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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 lure 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 Q3 of FY-15 depicts the following trends.

At the end of Mar-15, amount outstanding against infrastructure sectors witnessed growth of Rs 14.5 billion or 4.9% when compared with the preceding quarter (Oct-Dec, 2014). This increase was largely due to the power generation, LPG and Road Bridge & Flyover (RB&F) sectors, where combined outstanding amount grew by more than Rs 18 billion. Whereas, a decline in outstanding amount was

seen in telecom, power transmission, petroleum and O&G sectors.

Non-performing loans (NPLs) increased slightly during the quarter by 3.1%, reaching Rs 16.9 billion as of March 2015. However, compared to a year earlier, NPLs have decline by 8%.

Quarterly disbursements to infrastructure projects have seen an encouraging increase in the recent quarters. 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. During the period Jul-Mar of FY15, disbursements to infrastructure projects increased by a massive 162% compared to similar period during FY14. Data received from banks shows that banks & DFIs disbursed more than Rs 62 billion during 9M of FY15 to various infrastructure sectors.

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 March, 2015.

Table A: Infrastructure Project Financing Portfolio of Banks & DFIs

(Amount in PKR Billions)					% Change
	Mar-14	Dec-14	Mar-15	QoQ	YoY
Amount Outstanding	254.6	297.8	312.3	4.9%	22.6%
NPLs	18.0	16.1	16.9	3.1%	-8.0%
Disbursements During the Quarter	18.3	27.8	19.2	-31.1%	4.9%
Disbursements (Cumulative)	341.7	367.7	384.7	4.6%	12.6%
No. of Projects (*Cumulative)	360	392	394	0.5%	9.4%
Total Sanctioned Amount	505.9	591.2	604.8	2.3%	19.5%
*Cumulative number of projects is the total number of projects less the matured ones.					

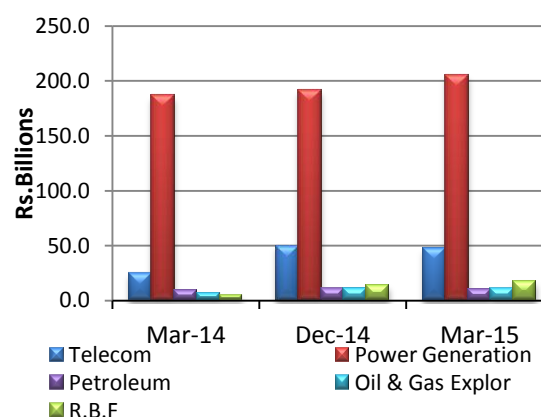
2. Outstanding Portfolio

The total amount outstanding, against infrastructure finance, at the end of Mar-15 was Rs 312.3 billion when compared with Rs 297.8 billion at the end of Dec-14, recording an increase of 4.9%. Infrastructure Project Finance(IPF) portfolio of banks & DFIs has witnessed growth for fifth consecutive quarter since December 2013. Power generation, LPG RB&F 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 22.6%. All sectors witnessed growth in outstanding financing except for power transmission. Share of power generation in total outstanding amount is greatest at 65 percent followed by telecom with 15 percent share.

Top 5 Infrastructure Sectors



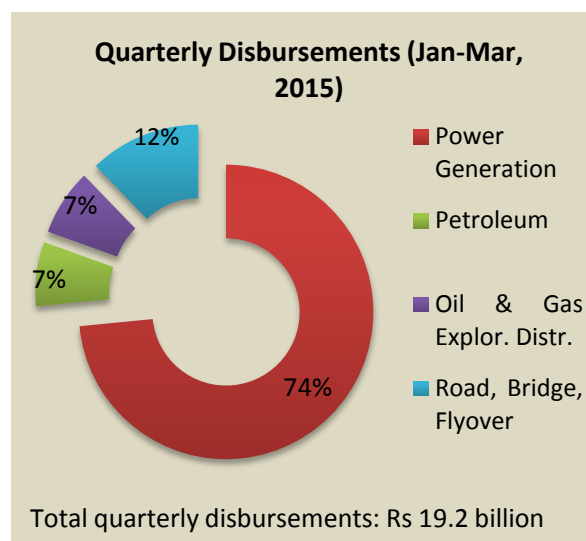
3. Non Performing Loans

Total amount of non-performing loans (NPLs) increased during the quarter from Rs 16.1 billion to Rs 16.6 billion, recording a rise of 3.1% during the quarter. However, on YoY basis, NPLs decreased by 8 percent.

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

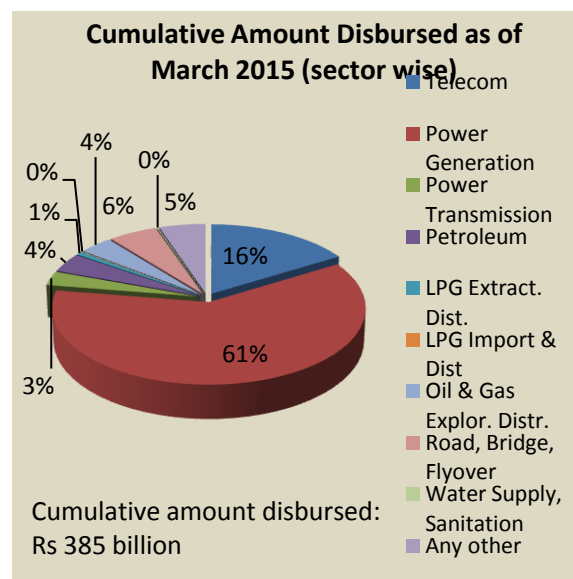
4. Disbursements

Disbursements during the quarter amounted to Rs 19.2 billion, mainly to power generation sector.



The cumulative amount disbursed as of Mar-15 increased on quarterly basis by 4.6% while it increased by 12.6% on yearly basis.

At the end of Mar-15, 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 below).



5. Number of Projects

Out of the 394 infrastructure projects financed, 213 were undertaken in power generation sector, 48 in telecom, 11 in power transmission, 19 in petroleum, 21 in O&G, and 44 in RB&F sector.

6. Amount Sanctioned

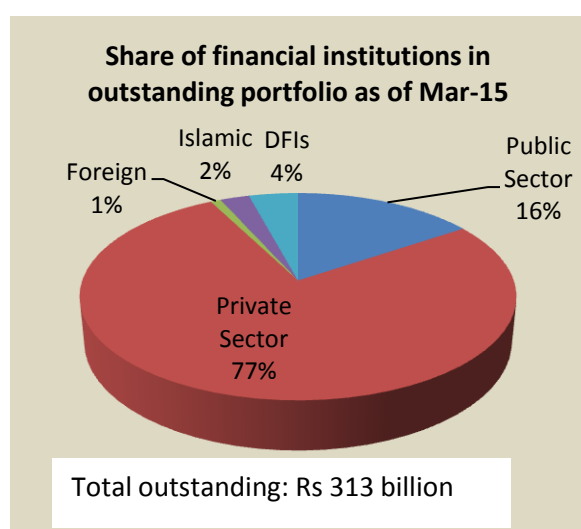
At the end of the period under review, the total amount sanctioned by Banks & DFIs for infrastructure projects increased from Rs 591 billion to Rs 605 billion, recording a growth of 2.3% compared to the previous quarter. A similar trend was observed when compared on yearly basis, where a 19% increase was seen.

Out of the total amount sanctioned during the quarter, share of PG stands at 60%, telecom's share was at 18% followed RB&F with 7% and

petroleum and O&G sector with 6% and O&G sector with 4.5%.

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). Islamic banks' share in total outstanding amount has declined from 3% in previous quarter to 2% in Jan-Mar, whereas share of public banks has increased by one percentage point to reach 16%.



The private sector banks' share in NPLs has declined from 69% to 67% and public sector banks' share has increased from 13.5% to 16%. DFIs share in NPLs has reached 17.2% while foreign banks and Islamic banks did not report any NPLs.

Infrastructure financing portfolio of banks & DFIs has witnessed increase since last year and this is expected to further rise as SBP has decreased its policy rate. Apart from power sector, banks would have to explore other sectors such as aviation, industrial parks, waste management, railways and tourism for new opportunities.

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

Source: PM Office & PC websites

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, 2013