

Sri Lanka: Banks see deceleration in deposits amid hyperinflation

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The bankers say they observe a significant slowdown in deposit growth lately, despite offering higher and competitive rates, a condition they attribute to a significant squeeze in the household and corporate balance sheets after the hyperinflation became persistent and started biting into real incomes and margins.

After some sharp increase observed in April and May in response to the bumper policy rate hike by the Central Bank, one banker said they see some lukewarm response to the higher rates they offer for deposits, as people and businesses are running out of money amid runaway prices in the economy.

“Cash is becoming trash now and people are beginning to see hardly any value in holding cash because at 40-50 percent inflation, the real value of the money you have is declining significantly every day,” one banker said, explaining the predicament they face in attracting deposits.

It isn't immediately clear where these monies are being invested, where a hedge against inflation can be provided.

The banks have been offering in excess of 15 percent for one-year fixed deposits at a time when the official prices are rising over 45 percent.

The banks saw some modest growth in their rupee deposits in the three months ended in March but the overall deposits swelled, due to the conversion impact after the rupee lost 50 percent of its value in three weeks since its free float on March 7.

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