



REPUBLIC OF BOTSWANA

**SPEECH BY HIS EXCELLENCY
THE PRESIDENT
LT. GEN. DR.SERETSE KHAMA IAN KHAMA
AT THE
COMMEMORATION OF THE 40th ANNIVERSARY
OF
BANK OF BOTSWANA**

GABORONE

March 31, 2016



Salutations,

Good morning to you all.

1. It is indeed a pleasure for me to be here today to mark the 40th anniversary commemoration of the Bank of Botswana's existence in the service of our nation.

2. I welcome each and every one of you to this gathering as we celebrate this milestone. I am informed that the Bank of Botswana will host the 42nd meeting of SADC Central Bank Governors tomorrow. Let me also take this opportunity to extend a distinct welcome to you Governors and your respective delegations. I commend you for, among others, continuing to exert efforts in promoting a healthy and stable macroeconomic, financial and investment climate in which sub-regional integration can be implemented.

3. The 40th Anniversary celebration of the Bank of Botswana assumes special significance as it precedes Botswana's 50th Anniversary of Independence celebrations that will take place later this year, culminating on 30th September.

We are all familiar with the critical role a central bank plays in any nation's economic development and transformation and, by

extension, the well-being of its citizens. It is, therefore, a fact that the history of Botswana's economic development and transformation into an upper middle-income developing country cannot be told without recognising the role played by the Bank of Botswana.

4. Botswana shares a common experience with many African countries in that nation-building was started virtually from scratch upon attaining independence. Like Botswana, many countries went through the painstaking process of establishing and nurturing key national institutions, such as central banks, to carry out specific functions that are indispensable to the development agenda. It is also the case that new central banks in Africa faced similar daunting tasks of fulfilling key mandates, due to the challenging environment in which they were to operate.

5. I presume that Botswana's story is well known; it is a story of one of the poorest countries in the world when it obtained independence in 1966. Ten years later in 1976, when the Bank of Botswana began its operations, the country had only two commercial banks; the financial sector infrastructure was undeveloped and very small; money market products needed for the conduct of monetary policy were non-existent. That was part of the reason it was commonly felt at the time that a central bank in such an environment would not do much beyond the issuance

of a national currency. In fact, the conventional wisdom did not justify the establishment of a central bank in Botswana. Given such an inauspicious environment, the Government's decision to establish a central bank was bold. It was considered even more bold when Botswana decided not only to issue its own national currency but also to exit the Rand Monetary Area. The shoes which the new central bank was expected to fill immediately after its establishment were indeed large. It is fitting, therefore, that we should acknowledge and celebrate the Bank's achievements.

6. The process that led to the Bank's establishment exemplified all that is good about careful planning. The origins of the Bank can be traced to August 1973 when the founding President of this Republic, appointed a Commission led by Mr Quill Hermans, to examine options, given the dissatisfaction at the time with arrangements of being a member of the Rand Monetary Area. The Commission concluded that the country should seize the opportunity to leave the Rand Monetary Area and establish a full-fledged central bank and national currency. Such a recommendation was both well-informed but also brave and far-sighted, going against the advice of many.

7. Following this momentous decision, preparations proceeded rapidly, but with painstaking care. Thus, almost exactly two years after the Founding President announced the intention to leave the

Rand Monetary Area, the Bank of Botswana was up and running with Quill Hermans as the founding Governor. The new national currency (Pula and Thebe) was launched to replace the South African Rand and Cent, to national acclaim, on Pula Day, August 23, 1976. As they say, the rest is history.

8. It should be noted though that at the time, the country's newly issued legal tender had no sustainable pool of foreign exchange reserves to support its external value. Fortunately, it was not long before the Government's decision to establish a central bank and withdraw from the Rand Monetary Area was vindicated. As luck would have it, diamond mining commenced in the late 1970s and with it, external account surpluses were building up, foreign exchange reserves increased, government revenue also went up; budgetary savings accumulated and the banking system became flush with excess funds. The Bank responded by opening a call account, which was later replaced by issuance of the Bank's own paper (called Bank of Botswana Certificate) in 1991, with a view to absorbing excess liquidity and anchor short-term interest rates.

9. It was under these favourable changed circumstances that the country embarked on a process of economic development and transformation. The proceeds from diamonds, which are a finite resource, were carefully invested to create other forms of wealth

that would sustain socio-economic progress for the country. As a result, within three decades of gaining independence, Botswana attained middle income developing country status. Real GDP grew attractively at an average annual growth rate of 7.7 percent for nearly five decades to 2014, before the country had to contend with the current challenging times of much slower economic growth rates of below 5 percent.

10. You will appreciate that, as with other central banks, other responsibilities of the Bank included the formulation and conduct of monetary policy, in order to rein-in inflation and promote economic growth by directly controlling the allocation of credit and related interest rates. The Bank also had to implement the exchange rate policy, administer exchange controls and regulate as well as supervise the relatively small banking sector in those days.

11. The central bank's enduring success in fulfilling these functions was not assured due to the challenges of capacity constraints and unfavourable economic conditions of the time. Furthermore, and as you are aware, Botswana's openness and susceptibility to frequent droughts render it highly vulnerable to the challenges of weather and external economic and financial shocks. That is why among other functions, the Bank has, over the years, prudently invested budgetary savings. These funds are

reflected in the build-up of foreign exchange reserves which are held as a precaution against natural disasters, a cushion against external economic shocks, such as the 2007/08 global financial crisis and economic recession, as well as the current commodity price downturn. The savings are also held in trust for future generations. *The funds are also used to guard against the stalling of the economy from external shocks or economic downturn, thus sometimes the need to stimulate the economy.*

12. As would be expected, there was considerable reliance on technical assistance in many specialised areas. Many thanks to those who extended a helping hand by way of technical assistance, among them, the Bank of England, International Monetary Fund, Deutsche Bundesbank, Danish Central Bank, Czech National Bank, European Central Bank, Bank for International Settlements and some African central banks.

13. In the four decades of its existence, the Bank has also ably lived up to expectations in delivering on other broad national socio-economic mandates, despite the many challenges experienced by developed and developing countries alike. We are aware that the last four decades have witnessed a rapid pace of global economic and financial interconnectedness, with a relative shift in international economic power centres. These developments have created stresses and strains that have often

severely affected developing countries. Botswana has not been spared the impact of the global economic and financial ups and downs. Although globalization rightly calls for shared responsibility in international economic and financial governance, so far, a suitable architecture for making inclusive and binding global economic and financial policy decisions has not yet emerged.

14. In good and bad times, the Bank has provided the Government with sound economic and financial advice. Its effective monetary policy has, in recent years, contributed to containing inflation within the medium-term desired range. The generally low and benign inflation, together with its favourable medium-term outlook, have led the Bank to reduce interest rates and, in the process striking an appropriate balance between boosting economic growth and promoting a culture of saving. The exchange rate has been stable and supportive of export competitiveness; foreign exchange reserves continue to be prudently managed; currency continues to be replaced by new families of banknotes and coin, as launched in 2009 and 2014, respectively; and the country now has 10 banks that offer a variety of products; and the payment system is efficient and reliable.

15. In all this, I believe it is heartening that the Bank's professional competence has been above board, while its

accountability and transparency have never been in doubt. It is these indispensable attributes that have ensured the Bank's effectiveness which has earned it respect in the domestic and international financial community.

16. In this regard, I would like to pay tribute to all those who made a contribution to the enviable welfare of the Bank in its formative years and over time. I wish to single out past and present Board members, Governors (as represented by His Excellency former President Mogae and Mr Quill Hermans) and all staff of the Bank, and thank them most sincerely for serving the Bank and the country in this exemplary way.

17. The presence of many Governors, senior officials and distinguished guests from the Sub-region and abroad gives us confidence that the mutually beneficial collaboration, cooperation and bonds of friendship that have been built over the past 40 years with the Bank will continue to grow in strength in the period ahead.

18. Let me conclude by inviting those of you from outside our borders to feel at home here in Gaborone during and after the Anniversary's activities. I encourage you to visit other parts of Botswana so that you familiarise yourself a bit more with some places of tourist attraction and interact with more of our people. I

wish you safe return back your homes. Once again, thank you for your company on this auspicious occasion.

19. It is now my pleasure to declare the commemoration of the 40th Anniversary of the Bank of Botswana officially launched.

I thank you for your attention.