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SBP to facilitate establishment of Infrastructure Development Bank, Mortgage Refinance Company: Salim Raza

Syed Salim Raza, Governor State Bank of Pakistan has said that the central bank is working on the establishment of Infrastructure Development Bank and Mortgage Refinance Company under Public-Private Partnership for the growth and development of infrastructure and housing sector in the country.

Presiding over a meeting of Private Sector Credit Advisory Council (PSCAC) held at State Bank today, Mr. Raza said that the State Bank has taken several initiatives for enhancing credit disbursement to underserved segments i.e. agriculture, SME, microfinance, housing and infrastructure.

“State Bank is playing its due role to stimulate private sector credit off-take and to turnaround economic slowdown,” he said. He, however, stressed upon the private sector to come forward with well thought out project plans so that banks are able to finance them. “I strongly believe that growth stimulus has to come from agriculture and SME sectors,” he added.

Talking about overall scenario of private sector credit disbursement, Mr. Raza noted that decelerating trend of credit disbursement has been arrested and lately disbursement has picked up. He pointed out that overall decline in credit disbursement was limited to Rs 28 billion as of July-November 7, 2009 compared with a decline of Rs 81 billion till July-September 2009. He said that the share of private sector credit in total credit has declined from 61% as at end Dec 2008 to 53.3% by 7th November 2009 due to continuous contraction in PSC and enhanced flow of credit to government sector & PSEs during the last three quarters.

Referring to reasons behind low credit off-take, Mr. Raza said that prolonged power shortages and poor security situation had an adverse impact on industrial production which grew by a mere 0.2% in July-August 2009. Similarly, decline in exports exhibited some impact of global recession particularly in major export destination like the USA and the European Union which have witnessed one of their worst economic slowdown during last two quarters of 2008 and in the first three quarters of 2009.

Textile sector exports earnings have declined by \$0.3 billion during July-Sep FY10, he added.

SBP Governor noted that gross non performing loans (NPLs) of banks continued to grow to reach Rs 421.6 billion (12.36% of total loans) at end September 2009 compared with Rs 397.9 billion (11.5% of total loans) at end June 2009 and Rs 241.3 billion at end June 2008. Textile sector holds around 30% of the total NPLs which is much higher than its share in loans i.e. 19%, he added.

Similarly, he pointed out that loans for working capital marked decline of Rs 79 billion during first quarter (July-September) of FY10 mainly due to low demand of running finance by small business, food products' (Rs 33.4 billion) and textiles (Rs10 billion). Credit retirement by sugar sector against pledge of sugar stocks also supported the decline in advances. However, the declining trend under working capital was somewhat offset by credit under fixed investment, which increased by Rs13.3 billion during July September, 2009. The main sectors that availed fixed investment credit included electricity, gas & water and manufacturing, he added.

Mr. Raza said that agricultural credit disbursement is continuously showing increasing trends and during July-October 2009 has increased by Rs 5.2 billion or 9% from corresponding period while credit to SMEs and housing finance exhibited declining trends. Infrastructure finance grew by 37% mainly due to capital investment in power generation and telecommunication sectors, he said and added deposits and advances of microfinance banks/institutions have increased to Rs 5.8 billion and Rs 8.9 billion respectively as on 30th September 2009.

The meeting was attended, among others, by representatives of business and industries, agricultural associations, commercial banks besides senior officials of the State Bank.
