FINANCIAL STABILITY REPORT

REPUBLIC OF BOTSWANA
MINISTRY OF FINANCE AND ECONOMIC DEVELOPMENT

NBFIRA
Non-Bank Financial Institutions Regulatory Authority

MAY 2022

FINANCIAL STABILITY COUNCIL

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TABLE OF CONTENTS

LIST OF TABLES, CHARTS AND FIGURES v

ABBREVIATIONS vi

ACKNOWLEDGEMENT vii

PREFACE viii

1. EXECUTIVE SUMMARY 1

2. FINANCIAL STABILITY DEVELOPMENTS AND TRENDS 3

(a) External Sector Vulnerability Assessment 3
(b) Global Financial Stability Trends 3
(c) Regional Financial Stability Trends 3

3. DOMESTIC VULNERABILITY ASSESMENT 5

(a) Sovereign Vulnerabilities 5
(b) Credit Growth and Leverage 6
Box 3.1: Tools for Assessing Excessive Credit Growth 9
Box 3.2: Household Credit Growth in Botswana 12
Box 3.3: Summary of the 2021 Household Indebtedness Survey 17
(c) Liquidity and Funding Risk 18
(d) Macro-Financial Linkages 25
(e) Banking Sector Stress Test Results 29

4. FINANCIAL MARKET INFRASTRUCTURE (FMI) AND REGULATORY DEVELOPMENTS 32

(a) Payments and Settlements Systems 32
(b) Regulatory and Other Developments Relevant to Financial Stability 33

5. CONCLUSION AND OUTLOOK 34

APPENDIX 35

LIST OF TABLES, CHARTS AND FIGURES

TABLES

Table 3.1: Sectoral Distribution of Commercial Bank Loans 7
Table 3.2: Household Net Wealth 11
Table 3.3: Non-Financial Corporates' Financial Soundness Indicators (Percent) 14
Table 3.4: Selected Botswana Stock Exchange Indicators 21
Table 3.5: Selected Bond Market Indicators 24
Table 3.6: Selected Exchange Traded Fund Indicators 24
Table 3.7: Structure and Size of the Financial System 26
Table 3.8: Banking Sector Financial Soundness Indicators 31
Table 3.9: December 2021 Stress Test Results for Commercial Banks 31
Table 4.1 Selected Payments and Settlement Systems Indicators 32

CHARTS

Chart 3.1: Growth in Household Debt (Year-on-Year) 10
Chart 3.2: Household Debt to Income and NPLs 11
Chart 3.3: Commercial Real Estate Loans 15
Chart 3.4: Trend in Mortgages 15
Chart 3.5: BoBC Stop-out Yields 19
Chart 3.6: Commercial Banks' Foreign Exchange (FX) 20
Chart 3.7: Exchange Rate Volatility 20
Chart 3.8: Twelve-Month Equity Indices Volatility 21
Chart 3.9: Corporate Credit Spread 23
Chart 3.10: Twelve-Month Bond Indices Volatility 23
Chart 3.11: Commercial Banks' Exposure to NBFIs 27
Chart 3.12: Investment Allocation of Pension Funds 29

FIGURES

Figure 3.1: Macro-Financial Linkages (March 2022) 27

ABBREVIATIONS

AML/CFT/CPF	Anti-Money Laundering and/Combating the Financing of Terrorism/Counter Proliferation Financing
AUM	Assets Under Management
BACH	Botswana Automated Clearing House
BES	Business Expectation Survey
BIHL	Botswana Insurance Holdings Limited
BISS	Botswana Interbank Settlement System
BoBCs	Bank of Botswana Certificates
BPOPF	Botswana Public Officers Pensions Fund
BSEL	Botswana Stock Exchange Limited
CorpI	Corporate bond index
CPF	Counter Proliferation Financing
CSST	Common Scenario Stress Test
DCI	Domestic company index
D-SIBs	Domestic Systemically Important Banks in Botswana
D-SIFIs	Domestic Systemically Important Financial Institutions
EFTs	Electronic Funds Transfers
ETF	Exchange Traded Funds
ERTP	Economic Recovery and Transformation Plan
EU	European Union
FATF	Financial Action Task Force
FCI	Foreign company index
FIA	Financial Intelligence Agency
FSC	Financial Stability Council
FX	Foreign Exchange
GDP	Gross Domestic Product
GFSR	Global Financial Stability Report
IMF	International Monetary Fund
ISF	Industry Support Facility
LTV	Loan-to-Value
MoF	Ministry of Finance
MoU	Memorandum of Understanding
NAV	Net Asset Value
NBFIs	Non-Bank Financial Intermediaries
NBFIRA	Non-Bank Financial Institutions Regulatory Authority
NPLs	Non-Performing Loans
ROAA	Return on Average Assets
ROE	Return on Equity
S&P	Global Ratings (S&P)
SACU	Southern African Customs Union
SARB	South African Reserve Bank
SOEs	State Owned Enterprises
WEO	World Economic Outlook

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The May 2022 issue of the Financial Stability Report (FSR) was prepared by the Bank of Botswana (the Bank) in collaboration with the Ministry of Finance (MoF), the Non-Bank Financial Institutions Regulatory Authority (NBFIRA), the Financial Intelligence Agency (FIA) and the Botswana Stock Exchange Limited (BSEL). The Report was approved for publication by the Financial Stability Council (FSC), a multi-agency body launched in 2019 to collaborate and exchange information on financial stability issues affecting Botswana's financial system. The FSC comprises Chief Executive Officers from MoF, the Bank, NBFIRA and FIA. These Authorities have signed a Memorandum of Understanding (MoU) for the purpose of information sharing, cooperation, and communication in the implementation of macroprudential policy for Botswana. BSEL is an observer member.

REPUBLIC OF BOTSWANA
MINISTRY OF FINANCE AND ECONOMIC DEVELOPMENT

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PREFACE

Purpose of the Report

The Financial Stability Report (FSR) provides an assessment of the vulnerabilities to the stability and resilience of the Botswana financial system by the Financial Stability Council (FSC). The Report provides analytical and performance updates for the financial sector and its impact on economic activity and welfare; encourages public discourse and engagement on financial stability issues; and helps provide information that major participants in the Botswana financial industry and elsewhere may use as input into their own financial risk assessment processes. The FSR is published twice a year (that is May and October) following discussion and approval at the FSC meetings.

Macroprudential Policy Framework

The primary objective of the macroprudential policy framework is to limit systemic risk and its transmission to the broader economy. This is predicated on the observation, and understanding, that the financial system is interconnected and vulnerable to contagion risk, with the result that crises emanating from the financial sector can spill-over rapidly to the real economy. At the same time, sectoral or broader economic weaknesses could adversely affect the financial system and trigger instability or cause a systemic financial crisis. In turn, this can cause widespread disruption to the provision of financial services, with serious negative consequences for macroeconomic stability and the real economy.

In order to limit systemic and spill-over or contagion risks, financial sector regulators pursue a variety of key intermediate objectives, among others: minimising and mitigating excessive credit growth and leverage; mitigating and preventing significant maturity mismatches and market illiquidity; controlling structural vulnerabilities in the financial system that arise through interlinkages; limiting direct and indirect exposure concentrations from domestic systemically important financial institutions (D-SIFIs); reducing the systemic impact of misaligned incentives with a view to reducing moral hazard; monitoring systemic risks from activities outside the banking system and implementing appropriate policy responses to contain such risks; and strengthening the resilience of the financial system and related infrastructure to mitigate aggregate shocks.

Given the structure of the Botswana economy, the macroprudential policy framework views the external sector vulnerabilities of the domestic economy, through trade shocks and capital outflows, as having the greatest potential for elevated financial stability risks. In addition, the COVID-19 pandemic and the necessary disease containment measures elevated the risk of a macroeconomic shock, arising out of the depressed global diamond market and disruption of the tourism and related hospitality industries, for most of 2020 though improvements were noted in the first half of 2021. The FSR provides an analysis of these vulnerabilities – where they persist – their interaction, as well as the potential impact and response to spill overs from regional and global financial stability developments and trends. Financial soundness and macroeconomic indicators are used to assess risks to and within the financial system. Relevant and appropriate policy instruments and tools are available for use as intervention measures during periods of financial instability. The instruments and policy tools would be adjusted accordingly and timeously to mitigate the envisaged threats. Macroprudential interventions in this regard would be communicated through periodic circular issued, by the FSC.

Decision-making process

The FSC of Botswana, a multi-agency body, was established to, among others, collaborate and share information on policy and other related issues on strengthening the financial system and making it more robust, in order to mitigate financial stability risks, and take prompt action in response to a perceived build-up of systemic risks; ensure a coordinated response to financial stability issues that may require cross-agency collaboration; request information from any financial institution, exchange information on financial stability issues, and communicate systemic risk warnings.

The FSC is not a statutory body; rather it is a coordinating and cooperation mechanism. It is the responsibility of the respective entities to ensure that relevant macroprudential instruments are timeously activated to combat vulnerabilities, with a view to maintaining long-term financial stability.

The FSC comprises Chief Executive Officers of the Ministry of Finance (MoF), the Bank of Botswana (Bank), Non-Bank Financial Institutions Regulatory Authority (NBFIRA) and the Financial Intelligence Agency (FIA). The Botswana Stock Exchange Limited (BSEL) is an observer member. The FSC is chaired by the Governor, and the Bank acts as the secretariat. The work of the FSC is governed by a memorandum of understanding (MoU), which underscores the FSC's commitment to ensuring a stable and resilient domestic financial system.

Announcement of macroprudential policy decisions

Proceedings of the FSC are communicated through a Press Release, shortly after a Council meeting, to inform the public of the discussions and conclusions regarding the stability of the domestic financial system. The Press Release further highlights the key risks in the financial system and recommendations to address such vulnerabilities. Policy decisions are communicated through a circular to all affected financial institutions. The circular provides a brief description that links the identified risk with the intermediate objective and explains the manner in which measures taken are expected to mitigate the risk.

1. EXECUTIVE SUMMARY

1.1 **Risks to global financial stability associated with the COVID-19 pandemic have thus far been contained, in an environment of accommodative monetary policy and expansionary fiscal policy measures as well as the re-opening of economies.** However, the Global Financial Stability Report (GFSR) of April 2022 notes the tightening of global financial conditions, as policy interest rates are being raised, and the risks of lower global economic growth have increased following the outbreak of the Russia-Ukraine war. The war has dampened positive expectations of economic recovery from the COVID-19 pandemic, with the April 2022 International Monetary Fund (IMF) World Economic Outlook (WEO) projecting a slowdown in global economic growth since the last WEO forecast in January 2022. Global output growth forecast for 2022 and 2023 has been reduced from 4.4 percent and 3.8 percent, respectively, to 3.6 percent for both years. The war has heighted expectations of a sharp increase in commodity prices, and thus complicating policy trade-off between safeguarding economic recovery and containing inflation. Meanwhile, new war-related vulnerabilities could interact with existing vulnerabilities built up during the pandemic, therefore, accentuating the potential to destabilise the global financial system. As such, there is need for orderly and data dependent policy calibration to manage market expectations, support the recovery, while containing risks to global financial stability.

1.2 **Botswana's financial system is resilient and continues to perform the expected function of financing other sectors of the economy, given the strong capital and liquidity position, profitability, as well as an enabling and effective regulatory environment.** Notably, there is no evidence of excessive and uncontrolled credit growth; the continuing fall in excess market liquidity, due to persistent foreign exchange outflows, is likely to be moderate, going forward, following improvements in diamonds sales; asset prices have remained generally stable since the October 2021 FSR; and the risk of contagion between banks and non-bank financial intermediaries (NBFIs) remain elevated but is moderated by effective prudential regulation and supervision together with strong liquidity and capital positions across the financial system. In addition, the results of the bank stress test exercise suggest some degree of resilience even though this could be weakened by a delayed recovery. The insurance and pensions sectors are also solvent and liquid, although escalating claims associated with COVID-19 related deaths continue to challenge profitability in the insurance business. There is also some notable recovery in the domestic capital market, while financial market infrastructures remain stable and robust thus, promoting domestic financial stability. That notwithstanding, there are emerging risks pertaining to, among others, the consequences of the Russia-Ukraine war; exposure to cyber threats due to increasing usage of technology; uncertain employment prospects as businesses restructure and hence, possible increase in loan repayment defaults, pension withdrawals and early redemption of insurance policies.

1.3 **The macroeconomic environment remains conducive for financial stability despite sovereign vulnerabilities (i.e., reduced fiscal and external buffers) due to the current depressed global economic environment combined with long-term structural trends.** Over the twelve months to December 2021, the domestic economy expanded by 11.4 percent, compared to a contraction of 8.7 percent in the same period in 2020[1]. Looking ahead, real GDP is projected to expand by 4.3 percent and 4.2 percent in 2022 and 2023, respectively. The prevailing accommodative monetary conditions, reforms to further improve the business environment, Government interventions against COVID-19, including vaccine roll-out to the productive population, implementation of the Economic Recovery and Transformation Plan (ERTP) and the Industry Support Facility (ISF) are key inputs in the growth projections for 2021 and beyond. The domestic macroeconomic environment will, however, continue to be shaped by the economic and price effects of the Russia-Ukraine war, COVID-19 profile and related containment measures and associated supply disruptions.

1.4 **Domestic credit growth remains moderate and commensurate with the rate of increase in GDP, thus posing minimal risk to financial stability.** Commercial bank credit grew by 6 percent to P69.6 billion in the year to March 2022, higher than the 1.6 percent growth in the corresponding period in 2021. The growth in credit was mainly attributable to the 6 percent increase in lending to households that was driven by unsecured lending. Commercial bank credit continued to be dominated by household loans, which constituted 66 percent of total loans during the period under review. Household debt also dominates credit granted by the NBFI sector, although the level of household exposure in the sector remains relatively low compared to

[1] According to Statistics Botswana, real GDP registered a year-on-year increase of 5.6 percent in the fourth quarter of 2021.

that of commercial banks[2]. The level of household indebtedness in Botswana is, however, considered low by international standards, at 23.4 percent of GDP in 2021, compared to, for example, 41 percent for South Africa in 2020[3]. The ratio of non-performing loans (NPLs) to total loans remained modest at 4.6 percent and 4.2 percent in December 2021 and March 2022, respectively. The 2021 Household Indebtedness Survey indicates that household debt poses minimal risks to financial stability (Box 3.3). To maintain low to modest NPLs and help vulnerable groups in the context of COVID-19 induced economic disturbances, there is need to keep in place targeted support to illiquid but solvent firms and affected households and make the support state-contingent or conditional to reduce moral hazard[4]. Overall, there is no indication of excessive and rapid credit growth that could threaten the stability of the financial system.

1.5 **Average daily market liquidity in the banking system declined to P3.7 billion in April 2022 from P4.7 billion in March 2022, driven largely by foreign exchange outflows.[5]** Excess market liquidity in the banking sector has generally trended downwards since the outbreak of COVID-19 mainly due to net foreign exchange outflows because of dampened trade, payments for external obligations, as well as settlement of some Government bonds. Nonetheless, banks still maintained a healthy liquidity position, with a liquidity ratio of 16.6 percent in March 2022, which is above the statutory requirement of 10 percent. Therefore, banks had scope to upscale the financing of the real economy without undue prudential liquidity constraints.

1.6 **The existing macro-financial interlinkages between banks, non-bank financial intermediaries (NBFIs), the non-financial sector (Government, corporates and households) and the external sector remain extensive and strong and pose a risk of contagion.** The strong interconnectedness between the banking system and NBFIs, as well as the non-financial sector and the external sector pose a risk of contagion, where a weakness in one of the elements of the financial system cascades to others in the domestic financial system. Also, most of the retail and household loans have credit life protection, mortgage repayment policies and retrenchment cover policies provided by insurance companies, effectively shifting banking risks to the insurance sector. Nevertheless, effective regulation and supervision of the financial system as well as proper governance and accountability structures moderate the risk.

1.7 **Risks from anti-money laundering, combating the financing of terrorism and countering proliferation financing (AML/CFT/CPF) deficiencies are expected to moderate following the removal of Botswana from the Financial Action Task Force (FATF) grey list and the European Union's list of high-risk third countries.** The FATF Plenary meeting of October 19, 2021, recognised that the country had strengthened its AML/CFT/CPF regime and had addressed the strategic deficiencies that FATF identified in October 2018. Consequently, FATF removed Botswana from the list of countries subject to FATF enhanced monitoring. The European Union also removed the country from the list of high-risk third countries (blacklist) on January 7, 2022, in line with FATF's decision and the Union's assessment[6]. Botswana's exit from the grey and blacklist is expected to boost confidence in the domestic financial system, which is supportive of economic activity.

1.8 **Overall, vulnerabilities that could elevate risks to financial stability have moderated following the opening of the economy.** The heat map (Appendix Chart A1), which is the vulnerability indicator, shows that vulnerabilities subsided because of moderate level of risk to the non-financial sector, relatively stable housing prices and stock market (asset) valuations, low funding costs and sufficient market liquidity. Meanwhile, the risk of contagion in the domestic market remains high due to strong macro financial interlinkages. However, vulnerabilities could be worsened by a delayed recovery due to the Russia-Ukraine war, the resurgence of COVID-19 infections and related containment measures and associated supply disruptions.

2 As at December 31, 2020, household loans from micro-lenders were equivalent to 11 percent of household credit from commercial banks.
3 SARB Financial Stability Review, November 2021.
4 IMF Staff April 2021 Article IV Mission to Botswana.
5 Average daily market liquidity refers to average daily excess liquidity over the duration of a month, where excess liquidity is the sum of commercial banks' overnight deposits at the central bank (current account), money absorbed through Bank of Botswana Certificates, outstanding reverse repos and the Credit Facility.
6 According to Statistics Botswana, real GDP registered a year-on-year increase of 5.6 percent in the fourth quarter of 2021.

2. FINANCIAL STABILITY DEVELOPMENTS AND TRENDS

(a) External Sector Vulnerability Assessment

Botswana susceptible to external sector shocks

2.1 The external sector presents the greatest potential for elevated financial stability risks to the domestic economy due to the country's overdependence on external trade and related revenue, that is, Southern African Customs Union (SACU) receipts and mineral export revenue. This vulnerability to external macroeconomic developments, hence external shocks, is exacerbated by the narrow export base, dominated by diamonds, which poses a threat to balance of payment outcomes. For the twelve months to December 2021, the overall balance of payments was in a cumulative deficit of P2.9 billion, compared to a deficit of P20.1 billion in the year to December 2020. The reduction in the cumulative deficit was mainly due to a reduction in government obligations in the period under review.

External buffers recovering but remain low

2.2 Preliminary data for April 2022 indicate that foreign exchange reserves amounted to P56.5 billion (USD4.7 billion or SDR3.5 billion), a slight increase of 0.4 percent from P56.3 billion (USD 5.2 billion and SDR3.6 billion) in April 2021. The external balances were still equivalent to 9.1 months of import cover of goods and services and remain lower than the country's traditional fiscal and external buffer position.[7]

(b) Global Financial Stability Trends

Global financial conditions tighten

2.3 The IMF GFSR of April 2022 indicates that global financial conditions have tightened and downside risks to the global economic outlook have increased following the Russian invasion of Ukraine. Global growth prospects have been revised downwards as a result of the war, with the global economy expected to grow by 3.6 percent in 2022 and 2023 from a January forecast of 4.4 percent and 3.8 percent for the respective years (April 2022 WEO). These new risks have added to existing vulnerabilities built up during the pandemic, therefore, accentuating the potential to destabilise the global financial system. Specifically, the Apri 2022 GFSR points to a rise in financial stability risks, although, no global systemic event affecting financial institutions or markets has materialised. Sudden repricing of risk resulting from an intensification of the war and associated escalation of sanctions on Russia could, however, be a source of risk to financial stability, especially if it results in asset price increases.

2.4 Moreover, the adverse economic and price raising effects of the war further complicate the policy trade-off between safeguarding economic recovery and containing inflation. This requires a balance between containing the build-up of vulnerabilities, avoiding procyclicality measures, while pursuing monetary policy normalization and limiting fiscal space.

Risks from crypto assets and climate change considered minimal in the domestic market

2.5 Recent global policy discussions are considering the threat to financial stability arising from use of crypto assets and evident adverse climate change. Meanwhile, in Botswana, the crypto asset market is considered insignificant. The Bank of Botswana, however, recognises the potential for pervasive and significant effect of the crypto assets business on its functions and mandates and, in general, the broader financial sector in Botswana. Hence, a Virtual Assets Act 2022 was enacted to regulate trade in virtual assets. On climate change, no catastrophic climate events have been observed to be considered as posing any threat to domestic financial stability. Developments in these subject matters will continue to be monitored.

(c) Regional Financial Stability Trends

The South African financial sector remains resilient

2.6 The South African Reserve Bank (SARB) Financial Stability Review (2nd Edition 2021) indicates that the impact of COVID-19 and the measures taken to contain it have exacerbated pre-existing economic and financial vulnerabilities in South Africa.[8] The non-financial sector continues to display financial stress, driven by historically high levels of debt relative to income. Nonetheless, the financial sector has demonstrated some resilience to the COVID-19 pandemic owing to adequate solvency and liquidity buffers, especially in the insurance and banking sectors. The SARB 2021

[7] For example, the country has maintained an average of 20.5 months of import cover over the 25-year period since 1997.

[8] SARB (2021), Financial Stability Review, Second Edition.

Common Scenario Stress Test (CSST) of the six banks designated as systemically important financial institutions (SIFIs) further pointed to a resilient banking system that could withstand an unprecedented adverse scenario.

War compounds risks in Sub-Saharan Africa Region

2.7 The April 2022 WEO estimates that economic output in Sub-Saharan Africa (SSA) is estimated to have grown by 4.5 percent in 2021. The anticipated improvement in 2021 largely reflects the expected increase in commodity prices that outweighs the COVID-19 related effects on the regional economy. Nonetheless, the economic and price effects of the ongoing Russia-Ukraine war have had far reaching consequences on the region that is already faced with limited policy space to respond, and weakening economic growth prospects for 2022. The increasing burden from rising commodity prices adds new vulnerabilities, especially for commodity-importing countries, to already existing strains relating to overwhelmed health systems due the COVID-19 pandemic, climate change, security risks as well as potential reversal of capital flows as advanced economies begin to tighten their monetary policy positions (April 2022 WEO). The IMF estimates the two largest economies in the region, Nigeria and South Africa, to have grown by 3.6 percent and 4.9 percent, respectively, in 2021.

2.8 For South Africa, the IMF forecasts that the economy will grow by 1.9 percent and 1.4 percent in 2022 and 2023, respectively. The SARB is, however, more optimistic with growth prospects of 4.9 percent for 2021 and 2 percent in 2022 before decelerating to 1.9 percent in 2023 and 2024.

3. DOMESTIC VULNERABILITY ASSESMENT

(a) Sovereign Vulnerabilities

Positive macroeconomic prospects for the domestic economy

3.1 The domestic macroeconomic environment remains conducive for financial stability despite sovereign vulnerabilities (i.e., reduced fiscal and external buffers) due to the current depressed global economic environment combined with long-term structural trends (Table A1, Appendix). GDP expanded by 11.4 percent in 2021, compared to a contraction of 8.7 percent in in 2020. The domestic economy is projected to grow by 4.3 percent and 4.2 percent in 2022 and 2023, respectively. The domestic macroeconomic environment will, however, continue to be shaped by the economic and price effects of the Russia-Ukraine war, COVID-19 profile and related containment measures and associated supply disruptions. The prevailing tight global financial conditions, which translate into higher interest rates and, therefore, reduced access to credit and the likelihood of higher credit default risk, could spill over and test the resilience of the domestic financial system.

Fiscal buffers reduced mainly on account of underperformance of mineral revenue

3.2 The budget outturn for the eleven months into 2021/22 fiscal year shows a budget surplus of P995.3 million; better than the revised expected budget deficit of P10.2 billion (5.1 percent of GDP) and the original budget deficit of P6 billion. However, it is worth noting that the higher revised deficit resulted from a combination of a supplementary recurrent budget that was channelled towards the containment of COVID-19, and lower revenue (than projected in the original budget), mainly due to the underperformance of mineral revenues. However, the current budget surplus is supported by strong revenue performance (97.3 percent of revised budget) as well as under-performance of expenditure and lending which are at 82.5 percent of the revised budget. Development spending is much lower at 67 percent of the revised development budget. This may be a signal of poor implementation, bureaucratic bottlenecks and/or low capacity to undertake planned projects meant to pursue a policy mix that supports growth and promotes economic, export and revenue diversification. This may therefore not augur well for retaining fiscal stability.

Government borrowing has increased but still below statutory limit for both domestic and external debt

3.3 Government debt and guarantees increased to P37.2 billion in December 2021 from P32.3 billion in December 2020 (22.6 percent of GDP in December 2021 compared to 21.5 percent of GDP in December 2020). Total domestic borrowing and guarantees amounted to P25.1 billion (11.7 percent of GDP) in December 2021; substantially below the statutory domestic borrowing limit of 20 percent. External debt is estimated at 10.9 percent of GDP in the same period, which is also below the 20 percent threshold for Botswana. Meanwhile, it is expected that the fiscal impact of the COVID-19 pandemic will be felt until the 2022/2023 fiscal year. The resultant high budget deficits imply a substantial funding requirement to stimulate economic activity amid the COVID-19 pandemic and bolster the economy's resilience to future shocks, which is being met through domestic government bond issuance, as well as external borrowing. During the second half of 2021, Government secured a USD250 million (P2.8 billion) loan under the Programmatic Economic Resilience and Green Recovery Development Policy Loan, International Bank for Reconstruction and Development (IBRD), for financing of economic recovery.

3.4 The country's long-term borrowing costs are likely to be positively affected by the upgrade from the 'negative' to 'stable' outlook conferred by S&P Global Ratings (S&P) in September 2021. The "stable" outlook is on the backdrop of the anticipated economic recovery, which is to be driven by the expected strong recovery in the diamond market which, in turn, should result in a substantial improvement in performance of the domestic fiscal and external sector. The rating agency (S&P) also affirmed the sovereign credit ratings for long and short term foreign and domestic currency at "BBB+/A-2". The ratings are underpinned and supported by the country's robust and predictable institutional and monetary policy frameworks; modest net general government debt levels and relatively strong net external position; all of which support durable macroeconomic stability.

(b) Credit Growth and Leverage

Commercial Banks

Moderate growth in overall commercial bank credit

3.5 Commercial bank credit increased by 6 percent annually in March 2022, higher than the 1.6 percent growth in the corresponding period in 2021. The higher growth in commercial bank credit was due to a rebound in the growth of business credit and acceleration in growth of household credit over the review period (Table 3.1). Household credit increased by 6 percent to P45.9 billion in March 2022, from P43.3 billion in March 2021, on the back of an increase of 7.2 percent in other loans. Business loans also increased by 6 percent over the period under review, due to an increase in credit to mining, finance and real estate sectors. The share of business and household credit to total credit remained the same at 34 percent and 66 percent in March 2021 and March 2022, respectively. Relative to GDP, total credit grew steadily, at an average rate of 12.4 percent between 2010 and 2021. As such, credit growth is in line with its long-term trend and thus not likely to overheat the economy (Box 3.1). In this context, there is scope for increased, disciplined, and prudent credit extension to support economic activity.

Banks adequately leveraged and capitalised

3.6 Commercial banks have strong capital positions, with a leverage ratio of 8.2 percent in March 2022 (March 2021:8.9 percent). The industry's average capital adequacy ratio was 19.4 percent over the same period indicating the sector's ability to withstand shocks as well as resilience to unexpected losses (Table 3.8). The industry's strong capital base was further augmented by the modest level of NPLs to total loans ratio of 4.2 percent in March 2022 (4.4 percent in March 2021).

Table 3.1: Sectoral Distribution of Commercial Bank Loans

	2020Q2		2020Q3		2020Q4		2021Q1		2021Q2		2021Q3		2021Q4		2022Q1	
	Percent of GDP	Percent of Total	Percent of GDP)	Percent of Total	Percent of GDP	Percent of Total	Percent of GDP	Percent of Total	Percent of GDP	Percent of Total	Percent of GDP)	Percent of Total	Percent of GDP	Percent of Total	Percent of GDP	Percent of Total
Business	**13.6**	**36.6**	**13.1**	**35.2**	**13.1**	**34.6**	**12.8**	**34.0**	**12.5**	**34.5**	**12.5**	**34.6**	**11.9**	**33.8**	**23 661**	**34.0**
Parastatals	1.3	9.7	0.9	6.8	1.0	7.3	0.8	6.1	1.0	8.0	1.0	8.2	0.7	6.0	1 391	5.9
Agriculture	0.8	5.8	0.8	6.2	0.8	5.8	0.8	5.9	0.7	5.5	0.7	5.3	0.7	5.6	1 337	5.7
Mining	0.4	2.7	0.4	2.8	0.3	2.2	0.2	1.7	0.3	2.2	0.3	2.1	0.2	1.3	522	2.2
Manufacturing	0.8	6.1	1.0	7.4	0.9	7.0	0.9	6.8	0.8	6.5	0.9	7.0	0.8	6.7	1 428	6
Construction	0.6	4.5	0.6	4.6	0.5	4.1	0.5	4.0	0.5	4.0	0.5	3.8	0.5	3.9	881	3.7
Trade	2.9	21.6	2.7	20.6	2.8	21.4	2.9	22.3	2.4	19.6	2.5	20.0	2.5	20.6	5 077	21.5
Transport[2]	0.3	2.5	0.3	2.6	0.3	2.5	0.3	2.4	0.3	2.0	0.3	2.1	0.2	1.9	509	2.2
Finance[3]	2.9	21.6	2.8	21.6	3.1	23.7	3.2	24.9	3.4	27.1	3.3	26.6	3.2	26.9	6 538	27.8
Real Estate	2.6	19.1	2.7	20.7	2.6	19.8	2.5	19.6	2.4	18.9	2.3	18.6	2.5	20.8	4 898	27.6
Electricity and Water	0.1	0.4	0.1	0.4	0.0	0.4	0.0	0.3	0.0	0.3	0.0	0.3	0.0	0.2	67	0.3
Other[4]	0.8	6.0	0.8	6.2	0.7	5.7	0.8	5.9	0.7	5.9	0.7	5.9	0.7	6.4	851	3.6
Households	**23.5**	**63.4**	**24.2**	**64.8**	**24.8**	**65.4**	24.9	**66.0**	**23.7**	**65.5**	**23.6**	**65.4**	**23.4**	**66.2**	**45 946**	**66.0**
Unsecured Lending	16.6	70.6	17.1	70.8	17.8	71.5	17.9	71.8	17.1	72.4	17.1	72.5	16.9	72.5	33 332	72.5
Motor Vehicle	1.2	4.9	1.2	4.9	1.2	4.9	1.2	4.8	1.1	4.6	1.1	4.5	1.0	4.4	2 016	4.4
Mortgage	5.8	24.5	5.9	24.3	5.9	23.6	5.8	23.3	5.4	23.0	5.4	22.9	5.4	23.1	10 598	23.1
Total Commercial Bank Credit	**37.1**		**37.3**		**38.0**		**37.8**		**36.1**		**36.1**		**35.3**		**69 607**	

Source: Commercial Banks

[1] Sectoral contributions are calculated as percentage of total commercial banks loan, and subsector contributions are calculated as percentage of sector loans.

[2] Transport and Communications.

[3] Finance and Business Services.

[4] Includes non-resident businesses.

Credit to the Household Sector

The significant share of unsecured loans has the potential to cause household financial distress

3.7 Household credit grew by 6 percent in the twelve months to March 2022, lower than the 6.3 percent growth recorded in the year to March 2021 (Chart 3.1). Credit to households continues to dominate total commercial bank credit, at P45.9 billion (66 percent) in March 2022 and was mostly concentrated in unsecured lending (72.5 percent). The proportion of unsecured loans to total credit remains higher than the 24.4 percent and 30.8 percent for South Africa and Namibia, respectively[9]. The significant share of unsecured loans and advances has the potential to cause household financial distress, given the inherently expensive nature of such credit[10]. Therefore, households are vulnerable to sudden and sharp tightening of financial conditions.

Households have increased borrowing capacity and ability to repay

3.8 Household debt as a proportion of household income is estimated at 45 percent in the fourth quarter of 2021, a decrease from the 58.6 percent in the same period in 2020[11] (Chart 3.2). This trend implies increasing borrowing capacity and ability to repay, which remains relatively strong when compared to the 77.4 percent and 75 percent for Namibia and South Africa, respectively[12]. The ratio of household NPLs to total household credit was 3.2 percent in March 2022, a decrease from 3.5 percent in March 2021 and significantly better than the industry average of 4.2 percent in March 2022 (Chart 3.2).

3.9 Moreover, households are net savers when their non-discretionary contractual pension savings are included (Table 3.2). Although pension assets may not immediately alleviate short-term cashflow constraints or meet immediate financial needs, such assets may improve the long-term financial welfare of households and, in general, underpin wealth creation and financial security for retirees.

Moderate demand for credit in 2021

3.10 The 2021 Household Indebtedness Survey indicates that, generally, credit providers viewed the outlook for demand for credit as moderate in 2021, because of the COVID-19 pandemic (Box 3.3). A large percentage of banks (90.9 percent) had an unfavourable view of credit supply conditions (or unwillingness to supply credit) in 2020 compared to 55 percent for 2021. The results of the survey also revealed that a large proportion of credit continues to be extended to public sector employees who are deemed to have higher job security. As such, the quality of the loan book of the household segment, for the largest credit provider (banks), was relatively good.

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9 SARB Financial Stability Review – Second Edition 2020 and Namibia FSR – April 2021.

10 It is worth noting that for a given quantum of credit, debt servicing requirements (total monthly repayments) are much higher for short-term (unsecured) credit than for long-term (secured) credit, due to the higher (small) interest rates for short term (long-term) credit, and the differing proportion of the principal that has to be repaid each period.

11 The measure of income used is the compensation of employees (maximum quarterly earnings), obtained from the Quarterly Multi Topic Survey by Statistics Botswana. Data for 2021 is not available and was proxied with data for the fourth quarter of 2020.

12 Namibia Financial Stability Report – April 2021 and SARB Financial Stability Review – First Edition 2021.

Box 3.1: Tools for Assessing Excessive Credit Growth

Background

One of the objectives of macroprudential policy is to mitigate systemic financial stability risks, which are sometimes precipitated by excessive credit growth. Credit growth that is out of line with trends in economic growth often leads to the build-up of systemic risks to financial stability, which may trigger banking crises. It is, therefore, important to monitor growth in credit. In this regard, the Bank is continually developing and adopting means and tools of assessing whether or not credit growth is excessive. Currently, the Bank measures excessive credit growth based on the Credit-to-GDP Gap and indicative range for credit growth.

The Indicative Range for Credit Growth

The Bank also calculates an indicative range for an acceptable level of credit growth (i.e., credit growth, which is not excessive, and unlikely to lead to the buildup of systemic risks to financial stability) by taking into account the inflation objective range, the projected GDP growth rate, a measure of financial deepening and expert judgement. This tool is an adaptation of the desired objective range for credit growth used by the Bank during the period when it was targeting credit growth. In 2004, the objective range was calculated as follows:

Assuming (in percent):	
Inflation objective range	3.0 – 4.5
+ GDP growth rate	4.0 – 5.0
+ Financial deepening	2.0 – 2.0
= Credit Growth Rate Target	9.0 – 11.5

Given the current 3 – 6 percent inflation objective range, and assuming a GDP growth rate of 4 – 5 percent (excluding COVID-19 effects – long term trend) for the period 2021 to 2023, and with the same values for financial deepening, the indicative range within which credit growth would not be considered excessive would be 9 – 13 percent. Credit growth was 6 percent in March 2022, and higher than the 1.6 percent in March 2021, thus below the indicative range and not posing any threat to the stability of the financial system.

The Credit-to-GDP Gap

The Bank for International Settlements (BIS) defines the Credit-to-GDP gap (“credit gap”) as the difference between the Credit-to-GDP ratio and its long-term trend. Borio and Lowe (2002 and 2004) were the first to document the Credit-to-GDP gap as a useful tool for early warning indicator for banking crises. This finding has been subsequently confirmed for several countries over a long-time span that includes the most recent global financial crisis. A Credit-to-GDP gap that moves significantly above its trend or exceeds some critical threshold (typically 10 percent) portends emerging financial imbalances and risk of financial distress.

Domestic bank credit growth is moderate, as measured by the Credit-to-GDP gap of 0.1 percent, which was below the 10 percent threshold in December 2021 (Chart B3.1a). The low Credit-to-GDP gap reflects room for sustained economic expansion. Furthermore, the gap has been positive since the global financial crisis, mainly reflecting the decline in the rate of GDP growth, which in the main, was due to the overall subdued performance of the mining sector.

Chart B3.1a: Aggregate Credit to GDP Gap

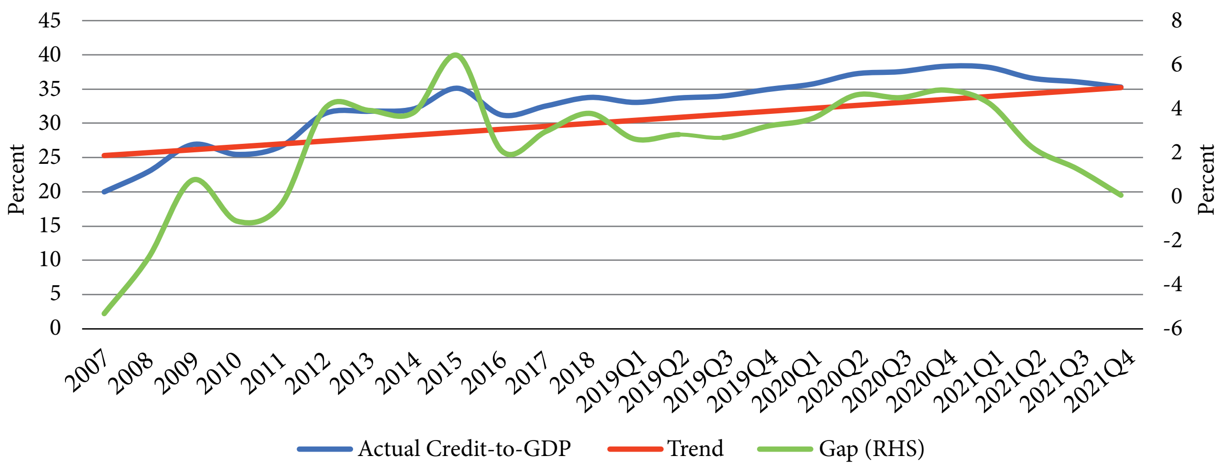


Chart B3.1b: Household Credit to GDP Gap

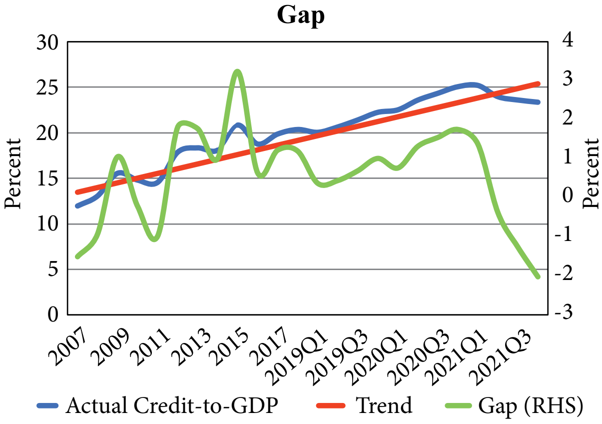
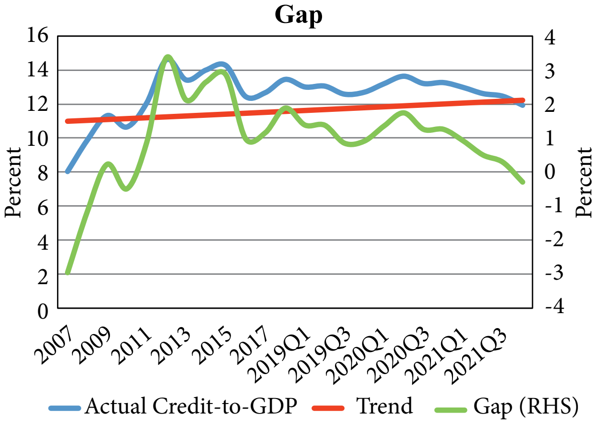
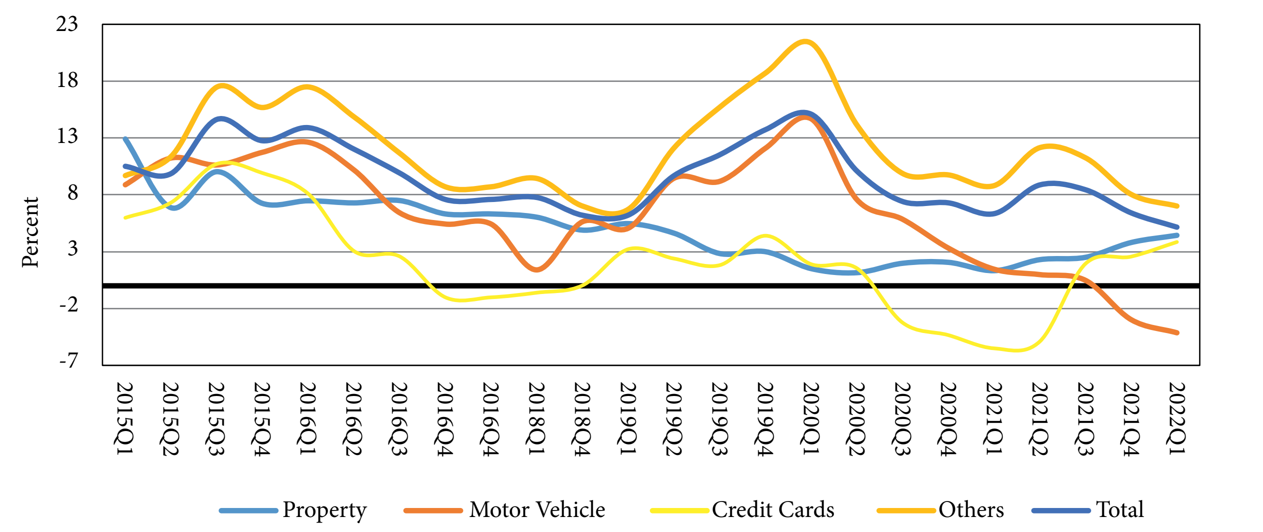


Chart B3.1c : Business Credit to GDP Gap

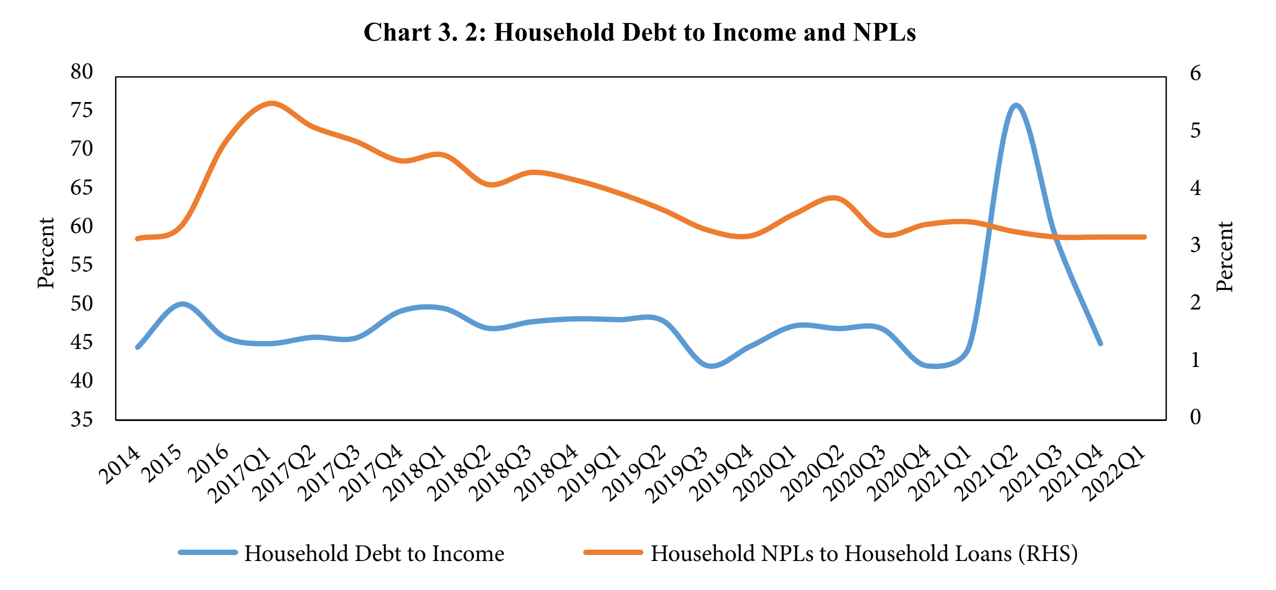


Source: Bank of Botswana

Chart 3.1: Growth in Household Debt (Year-on-Year)



Source: Commercial Banks



Source: Statistics Botswana and Bank of Botswana

Table 3.2: Household Net Wealth

Asset	2019 (P' million)	2020 (P' million)	2021Q2 (P' million)	2021Q3 (P' million)	2021Q4 (P' million)	2022Q1 (P' million)
Retail deposits	15 384.2	16 996.0	18 891.1	18 657.2	19 679.0	18 025
Pensions	93 133.2	105 174.6	109 873.7	114 269.7	*117 549.0*	116 314
Insurance contracts	13 423.6	10 847.6	*11 035.0*	*11 035.0*	*13 423.6*	*13 424*
Mortgage property	9 929.5	10 134.6	10 170.6	10 282.4	10 520.8	2 016
Motor vehicles	2 017.5	2 084.5	2 023.2	2 034.1	2 022.5	10 598
Cattle value	*3 500.0*	*3 500.0*	*3 500.0*	*3 500.0*	*3 500.0*	3 500
Equity investment	178.5	66.2	*42.8*	*42.8*	*42.8*	66
Total assets (a)	134 587.0	151 379.6	161 769.9	162 209.8	166 761.1	16 3943
Total household debt (b)	44 966.5	48 708.0	50 087.0	50 819.1	51 460.7	51 988
Total household net wealth (a) – (b)	**89 620.5**	**102 671.4**	**111 706.3**	**111 414.0**	**115 300.4**	**111 954**

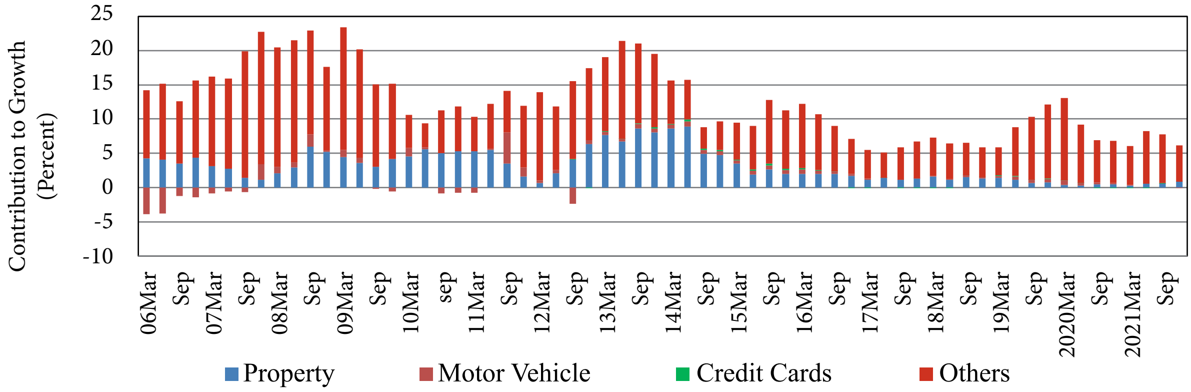
Source: Bank of Botswana, Botswana Stock Exchange Limited and Statistics Botswana
Note: Figures in italics are estimates.

Box 3.2: Household Credit Growth in Botswana

Introduction

Data for Botswana, for the period March 1996 to December 2021 indicates episodes of rapid credit growth during 2008/09; 2013/14; 2016 and 2020, especially for the household sector. The growth in household borrowing was mainly spurred by high economic activity, with real GDP growth of more than 8 percent during those periods. Furthermore, household credit in Botswana is largely driven by unsecured lending (Chart B3.2), followed by property or mortgage financing. A major concern on the rapid increase in the rate of credit growth is the risk of the borrowers defaulting on their loan repayments, which, if widespread, can lead to financial distress.

Chart B3.2 Drivers of Household Credit Demand



Note: Other is unsecured personal loans.

Assessment of Household Borrowing Dynamics in Botswana

The study assessed of household borrowing dynamics in Botswana, in the short run and long run, and the relationship between household credit growth and economic fundamentals. This looked at different stages of the Botswana economy using data from 1996 to 2021. The results indicate that, first, there is a positive relationship between household expenditure and household credit growth in the long run. Second, the relationship between the output gap and credit gap matters only in the short run. Third, an above potential economic performance drives up credit growth, and a positive credit gap signals a credit bubble. That is, household credit growth is pro-cyclical. In turn, the credit bubble predicts periods of economic and/or financial stress. In this context, it is concluded that household credit dynamics follow Minsky's Financial Instability Hypothesis, where periods of prolonged economic tranquility led to households taking unsustainable financial positions that may result in a financial crisis. The evolution of the estimated household credit gap supports this notion, and the fact that household credit moves with consumption in the long run is consistent with the view that households use credit to smooth consumption over their lifetime. However, it must be noted that dynamics in the Botswana economy have not autonomously, or otherwise, led to a collapse of the domestic financial system, nor has Botswana had a financial crisis at any point in the period of assessment.

In the context of the post-COVID-19 recovery period, banks generally lowered their lending appetite at the height of the pandemic in view of elevated credit and economic risks, but there have been signs of improvement in overall lending and borrowing recently. However, the increasing cost of living due to increases in food and oil prices pose a significant income risk for households, and this might result in households not being able to service their debts in the short-to-medium term. Similarly, a sudden and sharp readjustment of policy rates in response to the resulting inflationary pressures could further burden households. Given that households and businesses have generally been recovering from income losses due to economic inactivity in most of 2020, credit risk is adjudged to be elevated in the short-to-medium term.

Conclusion

Household credit growth in Botswana follows a Minskian pattern, where periods of prolonged economic tranquility leads to households borrowing more from the financial system and exposing the system to credit risk shocks associated with potential weakening of economic fundamentals. Botswana's dependence on the global market for diamond sales exposes the financial system to external shocks, which might amplify credit shocks through widespread income losses resulting from low or absence of government spending to support the private sector, and potential employment losses across the mining value chain. This might lead to significant losses for the banking sector, with the potential to translate into a full-blown systemic crisis.

Credit to the Non-Financial Corporate Sector

Corporate sector exposures increase

3.11 Total commercial bank credit to the non- financial corporate sector increased, by 3.9 percent from P20.0 billion in March 2021 to P20.8 billion in March 2022. The proportion of corporate loans to total commercial banks' credit was constant 34 percent in March 2021 and March 2022. Relative to GDP, bank credit to the non-financial corporate sector was 34.6 percent in December 2021 compared to 37.4 percent in December 2020 and remains significantly lower than the 72.5 percent and 107.8 percent for Namibia and South Africa, respectively[13]. This implies there is still room for banks to extend credit to support business activity and, in turn, economic growth.

The corporate sector faced with tough trading conditions

3.12 Selected financial soundness indicators of the non-financial corporates listed on the BSE indicate a corporate sector that faced difficult trading conditions during 2021 (Table 3.3). Corporate leverage increased, with a Debt-to-Equity ratio of 85.2 percent in 2021 from 69.8 percent in 2020. Similarly, the cost-to-income ratio rose from 54.3 percent in 2020 to 74.9 percent in 2021. The significant rise in both the leverage ratio and cost-to-income ratio is a concern for financial stability hence should continue to be monitored. Overall, the soundness of the corporate sector is assessed to pose moderate risk to financial stability in the medium term.

Corporate sector not yet affected by bankruptcies

3.13 The ratio of corporate sector NPLs to total loans was constant at 6.2 percent in March 2022 and March 2021 and remains higher than the banking sector average of 4.2 percent. The number of liquidated companies fell from 11 in 2020 to 7 at the end of November 2021, suggesting that the negative impact of COVID-19 has not yet translated into bankruptcies. That notwithstanding, corporates' profitability declined, as measured by the return on equity (ROE), which fell from 11.6 percent in 2020 to 6.9 percent in 2021. Overall, the financial results of corporates in 2021 may be reflective of the difficult trading environment during COVID-19.

Firms less optimistic about economic activity

3.14 The results of the March 2022 Business Expectations Survey (BES) suggest that firms are less optimistic about business conditions than they were in the previous survey. Overall, businesses expect lower sales, inventories, and profit, as well as reduced capacity utilisation, compared to the December 2021 survey. Furthermore, firms anticipate tight access to credit across all markets. Firms expect cost pressures to be higher in the second quarter of 2022 than in the first quarter of 2022, mainly reflecting the anticipated upward adjustment in fuel prices due to challenges arising from the war in Ukraine. The decline in business confidence among both domestic market-oriented and export-oriented firms is expected to have a negative impact on the domestic economic performance. Meanwhile, firms expect inflation to breach the upper bound of the Bank's 3 - 6 percent objective range in 2022.

[13] https://data.worldbank.org/indicator/FS.AST.PRVT.GD.ZS

Table 3.3: Non-Financial Corporates' Financial Soundness Indicators (Percent)

Ratios	2017	2018	2019	2020	2021
Non-Financial Corporates Credit-to-GDP	10.7	11.2	10.7	12.5	11.0
Cost-to-Income Ratio	60.0	60.3	49.1	54.3	74.9
Total Debt to Equity Ratio (Leverage)	43.1	65.6	66.5	69.8	85.2
Return on Equity	14.1	10.5	13.8	8.9	8.0
Debt Ratio	27.4	39.1	39.5	42.8	47.7
Price/Earnings Ratio (Times)	13.3	11.2	12.4	10.8	-
Dividend Yield	4.4	5.1	4.8	4.1	4.1

Notes: Non-Financial Corporates Credit-to-GDP was calculated using total credit from commercial banks to non-financial corporations.

Credit to the Real Estate Sector

Commercial real estate lending poses limited risks to financial stability

3.15 Credit to the commercial real estate (CRE) segment amounted to P5.2 billion in March 2022, compared to P4.9 billion in March 2021. At these levels, the proportion of commercial real estate loans to total loans is relatively low and has averaged 6.7 percent over the five years to 2021. In March 2022 it was 6.9 percent (Chart 3.3). The CRE sector has maintained relatively good quality assets, with a moderate level of NPLs and limited foreclosures. At 3.9 percent in March 2022, the commercial real estate NPLs ratio was the same as in March 2021. Foreclosed commercial real estate properties represented 0.3 percent of total commercial real estate loans in 2021. As such, domestic CRE lending poses minimal risk to domestic financial stability. There are, however, concerns about concentration (location) risk in the real estate sector, with most loans originating in Gaborone and surrounding areas[14].

Mortgage lending subdued

3.16 In the residential real estate sector, primarily owner-occupied mortgage loans decreased slightly to P13.8 billion in March 2022 from P14.2 billion in March 2021. Residential property loans constituted 26.6 percent of total household credit and 18.1 percent of total credit in March 2022 (Chart 3.4). This development suggests that the level of housing finance is not commensurate with the needed development and growth path to fill the apparent need for housing, as well as the financing gap[15]. Credit to the residential property market in Botswana is lower than in the region, for example, in South Africa and Namibia, residential mortgage loans accounted for 23.6 percent and 40.2 percent of total loans in June 2021 and March 2021, respectively[16]. The low ratio might be reflective of the restrained growth in incomes relative to the increase in residential house prices over the years (possibly reflecting limited housing stock in various categories, or availability of land and prices of building materials).

Mortgage lending standards changing

3.17 Credit risk in the mortgage sub-sector remains low, with commercial banks maintaining moderate Loan-to-Value (LTV) ratios although LTV ratios have reached 105 percent in some isolated cases.[17] The moderate LTV ratios as well as security in the form of property financed limit exposure of banks to mortgage credit upon default. For example, mortgage loans tainted by arrears and/or impaired had worsened to 6.5 percent in December 2021 compared to 6.1 percent in December 2020. Foreclosed residential properties represented 1.5 percent of total residential properties loans in December 2021 compared to 4.9 percent in December 2020.

Residential property prices decline

3.18 According to the latest (2021Q4) Riberry Report, there was continued good demand for both rentals and sales for prime located low-end houses. There has been notable increase in sale transactions although with limited supply for medium to upper end houses. The average residential property price in Botswana decreased by 2 percent to P771 000 in the fourth quarter of 2021 from P788 000 in the third quarter of 2021.

Office space supply outstrips demand

3.19 The Riberry Report points to a weak CRE

14 Bank of Botswana Residential Property Survey Report (2017) and Riberry Property Market Report, 2021 third quarter.

15 Challenges in accessing mortgages viz., land tenure, relatively low average incomes and strict funding requirements have, however, shifted house financing to unsecured personal loans.

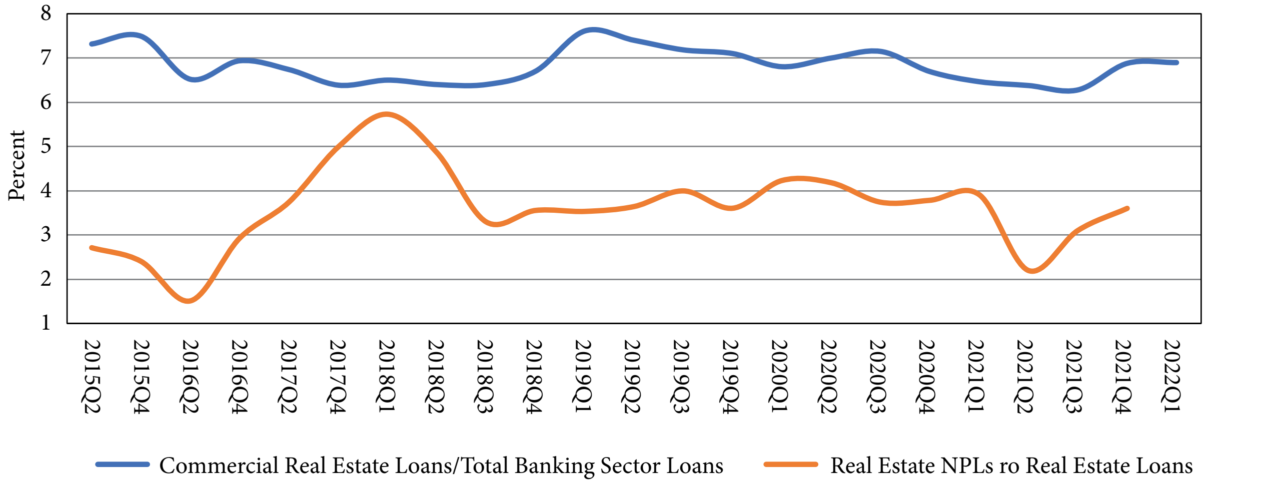
16 SARB Financial Stability Review (2020) and Namibia FSR (April 2020).

17 One commercial bank reported an LTV of 105 percent in the Household Indebtedness Survey.

market and the supply of office space continues to exceed demand. The demand for working space will continue to be negatively affected by working from home arrangements. Nevertheless, vulnerabilities from the real estate sector, relating to the potential increase in NPLs, posed minimal risk to financial stability in the fourth quarter of 2021, but prospective developments require continuous close monitoring and assessment.

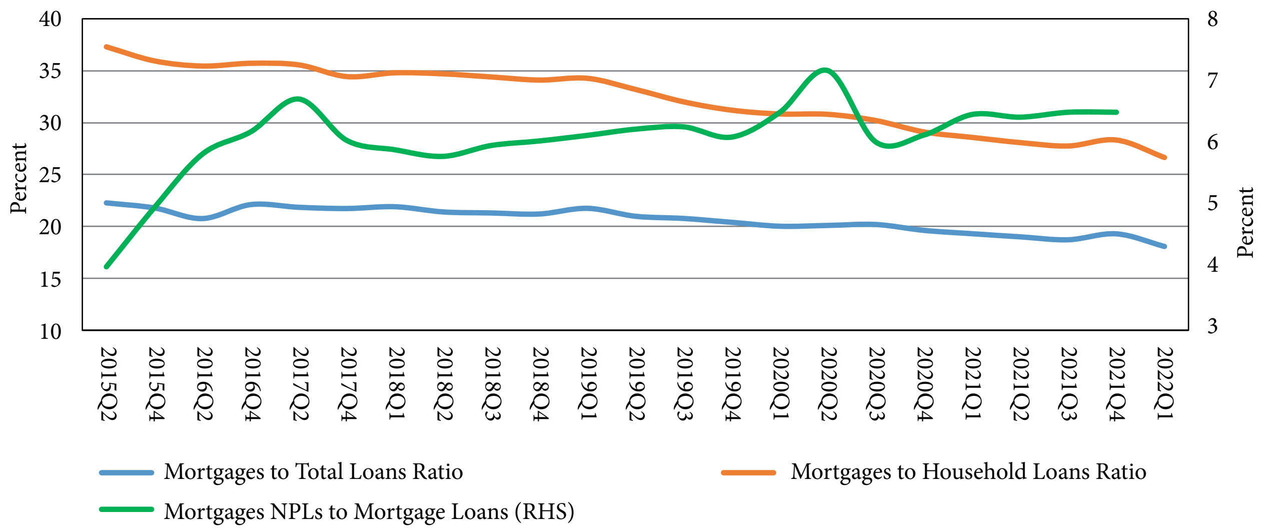
is carried out by insurance companies, micro-lenders and pawnshops, as well as finance and leasing companies. The micro-lending business loan book amounted to approximately P5.0 billion in December 2021. At these levels, the sector accounts for 2.6 percent of GDP and, thus, relatively small to pose any significant financial stability risk. Nonetheless, there are concerns that the sector exposes households to high levels of indebtedness given the high interest rates charged on loans; hence it warrants regular monitoring. Lending by the other NBFIs, which is otherwise referred to as shadow banking, amounted to P31.9 million from Botswana Insurance Holding Limited in December 2021 and was also insignificant to destabilise the domestic financial system.

Chart 3.3: Commercial Real Estate Loans



Source: Bank of Botswana and Commercial Banks
Note: Real estate NPLs to Real Estate Loans Ratio is calculated using commercial banks data only

Chart 3.4: Trend in Mortgages



Source: Bank of Botswana

Developments in the NBFI Sector

Limited credit risk from the NBFI sector

3.20 NBFIs are increasingly playing an important role in financing the real economy through extending loans and capital to households and businesses, as well as providing insurance on assets. Credit extension in the NBFIs sector

NBFIs highly interconnected with the rest of the financial system

3.21 NBFIs have become interconnected with the rest of the financial system through multiple channels, such as deposits held with banks, funding avenues and capital market activities. In March 2022, NBFIs' held a net lending position to commercial banks (deposits held with banks less loans from banks) of P15 billion, a 5.2 percent increase from P14.2 billion reported in March 2021. Similarly, NBFIs have bonds worth about P1.6 billion in the domestic market and an equity market capitalisation of P8.8 billion at the Botswana Stock Exchange. In addition, pension funds and asset management companies hold equity positions in other sectors of the economy through their investment strategies. These interlinkages present a conduit for risk emanating from one sector of the economy to be easily transmitted to other sectors, hence present a potential source of systemic risk. Nevertheless, the risk is moderated by effective prudential regulation and supervision of the domestic financial system.

Escalating claims dent profitability in insurance business

3.22 Escalating claims associated with COVID-19 related deaths continue to reduce profitability in the insurance business. Claims in the insurance sector increased significantly to P2.8 billion in 2021 from P1.9 billion in 2019, while 45 339 policies were terminated in 2021 compared to 37 931 in 2019. As a result, the sector experienced reduced profitability, with the Botswana Insurance Holdings Limited (BIHL), a leading financial services company, recording a 56 percent year-on-year decline in operating profit as at December 31, 2021. NBFIRA continues to monitor NBFIs to ensure compliance and restore financial stability.

Gross insurance premiums increased in 2020

3.23 Gross premium incomes for life insurance companies increased by 5.1 percent from P3.9 billion in 2019 to P4.1 billion in 2020. Insurance assets amounted to P20.6 billion in the second quarter of 2021 compared to P19.9 billion in the second quarter of 2020. In response to the pandemic, some insurers became more innovative in their business offerings, distribution channels and customer service as evidenced by a shift towards investment in online/digital sales platforms. Furthermore, some insurers introduced measures such as flexible payment terms and premium holidays to retain customers. Insurance penetration ratios remained low at 2.9 percent in 2021 (2020: 3.1 percent) but in line with industry trends across Sub-Saharan Africa.

Insurance and pensions sector continue to be solvent and liquid

3.24 The insurance and pension sector continues to be highly solvent with retirement funds having excess assets over liabilities of over P733 million and funding ratio of 100.9 percent in 2021, an indication that member benefits would be settled when they fall due. All life assurance companies maintained adequate capital levels as at December 31, 2020. Life and general insurers leverage ratio was 135.4 percent and 104.5 percent, respectively in 2020. Overall, the risk to domestic financial stability arising from NBFIs is considered low.

Box 3.3: Summary of the 2021 Household Indebtedness Survey

Introduction

In its continued effort to closely monitor the level of household debt in the country, during 2021, the Bank conducted an annual Household Indebtedness Survey (HIS) for 2020. The aim of the survey is to identify structural relationships between households' characteristics and their indebtedness; and determine the extent of vulnerability of the financial system to the household sector. The data analysed in the survey was sourced from commercial banks, statutory banks, microlenders, hire purchase stores and Savings and Credit Co-Operative Societies (SACCOs) using online questionnaire and secondary data.

Summary Findings of the 2021 Household Indebtedness Survey

The main findings of the survey are that COVID-19 related factors affected the supply and demand for credit in 2020, as shown by a large percentage of banks who had an unfavourable view of credit supply conditions (or unwillingness to supply credit) in 2020. As at end of 2020, household debt as a percentage of GDP was 31.7 percent, an increase from 28.4 percent in 2019.

The results also revealed that men tend to borrow more than females, and that the middle-aged population (between 31 years old and 51 years old) tends to take on more debt than other age groups. Furthermore, households earning incomes between P3 001 and P20 000 take on more debt compared to those who earn income outside this range. By type of employment, 59.8 percent of borrowers were Government employees, followed by the private sector (36.9 percent), self-employed (2.7 percent) and unemployed (0.6 percent).

Most of households' credit from banks was channelled towards unsecured personal loans, at 65 percent in December 2020, followed by residential property at 29 percent, and by motor vehicle loans at 4 percent. This is a diverse picture from South Africa and Namibia, where a high percentage of household credit is in the form of mortgages, at 58.4 percent and 69.5 percent, respectively. Notwithstanding, hire-purchases were mostly used for the acquisition of furniture (51.3 percent), followed by home appliances (26.4 percent), and electronic equipment and devices (22.3 percent). Loans from micro-lenders were mostly for personal use on education, renovation of property, acquisition or expansion of business and debt consolidation.

According to the survey, the Debt-to-Income (DTI) ratio for 2020 ranged between 40 percent and 60 percent for banks, 29 percent and 65 percent for microlenders; and 25 percent to 35 percent for hire purchase stores. Evidence from the survey is that the DTI varies from one lender to the other, and households that find themselves with higher DTIs would have a relatively higher financial burden than those at the lower end of the spectrum. During the year under review, the Loan-to-Value (LTV) ranged between 45 percent and 105 percent. The average percentage exposure at risk that is not expected to be recovered in an event of default, as measured by the Loss Given Default, varied considerably across banks, ranging between nil and 98 percent.

In general, banks were not overly concerned by the default rate during 2020, with non-performing loans as a percentage of total household loans averaging 4.5 percent and ranging between 1 percent and 18 percent. However, most microlenders and hire purchase stores indicated that they were concerned about the high default rates during the period under review compared to the prior years. Microlenders attributed the increase in default rates to the economic fallout of COVID-19, which also hindered foreclosure efforts.

Across the banking sector, the total value of scheme loans was approximately P29 billion (out of P48.7 billion of total banking sector household loans) and are paid through deduction from source arrangements. Regarding the entire household portfolio, the percentage of households who serviced their debt directly from their payroll ranged from 35 percent to 100 percent, while those with a direct debit from personal bank accounts ranged from 1.4 percent to 60 percent. Some borrowers service their loans through over-the counter and bank transfers. As for hire-purchase stores, the majority of households (an average of 88 percent) service their debt through in-store payments.

To mitigate risks associated with lending to the household sector, banks engage in extensive credit worthiness checks. Related to that, during the period under the review, about 23 percent of total loan applications were rejected mainly due to, amongst others, mismanagement of personal bank accounts, failure to meet minimum employment period and application of thresholds such as the DTI ratio (reflecting over-indebtedness).

Conclusion

Generally, the survey suggested minimal risks to financial stability posed by the level of household indebtedness in 2020. Credit was largely extended to the clientele that had the most secure jobs and the quality of the household loan book, for the largest credit provider (banks), was relatively good. To that extent, credit extension remains positive for economic activity and welfare enhancement, albeit costly for some categories. However, it is important to mention that the functioning of credit markets was negatively affected by the COVID-19 pandemic as shown by the reluctance by banks to provide credit in 2020.

(c) Liquidity and Funding Risk

Banking Sector

Banks remain liquid despite declining market liquidity

3.25 Since the onset of the COVID-19 pandemic, average excess market liquidity of the banking sector has been trending downwards mainly due to net foreign exchange outflows because of dampened trade, payments for external obligations, as well as settlement of some Government bonds. In April 2022, average market liquidity fell to P3.7 billion from P4.7 billion in March 2022.

The banking sector vulnerable to funding risk arising from a concentrated deposit base

3.26 The banking sector remains vulnerable to funding risk arising from a concentrated deposit base, and the negative effects of the COVID-19 pandemic.

3.27 The banking industry continues to experience high levels of credit intermediation, with a financial intermediation ratio[18] of 82.3 percent in March 2022 (December 2021: 81.7 percent), which is above the 50 – 80 percent desired range. While this level of intermediation ratio could exacerbate maturity mismatches in banks' balance sheets, further amplifying liquidity risk in the sector, it provides for enduring economic growth.

Money and Capital Markets Funding Opportunities

Money market interest rates remain low and in line with accommodative monetary conditions

3.28 Money market interest rates remained low (ranging between 1.14 percent and 3.07 percent) and in line with the Bank's accommodative monetary policy stance. (Chart 3.6). The demand for T-Bills was strong at the last auction (April 2022), with full allotment of P300 million for the 3-month T-Bill and P400 million worth of 6-month T-Bills. However, the government bond market was not equally impressive, resulting in only P87 million allotted out of P500 million offered.

The Bank introduces a new monetary policy rate

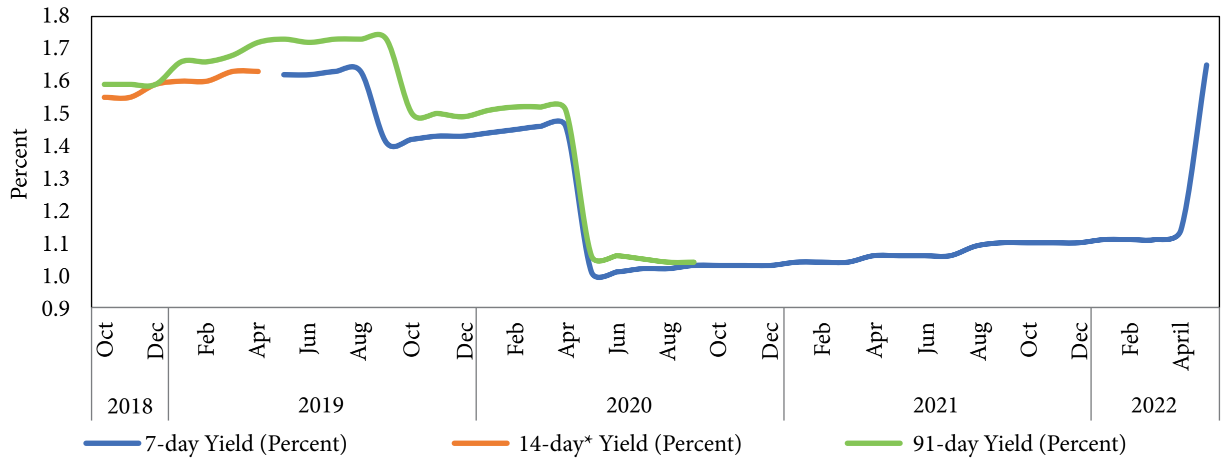
3.29 Monetary policy reforms announced by the Bank in February 2022 came into effect immediately after the April 28, 2022 Monetary Policy Committee meeting. The MPC decided to increase the monetary policy rate (MoPR) by 51 basis points which led to the yield on the 7-day BoBC increasing from 1.14 percent to 1.65 percent.

Large banks continue to dominate interbank lending market

3.30 Interbank activity increased to P8.8 billion in April 2022 from P7.8 billion in March 2022, in response to falling daily market liquidity. Large banks dominated interbank market trades. They accounted for 97.2 percent of total borrowings in April 2022 (December 2021: 92.4 percent) and 68.8 percent (December 2021: 64.5 percent) of total lending.

[18] Measured as a ratio of loans to deposits, the financial intermediation ratio measures the extent to which funds (excess) are availed to those who need them.

Chart 3.5: BoBC Stop-out Yields



NB: The 7-day BoBC started trading in May 2019 following the discontinuation of 14-day BoBC in April 2019.

Source: Bank of Botswana

Note: The bank discontinued the offering of the 91-day BoBCs in October 2020 following the reintroduction of the 3- Month T-Bill, with a view to support the building up of the Government T-Bill market, and in turn, allow for a clear separation between debt management and monetary policy operations

US Dollar Market

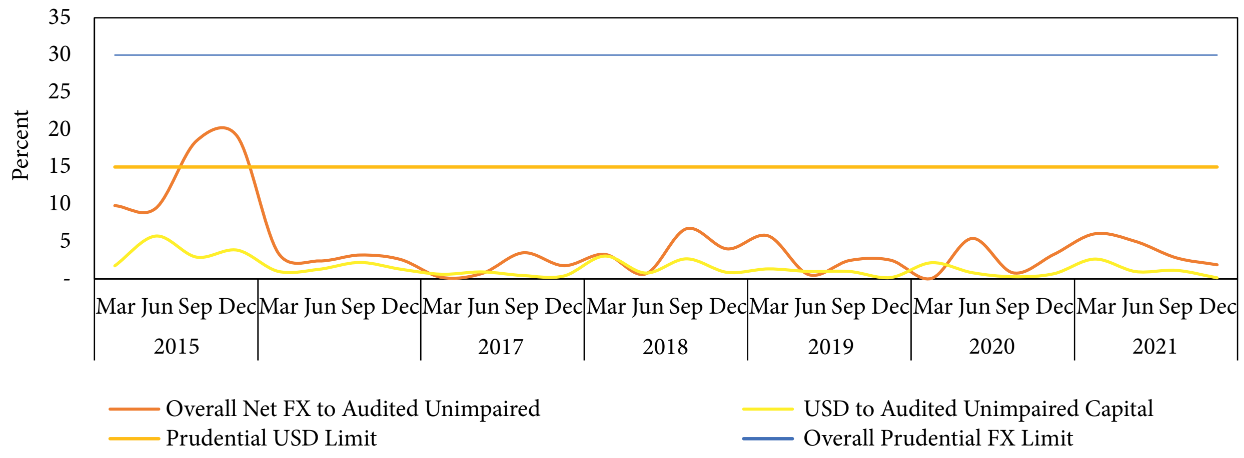
US dollar funding risks remain limited

3.31 Domestic banks' exposure to foreign exchange risk decreased in December 2021. The overall net open position declined from P378 million in September 2021 to P263 million in December 2021, translating to 2 percent of the industry's unimpaired capital (December 2020: 3 percent) and, thus, well within the 30 percent prudential limit (Chart 3.6). In addition, the Pula equivalent overall net exposure of the domestic banking system to the US dollar fell from P90.6 million in December 2020 to P20.2 million in December 2021. The exposure is equivalent to 0.1 percent of the industry's unimpaired capital and, therefore, presents limited vulnerabilities from US dollar funding.

The Pula exchange rate generally stable

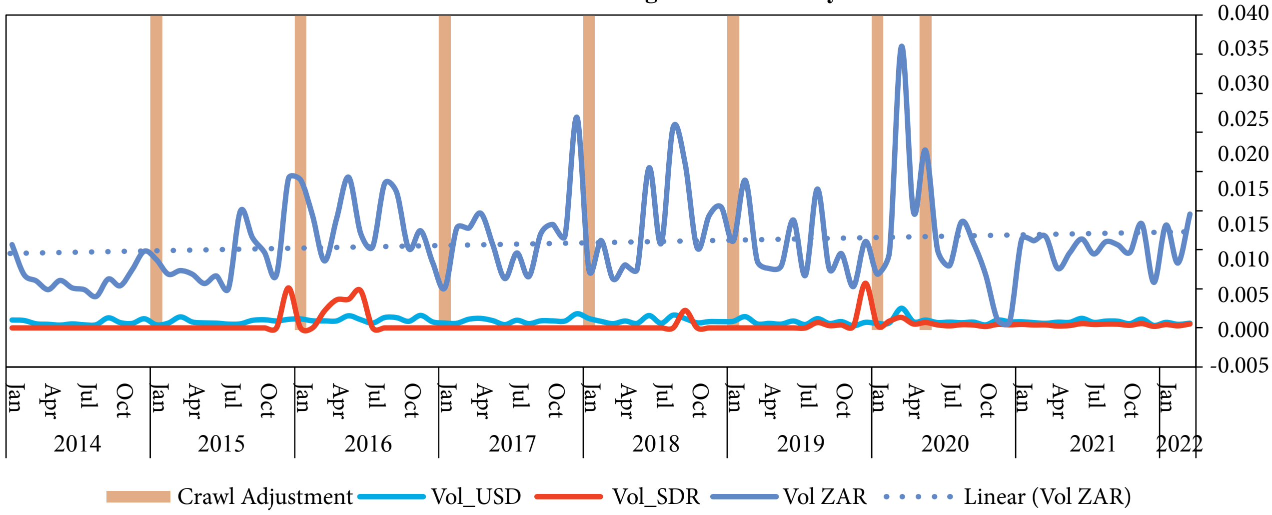
3.32 The exchange rate provides another channel through which adverse developments in international markets could destabilise the domestic financial system. In this sense, a highly volatile exchange rate can increase output volatility and, in turn, become a source of vulnerability. During the twelve-month period to April 2022, the Pula depreciated by 4.3 percent and 0.9 percent against the IMF SDR and South African rand, respectively. The movement of the Pula against the SDR constituent currencies largely reflects the performance of the South African rand against SDR currencies. Notably, in the same review period, the South African rand depreciated by 3.5 percent against the SDR (9.8 percent against the US dollar). The depreciation of the South African rand against major trading currencies was mainly due to the return of severe power cuts and devastating floods in KwaZulu-Natal and the Eastern Cape, which raised concerns over the country's economic outlook. Overall, volatility in the Pula exchange rate has been contained since May 2020 (Chart 3.7), hence presenting limited risks to the domestic financial system and economy.

Chart 3.6: Commercial Banks' Foreign Exchange (FX)



Source: Bank of Botswana and Commercial Banks

Chart 3.7: Exchange Rate Volatility



Source: Bank of Botswana

Stock Market Activity

Stock market capitalisation and liquidity improves

3.33 The total equity market value of domestic listed companies gained 13 percent, year-on-year, to P38.4 billion in March 2022 (2021: P37.2 billion). The gains reflect the overall recovery of the domestic market due to the opening of the economy and the resultant increase in economic activity. In general, the market is showing signs of recovery, with month-on-month increases in market capitalisation, leading to a cumulative gain of P4.6 billion since March 2021.

3.34 Liquidity in the local bourse is also improving, with the liquidity ratio rising to 5.9 percent in March 2022 from 1.7 percent in March 2021(Table 3.4). Prospects for the domestic market are, therefore, becoming increasingly optimistic as economic activity improves.

Stock market volatility rising

3.35 Developments in market capitalisation in the twelve months to December 2021 translated into a stronger performance of the domestic company index (DCI), as it turned around from a gradual decline that started in 2015 (Table 3.4). The losses suffered by the local stock market since 2015 were precipitated by weak economic fundamentals, which partially translated into poor company performance. Corporate governance issues relating to the Choppies Group, delisting of Wilderness Company Limited and Furnmart Limited as well as the COVID-19 pandemic further aggravated losses in the DCI. The DCI recovered to 7010 in 2021, further increasing to 7243 in March

2022, but recorded rising volatility[19] (Chart 3.8) potentially reflecting the inherently risky nature of equity markets. Nonetheless, investor confidence is expected to improve, especially on the back of strong economic prospects for 2022 and beyond.

Digitisation of the capital market may generate cyber related risks

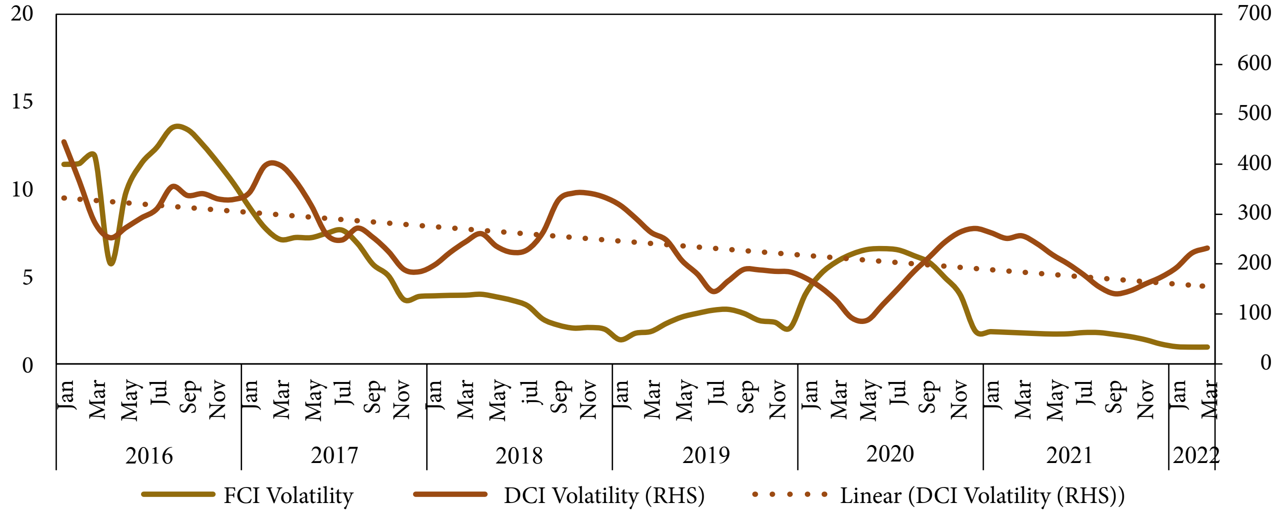
3.36 The capital market in Botswana managed to withstand the COVID-19-induced disruptions, with minimal interruptions to operations, as companies utilised digital platforms for service provision. However, there are emerging risks pertaining to cybercrime because of increased use of technology and virtual private networks; and a digital misinformation risk as more inaccurate information is made available on public digital domains. To avert these vulnerabilities, industry players need to invest in cyber and information security, as well as enhance due diligence and scrutiny when handling business transactions, in order to ensure the safety and integrity of the capital market, and the overall stability of the financial system.

Table 3.4: Selected Botswana Stock Exchange Indicators

Period	Shares Traded		Domestic Stock Market Capitalisation (P 'Million)	Liquidity Ratio (Percent)[1]	Equity Indices			
	Volume (Million)	Value (P 'Million)			Domestic Company Index (DCI)	DCI Growth (Percent)	Foreign Company Index (FCI)	FCI Growth (Percent)
2015	834	3 034	49 993	6.2	10 602	11.5	1 572	-0.4
2016	784	2 573	46 304	5.3	9 401	-11.3	1 586	0.8
2017	775	2 477	44 408	5.5	8 860	-5.8	1 575	-0.7
2018	583	1 862	42 406	4.4	7 854	-11.4	1 570	-0.3
2019	628	1 811	38 709	4.5	7 495	-4.6	1 562	-0.5
2020	430	699	35 573	1.8	6 865	-8.2	1 547	-1.0
2021	967	1 817	37 209	5.2	7 010	1.9	1 550	0.2
2022 (March)	178	408	38 356	5.9	7 243	11.0	1 549	-0.1

Source: Botswana Stock Exchange Limited
Notes: Liquidity ratio is calculated as turnover divided by average market capitalisation

Chart 3.8: Twelve-Month Equity Indices Volatility



Source: Bank of Botswana

[19] Measured as the 12-month standard deviation of DCI values.

Bond Market Performance

Government bonds drive market capitalisation

3.37 Bond market capitalisation increased slightly (2 percent) to P23.6 billion in March 2022 from P23.1 billion in December 2021 largely because of reopening of existing Government bonds (Table 3.5). Over the period, a total of P557 million was issued on 4 already listed Government bonds, offsetting the P500 million redemption of FirstCred Limited bond during the quarter.[20] As a result, the nominal value of Government bonds rose from P17.7 billion to P18.2 billion, while corporate bond valuations fell to by 1.6 percent to P5.3 billion.

3.38 The proportion of Government bonds in the nominal value of the fixed income market stood at 77.4 percent in March 2022 (December 2021: 76.5 percent), compared to 22.6 percent for corporate bonds (December 2021: 23.5 percent), demonstrating Government's ongoing efforts to deepen and develop the domestic capital markets. In the long run, the dominance of government securities has the potential to crowd out capital funding from the private sector. Nonetheless, current sovereign borrowing levels presents minimal fiscal risks given that, relative to GDP, the debt ratio remains within the 40 percent statutory limit. The ratio of total government debt to GDP increased to 27 percent at the end of the 2020/21 financial year, from 17 percent in the previous financial year and, it is estimated to remain at 27 percent through the current financial year. Total government debt for the current financial year is estimated at P59 billion, of which 56 percent is domestic debt and 44 percent is external debt. Overall, fiscal vulnerabilities remain and will continue to be closely monitored to assess the overall impact on financial stability.

Corporate bonds yield spread tightens

3.39 The spread between average yields on corporate and government bonds (spread) declined since August 2020, falling to its lowest level in October 2021. The spread remains relatively low compared to pre-COVID-19 figures (Chart 3.9). The narrow spread is largely due to increasing yields on government bonds against the backdrop of a challenging economic environment.

Average corporate bond yields unchanged

3.40 Average corporate bond yields remained constant at 7.3 percent between February and March 2022. Meanwhile, the risk in corporate bonds, as reflected in the volatility of the corporate bond index (CorpI), has increased marginally since August 2021 (Chart 3.10).

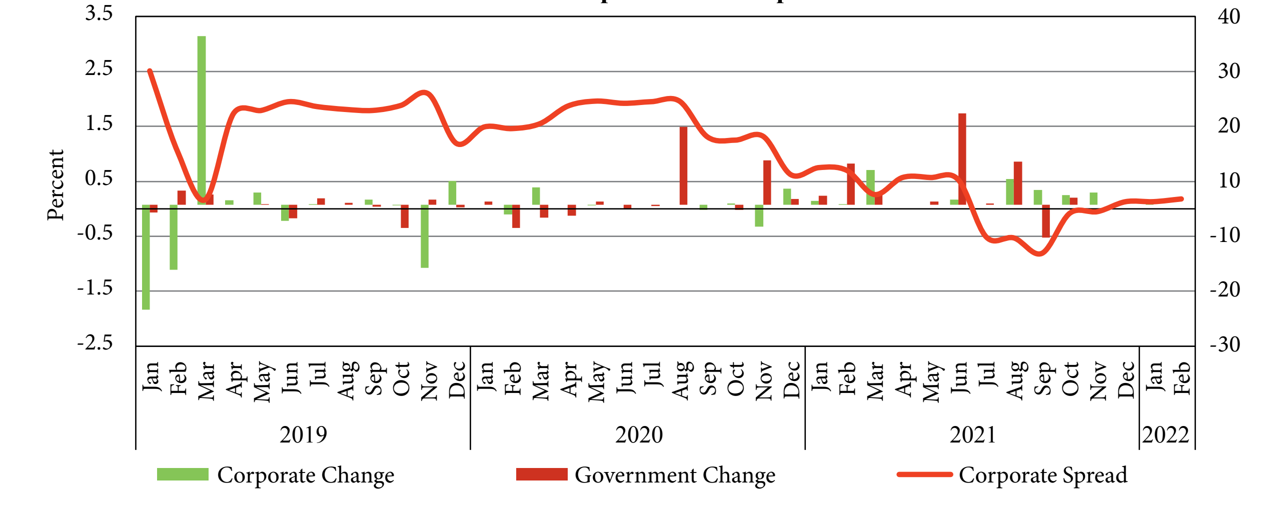
3.41 Corporate bonds, however, remain relatively risky and, as such, there is potential for tightening of corporate funding in the bond market, although the associated consequences are currently judged to be minimal due to the accommodative monetary conditions. In that sense, funding opportunities in money markets would augment any decline in capital market funding.

Net asset value of exchange traded funds rising

3.42 Developments in international financial markets have a significant bearing on domestic asset valuations. Asset classes that reference on international commodities or indices in other countries have the potential to transmit instability to local asset classes. More specifically, exchange traded funds (ETFs) present a conduit for transmission of shocks into local asset prices. The net asset value (NAV) of ETFs listed on the BSE fell from P19.1 billion in February 2022 to P17.7 billion in March 2022 (Table 3.6). In terms of market capitalisation, ETFs valuations represented less than 1 percent of equity market capitalisation in March 2022 (December 2021: less than 1 percent), hence pose minimal risk to the stability of the capital markets.

[20] Reissuances were made on Government bonds BOTSGB0931 (P227 million), BOTSGB0640 (P225 million), BOTSGB0943 (P20 million) and BOTSGB0527 (P85 million).

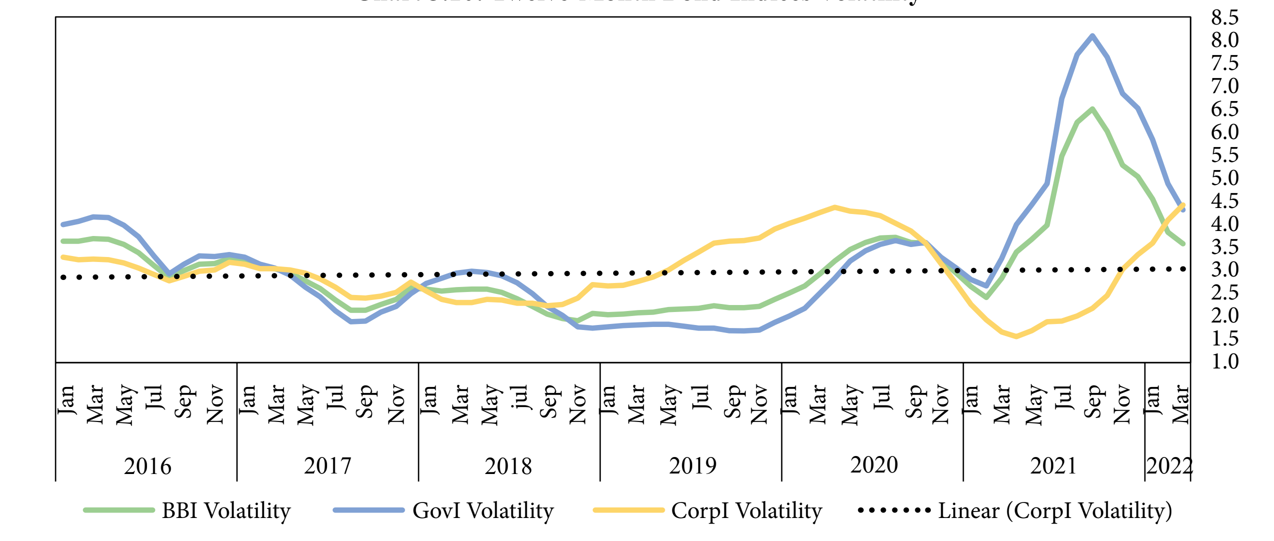
Chart 3.9: Corporate Credit Spread



Source: Botswana Stock Exchange Limited

Note: Corporate Change and Government Change refer to the changes in the average corporate bond yield and the average government bond yield, respectively.

Chart 3.10: Twelve-Month Bond Indices Volatility



Source: Botswana Stock Exchange Limited

Table 3.5: Selected Bond Market Indicators

Period	Government			Corporate[1]			Total Number of Bonds	Total Value of Bonds (P'Million)	Government Bonds Value /Total (Percent)	Corporate Bonds Value / Total (Percent)	Bond Indices		
	Number of Bonds	Nominal Value (P'Million)	Average Yield (Percent)	Number of Bonds	Nominal Value (P'Million)	Average Yield[2] (Percent)					Botswana Bond Index	Government Bond Index	Corporate Bond Index
2016	6	8 258	4.5	35	3 888	7.2	41	12 146	68.0	32.0	170.1	169.6	170.6
2017	5	9 083	4.5	38	5 129	7.1	43	14 212	63.9	36.1	179.4	178.1	180.7
2018	7	9 588	4.6	42	5 446	8.8	49	15 034	63.8	36.2	185.1	184.4	186.7
2019	7	11 859	4.7	39	5 429	8.1	46	17 288	68.6	31.4	193.5	191.1	200.1
2020	6	14 957	5.3	38	5 352	8.1	44	20 309	73.6	26.4	195.9	192.9	204.8
2021	7	17 685	7.1	37	5 424	7.2	44	23 109	76.5	23.5	188.0	180.9	216.6
2022Mar	7	18 242	7.1	36	5 338	7.3	43	23 580	77.4	22.6	191.2	183.8	221.2

Source: Botswana Stock Exchange Limited
1. Includes bonds listed by corporate, quasi-government, parastatal, and supranational institutions.
2. The average of daily implied yields calculated by the BSE.

Table 3.6: Selected Exchange Traded Fund Indicators

ETF	NewGold			NewPlat			NewFunds			**BAMIB50**			**BASBI**		
Underlying Asset	Gold			Platinum			South African Government Bonds			**South African Government Bonds**			**South African Government Bonds**		
Period	Units Traded	Turnover (P'Million)	Net Asset Value (P'Million)	Units Traded (Million)	Turnover (P'Million)	Net Asset Value (P'Million)	Units Traded (Million)	Turnover (P'Million)	Net Asset Value (P'Million)	Units Traded (Million)	Turnover (P'Million)	Net Asset Value (P'Million)	Units Traded (Million)	Turnover (P'Million)	Net Asset Value (P'Million)
2016	…	137.60	13 152	0.90	95.7	7 471	–	–	–	–	–	–	–	–	–
2017	…	10.00	12 525	0.14	13.1	7 174	–	–	–	–	–	–	–	–	–
2018	…	33.70	7 906	2.75	246.4	5 742	0.00	0.00	0.00	–	–	–	–	–	–
2019	…	166.20	10 007	0.34	29.9	10 279	0.00	0.02	0.00	–	–	–	–	–	–
2020	…	61.50	13 494	0.00	76.8	6 329	0.00	0.00	0.00	–	–	–	–	–	–
2021	…	159.6	12 043	0.00	10.9	5 229	0.00	0.05	83.1	0.00	0.11	107.1	0.00	0.05	380.6
2022Mar		51 787	12 607	0.00	1 134	4 526	0.00	0.00	89.3	0.00	0.00	97.2	0.00	0.00	344.3

Source: Botswana Stock Exchange Limited

(d) Macro-Financial Linkages

(i) *Contagion Risk*

Significant macro-financial linkages persist

3.43 Significant interlinkages persist in the financial system, with the banking sector being largely exposed to households (Figure 3.1). In addition, households are highly exposed to NBFIs, with the majority of household assets, mostly pension assets, held by the sector. In March 2022, non-financial corporations accounted for 49.5 percent of total commercial bank deposits, while their borrowing represented 27.6 percent of commercial bank credit. Meanwhile, deposits from other financial corporations or NBFIs represented a significant portion of bank funding at 19.1 percent of total deposits in March 2022 (Chart 3.11). A sudden withdrawal of these funds would present a potential funding risk to banks. In addition, a significant amount of NBFI assets (62.8 percent) were held abroad, exposing them to external financial and economic shocks, albeit providing some portfolio diversification opportunities.

3.44 The interlinkages also extend to state-owned enterprises (SOEs), which accounted for 6.6 percent of bank deposits, while loans to the sector accounted for 1.6 percent of total bank lending in March 2022. Consequently, there are notable vulnerabilities emanating from the interconnectedness between the banking system, household sector, NBFIs and the external sector.

Financial sector assets increase

3.45 The size of the financial system, as reflected by total assets of banks and NBFIs, increased to P274.1 billion in December 2021, registering a 6.7 percent growth from the P256.8 billion reported in December 2020 (Table 3.7). The increase is largely driven by an 8.8 percent increase in the NBFI sector, which, in turn, was influenced by a 11.7 percent growth in the retirement funds sub-sector. As a result, the NBFI sector accounted for 57.7 percent of the financial systems' assets in 2021 compared to the 42.3 percent of the banking sector[21].

3.46 The size of the entire financial system represented 144.3 percent of GDP in 2021 compared to 150.2 percent in 2020, demonstrating the significance and importance of the financial system to the economy. The strong interconnectedness and size of the financial system pose a risk of contagion within the financial system, and to the rest of the economy, although effective regulation across the system, as well as proper governance and accountability structures moderate the risk.

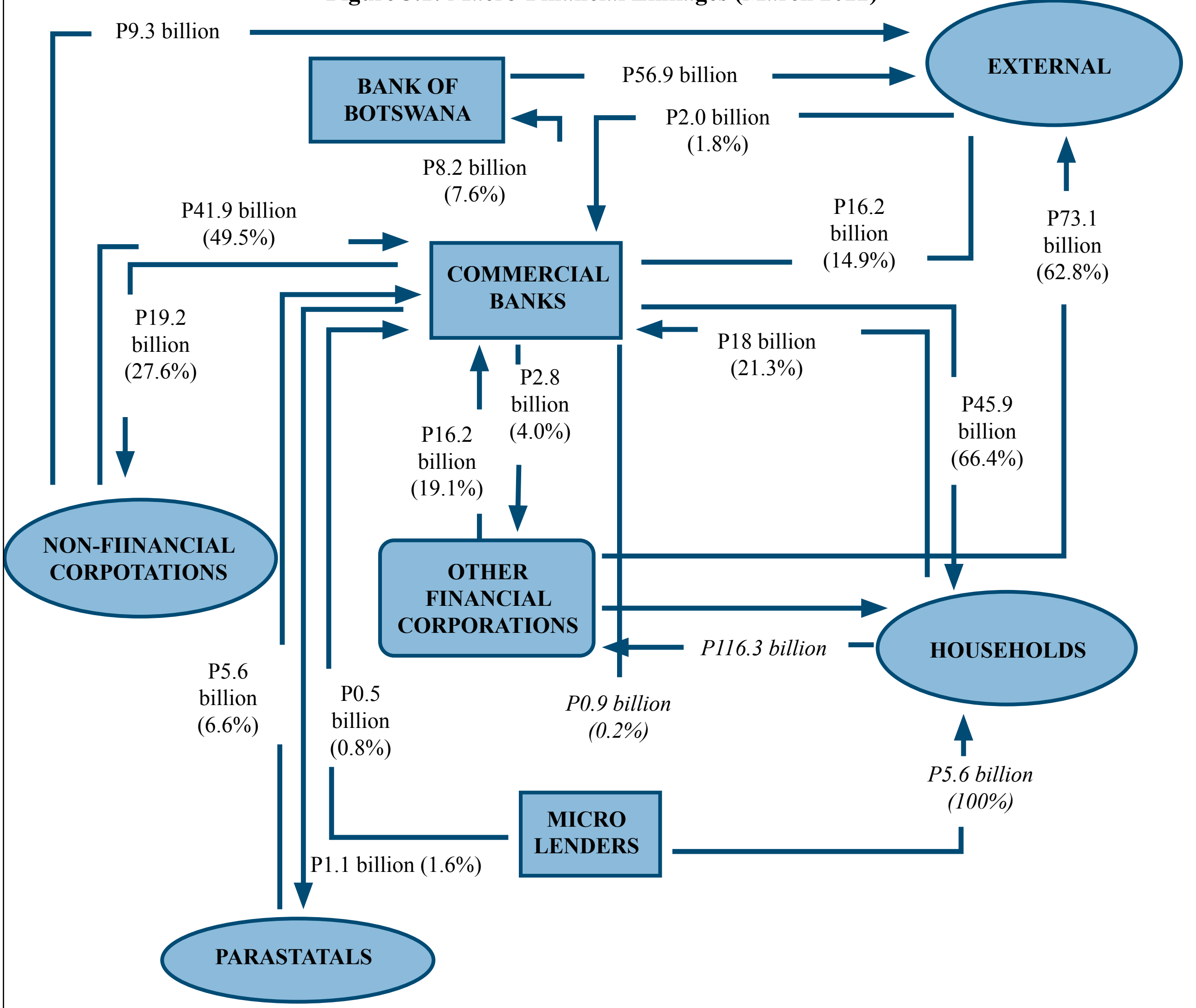
[21] The financial results for most NBFIs are not yet published hence, a few, but large, NBFIs were used to estimate the relative size of the financial system in 2019.

Table 3.7: Structure and Size of the Financial System

Sector/Sub-Sector	2019				2020				2021			
	Assets (P'million)	Percent of Sector Assets	Percent of Financial System Assets	Percent of GDP	Assets (P'million)	Percent of Sector Assets	Percent of Financial System Assets	Percent of GDP	Assets (P'million)	Percent of Sector Assets	Percent of Financial System Assets	Percent of GDP
NBFIs	**132 472**	**100.0**	**55.2**	**73.8**	**145 384**	**100.0**	**56.6**	**85.0**	**158 207**	**100.0**	**57.7**	**83.3**
Retirement Funds	93 133	70.3	38.8	51.9	105 175	72.3	41.0	61.5	117 549	74.3	42.9	61.9
Insurance	19 958	15.1	8.3	11.1	20 386	14.0	7.9	11.9	20 835	13.2	7.6	11.0
Other Financial Corporations	**19 381**	**14.6**	**8.1**	**10.8**	**19 823**	**13.6**	**7.7**	**11.6**	***19 823***	***12.5***	***7.2***	*10.4*
Banks	**107 511**	**100.0**	**44.8**	**59.9**	**111 446**	**100.0**	**43.4**	**65.2**	**115 879**	**100.0**	**42.3**	**61.0**
Commercial Banks	98 685	92.4	41.1	55.0	103 259	92.4	40.2	60.4	107 452	92.7	39.2	56.6
Statutory Banks	8 825	7.6	3.7	4.9	8 187	7.6	3.2	4.8	8 427	7.3	3.1	4.4
Total Financial System Assets (P' million)	**239 983**			**133.6**	**256 829**			**150.2**	**274 086**			144.3
GDP (P' million)				**179 580**				**171 042**				**189 974**

Source: Bank of Botswana and NBFIRA

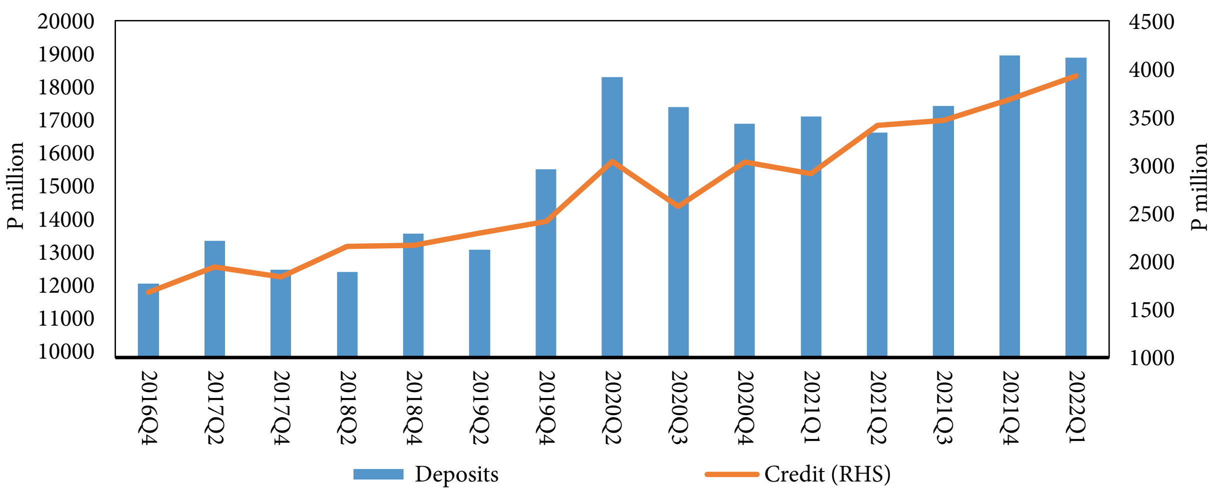
Figure 3.1: Macro-Financial Linkages (March 2022)



Source: Bank of Botswana and NBFIRA

Notes:
1. Percentages indicate shares of loans/deposits for the sector.
2. Balances from the Bank to the external sector represents net foreign assets.
3. Balances from other financial corporations to the external sector are pension fund assets invested offshore.
4. Balances from commercial banks to the external sector are commercial banks' balances due from foreign banks.
5. Figures in italics are either estimates or for February 2022.

Chart 3.11: Commercial Banks' Exposure to NBFIs



Source: Commercial banks

(ii) Risk Concentrations

The Bank identifies and designates D-SIBs

3.47 The Bank has developed a Framework for Domestic-Systemically Important Banks (D-SIBs), which is based on the Basel Committee on Banking Supervision (BCBS)'s assessment methodology for Global Systemically Important Banks. D-SIBs are banks which have the potential to significantly affect the stability of the domestic financial system should they become non-viable. The identification of D-SIBs is part of the broader Macroprudential Policy Framework in which authorities wish to control structural vulnerabilities within the financial system that arise through interlinkages, direct and indirect exposure concentrations and from domestic systemically important financial institutions. The Framework is thus intended to strengthen the resilience of the domestic financial system through dedicated monitoring and supervision of D-SIBs.

3.48 The Bank's identification criteria for D-SIBs is based on a weighted combination of the following five indicators: size, interconnectedness, substitutability, complexity, and domestic sentiment, which are appropriate measures of systemic importance for the domestic banking system. The assessment methodology was published in the October 2020 FSR. A bank is designated a D-SIB if its overall score based on the quantitative methodology is above a set threshold. The minimum quantitative score that a bank should attain to be considered a D-SIB is 180 basis points, which is the mid-point of the BCBS lowest bucket, with scores ranging from 130 - 229.

3.49 Using commercial banks data for December 2021, the Bank has identified two (2) D-SIBs for Botswana, namely, First National Bank of Botswana Limited (FNBB) and ABSA Bank Botswana Limited (ABSA), which scored 207 points and 200 points, respectively. The domestic assets of the two banks constitute the largest share of total banking industry domestic assets. They represent 44.2 percent of the industry total assets and 53 percent of household deposits in Botswana. Regarding geographical presence, and in terms of the number of bank branches, the combined number of bank branches for FNBB and ABSA is half of the total number of bank branches in Botswana.

3.50 FNBB and ABSA are well capitalised, liquid and solvent, hence pose no threat to domestic financial stability. The Bank will continue to undertake assessment of the systemic importance of banks in Botswana annually to ensure that the results reflect the current state of economic and financial developments. Therefore, the next D-SIBs list will be published in the May 2023 FSR.

Insurance and pension sectors highly concentrated

3.51 Insurance companies could affect financial stability and contribute to systemic risk through three potential transmission channels, namely, failure to provide critical services; inability to mitigate risk and compensate for loss with respect to systemically important counterparties; and with regard to risk to systemically important financial institutions[22]. In a highly concentrated market, such as the domestic market, failure by a dominant insurance company may leave a significant gap in the provision of critical risk mitigation services to the economy as remaining companies may not have the capacity to fill the void. Lack of alternative service providers could amplify the effect of an insurance company's distress on the real economy. The dominance of Botswana Insurance Holdings Limited (BIHL) in the local insurance sector exacerbates these risks and warrants enhanced supervision. The top five largest life insurance companies have a market share of over 90 percent of the assets of the life insurance sector and consequently dominate in gross premiums written. Furthermore, more than 80 percent of total industry pension funds are accounted for by the Botswana Public Officers Pensions Fund (BPOPF). Measured in relation to the size of the domestic economy, total assets of pension funds were 61.5 percent of GDP in December 2021.

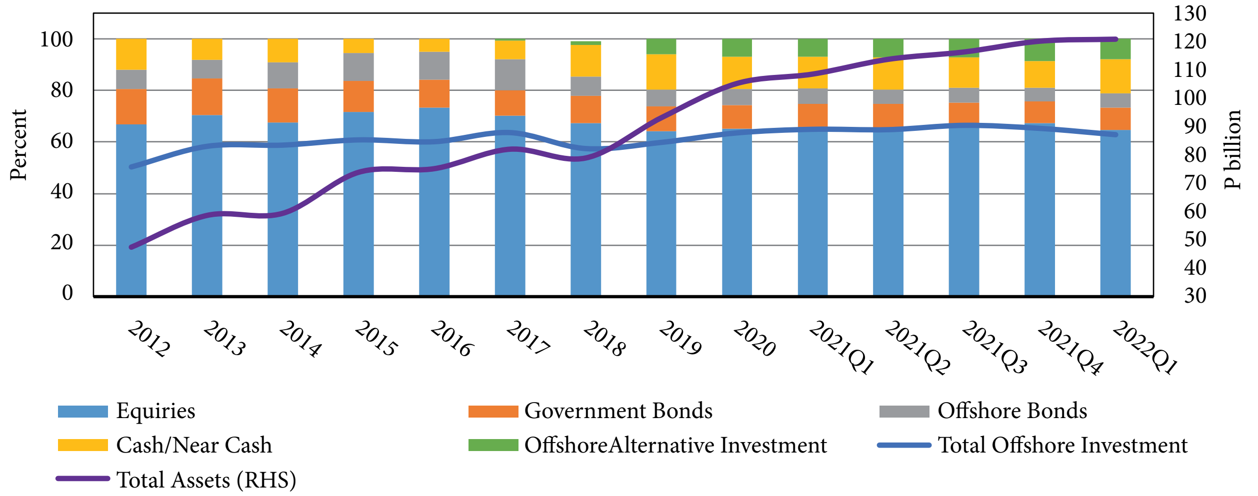
Pension fund assets increased amid COVID-19

3.52 Pension fund assets increased by 7 percent, from P108.5 billion in March 2021 to P116.3 in March 2022, driven largely by an absolute increase in equity investments. The equity portfolio rose from P71.4 billion in March 2021 to P75.2 billion in March 2022 and accounted for the largest share (64.7 percent) of the portfolio investment allocation of pension funds (Chart 3.12). Furthermore, 62.8 percent of the funds were invested offshore in March 2022, compared to 64.9 percent in March 2021.

22 French et al., (2015). Insurance and Financial Stability, Bank of England Quarterly Bulletin.

Generally, the investment allocation of pension funds remained generally unchanged with an average of 60 percent invested offshore since 2009. This is in line with the retirement funds prudential regulations that require that at least 30 percent of assets should be invested locally. The regulations also require that annuities must be purchased exclusively from insurance providers operating in Botswana; potentially restricting consumer choices due to limited competition and shortage of annuity- related products.

Chart 3.12: Investment Allocation of Pension Funds



Source: NBFIRA

The asset management sub-sector is highly interconnected with the rest of the financial system

3.53 Asset managers play a vital role in the intermediation of funds in the financial system. They provide investors with an opportunity to invest in a diversified portfolio of securities. By pooling funds from a large group of investors, asset managers reduce investment risk through diversification.

3.54 Total Assets Under Management (AUM) increased from P49.9 billion in 2019 to P51.1 billion in 2020, and the majority of these AUM were for pension funds. Other AUM belonged to retail investors, insurance companies and other professional investors. As such, the asset management sub-sector is highly interconnected with other parts of the financial system through ownership linkages, common asset exposures and the provision of wholesale funding to banks. Therefore, the level of systemic risk posed by the sub-sector is mitigated by profitability and adequate capitalisation of asset management companies.

(e) Banking Sector Stress Test Results

3.55 The stress test analysis relied on statutory returns as at December 31, 2021, and banks were subjected to moderate and severe shocks to reflect the impact of adverse economic conditions, largely due to the residual impact of the COVID-19 pandemic and determine the industry's resilience to the consequences of such developments. The assumptions of the stress test are in Table 3.9. The uncertainty relating to the trajectory of the COVID-19 virus, which has ravaged the world since 2020, and the pace of economic recovery, slow income growth and weak business conditions and Russia-Ukraine war could add to existing vulnerabilities in the banking sector and elevate risk. Financial soundness indicators as at December 31, 2021 were used as the baseline scenario, and they indicate that the banking sector continues to be adequately capitalised, liquid and profitable (Table 3.8). The relatively high prudential ratios, however, suggest that banks are hoarding capital and liquidity amid the economic and business uncertainty brought about by COVID-19.

3.56 The stress test covers three simulations, namely liquidity, credit and interest rate shocks (Table 3.9). The simulation considered that inflation is currently high and risks to the inflation outlook are tilted to the upside. While current domestic inflationary pressures seem to be transitory, with inflation expected to revert to the Bank's objective range of 3 – 6 percent from the first quarter of 2023, should inflation rise persistently due to second-round effects of the recent increases in administered prices and high inflation expectations, this could necessitate an upward adjustment in the policy rate. It is against this background that the interest rate scenario assumes a 1.5 percentage points (moderate scenario) and 2.25 percentage points (severe scenario) upward adjustment in the policy rate .

Banks generally resilient but susceptible to severe credit shocks

3.57 The credit shock is associated with the depletion of incomes of both households and businesses due to the slowdown in economic activity. Stress tests results indicate that commercial banks are generally resilient to stress, save for credit shocks that could result in significant prudential capital breaches. Under the system-wide moderate scenario, where an additional 10 percent of performing loans are assumed to become NPLs, bank capital adequacy levels decline to 11 percent, thus breaching the prudential capital adequacy requirement of 12.5 percent. The industry capital position worsens to 0.9 percent in the severe scenario, where 20 percent of performing loans are assumed to become NPLs. As a result, the asset quality declines, with the ratio of NPLs to total loans rising from a baseline of 4.6 percent to 13.9 percent and 23.4 percent under moderate and severe scenarios, respectively.

3.58 Sector specific tests were also conducted to capture the idiosyncratic impact of credit shocks across all sectors of the economy. With the protracted COVID-19, the potential sources of credit risks include possible second round effects of the pandemic on credit losses and structural vulnerabilities associated with overall dependence on the diamond sector, especially for government revenue, as well as the dominance of household unsecured lending in the credit books of the banks. The dominance of household credit in total commercial bank credit is an important potential driver of credit losses. Unsecured credit presents a significant structural credit risk to the banking sector, especially in the event of a sudden erosion of the households' capacity to service their loans.

3.59 Under the moderate scenario, banks' capital adequacy ratio falls to 8.5 percent while the NPLs ratio increases to 16.4 percent. The capital adequacy ratio falls further to 3.5 percent under the severe COVID-19 scenario, and the NPLs ratio increases to 21.1 percent.

3.60 Regarding credit concentration shocks, banks breach the capital adequacy requirement at 9.7 percent under the assumption that the largest borrower defaults for each bank (moderate scenario). The capital adequacy ratio further falls to 4.5 percent under the severe scenario, which assumes that the largest two counterparties will default. The assumed counterparty defaults would increase the NPLs ratio to 13.3 percent and 18.9 percent in the moderate and severe scenarios, respectively. In general, credit risk tests show that the overall NPLs shock, simulating a proportional increase in NPLs, has more prominence in the capital and asset quality position of banks than the other shocks. Nevertheless, the credit stress tests do not consider credit mitigation measures such as underlying collateral.

Large banks are more resilient to liquidity shocks

3.61 In the liquidity risk test, banks show resilience to a liability run in the moderate stress scenario, particularly large banks, which will be able to withstand liability drawdowns for 16 days (September 2021: 18 days). Small banks experience significant liquidity squeeze and would withstand drawdowns for 11 days (September 2021: 11 days). Under the severe stress conditions, large banks will withstand drawdowns for 7 days (September 2021: 7 days), while it will take 5 days (September 2021: 5 days) for small banks. Shorter survival horizons for small banks reflect the large proportion of illiquid assets in their portfolios, being loans and advances, relative to a highly liquid deposit base that is dominated by wholesale deposits. This asset/liability mismatch, therefore, limits their ability to swiftly respond to emerging liquidity needs.

3.62 The above scenarios do not consider the availability of liquidity support provided by the Bank through the Credit Facility nor liquidity support available from related companies or holding banks. Accordingly, the stress test results should not be interpreted to mean that banks would default under these conditions.

Bank profitability to rise with a policy rate increase

3.63 Results of the interest rate shock indicate that increases in the policy rate are associated with an overall increase in bank profitability, with resultant increases in the capital adequacy ratio of 0.1 percentage points and 0.2 percentage points for the moderate and severe scenarios, respectively. The increase in profit generally reflects the banking industry's positive interest rate gap, where interest earning assets exceed interest earning liabilities maturing in the next twelve months. Therefore, an increase of 1.5 percentage points in the policy rate would result in industry gains of P71.7 million (4.1 percent increase), while a 2.25 percentage points increase would lead to a gain of P173.9 million (6.1 percent increase), dominated by large banks (Table 3.9).

Table 3.8: Banking Sector Financial Soundness Indicators

Capital Adequacy (Percent)	Jun 2020	Sep 2020	Dec 2020	Mar 2021	June 2021	Sep 2021	Dec 2021	Mar 2022
Core Capital to Unimpaired Capital	65.5	68.0	68.0	70.9	70.1	70.0	64.8	67.0
Tier 1 Capital to Risk-Weighted Assets[1]	13.3	13.5	13.5	14.1	14.1	12.8	12.0	12.5
Capital Adequacy Ratio (CAR)[2]	18.5	19.8	19.7	19.9	20.1	18.4	18.5	19.4
Asset Quality (Percent)								
NPLs to Gross Loans	4.4	4.1	4.2	4.4	4.3	4.2	4.6	4.2
NPLs Net of Specific Provisions to Unimpaired Capital	8.8	7.4	7.4	9.1	7.2	9.5	9.2	8.7
Specific Provisions to NPLs	58.9	62.7	62.8	54.7	64.5	59.4	45.7	57.6
Liquidity (Percent)								
Liquid Assets to Deposits (Liquidity Ratio)[3]	21.2	20.8	21.4	20.4	20.9	18.4	16.6	16.6
Advances to Deposits (Intermediation Ratio)	85.1	84.3	81.4	82.2	82.8	83.3	81.9	82.3
Profitability/Efficiency (Percent)								
Return on Average Assets (ROAA)	1.8	2.1	1.6	2.3	1.8	2.2	1.7	1.9
Return on Equity (ROE)	15.4	19.2	15.1	21.0	16.1	20.8	19.2	21.7
Cost to Income	69.3	65.5	64.9	59.7	59.3	60.9	63.3	60.5

Source: Bank of Botswana
Notes: 1. The prudential Limit is 7.5 percent - Basel II/III
2. The prudential Limit is 15 percent
3. The minimum statutory requirement is 10 percent

Table 3.9: December 2021 Stress Test Results for Commercial Banks

SCENARIOS	CREDIT RISK		
Concentration Risk	**Concentration Risk**	**Sectoral NPL Shock**	**Overall NPL Shock**
BASELINE SCENARIO: BANKING CONDITIONS AS AT DECEMBER 31, 2021	CAR of 18.5 percent. 4.6 percent NPLs/total loans.	CAR of 18.5 percent. 4.6 percent NPwLs/total loans.	CAR of 18.5 percent. 4.6 percent NPLs/total loans.
MODERATE SCENARIO			
DESCRIPTION OF SHOCK	Largest exposure defaults or becomes non-performing.	10 percent performing loans become non-performing for all other sectors and 15 percent for vulnerable sectors.	10 percent of performing loans become non- performing.
RESULTS	Banking system breaches the prudential limit with CAR of 9.7 percent. NPLs/total loans ratio increases to 13.3 percent, a sign of increasing vulnerability.	Banking system breaches the prudential limit with CAR of 8.5 percent. NPLs/total loans ratio increases to 16.4 percent, a sign of increasing vulnerability.	Banking system slightly breaches the prudential limit with CAR of 11 percent. NPLs/total loans ratio increases to 13.9 percent, a sign of increasing vulnerability.
SEVERE SCENARIO			
DESCRIPTION OF SHOCK	Largest two exposures default or become non-performing.	15 percent of performing loans become non-performing for all other sectors and 20 percent for vulnerable sectors.	20 percent of performing loans become non- performing.
RESULTS	Banking system breaches the prudential limit with CAR of 4.5 percent. NPLs/total loans ratio increases to 18.9 percent, a sign of increasing vulnerability.	Banking system breaches the prudential limit with CAR of 3.5 percent. NPLs/total loans ratio increases to 21.1 percent, a sign of increasing vulnerability.	Banking system breaches the prudential limit with CAR of 0.9 percent. NPLs/total loans ratio increases to 23.4 percent, a sign of increasing vulnerability.

SCENARIO	LIQUIDITY RISK	INTEREST RATE RISK
Baseline Scenario: Banking conditions as at DECEMBER 31, 2021	Perfect asset liability match, leading to 30 days survival.	Banks start off with a CAR of 18.5 percent.
Moderate Scenario		
Description of Shock	Bank run simulation based on Assets Haircuts and Liabilities Run-off Rates.	150 basis points increase in the Policy Rate.
Results	Large banks survive for 16 days. Small banks survive for 11 days. On average, banks survive for 15 days	18.6 percent CAR (+ 0.1 percentage points change in CAR). Gain of P71.7 million in interest income.

SEVERE Scenario		
Description of Shock	Bank run simulation based on higher Assets Haircuts and Liabilities Run-off Rates than in the moderate scenario.	225 basis points increase in the Policy Rate.
Results	Large banks survive for 7 days. Small banks survive for 5 days. On average, banks survive for 6 days	18.7 percent CAR (+ 0.2 percentage points change in CAR). Gain of P107.6 million in interest income.

Source: Bank of Botswana

4. FINANCIAL MARKET INFRASTRUCTURE (FMI) AND REGULATORY DEVELOPMENTS

(a) Payments and Settlement Systems

FMIs largely resilient

4.1 Clearing systems have been largely resilient in handling large volumes of transactions without any major disruption. Meanwhile, the value and volume of cheque transactions continue to show a declining trend (Table 4.1).

4.2 As at December 31, 2021 the Bank of Botswana had licensed twenty-two Electronic Payment Service (EPS) providers under the EPS regulations of 2019.

4.3 Generally, FMIs consisting of payment systems, central securities depository, and securities settlement systems, remain stable and resilient, thus strengthening and preserving domestic financial stability.

Table 4.1 Selected Payments and Settlement Systems Indicators

Period	BISS Transactions		Cheques		EFTs	
	Volume (‘000)	Value (P’ billion)	Volume (‘000)	Value (P’ billion)	Volume (‘000)	Value (P’ billion)
2016	183	1 690	1 204	26	7 507	166
2017	178	1 273	1 038	22	8 135	165
2018	175	1 414	929	20	8 513	180
2019	183	1 899	810	19	9 161	209
2020	155	2 110	495	12	9 770	211
2021	175	1 777	361	9	10 463	232
2022 Jan - Mar	45	361	75	2	2 703	62

Source: Bank of Botswana

(b) Regulatory and Other Developments Relevant to Financial Stability

Discontinuation of cheques effective January 1, 2024

4.4 On February 21, 2022, the Bank and Bankers Association of Botswana announced that effective January 1, 2024, the issuance, and acceptance/collection of cheques in Botswana will be discontinued. The discontinuation of a cheque as a means of payment in Botswana is in recognition of availability of more cost-efficient, safe, secure, and convenient digital/electronic payment instruments in the country. This will increase the efficiency and the well-functioning of payments systems, ensuring the ongoing ability of payments systems to support monetary policy transmission and the economy and enhance financial stability.

The Bank introduces reforms to monetary policy effective April 28, 2022

4.5 The FSC has noted that the Bank introduced monetary policy reforms as announced in February 2022 and which came into effect on April 28, 2022, to enhance policy transmission and potency. The reforms include the decision to adopt the Monetary Policy Rate (MoPR) as a new policy signalling rate in place of the Bank rate. The overarching objective of these reforms is to afford a direct link between the monetary policy stance or changes and the setting of deposit and lending interest rates by commercial banks. As a result, commercial banks would appropriately channel the policy stance or changes to their depositors or borrowers, thus accordingly influencing the respective economic decisions to align with the desired impact of monetary policy on the economy.

MoPR set at 1.65 percent

4.6 At its April 28, 2022 meeting, the MPC decided to increase the MoPR to 1.65 percent; 51 basis points above the prevailing 1.14 percent yield on the 7-day Bank of Botswana Certificate. In addition, the MPC decided that the repo and reverse repo rates are to be conducted at the MoPR of 1.65 percent. The Standing Deposit Facility (SDF) Rate has been set at 0.65 percent (100 basis points below the MoPR) while the Standing Credit Facility (SCF) Rate was set at 2.65 percent (100 basis points above the MoPR).

Negotiation of bilateral agreements (Double Taxation Avoidance Agreements (DTAAs) and one stop border posts agreement ongoing

4.7 Botswana, through the Botswana Unified Revenue Service (BURS), is currently engaged in negotiations with different countries with regard to DTAAs. These agreements are geared towards the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income. The negotiations and the ongoing holistic review of the tax legislation are in line with enhancement of financial stability as they will result in an improved macroeconomic and financial policy environment.

BSE launches Investor Compensation Fund

4.8 The Botswana Stock Exchange (BSE) launched the Investor Compensation Fund (ICF) at the Opening Bell Ceremony on May 5, 2022. The fund was established to compensate investors for financial losses suffered due to a market participant's failure to meet contractual obligations. The ICF is, therefore, an important feature of a well-functioning market and its establishment is expected to promote investor confidence and financial stability in general.

Ongoing legislative developments augur well for financial stability

4.9 A special seating of Parliament in January 2022 amended and approved several pieces of legislation, among others, the re-enacted Financial Intelligence Act, which resulted in consequential amendments of other legislations, including the Companies (Amendment) Act, Trust Property Control Act and Societies Act. In addition, the Virtual Asset Act was promulgated with provisions for managing, mitigating and preventing money laundering and financing of terrorism and counter proliferation financing. These developments partly strengthened Botswana's AML/CFT/CPF regimes and address outstanding technical compliance deficiencies of the FAFT recommendations, resulting in the removal of the country from the FATF greylist and EU blacklist. The drafting of the Movable Property (Security Interest) Bill, which provides for the creation of security interest in movable property, as well as revisions of the Bank of Botswana Act, Banking Act, NBFIRA Act, Retirement Funds Act, Securities Act, Income Tax Act, Value Added Tax Act and Customs Act, among others, are on-going and are expected to be presented to the July 2022 Parliament session; thus further strengthening the financial regulatory environment.

FSC concludes that the domestic financial system is thus far resilient to the COVID -19 Shock

4.10 The Financial Stability Council met on May 3, 2022, to deliberate on domestic financial stability developments including regulatory issues, performance and prospects for the domestic financial system and considering recent and prospective regional and global developments. The FSC observed that since its meeting of November 2021, risks to global financial stability associated with the COVID-19 pandemic have been contained, in an environment of accommodative monetary policy and expansionary fiscal policy measures as well as the re-opening of economies. The FSC concluded that the domestic financial system is thus far resilient to the COVID-19 shock and continues to support the real economy. However, the Council noted emerging risks to financial stability pertaining to among others, the consequences of the Russia-Ukraine war; exposure to cyber threats due to increasing usage of technology; uncertain employment prospects as businesses restructure and hence, possible increase in loan repayment defaults, pension withdrawals and early redemption of insurance policies.

5. CONCLUSION AND OUTLOOK

5.1 Notwithstanding the challenges resulting from the COVID-19 pandemic, the domestic financial system is resilient and continues to perform the expected function of financing other sectors of the economy, given the strong capital and liquidity position, profitability, as well as an enabling and effective regulatory environment. The enduring stability of the financial system is supported by a conducive macroeconomic environment, characterised by the prevailing accommodative monetary conditions and positive economic growth prospects, despite sovereign vulnerabilities (i.e., reduced fiscal and external buffers) due to the current depressed global economic environment combined with long-term structural trends.

5.2 Reforms to further improve the business environment, Government interventions against COVID-19, including vaccine roll-out to the productive population, implementation of the Economic Recovery and Transformation Plan (ERTP) and the Industry Support Facility (ISF), provide impetus for economic recovery and, in turn, financial stability in the medium-term. The domestic macroeconomic environment will, however, continue to be shaped by the economic and price effects of the Russia-Ukraine war, COVID-19 profile and related containment measures and associated supply disruptions.

5.3 Overall, there is no evidence of excessive and uncontrolled credit growth, while the continuing fall in excess market liquidity, due to persistent foreign exchange outflows, is likely to be moderate, going forward, following improvements in diamonds sales. Furthermore, asset prices have remained generally stable since the October 2021 FSR. The risk of contagion between banks, NBFIs, the non-financial sector and the external sector remains elevated but is moderated by effective prudential regulation and supervision together with strong liquidity and capital positions across the financial system. In addition, the results of the bank stress test exercise suggest some degree of resilience even though this could be weakened by a delayed recovery. The insurance and pensions sectors are also solvent and liquid, even though escalating claims associated with COVID-19 related deaths continue to challenge profitability in the insurance business. There is also some notable recovery in the domestic capital market, while financial market infrastructures remain stable and robust thus, promoting domestic financial stability.

5.4 Most notably, risks from AML/CFT/CPF deficiencies are expected to recede following the removal of Botswana from the FATF grey list and the EU's list of high-risk third countries. These developments are expected to boost confidence in the domestic financial system, which is supportive of economic activity and financial stability.

APPENDIX

Table A1: Macroeconomic and Financial Stability Indicators

Financial Sector (Percent)	Mar 2020	Jun 2020	Sep 2020	Dec 2020	Mar 2021	Jun 2021	Sep 2021	Dec 2021
Relative Size of Financial Sector (percent of GDP)[1]	100.17	99.7	99.4	99.12	98.97	98.69	119.1	144.3
Pension Funds' Assets (percent of GDP)	48.6	54.0	58.6	61.5	63.1	61.7	60.2	61.5
Pension Funds Offshore Investments (percent of GDP)	28.3	33.9	37.3	39.1	41.0	40.0	40.0	40.2
Corporate Sector (Percent)								
Corporate Sector Debt to GDP	13.2	13.6	13.1	13.1	12.8	12.6	12.5	11.9
Debt to Equity	…	45.7	…	69.8	…	80.0	…	85.2
Household (Percent)								
Household Debt to GDP	22.5	23.6	24.3	25.1	25.2	24.0	23.6	23.4
Household Debt to Income	47.3	47.0*	47.0*	58.6	58.6*	58.6*	58.6*	45.0
NPL (household)	3.6	3.9	3.2	3.4	3.5	3.3	3.2	4.8
Real Estate (Percent)								
Mortgage Loans to Total Loans	20.0	20.1	20.2	19.6	19.3	19.0	18.7	15.3
NPL (mortgages)/Total mortgage loans	6.5	7.2	6.0	6.1	6.3	6.4	6.5	6.5
Total Mortgage Loans/GDP	7.1	7.5	7.7	8.2	8.1	7.6	7.4	7.5
General Economic Indicators								
Economic growth	2.2	-5.3	-7.3	-8.7	-8.7	5.2	8.6	11.4
Inflation	2.2	0.9	1.8	2.2	3.2	8.2	8.4	6.7
Foreign Exchange Reserves (percent of GDP)	30.3	34.1	32.4	29.5	30.5	27.3	27.4	26.7
Current Account Balance (P' Million)	-3 791	-6 575	-3 848	-18 251	-11 684	-7 341	-1 449	-6 897
Months of Import Cover	11.5	11.8	10.9	9.9	10.1	9.6	9.8	9.1
Exports (percent of GDP)	35.4	28.5	29.6	31.4	37.6	42.1	46.6	40.5
Imports (percent of GDP)	45.3	43.9	45.2	46.5	49.2	50.8	48.2	52.1
Government								
Government Debt to GDP	19.2	19.8	20.0	19.5	20.3	26.5	18.1	33.1
Government Debt to Revenue	53.9	61.0	63.1	74.4	103.8	19.7	17.5	19.1
Government Guaranteed Debt/GDP	4.5	4.6	4.8	4.8	4.4	4.5	4.2	…
Government Net Financial Position to GDP	5.6	8.0	9.8	-10.7	-	-	-	-0.9
Government Interest Payments to Revenue	4.1	1.0	4.6	2.11	0.9	2.6	0.2	…
Government Interest Payments to GDP	0.9	0.4	1.1	0.04	0.1	0.2	0.0	…
Government Deposits to GDP	1.2	1.0	1.5	1.5	1.1	0.9	1.0	1.1
Government Expenditure to GDP	…	33.2	35.5	36.9	32.9	33.2	32.6	34.1
Government Employment to Total Employment	40.3	40.3*	40.3*	31.0	31.0*	31.0*	31.0*	30.8

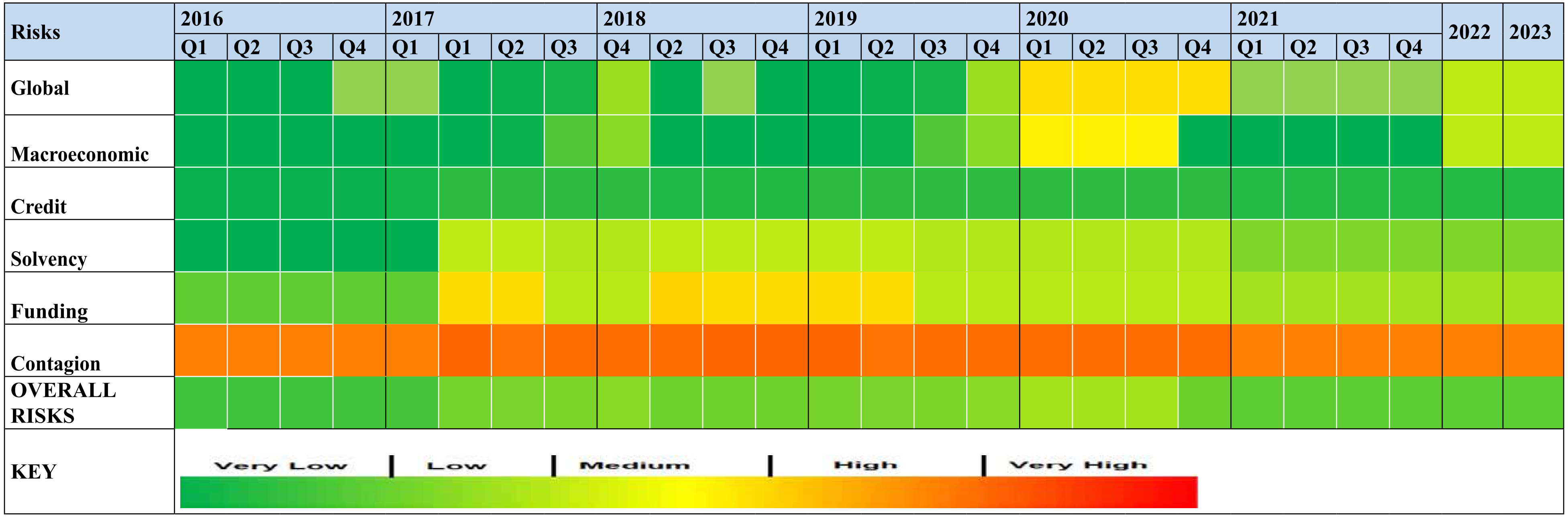
Source: Bank of Botswana, Statistics Botswana, MFED, NBFIRA, Botswana Stock Exchange Limited and Commercial Banks

Note: ... denotes data not available

[1] Figures include Commercial Banks, Statutory Banks and Pension fund Assets only.

* are estimated figures.

Chart A1: Financial System Vulnerabilities - Heat Map



Source: Bank of Botswana

Table A2: Annual Sectoral Indicators of Financial Development

Sector	Indicator	2016	2017	2018	2019	2020
Banking						
	Number of branches and outlets	115	125	127	135	135
	Bank deposits /GDP (%)	8.6	9.4	9.0	10.3	12.5
	Number of branches/thousands population	…	…	…	…	…
	Bank assets/total financial assets (percent)	39.9	39.0	42.8	42.7	41.5
	Bank assets/GDP (percent)	49.1	50.1	52.9	55.28	59.8
	Total number of deposits taking institutions	12	12	12	11	11
	Number of branches and outlets	115	125	127	135	135
	Number of branches/thousands population	…	…	…	…	…
Insurance	Number of insurance companies (percent)	24	24	21	23	23
	Gross premiums/GDP (percent)	2.7	3.0	3.2	3.2	1.0
	Gross life premiums/GDP (percent)	1.9	2.2	2.4	2.2	7.0
	Gross non-life premiums/GDP (percent)	0.8	0.7	0.8	0.8	0.3
	Insurance assets/GDP (percent)	13.1	14.1	10.8	11.2	11.8
	Insurance assets/total financial assets	10.6	11.0	8.7	8.6	8.2
Pensions	Types of pension plans					
	Total number of defined benefit plan	…	…	…	…	…
	Total number of defined contribution benefit plan	…	…	…	…	…
	Pension fund assets/total financial assets (percent)	37.1	40.4	38.3	40.3	42.3
	Pension fund assets/GDP (percent)	45.7	49.3	45.8	52.2	61.0
Mortgage	Mortgage assets/total financial assets (%)	4.3	4.3	4.5	4.3	4.1
	Mortgage assets/GDP	5.3	5.5	5.6	5.6	5.9
Securities dealers	Total number of securities dealers	4	4	4	4	4
	Securities dealer's/total financial assets (%)	…	…	…	…	…
	Securities dealer's assets/GDP (percent)	…	…	…	…	…
Credit union	Total number of credit unions	…	…	…	…	…
	Credit union's assets/total financial assets (percent)	0.2	0.2	0.3	0.3	…
	Credit union assets/GDP (percent)	0.3	0.3	0.3	0.3	…
Foreign exchange markets	Adequacy of foreign exchange (reserves in months of imports)	17.4	17.1	14.7	12.1	9.9
	Foreign exchange reserves to short-term external debt	0.5	0.5	0.5	0.4	…
Collective investment scheme	Local unit trust and mutual funds					
	Number of local unit trust and mutual funds*	6	6	5	6	6
	Local unit trust and mutual funds/total financial assets	0.7	0.7	0.7	0.7	0.8
	Overseas mutual funds	…	…	…	…	…
Offshore investments	Offshore investments/total financial assets	22.3	24.4	21.3	24.1	26.9
	Offshore investments/GDP (percent)	27.5	31.4	26.3	31.2	38.7

Source: Bank of Botswana, NBFRA, Botswana Stock Exchange
Notes: … denotes data not available
*these are unit trusts only