REPUBLIC OF BOTSWANA

MINISTRY OF FINANCE

FINANCIAL STABILITY COUNCIL

9 May 2025

PRESS RELEASE

The Financial Stability Council (FSC/Council) met on 8 May 2025 to discuss the prevailing state and outlook of financial stability, including related risks emanating from the domestic and global environments as well as appropriate policy responses to avert the buildup of vulnerabilities. Members also deliberated on prospective developments affecting the financial sector and ongoing FSC work programme. These include harmonisation of corporate governance principles, and enhancement of resolution and crisis management frameworks for the financial sector.

Fundamentally, the FSC judged that the financial system remains safe, sound and key for supporting economic activity. However, the increasingly uncertain macroeconomic environment, characterised by a deteriorating fiscal position, slow economic growth and structurally lower levels of liquidity in the financial system, were a potential source of risk to financial stability. The rising interconnectedness and funding concentration across the entire financial system were also concerning. It was observed that funding concentration limits market activity and distribution of liquidity, resulting in higher funding costs that potentially undermine monetary policy transmission. In the circumstances, financial sector regulators and financial institutions should continue to be vigilant in monitoring risks to credit exposures and liquidity related developments, including distribution and pricing,

to inform timely intervention, as warranted, to safeguard financial stability.

Since the last FSC meeting in November 2024, risks to global financial stability have increased. This is due to growing market uncertainty, elevated valuations of financial assets, liquidity vulnerabilities in non-bank financial institutions (NBFIs), high sovereign and private debt and associated repayment pressures, as well as impact of geoeconomic fragmentation. These spillovers to the domestic sources of risks and vulnerabilities that include low economic growth rates, weakened and deteriorating fiscal position and the impact of concentrated and low levels of liquidity on pricing of funding and credit quality and, in turn, financial stability.

The domestic macroeconomic environment has recently become increasingly challenged by weaker diamond market performance, with adverse implications for fiscal and external sector stability. The fiscal conditions elevate the potential to negatively impact the rest of the economy, including the financial sector; given the relative size and influence of government and diamonds market. An immediate outcome, in this regard, is the historic low level of commercial bank's liquidity, occasioned by net foreign exchange outflows and a slowdown in government spending. This development has implications for the overall cost of funding, both deposits and credit, notwithstanding the accommodative policy stance.

Under these circumstances, the Bank of Botswana (Bank) intervened to support market liquidity, firstly by adjusting the primary reserve requirement to zero, in December 2024, which released about P1.8 billion into the market and secondly, by extending the maturity of repurchase agreements contracts (repos) with commercial banks from overnight to seven days (effectively, longer duration for lending to commercial banks by the Bank of Botswana). As is the case with excess liquidity, the Bank's monetary operations instruments are structured to similarly cater for the advent of market liquidity shortage.

It is observed, nevertheless, that there is need to address structural aspects including prospective lasting transition to low levels (and shortages) of liquidity, funding concentration and relatively large foreign currency holdings by commercial banks, as well as risk of sustained misalignment of the market pricing of funds with the monetary policy transmission. Therefore, the member regulatory institutions, collectively and individually are pursuing relevant and appropriate policy and regulatory responses, including engagements with key stakeholders and market players. Moral suasion and other regulatory measures will continue to be used by regulators to ensure financial stability and consumer protection.

Other risks to financial stability pertain to cyber threats and climate change, which continue to be monitored and addressed through continuous institutional capacity and risk management enhancements. Specific to climate risks, the Bank joined the Central Banks and Supervisors Network for Greening the Financial System (NGFS), as a Plenary Member on 4 March 2025. Membership of the NGFS is expected to strengthen the country's participation and collaboration on global climate dialogue, while concurrently providing an opportunity for development and calibration of frameworks and mechanisms for integrating climate change considerations for effective financial stability surveillance.

There are also strong macro-financial linkages, and related concentration risks, involving the financial and external sectors and fiscal performance. The interconnectedness is a source of possible contagion risk; wherein a weakness in one of the elements could easily be transmitted into others, creating broader instability. This particular risk to financial stability, along with others, is mitigated by financial policy initiatives undertaken over time, and the legislative reviews that help evolve effective regulatory and supervisory mechanisms to be in line with emerging market developments; for example, financial innovation and technology, digitalisation, cybersecurity and climate change.

Forthcoming regulatory developments aimed at protecting the consumer and enhancing financial inclusion comprise Banking Regulations, Policyholder Protection Fund rules, Non-Bank Lenders Bill, Electronic Payment Services Regulations and the Health Insurance Bill, among others.

Ongoing regular identification and designation of domestic systemically important financial institutions by relevant regulatory authorities serve to enhance surveillance for systemic (and interconnected) institutions, to help prevent and pre-empt systemic (contagion induced) crises. Other key aspects of the work programme of the FSC include harmonising corporate governance principles, to avert regulatory arbitrage, and enhancement of resolution and crisis management frameworks for the financial sector.

Council further noted that financial conduct and integrity risks are generally contained, and there is continuing progress towards strengthening the Anti-Money Laundering/Countering the Financing of Terrorism/Counter Proliferation Financing (AML/CFT/CPF) framework. A mock mutual evaluation was conducted in June 2024 to identify deficiencies in the framework and gauge the country's preparedness for the 2027 Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) mutual evaluation. The report and action items from the exercise are being addressed by relevant authorities with a view to closing gaps in the AML/CFT/CPF framework and informing appropriate and timely interventions before the mutual evaluation. Notably, the Financial Intelligence (Amendment) Act, 2025 established a National Coordination Office, which shall be responsible for AML/CFT issues at a national level. Accordingly, an AML/CFT Strategy for

2025–2030 has been developed to provide strategic direction and approach on handling money laundering and terrorist funding risks nationally.

Overall, the domestic financial system continues to be financially sound and stable, with sufficient capital, liquidity and profitability levels. The non-performing loans ratio for the banking system and non-bank lenders was modest, with low credit exposure risk (as indicated by the negative Credit-to-Gross Domestic Product gap); thus, providing room for further prudent credit extension to support economic development. This situation, along with other positive sectoral developments, such as the increase in the value of shares listed on the stock exchange and robust financial market infrastructures, contribute to the growth of the financial system and its effectiveness in supporting broader economic activity. The resilience of the financial sector is underpinned by appropriate policy frameworks that entail effective regulatory and supervisory frameworks.

The FSC, therefore, affirms its commitment to domestic financial sector surveillance and swift remedial responses to threats to financial stability, as well as contributing to related legal, policy and institutional advancements.

A comprehensive assessment of the domestic financial stability risk profile is contained in the May 2025 Financial Stability Report, which will be published in June 2025.

The next meeting of the FSC is scheduled for 6 November 2025.

Note to Editors

The FSC is a statutory apex body responsible for financial stability issues in Botswana, established under the Bank of Botswana (Amendment) Act, 2022.

The Council comprises five members: the Governor of the Bank of Botswana (Chairperson), the Permanent Secretary of the Ministry of Finance, the Chief Executive Officer of the Non-Bank Financial Institutions Regulatory Authority

(NBFIRA), the Director General of the Financial Intelligence Agency (FIA), and the Director of Deposit Insurance Scheme of Botswana. The Chief Executive Officer of the 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, meetings can be held more frequently to discuss measures that need to be taken to restore financial stability. The Council is supported by a Technical Working Group that meets more regularly between Council meetings to undertake 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.*

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