

PAKISTAN



Pakistan Banks

Banking spreads declined in Sep'21

Event

As per the data released by the State Bank of Pakistan (SBP), fresh banking spreads for Sep'21 clocked in at 4.40% depicting a decline of 11/15bps MoM/YoY. The decline was mainly driven by significant increase of 44/22bps YoY/MoM in the deposit rate. On the other hand, weighted average spread recorded a reduction of 15/47bps MoM/YoY primarily due to higher decline of 12/62bps MoM/YoY in lending rates whereas deposit rate increased/decreased by 3/15bps in Sep'21. Furthermore, deposit base during Sep'21 increased by 3/17% MoM/YoY to clock in at Rs19.82tn.

Impact

Fresh/outstanding spreads took a dip in Sept'21: Fresh banking spreads for Sep'21 clocked in at 4.40% translating into a MoM decline of 11bps. This decline in fresh banking spreads was a result of increase in deposit rate to 3.51% (↑44bps MoM) whereas lending rate increased by 32bps MoM to clock in at 7.91% during Sept'21. On the other hand, weighted average spread decreased by 47/15bps MoM/YoY to clock in at 4.11% for Sep'21. This retracement in weighted average spread was a result of decline in lending rate to 7.73%, ↓62/12bps over YoY/MoM whereas deposit cost decreased/increased by 15/3bps to clock in at 3.62%.

Deposit base grew by 17% YoY: Deposit base continued its momentum in Sep'21 and registered a growth of 3/17% MoM/YoY to clock in at Rs19.83tn. Deposit growth is likely to carry on this momentum and post double-digit growth in CY21. However, recent legislation to impose higher tax rate on banks with lower ADR levels may keep deposit growth in check. As a result, banks with lower ADRs may shift their focus from deposit growth to optimization of the mix.

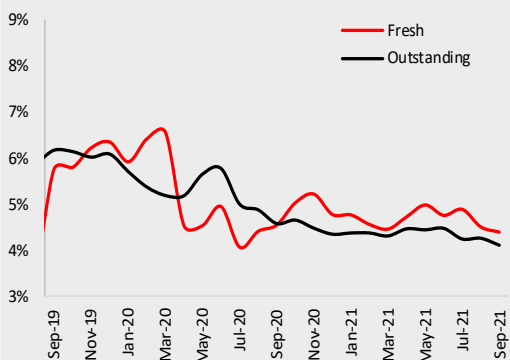
Banks remained inclined towards investments: With the significant increase in the deposit base, investments remained the preferred funds deployment venue for the banks. Total investments of the scheduled banks clocked in at Rs14.1tn (↑1/↑27% MoM/YoY) translating into an IDR of 71% with a 2/8ppts decrease/increase MoM/YoY. On the other hand, total advances grew by 4/15% MoM/YoY translating into an ADR of 47% (down/up by 2/1% over MoM/YoY) in Sep'21. During the same period, credit to private sector also remained upbeat and grew by 4/15% MoM/YoY. We expect credit demand to remain upbeat going forward as a result of uptick in economic activity and government's policies to promote lending. This is likely to fuel up ADRs and have a diluting effect on IDRs.

Uptick in Yield curve: SBP has increased the policy rate in last MPS (held on 20th Sep'21) by 25bps to 7.25% to deal with external imbalances and mounting inflationary pressures. This increase in policy rate coupled with the weakening of Pak Rupee has fueled expectations of further rate hikes in coming quarters. As a result, post policy rate hike, yields have increased by 83/113/114bps for 3/6/12M to 8.18/8.74/9.24%. The uptick in yield curve is in anticipation of further interest hike in coming quarters.

Outlook

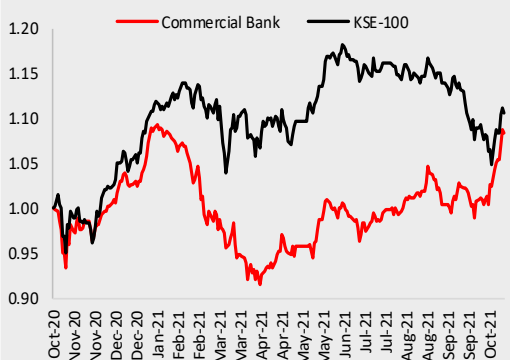
Going forward, we expect banking spreads to come under pressure in coming quarters and recover post repricing of assets. Furthermore, we expect deposit growth to remain robust. In addition to this, credit offtake is likely to improve due to recent ADR linked legislation which would be fueled by another leg of TERF disbursement.

Fresh banking spreads declined in Sep'21



Source: SBP, Foundation Research, October 2021

Performance of Banking Sector vs. KSE 100



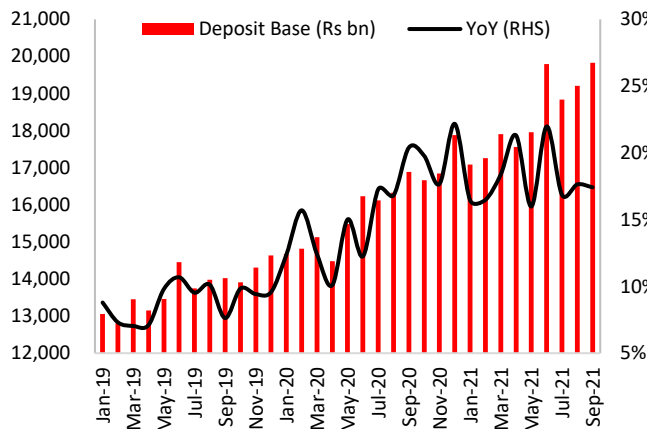
Source: Bloomberg, Foundation Research, October 2021

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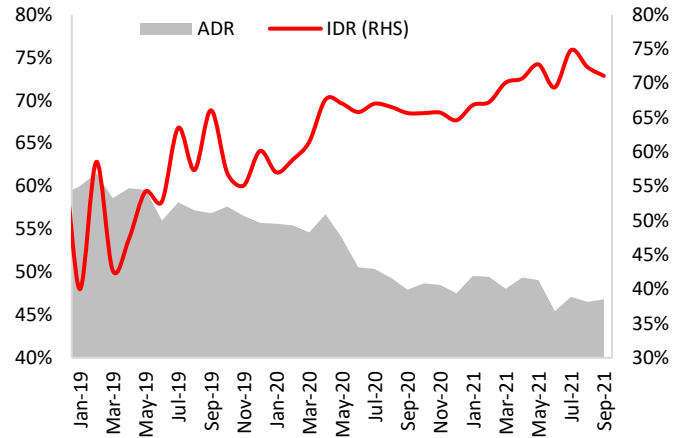
Foundation Securities (Pvt) Ltd
Friday, October 22, 2021

Fig 1: Deposit growth remained upbeat, up 17% YoY



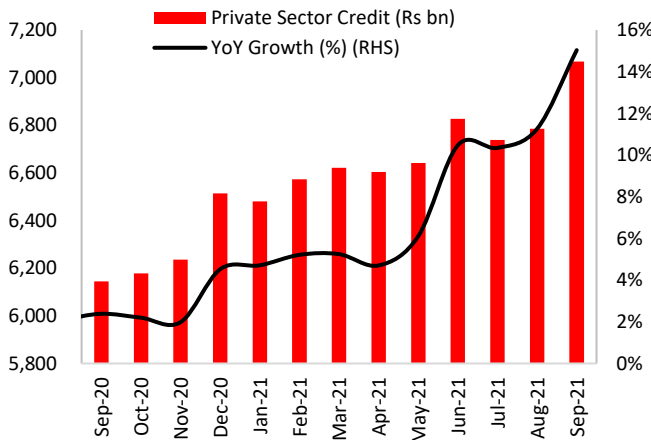
Source: SBP, Foundation Research, October 2021

Fig 2: ...IDRs still remained on the higher side



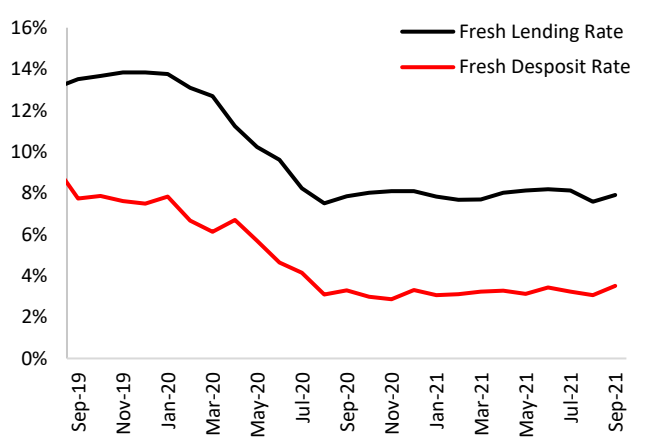
Source: SBP, Foundation Research, October 2021

Fig 3: Private sector credit on road to recovery



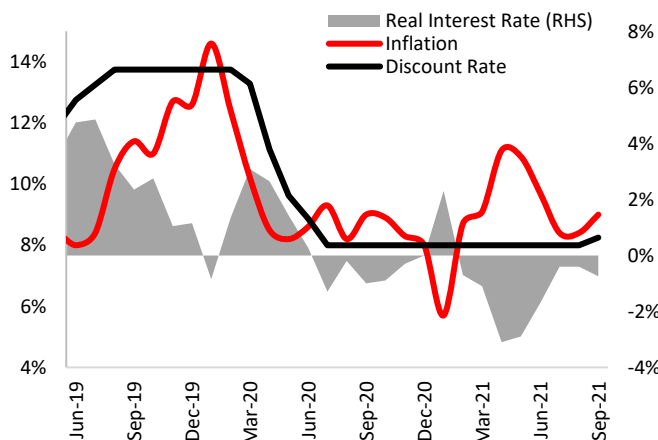
Source: SBP, Foundation Research, October 2021

Fig 4: Fresh banking spreads declined in Sep'21



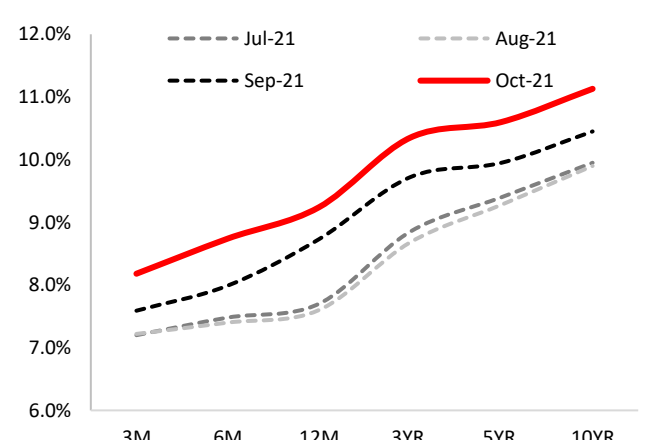
Source: SBP, Foundation Research, October 2021

Fig 5: CPI vs discount rate



Source: SBP, PBS, Foundation Research, October 2021

Fig 6: Upward shift in yield curve



Source: MUFAP, Foundation Research, October 2021

Abbreviations

NIMs	Net Interest Margins
PR	Policy Rate
NPL	Non-Performing Loans
MoM	Month on Month
YoY	Year on Year
Bps	Basis Points
Bn	Billion
IDR	Investment Deposit Ratio
ADR	Advances Deposit Ratio
M	Month
CY	Calendar year

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Recommendations definitions

If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.