FINANCIAL STABILITY COUNCIL

November 3, 2023

PRESS RELEASE

FINANCIAL STABILITY COUNCIL MEETS

The Financial Stability Council (FSC/Council) met on November 2, 2023, to assess conditions in the financial sector, related developments and vulnerabilities, evaluate emerging and prospective issues, and to consider the need for policy and regulatory responses, as necessary, with a view to ensuring maintenance of financial stability.

Financial stability prevails when financial markets and institutions (banks, non-bank lenders, insurance companies, pension funds, payments infrastructure and platforms and related entities) are broadly able to provide financial services including deposit taking, granting of loans, providing insurance, wealth/fund management and advisory, custody, as well as payments and settlement facilities to support a widening range of economic activity and inclusivity.

The FSC's assessment is that the domestic financial system remains resilient, robust, safe, sound and unconstrained in providing, innovating, and growing the range of financial services to support the economy and that it is well supported by policy and regulatory frameworks.

The Council observed that risks to financial stability mainly relate to global and regional developments and include high interest rates to combat inflation and, therefore, adversely affecting debt servicing and sustainability for sovereigns (governments), businesses and households; the threat to viability of banks with business models premised on maintenance of low and stable interest rates; as well as economic and trade disruptions induced by geopolitical tensions and economic fragmentation. Nevertheless, the global financial system remains stable and resilient to shocks, underpinned by effective post-2008/09 global financial crisis regulatory reforms and continuous improvement of supervisory frameworks.

Domestically, the resilience and effectiveness of the financial system in providing financial services to the economy is anchored on strong capital and liquidity buffers, profitability, continuous innovation and adaptability, as well as an enabling and robust regulatory environment. The macroeconomic environment is also conducive for financial stability, underpinned by positive economic growth, well-managed government fiscal position, modest inflation and, therefore, commensurate interest rates, supported by predictable and effective macroeconomic policy frameworks. Accordingly, financial sector vulnerabilities remain generally contained and risks mitigated. Notably, stress tests for banks (to assess the potential impact of various shocks) validate strong solvency and resilience.

The Council noted that contagion risk (that is, a weakness in one of the elements of the financial system could easily cascade into others) engendered by extensive and deep macro-financial linkages between commercial banks, non-bank financial institutions (NBFIs), the non-financial sector (Government, corporates and households) and the external sector is mitigated by effective supervision and strong liquidity and capital positions across the financial system.

In relation to credit risk, it is observed that commercial bank lending remains moderate and commensurate with the rate of increase in gross domestic product (GDP) and, at below four percent, the ratio of non-performing loans to total loans is relatively modest; thus, credit developments pose minimal risk to financial stability. To that extent, credit extension remains positive for economic activity and welfare enhancement.

Regarding Anti-Money Laundering/Counter Financing of Terrorism/Counter Proliferation Financing (AML/CFT/CPF) matters, the Council noted that Botswana remains steadfast in its commitment to improving legal frameworks, policies and action plans to ensure effective compliance with Financial Action Task Force recommendations, as well as enforcing adherence by regulated institutions.

The Council alluded to the need to be adaptive and responsive in relation to emerging issues and innovation such as financial technology, digitalisation, cybersecurity, as well as climate change. It was noted that these entail implications for performance, viability and resilience of the financial sector. Thus, the need for policy making and regulation to be facilitative, while at the same time maintaining safeguards for integrity and stability of the financial system. In this regard, the Council committed to be steadfast in combatting misconduct, illegal deposit taking and fraud, which can undermine consumer confidence in financial services and detract from positive innovation and financial inclusion.

The Council recognised that regulatory effectiveness, risk mitigation and containment of vulnerabilities has been enhanced through recent review, modernisation and strengthening of legislation. The reviews apply to anchor laws such as the Bank of Botswana Act, reviewed and effected on February 14, 2023; the Banking Act, re-enacted and published as an Act of Parliament on May 26, 2023; as well as the Non-Bank Financial Institutions Regulatory Authority (NBFIRA) Act, 2023; the Financial Intelligence Agency (FIA), 2022; and the Virtual Assets Act, 2022, among others.

Notably, the Bank of Botswana (Amendment) Act provides for establishment of the Deposit Insurance Scheme of Botswana (DISB), through regulations, to promote financial stability by enhancing public confidence in the safety of deposits and promoting stability of member institutions. The DISB Regulations, outlining the governance arrangements and establishment of the deposit insurance fund, came into operation on July 21, 2023. The DISB guarantees repayment of a protected deposits up to a maximum of P250 000 per depositor per member institution in the event of failure of a member institution.

The Council affirms the commitment to monitoring financial sector developments and vulnerabilities, and responding appropriately to threats to financial stability and contributing to related legal, policy and institutional improvements.

A comprehensive assessment of the domestic financial stability risk profile is contained in the October 2023 Financial Stability Report.

Note to Editors

The FSC is a statutory body established by the Bank of Botswana (Amendment) Act, 2022. The Council consists of five members, being the Governor of the Bank of Botswana (Chairperson), Permanent Secretary of the Ministry of Finance; Chief Executive Officer, NBFIRA; Director General, FIA; and Director, DISB; while the Chief Executive Officer, Botswana Stock Exchange Limited is an observer, thus a non-voting, member.

Financial system: *refers to commercial banks, NBFIs such as micro lenders, insurance companies, fund managers and related entities, stockbrokers, as well as systems or entities that facilitate payments and settlement.*

Deposit insurance: *deposit insurance is a form of insurance against loss of deposits, which guarantees repayment of protected deposits in the event of failure of a member institution which is licenced to operate banking or deposit taking business.*

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