

February 1, 2005

NCCC reviews Monetary and Credit Developments during the first half of the current fiscal year

The mid-year 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, to review the monetary and credit developments during the first half of the fiscal year 2004-05.

The Chairman gave an overview of the monetary and credit developments in the first six months of the current fiscal year. He informed the Council that credit expansion has been quite high in the private sector and broad-based as it has led to expansion of almost all industries. Private sector credit expanded by Rs. 285 billion in the first six months of the current fiscal year. Manufacturing sector received 52 percent of the total credit while commerce, transport & communication, and services sectors got 26 percent. Within manufacturing sector, all-important sub-sectors were the beneficiaries, particularly the textile sector. In addition, a significant growth in consumer financing, including auto-finance and housing was observed. The Chairman said that it is imperative to encourage these sectors as the benefits of this credit goes to the middle-class of the society which was deprived of access to bank credit in the past. Further, these sectors have strong linkages with employment and other domestic sectors, which help maintain the current growth momentum, besides enabling the economy to surpass the economic growth target of 6.6 percent.

The Council was informed that the growth of broad money (M2) has resulted mainly from the expansion in the net domestic assets (NDA) of the banking system during the first half of fiscal year 2004-05. The credit to private sector was the driving force behind the expansion in the NDA. The government budgetary borrowings amounted to Rs.24 billion while the Public Sector Enterprises continued to show improvement as their net credit retirement totaled Rs.9.8 billion. The net foreign assets (NFA) of the banking system showed an expansion of Rs.8.1 billion.

The Council agreed upon the need to revise some of the credit plan targets in view of substantial expansion in credit to the private sector. Based on the developments during the last six months and revised estimates of GDP growth rate and inflation to more than 7 percent each, the Council realized the need for higher monetary expansion during the next half of the current fiscal year and suggested revisions in the of credit plan targets. In the revised credit plan for fiscal year 2004-05, the broad money is estimated to grow by 14.5 percent (Rs.360 billion) mainly due to higher credit

disbursements to the private sector. The government is estimated to borrow Rs.60 billion for budgetary support purposes and Rs.5 billion for commodity operations. The private sector is estimated to avail Rs.350 billion against the earlier estimate of Rs.200 billion.

While summing up, the Chairman advised the banks to discourage large syndicated loans and encourage companies with big names to raise funds either in the domestic TFC market or in the international capital market so that more bank credit was available for the SME and agriculture sectors. The Chairman also advised the banks to empower the middle class by giving it the opportunity to borrow funds for housing, consumer durables and other micro loans essential for poverty alleviation. He informed the Council that 23 percent of the total bank credit given during July-December 2004 had gone to the small and medium enterprises.