REPUBLIC OF BOTSWANA

MINISTRY OF FINANCE

FINANCIAL STABILITY COUNCIL

30 April 2024

PRESS RELEASE

FINANCIAL STABILITY COUNCIL MEETS

The Financial Stability Council (FSC/Council) met on 30th April 2024 to deliberate on the state of domestic financial stability and macroprudential policy considerations. The Council assessed conditions in the financial sector including external influences and evaluated emerging developments and vulnerabilities that could lead to undesired consequences for the financial system. The FSC's assessment is that the domestic financial system remains resilient, robust, safe, sound and unconstrained in providing, innovating, and growing the range of financial services to support the economy anchored on sound policy and regulatory frameworks. The FSC, thus, concluded that prevailing conditions do not warrant any macroprudential policy action at this point but, buttressed the need to maintain robust monitoring frameworks for threats and vulnerabilities to inform timely policy responses to safeguard financial stability.

Since the last Council meeting in November 2023, risks to global financial stability have moderated, following the reduction in inflation and easing financial conditions in most regions. However, there are growing financial stability risks emerging from climate change (physical and transitioning risks) and the rapid use of technology (and Artificial Intelligence algorithms) by financial institutions, with inherent cybersecurity risks. Nevertheless, the global financial system remains stable and resilient to shocks, underpinned by effective post-2008/09 global financial crisis regulatory reforms and continuous improvement of supervisory frameworks.

Domestically, the resilience and effectiveness of the financial system in providing financial services to the economy is anchored on strong capital and liquidity buffers, profitability, continual innovation and adaptability, as well as an enabling and robust regulatory environment. The macroeconomic environment is also conducive for financial stability, underpinned by positive economic growth, albeit slower; modest inflation and; therefore, accommodative monetary policy, supported by predictable and effective macroeconomic policy frameworks. Accordingly, financial sector vulnerabilities remain generally contained and risks mitigated. Notably, stress tests for banks (to assess the potential impact of various shocks) validate the strong solvency and resilience.

However, the structure of the domestic financial system, where macro-financial linkages among the financial sector, the non-financial sector (Government, corporates and households) and the external sector are strong, present a source of contagion risk; wherein a weakness in one of the elements of the financial system could easily be transmitted into others. However, this risk is moderated by effective supervisory frameworks and timely regulatory interventions that promote strong liquidity and capital positions across the financial system.

In terms of performance, both the banking and non-bank financial institutions (NBFIs) sectors remain financially sound and stable, with increasing assets, capital levels and profitability. Credit risk is considered minimal as commercial bank lending is aligned with the rate of increase in gross domestic product (GDP). The ratio of non-performing loans (NPLs) to total loans is relatively modest at 3.7 percent. Thus, credit developments pose minimal risk to financial stability and are positive for economic activity and welfare enhancement. These developments, along with other positive sectoral developments, such as the increase in the values of shares listed in the stock exchange and robust financial market infrastructures, have grown the financial system to represent approximately 121.4 percent of GDP in December 2023, compared to the 112.8 percent in December 2022; demonstrating growing impact of the financial sector on economic activity under stable conditions.

To enhance risk-based supervision, the FSC has identified and designated domestic systemically important banks (D-SIBs) and domestic systemically important insurers (D-SIIs) for 2024. The institutions are considered to be significant to Botswana's financial system based on a number of financial parameters and, therefore are subjected to enhanced surveillance and supervision as their failure could significantly disrupt the domestic financial system. Accordingly, Absa Bank Botswana Limited and First National Bank Botswana Limited are the designated D-SIBs for 2024, while Botswana Life Insurance Limited, Continental Reinsurance and Hollard Insurance have been identified as the D-SIIs for the same period. Nevertheless, the D-SIBs and D-SIIs are well capitalised, liquid and solvent, and, therefore, anchor domestic financial stability.

Related to financial conduct and integrity, Botswana is steadfast in its commitment to improving the policies, legal frameworks and action plans on Anti-Money Laundering/Countering the Financing of Terrorism/Counter Proliferation Financing (AML/CFT/CPF) matters. In preparation for the Eastern and Southern Africa Anti-Money Laundering Group Mutual Evaluation (ME) scheduled for 2027, the country completed a money laundering and terrorist financing national risk assessment in December 2023 and a mock ME is being undertaken with the support of the United Nations Office on Drugs and Crimes. The mock ME started in February 2024, and it is expected to be completed in August 2024. The outcome of these projects will support efforts to close gaps in the AML/CFT/CPF regime and inform appropriate and timely interventions before the ME in 2027.

Financial safety nets have also been strengthened by the establishment of the Deposit Insurance Scheme of Botswana (DISB) in July 2023. The DISB had 10 member institutions as at 31st December 2023, comprising all nine commercial banks licensed by the Bank of Botswana, as well as Botswana Savings Bank – a statutory bank. The scheme guarantees repayment of protected deposits up to a maximum of P250 000 per depositor per member institution in the rare event of failure of a member institution.

The Council further noted the ongoing legislative and regulatory review to strengthen financial sector oversight and deepen the catalytic role of the sector on inclusive economic growth and development. These reviews primarily seek to safeguard the integrity and stability of the financial system, while also being adaptive and responsive to emerging issues around financial innovation and technology, digitalisation, cybersecurity, as well as climate change.

Overall, the Council affirms its commitment to domestic financial sector surveillance and swift remedial responses to threats to financial stability, as well as contribute to related legal, policy and institutional improvements.

A comprehensive assessment of the domestic financial stability risk profile is contained in the May 2024 Financial Stability Report, which will be published at the end of May 2024.

Note to Editors

The FSC is a statutory apex body responsible for financial stability issues in Botswana, established by the Bank of Botswana (Amendment) Act, 2022. The Council consists of five members, being the Governor of the Bank of Botswana (Chairperson), Permanent Secretary of the Ministry of Finance; Chief Executive

Officer, Non-Bank Financial Institutions Regulatory Authority (NBFIRA); Director General, Financial Intelligence Agency (FIA); and Director, DISB; while the Chief Executive Officer, Botswana Stock Exchange Limited is an observer, thus non-voting, member. The FSC convenes twice a year – in April/May and October/November. But when the need arises, including sudden and significant threats of a financial crisis, meetings can be held more frequently to discuss measures that need to be taken to restore financial stability. The Council has a Technical Working Group that convenes more often between Council meetings to conduct preparatory work.

Financial system: *refers to commercial banks, NBFIs such as micro lenders, insurance companies, fund managers and related entities, stockbrokers, as well as systems or entities that facilitate payments and settlement.*

Deposit insurance: *is a safety net measure which guarantees repayment of protected deposits in the event of failure of a member institution that is licenced to operate banking or deposit taking business.*

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