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

The mid-term review 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 first six months of FY06.

Dr. Shamshad Akhtar underscored the need to develop and deepen the fixed income securities market to offload credit pressure on commercial banks for long-term corporate financing. She also expressed her concern over the rising banking spread and emphasized the need for shifting some benefits to depositors in the wake of rising lending rates. She reiterated SBP's commitment to ensure adequate availability of funds to the SME and other priority sectors of the economy. While commenting on issue of subsidized credit for export refinance, she was of the view that the key issue was to have access to credit to boost exports rather than the price of credit because the price of credit is market determined. Dr. Akhtar also desired to enhance the scope of NCCC meetings and informed the Council that these meetings would be held well before the issuance of six-monthly Monetary Policy Statement (MPS) in order to consider views/feedback from both banks and private sector for policy decisions.

The Council was informed that the broad money showed a growth of 7.9 percent (Rs.236 billion) during July-December 2005 compared with the Credit Plan target of 12.8 percent (Rs.380 billion) and actual growth of 9.8 percent (Rs.244 billion) in the same period of last year. The broad money growth stemmed from the enormity of private sector credit off-take (Rs.297.6 billion) and sizable government borrowings for budgetary support (Rs.78 billion) despite depletion in the net foreign assets of the banking system. The Council was informed that the distribution of credit to private sector was broad based and reflected growing confidence of business community due to consistency of policies, on-going expansion in industrial base of the country, growing working capital requirements particularly in textile and cement industry. The credit to SME sector continued to expand and increased by Rs.30.9 billion during July November 05.

While elaborating on future outlook of monetary and credit developments, Dr. Akhtar stated that although the bank credit to the private sector is likely to exceed the credit plan indicative target of Rs.330 billion, broad money expansion by the end of the current fiscal year is likely to be close to the credit plan target of 12.8 percent (Rs.380 billion) primarily due to expected improvement in the budgetary position of the government.
