

Honorable fellow delegates,

It is my privilege to meet you all on this platform again and participate in the conference on affordable housing and housing finance. It is indeed very exciting to see the forum making progress on the agenda that it had set out for itself. The formal launch of e-Platform on "South Asia Housing Finance Forum" site is a significant milestone in this regional initiative which all member countries can tremendously capitalize to their benefit.

I wish to commend the World Bank Group in playing a pivotal role in giving the South Asian region a common platform and facilitate an exchange of knowledge and experience among the member countries on issues common to all of us.

Like the rest of the South Asia, affordable housing and housing finance is one of the major issues in Pakistan, as housing finance reaches largely the upper income population groups and the main challenge that we face is the expansion of access to the middle and lower income groups; hence a case for affordable housing. Among some other factors, it is also due to limited access to housing finance

that Pakistan's lower income groups expand into illegal habitats and squatter settlements in major cities, compounding the problems already being faced by urban planners. Moreover, it is also the lack of financing to large scale developers that further dampens the growth of affordable housing in Pakistan.

Housing shortage stood at an estimated 7.57 million units in 2009. Of this, shortage attributed to the lower-middle and low income population groups, accounted for 6 million units; about 80% of the total shortage. Though commercial banks are playing a role, but their contribution and outreach remains limited in the face of institutional bottlenecks. This is evident from the fact that the mortgage to GDP ratio is still below 1% in Pakistan.

In Pakistan housing finance is being extended by commercial banks and the House Building Finance Corporation (HBFC). HBFC is the only public sector specialized housing finance institution that has a mandate to cater to middle and low income groups of the country. The role of commercial banks has grown significantly over the years, and they now hold 80% of outstanding mortgages though HBFC still

handles more than 75% of mortgage clients by number. Mortgage terms and conditions are typical for the region, though unaffordable for lower -income groups. The industry performance has suffered from global conditions, with non-performing portfolio on the rise. However, the economy has begun to show some signs of revival, raising a glimmer of hope for the housing finance sector.

An increase in outreach can be targeted in a number of ways including an increase in geographical dispersion, encourage competition and through innovation. Greater outreach is mainly an interplay of these three elements. These elements serve as targets to be achieved for greater outreach, and if achieved simultaneously, it will positively affect the expansion of housing finance facilities.

The State Bank of Pakistan, being the central bank of the country, is fully cognizant of all issues and constraints, and therefore has established a dedicated Infrastructure and Housing Finance Department which has already embarked on a number of key initiatives to strengthen the market based housing finance mechanism.

SBP is taking a vanguard position for providing institutional arrangements and reforms to housing finance. Though, financial institutions in Pakistan are making contribution in the growth of housing finance, the absence of refinance facility and long term funding arrangement result in long term mortgages being financed by short term deposits. This is also restricting the products profile of banks to Adjustable Rate Mortgages (ARMs). As much as the role of financial institutions is commended, it needs to be noted that the maturity mismatch created as a result, will not be sustainable in the long run as the mortgage market needs to grow to its potential.

In this respect SBP has taken an initiative towards the establishment of Mortgage Refinance Company (MRC). IFC has been an active partner of SBP in this important initiative. The refinance facility will assist in exploring fixed rate or hybrid models of mortgages, improve liquidity of the financial system and enable banks and housing finance companies to prudently match maturity profile of their assets and liabilities. In the medium to long-run, the establishment of MRC will also aid in the provision of low cost housing finance. Significant

