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KGORI CAPITAL'S RESPONSE TO THE BUSINESS WEEKLY AND REVIEW NEWSPAPER INTERVIEW

3 AUGUST 2017

According to independent economic consultants, Econsult Botswana, banking liquidity has been falling steadily for some time, but the decline has been particularly sharp since the beginning of 2017. We kindly seek to engage your expertise to further expand on the matter.

Kindly assist driven by pointers below.

1. Would you agree with Econsult that there is a trend of declining liquidity in the banking sector?
2. If you agree that there is that worrying decline in liquidity, what are the indicators that indeed the banking sector liquidity is worrying?
3. In your views what could be reasons behind declining liquidity in the banking sector?
4. According to Econsult, deposits have been flat for the past two years, what could be the reason for lack of growth in deposits?
5. Looking at the current economic position in Botswana, do you think that somehow, it has got a role to play challenges within the banking sector, looking at household income, indebtedness, average earnings, cost of living as well as business confidence?
6. Econsult says arrears are high, and that most, contrary to popular believe, and are from businesses not households. Why would the business sector contribute to most of the arrears, does it has to do with the performance of the businesses and or business confidence?
7. It appears quasi-government entities are also in arrears,, despite being funded by the national coffers, what does this mean?
8. Econsult also mentions a sharp slowdown in annual bank credit growth (lowest rate in 20 years), what does this mean to the economy?
9. Looking at the trend and the economic performance, what could be expected in the short to medium term?
10. Please share with us any additional comments

I would appreciate if you could assist as soon as possible.

Best Regards

Response

- Commercial bank liquidity levels have been trending downwards since the start of 2017.
- As at the end of May 2017 surplus liquidity for the sector as measured by actual less required liquid assets was at P2.6bn compared to P5.6bn at the start of the year.
- Similarly, another measure of liquidity, the liquid-asset-ratio (LAR) was 17.3% in May 2017 compared to 21.6% in December 2016.
- To put this into context, during the so-called liquidity crisis of 2014, surplus liquidity and the LAR hovered around P1.0bn and low double digit percentages respectively.
- The sluggishness of deposit growth is mainly attributable to several inter-linked factors:
  - The banks have been a lot more selective in deposit growth as they are focusing more intensively on balance sheet optimization of funding sources.
  - Banks have been a lot less inclined to hold on to surplus liquidity. This is a prudent strategy in an environment where their appetite to issue new credit is constrained by the slowdown of economic activity.
  - The strategy for deposit mobilization has aggressively shifted to "stickier" deposits i.e. current and savings accounts rather than the more erratic institutional deposits from asset managers and insurance companies.
- The significant slowdown in credit extension to a historic low of 3.3% in a relatively accommodative monetary policy environment presents challenges for policy makers. We would expect some level of fiscal stimulus or other policy intervention will have to be warranted in the near-term to stimulate business activity and household consumption.
- We are forecasting GDP growth of 3.5% for 2017.
- Inflation risks are still weighed to the downside and we expect inflation to tick up to 4.3% by year end.

Regards

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