

17th July, 2004

**National Credit Consultative Council Envisages
11.4% Monetary Expansion in the Credit Plan 2004-05**

The annual meeting of the National Credit Consultative Council (NCCC) was held in Karachi today under the Chairmanship of the Governor, State Bank of Pakistan, Dr. Ishrat Husain. The Council reviewed the monetary and credit developments during the last fiscal year and the proposed Credit Plan for the fiscal year 2004-05.

The Chairman stated that monetary policy had to be accommodative in the last few years in order to boost growth and alleviate poverty. He said that the only lever that was available with the SBP was the interest rate. Had the SBP increased the interest rates, we would not have achieved the 6.4% growth rate and the main effect would have been a slower expansion of the private sector credit, lower industrial growth and a much higher un-employment rate. The expansionary monetary policy pursued during the last two years brought the lending rate down to an all time low of 5%. This helped the private sector credit utilization to cross Rs.300 billion mark against the indicative target of Rs.85 billion. The credit utilization was broad based and half of the credit went to the manufacturing sector. Personal loans also increased by more than Rs.60 billion which would directly benefit the middle income group. The Chairman said that despite the low interest rate environment, inflation edged up only marginally above the target of 4 percent while core inflation remained below 4%.

The Council was informed that the monetary expansion of Rs.366 billion (17.6 percent) during 2003-04 was mainly due to a substantial increase of Rs.325 billion (21.1 percent) in the Net Domestic Assets (NDA) of the banking system against a decline of Rs.4 billion in the corresponding period of last year. This huge build-up in NDA of the banking system was due to the unprecedented increase in private sector credit and somewhat higher than expected government borrowing from the banking system. Government borrowings rose to Rs.62 billion against a target of Rs.10.6 billion because of pre-payment of \$1.17 billion (Rs.67 billion) to ADB. Public sector enterprises continued to perform well and retired Rs.12.5 billion despite a borrowing of Rs.20.6 billion by PARCO to retire its foreign debt. The less than expected build-up in the Net Foreign Assets (NFA), i.e., Rs.41.5 billion was mainly due to the shortfall in net external inflows.

For the fiscal year 2004-05, the Council envisaged monetary expansion at 11.4% (Rs.280 billion) on the basis of GDP growth target of 6.4% and inflation target of 5%. Keeping in view the expected capital inflows and recent credit trends NFA of the banking system has been projected to grow by Rs.30 billion while the NDA of the banking system are projected to increase by Rs.250 billion with the government borrowing for budgetary support and commodity operations limited to Rs.45 billion and Rs.5 billion respectively. Private sector is estimated to borrow Rs.200 billion while public sector enterprises and other financial institutions will retire Rs.5 billion each. It was emphasized that the targets are indicative and all the genuine requirement of private sector will be met. The Credit Plan will be presented in the SBP's Central Board of Directors meeting scheduled to be held in Lahore on July 21, 2004 for approval.