‘January - March 2011’

Quarterly Infrastructure Finance Review

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<u>Overview of infrastructure Finance:</u>

The stock of infrastructure finance which was hovering around Rs. 260 billon for some time in previous quarters, rose to Rs. 286 billion in the quarter July – September 2010, then a slight downward movement was observed in last quarter of October – December 2010 when it fell to Rs. 284.5 billion and in this quarter under review an upward trend has been witnessed with stock at Rs. 296.5 billion. The trend of financing in different sectors has attained a permanent character as shown in detail in following sections with power sector at top. The disbursement figure for this quarter was Rs. 7.6 billion and again the power generation sector remained the major beneficiary with 84% share. The NPLs have increased considerably from Rs. 6.7 billion in last quarter to Rs. 10 billion while the same was Rs. 7.7 billion in March 2010. The overall scenario did not present a rosy picture as shown by the financing trends. The importance of physical infrastructure cannot be overemphasized but the commensurate response is still lacking and leaving a lot to be desired. International experience emphasizes the need of institutional capacity for project development to achieve meaningful progress in infrastructure financing. All the developing countries have multiple institutions with varying degrees of mandate and functions peculiar to their economic needs but the common thread among them is they supply a pipeline of viable projects and means to provide long term fixed-rate financing.

<u>Outstanding Portfolio:</u>

Total financing outstanding at close of March 2011 was Rs. 296.5 billion against Rs. 284.5 billion at the end of previous quarter ending December 2010. The volume of outstanding portfolio was Rs. 283.7 billion at the end of March 2010. The analysis shows, as in Figure 1, that power generation sector stood out among all the sectors of infrastructure. A number of factors like power policy, availability of sovereign guarantees in case of IPPs, expertise of financial sector in this area and demand of energy are the main reasons of its consistent lead over the other sectors.

Fig. 1: Quarter-wise Value of Outstanding Stock in Top 5 Infrastructure Sectors

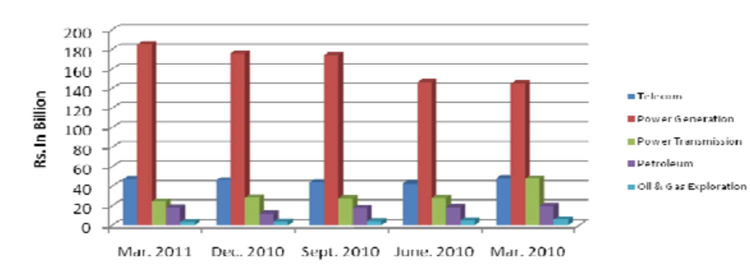


Figure 1 shows the quarterly position of top five sectors from March 2010 to March 2011. All the top five sectors, except Power Generation, are showing a decline in their respective volume of outstanding over the year. However, the steep decline was witnessed in Power Transmission and Distribution sector due to transfer of its outstanding from banks to a power holding company. The outstanding volume in this sector was Rs 47.8 billion at the end of March 2010 which reduced to Rs 28.6 billion at the end of March 2011.

Disbursements:

Total Rs. 7.6 billion were disbursed during Jan. - March 2011 quarter in all infrastructure sectors against Rs. 12 billion in the previous quarter. The disbursement during Jan.-March 2010 quarter was Rs. 9.6 billion. Figures 2 and 3 show the amount disbursed and share of each sector during the quarter under review. Power generation sector received Rs. 6.4 billion, which is a significant 84.3% share of overall disbursement. Power generation sector got Rs. 5.4 billion in last quarter while it received Rs. 6.7 billion in Jan. March 2010. Power distribution sector got financing of Rs 568 million (8%) in this quarter while construction sector was recipient of Rs. 460 million (6%) in this quarter. Telecom and Ports & Shipping sectors were conspicuous by their absence in this quarter. The absence of bank financing in oil & gas sector has been a real concern considering its real potential to play an important role in the economic activity of the Country.

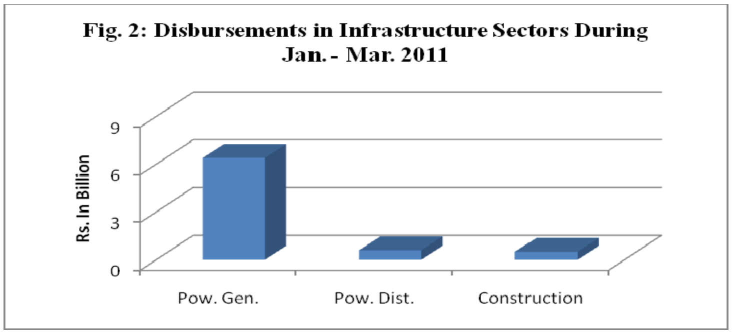


Fig. 2: Disbursements in Infrastructure Sectors During Jan. - Mar. 2011

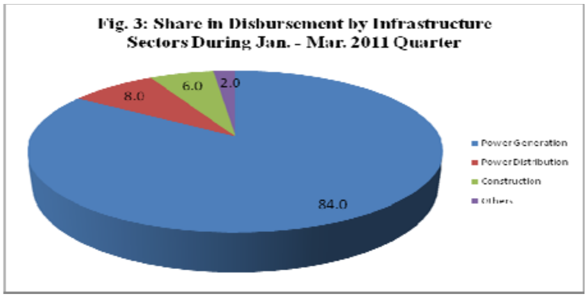


Fig. 3: Share in Disbursement by Infrastructure Sectors During Jan. - Mar. 2011 Quarter

Analysis of Sectoral Share in Infrastructure Portfolio:

Figure 4 shows the comparison of top five sectors in outstanding infrastructure financing at the end of March 2010 with the status existing on March 31, 2011. At the end of March 2010, power generation sector had 51.1% of the total stock followed by telecommunication sector with 17.1%. After a year, the top slot continues to be held by power generation sector with a substantial 62.5% share in the pie. All other major sectors in graph showed a declining trend. The Telecommunication sector remained at second place with 15.9% share. Petroleum sector, despite having huge potential, had been on the downside from 7% to 6.2% in a year. The reduction of Power Transmission sector is due to shifting of some of its outstanding to a power holding company.

Banking Sector-wise Performance:-

Banking Sector-wise Disbursements:-

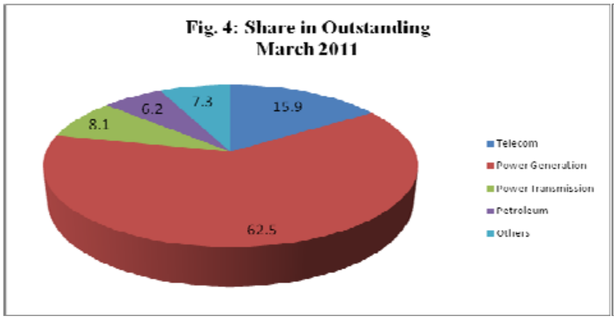
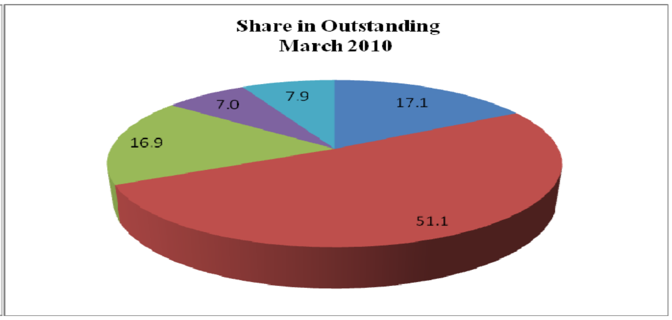


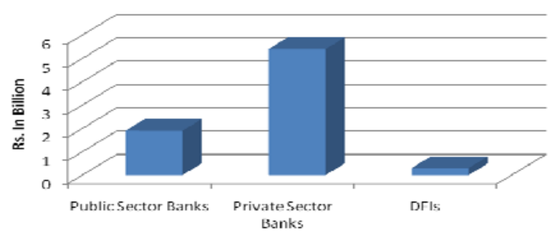
Fig. 4: Share in Outstanding March 2011



Share in Outstanding March 2010

Figure 5 shows that private sector commercial banks disbursed Rs. 5.4 billion (71.5%) out of total Rs. 7.6 billion financing in infrastructure sectors during the quarter. Public sector banks disbursed Rs. 1.9 billion (25.5%) while DFIs disbursed Rs. 229 million (3%) despite having a mandate of development finance. In same quarter last year, private sector banks disbursed Rs. 8.4 billion (87.8%) while public sector banks disbursed Rs. 839 million (8.7%). DFIs' share in disbursements during the quarter ending March 2010 was also minimal at Rs. 335 million (3.5%).

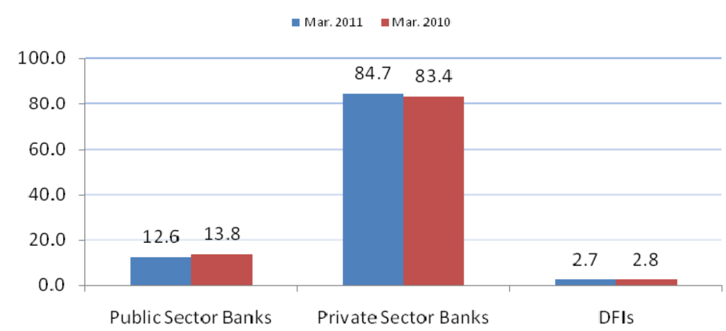
Fig. 5: Banking Sector-wise Disbursement During Jan. - Mar. 2011



Banking Sector-wise Share in Outstanding:

Figure 6 shows the category-wise share of banking sector in outstanding stock of infrastructure financing. The trend remains almost the same throughout the year. Share of private sector banks rose marginally from 83.4% to 84.7%, while share of public sector banks declined from 13.8% to 12.6% after a year. The share of DFIs remained below par throughout the year. Though private banks enjoy a major share, portfolio diversification beyond limited infrastructure sectors is highly desirable.

Fig. 6: Banking Sector-wise Share in Infrastructure Outstanding



Major Departmental Initiatives and Achievements:

Capacity Building Program:

A comprehensive Training Program on Infrastructure Project Finance was conducted with the assistance of the World Bank Group from 12 to 16 July 2010 at SBP's Learning Resource Centre in Karachi. This was for the first time that such a high level massive training program on Infrastructure Project Finance was held in Pakistan. This SBP-World Bank joint initiative was taken to address the issue of lack of expertise in the financial sector on project development and financing. Cambridge Economic Policy Associates (CEPA), a very renowned organization for working in infrastructure development and training sector, prepared the course manual and delivered the training. IHFD has planned to continue this capacity building initiative in this business year with the help of local trainers. The next training program is scheduled in July 2011.