

### Annexure-I: Some Important Definitions Covered in Credit Bureaus Act 2015

**Credit information:** is any information with respect to a debtor relating to (i) the amounts, nature of loans or advances, finance and other credit facilities granted by a credit institution and repayment thereof by the debtor and the nature of security taken by a credit institution for credit facilities granted; (ii) the guarantee or any other non-fund based facility furnished by a credit institution for the benefit thereof, (iii) the amounts and nature of commercial transactions, facilities and services entered into or availed of credit from non-financial companies and bodies and other lenders and authorities including but not limited to retailers, insurance companies, utility providers and landlords as notified by the Federal Government; (iv) any and all factors included in the financial history bearing on the credit worthiness, credit standing and credit capacity thereof; (v) any other related public record and information as prescribed by rules; or (vi) personal information as prescribed by rules.

**Credit information furnisher:** any credit institution, person or entity which provides credit information to a credit bureau including non-financial companies and bodies and other lenders and authorities.

**Credit information report:** any written or electronic communication issued by a credit bureau containing credit information relating to any debtor for the purposes of this Act.

**Credit institution:** includes (i) a banking company; (ii) microfinance banks; (iii) a financial institution, which means (a) any company, whether incorporated within or outside Pakistan, which transacts business of banking or any associated or ancillary business in Pakistan through its branches within or outside Pakistan and includes a government savings bank but excludes the State Bank of Pakistan; (b) a modaraba, leasing company, investment bank, financing company, unit trust or mutual fund of any kind and credit or investment institution, corporation or company; and (c) any company authorized by law to carry on any similar business; (iv) non-banking financial company; and (v) any company, corporation or institution or class of companies or institutions as the Federal Government may from time to time, by notification in the official Gazette, specify for the purpose.

**Credit scoring:** a system whereby points are awarded to debtors enabling users to assess the credit worthiness and capacity of debtors to repay loans and advances and to discharge any and all other obligations with regard to credit facility availed of or to be availed of by the debtors.

**Debtor:** a person to whom finance as defined in the Financial Institutions (Recovery of Finances) Ordinance, 2001(XLVI of 2001) has been provided, including those who have been credit recipients and who are potential recipients of credit as notified by the Federal Government.

**Default:** includes omission or failure to perform a legal or contractual obligation involving credit.

Source: Ministry of Finance

## Annexure-II

### Important Features of Credit Bureaus Act 2015

<b>Establishment of Credit Bureau (CB)</b>	
Licensing Authority	State Bank of Pakistan
Eligibility for license	An entity shall be eligible to apply for credit bureau license, if it meets certain conditions, including: 1) it is incorporated as public limited company; 2) none of its promoters, sponsors, and key ownership, and management personnel have been associated in illegal banking activities, or convicted of any offence involving fraud etc., or have an overdue loan/default history; or have defaulted on government taxes/dues; 3) its promoters have knowledge of credit bureau business; and 4) its promoters and directors don't have conflict of interest
Minimum paid up capital	Rs 225 million*
<b>Requirement to provide credit information</b>	
Direction to provide credit information	Credit information furnishers are required to provide information to CBs
Membership status	Every credit institution shall be a member of at least one credit bureau. The Act doesn't discuss the membership requirement of other credit information furnishers
<b>Audit</b>	Every CB is required to prepare annual financial accounts, duly audited by authorized auditors and submitted to the SBP.
<b>Empowering SBP</b>	The SBP is authorized to 1) give directions to CBs; 2) formulate, modify or cancel policies, rules, guidelines and procedures; 3) call information from CBs 4) may remove directors or other managerial persons of CBs; 5) may appoint auditors to conduct special audit of CBs
<b>Functions of CBs</b>	1) Collect, process, collate, store and maintain credit information and provide this information to designated users and other CBs; 2) undertake credit scores and may sell such scores to users; 3) undertake other permissible businesses; and 4) No CB shall engage in any other activity.
<b>Protection of consumers</b>	
Permissible purpose	<ul style="list-style-type: none"> <li>• The CB may furnish the credit information report to 1) credit institution; 2) the concerned debtor; 3) SECP; 4) competent court; 5) any other purpose prescribed by regulations.</li> <li>• The CBs cannot maintain its database outside Pakistan and in case of closure of operation, shall sell this information set to any other CB or surrender it to the SBP.</li> </ul>
Content of credit information report	The credit should only report the information as prescribed in the law and shall not contain any other information
Prohibition of collection of credit information	CBs cannot collect the information that violates any law and includes unreasonable extent of personal affairs of concerned individual.
Deletion of information	CBs cannot include overdue/default information w.r.t any obligation involving credit after certain years of settlement of default/overdue as prescribed in the law
Disclosure of source of information	Upon request of debtor, CBs must inform debtor the source of credit information
Accuracy and security of information	CBs must ensure the accuracy, completeness, recency, and appropriateness of credit information and also arrange required systems and procedures and maintained strict security safeguards against loss, unauthorized use and disclosure.

False or misleading credit infor.	The dissemination of false or misleading information by CBs or credit information furnisher is prohibited and the failure to meet this condition may lead to penalty of not exceeding Rs 5 million.
Unauthorized access to credit information	The disclosure/dissemination of credit information is allowed when authorized under this act or any other law in force, the violation of this condition will be treated as an offence and shall be punishable.
Obtaining access to credit information by false pretences	Obtain credit information under or by false pretences is punishable offence
Obligations as to fidelity, confidentiality and secrecy	The credit information shall regard as secret and confidential and the disclosure may only allow in connection with discharge of duties or function under this Act.
Exchange of credit information	The CBs can exchange the credit information among themselves or with other companies as approved by the SBP
Protection of action taken in good faith	legal proceedings, suit, claims or demand shall lie against government, SBP, CBs, credit information furnishers and their management/employees for any loss or damage caused by anything which is done in good faith in pursuance of this Act
Requirement on users	In case of adverse action by user of credit information, the user shall provide the concerned debtor the copy of credit information report and the contact details of credit bureau
Legal recognition of electronic forms	The record/document/information etc. made under this Act shall be deemed valid if made in electronic form
<b>Dispute resolution</b>	In event of dispute, the debtor shall notify in writing to concerned CB of alleged error, which then CB will take up with credit information furnisher
<b>Offences and penalties</b>	
Penalties	Any violation or obstruction of this Act shall be punishable
Adjudication of fine or penalty	The fine if imposed shall be adjudged by the SBP
Application of fine or penalty	The Court imposing any fine or penalty shall be applied in or towards payment of cost of proceedings, or credited to Public Account of the Federal Government
Adjudication of punishment by imprisonment	The imprisonment shall be adjudged by the Court
Appeal	The appeal against decision of court can be filed in High Court
<b>Appeals and legal proceedings</b>	
Complaint to SBP	Any person aggrieved by any action of CBs, credit information furnisher, debtor or any other person may make a complaint to the SBP to resolve the dispute
Appeal to High Court	Any person aggrieved by decision of the SBP may make an appeal to the High Court
<b>General</b>	
Removal of difficulties	The federal government may undertake necessary action for the removal of any difficulty arising in giving effect to any of the provision of this Act
Power of the Federal Government to make rules	The federal government after consultation with the SBP may make rules for the purpose of giving effect to the provision of this Act
Power to make regulations	The SBP may make regulations that are consistent with the rules.

\* Revised following a 2017 Sindh High Court Ruling

Source: Ministry of Finance; [www.sbp.org.pk/warnings/pdf/2018/Minimum-PaidUp-Capital-CB.pdf](http://www.sbp.org.pk/warnings/pdf/2018/Minimum-PaidUp-Capital-CB.pdf)

## Annexure: Data Explanatory Notes

- 1) GDP:** In case of an ongoing year, for which actual GDP data is yet not available, SBP uses the GDP target given in the Annual Plan by the Planning Commission in order to calculate the ratios of different variables with GDP, e.g., fiscal deficit, public debt, current account balance, trade balance, etc. SBP does not use its own projections of GDP to calculate these ratios in order to ensure consistency, as these projections may vary across different quarters of the year, with changing economic conditions. Moreover, different analysts may have their own projections; if everyone uses a unique projected GDP as the denominator, the debate on economic issues would become very confusing. Hence, the use of a common number helps in meaningful debate on economic issues, and the number given by the Planning Commission better serves this purpose.
- 2) Inflation:** There are three numbers that are usually used for measuring inflation: (i) period average inflation; (ii) YoY or *yearly* inflation; and (iii) MoM or *monthly* inflation. Period average inflation refers to the percent change of the *average* CPI (national, urban, or rural) from July to a given month of the year over the corresponding period last year. YoY inflation is percent change in the CPI of a given month over the same month last year; and monthly inflation is percent change of CPI of a given month over the previous month. The formulae for these definitions of inflation are given below:

$$\text{Period average inflation } (\square_{\text{Hi}}) = \left( \frac{\sum_{i=0}^{t-1} I_{t-i}}{\sum_{i=0}^{t-1} I_{t-12-i}} - 1 \right) \times 100$$

$$\text{YoY inflation } (\square_{\text{YoYt}}) = \left( \frac{I_t}{I_{t-12}} - 1 \right) \times 100$$

$$\text{Monthly inflation } (\square_{\text{MoMt}}) = \left( \frac{I_t}{I_{t-1}} - 1 \right) \times 100$$

Where  $I_t$  is consumer price index in  $t^{\text{th}}$  month of a year. The CPI can be national, urban or rural.

For detailed information on the methodology, please see:  
[www.pbs.gov.pk/content/methodology-2](http://www.pbs.gov.pk/content/methodology-2)

- 3) Change in debt stock vs. financing of fiscal deficit:** The change in the stock of gross public debt does not correspond with the fiscal financing data provided by the Ministry of Finance. This is because of multiple factors, including: (i) The stock of debt takes into account the gross value of government borrowing, whereas financing is calculated by adjusting the government borrowing with its deposits held with the banking system; (ii)

changes in the stock of debt also occur due to movements in exchange rates, both PKR and other currencies against US Dollar, which affect the rupee value of external debt.

**4) Government borrowing:** Government borrowing from the banking system has different forms and every form has its own features and implications, as discussed here:

(a) Government borrowing for budgetary support:

*Borrowing from State Bank:* The federal government may borrow directly from SBP either through the “Ways and Means Advance” channel or through the purchase (by SBP) of Market Related Treasury Bills (MRTBs). Ways and Means Advance allows government to borrow up to Rs 100 million at a time in a year at an interest rate of 4 percent per annum; higher amounts are realized through the purchase of 6-month MTBs by SBP at the weighted average yield determined in the most recent fortnightly auction of treasury bills.

Provincial governments and the Government of Azad Jammu & Kashmir (AJK) may also borrow directly from SBP by raising their debtor balances (overdrafts) within limits defined for them. The interest rate charged on the borrowings is the three month average yield of 6-month MTBs. If the overdraft limits are breached, the provinces are penalized by charging an incremental rate of 4 percent per annum. However, the Federal Government has taken over from the State Bank of Pakistan (SBP) the business of direct credit to provincial governments on 29th June 2020. In this regard, the federal government has executed tripartite agreements with four provincial governments and SBP (as executor) for extension of Ways and Means loans on account of Federal Government Central Account No.I (non-food) on 29th June 2020.

*Borrowing from scheduled banks:* This is mainly through (i) fortnightly auction of 3, 6 and 12-month Market Treasury Bills (MTBs); (ii) monthly auction of 3, 5, 10, 15, 20 and 30 year fixed rate Pakistan Investment Bonds (PIBs); (iii) fortnightly auctions of 3, 5, 10 year floating rate PIBs; (iv) Sukuk and (v) Bai Muajjal of Sukuk (on deferred payment basis). However, provincial governments are not allowed to borrow from scheduled banks.

(b) Commodity finance:

Both federal and provincial governments borrow from scheduled banks to finance their purchases of commodities e.g., wheat, sugar, etc. The proceeds from the sale of these commodities are subsequently used to retire commodity borrowing.

**5) Differences in different data sources:** SBP data for a number of variables, such as government borrowing, foreign trade, etc – often do not match with the information provided by MoF and PBS. This is because of differences in data definitions, coverage, etc. Some of the typical cases have been given below.

- (a) **Financing of budget deficit (numbers reported by MoF vs. SBP):** There is often a discrepancy in the financing numbers provided by MoF in its quarterly tables of fiscal operations and those reported by SBP in its monetary survey. This is because MoF reports government bank borrowing on a cash basis, while SBP's monetary survey is compiled on an accrual basis, i.e., by taking into account accrued interest payments on T-bills.
  
- (b) **Foreign trade (SBP vs PBS):** The trade figures reported by SBP in the *balance of payments* do not match with the information provided by the Pakistan Bureau of Statistics. This is because the trade statistics compiled by SBP are based on banking data, which depends on the actual receipt and payment of foreign exchange, whereas the PBS records data on the physical movement of goods (customs record).