Republic of Botswana

Official Launch of the 2023/2024 Government Borrowing Strategy and Issuance Calendar

BY

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Gaborone
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- Director of Ceremonies
- Governor of the Bank of Botswana, Mr. Moses D. Pelaelo,
- Permanent Secretary in the Ministry of Finance, Mr. Olesitse H. Masimega;
- Senior Government Officials here present;
- Executive Committee Members of the Bank of Botswana,
- Representatives of Capital Market Regulators,
- Representatives of Primary Dealers and Brokers,
- Invited Guests,
- Members of the Media,
- Ladies and Gentlemen.

Good Morning.

1. Firstly I would like to express my sincere delight to all of you convened here this morning, to witness this momentous occasion in the history of Botswana Government bond market, the maiden launch of the Government Borrowing Strategy and Auction Calendar. This occasion is of paramount importance looking at the recent economic development.

2. The global economy is currently facing a combination of shocks which continue to have adverse implications on various economic jurisdictions. These include scarring lagging effects the COVID-19 pandemic, the current war in Ukraine and the other emerging challenges such as climate change risks. These developments have, among others, led to disrupted global supply chains, increased commodity prices and in the process elevated inflation beyond historical trends, necessitating for a synchronized global monetary policy tightening across the globe.

3. Global growth has therefore been revised downward in 2023 by the International Monetary Fund in its latest (April 2023) release of the World Economic Outlook. In this regard, the world economy is estimated to slow to 2.8 percent in 2023 from 3.4 percent in 2022. Consistent with these developments, the Emerging Market and Developing Economies and the sub-Saharan Africa are also expected to grow slower in 2023. The SSA region is expected to record a slow growth of 3.6 percent in 2023 compared to 3.9 percent in 2022. More specifically, the SACU region is projected to decelerate to 0.4 percent in 2023 from 2.3 percent the previous year.

Much of this slowdown, is due to a weak economic growth outlook in the South African economy as a result of various factors such as the ongoing power supply constraints and the grey listing by the Financial Action Task Force in February 2023. While these pose a challenge to the domestic economy, Government stands ready to take corrective measures including, among others, ensuring a more reliable power supply domestically in order to guard against potential limited supply from external sources. Other measures include, ensuring a more entrenched diversification towards industries with lucrative value chains in order to grow the country's export base.

4. Domestically, the economy grew by 5.8 percent in 2022 compared to 11.9 percent recorded in 2021. This growth was largely driven by the non-mining sectors of water & electricity (48.6 percent), diamond traders (17.6 percent) and manufacturing (8.2 percent). In 2023, in line with global trends, domestic economic growth is expected to slow down to 4.0 percent, on account of weak demand for rough diamonds. In this regard, the non-mining sector is expected to continue to play a key role in driving the domestic economy in 2023. Specifically growth is expected to be driven by wholesale & retail services, as well as accommodation and food services.

5. Meanwhile, the financial sector is also expected to play a significant role during due to a strong performance of the banking industry as banks expand their services and financial products. Overall, the financial sector is estimated to grow by 3.4 percent and 4.0 percent in 2023 and 2024, respectively, from the 2.3 percent realized in 2022.

6. Ladies and Gentlemen, this morning's event is the culmination of an ambitious and daring journey, which Government embarked upon back in March 2003. That is when Government started to issue bonds, in accordance with the then Stock, Bonds and Treasury Bills Act, 1976 (later to be re-enacted with amendments, as the Stock, Bonds and Treasury Bills Act, 2005). This issuance was initially quite modest, constituting three bonds with maturities of two years, five years and twelve years. BW002, with a five year maturity, was the first ever Government Bond, issued in March 2003, and was followed by BW003 (12 years) and BW001 (2 years), in the next two months.

7. In 2004, the Bond Issuance Note Programme was formalised, enabling the issuance of both Government bonds and Treasury Bills, up to a limit of P5 billion. The objective of this Programme was primarily to support the development of the domestic capital market, given that Government was generally running budget surpluses and did not need to borrow to finance its spending.

Issuance under the Programme reached the limit in September 2010, after which Parliament approved the raising of the limit from P5 billion to P15 billion in February 2011. Under the expanded Bond Issuance Programme, bonds with maturities as long as 18 and 25 years were issued. This was particularly useful in the pricing of corporate bonds with similar maturities, and to investors, specifically pension funds and insurance companies, who preferred longer dated securities to match the duration of their longer term liabilities. The extension of bond maturities meant that the risk-free yield curve, which is based on the pricing of government securities, now covered a full spectrum of bond durations needed by the domestic capital market.

8. The upper limit on the P15 billion Bond Issuance Programme was doubled to P30 billion, following Parliamentary approval in September 2020 when the domestic debt outstanding had reached the upper limit of P15 billion. This assisted with interventions by Government to address the economic and financial disruption brought on by the COVID-19 pandemic, as the proceeds from borrowing were used to finance the budget.

It is also worth noting that the nation has benefited from previous bond issuance as some of the proceeds were used to fund the construction of the Botswana International University of Science and Technology (BIUST) and the University of Botswana Medical School.

9. Ladies and gentlemen, it is indisputable that our bond market had garnered tremendous growth over this 20 year-long sustained presence of Government. This illustrates Government's commitment to the overall development of our capital market. The announcement of new legal instruments and formation of regulatory bodies, acquisition of improved financial market infrastructure, expansion in terms of quantum of issuance, increased frequency of issuance, diversity of market participants as well as instruments over these years, are some noteworthy successes.

10. The 2023/2024 Government Borrowing Strategy and Issuance Calendar outlines Government's total financing strategy in the domestic capital market, and its specific intentions for the issuance of its debt securities. It will provide the market with preliminary information on the Treasury Bills and Government Bonds to be issued during the year, the timing of issuance as well as other possible special operations, such as bond buybacks and switch auctions.

11. Formulating this strategy and issuance calendar took into account Government's objectives for financing, managing risk as well as domestic market development. Consideration was also made for macroeconomic conditions, monetary policy, as well as investor preference.

12. The new issuance calendar has been revamped to include additional details, which will provide market participants with better transparency, predictability, as well as a more secure basis from which they will be able to formulate their investment decisions. From the issuer's perspective, the borrowing strategy and issuance calendar will provide potential cost-saving, as well as an enhanced potential for liquidity in the secondary market.

13. Ladies and gentlemen, despite the impressive achievements of our domestic bond market, our domestic capital market is still facing challenges that we collectively have to surmount. The secondary market for Government securities is still characterised by lack of liquidity, stemming from a high degree of instrument fragmentation as well as a relatively narrow investor base. The results of this structural feature is the payment of a premium by issuer (and ultimately the taxpayer) to investors, to compensate them for the risk of holding relatively illiquid securities.

14. Therefore Government, with the invaluable assistance from our multilateral development partners such as the International Monetary Fund (IMF), is actively engaged in identifying deficiencies and implementing reforms in the various sub-sectors of the domestic bond market. A Local Currency Bond Market Technical Mission was conducted by the IMF back in August 2022. The Mission identified several potential areas for improvement across all the building blocks of the domestic bond market, including money market transparency, legal framework for repo transactions, primary market pricing and predictability of issuance, secondary market liquidity and depth, investor relations management, as well as clearing and settlement risks associated with our financial market infrastructure are some of the crucial potential areas for reform.

15. The endeavour to develop and launch a borrowing strategy by Government, which has taken into account the current economic landscape, underscores the importance and the need to enhance transparency and accountability in the management of public debt. Botswana, like the rest of many emerging market countries has witnessed a deterioration of fiscal position as well as increased accumulation of debt in recent times.

Over the medium-term, external as well as domestic debt financing instruments will be a prominent feature of the fiscal budget, as Government continues to roll out the post-pandemic Economic Recovery Plan as well as the Transitional National Development Plan.

16. Ladies and Gentlemen, let me hasten to assure you that through the course of all this, domestic market development will remain a priority for Government. The gradual shift in the composition of the Government debt portfolio, which began in 2020, has seen the share of domestic debt as a proportion of total debt outstanding surpassing external debt for the first time. The reduction in the external debt composition has significantly limited exchange rate risk exposure.

17. Ladies and Gentlemen, while the focus today is on the domestic market, there are also plans to make footprints in global markets as Government may embark on international roadshows.

18. With those remarks, I declare the 2023/24 Government Borrowing Strategy and Issuance Calendar document officially launched, on this day 13th June 2023.

19. I thank you for your attention.

20. Pula!