5 PERSPECTIVES ON CONSUMER FINANCE IN PAKISTAN

Rapid growth in the consumer finance portfolio of the banking sector in recent years has generated an ensuing debate, mostly critical of its alleged role in inducing consumption-led growth in the economy. The general perception is that consumer finance has created problems for the less financially literate customers. This chapter aims to explore some of these perceptions and present data and evidence in perspective, while taking into account the high sensitivity of these loans to increasing interest rate dynamics. Notably, the household sector in Pakistan is under-leveraged by global standards, and emergent risks are well-managed by the banking sector.

Consumer finance is an established financial product across the globe, particularly in mature economies, where it constitutes a significant portion of banks' lending portfolios. In the Pakistani banking sector, however, the evolution of the consumer financing portfolio is a more recent phenomenon, as banks have traditionally focused on lending to the corporate sector and public sector entities. While two prominent foreign banks took the lead in introducing credit cards in the banking sector in the mid-'90s, their outreach was limited to the top-tier of salaried customers and businessmen.

Emulating the experience of various foreign banks who had a head-start in this area, domestic private banks have exhibited remarkable adeptness in adopting new procedures for credit risk assessment, setting up the requisite policy and collections units, and upgrading the scope of their IT based systems. In doing so, they successfully introduced several innovative products for the individual consumer segment. On the demand side, the consumer, who previously did not have access to bank credit without sufficient liquid collateral, responded well to these initiatives.

A combination of factors are responsible for the widespread popularity of consumer finance in recent years: the financial liberalization process over the last decade or so, has led to the creation of a banking system which is largely owned and operated by the private sector, and is free to allocate resources in response to the demands of a market based mechanism. Secondly, the influx of liquidity in the banking sector since FY02 motivated banks to diversify and expand their earnings base by venturing into previously untapped areas, and third, the easy monetary policy stance of the central bank from FY02 to FY05 provided eligible customers with financing options at historically low rates to meet their consumption demand. In this backdrop, consumer finance has emerged as one of the most promising asset products for banks.

Providing access to purchasing power to the middle-class consumer has been the most significant achievement of this product class. Not only have people been able to raise their standard of living by purchasing various consumption goods which were previously treated as luxuries in reach of only a few, demand for these goods has also led the manufacturing sector to expand its capacity, such that both backward and forward linkages have contributed to the expansion in economic activities. Banks' auto loans product and loans for consumer durables, for instance, have been instrumental in this aspect. Though still small in proportion, the rising demand for mortgage finance reflects the individual consumer's need and financial capacity, to acquire private ownership of housing units. Hence in promoting their consumer financing products, banks have played their due role in promoting economic development in the country.

Despite the many positive developments associated with consumer finance, its role in promoting consumerism in Pakistan has generated a debate, with mostly negative connotations. This chapter aims to explore some of these perceptions and provides perspectives on how far removed these perceptions are from reality. It starts by discussing stylized facts related to

consumer finance in Section 1, while section 2 aims to explore some myths about this particular asset class. Issues, challenges and safeguards instilled by the regulatory requirements are discussed in section 3, while section 4 gives the future outlook.

5.1 Stylized Facts

Consumer Finance refers to lending to individuals by formal financial institutions, for meeting their personal needs. Consumer finance products cater to the salaried and self-employed segment: essentially those people who can demonstrate an ability to service the loan facility in line with their documented cash flows. Existing players in this area include commercial banks, DFIs, leasing companies and modarabas. The analysis in this article is however based on the consumer finance exposure of the banking sector.

Banks' consumer finance portfolio has grown at a rapid pace over the last four years or so, and its share in overall credit of the banking system had risen to 13.8 percent by end CY07 from virtually negligible levels, before declining to 12.0 percent by the end of June CY08 (**Figure 5.1**), constituting 3.6 percent of the GDP (**Figure 5.2**). Banks now offer a wide range of products under the consumer finance umbrella, such as personal loans, auto loans, credit cards and mortgage finance. The composition and growth of these products in the last few years is shown in **Figure 5.3**. Notably, growth in this particular asset class has tapered off since the advent of aggressive monetary tightening by the central bank in CY07 and CY08, and emerging pressures on disposable income of the households due to the rising inflation.

While all categories of consumer finance have grown substantially since the inception of this product, the most significant increase has been observed in personal loans, which are generally obtained for meeting different types of consumption needs. While this particular form of financing was available for bank customers even before the formal launch of consumer finance products, these were

Figure 5.1: Trends in Consumer Finance
Source: BSD, SBP

Figure 5.2: Consumer Finance to GDP
Source: SBP Calculations

Figure 5.3: Trends in Category wise Consumer Finance
Source: BSD, SBP

generally extended by banks on a fully secured basis. Even now, Personal loans extended beyond the specified limits, are fully collateralized.
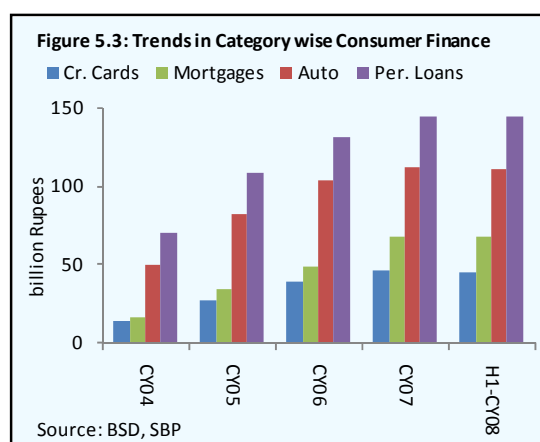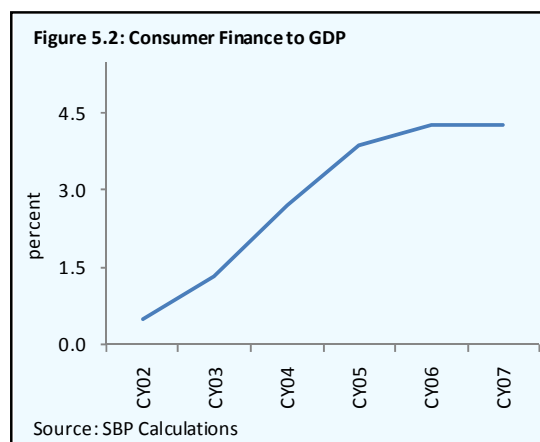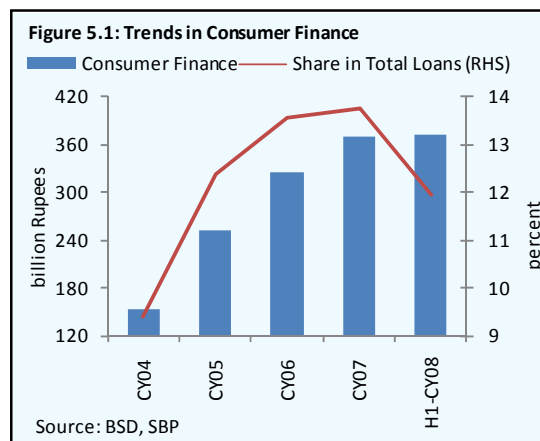
The growing demand for, and interest in, consumer finance however, is not unique to Pakistan, and many of the emerging economies have seen a similar shift in their respective credit portfolios (**Table 5.1**).

Table 5.1: Credit to Households in Emerging Asia

percent of total credit to private sector

	1999	2000	2001	2002	2003	2004	2005
Singapore	38.6	41.1	42.6	44.9	49.5	51.1	51.6
China	1.5	4.3	6.2	8.1	9.9	11.2	11.3
Indonesia	21.5	25.9	31.9	36.7	40.5	44.3	45.5
Malaysia	22.9	23.7	26.0	29.9	31.6	31.0	30.4
Philippines	15.1	14.2	14.4	14.3	13.9	16.0	16.5
Thailand	23.3	31.8	38.2	35.3	40.0	43.5	48.1
Pakistan				2.1	5.6	9.4	12.4

Sources: IMF's Asia & Pacific Regional Outlook; CEIC Data Company Ltd; and IMF, APD country desks.

A holistic view of both global as well as regional developments in this area indicates that consumer finance in Pakistan still has significant untapped potential. The proportion of consumer finance in terms of GDP as well as a proportion of overall bank credit is quite low when compared with regional and advanced economies (**Figure 5.4**).[1]

Figure 5.4: Consumer Credit: Country Comparison

Source: SBP and Bloomberg

5.2 Consumer Finance–Myths and Facts

Access to, and growth in, consumer finance carries both social and economic significance for the society. In the absence of such products from the formal banking sector, people used to borrow from money-lenders in the informal sector at exorbitantly high interest rates. Banks have now facilitated them in acquiring the necessities of life by providing credit against their future incomes and cash flows, at rates far lower than those demanded by players in the informal sector. Since the consumer finance function in itself is quite labor intensive, demand for this product has led the banking sector to employ a significant segment of the active workforce both on full-time and part-time basis. Banks themselves have also benefited from the diversification of their credit portfolio, as well as capital savings under the Basel II regime, and consumer finance has brought higher returns and stability in earnings.

However, this phenomenal growth in consumer finance has also raised a debate regarding its downside risks and implications. It is generally perceived that this particular asset product has: (i) given rise to consumerism in Pakistan, which has contributed to the low level of national savings; (ii) fueled inflation; and (iii) led to the rise in speculative activities in asset markets. An analysis of actual facts and figures, however, dispels these notions:

- Consumer Finance has certainly met the individual consumer's needs for personal expenditures, but in doing so, it has also generated demand for consumer durables and other goods and services which have in turn translated into a chain of economic activities. For the consumer, monthly payments for servicing the loan are a form of forced savings. Rather than promoting consumerism, this product has contributed in

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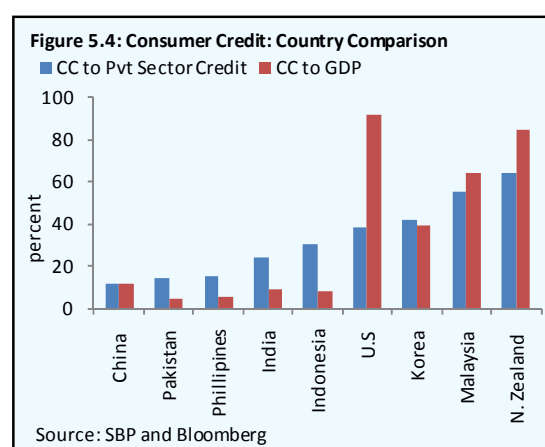
[1] Global Financial Stability Report, September 2006, IMF; CEIC database; and IMF staff estimates based on data from country authorities.

enhancing the standard of living of the middle class, which is the back bone of any economy. Moreover, trends in savings of the household sector also do not support the perception of consumerism, as the average saving rate of the household sector is higher in the post-2000 period as compared with the '90s.

- An analysis of inflation dynamics does not support the claim that consumer finance is the reason for the build-up of inflationary pressures in the economy. Core inflation, which is more sensitive to the level of credit and associated increase in demand, has shown quite contained growth over the last few years (**Figure 5.5**). The recent rise in overall inflation is attributable to factors such as international price shocks, and anomalies in administrative and fiscal policies.

Figure 5.5: Trends and Composition of Inflation in Pakistan

Source: SBP
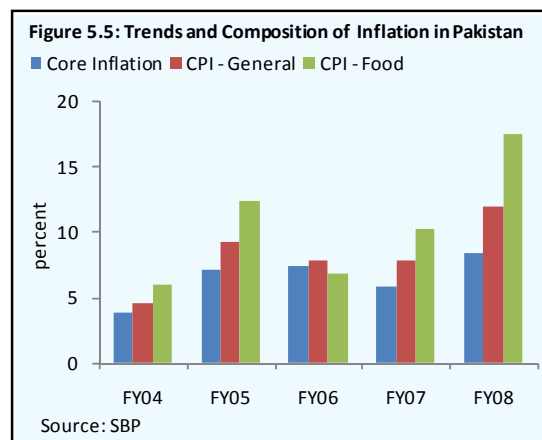
- Personal loan is the only product which is not tied to a specific purpose, and thus could potentially be utilized for speculative transactions in asset markets. However, its potential for spurring speculative activities is limited because of the fact that: (a) given its unsecured nature,[2] this loan is priced competitively and is not an attractive funding option for speculators; (b) its main target market is mainly the fixed income / salaried segment of individual customers who are generally risk averse and are not known to indulge in speculative activities; (c) such loans are relatively smaller in amount (average loan size Rs. 200,00) than other categories of consumer finance, whereas speculative transactions in asset markets generally require larger sums of money; (d) the level and annual growth of this particular portfolio is quite small in comparison with other possible contributory factors such as the liquidity generated by increased foreign remittances and reverse capital flight, as well as the easy interest rate regime that prevailed up until a few years back, where disbursed loans for even small corporate entities and businesses could potentially have been mis-utilized.

Essentially, consumer finance, if utilized judiciously and within prudent limits, is a handy tool for propelling economic growth, ensuring smooth consumption patterns and improving credit risk diversification. That said, indiscriminate growth in this asset class in an unstable macroeconomic environment, without a corresponding strengthening of risk management systems, could potentially create systemic vulnerabilities.
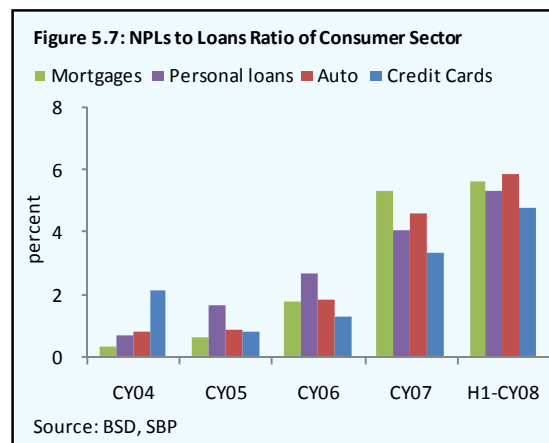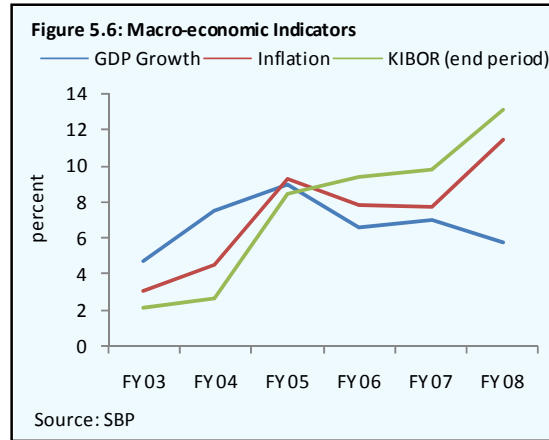
5.3 Major Issues and Challenges

Bank's efforts to expand their consumer finance portfolio are mainly faced with challenges emanating from the less than favorable macroeconomic environment. Emerging deterioration in economic fundamentals i.e. rising inflation rate, a certain degree of slowdown in economic activities, etc. has constrained the consumer's debt-servicing capacity (**Figure 5.6**). This weakness is further intensified by rising interest rates as a consequence of monetary tightening by the central bank which, besides dissuading new customers, have also made the existing debt-servicing more costly, given that most of the loans under this asset class are made on a variable,

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[2] Upto a maximum limit of Rs. 500,000.

or floating-rate basis. An indication of the manifestation of the macroeconomic environment on consumer finance has already started to reflect in the deceleration in its growth rate, and a relative increase in non-performing loans. The infection ratio has gradually risen to 5.5 percent of the total outstanding credit in H1-CY08, though it is still lower than that for the corporate sector at 7.6, and the overall infection ratio of the credit portfolio at 7.7.

Figure 5.6: Macro-economic Indicators

GDP Growth — Inflation — KIBOR (end period)

Source: SBP

The performance of the different components however varies in this regard (**Figure 5.7**). Mortgage loans, with the lowest infection ratio, have shown relative improvement in disbursements over the last few quarters, while the biggest impact of the macroeconomic environment has been observed on the Credit Card, Personal and Auto loans' portfolio. Though the overall infection ratio of the consumer finance sector is still lower than that of the corporate and SME sectors, any further deterioration in macroeconomic indicators could pose a serious challenge for those banks with large exposures in consumer finance, due to which they are more vulnerable to the highlighted

Figure 5.7: NPLs to Loans Ratio of Consumer Sector

Mortgages ▮ Personal loans ▮ Auto ▮ Credit Cards

Source: BSD, SBP

risks: bank-wise data shows that consumer loans are more concentrated in around 10 banks, and have a Herfindahl-Hirschman Index (HHI)[3] of 0.10 as compared with 0.07 for loans to the corporate sector, 0.08 for SME and 0.07 for the overall loan portfolio. Notwithstanding, since consumer credit is spread over a large number of borrowers, such risks are widely dispersed. Further comfort is drawn from the fact that results of a stress-testing exercise (based on end-June CY08 data) conducted on banks' consumer finance portfolio show that even a rise of 10.0 percentage points in the infection ratio will only reduce the Capital Adequacy Ratio (CAR) of banks by 90 bps. This is because the share of consumer finance in the overall credit extended by banks is still rather low at 12.0 percent.

In recognition of the underlying risks, SBP continues to make concerted efforts to strengthen the regulatory regime, as well as the risk management capacities of banks. The introduction of Prudential Regulations specifically designed to address the risk factors in the consumer finance portfolio in CY03 (**Box 5.1**), and enhancing the scope of the Credit Information Bureau (CIB) which was first launched in 1992 (**Box 5.2**) are some important measures implemented to ensure prudent growth of the portfolio. The enhancement in scope of the e-CIB database now gives a comprehensive coverage of all borrowers of the banking sector (and some non-bank financial institutions) which has helped banks in ensuring that customers are not over-leveraged, and that the loan to income ratios are managed more prudently. Furthermore, SBP's regulations and guidelines on risk management and internal controls effectively delineate the desirable level of

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[3] Herfindahl-Hirschman Index (HHI) is a statistical tool for measuring market concentration. It is calculated as the sum of squares of the market share of all banks. The maximum value that the index can assume is 1.0, which signifies that only one bank holds 100 percent market share – an example of absolute concentration. HHI below 0.1 signifies relatively limited concentration and HHI above 0.18 indicates significant concentration.

internal controls and risk management capacities which the banks have started to implement for their consumer finance operations. Banks are building upon the existing capacities and rapidly improving their risk management expertise in response to regulatory requirements. Their progress along the learning curve suggests that they are now better placed to handle the challenges related to the operations of the consumer finance business.

Box 5.1: Regulatory Requirements for Consumer Financing

SBP has issued separate Prudential Regulations for Consumer Financing, and continues to issue directives in response to the changing market dynamics, to ensure the prudent risk management of banks' consumer finance portfolio.

Some of the safeguards laid out in the regulations are :

1. Prior to offering consumer finance as a product, banks/DFIs are required to establish appropriate risk management systems, in addition to strong internal audit and control functions. They have to ensure that the staff involved in dealing with customers and processing these applications are adequately equipped and trained.
2. Banks/DFIs are required to ensure the implementation of effective collections procedures and mechanisms to efficiently obtain repayment of monthly loan installments, while also dealing appropriately with delinquent customers.
3. Banks are required to obtain the e-CIB Credit information report prior to approval of a loan to ensure that the customer has a clean credit history and is not over-leveraged.
4. Banks are advised to institute necessary checks to ensure that clean loans are not used to participate in Initial Public Offerings (IPOs).
5. Specified limits on the exposure against total consumer financing as well as percentage of classified consumer financing, both in terms of capital, are laid out in the Prudential Regulations.
6. Banks are required to ensure that total financing facilities are commensurate with the borrower's income.
7. Banks are required to maintain a general reserve at least equivalent to 1.5 percent of the consumer portfolio which is fully secured, and 5 percent of the unsecured portfolio, to protect themselves from the pro-cyclical nature of this business.
8. Banks follow stringent provisioning requirements against classified loans, which protect them from potential erosion in asset quality.

Source: Banking Policy and Regulations Department (BPRD), State Bank of Pakistan

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Notwithstanding these developments, a few initiatives are still crucially needed for maintaining the stability of the consumer finance portfolio in coming years:

- With the growing exposure against consumer finance, banks would need to implement specific credit-scoring models. These can be based on the information derived from credit history databases, such as the turnaround time of monthly repayments, level of income and type of debt, length of credit relationship, in addition to other key pieces of information on social and demographic factors which help in establishing borrower profiles. The model will help banks in objectively identifying the credit worthiness of a borrower and the likely credit behavior. However, for building an effective credit scoring model, the existing databases on the consumer's credit history would need significant enhancements;

- The prevailing regime for enforcement of security liquidation and collection of debts needs to be rationalized in terms of effectiveness and fairness to both banks as well as consumers;

- Considering the low level of financial literacy of the average consumer, mainly due to the low level of awareness and the prevailing literacy rate in the country, banks would need to review the transparency of the pricing mechanism, and offer a choice between fixed and floating rates to the customers, while informing them of the pros and cons associated with each option. Such initiatives will also help in improving the ethical standards of banks' dealing with their customers.

Box 5.2: On-line Credit Information Bureau (e-CIB)

While developed countries have a long tradition of maintaining a centralized database of credit history of all borrowers, in many developing countries it is a relatively new development, given the scope and size of their lending activities. State Bank considers the functioning of an effective credit information bureau integral in promoting financial discipline and an essential tool for credit risk management by financial institutions. In its endeavor to facilitate financial institutions in making prudent lending decisions, the Credit Information Bureau (CIB) was established in 1992. Due to the rather small and largely secured lending extended to individual customers at that time, the initial focus of the CIB database was on capturing the *negative history* of large and medium sized borrowers, with outstanding loans equal to and above Rs 500,000 only. Over the years, SBP has significantly enhanced the scope of CIB operations. In April 2003, SBP enhanced the coverage and effectiveness of CIB by introducing e-CIB online facilities, becoming in the process, the first credit history database of the region to introduce online access to its member financial institutions. This development enabled financial institutions to upload their data on loans directly into the CIB database and readily generate customer reports for their credit assessment purposes.

In response to the rapid growth in banks' credit portfolio, e-CIB's reporting requirements and operational and IT platforms have been significantly upgraded. The scope of the CIB database was further enhanced during early 2004 when SBP launched a new project called the "e-CIB data lowering limit" with the collaboration of Pakistan Banks Association (PBA) to achieve the following objectives:

- Abolishing the minimum limit of Rs 0.5 million and above for credit reporting and to expand the database to cover all loans of member financial institutions.
- Changing the composition of the information to include more financial and non-financial details of the borrowers.
- Improve the overall operational efficiency of e-CIB by upgrading the communication infrastructure, hardware and software, etc.

The project aimed at transforming CIB into a state-of-the-art credit information database with the ability to minimize the turnaround time of queries from financial institutions and providing a quick source of information. The project was successfully completed in June 2006 and brought significant improvements in the overall operational and technological infrastructure of the CIB. The key improved features of the new e-CIB system over the old CIB system are summarized below:

- Existing credit reporting limits of Rs 0.5 million has been eliminated. Under the new reporting system, all outstanding fund and non-fund based credit facilities, irrespective of the amount, are being reported to SBP.
- Besides Banks and DFIs, for whom membership in e-CIB is mandatory, a large number of NBFCs are also members of this database.
- Product-wise availability of loan information. Before implementation of the new system, such information was available in aggregate form only.
- Improved efficiency in terms of speed, reliability and security of CIB data
- Deployment of high capacity servers, security firewalls, broader bandwidth, point-to-point data encryption.
- Multi-user and multi-tiered Rich Client Data using latest programming tools, provided to 100 financial institutions. The software has been designed keeping in view the data collection requirements of all financial institutions and can be customized according to the needs of specific financial institutions. It can be deployed in both centralized and decentralized environments. The software is capable to efficiently collect, consolidate and report thousands of records from all branches of a large bank.
- Highly sophisticated and completely automated Back Office (BO) system for processing data. With the implementation of the BO system the task of data processing has been reduced from 15 days to 3 days only.
- Web based interactive data inquiry systems to provide online Credit Information Reports to financial institutions, and allow online amendment and updates.
- Replaced the previous dial-up system with a scalable Virtual Private Network (VPN) that allows financial institutions to connect to the e-CIB more quickly and efficiently.
- Comprehensive data validation rules implemented to ensure correct entry of records. A validation rule engine has also been developed for creating and implementing new data validation rules.
- A new separate reporting system has been introduced for consumer and commercial borrowers. The CIB will collect consumer and corporate credit data on two separate specified formats and provides separate credit information reports for the consumer and corporate borrowers.
- The credit report of the consumer also reflects the repayment history for the last twelve months.
- Record of last four credit inquiries from the financial institutions has also been made part of the respective borrower's credit report.

- Formation of group of borrowers for CIB reporting purpose has been left to the discretion of reporting financial institutions. The reporting financial Institution reports information on groups of borrowers according to the definition given in the Prudential Regulations.

The improved capacity and scope of the CIB has resulted in immense benefits for the financial industry. The number of borrowers in the CIB database has significantly increased from around 0.03 million, mainly corporate and SME borrowers, to around 4 million. It has also greatly expanded the outreach to a large number of borrowers who remained outside the CIB net because of the floor of Rs 0.5 million for reporting purposes. This has important implications for credit expansion to low-value borrowers of SMEs, agriculture and consumer finance sectors. Further, in order to facilitate the users of the e-CIB system, SBP has established a web based Help desk system for providing efficient support to the users from various financial institutions, and to help the general public in lodging their complaints regarding credit-reporting issues.

Source : Consumer Protection Department, State Bank of Pakistan

5.4 Future Outlook

Given that the total consumer financing portfolio currently forms around 12.0 percent of the total loans and advances of the banking sector in comparison with substantially larger portfolios in peer countries, and its conducive role in promoting economic development, concerns about the potential risks of this product need to be viewed in perspective. This is particularly so because the household sector in Pakistan, from where the demand for consumer finance is generated, is financially sound and under-leveraged by international standards (please see the **Special Section: Financial Position of the Household Sector** at the end of this chapter).

Notwithstanding, given the pace of growth of this particular asset class and its increasing popularity, financial institutions need to carefully plan the expansion of their respective portfolios by minimizing the impact of the potential risks with adequate systems and resource support, in order to be able to sustain and positively avail the benefits of its growth.

Special Section: Financial Position of the Household Sector

The household sector is the single largest provider of funding (in terms of personal deposits) to the banking system. In aggregate terms, it holds 46.0 percent of banking system deposits, while it borrows only 12.0 percent of the total loan portfolio.[4] National Income Accounts also reinforce this assessment, as the share of personal savings in total national savings is over 80 percent.[5]

While all these figures clearly indicate the household sector's significant contribution to the financial sector, a detailed analysis in the context of financial stability is heavily constrained by the lack of appropriate data. The net wealth, or financial position, of the household sector is therefore estimated on the basis of selected indicators including trends in personal deposits of the banking system, individual investments in the stock market, and growth in personal investments in National savings Schemes (NSS). Changes in the consumer loan portfolio of the banking sector are used as the only available indicator of outstanding debt.

Personal Deposits

Personal deposits of the banking sector registered a YoY increase of 19.9 percent during CY07, compared to 18.2 percent in CY06, to reach Rs 1.6 trillion. Strong growth in personal deposits in recent years is also visible from its increasing share in the overall deposits of the banking system. Specifically, the share of personal deposits in total deposits increased to 45.0 percent by end Jun-CY08, in comparison with 42.3 percent at end-June CY07, and 40.3 percent as of end Jun-CY03 (**Figure 1**). This is an encouraging development as the overall deposits of the

Figure 1: Trends in Personal Deposits

Source: Statistical Bulletin, SBP

banking system in recent years have also recorded an average growth of over 18.0 percent during CY03-07. The steady growth in personal deposits is largely attributed to: (i) record inflows of remittances;[6] and (2) a sharp increase in per capita income in the wake of strong economic growth in recent years.[7]
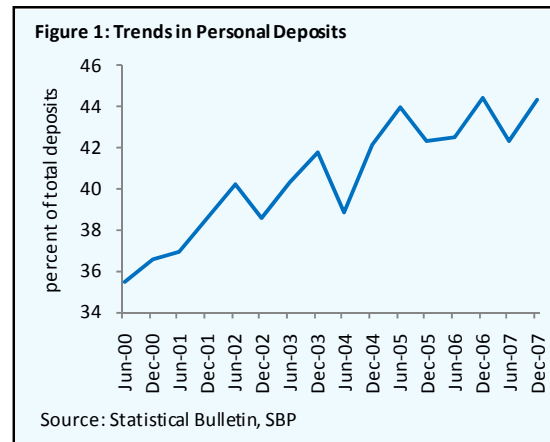
Investments in Equity Market

Another indicator of financial health of the household sector is the individual customer's investments in the stock market. According to statistics from the Central Depository Company (CDC), the number of individual account-holders investing in the stock market has reached 41,700 accounts by end-CY07, compared to 10,000 at end-CY03. The total value of these individual accounts has also grown significantly to reach Rs. 331.7 billion in

Figure 2: Individual Participation in Stock Market-CDC data

Source: Central Depository Company

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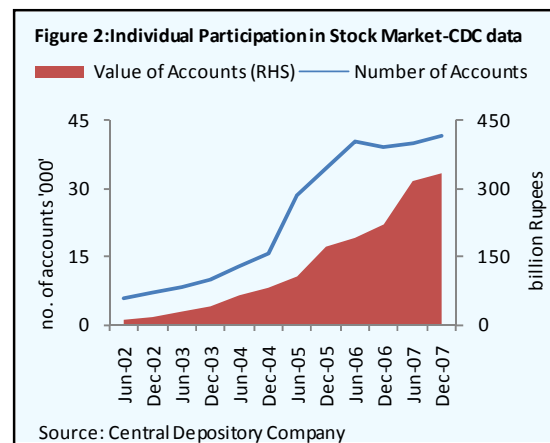
[4] As of end June CY08.

[5] Economic Survey of Pakistan, Ministry of Finance, June 2008.

[6] Home remittances in Pakistan have surged from US$ 3.9 billion in FY04 to US$ 6.5 billion in FY08. The amount of total accumulated remittances in FY08 was US$ 24.6 billion.

[7] Income per capita in Pakistan has surged to US$ 1,085 during FY08, compared with US$ 669 in FY04.

CY07 against Rs 39.9 billion in CY03 (**Figure 2**). However, the pace of growth in new individual accounts at CDC has slowed down markedly in CY07, at 6.3 percent in comparison with 13.2 percent in CY06, 121.1 percent in CY05 and 57.0 percent during CY04. Interestingly, despite the lower growth in the number of accounts during CY07, the volume of accounts grew by 51.3 percent against 28.6 percent in CY06, showing increased transactional activities in both new and existing accounts, due to both higher stock prices and increased volume of transactions.

Investments in NSS

The Central Directorate of National Savings (CDNS) offers various types of saving schemes for individuals and institutional investors. While all the schemes are open to individual investors, statistics on the proportion of individual investments are not available from CDNS. In order to estimate the growth of personal investments in these instruments, investments in those savings schemes which are offered to individuals investors only are taken into account. These schemes are: Bahbood Saving Certificates (BSC), Pensioner's Benefit Account (PBA) and Prize Bonds. The outstanding amount in these schemes reached Rs 498.0 billion by end Jun-08, which constitutes 45.9 percent of the outstanding amount in all NSS, instruments i.e. Rs 1,084.0 billion.

In aggregate, these schemes increased by Rs 64.3 billion during FY08, which was slightly lower than the increase of Rs 67.7 billion in FY07 (**Figure 3**). In terms of growth rates, the outstanding amount grew by 14.8 percent during FY08, compared to 18.5 percent in FY07. This slight decline during FY08 is primarily attributed to the fact that the substantial growth in these schemes when they were relatively new[8] is now at more sustainable levels. Also, individuals also invest in other schemes, as BSC and PBA are in particular available for senior citizens/widows/pensioners only. Recent

Figure 3: Trends in Select Savings Schemes
- PBA ■ BSC ■ Prize Bonds
(billion Rupees)
Source: Statistical Bulletin, SBP

upward revisions of the rate of return on these schemes are likely to attract more investments into these instruments.
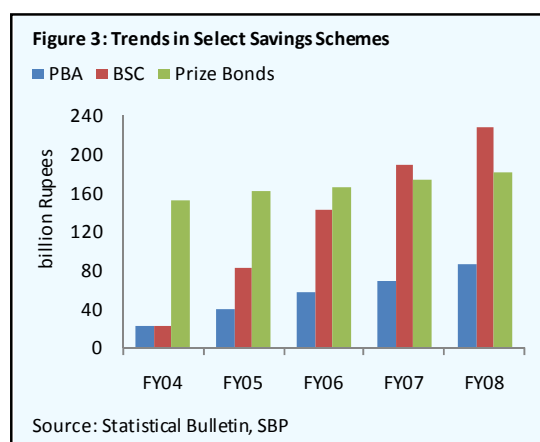
These three indicators of household wealth i.e. deposits, investments in the stock market and in NSS schemes give a strong indication of the sound financial position of the household sector.

Household Debt--Consumer Financing

In contrast to the average level of debt that a household sector carries in a developed economy, the individual consumer in Pakistan is not heavily indebted, as estimated by the consumer loan portfolio of the banking sector which was only 12.0 percent as of end Jun-08. In absolute terms, consumer financing portfolio of the banking sector was at Rs 373.9 billion compared to personal deposits of Rs 1.7 trillion.

Besides the proportion of consumer financing, another important indicator of the financial health of the household sector is the infection ratio of the consumer loan portfolio. Recent data indicates that the NPLs to loans ratio (gross) of the consumer loan portfolio of the banking sector has reached 5.5 percent compared to 4.4 percent for CY07 and just 2.2 percent in CY06. This recent increase in the infection ratio is attributed to various factors including: (1) the increased

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[8] Average growth in the outstanding amount of these schemes was 86.8 percent during FY04-07, which has declined to 22.2 percent for FY08: a more sustainable level of growth.

popularity of this mode of financing for the household sector, especially from CY03-06, was likely to create some non-performing loans as this was a new area of business for banks; and (2) sharp deterioration in the domestic macroeconomic environment may have impaired the loan repayment capacity of the borrowers; and (3) rising interest rates have made some of these loans, priced at flexible rates, more costly for existing customers.