

Banking spreads up 19bps in 2009

The State Bank of Pakistan (SBP) has released the banking sectors spread data, according to which, average spreads for 2009 stood at 7.47% – up by 19bps from the average spreads of 7.29% recorded in 2008. In 2009, average lending rates of banks operating in Pakistan rose by 149bps to 13.98% (12.49% in 2008), while deposit rates have increased by 131bps to 6.51% (5.2% in 2008).

The banking sector spread for the month of Dec 2009, on the other hand, rose by 2bps to 7.35% – up from 7.33% seen in Nov 2009. Lending rates of all banks operating in Pakistan declined by 9bps from 13.58% to 13.49% and we can see these coming down further 2Q2010 onwards, as the SBP is expected to ease its monetary stance. Deposit rates for the month dropped by 11bps to 6.14%, and we expect these to consolidate going forward.

Although the spreads rose by 19bps in 2009, they are expected to contract in 2010, as expectation of monetary easing will bring the KIBOR down. Deposit rates on the other hand are expected to consolidate in 2010, as most of the deposit mix readjustment has already taken place. However, any change in the minimum deposit floor requirement by the SBP could lead to a fall in rates. We therefore, estimate spreads to shrink by 40-50bps in 2010.

Table: Banking Sector Spreads for 2009

(%)	Lending	Deposit	Spread	(%)	Lending	Deposit	Spread
2009	13.98	6.51	7.47	2008	12.49	5.20	7.29
Dec-09	13.49	6.14	7.35	Dec-08	14.45	6.70	7.75
Nov-09	13.58	6.25	7.33	Nov-08	14.13	6.50	7.63
Average	13.68	6.30	7.38	Average	13.69	6.13	7.56

Source: SBP

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