

Our Correspondent

Private sector credit growth turns negative in July

KARACHI: Lending to the private sector was negative in the first month of this fiscal year, showing firms are paying off banks rather than borrowing to finance investment and working capital needs, owing to COVID-19-led economic slowdown, central bank data showed on Thursday.

According to State Bank of Pakistan (SBP), private sector credit was negative Rs110.2 billion between July 1 and 31 this fiscal year. That means the businesses repaid this amount to the banks in the period under review. That (net retirement of private sector loans) compared with Rs122.3 billion in the corresponding month last year, the central bank's data showed on Thursday.

Analysts said the private sector credit growth was usually negative in the first quarter (July to September) of each fiscal year due to seasonal factors. "However, a decline in the amount of the retirement of loans, compared with the previous year, is an encouraging sign of the private sector credit off-take," they added.

The disbursement of loans to the businesses and households saw a downward trend in the last fiscal year due to restrained economic activities and tight financial conditions (higher interest rate environment).

Furthermore, the coronavirus pandemic dragged on the industrial activity, exports and investment. The economy shuttered since mid-March because of lockdown measures to contain the pandemic.

Banks lent Rs196.3 billion to the private sector in FY2020, compared with Rs693.5 billion in previous fiscal year.

The Large-Scale Manufacturing Industries (LSMIs) output declined by 10.17 percent in the fiscal year 2019-20 compared with 2018-19, as almost all of the major manufacturing sectors posted negative growth.

"There are chances of private sector credit picking up because of the spike in economic activity in the coming months as businesses have resumed operations after the end of the lockdown," said an analyst.

The SBP has reduced a policy rate by a cumulative 625 basis points to 7 percent since March to create fiscal space.

"The central bank has taken up some initiatives, to support the economy's struggle against the pandemic, that are very encouraging for increasing the demand for the private sector advances in months ahead," the analyst added. Some rebound in exports was also expected to accelerate the appetite for the bank lending to the firms, he said.

The SBP is providing concessional refinancing facilities to protect employment and support the health sector as well as regulatory measures to provide debt servicing relief.