

BANK OF BOTSWANA

2019 Media Economic Briefing - Welcome Remarks

by

Moses D Pelaelo
Governor

May 21, 2019

Let me thank you, Distinguished Members of the Media, for honouring the Bank's invitation to today's Economic Briefing, which also marks the launch of the 2018 Bank of Botswana Annual Report. As I have repeatedly indicated, the Bank of Botswana values greatly the critical role played by the Media in the dissemination of financial, economic and other information to the nation; it is, therefore, not a coincidence that this economic briefing comes immediately after the briefing of His Excellency The President and Members of the Cabinet.

The Annual Report is published in compliance with the Bank of Botswana Act and, as a statutory requirement, contains a report on the Bank's operations and audited financial statements, that is to say, it is the primary vehicle for accountability to the nation on the operations and financial performance of the Bank.

In addition to the statutory aspects of the report, it is a tradition that the Annual Report also includes a review of economic developments and outlook, as well as a theme topic section. The review provides an analytical content and explanations for economic developments and prospects, as well as background to policy conduct and operations by the Bank. In particular, this is with respect to monetary and exchange rate policies, financial stability, banking sector regulation, currency

management, payments infrastructure and the management of foreign exchange reserves. The successive theme topics contribute to national economic policy analysis and evaluation and, hence, the requisite response and transformation needed to sustain the desired level of inclusive and diversified growth of the economy.

Distinguish Ladies and Gentlemen, the Bank's financial performance and operations in 2018 is against the background of moderation in the pace of global economic growth, associated with slack in growth of demand in an environment of policy uncertainty induced by increasingly inward looking policies, heightened trade and geopolitical tensions, lack of progress on Brexit and adverse climate. Meanwhile, in the region and domestically, prospects for growth and transformation continue to be adversely affected by both the inadequate pace and lack of traction of structural and policy reforms.

Distinguished Members of the Media, you will note that the combination of international developments and the domestic context affect the immediate as well as the medium- to long-term outcomes. The first presentation this morning will relate more to the immediate outcomes, being the report on the Bank's Operations and Financial Statements by the Chief Financial Officer, Mr Daniel Loeto.

Mr Loeto will, among others, highlight the performance of the foreign exchange reserves that, in turn, have a major impact on the Bank's financial performance and resulting revenues to government, and identify the various influences. At this stage, I will just preface his detailed explanations by indicating that the significant influences include, an environment of low global interest rates, volatile valuations of assets traded in global markets and currencies, trade and capital flows,

government operations and fiscal balances as well as changes in the Bank's investment guidelines and associated portfolio rebalancing.

Distinguished Media Practitioners, as you would be aware, the Bank of Botswana is one of the few central banks in the world whose financial statements are prepared and audited in accordance with international reporting and auditing standards. I also wish to add that, the Bank's financial statements, as has been the norm over the 43 years of the Bank's existence, have obtained a clean audit report that confirm appropriate maintenance of accounts, existence of sound risk management and internal control environment and, in general, effective governance structures at the Bank of Botswana.

In this respect, I would like to assure the nation and other stakeholders globally, that contrary to some unfortunate and inaccurate reporting by some in the Media, that there is no single Thebe that is not fully accounted for by the Bank of Botswana. For the record, kindly note that, the Bank of Botswana is not audited by the Auditor General; the Bank of Botswana is a separate legal entity, a central bank, audited by an independent statutory public audit firm appointed in accordance with the provisions of Section 67 of the Bank of Botswana Act. These public audit firms are subject to rotation rules, of both the lead engagement partner and the audit firm itself, after a prescribed period of time in accordance with international best practice.

Distinguished Ladies and Gentlemen of the Media, you will also hear from the Director of Research and Financial Stability, Dr Tshokologo Alex Kganetsano, who will lay out the outcomes and explanations for economic developments in 2018, as well as prospects going forward. He will specifically discuss output, inflation, credit and interest rates,

exchange rates, as well as the main components of the balance of payments and their impact on the nation's foreign exchange reserves.

Following the review of economic developments, Dr Kganetsano will summarise the theme topic for 2018, which is "Financing Strategies for Industrialisation and Transition to High Income Status". He will explain that this theme topic is a sequel to the 2016 and 2017 ones; intended to complement and further enrich the policy analysis and prospects for success of the national industrialisation strategy. This is through highlighting areas for improvement, especially relating to funding and related institutional governance and operational effectiveness necessary for beneficial mobilisation and harnessing of financial resources using, where relevant, cross-country examples, such as Brazil, Singapore and the Republic of Korea.

You may recall that, last year I alluded to disharmony or misaligned nexus between a stable macroeconomic environment and weak economic outcomes; specifically insufficient growth rates, high unemployment levels and income inequality, and the resulting slow pace towards attainment of the high-income status. Let me bring to your attention a recent study by the International Monetary Fund on "Growth in Southern Africa: Issues and Reform Options"; it is not contained in the Annual Report; but pertinent for public discourse on the "middle-income" trap.

The study identified three factors that continue to detract from growth prospects and transition to high-income status. First, the lacklustre relative export performance and shrinking tradeable sector. In contrast to countries that attained middle-income status rapidly (in Latin America and South-East Asia, for example), for Botswana, over the last few

years, the private tradeable sector declined as a share of the country's GDP. The second factor relates to the low and declining total factor productivity encompassing land, capital and labour. The third one is the relatively large public sector, including state-owned enterprises, with the resulting sub-optimal delivery of services and utilities, compared to middle-income peers. In their respective country assessments, the rating agencies, Moody's and S & P Global Ratings, also emphasise this last point, namely, the need for a dynamic and expanded role of the private sector in the economy, to achieve economic diversification and inclusive growth. The combination of these factors contributes to declining competitiveness in the country, in terms of access to infrastructure and utilities, skills and, ultimately, tradeable goods and services.

Distinguished Ladies and Gentlemen of the Media, while the analysis is obviously relative and involves country rankings, the Bank suggests that the study provides relevant issues for consideration of policy responses. Notably, this is in the areas relating to the balance between inward versus outward-looking industrialisation options, land economy and management, governance and accountability frameworks of institutions, domestic resources mobilisation and allocative efficiency, capital markets development and skills transformation, among others. I suggest that, to sustain medium to long-term prospects for the economy, diversified and inclusive growth and transition to high-income status, policy should focus on raising potential growth through structural and fiscal reforms, while maintaining sound macroeconomic policy frameworks and a stable financial sector, as well as rebuilding buffers to boost resilience. The 2018 theme topic is, therefore, a contribution in this regard.

Distinguished Ladies and Gentlemen, allow me to introduce to you my colleagues here in the room and, thereafter, call upon the Chief Financial Officer, Mr Daniel Loeto to kick-start the presentations.

I thank you for you kind attention.