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## **RECORDER REPORT**

### **GOVT DEPOSITS MAY SHIFT FROM COMMERCIAL BANKS TO SBP**

KARACHI: The State Bank of Pakistan (SBP) held a meeting with treasury personnel of the banking sector as the government has, in principle, decided to introduce a provision for Treasury Single Account (TSA) regime for public sector cash management. The news spread on Tuesday, as the banking stocks listed on the Pakistan Stock Exchange took a battering.

The TSA, in simple words, is an exercise aimed at consolidating all government deposits lying in commercial banks, to a single account, so as to streamline the public fiscal reporting framework and improve cash management through a comprehensive TSA.

Government deposits (federal, provincial & local) with commercial banks as at March 2019 end stood at Rs1.88 trillion, constituting 14.3 percent of total banking sector deposits.

The TSA is likely to be implemented in a phased manner, with federal deposits being transferred from commercial banks in the first stage, followed by provincial deposits. The deposit mix has been historically tilted towards remunerative accounts – with as much as 77 percent in savings and fixed accounts back in 2010.

The SBP and government, currently have no arrangement of remunerating public sector deposits. But as the SBP had highlighted in one of its earlier reports on the TSA, a mechanism could well be formed between the related parties, to minimize the impact of potential loss on income on deposits for the government.

The banking sector, on the other hand, is potentially looking down on a massive drop in overall deposits, which could create liquidity issues for some of the banks. Public sector banks, understandably have the highest concentration of government deposits, with Bank of Khyber and Bank of Punjab, at the top with over 50 percent concentration of government deposits.

The biggest impact in absolute terms will be on the National Bank of Pakistan, with over Rs550 billion of government deposits in the mix, constituting 29 percent of the total. Allied Bank and Askari Bank, also have significant exposure of deposits from the government sector, with a concentration of more than one-fourth in total deposits.

Recall that the TSA was mentioned in good detail in the Medium Term Economic Framework (METF) issued as recently as April 8, 2019.

The government had outlined the issue under the head of ‘streamlining government expenditure’ emphasizing on the need to strengthen fiscal management. The METF mentions an amount of Rs1.4 trillion as unspent monies parked outside the TSA. The provision for the same has been made in the Public Finance Management and Administration Bill draft. The TSA policy is also being drafted with consultation of stakeholders, which shows that banks have not been caught off guard, being the relevant stakeholder.

Some circles are linking the development with the upcoming IMF programme. This could well be one of the many structural performance benchmarks, as was the case in Pakistan’s programme with the Fund in 2008. The IMF had included the implementation of TSA as one of the structural performance criteria and a benchmark for public financial management reforms under the Stand By Agreement back in November 2008. Little progress was made on this front, and Pakistan ended up asking for waivers on the criteria, and the Programme ended with Pakistan not achieving the target.

Under the previous government, Pakistan and the World Bank had joined hands in December 2017, to undertake the Public Financial Management (PFM) and Accountability to Support Service Delivery Project, with a total project cost of \$982 million. An amount of \$400 million was committed on December 19, 2017. Implementation of TSA is a vital part of the broader plan, and the World Bank estimates economic gains of the TSA to the tune of \$721 million throughout the program, which is scheduled to end in November 2021.

Academic literature on TSA suggests the program needs to be implemented in a phased manner, with stakeholders’ consultation and requisite technological tools in place, and that no one program fits all. As things stand, the implementation of TSA seems well on course, but the government would do well to provide more clarity on the overall mechanism, the benefits it aims to achieve, and the implications it could have on the banking sector.