Day Break

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Economy

Economy and Commercial Banks

TSA to Help Government Optimise Its Fiscal Operations, Banks to Have Minimum Bearing

- As per recent circular issued by State Bank of Pakistan (SBP), the central bank has required the Federal Government Ministries and its divisions to close down their respective bank accounts held with Commercial banks/Financial Institutions
- While TSA will play an important role in cash management operation of government which is and will be helpful in budgeting and will come handy fiscal management issues.
- For commercial banks, TSA could will lead to asset reduction and thus loss of income. We do not think there is any material impact on NBP, despite having a large government deposit share. And similarly excluding AKBL rest of the banks also remain relatively less materially impacted to TSA.

SBP asks all federal government and its MDA to close its bank accounts at commercial banks/financial institutions

As per recent circular issued (https://www.sbp.org.pk/acc/2020/C4.pdf) by State Bank of Pakistan (SBP), the central bank has required the Federal Government Ministries and its divisions to close down their respective bank accounts held with Commercial banks/Financial Institutions and to transfer the balance of funds to a Centralized Treasury Account administered by the Federal Government and held by the SBP or the National Bank of Pakistan (NBP). This is in line with government already in process of implementing Treasury Single Account (TSA).

Why it is Important?

The main objective of TSA is to improve government's cash management by consolidating government cash resources. It effectively erodes potential delays in government revenue collection and expenses which are associated with it.

A unified system helps in a reliable forecast of government cash flow which becomes important during budget times. Key objective benefits include;

- Efficient cash flow management
- Efficient flow of information
- Optimal management of borrowing costs

Given its importance back in 2008, the International Monetary Fund (IMF) made TSA as one of the structural benchmark for its Stand-by Arrangements Program (SBA). TSA leads to a better coordination of cash management. This will not help achieve fiscal discipline but can also aid towards monetary policy transmission mechanism.

Government borrows from central banks to meet up its short-term budgetary needs. In absence of a well-coordinated cash management system such as TSA, these borrowing could rise substantially from central banks and carry cost. As it has been the case in Pakistan. Government borrowing from SBP have been highest in 2007-2011and have risen sharply again lately in 2018 onwards. To recall, in 2014 IMF placed a ceiling on

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government net domestic assets (NDA) and borrowing from SBP, which pushed secondary market yields as demand from commercial banks was expected to rise sharply further raising government borrowing cost. Not only will TSA help achieve similar results; that is reduce borrowing from SBP and subsequently any cost associated with it; but reduce demand from commercial banks will likely keep secondary market yields depress as well in our view.

Exhibit: Key Operational highlights of TSA

Sr. No	Head	Comments
1	Federal versus Provincial Accounts	Federal Consolidated Fund Account, Public Account, assignment accounts, their sub-accounts and linked accounts as approved by the Finance Division, shall form part of the treasury single account system.
2	Transfer of funds in Govt. non-food account held with SBP	Monies that have been appropriated through the Federal Government budget and have been transferred to scheduled bank accounts by Government offices shall be reverted to the non-food account
		The SBP shall host and maintain treasury single account on behalf of the Federal Government.
3	All federal government Ministries, Divisions and Agencies (MDA)s to transfer the funds	Finance Division shall identify and notify all Government offices which are required to be included in the treasury single account system, after classification and evaluation of all existing bank accounts being maintained by such offices.
4	All operations of federal government will be carried out through TSA	Government offices that are fully funded through the Federal Government budget by using either local or foreign sources, including project and programme loans and grants, shall operate their bank accounts through treasury single account system and no cash operation shall be allowed outside the treasury single account.
		Any government investment, loan, grant, subsidy, equity, project or scheme either funded locally or through foreign aid shall be provided to government enterprises and offices through subaccounts of treasury single account system including assignment accounts, sub-assignment accounts and revolving fund accounts opened in public account.
5	SBP or NBP will act as operator of TSA	The SBP or its banking agent NBP shall operate or cause to operate assignment accounts, sub-assignment accounts and linked accounts as approved by Finance Division according to assignment accounts procedure.
		An assignment account shall be opened with designated branch of NBP

Source: IGI Research, Ministry of Finance (http://www.finance.gov.pk/budget/CM&TSA%20Rules_2020.pdf)

What impact does it have on Commercial Banks?

As per our understanding the directive only relates to accounts of Federal government and not on provincial government. Looking at a sample of 11 banks, as of December 2019 government deposits, including both federal and provincial, accounted for nearly ~16% of the total deposit size. For provincial banks, such as Bank of Punjab (BOP) and Bank of Khyber (Bok), the amount is even higher at ~53% of total deposit size. Clearly a deposit migration of this size from commercial banks to TSA can have a major implication for commercial banks in terms of liquidity and thus profitability as these deposits act as a major funding source for their assets.

Exhibit: Government deposits held at commercial banks			
In PKRbn	**Total Deposits**	**Fed + Prov. Deposits**	**%age share of Deposits**
AKBL	679	240	35%
ABL	1049	125	12%
MCB	1227	73	6%
HBL	2438	131	5%
FABL	458	24	5%
UBL	1558	68	4%
BAFL	782	31	4%
BAHL	904	30	3%
NBP	**2198**	**603**	**27%**
Non-Provincial Banks	**11292**	**1326**	**12%**
BOK	182	114	62%
BOP	691	353	51%
Provincial Banks	**873**	**466**	**53%**
Total	**12165**	**1792**	**15%**

Source: IGI Research, Company accounts. Data as at 31/Dec/2019

- **Asset growth limit:** Banks have been main beneficiaries of deposits from government MDA due to its low cost structure who in turn have parked a major portion of these funds in government treasury bills and sovereign bonds to earn high interest income. A migration of government deposit will limit banks' asset expansion, which in turn will impact their capital ratios and liquidity ratios.

Exhibit: Banks Assets and ROAs			
%age of Govt. Deposits	**%age of Assets**	**%age of Treasury Bills**	**ROA%**
AKBL	29%	186%	0.9%
ABL	8%	23%	1.0%
MCB	5%	18%	1.6%
HBL	4%	22%	0.5%
FABL	4%	20%	1.0%
UBL	4%	27%	1.0%
BAFL	3%	34%	1.2%
BAHL	2%	10%	1.0%
NBP	19%	82%	0.5%
Non-Provincial Banks	**9%**	**42%**	**0.9%**

Source: IGI Research, Company accounts. Data as at 31/Dec/2019

- **Degree of financial integration:** As per our understanding TSA will be managed by SBP or the National Bank of Pakistan (NBP). NBP has one of the largest share of government MDA deposits ~27%. Hence with SBP or a combination of NBP operating TSA, we suspect deposit migration will not affect NBP at all. In fact much of the deposits held elsewhere will be routed to NBP. Having said that whether NBP will be able to utilize these deposits remain questionable.

- Segregation of federal versus provincial deposits: Bank of Punjab (BOP) and Bank of Khyber (BOK) are two listed provincial banks. In terms of deposit break up nearly ~53% of their deposit size is made up of federal and provincial government deposits. However, they do not separately identify deposits made by the federal government and those made by the provincial government. As per our understanding, this exercise pertains on a federal level only which may exclude any material impacts on BOP and BOK, provided they maintain substantial balances of provincial governments as against federal governments.

Outlook

While TSA will play an important role in cash management operation of government which is and will be helpful in budgeting and will come handy fiscal management issues.

Clarity on Askari Bank Limited (AKBL) which has nearly 35% of government deposit is also not there. Nevertheless, assuming all deposit 35% of deposit held at AKBL are federal government and MDA, we view AKBL as most impacted due to TSA implementation. It will have a significant portion of its asset reduce in event of fully deposit migration.

We do not think there is a material negative impact on NBP considering NBP will act as government banking agent. Moreover, BOP and BOK the two listed provincial banks will also have less-material impact given the lesser portion of federal and MDA government deposits. For rest of the banks total asset reduction in times of fully deposit migration stands less than ~3%.

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