



**REPUBLIC OF BOTSWANA
MINISTRY OF FINANCE**

May 5, 2023

PRESS RELEASE

FINANCIAL STABILITY COUNCIL MEETS

The Financial Stability Council (FSC/Council) met on May 5, 2023, to deliberate on domestic financial stability developments including sectoral performance and regulatory issues, as well as evaluation of the impact of current and prospective regional and global financial developments.

Following the deliberations, the Financial Stability Council concluded that:

- (a) the domestic financial system remains resilient and robust, and continues to be safe and sound, as well as unconstrained in providing and growing the range of financial services to support the economy;**
- (b) the high interest rates and constrained supply of credit globally (tightening of financial conditions), elevated inflation, uncertain economic prospects and geopolitical risks pose a risk to domestic financial stability; and, therefore,**
- (c) there is need to maintain robust monitoring frameworks for risks and vulnerabilities and, where necessary, implement appropriate policies to mitigate risks and maintain financial stability.**

Globally, risks to financial stability have increased since the last meeting of the FSC in November 2022 on account of subdued and fragile global economic performance, high inflation, and resultant tighter global financial conditions (increase in interest rate or borrowing costs), as well as the risk of reversal of global economic integration (geo-economic fragmentation). Notably, the tighter financial conditions contributed to acute stress for financial institutions that, hitherto, were sustained by a low interest rate regime; thus, leading to recent cases of bank failures in the United States of America and Switzerland. The lessons in this regard are the need for awareness of financial stability considerations in the formulation of monetary policy and the importance of potent and effective bank and crisis resolution frameworks. Notwithstanding, the global financial system remains stable and resilient anchored by robust supervisory frameworks.

Regionally, risks to financial stability relates to weak and uncertain economic growth prospects for Sub-Saharan Africa, as well as the inclusion of Nigeria and South Africa (two of the biggest economies) in the list of jurisdictions under increased monitoring (greylisting) by the Financial Action Task Force (FATF) in February 2023. It is noted, however, that this greylisting does not result in immediate economic and financial stability implications for Botswana. Nevertheless, in the context of extensive economic links between Botswana and South Africa, it is important to sustain adherence to the applicable Anti-Money Laundering/Counter Financing of Terrorism/Counter Proliferation Financing (AML/CFT/CFP) requirements as both countries strive to ultimately maintain full compliance. It is observed that full compliance ultimately augurs well for growth prospects engendered by trade opportunities, as well as legitimate and beneficial financial flows.

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, as well as an enabling and robust regulatory environment. The macroeconomic environment is also conducive for financial stability, underpinned by positive economic fundamentals and effective macroeconomic policy frameworks. Accordingly, financial sector vulnerabilities remain generally contained and risks mitigated.

Sectorally, the strong macro-financial linkages between banks, non-bank financial institutions (NBFIs), the non-financial sector (Government, corporates and households) and external sector remain, with potential for contagion risk; where a weakness in one of the elements of the financial system cascades to others. However, effective prudential regulation and supervision, and the strong liquidity and capital positions across the financial system, continue to mitigate this risk.

For the banking system, domestic credit growth remains moderate and commensurate with the rate of increase in gross domestic product (GDP), thus posing minimal risk to financial stability. Household debt continues to drive bank credit, accounting for 67 percent of total credit in February 2023. Nevertheless, at 21.3 percent of GDP, the level of household debt in Botswana is relatively modest, while the ratio of non-performing loans to total loans was low at 3.8 percent in December 2022.

The NBFIs sector continues to grow in a sound and sustainable manner as indicated by adequate capital and solvency ratios as well as profitability. There is some notable recovery in the domestic capital market, reflected in the appreciation of key market indices, while financial market infrastructures remain stable and robust.

Important market developments include increasing digitalisation of the financial system that encompasses enhanced accessibility of financial services. In this regard a commensurate level of investment on cyber-crime mitigation strategies, including security of systems and public awareness campaigns, is necessary to prevent the use of digital channels for fraudulent purposes.

Regarding AML/CFT/CFP matters, Botswana is committed to improving its policies, legal frameworks and action plans following removal from the FATF greylist and the European Union's list of high risk third countries to ensure full compliance with most of the FATF recommendations. Accordingly, the National Risk Assessment for Botswana is ongoing, and it is expected to be completed in August 2023.

It is further noted that the promulgation of the Bank of Botswana (Amendment) Act, 2022 (the Act) strengthens maintenance of financial stability. Specifically, the Act

gives legal backing for the Bank of Botswana's financial stability responsibility, which ranks second to price stability. The Act also elevates the FSC to a statutory body, thus legally enabling its collaborative and monitoring roles, as well policy responses and enforcement. Furthermore, the Act extends the breadth of domestic financial safety nets by establishing a Deposit Insurance Scheme for Botswana (DISB). The DISB will cover a prespecified level of deposits against losses in case of failure of member financial institutions.

The Council affirms its commitment to maintaining adequate frameworks for monitoring financial sector developments and vulnerabilities, ensuring the maintenance of risk mitigation arrangements, responding appropriately to threats to financial stability and contributing to related legal, policy and institutional improvements.

In relation to global cooperation in the fulfilment of the financial stability agenda, the Bank of Botswana will host the FSB Regional Consultative Group for Sub-Saharan Africa (FSB RCG SSA) meeting on May 31 to June 1, 2023, in Kasane, to discuss pertinent issues for the region and abroad.

A comprehensive assessment of the conditions likely to affect the stability of the domestic financial system is contained in the May 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, Financial Intelligence Agency; and Director, DISB; while the Chief Executive Officer, Botswana Stock Exchange Limited is an observer, thus non-voting, member.

FSB RCG SSA - The FSB was established in 2009 as an international body responsible for monitoring global financial stability. In 2011, the FSB established six

RCGs in the Americas, Asia, Commonwealth of Independent States, Europe, Middle East and North Africa, and SSA region to demonstrate global engagement and coordination, while entrenching its work in the global financial stability agenda. Central banks, supervisors, securities regulators and ministries of finance are members of the RCG. The FSB RCG SSA comprises Angola, Botswana, Ghana, Kenya, Mauritius, Namibia, Nigeria, South Africa, Tanzania, Uganda, Zambia, Bank of Central African States (Banque des États de l'Afrique Centrale, BEAC) Central Bank of West African States and (Banque Centrale des États de l'Afrique de l'Ouest, BCEAO).

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.

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