

BANK OF BOTSWANA

2020 MEDIA ECONOMIC Briefing - Welcome Remarks

by

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Good morning.

Distinguished, Ladies and Gentlemen of the Media, once again, it is my pleasure, on behalf of the Board, management and staff of the Bank of Botswana, to welcome you to this economic briefing marking the launch and dissemination of the 2019 Bank of Botswana Annual Report, in fulfilment of the Bank's accountability to its key stakeholders, in this instance, members of the fourth estate, Media Practitioners. I also want to take this opportunity to recognise and appreciate your continuing coverage of the Bank's events, including joining us this morning for this economic briefing, notwithstanding the COVID-19 pandemic constraints and related challenges. Communication is increasingly becoming key in our policy "tool-kit", being a means to meet public expectations of a transparent and accountable central bank as well as anchoring policy credibility.

The Bank continues to explore ways and means to increase channels for sharing information with the public, on various aspects of its operations. Therefore, in addition to the revamping of the Bank's website in 2019, other platforms, such as social media, are under consideration.

To recap, Distinguished Members of the Media, 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; therefore, the Annual Report is the primary vehicle for accountability to the nation on the operations and financial performance of the Bank. Also, as a statutory requirement, the Bank publishes a monthly Statement of Financial Position in the Government Gazette and submits an annual Banking Supervision Report to the Minister of Finance and Economic Development by June 30, each year. I am happy to confirm that these statutory requirements have been consistently adhered to throughout the existence of the Bank.

The economic briefing this morning has three parts. First, Chief Financial Officer, Mr Daniel Loeto, will provide highlights of the Bank's financial performance and operations in 2019 and updates, where relevant. Second, it is a tradition that the Annual Report also includes a review of economic

developments and outlook. The review provides an analytical context and explanations for economic developments and prospects, as well as background to policy conduct and operations by the Bank. This will be presented by Dr Tshokologo Alex Kganetsano, Director, Research and Financial Stability Department.

Dr Kganetsano's presentation will include an overview of structural features of the Botswana economy, including the related challenges of slow progress on economic diversification, evidenced by continuing over-reliance on a single commodity for exports, government revenues and growth. Notwithstanding the current environment of extreme volatility and uncertainty in global economy and markets, the presentation will also cover economic outlook for 2020 and prospects for recovery in 2021. It suffices for me to indicate that the locomotives of the Botswana's economic growth performance, namely, the diamond revenues and catalytical role of the government activities, would be severely constrained by the COVID-19 pandemic amidst a macroeconomic shock which, according to many commentators, is estimated to likely lead the global, regional and domestic economy into a recession of uncertain magnitude and duration; most likely not experienced since the Great Depression of the 1930s.

The third presentation will be a summary of the theme topic for the 2019 Annual Report, on *“Central Bank Governance and Functions in Pursuit of Price and Financial Stability”* by Deputy Director in the Research and Financial Stability Department, Mr Innocent Molalapata. This theme topic is intended to explain the role of central banks in the economic management of any country, evolving institutional structures, mandates and objectives. Among others, Mr Molalapata will highlight the importance and linkages of the triad of central bank operational autonomy, transparency and accountability in facilitating effective discharge of the central bank mandates and maintenance of macroeconomic stability, attainment of inclusive and sustainable economic growth. He will also reinforce the need for central bank adaptability in an environment of fast and disruptive developments in financial technology, aligned to the nation’s aspirations for digital transformation and knowledge-based economy.

Distinguished Members of the Media, in tying together the various strands out of the presentations to be delivered by my colleagues this morning, some key messages become apparent, clearly suggesting that the current growth model for Botswana will, going forward, be difficult to sustain. First, that a key driver of economic and welfare prospects for Botswana, namely, the export potential has, over the last few

years, faltered and shrunk as a proportion of GDP; therefore there is an urgent need for rejuvenation by redesigning the country's industrial policies to promote exports and, given the size of the domestic market, to grow the private sector through a better integration into regional and global value chains. Second and related thereto is that, despite the large public investment in infrastructure and related social spending by Government, as well as policy output dedicated to the economic diversification efforts, the narrow economic base persists, with limited success on economic diversification. This will require development of the non-tradeable sector and address gaps in the quality of the regulatory frameworks, human capital and innovation to boost global competitiveness. The third aspect relates to prospective transition to structural fiscal and balance of payments deficits and the consequent decline of the official foreign exchange reserves. In this regard, and with an eye on slowing the depletion of external and fiscal buffers, there is need to enhance domestic resource mobilisation, by broadening the tax base, increase the progressivity of the personal income tax, streamlining and rationalisation of distortionary subsidies and VAT exemptions. Furthermore, and with the right governance architecture, there is considerable scope for enhanced and more optimal domestic borrowing programme to tap into resources accumulated by the retirement funds,

annuity providers and other institutional funds for infrastructure financing and increasing the productive capacity of the economy. Having said the above, I am not inviting you, the Media, to discuss with the Bank fiscal policy options; this is the preserve of elected government, and, in this regard, led by the Ministry of Finance and Economic Development.

However, I can say, without risking any transgression into the fiscal policy space that, subject to the effectiveness of the policy responses and the success of the transformation agenda, the issues I outlined above have the potential to undermine the resilience of the economy to any future economic shocks including the effects of climate change, prolonged droughts and water scarcity, as well as erosion of macroeconomic policy discretion hitherto provided by strong fiscal and external buffers. It is, therefore, important to reinforce the focus on the Vision 2036 aspirations to achieve high-income status and inclusive diversified growth. The thrust required is to galvanise efforts towards structural and economic transformation as well as harnessing opportunities enabled by the fourth industrial revolution by upscaling investment on digital infrastructure, adoption of ICT and digital skills. Global competitiveness reports suggest that Botswana lags peer countries in this regard. This speaks to

the need for accelerated digital transformation and pace of e-Government agenda to increase efficiency, the result of which should be easing of policy implementation constraints and focusing resources on more impactful programmes. Comparative country studies and experiences suggest that deliberate promotion of large-scale industries and dedicated implementation of industrialisation policies would be instrumental to successful escape from the middle-income trap and transition to high-income status. In addition, and coincidentally, in February this year, the Bank, in collaboration with the International Monetary Fund and other development partners, concluded a workshop in Kasane on “Fostering Diversification to Escape the Middle-income Trap” for Botswana. The Workshop benefitted from contributions by representatives of countries such as Chile, Costa Rica, Estonia, Mauritius and South Korea, which are considered to have been successful in advancing export and economic diversification. These countries made progress towards high levels of income by implementing outward-looking policies and fostering the growth of competitive product markets.

The Bank of Botswana remains fully aligned to the long-term economic objectives of the country, and focussed on its mandate to contribute to macroeconomic stability, financial sector development and, also, financial inclusion to support

broad-based, durable economic development. The envisaged modernisation of the Bank of Botswana Act and the institutional governance arrangements should help strengthen the Bank's performance and roles in this regard. As Mr Molalapata will ably demonstrate, an effective central bank is key to durable and sustainable economic performance and, for Botswana, prospects for transition to high-income status. Distinguished Guests, in this instance, an effective central bank is defined as having de jure operational autonomy, transparent and accountable.

Distinguished Ladies and Gentlemen of the Media, following the presentations, as always, the Bank benefits immensely from your observations, questions and comments on these various subjects.

At this stage, allow me to introduce my colleagues here in the Auditorium and then call upon the Chief Financial Officer, Mr Loeto, to kick-start the presentations.

I thank you very much for your kind attention.