						
	Amount Offered						
	i) Face value	287,853	747,018	328,990	470,885	182,112	99,320
	ii) Discounted value	276,882	731,354	326,114	460,185	173,289	95,144
	Amount Accepted						
	i) Face value	163,665	349,009	158,430	256,914	69,752	66,920
	ii) Discounted value	157,934	341,225	157,256	251,166	67,094	64,112
	Weighted Average Yield						
	i) Minimum % p.a.	5.645	1.639	1.212	2.523	7.968	8.4850
	ii) Maximum % p.a.	12.555	12.404	2.076	7.945	8.487	8.8250
C	Twelve Month Maturity						
	Amount Offered						
	i) Face value	202,984	695,425	476,719	136,713	555,757	561,683
	ii) Discounted value	187,339	665,337	466,729	128,569	509,202	515,387
	Amount Accepted						
	i) Face value	84,568	264,938	241,019	70,688	459,440	496,433
	ii) Discounted value	78,444	253,908	236,421	65,799	422,647	455,605
	Weighted Average Yield						
	i) Minimum % p.a.	6.383	2.356	1.396	2.691	8.456	8.7865
	ii) Maximum % p.a.	11.984	6.941	2.187	8.401	8.791	9.0156

(Contd.)

Note *: MTBs was introduced in 1998-99
**: PIBs was introduced in 2000-01

Table 5.8

SALE OF GOVERNMENT SECURITIES THROUGH AUCTION

(Rs. in million)

No.	Securities	2001-02	2002-03	2003-04	2004-05	2005-06	July-March 2006-07
2	Pakistan Investment Bond						
A.	Amount Offered	238,360	211,963	221,291	8,016	16,012	100,207
	03 Years Maturity	46,124	26,074	38,514	2,400	3,896	21,770
	05 Years Maturity	47,346	45,620	58,840	2,603	6,526	17,407
	10 Years Maturity	144,890	140,268	93,041	3,013	5,590	26,030
	15 Years Maturity	-	-	14,316	0	0	9,850
	20 Years Maturity	-	-	16,579	0	0	13,150
	30 Years Maturity	-	-	-	-	-	12000
B.	Amount Accepted	107,695	74,848	107,658	771	10,161	36,975
	(a) 03 Years Maturity.						
	(i) Amount Accepted	24,819	9,651	14,533	100	2,846	3,982
	(ii) Weighted Average Yield #						
	(1) Minimum % p.a.	8.356	1.792	3.734	0.000	9.158	9.353
	(2) Maximum % p.a.	12.475	7.952	4.235	0.000	9.389	9.717
	(a) 05 Years Maturity.						
	(i) Amount Accepted	24,382	14,369	27,765	427	4,075	4,523
	(ii) Weighted Average Yield #						
	(1) Minimum % p.a.	9.392	3.119	4.867	0.000	9.420	9.647
	(2) Maximum % p.a.	12.994	8.887	5.270	0.000	9.646	10.002
	(a) 10 Years Maturity.						
	(i) Amount Accepted	58,194	50,828	51,606	244	3,240	12,170
	(ii) Weighted Average Yield #						
	(1) Minimum % p.a.	10.420	4.014	6.168	0.000	9.8005	9.846
	(2) Maximum % p.a.	13.981	9.587	7.127	0.000	9.8454	10.507
	(a) 15 Years Maturity. *						
	(i) Amount Accepted	-	-	6,996	0	-	4,300
	(ii) Weighted Average Yield #						
	(1) Minimum % p.a.	-	-	7.683	0.000	-	10.954
	(2) Maximum % p.a.	-	-	8.994	0.000	-	11.058
	(a) 20 Years Maturity. *						
	(i) Amount Accepted	-	-	6,757	0	-	4,000
	(ii) Weighted Average Yield #						
	(1) Minimum % p.a.	-	-	8.706	0.000	-	11.392
	(2) Maximum % p.a.	-	-	8.993	0.000	-	11.392
	(a) 30 Years Maturity.						
	(i) Amount Accepted						
	(ii) Weighted Average Yield #	-	-	-	-	-	8,000
	(1) Minimum % p.a.	-	-	-	-	-	11.680
	(2) Maximum % p.a.	-	-	-	-	-	11.68

Note *: MTBs was introduced in 1998-99
**: PIBs was introduced in 2000-01