REPUBLIC OF BOTSWANA
MINISTRY OF FINANCE

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PRESS RELEASE

FINANCIAL STABILITY COUNCIL MEETS

The Financial Stability Council (FSC/Council) met on May 3, 2022, to deliberate on domestic financial stability developments including regulatory issues, performance and prospects for the domestic financial system and considering recent and prospective regional and global developments. The domestic financial system is thus far resilient to the COVID-19 shock and continues to support the real economy. However, there are emerging risks pertaining to among others, the consequences of the Russia-Ukraine war; exposure to cyber threats due to increasing usage of technology; uncertain employment prospects as businesses restructure and hence, possible increase in loan repayment defaults, pension withdrawals and early redemption of insurance policies.

Risks to global financial stability associated with the COVID-19 pandemic have thus far been contained, in an environment of accommodative monetary policy and expansionary fiscal policy measures as well as the re-opening of economies. However, global financial conditions have tightened, as policy interest rates are being raised, and the risks of lower global economic growth have increased following the outbreak of the Russia-Ukraine war. The war has, therefore, added to existing vulnerabilities built up during the pandemic, therefore accentuating the potential to destabilise the global financial system. Moreover, the adverse economic and price rising effects of the war further complicate the policy trade-off between safeguarding economic recovery and containing inflation.

Domestically, the Council noted that the macroeconomic environment remains conducive for financial stability despite sovereign vulnerabilities (i.e., reduced fiscal and external buffers) due to the current depressed global economic environment combined with long-term structural trends. The domestic macroeconomic environment will, however, continue to be shaped by the economic and price effects of the Russia-Ukraine war, COVID-19 profile and related containment measures and associated supply disruptions. The prevailing tight global financial conditions, which translate into high interest rates and, therefore, reduced access to credit and the likelihood of higher credit default risk, could spill over and test the resilience of the domestic financial system. Meanwhile, the domestic financial system continues to perform the expected function of financing other sectors of the economy, given the strong capital and liquidity position, profitability, as well as an enabling and effective regulatory environment.

Accordingly, the FSC observed that, overall, vulnerabilities to the domestic financial system are generally contained. Credit growth remains moderate and commensurate with the rate of increase in GDP, thus posing minimal risk to financial stability. Commercial bank credit grew by 4.6 percent in the year to February 2022 compared to 3.6 percent in the corresponding period of 2021. Household debt continues to drive bank credit, at P45.9 billion and constituting 66.4 percent of total credit in February 2022; nevertheless, at 23.5 percent of GDP, the level of household indebtedness remains modest. The ratio of non-performing loans to total loans remains relatively low at 4.8 percent in February 2022.

The continuing fall in excess market liquidity due to persistent foreign exchange outflows is likely to moderate following improvements in diamond sales. Nevertheless, ongoing geopolitical tensions continue to shape the diamond market dynamics.

The insurance and pensions sector continues to be solvent and liquid, although escalating claims associated with COVID-19 related deaths challenged profitability in the insurance business. Furthermore, there was notable recovery in the domestic capital market, as reflected in increased trading activity and liquidity in the Botswana Stock Exchange (BSE) during 2021 and into the first quarter of 2022. Asset prices have remained generally stable since the October 2021 Financial stability Report (FSR).

The existing macro-financial linkages between banks, non-bank financial institutions (NBFIs), the non-financial sector (government, corporate and households) and the external sector remain extensive and strong and pose a risk of contagion, where a weakness in one of the elements of the financial system cascades to others. Nevertheless, the risk is moderated by effective prudential regulation and supervision of the domestic financial system.

Risks from Anti-Money Laundering/Counter Financing of Terrorism/Counter Proliferation Financing (AML/CFT/CFP) deficiencies are expected to moderate following the removal of Botswana from the Financial Action Task Force (FATF) grey list and the European Union's list of high risk third countries.

On financial market infrastructures (namely payment systems, central securities depository and securities settlement systems), the FSC noted that they remain stable and robust thus, promoting domestic financial stability. A notable development is the increased digitalisation of the financial system given the increased uptake of more cost-efficient, safe, secure and convenient digital/electronic payment instruments. Concomitantly, the use of cheques in Botswana will be discontinued effective January 1, 2024. The enhanced efficiency and potential for financial inclusion engendered by digitalisation should ensure sustenance of well-functioning domestic payments systems that support monetary policy transmission, economic activity, as well as maintenance of financial stability.

Finally, the FSC noted that the Bank of Botswana introduced monetary policy reforms as announced in February 2022 and which came into effect on April 28, 2022, to enhance policy transmission and potency. The reforms include the decision to adopt the Monetary Policy Rate (MoPR) as the new policy signalling rate in place of the Bank Rate. The overarching objective of these reforms is to afford a direct link between the monetary policy stance or changes and the setting of deposit and lending interest rates by commercial banks. As a result, commercial banks would appropriately channel the policy stance or changes to their depositors and borrowers; accordingly influencing their respective economic decisions to align with the desired impact of monetary policy on the economy.

A comprehensive assessment of the conditions likely to affect the stability of the domestic financial system is contained in the Financial Stability Report to be published in May 2022.

Collectively, the financial system refers to commercial banks, non-bank financial institutions, such as micro-lenders, insurance companies, fund managers and related entities, stockbrokers, as well as systems and entities that facilitate payments.

Note to Editors*: The FSC was officially launched in February 2019 to foster and promote financial stability by coordinating the development of regulatory, supervisory, and other financial sector policies in recognition of the interconnectedness across markets and institutions. It comprises Chief Executive Officers of the Ministry of Finance (MoF), the Bank of Botswana, Non-Bank Financial Institutions Regulatory Authority (NBFIRA), and Financial Intelligence Agency (FIA). These authorities have signed a Memorandum of Understanding (MoU) for the purpose of information sharing, cooperation, and communication in the implementation of the Macroprudential Policy for Botswana. The Botswana Stock Exchange Limited (BSEL) became an observer member in June 2021.*

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