

BANK OF BOTSWANA

CIRCULAR TO BANKS: NO. 2/2020

ISSUE DATE: April 1, 2020

SUBJECT: AMENDMENT OF THE REVISED DIRECTIVE ON INTERNATIONAL CONVERGENCE OF CAPITAL MEASUREMENT AND CAPITAL STANDARD FOR BOTSWANA AND LIQUIDITY SUPPORT

1. Purpose

1.1 *The purpose of this Circular is to announce the capital relief and additional liquidity support measures to enable banks to address liquidity challenges during these extraordinary times and to continue to support economic activity in the context of the adverse impact of the coronavirus (Covid-19) pandemic.*

2. Authority

2.1 *This circular is issued by the Bank of Botswana (Bank) pursuant to Sections 38 and 39 of the Bank of Botswana (CAP 55:01) and Sections 13 and 14 of the Banking Act (CAP 46:04).*

3. Current Regulatory Capital Requirements for Banks

3.1 *The current minimum regulatory capital adequacy requirement (CAR) for banks operating in Botswana is 15 percent calculated in accordance with Basel II methodologies. The CAR of 15 percent took into account the need to build sufficient buffers for credit, market and operational risks that banks may experience during economic downturns and/or extreme shocks to economic activity, such as is the case under current circumstances of the Covid-19 pandemic.*

3.2 *The Bank continues to monitor global, regional and domestic economic and financial developments since the outbreak of Covid-19. In particular, it is noted that responses, mainly aimed at containing the spread of the disease, such as extreme social distancing, have resulted in a significant reduction in production, curtailment of travel, sports and other large gatherings and, therefore, consequent slowdown of economic activity. The effects of the expected slowdown in economic activity will inevitably be transmitted to the banking sector, inducing strain on liquidity, reducing the credit quality (increase in impairments) and exerting pressure on banks' capital.*

3.3 *The Bank has taken into consideration that, currently, banks are adequately capitalised, with capital comprising high-loss absorbency components. However, the banking system has the potential to be negatively affected by the Covid-19 owing to the anticipated loan defaults, resulting from the economic and financial fallout from the pandemic. Loan defaults could weaken the banks, thus potentially deepening and prolonging the expected economic downturn. At the same time, the Bank of Botswana acknowledges the commitment by banks to extend a three months selective moratorium on loan repayments with a possibility of a further three months extension, intended to help customers deal with loan repayment difficulties.*

4. Revised Bank Capital Requirements

- 4.1 *To provide relief to banks, as well as support economic activity, the Revised Directive on the Revised International Convergence of Capital Measurement and Capital Standards for Botswana is hereby amended such that the Capital Adequacy Ratio (CAR) for banks is reduced from 15 percent to 12.5 percent, with effect from April 1, 2020.*
- 4.2 *The CAR should be calculated using the Basel II Framework as set out in the Directive issued by Bank on September 8, 2015.*

5. Liquidity Support

- 5.1 *To provide liquidity support to banks, the following measures are being introduced, namely,*
- (a) ***Removal of penalty for borrowing from the Credit Facility (CF):** the cost of accessing overnight funding from the CF is currently set at the punitive rate of Bank Rate plus 6 percentage points. Henceforth, the penalty of 6 percentage points is removed. Therefore, any liquidity support through accessing CF shall be at the prevailing Bank Rate (currently 4.75 percent) with immediate effect;*
 - (b) ***Extension of repo maturity:** in order to provide banks with greater certainty in their liquidity management, repo facilities that are currently available only on an overnight basis will, with immediate effect, be offered against eligible securities with outstanding maturity of up to 92 days;*
 - (c) ***Collateral Pool:** in the coming weeks, the collateral pool will be extended to include all corporate bonds listed and traded on the Botswana Stock Exchange. This is subject to relevant regulations relating to haircuts and custody being put in place and the effective date for this will be announced in due course.*
- 5.2 *The liquidity relief, notwithstanding, it is necessary for the banks to ensure that the interbank market continues to serve as the primary means to correct liquidity imbalances and to cooperate fully. That is, the Bank will not tolerate an “exclusive” interbank market of a few banks subject to normal credit limits for commercial bank risk exposures. Furthermore, the Bank of Botswana will also be exercising additional vigilance in monitoring foreign exchange transactions to guard against speculative trading that could destabilise markets and add further to pressure on foreign exchange reserves.*

6. *Effective Date*

6.1 *Except as indicated under 5.1 (c), the effective date for this Circular is April 1, 2020.*



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