

GLOBAL FINANCIAL CRISIS AND DEVELOPMENTS IN BANKING SECTOR IN BOTSWANA DURING 2007-2011

Kachiraju Satish Kumar*, T. Suryakanthi** and V. S. J. Pallapolu

***Abstract:** For ten years prior to 2007, many developed countries experienced consistently high economic growth. But after 2007, financial distress as a result of various factors including weak regulatory policies affected adversely economic performance of the countries. The global financial crisis resulting in slow world economic recovery has a greater impact on banking system of Botswana and its exposure to the various types of risks. However, commercial banks of Botswana adopted innovative strategies which helped to improve their performance in operations during the study period. The cumulative assets of Botswana's commercial banks and the cash balances with the central bank also gone up significantly during the period with the increase in the banking operations. For this, prudential norms played a significant role to boost up the operational performance and to reduce high risk exposure of assets with banking sector in Botswana.*

INTRODUCTION

During 2007 the first sign of distress indicated from losses at U.S. subprime loan originators and institutions holding derivatives of securitized subprime mortgages. Later the similar signs of distress turned into a global event, spreading losses to banks in Europe. To alleviate liquidity shortages, the U.S. Federal Reserve reduced the penalty to banks for accessing its discount window, and later that year created the Term Auction Facility.

Blanket guarantee was issued in the United Kingdom for Northern Rock's existing deposits, and problems intensified in the United States with the bailout of Bear Stearns, and later in the year with the collapse of investment bank Lehman Brothers, and the government bailouts of insurer AIG and mortgage lenders Freddie Mac and Fannie Mae. Finally at the end of 2007, many economies around the world suffered from a collapse in international trade, reversals in capital flows, and sizable contractions in real output. But as the crisis mounted, so did the policy responses, with many countries announcing bank recapitalization packages and other support for the financial sector in late 2008 and early 2009.

* Senior Lecturer in the Faculty of Accountin , Botho University , P.O Box 501564, Gaborone , Botswana, E-mail: satish36123@gmail.com ; satish.kachiraju@bothouniversity.ac.bw;

** Fellow , Faculty of Computing , Botho University, P.O Box 501564, Gaborone, Botswana, E-mail: suryakanthi.tangirala@bothouniversity.ac.bw ; ch.kanthi@gmail.com.

*** Faculty of Business, Private Bag UB 701, University of Botswana, Botswana, E-mail: jyothi.pallapolu@mopipi.ub.bw

Banking system in the international markets suffered a severe shock in the year 2008, when one of the world's largest investments banking company collapsed in United States of America. This led to withdrawal of market players from the financial system, drying up of credit, giving signals to the second great depression of the world. The last two financial years demonstrated a greater recovery in the banking sector across the global markets, presenting a different scenario in the world markets, which clearly shown a global shift in the market players from the west to east countries.

The emerging markets (Eastern countries) have a greater potential for growth as they are entering into new dimensions of banking activities like, introducing information technology, net banking, ATM's, mobile banking and more. These markets are also experiencing increase in consumer demand, industrial demand on account of rising middle class and increase in the wage of the citizens. Many of these factors are acting as a cushion to the banking industry expansion in these markets, inducing a higher growth levels than expected in the industry.

Failures of banking regulations in the western markets lead to the induction of new regime of banking regulations under the title "Basel II and Basel III" standards. Thus the emerging markets are also forced to introduce the new banking standards in their respective industries in order to compete with the global economies, in order to ensure avoid global financial crises again. Every country is an individual and unique country in itself; these regulations in the respective countries provide a varied result depending on the prevailing conditions of the country. It is only over a period of time one can say, how far these banking supervision regulations will be successful in the global markets. At this particular juncture, one has to definitely make an attempt to know the implementation of these regulations in the select country and how far the banking industry is successful with those regulations.

METHODOLOGY

The present paper collected the secondary data only that is published from the Annual report of Bank of Botswana. The data that is published by them is take for analysis purpose, wherein to use inferential analysis the data was molded into numerical output of ratios' or trends. No specific software or tool was used, but simple mathematical analysis, financial ratios and trend analysis with the current data was used. In presenting the secondary data graphical approach is used to provide a comparative and illustrative purpose.

SIGNIFICANCE AND SCOPE

The present study is based on the observation and analysis of secondary data. The data is collected from the Bank of Botswana annual report 2011, and banking

supervision report 2011. Botswana is a small country in the southern part of the African continent. The data published is the report compiled by the bank after taking the respective information from the various commercial banks operating in the country. Thus the any further validation of the data is confined to the reports published by the authority. This is basically a preliminary attempt to know the crisis related effects within the country of Botswana, thus any comparative efforts with neighboring countries or economies on par with the Botswana has not been made in this paper.

All the data used in the present study is basically financial data for over a period of five years. Therein no further analysis is included in the study that can build the relationship between the variables. The study focused on the historical data only. No attempt was made anywhere to project the data for the future outlook process, where in statistical tools need to be used.

THE ISSUE AT HAND THE BANKING SECTOR IN BOTSWANA

The impact of the global financial crisis and slow recovery had a greater impact on banking system of Botswana and its exposure to the various types of risk. An attempt has been made here to review some institutional features, and highlight areas for possible improvements. Banking sector structure in Botswana remained unchanged during the financial year 2011 (see Table 1). Bank of Botswana (the Central Bank) is the supervisory authority for all the financial institutions that includes commercial banks, statutory banks, and bureau of exchange and micro finance institutions.

Table 1
Number of Banking and Finance Institutions in Botswana

(All figures in Numbers)

Commercial Banks	11
Statutory Banks	3
Bureaux of change	68
Micro Finance Institutions	1

Source: Bank of Botswana, Annual Report of Banking Supervision 2011

Banking Act (CAP.46.04) is the prime authority and legislation in the Botswana that takes care of banking supervision and regulation of licensing financial institutions. The Banking Law extensively covers the matters of governance, market discipline, within the banking system in the country. According it, the banking soundness lies with owners and managers who have a commercial incentive in operating banks prudently. The central feature of banking supervision is established by fixing licensing of banks as the basic criteria. It is involved with numerous regulations like entry restrictions, size and operations checking, ownership and

so on. Section 3 of the Banking Law covers this aspect of regulations like licensing commercial banks, merchants/ investment banks, credit institutions and discount houses. Table 2 provides brief information about number of branches, and ATM's working with respective banks by the end of December 2011.

Table 2
Licensed Commercial Banks Distributional Channel Botswana

As on December 31st 2011

<i>Name of Bank</i>	<i>No. of Branches or Sub-Branches</i>	<i>Number of ATMs</i>
Barclays	40	103
Stanchart	14	54
FNBB	19	157
Stanbic	10	18
Baroda	2	4
ABCB	4	4
BG	5	15
Capital	2	2
BSB	2	0
BBS	9	10
NDB	3	0
Total	110	367

Source: Annual Report of Banking Supervision, Published by Bank of Botswana, Table1: Licensed Banks Distribution Channel: 2009 -2011; pg. 4.

Commercial banks of Botswana exhibited an improved performance in operations during the study period with the help of innovative strategy of new produces, ATM services, and mobile banking services in order to improve customer satisfaction. Money transfer facility using mobile payment service was a big hit among the customers and extended even to the non-baking category of population.

Commercial banks working under the private management were proved to demonstrative and consistent in the last five years period. They were holding a market share of nearly 98 percent of deposits and about 89 percent of industrial loans and advances during the period. This can be seen in the Table 3, showing the consolidated Balance sheet of Commercial banks from 2007 to 2011, a 5-year period.

The cumulative assets of Botswana commercial banks grew at a CAGR of 10% during the period from 2007 to 2011. The major increase in assets were are loans and advances which is more than 20 % in the select period. During the same period, the growth of cash and balances with the central bank also gone up significantly, which clearly evidential that banking operations has significantly increased during the select period.

Table 3
Consolidated Financial Position of Commercial Banks of Botswana

All Figures in Million Pula's

<i>Assets</i>	2007	2008	2009	2010	2011
1 Cash and balance with Central Bank	1,851	2,125	2,238	3,269	4,766
(a) Currency	496	593	595	707	721
(aa) Hard currency	123	137	174	56	76
(ab) Local currency	373	456	421	651	645
(b) Balance with Central Bank	1,339	1,399	1,638	2,562	4,045
(c) Others	16	133	5	0	0
2 Trading Securities at Market Values (B0BC's)	15,013	15,654	17,415	17,617	11,083
3 Placement with Other banks and Credit Institutions	3,751	5,894	4,028	5,778	6,187
4 Gross Loans and Advances	13,878	17,823	19,700	22,087	27,920
(4.1) Specific provisions	291	326	649	720	574
(4.2) Interest in suspense	0			43	213
5 Net Loans & Advances	13,587	17,497	19,051	21,324	27,133
6 Investment securities	1,609	2,406	311	210	38
7 Fixed assets net of Depreciation	295	364	399	492	482
8 Other Assets (Net)	1,159	1,311	580	900	1,911
Total Assets	37,265	45,251	44,023	49,590	51,600
<i>Liabilities</i>					
1 Amounts owed to Government Institutions	100	0	0	0	0
(a) Central Bank Accounts	100	0	0	0	0
(b) Direct Government Credit (Central Bank or MFDP)	0	0	0	0	0
(c) Others	0	0	0	0	0
2 Amounts due to Other banks and Credit institution's	1,224	1,058	680	460	990
3 Securities sold under Repurchase agreements	0	0	0	0	0
4 Amount due to other Customers / Depositors	29,695	37,329	37,590	41,628	43,178
5 Shareholders' funds	1,883	2,420	3,035	4,069	4,696
6 Other Liabilities	2,881	2,878	1,098	1,977	1,827
(a) Taxes Payable	89	94	213	168	156
(b) Dividends payable	0	115	0	0	0
(c) Accrued expenses	28	27	2	42	243
(d) Others	2,764	2,642	884	1,767	1,429
7 Other borrowings, included International Lending agents	1,481	1,566	1,621	1,457	909
Total Liabilities	37,264	45,251	44,023	49,590	51,600

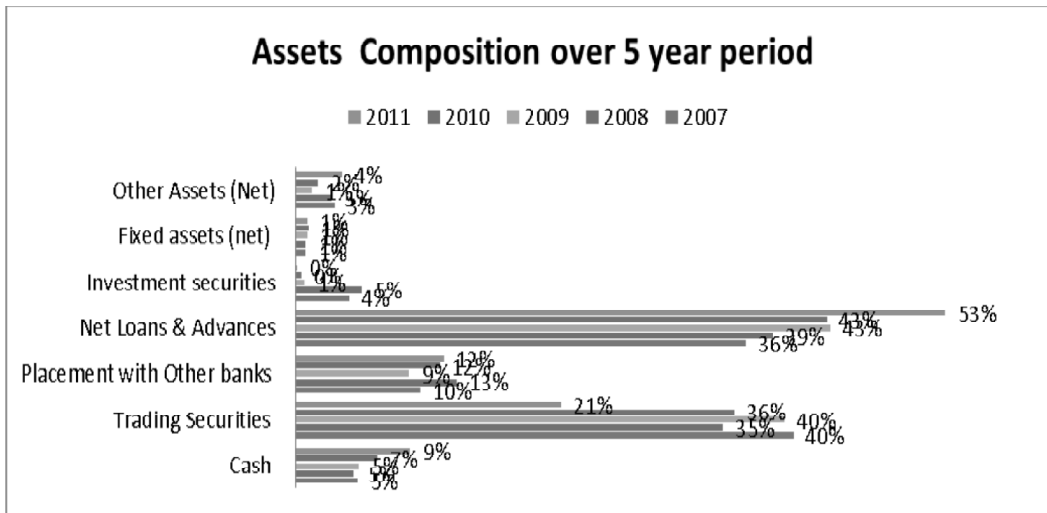
Source: Annual Report of Banking Supervision, Published by Bank of Botswana, Table 5.1: Aggregate Financial Statements of Licensed Banks 2007-2011; pg. 49.

On the liabilities side of the balance sheet, amount due to the customers/ depositors also gone up by CAGR 10 percent in the previous 5 years. There is also substantial growth in the amount of shareholders fund during the period which is more than 20% annual growth. Thus the commercial banks of Botswana clearly demonstrated a higher level performance in their banking operations during the select period.

Assets and Liabilities Composition

Banking system assets grew slowly in the last five-year period. There is a tendency of slow growth which is clearly vindicated in the comparison, reflecting the retrenchment of investment assets as a consequence of reduction of risk in assets composition. When analyzed individually asset-by-asset it is clearly evidential that the quantum of bank concentration is increased in the dispensing the loans and advances from 36% in the year 2007 to 53% by the year 2011. The cash balances also gone up from 5% to 9% in five years. Thus the operational performance is clearly showing a shift from risk assets to low risk assets.

Figure 1: Assets Composition of 11 Commercial Banks of Botswana
(All Figures in %)

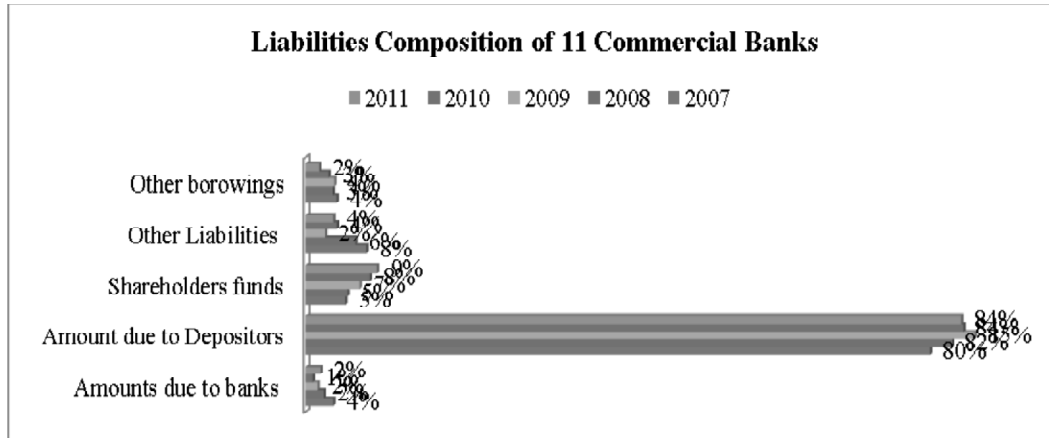


Source: Annual Report of Banking Supervision, Published by Bank of Botswana, Table 5.1: Aggregate Financial Statements of Licensed Banks 2007-2011; pg. 49.

Liabilities side of the balance sheet there is no much significant change in the study period. The amount of deposits grew from 80 % in the year 2007 to 84 % by the end of 2011

Figure 2: Liabilities Composition of 11 Commercial Banks of Botswana

(All Figures in %)



Source: Annual Report of Banking Supervision, Published by Bank of Botswana, Diagram 1: Table 5.1: Aggregate Financial Statements of Licensed Banks 2007-2011; pg. 49 Profitability and Efficiency

Profitability has been stable since 2007 and banks recorded a good stream of revenues even in 2009, with a return-on-equity of 35 percent.

Table 4
Aggregate Income Statement of Commercial Banks of Botswana

(All Figures in Million Pula's)

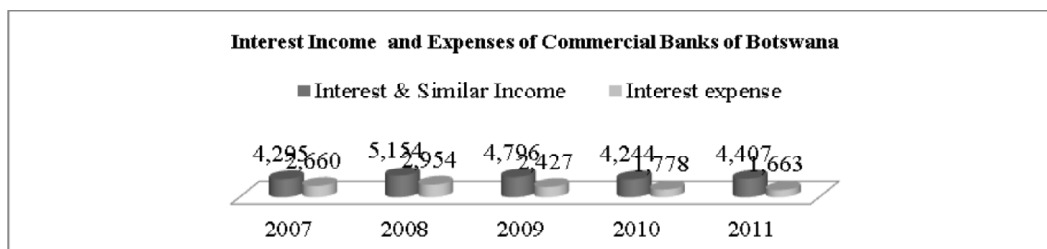
	2007	2008	2009	2010	2011
Interest & Similar Income	4,295	5,154	4,796	4,244	4,407
Interest expense	2,660	2,954	2,427	1,778	1,663
Net Interest	1,635	2,200	2,369	2,466	2,744
Operating Income	868	1,180	1,156	1,288	1,631
Gross Operating Income	2,503	3,380	3,525	3,754	4,375
Bad & Doubtful debts Provisions	218	193	384	272	301
Operating Income Net of Provisions	2,285	3,187	3,141	3,482	4,074
Operating Expenses	1,124	1,553	1,594	1,681	2,096
Net Operating Income	1,161	1,634	1,547	1,801	1,978

Source: Annual Report of Banking Supervision, Published by Bank of Botswana, Table 5.1: Aggregate Financial Statements of Licensed Banks 2007-2011; pg. 49

These trends continued in the five year period, confirming commercial banks' relative have strong immunity from the global financial crisis, mainly due to their business model, which is largely focused on traditional commercial banking.

Figure 3 Interest Income and Expenses of Commercial Banks of Botswana

(All Figures in Million Pula's)



Source: Annual Report of Banking Supervision, Published by Bank of Botswana, Table 5.1: Aggregate Financial Statements of Licensed Banks 2007-2011; pg. 49

Commercial banks of Botswana seem to have taken most of the hit of the valuation losses on their balance sheet with investments. Thus the efficiency has been improved significantly over the study period. This has gone up from 1.615 in the year 2007 to 2.65 by the end of 2011.

Table 5 Profitability and Operating Efficiency Ratios of Commercial Banks of Botswana

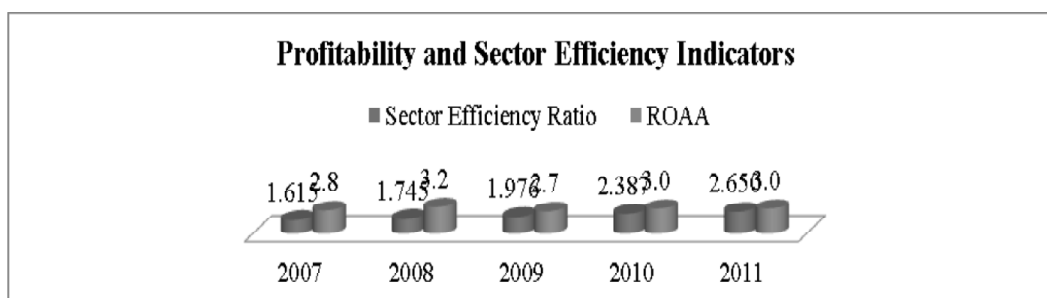
(All figures in %)

	2007	2008	2009	2010	2011
Sector Efficiency Ratio	1.615	1.745	1.976	2.387	2.650
ROAA	2.8	3.2	2.7	3.0	3.0
ROE	40.7	58.8	40.3	34.5	35.2

Source: Annual Report of Banking Supervision, Published by Bank of Botswana, Table 3: Profitability Indicators, Other Performance Ratios in percentage; pg13.

Figure 4 Profitability and Sector efficiency Ratios of Commercial Banks of Botswana

(All Figures in percent)



Source: Annual Report of Banking Supervision, Published by Bank of Botswana Table 3: Profitability Indicators, Other Performance Ratios in percentage; pg 13.

Capital Adequacy Ratio

The banking sector remained well capitalized, with all most all the commercial banks reporting excess of capital adequacy ratios well above the stipulated statutory limit of 15 % (adopted by Bank of Botswana).

Table 6
Aggregate Capital Structure of Commercial Banks of Botswana

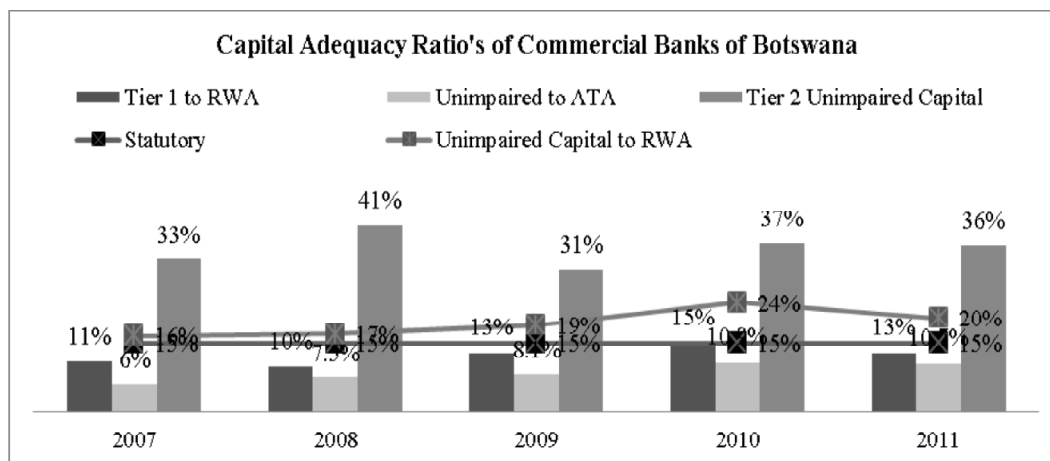
(All figures in Million Pula's)

	2007	2008	2009	2010	2011
Tier -1 Capital	1,532	1,835	2,503	3,236	3,461
Tier - 2 Capital	764	1,257	1,125	1,879	1,969
Total Capital	2,296	3,092	3,628	5,115	5,430
Impairments	1	1	1	0	0
Total Unimpaired Capital	2,295	3,091	3,627	5,115	5,430

Source: Annual Report of Banking Supervision, Published by Bank of Botswana, Table 5: Aggregate Capital Structure (P millions)

There is a marginal decline in core capital to risk-weighted-asset ratio from 15 in the year 2010 to 13 percent in 2011. The core capital to unimpaired capital is much above the threshold limit of 50%. It can be concluded here that the quality of capital of banking system is good.

Figure 5 Capital Adequacy Ratios of Commercial Banks of Botswana
(All Figures in percent)



Source: Annual Report of Banking Supervision, Published by Bank of Botswana, Diagram 1: The Structure of the Botswana Financial Sector; pg. - 3.

CONCLUSION

The impact of global financial crisis on the commercial banks of Botswana has been limited. It can be concluded that prudential norms played a significant role, boosting capital, operational performance and avoiding high risk exposure of assets with banking sector in Botswana. Liquidity supported by the balanced economic system of the country has provided banks to weather out the challenges at an ease.

Increasing numbers of potential investors continued in making enquiries about licensing procedures. Banks reduced its commercial papers BOBC's significantly resulting in lowering cost of deposits, and also increase in financial intermediation ratio. Commercial banks of Botswana in consultation of banking industry also decided to adopt Basel II and III standards in phased manner from 2013-14 onwards.

References

- Albama Kosova, (2007), "Spotting to Next Big Trend", Deloitte Central Europe Financial Services industry News Banking Supervision annual Report, 2001, Bank of Botswana.
- Bank Governance Leadership Networks View Points, 2012 Tapestry Networks INC.
- Banking Act (Cap: 46:04) & Regulations, Botswana.
- Banking in 2050, 2011, report by Price Waterhouse Coopers.
- CBO Annual Report, (2011), Economic Research and Statistics Department, Central Bank of Oman.
- Keith Jefferies, (2009), "Botswana Banking Sector Overview"; Capital Resources (Pty) Limited.
- Luc Laeven & Fabian Vaencia; June (2010), "Resolution of Banking Crisis: The Good, the Bad and the Ugly, IMF working paper, WP/10/146.
- Oman Banking Sector Report, (2007), global Investment House.
- Jan Schidbach, (2009), "Global Banking Trends after the Crisis", Deutsche Bank Research, Germany.
- Tom Winter Boer, (2006), "Perspectives on Trends in Banking", Price Waterhouse Coopers letter.
- The Global Banking Sector: Current Issues, CIMA Sector report.