

Following news “clarification” was published by Dawn on September 11, 2021 titled ‘SBP package to benefit influential builders only’.

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## SBP package to benefit influential builders only: report

• Policy objective to generate affordable housing units won't be met • Research firm raises questions on bank's regulatory role in housing, construction sector

By Khaleeq Kiani

ISLAMABAD: The State Bank of Pakistan's (SBP) incentive package for construction and housing sector currently in place would help achieve financing targets of influential builders for high-end housing, but would not meet the policy objective of generating affordable housing units in the country.

This observation has been made by Tabadlab — an Islamabad-based private research firm. It raised question marks on the State Bank's regulatory role in housing and construction sector.

This role, it said, should be given to the Real Estate Regulatory Authority (RERA) for which the parliament had already cleared an enabling law.

"It is likely that the new guidelines to promote the financing of housing units in under-construction projects will end up encouraging the construction of high-end apartments by renowned builders," said Tabadlab. It further said this would help the SBP inch closer toward its targets of construction financing, but would fall short of generating more affordable housing units in the country, ostensibly the very policy goal of the push for easier construction financing.

"It will also not help in substantially contributing to the reduction of the 10 million housing units' gap in Pakistan," it said in a policy analysis released on Friday.

The paper observed that due to lack of structural reforms to power the economy, over many years the SBP had adopted or given the responsibility of promoting various sectors either through concessionary financing for exports, or for renewable energy, or for SMEs, or for industrial expansion.

In the last several years, the SBP has also promoted development activities such as mandatory targets for housing finance and construction finance as well as managing the interest rate subsidies on behalf of the government for low-cost housing and programmes like the Kamyab Pakistan Programme.

It said the proposed SBP Amendment Act 2021 that sought to prohibit such policy influencing and market shaping activities by the central bank had been shelved for the moment and the government continues to lean on the SBP to help achieve its wider policy objectives and the construction financing guidelines issued on Sept 10 were a perfect example of the pursuit of such objectives.

On the whole, the attempt by SBP to promote the construction sector and help the government achieve its target of increasing housing supply is not problematic in spirit, the paper noted, but said that instead of providing broad guidelines to commercial banks and allowing the banks to devise their own criteria to achieve these aims, the SBP was formulating very specific guidelines, intruding

into areas that should be RERA-domain.

In the process, "the SBP is also likely to ensure a micro-management of the entire construction lending process," it added.

The paper argued that the establishment of autonomous RERAs in each province was vital for the promotion of consumer welfare and to bring transparency to the real estate sector.

It said the builders and developers opposed introduction of RERA as it brought transparency and accountability to the real estate sector.

The advantage of RERA is that its jurisdiction extends to an entire region or a province and all builders within that region will have to comply with it. But when SBP is encroaching into RERA functions, the SBP regulations will only apply to those builders that will avail construction financing from construction lenders.

On the negative side, builders that take construction financing will have to comply with those guidelines which are in RERA's domain and in some cases will add to the time and overhead costs of the project when compared to projects of the builders that do not avail construction financing.

Consequently, this may discourage builders from financing the project from a construction lender and may prefer to use investors' equity or purchaser deposits to complete projects. In effect, this would end up countering the very effects the SBP wants to ingrain into the housing and constructing financing markets.

**Following clarification/rebuttal was issued to Dawn in response to an article published on September 11, 2021 titled “SBP package to benefit influential builders only”.**

### **SBP’s clarifies DAWN’s article “SBP package to benefit influential builders only”**

Apropos the DAWN story titled “SBP package to benefit influential builders only” published on 11<sup>th</sup> September 2021, it should be noted that the contents of the story are factually incorrect and misleading. It is clarified that SBP guidelines issued on September 02, 2021 for housing finance in under construction projects do not provide any “package” or “incentive”. Further, it is clarified:

1. The SBP guidelines in no way benefit “influential builders only”. Actually, these are designed to promote housing and construction finance for all categories of projects including affordable and low cost housing. The objective of these guidelines is to facilitate both potential home owners and builders who are currently unable to access bank finance for under construction projects. Under these guidelines, financing will also be available for small projects of two to three apartments with area as small as 5 Marla or less.
2. The objective of the SBP guidelines issued is not to micro manage the banks. On the contrary, these guidelines, prepared after detailed consultations with banks, provide an enabling framework that will help banks to venture into this new segment of financing. It is entirely up to the banks to decide which project and builder are credit worthy in accordance with their internal credit policies and due diligence.

Following clarification was published in Dawn, Karachi on September 13, 2021

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## Guidelines don't benefit influential builders only: SBP

By Our Staff Reporter

KARACHI: The State Bank of Pakistan has described as “factually incorrect and misleading” contents of a policy analysis paper formulated by an Islamabad-based research firm, Tabadlab, upon which *Dawn's* report entitled “SBP package to benefit influential builders only: report” was based.

In a statement released in response to the news report published on Sept 11, SBP said its “guidelines issued on Sept 2, 2021 for housing finance in under-construction projects do not provide any ‘package’ or ‘incentive’”.

The SBP statement stated: “...The SBP guidelines in no way benefit ‘influential builders only’. Actually, these are designed to promote housing and construction finance for all categories of projects, including affordable and low-cost housing. The objective of these guidelines is to facilitate both potential home owners and builders who are currently unable to access bank finance for under-construction projects. Under these guidelines, financing will also be available for small projects of two to three apartments with area as small as 5 Marla or less.”

Referring to a key issue raised in the Tabadlab paper, the regulator said: “The objective of the SBP guidelines issued is not to micro manage the banks. On the contrary, these guidelines, prepared after detailed consultations with banks, provide an enabling framework that will help banks to venture into this new segment of financing. It is entirely up to the banks to decide which project(s) and builder(s) are credit worthy in accordance with their internal credit policies and due diligence.”

