



External Relations Department

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SBP raises Banks' Cash Reserve Requirement from 5 percent to 6 percent to contain monetary expansion and moderate domestic demand

SBP has decided to increase the average Cash Reserve Requirement (CRR), to be maintained during a period of two weeks by scheduled banks, from 5 percent to 6 percent and minimum CRR to be maintained each day from 3 percent to 4 percent. CRR is the amount of money that banks are required to keep with State Bank of Pakistan and is applicable on demand liabilities and time liabilities with tenor of less than a year. Time liabilities with tenor of more than one year shall continue to be exempted from maintenance of cash reserves.

With the economy recovering briskly from last year's acute Covid shock, there is a need to gradually normalize policy settings, including the growth of monetary aggregates. In recent months, real money supply growth has drifted above its trend. Today's measure will moderate this growth as well as domestic demand, thereby helping to sustain the current economic recovery, achieve the government's medium-term inflation target, and reduce pressures on the Rupee .

In addition, this measure is likely to have positive impact on deposit mobilization as the banks would be encouraged to generate more deposits to cope with additional liquidity requirements for their operations. This would incentivize banks to offer better returns on deposits to attract these funds; thus serving the SBP objective of encouraging savings. It may also be highlighted that waiver of CRR on Time liabilities with tenor more than a year will encourage banks to raise more long-term deposits, which will facilitate asset-liability matching and enable banks to extend long term loans for construction and housing financing.

For details: <https://www.sbp.org.pk/dmmd/2021/C20.htm>
