



REPUBLIC OF BOTSWANA

MINISTRY OF FINANCE AND ECONOMIC DEVELOPMENT

May 12, 2021

## FINANCIAL STABILITY COMMITTEE MEETS

### PRESS RELEASE

The Financial Stability Committee (FSC) met on April 27 and May 10, 2021 to deliberate on recent developments in the financial sector, as well as address regulatory and public interest issues relating to the stability, performance and prospects for the domestic financial system.

The FSC identified and discussed recent global, regional and domestic developments that impact on the performance and resilience of the financial sector amid the devastating impact of the COVID-19 pandemic on the lives and livelihoods of Batswana. The FSC acknowledged the pre-existing financial stability vulnerabilities for Botswana as follows:

- (a) extensive exposure to, and over-reliance of the economy on, the external sector and Government;
- (b) narrow economic base (that is, lack of economic diversification), hence lower resilience to shocks;
- (c) enduring sectoral interlinkages, involving reliance by banks on funding by non-bank financial institutions;
- (d) emergence of innovative market products, payment platforms and services, requiring quick policy and regulatory adaptation; and

- (e) continuance of the listing of Botswana in the European Union List of high-risk third countries with AML/CFT compliance deficiencies.

Nevertheless, the FSC observed that this was against the background of, first, prospects for economic recovery supported by the marked improvement in global market sentiment, the rollout of the COVID-19 vaccine and ongoing policy support, locally, the Economic Recovery and Transformation Plan, as well as accommodative monetary policy. Second, maintenance of transparent and predictable policies and, therefore, a stable macroeconomic environment, supportive of progressive financial sector activity and stability. Third, the financial system continues to be resilient, despite the adverse effects of COVID-19, characterised by strong capital and liquidity buffers, and remains profitable, adaptive and innovative.

The FSC noted that, overall, vulnerabilities that could elevate risks to financial stability have, thus far, been generally contained. In particular, commercial bank credit growth and corporate leverage remain moderate, with a modest ratio of non-performing loans; adequate market liquidity; and asset prices (that is, yields on corporate bonds; yields on government securities and commercial real estate prices) that are stable. Moreover, the economy is projected to grow by 8.8 percent in 2021, involving recovery of several sectors and, therefore, positive for financial sector performance.

Notwithstanding this positive assessment, the FSC noted the elevated risks associated with the structure and performance of the economy that relies on mining and tourism, as well as a protracted COVID-19 pandemic and any challenges with the vaccine rollout and, therefore, maintenance of movement restrictions. It was observed that this could have an adverse impact on export receipts, fiscal position, and economic performance broadly that can translate to the weakening of the financial sector.

On financial markets infrastructures (FMIs) and regulatory developments which have a bearing on the efficient functioning of the financial services sector, the FSC noted the following prospective projects: the revision of the Non-Bank Financial Institutions Regulatory Authority Act and the Financial Intelligence Act; as well as the drafting of

the Credit Information Bill and the Secured Transaction on Movable Property Bill (which will provide for the establishment of the Collateral Registry). The FSC also noted ongoing policy discussions and work on the establishment of a Deposit Protection Fund (DPF) for Botswana. The FSC further observed that FMIs (namely payment systems, central securities depository and securities settlement systems) remain stable and resilient thus strengthening and preserving domestic financial stability. In addition, the domestic supervisory authorities continue to embrace financial technologies through policy support for market developments and regulatory adaptation to ensure orderly business conduct, consumer protection and maintenance of financial system integrity.

Regarding Anti-Money Laundering/Combating the Financing of Terrorism/Counter Proliferation Financing (AML/CFT/CPF) matters, the FSC observed that Botswana remains on the Financial Action Task Force list of jurisdictions with strategic AML/CFT deficiencies and accordingly that the authorities continue to implement the required action plans. Therefore, the likelihood of elevated risk to financial stability due to ongoing strategic AML/CFT deficiencies is expected to recede going forward.

A comprehensive assessment of the conditions that could affect the stability of the domestic financial system is contained in the Financial Stability Report to be published at the end of May 2021.

**Note to Editors:**

The FSC was officially launched in February 2019, and comprises senior officials of the MFED, the Bank, 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 FSC for Botswana, therefore, seeks 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.

**For further information, please contact, Dr. Seamogano Mosanako. Head of Communications and Information Services, on [mosanakos@bob.bw](mailto:mosanakos@bob.bw) or telephone at +267 360 6083 or 360 6382 or +267 360 6315 or [www.bankofbotswana.bw](http://www.bankofbotswana.bw)**