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Quarterly Infrastructure Finance Review



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Acronyms

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

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1. Infrastructure Finance Overview

Infrastructure plays a pivotal role in the development of a country. Quality infrastructure improves investment climate, enhances export competitiveness, creates employment, improves living conditions of public and leads to a higher tax revenue for the Government.

Public sector has limited resources to fill the huge infrastructure gap in the country and opportunities for private sector investment 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 from new infrastructure projects; private sector's involvement looks at it from a commercial perspective. Therefore, appropriate incentives are required to draw private sector investment in infrastructure sectors.

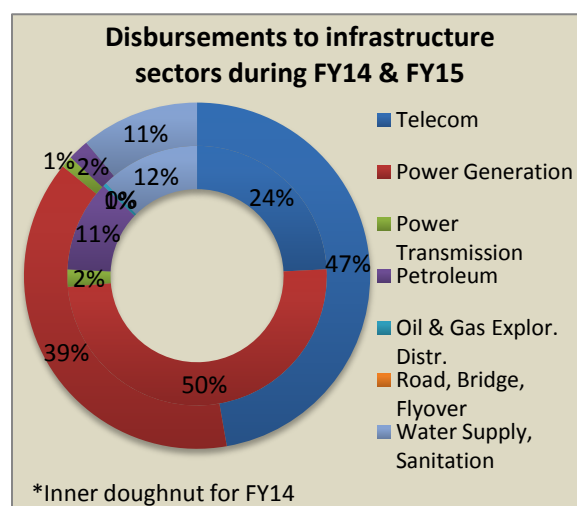
In Pakistan, Banks and Development Finance Institutions (DFIs) have provided major part of the credit for financing infrastructure projects in the private sector. This review is prepared based on quarterly data received from banks and DFIs. It includes infrastructure projects financed by banks & DFIs, as defined in the IPF Guidelines (Box 1). An analysis of the infrastructure financing profile for Q4 of FY-15 depicts the following trends.

At the end of June-15, amount outstanding against infrastructure sectors witnessed growth of Rs 16.4 billion or 5.3% when compared with the preceding quarter (Jan-Mar, 2015). This increase was largely in the power generation, petroleum and Oil & Gas (O&G) sectors, where combined outstanding amount grew by more than Rs 17.5 billion. Whereas, a decline in

outstanding amount was observed in telecom, LPG and Water Supply & Sanitation sectors.

Non-performing loans (NPLs) increased marginally during the quarter by 0.3%, however, on YoY basis, NPLs decreased by 8%.

During FY15, disbursements to infrastructure projects have increased substantially by 63% compared to FY14. Data received from banks shows that banks & DFIs disbursed Rs 83.1 billion during FY15 to various infrastructure sectors. It could partly be due to the continuous decline in SBP's discount rate as well as due to the improving economic conditions, as international credit rating agencies have upgraded Pakistan's rating.



Box 1: Infrastructure Project Finance Guidelines

SBP's Infrastructure Project Finance Guidelines can be accessed at <http://www.sbp.org.pk/ihfd/2010/Ann>

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 relate to the existing projects and excludes projects which have matured at the end of June, 2015.

Table A: Infrastructure Project Financing Portfolio of Banks & DFIs

(Amount in PKR Billions)	Jun-14	Mar-15	Jun-15	QoQ	% Change
					YoY
Amount Outstanding	276.1	312.3	328.7	5.3%	19.1%
NPLs	18.08	16.58	16.63	0.3%	-8.0%
Quarterly Disbursements	27.25	19.18	20.45	6.6%	-25.0%
Disbursements (Cumulative)	371.3	384.7	393.9	2.4%	6.1%
No. of Projects (*Cumulative)	375	394	378	-4.1%	0.8%
Total Sanctioned Amount	535.6	604.8	623.0	3.0%	16.3%
*Cumulative number of projects is the total number of projects less the matured ones.					

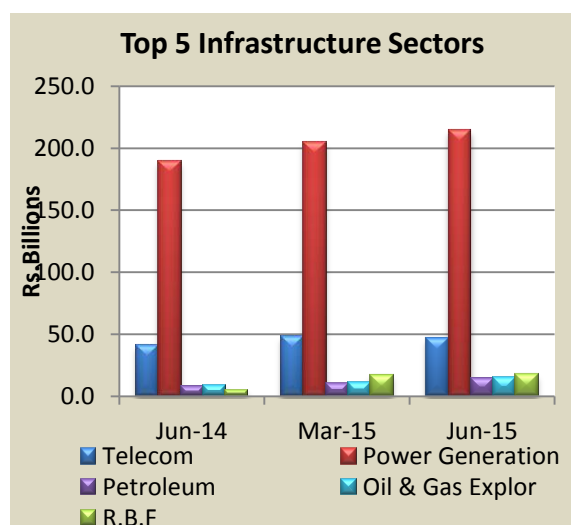
2. Outstanding Portfolio

The total amount outstanding, against infrastructure finance, at the end of June-15 was Rs 328.7 billion when compared with Rs 312.3 billion at the end of Mar-15, recording an increase of 5.3%. Infrastructure Project Finance (IPF) portfolio of banks & DFIs has witnessed growth for sixth consecutive quarter since December 2013. Power generation, petroleum and O&G sectors noticed a growth in outstanding portfolio on QoQ basis. Following is the list of infrastructure sectors where lending has been made by banks/DFIs:-

- Power Generation (PG)
- Telecom
- Oil & Gas (O&G) Exploration/Distribution
- Petroleum
- Road, Bridge, Flyover (RBF)
- Power Transmission (PT)

- LPG Extraction/ Distribution
- Water Supply, Sanitation (WSS)

On YoY basis, amount outstanding against infrastructure increased by 19.1%. All sectors witnessed growth in outstanding financing except for telecom. Share of power generation in total outstanding amount is greatest at 65% followed by telecom with 14% share.



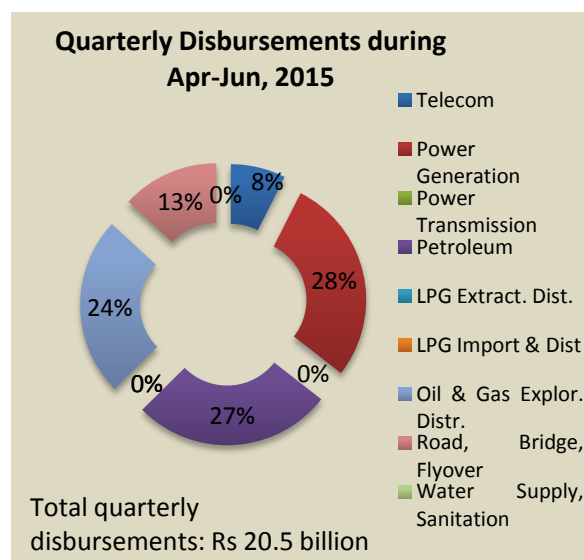
3. Non Performing Loans

Total amount of non-performing loans (NPLs) increased marginally by 0.3% during the quarter however, on YoY basis, NPLs decreased by 8%.

The major share in NPLs pertained to PG sector (51%) while telecom's share in total NPLs was 28%.

4. Disbursements

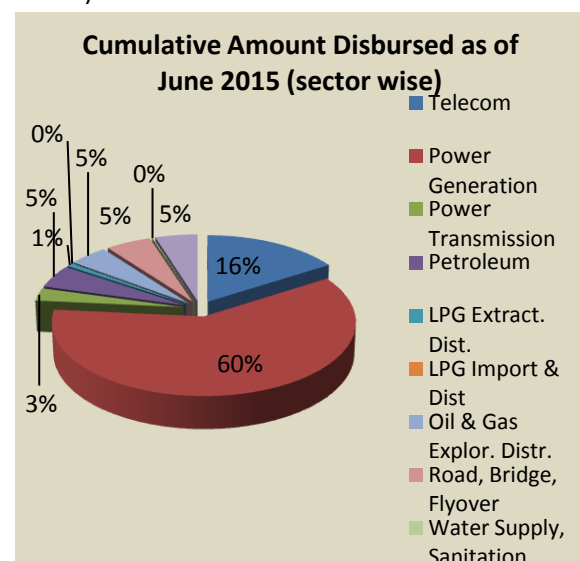
Disbursements during the quarter amounted to Rs 20.5 billion, mainly to power generation, petroleum, O&G and RB&F sectors.



The cumulative amount disbursed as of June-15 increased on quarterly basis by 2.4% while it increased by 6.1% on yearly basis.

At the end of June-15, the cumulative amount disbursed was Rs 394 billion to all infrastructure sectors, of which 60% was in PG sector followed by telecom sector with 16% share (figure

below).



5. Number of Projects

Out of the 378 infrastructure projects financed, 216 were undertaken in power generation sector, 47 in telecom, 11 in power transmission, 19 in petroleum, 23 in O&G, and 29 in RB&F sector.

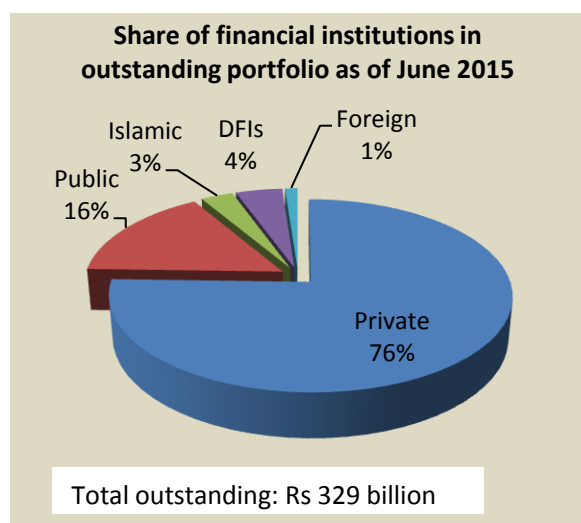
6. Amount Sanctioned

At the end of the period under review, the total amount sanctioned by Banks & DFIs for infrastructure projects increased from Rs 604.8 billion to Rs 623 billion, recording a growth of 3% compared to the previous quarter. A similar trend was observed when compared on yearly basis, where a 16% increase was seen.

Out of the total amount sanctioned during the quarter, share of PG stands at 54%, telecom's share was at 18% followed by RB&F and petroleum with 7% share each and O&G sector with 4%.

7. Banking-sector wise share

The institutional share in outstanding portfolio has largely remained the same with a large share resting with private sector banks followed by public sector banks (Figure below). Islamic banks' share in total outstanding amount has remained steady at 3%.



The private sector banks' share in NPLs stands at 68% while public sector banks' share is at 16%. DFIs share in NPLs has reached 16% although their share in cumulative disbursement is only 4.6% of the total. Foreign banks and Islamic banks have not reported any NPLs as of June 2015.

Infrastructure financing portfolio of banks & DFIs has shown encouraging growth since December 2013 when it was at Rs 255 billion. This trend is expected to further continue as SBP has decreased its policy rate.

Special Section: China-Pakistan Economic Corridor (CPEC)

The Chinese President's visit in April resulted in a wide-ranging cooperation agreements signed between Pakistan and China on various infrastructure projects. The two countries succeeded in signing 51 agreements and MoUs relating to several important development projects in infrastructure, energy and communication sectors under the ambit of CPEC. During the two days, Pakistani and Chinese leadership inaugurated several projects by unveiling the plaques and Ground Breaking (details below):

Inauguration/Plaque Unveiling

- China Pakistan Joint Research Center for Small Hydro Power
- Chinese Cultural Centre Islamabad
- FM 98 China Pakistan Friendship radio Studio
- Lahore Orange Line Metro Train Project
- China Pakistan Cross Border Optical Cable Project
- Demonstration Project of DTMB Broadcasting in Pakistan
- 100 MW Solar Project by Tebian Electric Operators Stock Company limited – Quaid-E-Azam Solar Power park, Bahawalpur
- Lahore Branch of ICBC

Ground Breaking (CPEC)

- Zonergy 900 MW Power Park
- 720 MW Karot Hydro Power, Jhelum
- 50 MW Wind Power Project, Dawood Hydro China, Thatta
- 100 MW UEP Wind Power Project, Jhimpir, Thatta
- 50 MW Wind Power Project, Sachal, Thatta

Annexure

Table B: Infrastructure Project Financing Profile over the years

(Amount in Rs. Billions)	Periods						
	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Jun-15
Amount Outstanding	275.9	298.5	265.5	289.3	255.2	297.8	328.7
NPLs	8.2	10.4	17.1	17.5	19.4	16.1	16.63
Disbursements (Cumulative-As on)	251.1	349.0	356.2	356.3	351.9	367.7	393.9
No. of Projects (*Cumulative)	311	338	337	364	363	392	378
Total Sanctioned Amount	496.5	520.3	482.6	493.5	502.9	591.2	623.0
*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, 2013