BUSINESS RECORDER
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31st December, 2018

Bank deposits

Pakistan's credit to Gross Domestic Product (GDP) ratio is one of the lowest in the region, peaking at 27 percent in 2008 and falling to less than 13 percent in fiscal year 2015 reflecting poorly on the country's drive towards reducing the informal economy, dependence on loans (local and foreign) and to promote inclusive growth. A major reason for this disturbingly low statistic rooted in low bank deposits to GDP.

According to Governor State Bank of Pakistan (SBP) Bajwa, bank deposits to GDP figure rose to 16 percent last year (women with bank accounts were at less than 11 percent). Be that as it may, Asad Umar is the first finance minister who has focused attention on the need to raise deposits to GDP ratio and this focus predates his taking over the finance portfolio.

To put this focus in a historical perspective it is relevant to note that in 2015 a National Financial Inclusion Policy (NFIP) was launched by the then Governor SBP Wathra who revealed at the time that: (i) the policy was the outcome of local and foreign stakeholder participation (the former including domestic financial institutions and the latter World Bank and the UK's DfID); (ii) deposits to GDP ratio rose as allocations under the government to persons (G2P) programmes increased including Benazir Income Support Programme, Baitul Mal, Internally Displaced Persons; and (iii) the need to adjust credit allocations was highlighted as the largest share of credit, 80 percent, is enjoyed by the largest 2 percent borrowers, with the largest recipient sector being the manufacturing sector. In contrast, services sector which contributes over 55 percent to GDP receives less than 20 percent of total credit. This acknowledgement by Wathra naturally led to the conclusion that small and medium enterprises (SMEs) must receive a significant share of credit, which in turn, would reduce their numbers operating outside the tax net, achieve higher growth rate, and generate more employment opportunities. The 2015 SBP report noted that "bank credit is heavily skewed towards big corporations, while consumers and SMEs are underserved sectors."

However, it is also relevant to note that successive Pakistani administrations have relied heavily on borrowing from domestic commercial banks for budget support and extended guarantees to poorly performing public sector entities to meet their financing requirements which crowds out private sector borrowing. The Khan administration has already borrowed a whopping 3 trillion rupees from domestic banks and between 1 July to 7 December banks divested 683 billion rupees from their holdings of government securities and the SBP notes that "private sector credit has not risen commensurate with this leveraging hence much of this must have been banks' borrowings from the central bank which stand retired". Pakistani administrations thus have routinely manipulated the rate of return on products by the Central Directorate of National Savings based on its financing needs. The incumbent Khan government increased profit rates on national savings schemes in the range of 72 to 100 basis points with effect from September 1, 2018, rates that the finance ministry reviews every two months and revises in line with the existing benchmark interest rate and rates of profit on government securities like the Pakistan Investment Bonds (PIBs) and treasury bills.

In November 2018, SBP Governor Bajwa reportedly briefed Prime Minister Imran Khan on NFIP for the next five years; however, he did not mention whether any local or foreign stakeholders had been consulted; and without a clear cut economic vision identifying objectives and associated time bound actions (yet to be released by the Khan administration) the SBP was no doubt constrained in coming up with details of NFIP other than to restate what was noted by Wathra during the launch speech including support enhancing digitalization as a means to increase the deposit base, promote small and medium enterprises, raise agriculture finance and the share of Islamic banking.

Disturbingly, during the briefing to Imran Khan Bajwa failed to mention that one of the major reasons why the deposit to GDP ratio may be on a downward trajectory in recent years was the decision of the man who appointed him as Governor, his mentor Ishaq Dar, to impose a withholding tax on banking transactions at the rate of 0.6 percent on banking transactions for non-filers and 0.3 percent on filers for transactions above 50,000 rupees. The outgoing Abbasi-led government reduced the rate on non-filers from 0.6 percent to 0.4 percent in the budget 2018-19 that it presented in April this year (which it did from time to time); however, Asad Umar's Finance Supplementary (Amendment) Bill 2018 raised it again to 0.6 percent for non-filers. Additionally, 0.3 percent withholding tax on banking/cash transactions in excess of 50,000 rupees by filers is double taxation especially for the salaried class whose income tax is first cut at source and then is liable to this additional tax as and when he/she withdraws the salary from the commercial bank in excess of 50,000 rupees at any one time. In a country where bank deposits to GDP ratio is so low one would have argued against imposing a tax on banking transactions/cash withdrawals.

The government needs to undertake measures to try to shift the existing large cash economy into higher deposits and this can be achieved through: (i) ending all taxes on withdrawals by filers and instead to widen the tax net through proactive audits; (ii) the government must revisit those investments that are from borrowed funds and undertake a careful cost benefit analysis of each project before borrowing; (iii) reliance on a successful NFIP must not be on higher G2Ps but on raising public awareness of the advantages associated with deposits; and (iv) unless disposable income allows for savings there will be no rise in deposits. The Khan administration has projected a rise in inflation to 7 percent in the current year and that is high enough to disable many a household from having enough savings to open an account.

However, perhaps the most insurmountable impediment to opening an account by the majority of Pakistanis is the document requirements by banks as a check against attempts at money laundering, yet the successful use of 32 fake accounts allegedly in the Omni case shows complicity of bank officials and reveals how susceptible the poor are to money laundering activities by the rich and powerful. To overcome this would require a sea change in the way bankers and the people of Pakistan (rich and poor alike) operate and that change must be a focus of naya (new) Pakistan.

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