

Foundation Alert

Increased SBP target for housing and construction loans to spur construction activity

Event

- SBP has increased mandatory target for housing and construction finance to 7% (from 5%) of domestic private sector advances. Furthermore in case of shortfall, banks would need to maintain additional CRR requirement of twice the amount equivalent of shortfall.

Impact

- State bank has increased mandatory target for housing and construction finance to 7% of their respective domestic private sector advances.
- The target was previously set at 5% for all banks.
- Moreover if the bank falls short of their quarterly financing target, it would have to maintain an additional Cash regulatory requirement (CRR) which would be twice the amount equivalent of shortfall in the following quarter. This was previously set at equivalent amount of shortfall.
- To highlight, overall Housing building and construction loans stood at Rs355bn as of Dec'21, which translates into 4.6% of loans to private sector which is near to the Dec'21 target of 5%.
- To recall SBP has also increased CRR requirement recently to 6% from 5%, which was a contractive act to the money supply.
- The increase in target for housing and construction finance would upturn channeling of advances to the sector and stimulate credit driven growth.
- State bank has also acknowledged in recent guidelines for financing under-construction housing units that banks traditionally shied away due to issues in availability of legally enforceable title documents and registration of mortgages as per requirements of Prudential Regulations (PR) for Housing Finance.
- To address this issue, SBP has recently issued guidelines to provide financial stability to the transaction, which involves payments to builder/developer to be routed through an escrow account maintained by the bank, and maintaining debt equity ratio considering risk profile of the builder, which shall not exceed 70% of the project value.

Outlook

- This development is positive for the Real Estate and Construction sector and Neutral for Banks.
- This would be help in achieving FY22 economic growth target of 4.3% as Construction industry is considered one of the engines of long-term economic growth. There are at least 40 other industries closely tied with construction industry and 70% of unskilled labor market is linked with housing & construction. In order to leverage the potential of this sector towards the long-term sustainable economic growth, SBP has taken a number of measures including (1) Issuance of Prudential Regulations for Housing Finance, (2) Formation of Steering Committee on Housing and Construction Finance, (3) Setting Mandatory Targets for Housing and Construction Finance and (4) Introducing Incentive or Penalty on Mandatory Target for Housing Finance.

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Recommendations definitions

If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.