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## **NCCC Projects 13.05 % Monetary Expansion for FY06**

The annual meeting of the National Credit Consultative Council (NCCC) was held in Karachi today under the Chairmanship of Dr. Ishrat Husain, Governor, State Bank of Pakistan. The Council reviewed monetary and credit developments during the last fiscal year and proposed the Credit Plan for FY06.

The Chairman presented the Credit Plan for FY06 which will be approved by SBP Central Board tomorrow in its meeting in Quetta. It envisages the broad money to grow by 13.05 percent (Rs.380 billion) based on the GDP growth target of 7 percent and the inflation target of 8 percent set for the current fiscal year. The monetary expansion has been kept marginally below the growth of nominal GDP in view of monetary overhang. The NDA of the banking system is expected to expand by Rs.365 billion owing predominantly to private sector credit expansion. NFA of the banking system is projected to rise moderately by Rs.15 billion primarily on account of deceleration in net foreign inflows. The government sector is estimated to absorb bank credit to the extent of Rs.120 billion (Rs.98 billion for budgetary support and Rs.20 billion for commodity operations). Credit to non-government sector is estimated at Rs.320 billion with private sector absorbing Rs.330 billion and PSEs retiring Rs.10 billion. It is expected that the additional credit allocation of Rs.330 billion to the private sector would be sufficient to meet its credit requirements consistent with the current-year growth target of 7 percent and inflation target of 8 percent. There is also a distinct possibility of private sector credit to

exceed Rs. 330 billion in view of incoming proceeds due to privatization of PTCL which will enable the Government to retire expensive stock of T-bills.

While reviewing the monetary and credit developments during the last fiscal year, the Chairman informed the Council that broad money growth of 16.5 percent (Rs.411.3 billion) was driven by a record expansion of credit of Rs.390.3 billion to the private sector during the last fiscal year and sizable amount of credit was utilized for capital formation through the import of machinery primarily in the manufacturing sector. He said that credit expansion was broad-based as credit was utilized by all important sectors of the economy. Credit to agriculture sector consecutively exceeded the target for the last two years with a major change in composition from specialized banks to commercial banks. The Chairman also informed that credit to SME sector amounted to Rs.71.4 billion. He advised banks to introduce new products based on program lending for the promotion of the SME sector. He also emphasized the role of SMEDA for capacity building and promotion of SMEs.