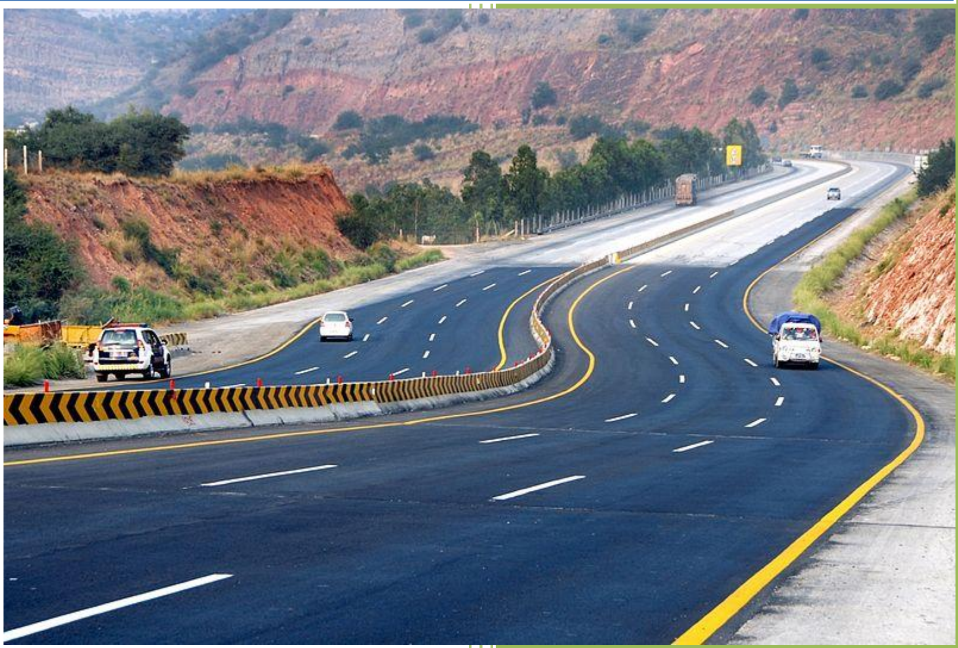
Oct-Dec, 2014

Quarterly Infrastructure Finance Review



Infrastructure Housing &

SME Finance Department

The Team

Team Leader

Syyed Samar Husnain - Executive Director

Members

Ghulam Muhammad Abbasi - Director

Dr. Muhammad Saleem - Additional Director

Zahir Saeed Sakhi - Assistant Director

For queries

Email: ihfd.reporting@sbp.org.pk

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Acronyms

IPF	*Infrastructure Project Financing*
DFI	*Development Finance Institution*
QoQ	*Quarter-on-Quarter*
YoY	*Year-on-Year*
PG	*Power Generation*
O&G	*Oil and Gas*
RB&F	*Road, Bridge & Flyover*
PT	*Power Transmission*
WSS	*Water Supply & Sanitation*
NPLs	*Non-Performing Loans*
FY	*Fiscal Year*
LPG	*Liquefied Petroleum Gas*

1. Infrastructure Finance Overview

It is estimated that Pakistan needs to invest around 10 percent of GDP until 2020 to close its enormous infrastructure gap whereas, infrastructure investment as percentage of GDP is currently averages at 6 percent only. Public sector has limited resources to fill this gap, and opportunities for private sector investment in Infrastructure are vast. Infrastructure sector requires large upfront capital investment for benefits that spread over longer time. Unlike public sector, which takes into consideration the social benefits as well apart from commercial gains; private sector's involvement in infrastructure is pinned on commercial returns. Therefore, appropriate incentives are required to lure private sector investment in infrastructure sectors.

In Pakistan, Banks and Development Finance Institutions (DFIs) have remained a major source of funding to infrastructure investment in the private sector. This review is prepared based on quarterly data received from banks and DFIs. An analysis of the infrastructure financing profile for Q2 FY-15 depicts the following trends.

At the end of Dec-14, amount outstanding against infrastructure sectors witnessed growth of Rs 15.4 billion or 5.5% when compared with the preceding quarter (Jul-Sept, 2014). This increase was largely due to the power generation, petroleum, Road Bridge & Flyover (RB&F) and oil & gas (O&G) sectors, where combined outstanding amount grew by more than Rs 17 billion. The growth observed in RB&F sector is due to the 'Modernization of Lahore-Islamabad Motorway M2' project added during the quarter Oct-Dec, 2014. The cost of the project is estimated to be Rs 36.8 billion and a syndicate of eight banks is funding the project.

Non-performing loans (NPLs) declined by more than 13% and 17% on QoQ and yearly basis respectively. Fall in NPLs was mainly observed in power generation, LPG (Extraction & Distribution) sectors.

A sector-wise analysis shows that the major share (64% & 17%) in total outstanding infrastructure project financing remained with power generation and telecom sectors respectively. Strong demand and Government of Pakistan backed guarantees are the major reasons that power generation sector has witnessed tremendous growth over the years. The share of power transmission sector was 1.4% while petroleum and oil & gas (exploration and distribution) sectors' share was 3.6% and 3.7% respectively in total outstanding amount.

Box 1: Infrastructure Project Finance Guidelines

SBP's Infrastructure Project Finance Guidelines can be accessed at http://www.sbp.org.pk/ihfd/2010/Annex-CL1.pdf

The following sections present outstanding portfolio, disbursements, number of projects, non-performing loans, amount sanctioned, and sectoral share of Banks & DFIs in Infrastructure Project Financing (IPF). It is pertinent to mention here that the data/figures pertain to the existing projects and excludes projects which have matured at the end of December, 2014.

Table A: Infrastructure Project Financing Profile of Banks & DFIs

(Amount in PKR Billions)				% Change	
	Dec-14	**Sept-14**	**Dec-13**	**QoQ**	**YoY**
Amount Outstanding	**297.8**	282.4	255.2	5.5%	16.7%
NPLs	**16.1**	18.5	19.4	-13.1%	-17.3%
Disbursements During the Quarter	**27.8**	15.7	5.8	77.4%	380.7%
Disbursements (Cumulative)	**367.7**	349.6	371.3	5.2%	-1.0%
No. of Projects (*Cumulative)	**392**	382	363	2.6%	8.0%
Total Sanctioned Amount	**591.2**	551.4	535.6	7.2%	10.4%

*Cumulative number of projects is the total number of projects less the matured ones.

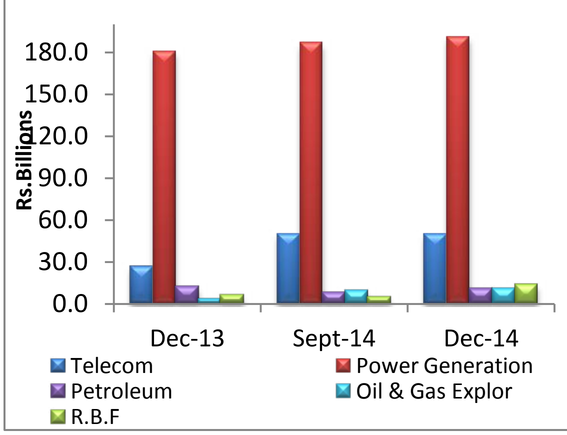
2. Outstanding Portfolio

The total amount outstanding, against infrastructure finance, at the end of Dec-14 was Rs 297.8 billion when compared with Rs 282.4 billion at the end of Sept-14, recording an increase of 5.5%. Power generation, petroleum, O&G and RB&F sectors noticed a rise of 2.3%, 27%, 17% & 178% respectively while outstanding portfolio in telecom sector declined by one percent (QoQ basis). Following is the list of infrastructure sectors where lending has been made by banks/DFIs:-

a) Power Generation (PG)
b) Telecom
c) Oil & Gas (O&G) Exploration/Distribution
d) Petroleum
e) Road, Bridge, Flyover (RBF)
f) Power Transmission (PT)
g) LPG Extraction/ Distribution
h) Water Supply, Sanitation (WSS)

On YoY basis, amount outstanding against infrastructure increased by 16.7%. Yearly growth was observed in telecom, power generation, O&G and RB&F sectors. The share of O&G and RB&F sector in total outstanding portfolio is 3.7% and 4.7% only.

Fig 1: Top 5 Infrastructure Sectors



3. Non Performing Loans

Total amount of non-performing loans (NPLs) decreased during the quarter from Rs 18.5 billion to Rs 16.1 billion, recording a decline of 13.1% during the quarter. Major decline was observed in PG and LPG (Ext. & Dist.) sectors. The decline in NPLs was 17.3% when compared on YoY basis.

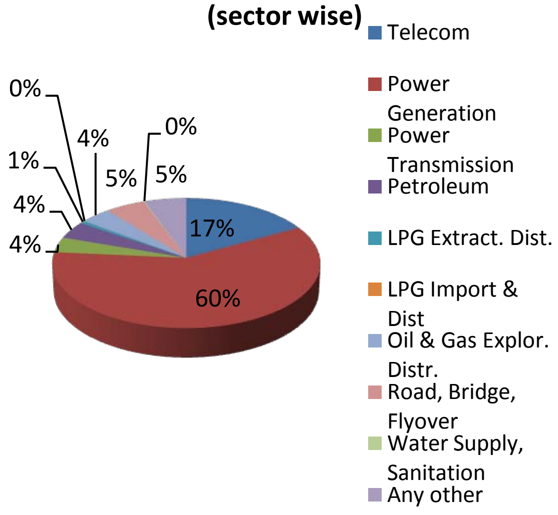
The major share in NPLs pertained to PG sector (53%) while telecom's share in total NPLs was 28%.

4. Disbursements

Cumulative disbursements as of Dec-14 increased on quarterly basis by 5.2% while it witnessed decline of 1% when compared on yearly basis.

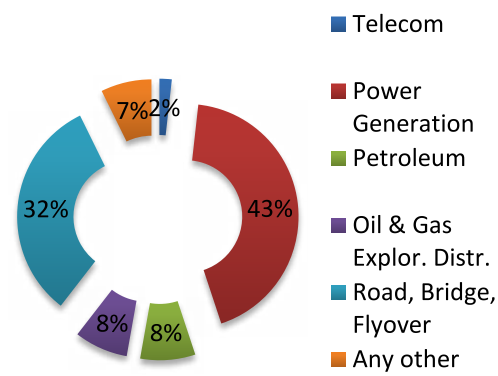
At the end of Dec-14, Rs 367 billion was the cumulative amount disbursed to all infrastructure sectors, of which 60% was in PG sector followed by telecom sector with 17% share (Figure 3).

Figure 3: Cumulative Disbursements (sector wise)



Disbursements during the quarter amounted to Rs 27.8 billion, a boost of 77% compared to previous quarter. A significant increase was observed in disbursements made to PG and RB&F sectors during the quarter.

Quarterly Disbursements (Oct-Dec, 14)



Total quarterly disbursements: Rs 27.8 billion

5. Number of Projects

Out of the 382 infrastructure projects financed, 196 were undertaken in power generation sector, 48 in telecom, 16 in power transmission, 23 in petroleum, 21 in O&G, and 41 in RB&F sector.

6. Amount Sanctioned

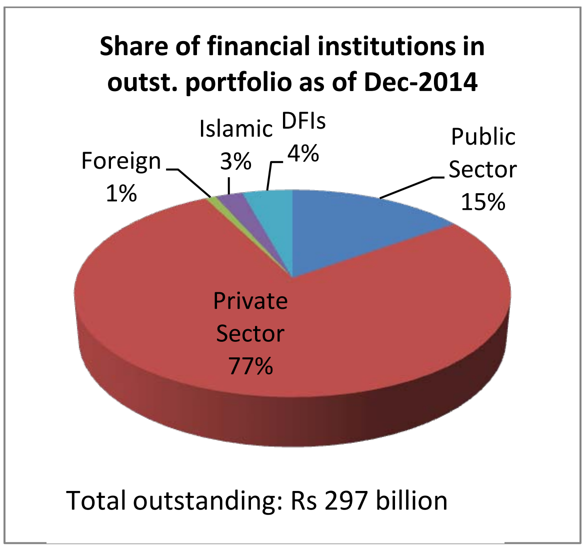
At the end of the period under review, the total amount sanctioned by Banks & DFIs for infrastructure projects increased from Rs 551 billion to Rs 591 billion, recording a growth of 7% compared to the previous quarter. A similar trend was observed when compared on yearly basis, where a 10% increase was seen.

Out of the total amount sanctioned during the quarter, share of PG stands at 53%, telecom's share was at 19% followed by petroleum with 7.2% and O&G sector with 5.8%.

Infrastructure financing portfolio of Banks & DFIs has increased for the third consecutive quarter since December last year. This is a good sign for economic development. This trend needs to be continued for long term growth with further increasing trend for sustainable development. Additionally there are other sectors like railway, aviation, social infrastructure and tourism where financing can be provided to commercially viable projects.

7. Banking-sector wise share

The institutional share in outstanding portfolio has largely remained the same with a large share of private sector banks followed by public sector banks (Figure below). DFIs share in total outstanding amount has declined from 5% in previous quarter to 4% in Oct-Dec, whereas share of Islamic Banks has increased by one percentage point to reach 3%.



Moreover, at the end of Dec-14, total amount sanctioned for infrastructure sectors grew by 7.2%, QoQ basis, and stood at Rs 591 billion. Of this amount, the share of private sector banks was 78%, followed by public sector banks with 14%, DFIs with 3.2%, foreign banks with 1.2%, and Islamic banks with 3.3% share in total amount sanctioned.

The private sector banks' share in NPLs was recorded at 69% followed by public sector with 13.5% (compared to 26% at the end of previous quarter). DFIs share in NPLs has reached 17.2% while foreign banks and Islamic banks did not report any NPLs.

Annexure

Table B: Infrastructure Project Financing Profile over the years

(Amount in Rs. Billions)	Periods						
	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14
Amount Outstanding	234.4	275.9	298.5	265.5	289.3	255.2	297.8
NPLs	1.3	8.2	10.4	17.1	17.5	19.4	16.1
Disbursements (Cumulative-As on)	203.2	251.1	349.0	356.2	356.3	351.9	367.7
No. of Projects (*Cumulative)	291	311	338	337	364	363	392
Total Sanctioned Amount	459.6	496.5	520.3	482.6	493.5	502.9	591.2

*Cumulative No of projects are the total number of projects less the matured ones.

Table C: Total Investment requirements in Pakistan across different Infrastructure sectors between 2011-20

		(in billions USD)
	Low	**High**
Transport	17.2	21.5
Electricity	64.0	96.0
Water Supply & Sanitation	9.3	14.0
Solid Waste	3.3	6.7
Telecom	12.4	12.4
Irrigation	9.7	14.6
Total	**115.9**	**165.2**

Source: Reducing poverty by closing South Asia's Infrastructure Gap, World Bank study, Dec 2013