

Policy Note: PN 2021-06

The Recent Bank's Deposit Growth: What Are the Potential Sources?

September 2021



**Chief Economist's Unit
Bangladesh Bank**

Policy Note PN: 2021-06

The Recent Bank's Deposit Growth: What Are the Potential Sources?¹

Abstract

The main purpose of this note is to identify the potential sources which might contribute to the recent upsurge in bank's deposit growth in Bangladesh focusing on the covid-19 pandemic. The note finds that higher remittance inflow, streamlined of purchasing national saving certificate (NSC), introduced of purchasing and interest payment of high-value NSC through bank account, increasing e-money balance, expanding agent banking, and channelized all government cash transfer, stipend, and relief through MFIs contributed upsurge of banks deposit.

I. Introduction

Bank deposits play an important role in the financial intermediation process in the financial system of Bangladesh. Banks transform deposit liabilities to assets by making loans and advances. In Bangladesh, like many other developing economies, bank deposits remain the predominant source of funding for banks, accounting for about 74.5 percent of bank liabilities in 2019². The growth of banks deposit might associate with a range of supply and demand factors. The demand for deposits comes from banks and depositors supply them. These activities were disrupted during the covid-19 pandemic period, the very first covid-19 positive case was detected at the beginning of March 2020. It is observed that overall deposit grew 13.1 percent (on average) in the last twelve months between July 2020 to June 2021, whereas private sector credit grew 8.6 percent (on average) for the same period of time. Total deposit stood at BDT 14.20 trillion in FY21 which was 45.0 percent of GDP (FY21) up from 3.37 trillion in FY10 (42.2 percent of GDP).

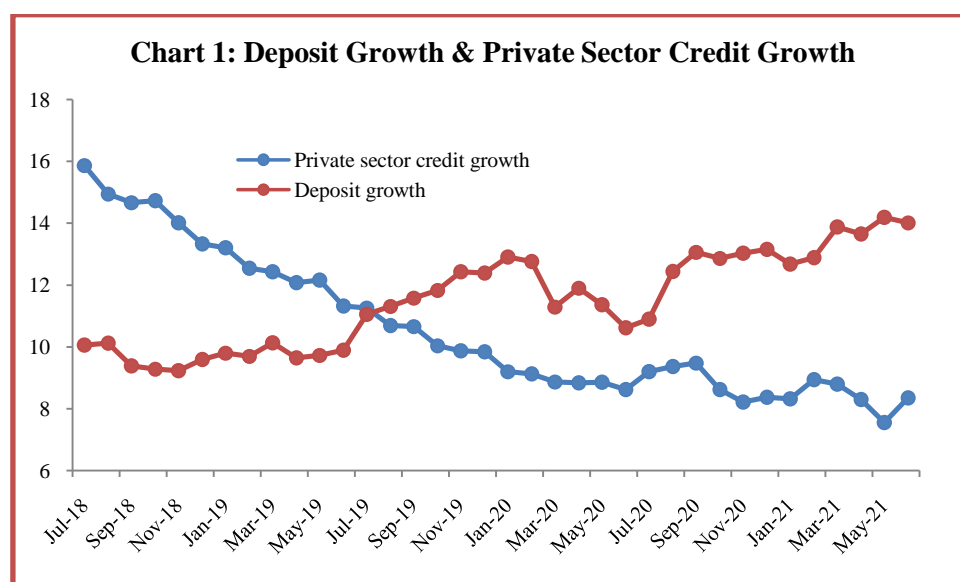
Month-wise data shows bank deposit growth was following an upward trend during the covid-19 pandemic period although there were few drops especially at the beginning of the pandemic (chart 1). Point to point estimates shows that bank deposit growth was 11.3 percent at end-March 2020 went as low as 10.9 percent at end-June 2020, then gradually were picking up to reach 14.0 percent at end-June 2021 (although witnessed some fluctuation throughout the period). Generally, income level, consumption behavior, and interest rates influence deposit accumulation in the banking sector. However, higher deposit growth along with unexpected behaviors of deposit mobilization during the covid-19 pandemic demands an exploration what are the factors that contribute to deposit upsurge. Against this backdrop, this note will attempt to identify the factors which might contribute to the recent surge in bank deposit growth in Bangladesh.

¹ The authors are Md. Ezazul Islam, General Manager, Md. Rashel Hassan, Joint Director, and Md. Abdus Sobhan, Assistant Director, Chief Economist's Unit, Bangladesh Bank. The views expressed in the note are authors own and do not reflect that those of Bangladesh Bank. The authors would like to thank all MPC members for their valuable comments and suggestion for developing the note.

² Bangladesh Bank (2020), Annual Report 2019-2020.

II. Decomposition of Deposits and its Trends

The covid-19 pandemic has caused unprecedented damage to the global economy as well as Bangladesh. Bangladesh's economy which is heavily dependent on RMG export along with foreign remittance severely affected due to the global economic meltdown. As a result gross domestic product (GDP) slowed down to 3.51 in FY20. To fight back the pandemic, the government and Bangladesh Bank have taken expansionary fiscal and extraordinary easy monetary policy along with BDT 1.35 trillion stimulus packages for economic recovery. Consequently, economic activities rebounded well and GDP increased to 5.47 percent in FY21 from 3.51 percent in FY20. Moreover, the government / BB imposed a lending interest rate maximum of 9 percent except for credit cards in April 2020 to facilitate speeding up business activities. On the other hand, banks have slashed deposit interest rates. The deposit interest rate (weighted average) declined to 4.99 percent in March 2021 from 5.75 percent in December 2019. The interest rate on fixed deposits which constitute about 45 percent of total deposit, decreased to 5.99 percent in March 2021 from 8.10 percent in December 2019. Despite decreasing interest rates, banks deposit rose significantly by various factors other than the interest rate. The trend in various categories of banks deposits growth is given in Table 1.



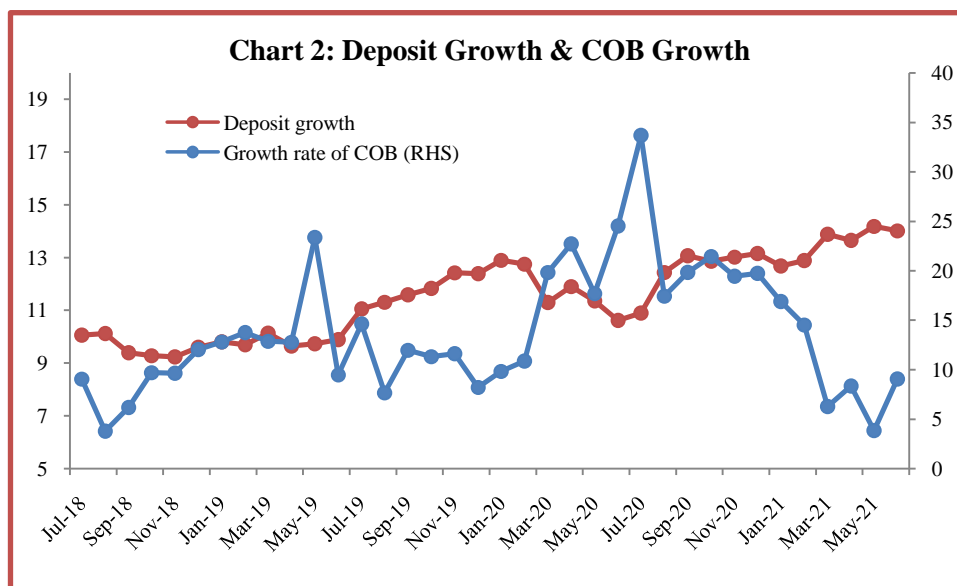
Tabl 1: Trend in various categories banks deposit growth, in percent

Type of Deposit	2016	2017	2018	2019	2020	2021*
Current and cash account	15.46	16.23	7.60	13.90	18.68	18.32
Savings Deposit	22.01	10.89	7.95	12.42	20.60	21.55
Convertible Taka account of Foreigners	-3.93	95.58	-59.58	-12.57	25.44	19.66
Foreign Currency account	34.14	56.91	21.97	-35.36	0.28	2.75
Wage Earners Deposits	44.67	-30.96	92.09	9.44	24.84	17.47
Resident foreign currency deposit	38.13	9.53	26.66	42.75	6.59	15.02
Special Deposit account	27.13	14.91	14.20	3.52	26.25	35.92
Fixed deposits	5.41	7.08	9.83	15.11	7.41	7.66
Recurring deposits	15.57	8.08	9.30	13.80	9.93	10.24
Other deposits	25.05	7.43	6.99	0.10	19.79	11.83
Total Deposits	13.28	9.69	9.63	12.29	13.56	14.36

Source: Scheduled Banks Statistics, Bangladesh Bank

* As of March end

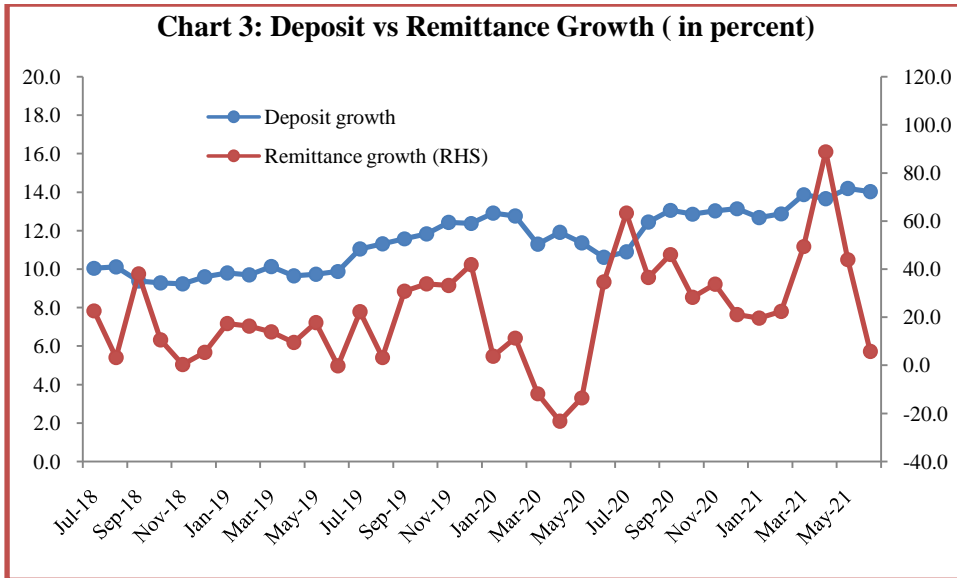
Fixed and saving deposits constitute about 66 percent of total deposits. During the covid-19 pandemic, the growth of fixed deposits decelerating 7.41 percent in 2020 from 15.11 percent growth in 2019. On the other hand, saving deposit growth increased sharply to 20.60 percent in 2020 from 12.42 percent in 2019. Some depositors may convert their fixed deposits due to the loss of their jobs/business in the pandemic time. Besides some people who hold more currencies at the beginning of the pandemic, changed their tendency to hold additional currencies from July 2020, which might contribute to accelerating bank deposit growth as reflected by a sharp decline in currency outside bank data (COB). The currency outside of the bank (COB) is an important determinant of currency demand and is inversely related to deposit growth (C/D ratio). The COB growth was highest at 33.0 % in July 2020 due to pandemic uncertainty and came down to below 10.0 percent at the end of June 2021. In addition to that share of COB to M2 (broad money supply) is about 13 percent and the rest (87 percent) constitute by demand deposit (DD) and time deposit (TD).



III. Others Potential Determinants of Deposits

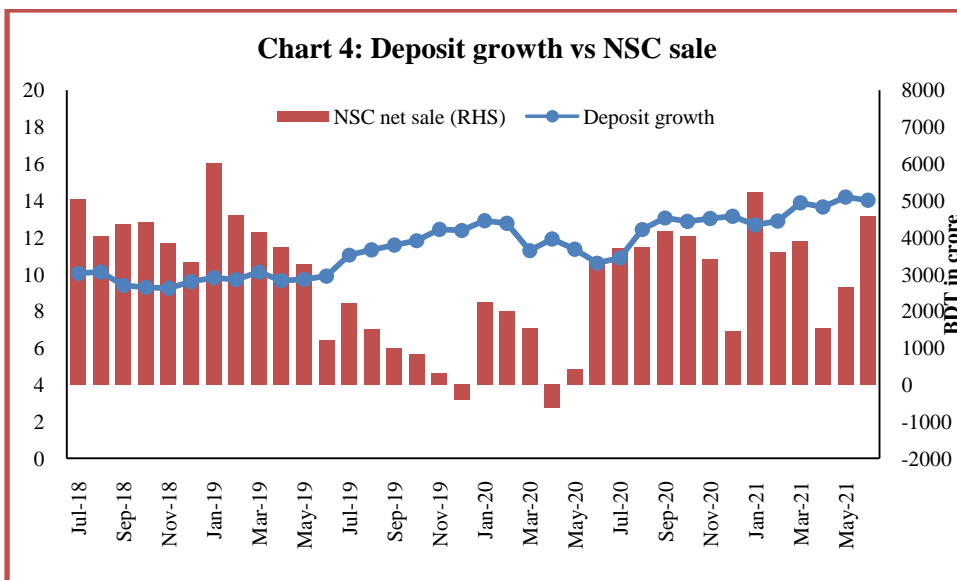
a. Higher Remittances Inflow

Unexpectedly remittance inflow has started to increase since the beginning of the covid-19 pandemic in March 2020. Higher remittance inflow contributed to surging deposit growth. In FY21, remittance inflow surged to USD 24.8 billion (BDT 2101.15 billion) up 36 % from the level of USD 18.20 billion in FY20. A preliminary estimate indicates that the contribution of remittance to deposit is about 15 % in FY21. Although remittance inflows contributed significantly to increase bank’s deposit, can be considered as a temporary phenomenon as it is highly volatile in nature. Month-wise remittance inflow growth data is evidencing its volatility, the highest growth recorded in April 2021 (89.2%), afterward it started to decelerate to 44.3 % in May 2021, and finally reached 6.0% in June 2021.



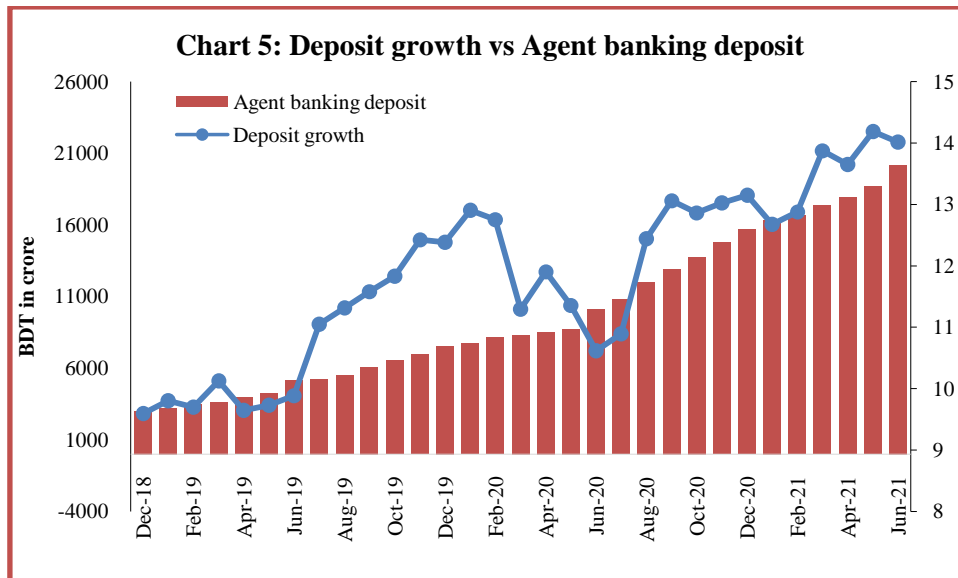
b. National Savings Certificate (NSC)

Recently government has streamlined of buying NSC and also adopted ICT infrastructure for issuing certificates and to delivery interest payments. For instance, if an individual want to purchase any NSC, payment has to be made through banking channel (if the value of NSC is above BDT 1 lac). As a result, saving account saw an increase more recently, partly contributed to higher deposit growth as well. Moreover, mandatory submission of NID and TIN while purchasing NSC along with using common server to impose individual buying limit also facilitate bank’s deposit growth. The outstanding NSC stood at BDT 4573.56 billion in June 2021 compared to BDT 3417.25 billion in June 2020.



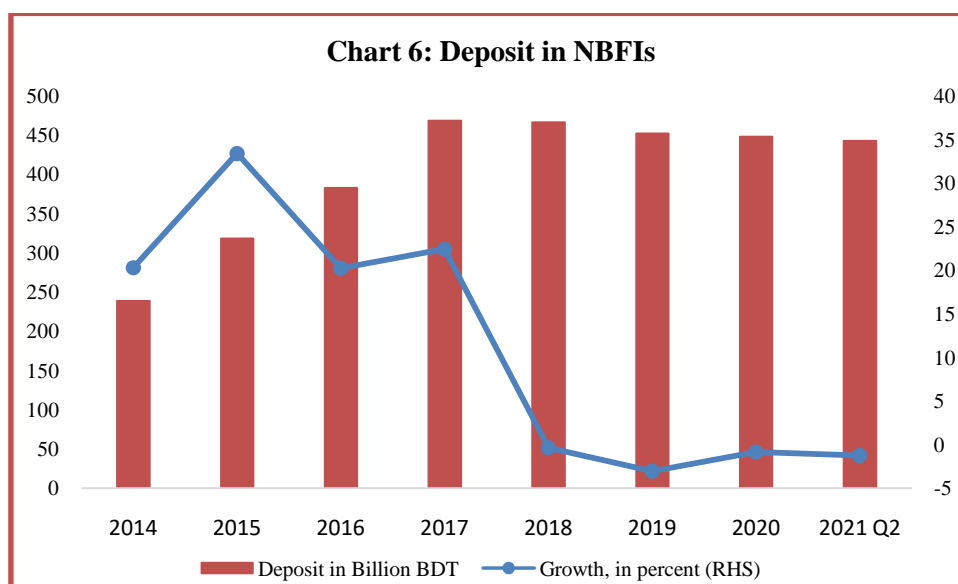
c. Agent banking

Agent banking is another factor that is contributing to total deposit growth. Recent data show that it grows by about 100.0 percent to BDT 201.79 billion in June 2021 from that of BDT 101.17 billion in June 2020. The total number of agents is 12995 and the total subscribers are 12 million (As of June 2021).



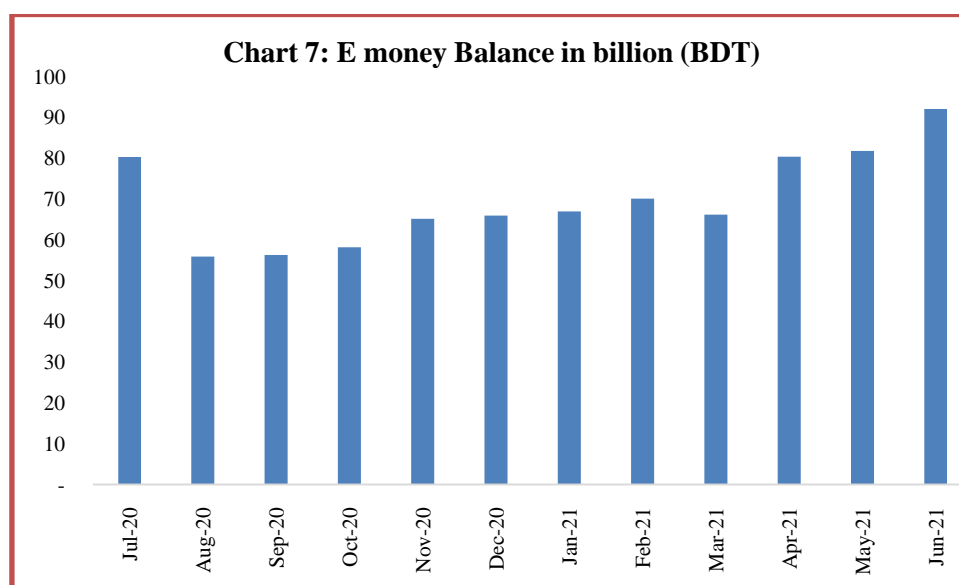
d. Deposit Mobilization by NBFIs

Deposit mobilization by NBFIs has decelerated since 2017 owing to the bad perception of depositors for many reasons. Outstanding NBFIs deposit shows a declining trend to BDT 445.35 billion in Q22021 from BDT 468 billion in 2017.



e. E-money balance

During the covid-19 pandemic, the use of mobile financial services has substantially increased. To minimize the contagious risk of covid-19, contactless payment was very popular using mobile financial services. Almost 39.6 million active account holders are using mobile financial services to avail of inward remittance, cash in the transaction, cash-out transaction, p2p transaction, salary disbursement, utility bill and merchant payment, and government payment. Through these activities, there is some e-money balance accumulate every month which contribute partly increasing deposit of banks. Recent data shows that the e-money balance was, on average, BDT 70 billion in FY21. But it increased to BDR 92 billion in June 2021 from BDT 55.81 billion in August 2020.



f. Decreasing Illegal Activities and Disclosure

During the covid-19 pandemic, a social movement was restricted and deceased illegal activities. Besides, many businesses/ entrepreneurs took the opportunity of whitening non-disclosure income. For example, a total of 11,859 people whitened their black money worth BDT 206 billion under a blanket opportunity in the just-concluded fiscal year FY21 (The Financial Express (7/7/2021)).

IV. Conclusion

The main objectives of the note were to identify the potential sources which contributed to the recent upsurge deposits growth in banks during the covid-19 pandemic period. Both the economic factors (income level, consumption behaviors, and interest rate movement) and other factors (remittance inflow, streamlining NSC unchanging and interest payment through banks, increasing e-money balance due to increasing trend of MFIs, and expanding agent banking in rural areas) contributed deposit upsurge in recent time. The note also opined that the recent deposit growth appears a transitory phenomenon. Private sector credit growth is likely to pick up in near future depending on the severity of the delta variant (covid-19) situation and economic recovery. It is expected that the movement of deposit and private sector credit growth will be normal in near future. The limitation of the note is that it is a preliminary investigation. A detailed investigation is left for future research.