SATURDAY AUGUST 06: Dismal development finance: high interest, power outages main culprits

KARACHI (August 08, 2011) : The State Bank of Pakistan (SBP) on Friday said that high interest rate, power outages, poor law and order, and unclear taxation policies are hurting development finance (DF) in the country. According to it, non-performing loans (NPLs) of DF sector have registered a healthy growth of 21 percent to a record level of Rs 164 billion in March 2011. According to State Bank of Pakistan's (SBP) Development Finance Quarterly Review for March 2011, issued on Friday, the DF sector witnessed a slowdown in the last few quarters and the total DF portfolio declined to Rs 840.6 billion, showing a decrease of 1.9 percent on YoY basis. "On demand side, DF could not flourish due to high interest rates, power outages, deteriorating security situation, and uncertainty over major changes in taxation policies", the report said. Similarly, non-performing loans (NPLs) of DF sector increased by Rs 28.7 billion to Rs 163.9 billion in March 2011 compared with Rs 135.2 billion in March 2010, recording a 21.2 percent increase on YoY basis, while the quarterly rise was recorded at 9.2 percent at the end of Mar-2011. Out of total NPLs of DF, SME had 61.7 percent, agricultural sector 20.3 percent, and the remaining 18 percent related to other DF sectors. The decline in DF portfolio and rising NPLs may be attributed to the prevailing economic slowdown, power outages, high inflation, domestic law and order situation, natural calamities, and overall shyness of the industry towards the sectors, the report said. A disaggregated analysis showed a decline in outstanding loans under SME finance, Agriculture and Housing finance. In contrast, Micro and Infrastructure finances showed a positive growth in their outstanding lending, defying overall trend in the DF. The decline in DF was due to both demand and supply factors. On supply side, banks' risk appetite remained subdued due to rising NPLs and aggressive government borrowings for fiscal and quasi-fiscal needs, capturing the major chunk of the available funds with banks and crowding out the private sector. "On demand side, DF could not flourish due to high interest rates, power outages, deteriorating security situation, and uncertainty over major changes in taxation policies" the report pointed out. The number of borrowers fell by 4.5 percent in the overall banking industry, while DF sector was not an exception, as its total number of borrowers declined by 5.0 percent on YoY basis dropping to 2,050,334 (excluding Infrastructure borrowers). Agriculture sector saw more than 50 percent decline. Anecdotal evidence suggests that increased farm income on the back of high commodity prices and credit sharing by the buyers of agriculture output moderated the credit demand of the small farmers, the report said. However, the State Bank said that despite the prevailing adverse conditions, there still exists a strong reason for positive course of action to take place, as a result of greater realisation on the part of SBP, GoP, the banking industry and other stakeholders, to play a more effective role for the development of the subject sectors. In addition, there is huge potential of the DF sectors itself as a highly motivating factor to encourage the stakeholders to tap on, and consequently develop it for the benefit of economy and their own business interests. Going forward, the report said, a positive turnaround is probable, provided the relevant stakeholders play their role in a more meaningful and effective manner. However, it would be unrealistic to expect a change that could bring drastic improvement in the overall economic situation in general and DF sectors in particular; as rising inflation, poor law and order situation and dependence of the government on budgetary borrowings from the banking sector harms positive growth in the DF sectors of SMEs, Micro, Agriculture, Infrastructure and Housing. The State Bank, on its part, has taken various important initiatives for the development of the DF Sector that will cause positive impact on the availability of funds for the sector and its overall development in the long run, the report said. Similarly, some important initiatives include improvements in Credit Guarantee Scheme for Small & Rural Enterprises, Microfinance Credit Guarantee Scheme, Refinance Scheme for Revitalisation of SMEs, Scheme for modernisation of SMEs, Cluster Profiling Surveys, introduction of Branchless Banking, Launch of Pilot MF-CIB (will soon be launched at national level), Mortgage Refinance Company and Capacity Building/Awareness Programs for the stakeholders.