



**REPUBLIC OF BOTSWANA  
MINISTRY OF FINANCE**

**November 3, 2022**

**PRESS RELEASE**

**FINANCIAL STABILITY COUNCIL MEETS**

**The Financial Stability Council (FSC) met on November 1 and 2, 2022, 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. It was observed that, thus far, the domestic financial system remains resilient and robust; thus, continues to be safe and sound; as well as unconstrained in providing and growing the range of financial services to support the economy. However, there are potential risks to the stability of the domestic financial system emanating from the negative effects of the Russia-Ukraine war and other geopolitical tensions; continued exposure to cyber threats due to increasing usage of technology, as well as climate-related financial risks. These risks will continue to be monitored and, where necessary, relevant macroprudential policy tools implemented to contain emerging vulnerabilities that could elevate risks to financial stability.**

Globally, risks to financial stability have increased since the last meeting of the FSC in May 2022, against the background of subdued and fragile global economic growth; high inflation and resultant tighter global financial conditions (increase in interest rate or borrowing costs); persistent geopolitical tensions; as well as the scarring and/or lingering effects of the COVID-19 pandemic. While sustained focus on price stability is necessary,

the rise in interest rates is likely to moderate the rate of credit growth and, in general, increase risks of default by the non-financial sector in most countries.

Domestically, the resilience and effectiveness of the financial system in providing financial services to the economy is anchored by strong capital and liquidity buffers, profitability, as well as an enabling and effective regulatory environment and conducive macroeconomic conditions. Notably, stress tests for banks (to assess the potential impact of various shocks) validate strong solvency and resilience.

Accordingly, vulnerabilities remain generally contained in the financial and non-financial sectors. 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 constitute a larger proportion of bank credit, accounting for 64.8 percent of total banking credit in September 2022. Nevertheless, at 24 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 September 2022.

The reduction in market liquidity, partly due to foreign exchange outflows, is likely to moderate going forward, supported by strong diamond revenue in the short to medium term. Meanwhile, the risk of contagion, whereby any weaknesses in one of the constituent elements of the macro-financial system cascades to others, remains elevated due to strong and concentrated sectoral linkages. Nevertheless, the FSC notes that, save for subdued economic growth and volatile global markets, there were no discernible areas of weakness in the domestic economy likely to impair financial stability in the short to medium-term.

The Non-Bank Financial Institutions (NBFIs) sector remains financially sound and stable as attested by increase in assets and capital adequacy levels. There is also some notable recovery in the domestic capital market as reflected in the appreciation of key market indices and improved turnover (that is, liquidity) during the period January 1, 2022, to September 30, 2022, while financial market infrastructure (that is, payment and settlement systems and central securities depository) remain stable and robust thus, promoting domestic financial stability.

Regarding Anti-Money Laundering/Counter Financing of Terrorism/Counter Proliferation Financing (AML/CFT/CFP) matters, Botswana is committed to improving its policies, legal frameworks and action plans following removal from the Financial Action Task Force (FATF) grey list and the European Union's list of high risk third countries to ensure full compliance with most of the FATF recommendations. Accordingly, preparatory work has commenced towards conducting the second National Risk Assessment for Botswana in 2022/23.

The Council also acknowledged new legislation and regulations designed to, among others, enhance the robustness of the domestic financial system and contribution to economic development, as well as crisis management and resolution frameworks (orderly management and/or exit of failing institutions, while protecting savers/depositors, in particular). Thus, the Bank of Botswana (Amendment) Act, 2022 introduces new provisions to enhance the Bank's powers to achieve the price and financial stability mandates. The Act provides for the establishment of a Deposit Insurance Scheme, as well as establishment of a statutory FSC. In this regard, background work on legal and institutional arrangements to establish the Deposit Insurance Scheme in 2023 is ongoing.

The Retirement Funds Act, 2022 has been aligned to modern international standards in terms of supervision and management of pension funds by strengthening and widening the oversight authority of the Non-Bank Financial Institutions Regulatory Authority (NBFIRA). Meanwhile, the Credit Information Act, 2021, which came into effect on August 1, 2022, aims to facilitate the regulation of the credit reporting system and the licensing and supervision of credit bureaux by the Bank of Botswana to promote productivity and sustainability of credit, as well as related fair business conduct.

The Council affirmed commitment to policy and regulatory responses, where necessary, to address any risks to the financial system and to ensure smooth transition and implementation of new legislation and regulations, with a view to ensuring attainment of their desired objectives.

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

**Note to Editors:**

- (i) The FSC was officially launched in February 2019 through a Memorandum of Understanding (MoU) and comprises the Permanent Secretary of Ministry of Finance (MoF), Governor of the Bank of Botswana, Chief Executive Officer of NBFIRA, and the Director General, Financial Intelligence Agency (FIA). Its primary objective is to identify, monitor and take proactive action to any emerging threats to the resilience and stability of the Botswana financial system as a whole.*
- (ii) With the promulgation of the Bank of Botswana (Amendment) Act, 2022, the FSC shall be a statutory Committee. Specifically, Section 20 (54B) of the Bank of Botswana (Amendment) Act, 2022 is responsible for: (a) preserving the stability of the financial system; (b) ensuring cooperation between its members with respect to the assessment of the build-up of economic and financial sector systemic risks in Botswana; (c) developing coordinated policy responses to risks including crisis management; and (d) making recommendations, issuing warnings or opinions addressed to regulatory bodies regarding financial institutions. The composition of the FSC has been expanded to include the Director of the Deposit Insurance Scheme. Meanwhile, the Botswana Stock Exchange Limited (BSEL) became an observer member in 2021.*
- (iii) Definition of financial system – collectively, the term “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 or entities that facilitate payments.*

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