PRESS RELEASE

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Statement on Recent Commercial Bank Deposit Interest Rate Adjustments

The Central Bank notes the widespread discussions in public forums on the decision of a local commercial bank to reduce the interest rates paid on deposits to zero. The Central Bank does not ordinarily comment publicly on such business decisions, neither would it be appropriate to do so.

The Central Bank maintains regular one-on-one dialogue with commercial banks on their customer relations and product strategies. These are mainly prudential discussions around the financial soundness of the respective business models. They also address customer engagement strategies around product pricing changes, with emphasis on ensuring that the public is allowed to make informed decisions about alternative options and suppliers of financial products and services.

The domestic banking system remains highly liquid, with deposits further increased during the pandemic. However, bank lending to the private sector is still curtailed as a result of less favourable conditions created by the pandemic and medium-term efforts to reduce structurally high rates of non-performing loans, which pre-dated the pandemic. In sum, the scope to intermediate deposits is reduced.

Interest rate changes are an incentive for depositors to shift funds to higher yielding placements within the banking system. As well, the adjustments must incentivize more consideration of alternative investments in both the public and private sectors. This includes the market for treasury bills and government bonds, and support for near-term private sector fund raising efforts though local capital markets. There similarly remains scope to expand the medium-term use of domestic capital markets to finance productive private sector activities, which fall outside of the business models of commercial banks.

For its part, the Central Bank is actively committed, with the Ministry of Finance, to develop a government savings bond scheme that would allow more households to accumulate investments, at an affordable pace in safe government debt instruments. This project is targeted to conclude in 2022. Meanwhile, the collateral registry project, on which the Central Bank is also working with the Ministry of Finance, is at an advanced stage in the diagnostic process. Once implemented, it will help to expand private lending through non-bank channels.

In the meantime, it is also important to strengthen the domestic banks' credit market framework, so that the capacity can be increased to prudently use more of existing liquidity in the traditional categories of private lending. Sustained progress with the credit bureau will support this.

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