



REPUBLIC OF BOTSWANA
MINISTRY OF FINANCE AND ECONOMIC DEVELOPMENT



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PRESS RELEASE

FINANCIAL STABILITY COUNCIL MEETS

The Financial Stability Council (FSC) met on November 1, 2021, to deliberate on recent global, regional and domestic financial stability developments including regulatory and public interest issues relating to the performance and prospects for the domestic financial system. Despite the adverse effects of COVID-19, the domestic financial system continues to be resilient, characterised by strong capital and liquidity buffers, moderate profitability as well as being adaptive and innovative.

The International Monetary Fund's October 2021 Global Financial Stability Report (GFSR) noted that risks to global financial stability have thus far been contained, "reflecting ongoing monetary and fiscal policy support and the rebound of the global economy this year". However, the report also indicated that uneven access to vaccines and the varying intensity of fiscal support measures between advanced and emerging markets have resulted in a dual-paced economic recovery process that threatens global financial stability. Hence, policy support, vaccine access and supportive financial conditions are necessary for entrenching sustainable recovery path and minimising persistent economic damage (scarring), and thereby reduce financial stability risks.

The FSC observed that since the meeting of May 2021, prospects for domestic economic recovery have improved, supported by positive global developments,

recovery of diamond production and prices, the rollout of COVID-19 vaccines and ongoing policy support, including the implementation of the Economic Recovery and Transformation Plan, as well as accommodative monetary policy. The expiry of the State of Public Emergency (SOPE) on September 30, 2021 is, subject to sustained progress in disease containment and a successful vaccination programme, expected to contribute towards normalisation of economic activity. The domestic economy is, therefore, projected to grow by 9.7 percent in 2021 and 4.3 percent in 2022. The FSC further noted the recent removal of Botswana from the Financial Action Task Force (FATF) list of jurisdictions 'under increased monitoring' (grey list). This is expected to be positive for the domestic financial system and should ease costs to the conduct of international financial transactions and trade; therefore, it should be beneficial for economic activity.

While the FSC acknowledges the pre-existing structural weaknesses and vulnerabilities of the Botswana economy, among others, the narrow economic base; enduring unbalanced financial sector interlinkages; and emergence of innovative and potentially disruptive market products and services, ahead of evolution of effective regulatory oversight, it is observed that the agility of the domestic financial system played a crucial role in supporting the real economy in a number of ways including restructuring of credit facilities and other customer obligations. In the main, the FSC noted the following key issues:

- (a) first, that there is no evidence of excessive and uncontrolled credit growth. Commercial bank credit, the bulk (66 percent) of which was credit granted to the retail/household sector, grew by 6.4 percent in the year to August 2021 compared to 4.8 percent in the corresponding period in 2020 and, broadly commensurate with trend growth in economic activity. Moreover, the level of non-performing loans was modest at 4.1 percent (July 2021), in line with trends in the past;
- (b) second, that the fall in market liquidity, due to persistent foreign exchange outflows, is likely to be moderated, going forward, following improvements in global economic activity that is expected to boost demand and exports, including diamond sales;

- (c) third, asset prices (that is, yields on corporate bonds and government securities; and commercial real estate prices) are generally stable; the risk of contagion between banks and non-bank financial institutions (NBFIs) is moderated by effective prudential regulation and supervision together with strong liquidity and capital positions across the financial system; and
- (d) fourth, the negative impact of the COVID-19 pandemic on the banking, insurance and pension sectors was moderate due to past strong performance and thus sufficient buffers, as well as the swift transition to digitilisation by most companies. Therefore, provision of essential financial services, in a safe, sound and efficient manner, was sustained.

Notwithstanding the foregoing, there are emerging risks pertaining to, among others, cybercrime due to increasing usage of technology; uncertainty about the status of unemployment as businesses restructure and, hence, a possible source of increase in loan defaults or in pension withdrawals/early redemption or premature insurance policy terminations. However, the extent of vulnerability depends on the path of the COVID-19 pandemic, rate of vaccine rollout and effectiveness as well as the duration of policy support deployed to limit the consequences of the crisis.

On financial market infrastructures (FMIs) and regulatory developments, which have a bearing on the efficiency of the financial services sector, the FSC notes that FMIs (namely payment systems, central securities depository and securities settlement systems) remain stable and resilient, thus, contributing to the strength and preservation of domestic financial stability. The performance of the Botswana Stock Exchange (BSE) was subdued (as measured by key indices) in the year to September 2021, reflecting low trading activity and liquidity, as well as sluggish corporate earnings due to the restrained economic environment.

In addition, domestic oversight authorities continue to embrace financial technologies through policy support for market development and regulatory adaptation to ensure orderly business conduct, adequate consumer protection and maintenance of financial system integrity. To that end, the FSC noted the following developments: the recent approval of the Credit Information Act by Parliament; advanced stage of drafting of the

Movable Property (Security Interests) Bill; and the ongoing reviews of the Bank of Botswana Act, Banking Act, Non-Bank Financial Institutions Regulatory Authority (NBFIRA) Act, Retirement Funds Act and Financial Intelligence (FI) Act. It was noted that Botswana had been admitted as an associate member of the International Association of Deposit Insurers (IADI) in September 2021. The associate membership is expected to contribute positively to the establishment of a Deposit Protection Fund (DPF) for Botswana. In addition, Botswana became a member of the Egmont Group of Financial Intelligence Units, which provides Financial Intelligence Units around the world with a platform to exchange information on how best to address money-laundering, the financing of terrorism and other financial crimes.

A comprehensive assessment of the conditions likely to affect the stability of the domestic financial system is contained in the Financial Stability Report to be published in November 2021.

Note to Editors: *The FSC was officially launched in February 2019 to foster and promote financial stability by coordinating the development of regulatory, supervisory, and other financial sector policies in recognition of the interconnectedness across markets and institutions. It comprises senior officials of the Ministry of Finance and Economic Development (MFED), the Bank, NBFIRA, and Financial Intelligence Agency (FIA). These authorities have signed a Memorandum of Understanding (MoU) for the purpose of information sharing, cooperation, and communication in the implementation of the Macroprudential Policy for Botswana. The Botswana Stock Exchange Limited (BSEL) became an observer member in September 2021.*

For further information, please contact, Dr. Seamogano Mosanako. Head of Communications and Information Services, at mosanakos@bob.bw, +267 360 6083, 360 6382 and 360 6315 or visit the Bank website at www.bankofbotswana.bw.