Banking — Finance

Deposit Trends in the Banking Sector

A major feature of commercial banking activities in 1982 was the considerably high liquidity position of the banks. Total resources of commercial banks rose by Rs.7,438 million in 1982, compared with an increase of Rs.6,184 million in 1981. A substantial part of the resource growth in 1982, amounting to Rs.5,934 million, was contributed by the increase in deposits. This growth in deposits, coupled with a significant deceleration in demand for credit from the private sector, enhanced the liquidity base of the commercial banks. The growth was most apparent in time deposits, where because of the high interest rates being offered for such deposits by the commercial banks there was a 73 percent increase (an increase of Rs.2,526 mn) in the first half of 1982. This continuous improvement in liquidity, without a corresponding increase in availability of attractive short-term investment outlets, compelled the commerical banks to effect certain changes in their deposit mobilisation programmes in mid 1982. Interest rates were reduced on time deposits and the practice of accepting 24 months deposits were discontinued by many banks, with a view to reducing the costs of deposit mobilization and making short term deposits more attractive.

The enhanced liquidity position ratio of liquid assets to demand deposits rose from 110 percent at the end of 1981 to 121 percent at the end of 1982 in the commercial banks. The Half Yearly Survey of Bank Deposits and Advances, (upto the first half of 1982) carried out by the Central Bank, clearly shows that there was a sharp rise in total deposits of the public and a declaration in demand for credit. This survey also reveals important trends in the distribution of deposits among indigenous banks vis-a-vis the foreign banks.

The total number of accounts with all commercial banks as at the end of the first half of 1982 amounted to 4,186,354 which indicated an increase of 19.2 percent over the corresponding period of the previous year. In the meantime the average balance per account also increased by 19 percent, coming up to Rs.5,300/— during the same period. Thus the total value of deposits of the entire banking industry, by June 1982, amounted to Rs.22,178.8 million which shows that there was an increase of 41 percent over the total deposits of the corresponding period of the previous year. (See tables 1 and 2)

Of the 4,186,354 accounts held by the commercial banks 98 percent of the total number were with the indigenous commercial banks; that is, the People's Bank, Bank of Ceylon, Hatton National Bank and the Commercial Bank. The growth rate of the total deposits of these banks recorded a 33 percent increase; while the growth rate of the total deposits of the foreign banks (including both new and old) was much higher, recording a 45 percent growth rate. The rate of the average balance of the indigenous banks were only 12.17 percent. On the other hand, the foreign banks recorded an increase of 53 percent and the composit average balance per account of the foreign banks (both new and old) amounted to be Rs.56,750 approximately. The average balance per account of the recently established foreign banks increased from Rs.27,460 to Rs.181,260/— recording a 40 percent increase;

Table 1 Pattern of change in the deposit mix of the commercial banks during the first half of 1981 and 1982

	January — June 1981	January — June 1982	Percentage Change
Total number of accounts	3,512,183	4,186,354	19
Average balance per account (Rs.)	4,453	5,300	19
Total Deposits (Rs.mn)	15,638	22,179	41
Demand deposits (Rs.mn)	4,125	5,218	8
Time deposits (Rs.mn)	8,843	13,186	73
Savings deposits (Rs.mn)	2,687	3,674	17

overall impact of this pattern of growth on the indigenous banks, could be observed in the negative change in the relative share of deposits held by these banks. Thus the share of deposits held by the indigenous banks, which contributed approximately 92 percent of the total deposits of the entire banking industry in the first quarter of 1981, dropped to 79 percent in the first quarter of 1982. (See table 3).

Related to this factor are the changes in the average balance of the commercial banks during the period under review. As pointed out earlier, the average balance per account of the entire banking sector showed an increase of 19 percent although the growth while the residual category of foreign banks (those established prior to 1977) showed a 45 percent increase in their average balances per account, moving upto Rs.44,850/— from Rs.27,075/— within the period of one year. (See table 2).

A somewhat superficial explanation to these development has been that there was an "orientation" of the indigenous banks towards retail banking, while foreign banks concentrate more on the wholesale banking. However, the implication of this "orientation" has to be evaluated in the light of the highly competitive atmosphere under which the indigenous banks had to carry out their

Table 2 Changes in average balances per account of indigenous banks and foreign banks over one year (Jan. 81 — June 82)

	As at June 1981	As at June 1982	% Change
Number of accounts held by the indigenous banks	3,441,939	4,102,626	19
Average balance per account for all banks	4,453	5,300	19
Average balance per account of indigenous banks	4,190	4,250	1.4
Average balance per account of new foreign banks	27,460	181,260	85
Average balance per account of old foreign banks	15,660	44,850	65

operations. Inevitably the small time accounts induce comparatively higher administrative costs, which place the indigenous banks in an unfavourable position in the competitive bidding for large scale commercial lending. Meanwhile, the comparatively higher weighted average interest rates of the indigenous banks, which arise out of the higher costs of funds gradually displace the indigenous banks from more profitable large scale commercial lending.

In addition to the more explicit changes in the total deposits, there has been another relative and more implicit pattern of growth of deposits of the banks during this period. This is the immediate outcome of the relatively sharp increase in fixed deposits vis-a-vis total savings and demand deposits. In other words the trends in the deposit mix continued in favour of the fixed deposits as against savings and demand deposits. For instance, demand deposits, which constituted more than 26 percent of the total deposits in the deposit mix of the entire banking industry in the first quarter of 1981 dropped to 23 percent in the first quarter of 1982. This change was principally attributed to the changing pattern in the composition of demand vis-a-vis fixed deposit. (See table 4) In other words the rate of increase of time deposits during this period was 49 percent while it was as low as 28 percent in the case of demand deposits. The apparent discontinuity of classified data, in terms of indigenous and foreign banks does not permit an analysis of the degree of change in different banking sectors. However, based on the available data, it appears that the change in the deposit mix is more acute in the indigenous banks. The overall effect of this trend again undermines the competitive position of the indigenous banks as it pushes up the cost of funds of the indigenous banks

Table 3
Market share of indigenous banks vis-a-vis foreign banks in the field of deposit collection

	As at June 1981	As at June 1982	% Change
Total deposits with the commercial banks (Rs.mn)	15,638	22,187	41.88
Estimated number of accounts held by the indigenous banks	2,441,939	4,102,629	19.2
Estimated aggregate deposits held by the indigenous banks (Rs.mn)	14,421	17,436	20.91
Aggregate deposits held by the foreign banks	1,217	4,751	290.39
Market share of the indigenous bank (%)	92.2%	78.59%	13.61%

Table 4
Composition and trends of the deposit mix

	Demand	Time	Savings
First half 1981	4,125 (26%)	8,843 (56%)	2,687 (17%)
First half 1982	5,318 (24%)	13,186 (69%)	3,674 (16%)

BANK ADVANCES: Slackening of demand-commercial advances dominate

While there was a substantial growth in deposits, the growth in demand for bank advances was comparatively slow by the first half of 1982. It is apparent from the purpose-wise classification of bank advances that those for Commercial purposes dominate the picture, taking up almost half (49.3%) of all advances granted during these two years. From Rs.8.8 billion granted in the six months ending December 31, 1980 Commercial advances kept increasing consistently to reach Rs.11.1 billion for the six months ending June 30, 1982. By 1982, however, there is a change in the purpose for which Commercial advances were granted. In the first six months of 1982 advances for export trading declined by 5 percent; while there is a high demand for import credit. Advances for wholesale and retail trading also declined by 9 percent, reflecting a lower level of activity in the trading sector.

The two other main purposes for which bank advances were granted are industry and agriculture.

Advances for industrial purposes (including mining and fishing, and engineering and the building trade) rose by Rs.846 million or 18 percent in the first half of 1982. During this period, increased industrial activities were evident from indicators such as fuel usage and increased export earnings in the industrial sector. The growth in the industrial sector was partly the result of the uninterrupted power supply when compared with the corresponding period of 1981. The increase in credit mainly reflected the enhanced activities in the fields of textiles, wearing apparel and leather products; chemicals, petroleum and coal.

Advances for agricultural purposes rose marginally by Rs.29 million during the first half of 1982. Advances granted from the tea sector declined by Rs.216 million. This drop was partly explained by the decrease in the use of fertilizer by this sector. Meanwhile, advances for paddy cultivation rose marginally by Rs.22 million over the period under review.

Advances granted for housing purposes rose by Rs.197 million when compared to an increase of Rs.157 million in the corresponding period of the preceding year. This increase consisted of increases in advances for purchase of existing houses (Rs.58 million) and construction of houses (Rs.139 million). Housing advances have registered a constant rise from Rs.8 billion in December 1980 to Rs.1.4 billion by June 1982.

Another significant aspect is the fall (from June 30, 1981) of advances to FTZ enterprises. Upto the middle of 1981 almost 28 percent of all advances went to FTZ enterprises, but by June 1982 these enterprises accounted for only about 4 percent of all advances. It should be noted that over this period advances of the FCBUs (Foreign Currency Banking Units) had moved up from Rs.3.4 billion in June 1981 to Rs.11 billion by December 1982.