

## Foundation Alert

### SBP increased Cash Reserve Requirement for Banks

#### Event

- State bank of Pakistan (SBP) have revised their Statutory Cash Reserve Requirement (CRR) for all commercial banks.

#### Impact

- State bank has instructed all functioning banks in Pakistan to maintain cash reserve of an average of 6% of total of demand liabilities and time deposits with tenor of less than 1 year.
- Moreover, the regulation is subject to a daily minimum requirement of 4% for banks to follow.
- Previously Banks had CRR requirement of 5% of total liabilities and daily minimum requirement of 3%.
- The revised average CRR requirement of 6% had been effective from 12<sup>th</sup> of Nov'21 and revised daily minimum requirement of 4% shall be effective from 15<sup>th</sup> Nov'21.
- The increase in CRR by SBP would have impact of ~Rs170bn (total liabilities minus term deposits and inter bank borrowing estimated to be Rs17tn as of Sep'30 2021) on cash position of the banking sector and ~3% on banking sector profitability.
- This policy would encourage deposit mobilization as banks would increase deposit growth for liquidity.
- Subsequently, this would limit monetary expansion by restricting the money supply and tame pressure on the exchange rate.
- The exception on time deposits would encourage banks to attain term deposits and subsequently long-term lending by the bank, for asset-liabilities matching purposes.
- SBP has implemented a rate of penalty for default in maintaining CRR of Rs69 per Rs.100,000 and if the bank falls short on subsequent reserve maintenance period the penalty would be increased to Rs86.

#### Outlook

- Improvement in banking spreads along with the recovery in NFI would support bottom-line of the banking sector. In addition to this, we believe that FSL Banking Universe is well equipped for the implementation of IFRS9.
- We expect policy rate to increase to 9% by Jun'22 due to external account and inflationary pressures. On the balance sheet front, we expect growth in deposit base to remain intact as banks would focus more on deposit mix to balance ADRs to lower effective tax rates.

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Table 01: Banks liability position as of Sept'21 (Rs mn)

Bank	Total liabilities	Term deposits	Borrowing	Incremental CRR
HBL	3,799,310	622,423	410,135	27,668
MCB	1,890,582	183,421	202,487	15,047
UBL	2,470,730	423,974	427,336	16,194
FABL	769,232	150,704	104,111	5,144
AKBL	1,140,995	171,757	86,971	8,823
BAFL	1,490,438	221,995	343,793	9,247
MEBL	1,616,854	251,597	157,250	12,080

Source: Company accounts, Foundation Research, November 2021

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