

A BRIEF ON PAKISTAN ECONOMIC MANAGEMENT AND LEASING SECTOR OUTLOOK:

With the development of Pakistan's economy during the past decade and the privatization, deregulation and other industrial policies of the Government of Pakistan, the economy received a boost after a prolonged period of sluggish economic activity over the '70s and '80s.

The first leasing company was established in 1985. The growth of the leasing industry in Pakistan initially lacked momentum due mainly to a general lack of awareness regarding its nature and benefits. From 1985 to 1997, 32 leasing companies were incorporated with the minimum capital of Rs. 100 million. The minimum capital requirement was raised to Rs. 200.00 million by June 2000. This led to mergers and acquisition. Thereby the number of leasing companies is reduced to 27. In addition Nine leasing Modarabas & 3 Investment Banks are actively involved in leasing business. In the mid-nineties annual average growth was in the range of 30 - 35 percent. The real growth in the leasing came in the period 1992 - 95, when over 20 leasing companies were set up. In October 1995, leasing companies' paid-up capital was Rs.7.572 billion, with market capitalization of Rs.6.0 billion as on 30-06-2002.

Leasing is not a very old phenomenon in Pakistan, but has gained acceptance very rapidly. The reasons are: growing awareness, ease in obtaining the facility compared to conventional forms of financing (bank loans), inherent tax benefits, simple procedure and flexibility to cater to the needs of the customer. Profit is earned through the use of the asset, not the ownership. In leasing, the ownership is vested in the leasing company and in return for rental payments, the 'lessee' has virtually unrestricted use of the asset. Leasing is a medium to long term hire of assets. It effectively increases a company's total availability of capital and leaves other sources of funds available for more profitable usage.

The leasing sector in general has experienced commendable growth over the years and has adequately proved to be an alternative source of finance. In case of an expected economic revival, the overall Leasing Sector is likely to regain its initial momentum particularly in the backdrop of Islamization of the economy effective fiscal year 2002 - 2003 due to its inherent potential of being in close conformity to one of the permissible modes of financing under Shariah. However, in order to improve the near future demand prospects of Leasing Sector in particular, the leasing companies need to develop innovative products along with encouraging leasing of plant, machinery and equipment relating to priority sectors of the economy including energy (CNG), IT (Computer hardware, software and accessories), textiles, engineering etc subject to

their intrinsic value. Agriculture sector is receiving special focus. The presence of commercial banks and DFI's in the lease market has impacted the leasing company's margin, but their capability of offering large ticket leasing has enhanced the acceptability of leasing options.