

# **BANK OF BOTSWANA**

## **PRESS BRIEFING on BANKS' LIQUIDITY CONDITION**

by

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I welcome you to this press briefing, the purpose of which is to provide clarity on liquidity at commercial banks. This is in response to some recent articles in the local media which suggest that, among others, banks in Botswana are in financial difficulties and their customers face a “credit crunch”.

The Bank of Botswana welcomes informed reporting of topical banking/financial issues and, in this spirit, has endeavoured to provide timely and informative responses to questionnaires received on the matter. As you will be aware, I took advantage of the National Business Conference in Maun in November last year and addressed the issue of commercial bank liquidity in some detail. Given continued interest on the subject, we have considered that a further engagement with the media is advisable.

I will share with you salient points on this important matter and respond to questions thereafter.

I would like to underscore an important fact, and that is, the banking sector in Botswana is sound and profitable. Profitability has of course declined as expenses increased faster than income, and the situation varies from bank to bank. In the 12 months period to January 2015, the aggregate industry balance sheet grew healthily by 11 percent, with deposits growing by 7 percent and credit growing by 13 percent. A tightening of bank liquidity has been evident. What is key is that all banks continue to comply with the necessary requirements such as the statutory liquid asset requirements. Recent economic and market developments have had no adverse impact on levels of capital in the banking industry, with the aggregate Capital Adequacy Ratio at 19 percent as at January 2015, and above the prudential limit of 15 percent.

In the past five years, excess liquidity in the banking system, as represented by outstanding Bank of Botswana Certificates (BoBCs), has declined from P17.7 billion as at end-2010 to P4.6 billion in February 2015. The main cause was the Bank of Botswana's phased reduction of the excess money that is continuously mopped by way of auctioning of BoBCs. The cap for this excess money is currently P5 billion and it was put in place to encourage productive lending by banks as well as to moderate the cost of mopping up excess liquidity.

In turn, this resulted in a period of rapid credit growth by commercial banks, compared to a slower increase in deposits; thus resulting in a sharp increase in the intermediation ratio, which

is simply a ratio of bank loans to deposits. This ratio increased from 53.1 percent at the end of 2010 to 87.6 percent in a period of four years to the end of 2014. In essence, funds previously held in BoBCs have been diverted to loans by banks and more than doubled – growing by 104.3 percent, from P22.1 billion in December 2010 to P45.2 billion in January 2015. These funds have been effectively absorbed by the economy, to the benefit of businesses and households. Deposits increased at a slower pace of 31.7 percent from P40.4 billion to P53.2 billion in the same four-year period. The slower growth in deposits is possibly due to, among others, sluggish growth in incomes, inadequate financial inclusion, more streamlined procedures for government funding of parastatals and very low interest rates paid by banks on deposits.

As funds available for lending become exhausted, it is inevitable that credit expansion would slow down. However, credit has continued to grow at a robust pace, as evidenced by the January 2015 annual growth rate of 13 percent, which is higher than nominal economic growth. In situations of tighter liquidity, banks tend to tighten lending criteria, while taking measures to boost deposits. Even then, current developments do not suggest that new lending will cease completely, as growth in deposits remains positive.

It is indeed imperative that banks undertake measures to attract deposits, and focus on productive use of more limited funds available for lending. More emphasis on deposit mobilisation and

improved financial inclusion would be steps in the right direction towards a more mature banking sector.

There are also complementary measures that the Bank of Botswana stands ready to undertake in support of banks as they review their operations in an environment of reduced liquidity. These include a reduction of the Primary Reserve Requirement and enhanced access to Bank of Botswana lending facilities. It is with this in mind that I wish to take this opportunity to inform you and, through you, all stakeholders that the Bank of Botswana has decided to reduce the Primary Reserve Requirement for banks from the current 10 percent to 5 percent, with effect from April 1, 2015. This will release a total of P2.3 billion to augment the banks' loanable funds.

Thank you for your attention.