

January 16, 2004

NCCC Reviews Monetary and Credit Developments

The mid-year meeting of the National Credit Consultative Council (NCCC) was held in Karachi today under the Chairmanship of Dr. Ishrat Husain, the Governor, State Bank of Pakistan to review the monetary and credit developments during the first half of the fiscal year 2003-04.

The Chairman explained in detail the monetary and credit developments over the last six months where private sector credit growth has been phenomenal. The meeting noted that the credit expansion has been broad based and almost all the sectors of the economy have gained. Within manufacturing sector, which received over Rs.48 billion during the first five months of the fiscal year, all the important sub-sectors were the beneficiaries. In addition, a new feature observed this year was a significant growth in consumer financing and SME credit, albeit with low base. The Chairman said that it is important to encourage these sectors because the benefit of this credit primarily goes to the middle-class of the society which was deprived of access to bank credit in the past. It was emphasized that to generate employment and alleviate poverty it is essential for the middle class to acquire purchasing power and stimulate demand for goods and services in the economy. As the backward linkage of housing, auto, consumer durables and agriculture financing to domestic manufacturing and allied services are quite strong, this will enable the country to achieve its goal of 6 percent growth in near future.

The Council was informed that the overall monetary expansion during the first half of the current fiscal year was below the six monthly target. The higher private sector flows were offset to some extent by retirement of loans for the commodity operations and by public sector enterprises coupled with over Rs.50 billion less than targeted borrowing by the government for budgetary support. Thus, in aggregate terms the overall money supply growth was contained below the target.

The Council, while expressing its views about the prospects for the next 6 months, had almost a consensus that the credit expansion to the private sector will continue to grow during the later half of the year also. However, after the seasonal peak it is not expected to grow at the same pace as in the first half. The increased demand for financing commodity operations particularly wheat and private sector enterprises will keep overall money supply around its annual target. The Council recommended that credit to the private sector should not be contained even if it implies that the money supply may exceed the targets slightly.

Earlier, the Agricultural Credit Advisory Committee (ACAC) meeting was held under the Chairmanship of Dr. Ishrat Husain, Governor, State Bank of Pakistan to review the half-yearly performance of the Banks in Agriculture Financing. The meeting was attended by the Presidents / Chief Executives of Banks, Senior officials of Federal / Provincial Governments, Farmer Associations and Pakistan Banks Association.

The Chairman appreciated the impressive performance of banks in the disbursement of Rs.33 billion for Agriculture Sector during the first six months of the current fiscal year (July-December, 2003) compared to Rs.25 billion during the same period last year showing a significant rise of 32%. The five big Commercial

Banks (NBP, HBL, UBL, MCB, ABL) disbursed Rs.15 billion, compared to Rs. 10 billion last year registering an increase of 50%. The Committee also appreciated the improvement by the Domestic Private Banks (DPBs) in this field. The loan recovery of the five major Commercial Banks recorded about 69% recovery compared to 65% during the same period last year while Domestic Private Banks recovered 80% of the recoverable loans.

The Committee expressed satisfaction and appreciated the efforts of the banks in the field of Tractor Financing. Banks disbursed an amount of Rs. 2.5 billion for the purchase of 8,097 tractors during July-November, 2003 compared to Rs. 1.3 billion for the purchase of 4,573 tractors during the same period last year depicting a record increase of 95% in amount and 77% in the number of tractors financed. It was reiterated that tractor leasing is already allowed in the SBP credit scheme.

The Committee also reviewed the salient features of the Revolving Credit Scheme and observed that the three years revolving credit limit under the scheme would further facilitate the farmers who can now avail credit easily from the banks through one time documentation. The Chairman stressed upon the participating banks to implement the Revolving Credit Scheme in letter and spirit to provide maximum benefit to the farming community. The Committee urged upon all the banks to further increase their loan portfolio for agricultural purposes particularly in Balochistan, Sindh and AJK.

The Committee also appreciated the SBP efforts for creating awareness and dissemination of knowledge and experience among the farming / banking community through conducting specialized trainings throughout the country last year. The Committee was informed that the 2nd phase of SBP training has been scheduled for Muzaffarabad, Gujranwala, Islamabad, D.I. Khan, Multan, Bahawalpur and Sialkot during January – April, 2004. It was proposed that similar trainings may also be conducted/arranged by the banks themselves with the help of Pakistan Banks Association and State Bank of Pakistan.