

28th January, 2005

**SBP PROHIBITS BANKS/DFIs FROM FINANCING
PREMIUM ON PURCHASE OF CARS**

The State Bank of Pakistan has, with immediate effect, prohibited the banks and Development Finance Institutions (DFIs) from financing premium charged by the car dealers and/or investors over and above the ex-factory tax paid price set by the car manufacturers. This step taken by the State Bank will not only discourage the speculators and curb the menace of premium (or on-money as it also called), but will also facilitate the genuine buyers of new cars.

In order to discourage speculation in the real estate, the State Bank had earlier restricted the banks/DFIs, under their mortgage/house financing schemes, from extending financing solely for the purchase of plots/land. Similarly, with a view to curb speculative activities on shares, the State Bank had earlier also prescribed limits on bank/DFI's investments in shares listed on the Stock Exchanges.

The State Bank's circular (BPD Circular No.2 of 28th January, 2005) regarding prohibition of financing of premium on cars issued to the Banks and DFIs is enclosed.
