

July 4, 2006

NCCC Projects 13.5 % Monetary Expansion for FY07

The annual meeting of the National Credit Consultative Council (NCCC) was held in Karachi today with Dr. Shamshad Akhtar, Governor, State Bank of Pakistan in the chair. The Council reviewed the monetary and credit developments during the last fiscal year and proposed the Credit Plan for FY07.

The State Bank presented the Credit Plan for FY07 which will be approved by SBP Central Board of Directors at its meeting being held in Karachi on July 6, 2006. She pointed out that the targets under the Credit Plan for FY07 should be treated as minimum requirements to support economic growth. The credit plan envisages the broad money to grow by 13.5 percent (Rs.459.9 billion) based on the GDP growth target of 7 percent and the inflation target of 6.5 percent set for the current fiscal year. The NDA of the banking system is expected to expand by Rs.450.1 billion this year. NFA of the banking system is projected to rise moderately by Rs.9.8 billion. In line with the budget, the government sector is estimated to absorb bank credit to the extent of Rs.130.1 billion (Rs.120.1 billion for budgetary support and Rs.10 billion for commodity operations). Credit to private sector is estimated at Rs.390 billion.

The Council expressed its concern that the liquidity position will remain tight due to large recourse of the government from the banking system, given the fiscal expansion anticipated for 2006-07. Dr. Akhtar informed the Council that the State Bank would strive to meet the challenge of maintaining price stability during the fiscal year 2007 and asked the Pakistan Banks Association for its assistance in bringing down the spread between the lending and deposit rates for the benefit of small depositors and also stretching the maturity of deposits to create room for long term project financing. She assured the participants that data on new bank borrowers would be provided to the NCCC participants.

The SBP Governor has, in principle, agreed to (i) set up an Infrastructure Task Force to help improve the financing to meet the growing requirements of the economy; (ii) examine the feasibility of allowing the refinance facility on Islamic Banking principles. The Council was of the view that provincial governments should lower the stamp duty which is levied on corporate debt papers and securitization. The Council also proposed the provision of data on provincial distribution of industrial credit and recommended for enhancement of credit to SME sector in order to alleviate poverty.

Dr Shamshad Akhtar informed the Council that NCCC had been constituted in September 1972 by the Federal Government to ensure optimal utilization of bank credit through the process of directed credit to various sectors. Now that on-going financial sector reforms have virtually led to the stoppage of all directed and subsidized credit and that the credit planning process is completely market-based, it is highly desirable to change the status of NCCC consistent with forces of free market economy. Therefore, she proposed that NCCC be renamed as *Private Sector Credit*

Advisory Council whose role should be to explore the credit needs of the private sector and ensure that those credit needs are appropriately met. The Council endorsed the proposal of the Governor SBP. This proposal will be presented to the SBP Board of Directors.

The meeting was attended, among others, by Mr. Riaz Riazuddin, Economic Adviser, Mr. Jameel Ahmed, Executive Director, Dr. Aftab Nadeem, Director, Economic Policy Department, State Bank of Pakistan, presidents of commercial banks, representative of the federal and provincial governments, Chambers of Commerce and Industry and agriculture.
