



External Relations Department

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SBP amends capital adequacy regulations to facilitate Banks/DFIs investment in REITs to boost housing and construction sector

In order to provide further support to the development of real estate sector, State Bank of Pakistan (SBP) has amended its capital adequacy regulations by significantly lowering the applicable risk weight (from 200% to 100%) on banks/ DFIs' investments in the units of Real Estate Investment Trusts (REITs). REITs are companies that raise funding from general public and institutions and deploy these funds through investment in real estate properties.

With the aforesaid changes in capital adequacy regulations, banks/DFIs will now be able to increase their investments in REITs without the need to allocate relatively large amount of capital. This will, in turn help banks to promote development of real estate sector in the country. The enhanced participation of financial institutions, backed by regulatory initiatives, would also encourage REIT Management Companies to launch new REITs, providing further boost to the Government's agenda for development of housing and construction sectors.

It may not be out of place to mention that SBP has been taking a number of regulatory steps to enhance banks/DFIs' participation in such sectors through their financing and investment activities, In line with Government of Pakistan's various initiatives for the development of housing and construction sector. Earlier, SBP amended certain provisions of its existing Prudential Regulations for Corporate & Commercial Banking to encourage enhanced participation and investment of banks/DFIs in the REITs that enabled banks/DFIs to make higher investments in REITs to the tune of 15% of their equity as against the previous limit of 10%. Moreover, SBP has allowed the banks to count their investments in shares/units/bonds/TFCs/Sukuks issued by REIT Management Companies towards achievement of their mandatory targets for housing and construction finance. The amendments in SBP's capital adequacy regulations will further incentivize banks to contribute towards a well-functioning capital market for real estate sector.

For details: <https://www.sbp.org.pk/bprd/2021/CL18.htm>
