

Flash Note

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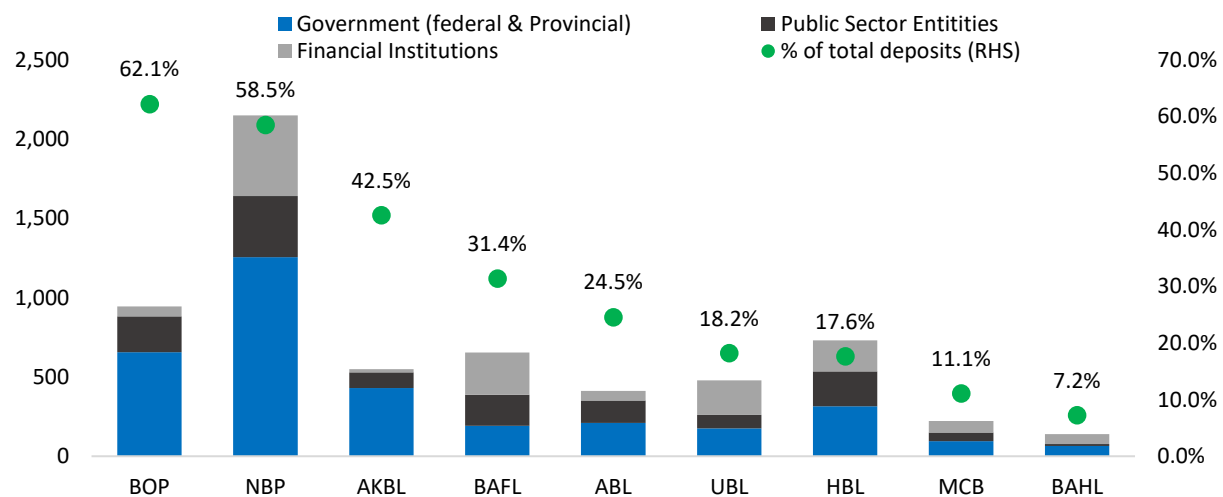
Commercial Banks

Minimum Deposit Rate (MDR) on Saving Deposits- Revised

The State Bank of Pakistan (SBP) has revised the Minimum Profit Rate requirement on saving deposits for conventional banks, effective from January 1, 2025. Under the new guidelines, the banks are exempted from the requirement to pay MDR on deposits from financial institutions, public sector enterprises and public limited companies. The MDR will only be applicable on individual account holder's deposits. In our view, BOP, NBP, AKBL and ABL are likely to benefit the most from these revised guidelines due to a large portion of deposits from exempt categories. As these are total deposits of exempt categories, the magnitude of impact may be lower based on quantum of saving deposits out of the total deposits. We await further details on this matter from the banks.

In our view, we anticipate that deeper rate cuts will be challenging for banks, given the competitive landscape and the risk of deposits migrating to alternative investments, such as T-bills.

Exhibit: Composition of Deposits of major Conventional Banks



Source: Company Accounts, IGI Research

Profit Sharing on Saving Deposits of Islamic Banks

The SBP has also decided that Islamic Banking Institutions (IBIs) shall pay profit on their PKR saving deposits (excluding deposits of financial institutions, public sector enterprises and public limited companies) which should be equivalent to at least 75% of the weighted average gross yields of all pools of an IBI. The gross yield for each pool shall be determined by dividing the monthly gross earnings of the pool from the monthly average assets of the pool (excluding fixed assets). However, the pools created by IBIs for Shariah Compliant standing facility and open market operations (OMOs) shall be excluded from this calculation.

We believe these revision in profit rates will lead to negative impact on the earnings of Islamic banks and all other banks having Islamic windows. However, quantum of impact would be lower for banks having higher CASA ratio. We await further clarity on this matter from banks and SBP.

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