BUSINESS RECORDER
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Sluggish growth in bank deposits

The latest data on banking system show that the growth of scheduled banks' deposits stalled in 2018 despite one of the largest interest rate hikes of 4.25 percent in the policy rate in a single year. Deposits of scheduled banks, as reported by the State Bank of Pakistan, soared by only Rs 992.11 billion or 8 percent to Rs 13.353 trillion during 2008 as compared to the growth of 10 percent in 2017 and an average increase of 12 percent over the last five years. Investment in government securities has decreased by 11 percent YoY while investment to deposit ratio dropped to 57 percent as of December, 2018. Outstanding net government budgetary borrowings declined by 16 percent during the year as the government shifted its borrowings away from the scheduled banks and turned to the SBP. On the assets side, bank advances rose sharply by 21 percent which was the highest increase in the last 13 years and advances to deposit ratio went up to 59 percent, which was the highest since 2012. The private sector credit growth was led both by conventional banks and Islamic banks and their branches. However, growth in M3 has been sluggish, clocking in at 11 percent YoY. The slower M3 growth could be attributed to a sharp decline of Rs 863 billion in Net Foreign Assets (NFA) in 2018 as compared to Rs 438 billion in the corresponding period of last year. The steep decline in NFA was the consequence of high current account (C/A) deficit and lower foreign disbursements.

We feel that there have been some striking banking sector developments during 2018, which need to be scrutinised closely. The most negative development was of course comparatively slower growth in deposits which was the lowest in a decade. It may be noted that deposits had shown a double-digit growth since 2008 and their growth to a single digit is of course a matter of concern because the low growth of deposits could hit the lending capacity of banks, both to the government and the private sector. The slowdown in private sector credit, in particular, could hurt private investment, the growth rate of the economy and employment level in the country. It could also adversely affect the macroeconomic indicators of the 5-year plan recently announced by the government. So far, advances by banks to the private sector have shown a healthy growth due to the availability of funds released by a sharp decline in the holdings of government securities. If the banks' policy change in this regard and deposit growth continues to be sluggish, private sector will get less credit with obvious implications for the economy. So far as the decline in investment in government securities is concerned, it could be attributed to the shift of government borrowings from the scheduled banks to the State Bank prompted probably by lower interest rate from the latter source. The growth in money supply has so far been contained due to a sharp fall in NFA but this is an extremely poor policy to keep the rise in money supply in check because it pre-supposes a continuous deterioration in the C/A. It would, therefore, be unwise to rely on this policy for a considerable length of time.

Going forward, slowdown of economic growth during the year and attractive rates by the saving schemes such as NSS could adversely impact the deposit growth for 2019. Added to these factors will be negative attitude of the government which certainly scares away depositors from banking transactions. There is a withholding tax on profits earned on bank deposits and a levy on cash withdrawals exceeding Rs 50,000. The latest blow has come in the form of client information to be provided to the relevant authorities with regard to deposits and withdrawals beyond a certain limit. On top of that, FBR has prescribed a statement for banks for submitting information of persons receiving profit on debt exceeding Rs 1 million for filers and Rs 500,000 for non-filers and tax deductions thereon during the financial year. These steps will certainly encourage cash economy and discourage depositors and documentation of the economy which will further promote informal sector and deepen the incidence of tax evasion. The tendency of the government to rely heavily on the SBP borrowings also needs to be revised because it is highly inflationary. We would urge upon the relevant authorities, especially the SBP and the FBR, to analyse the recent developments in the banking sector and make amends, wherever necessary, for the long-term interest of the economy.

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