STATE BANK OF PAKISTAN
AGRICULTURAL CREDIT DEPARTMENT
(PSCAC Secretariat)

MINUTES OF THE 4th MEETING OF PRIVATE SECTOR CREDIT ADVISORY COUNCIL (PSCAC) HELD ON 20th FEBRUARY, 2009 AT SBP, KARACHI

The 4th meeting of Private Sector Credit Advisory Council (PSCAC) was held at State Bank of Pakistan under the chairmanship of the Governor on 20th February, 2009. The meeting was attended by senior officials of SBP, representatives of federal and provincial governments, heads / representatives of commercial banks, Federation of Pakistan Chambers of Commerce & Industry, Agriculture Chamber and other trade bodies. Agenda items discussed in the meeting and list of participants are appended at Annexure A & B respectively.

At the outset, the Governor welcomed the participants and gave an overview of the recent trends and credit availed by various segments of the private sector. He said that Private Sector Credit (PSC) after recording an average growth of 19% during FY06 to FY08 witnessed deceleration in the first seven months of FY09 (July 08-January 09) mainly due to slowdown in the economic activity coupled with global recession. PSC expanded by Rs158.4 billion during July 2008- January 2009 and recorded a growth of 5.5% compared to Rs 260.3 billion or 10.5% last year. On annualized basis, growth is 11.2%, which is lower than 17% last year. During FY09, PSC expanded substantially till October 2008. Private sector availed credit of Rs125.6 billion during the period 1st July-1st November 2008 compared to Rs 60.5 billion in the same period last year. Thereafter, the credit- take-off started to decelerate and it increased by only Rs.32.8 billion during 1st November 2008 – 31st January 2009 as compared with Rs199.8 billion in corresponding period last year. Major chunk of the loans (66%) was availed for fixed investment, while 34% for working capital and manufacturing sector availed the highest share of PSC. Domestic private banks were the major source of PSC. Weak demand for working capital, high mark up rates, rising NPLs, past liquidity constraints and slowdown in economic activity caused with global recession are the major reasons for deceleration in private sector.

Governor informed the participants that to ease tight liquidity conditions arising from extraordinary outflows from the banking system during October 2008, the State Bank took a series of measures including liquidity injection through OMOs, reduction in cash reserve requirement, exemption of time deposits (i.e. deposits of above one-year tenor) from statutory liquidity requirement, enhancement of list of eligible securities for SLR and provision of 100 percent refinance to banks against Export Finance Scheme. These measures helped pump in direct and indirect liquidity of around Rs 360 billion in the banking system at present compared with just Rs 79 billion in September 2008.

Disbursement to the agriculture sector through banking system in first half of FY09, banks achieved 40% of the whole year targets of Rs 250 billion compared with 45% achieved in the same period last year. Banks disbursed Rs 99.4 billion during Jul-Dec, 2008 showing an increase of 10% over the disbursement of Rs 90.3 billion made in the same period last year.

Credit to SMEs has declined to Rs 372.1 billion from Rs 433.2 billion as of December, 2007. Out of which, around 75% was for working capital, 17% for fixed investments, while 8% extended for other finances. The highest share of SME credit was obtained by manufacturing sector at 40% followed by commerce & trade at 33%, real estate & renting at 8% and other private business at 5% as of December 2008.

Consumer loans have declined to Rs 326.1 billion as of December 2008 from Rs 353.8 billion as of June 2008. Within consumer finance, highest share is of personal loan at 40% followed by car finance at 28%, housing finance at 20% and credit cards at 12% as at end December 2008.

Microfinance loan portfolio and deposits of MFBs stood at Rs 6.5 billion and Rs 4.1 billon at 31st December 2008 compared with Rs 5.9 billion and Rs3.4 billion at 30th June 2008 respectively. The number of borrowers of MFBs stood at 623,000 at end September 2008 compared with 95,000 at end December 2003.

The branch network of IBIs has crossed 500 branches in December 2008 compared with 289 branches in December 2007. Financing and investment portfolio of Islamic banks reached Rs 185.0 billion in December 2008 compared with Rs137.6 billion in December 2007. The share of Islamic banking in overall banking increased to 5% at end December 2008 from 4% at end December 2007.

Chairman urged upon the commercial banks that sufficient liquidity is available in the banking system and they should increase lending to productive sectors of the economy which will help the country to stage a quick economic recovery.

President, Federation of Pakistan Chambers of Commerce and Industry (FPCCI), gave an overview on the issues being faced by the industry due to global economic recession, high cost of production etc. He urged upon the central bank to reduce mark-up rates as the country's export-oriented industries have been rendered uncompetitive due to high interest rates and cost of production as compared to their competitors in addition to global economic slowdown. He also emphasized that banks should lend the money to the industry for economic revival and employment generation.

Dr. Mirza Ikhtiar Baig, Advisor to Federal Government on Textile expressed industry's gratitude to the central bank for providing one year moratorium on loans repayments under Long Term Financing Facility for Export Oriented Projects (LTF-EOP) as this will help textile industry which is under pressure due to high cost of production. However, he emphasized that similar moratorium may be provided to other borrowers by the commercial banks. He further emphasized that the facility extended for Part I of Export Refinance Scheme may also be extended to Part II of the scheme due to their similar nature. He said that the industry is going through a critical stage due to global recession coupled with energy crisis, law & order situation and other socio-economic factors. To save the industry from complete collapse, he requested the Chairman to take measures in providing finance on the reduced markup rates. In this regard, the Chairman responded that to resolve the issue of insolvent business units, SBP is working on the Bankruptcy Law. Moreover, SBP had a meeting with banks' risk heads to review SBP regulatory barriers.

President, UBL informed that banks are realizing the problems of business community and providing necessary relief in the shape of restructuring / rescheduling of loans on case to case basis, however, the real issue of the industry is high cost of doing business which does not come under the domain of the banks.

Moving to the next agenda item, representative of PBA made a presentation on corporate lending- trends and issues. He informed that banking sector has changed substantially over the last 9-15 months due to new challenges being faced by the industry and added that increase in lending rates is primarily due to high cost of funds and weak cash flows of the borrowers. Now, banks are adopting more objective lending criteria with focus on cash flows and are laying emphasis on debt servicing ability of the borrower. Therefore, banks are financing assets that have the ability to generate more cash flows but they are reluctant in financing companies that have assets with high book value but low cash generation ability. Unplanned expansion and low capacity utilization are resulting in inadequate debt servicing and excessive/impaired inventories and receivables.

President, Sarhad Chamber of Commerce & Industry informed that commercial banks in N.W.F.P are reluctant in extending loans to the business community because of law & order situation due to which the business community / exporters are facing problem in getting finance from banks. He further informed that in absence of province-wise private sector credit data, the share of N.W.F.P in total PSC cannot be determined in terms of its total stock, decline and growth trend. He stressed that SBP may look into the possibility of providing province-wise details of PSC, this would help in analyzing the PSC at provincial level. He also suggested that the central bank may introduce mandatory targets for under developed provinces / regions on soft terms against SBP guarantee to improve the access of credit in the area of SME, agriculture and microfinance. In this regard, Governor informed the participants that to improve the access to financial services under DFID funded financial inclusion program of 50 million pound; SBP has already taken several initiatives including credit guarantee facility for microfinance while working for establishing the similar guarantee for SME and small agri. loans is under way.

Chairman, Pakistan Small Chamber of Commerce & Cottage Industry (PSCCCI) informed that the current mark-up rates are high and unaffordable for SMEs due to high cost of business and slow down in business activities. Most of the SMEs have been established on premises either acquired on rental or goodwill basis and do not have any collateral to meet the security requirements of banks and resultantly SMEs are unable to get the credit from the banking system. To overcome this problem, he suggested that credit guarantee scheme for SMEs be established, on the one hand, it would improve the SMEs access to credit, and on the other, it would safeguard the interest of banks.

Representative of Sukkur Chamber of Commerce & Industry said that in rural Sindh most of business entities are agro-based and SMEs while banks are charging different mark up rates for that, he emphasized on rationalization of markup structure and requested SBP to take necessary measures to increase agri. lending to the farmers for rural development of Sindh.

Syed Qamar-uz-Zaman Shah, President, Federation of Chamber of Agriculture Pakistan made various suggestions including one window operation, provision of providing inputs to the farmers by banks, establishment of value chain, etc. for the development of agri. sector. He said that government must provide storage facility for farm produce and should also resolve the pricing issues as the farmers are not getting the benefit of increased prices of agri. produce. He emphasized on banks to increase the lending to farming community to get rid of them from informal sector lending at exorbitant rates and urged upon SBP to take necessary measures for provision of agri. credit to small farmers at cheaper rate on the pattern of export refinance scheme.

Secretary, Ministry of Food and Agriculture informed that the Government has managed the pricing issue of wheat and this year the farmers would be able to get better prices. Banks have ample opportunities to finance in agriculture in the wake of increase in credit demand due to high price of crop produce and cost of production. He further mentioned that this year total production of wheat is estimated at 25 million tons, out of which government would purchase 6.5 million tons wheat at the rate of Rs 950 per 40 Kgs for which government would need funds of over Rs 155 billion, while the private sector will procure 4 million tons wheat and will need funds of Rs 95 billion. Therefore, banks have an ample opportunity to invest their surplus liquidity in wheat procurement business.

Additional Chief Secretary (Development), Government of Sindh highlighted the efforts of Sindh government for the development of agriculture sector and stressed upon need of public/ private sector partnership and coordination of Sindh government with banks in development of infrastructure, storage, processing/ packaging of agri. produce for value addition.

Director General Agriculture, AJK informed that government has launched interest subsidy scheme for the farmers of AJK for purchase of machinery and equipment through ZTBL. Under the scheme AJK government would bear interest cost of the loan while principal amount will be paid by farmers.

Chief Executive Officer, SMEDA showed concern on decline in SME credit despite allocation of indicative targets to banks for SME lending. He stressed upon introduction of credit guarantee scheme on priority basis and introduction of sector specific program-base lending, simplification of lending procedure and awareness program for SMEs.

Chairman appreciated the discussions and said that State Bank would welcome the suggestions of stakeholders and banks to create an enabling environment for the recovery of slowdown in private sector credit. He stressed upon close liaison amongst the regulator, policy makers, banks and business / farming community which would help the revival of the economy.

The meeting ended with a vote of thanks to the chair.

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