

BANK OF BOTSWANA

2022 Media Economic Briefing - Introductory Remarks

by

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Governor

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Good morning Media Representatives.

It is a great pleasure to welcome you all to this media briefing convened to share with you the contents of the 2021 Statutory Bank of Botswana Annual Report on the operations and audited financial statements of the Bank. As mandated by the Bank of Botswana Act, Cap 55:01, the Report was presented to the Minister of Finance on March 31, 2022, who, in turn, submitted copies of the same to the National Assembly on April 30. Furthermore, the Bank submitted to the Minister of Finance the 2021 Banking Supervision Report by June 30, 2022, in accordance with Section 28 of the Banking Act. I should also remind members of the Press that each month the Bank causes to be published in the Government Gazette a statement of financial position (Balance of Sheet) of the Bank and a Statistical Bulletin as well as Biannual Financial Stability Report, a quarterly

Monetary Policy Report, tsa Tuelano (on payments issues) and Research Bulletin; all these publications by the Bank are important vehicles for public accountability and dissemination of essential information on economic and financial stability developments. We, at the Bank, are well aware that our licence to operate is derived from policy credibility, sound governance, transparency and institutional integrity. For these reasons, the Bank highly appreciates the opportunity to continually interact and engage with the stakeholder community on the operations and financial performance of the Bank. These interactions are designed to clarify the role and primary mandate of the Bank as well as to receive feedback on the effectiveness or performance of the Bank in discharge of its key objectives; namely promotion of monetary and financial stability, protection and preservation of the value and integrity of the Pula currency, as well as regulation and oversight of the payments and banking systems; all geared towards creating conducive monetary and credit conditions for orderly and balanced economic development; or contributing to country's enduring macroeconomic stability, the necessary oxygen for sustainable and inclusive economic growth.

This morning, as shown in the agenda, we have four presentations. First, is the highlights of the Bank's

operations, financial position and performance in 2021 and including updates, where relevant. This will be covered by the Bank's Chief Financial Officer, Mr Daniel Loeto. Mr Loeto will indicate that the Bank recorded net income of P5.5 billion in 2021 compared to P8.8 billion in 2020, of which P3.5 billion was net distributable income paid to Government on March 31, 2022.

The second presentation is a review of performance and outlook for the foreign exchange reserves by Director of Financial Markets Department, Mr Lesego Caster Moseki. Mr Moseki will show that, notwithstanding the continuing volatility in global markets and devastating impact of the Russia-Ukraine war, as well as net capital outflows, the country continues to have a relatively strong external position (albeit declining) to supply the economy with foreign exchange. However, I should hasten to add that, in 2021, the level of the country's foreign exchange reserves was bolstered by proceeds of the foreign currency denominated loan from the World Bank of P2.83 billion and an SDR allocation by the IMF of SDR189 million, which was equivalent to approximately P3 billion. The country's payments for imports of goods and services in foreign currency averaged approximately P6.2 billion per month while foreign exchange earnings attributable to Government (mainly

diamonds and SACU receipts) were, on average, P1.8 billion per month for the first half of this year; and export earnings by the rest of the economy remain relatively small; hence the observed structural balance of payments deficits in recent years. As a result, the official foreign exchange reserves have progressively declined over the years, from the equivalent of 18.3 months (P85.9 billion) in 2015 to 9 months of import cover of goods and services as at July 22, 2022. As at this date, the amount of the official foreign exchange reserves was P58.3 billion or USD 4.6 billion.

Notwithstanding the foregoing, S&P Global ratings affirmed Botswana's sovereign credit ratings for long-term foreign and domestic currency denominated bonds at BBB+ and A-2 for short-term bonds and, also, revised the economic outlook from negative to stable. Furthermore, while Moody's Investors Service downgraded the country's credit ratings from A-2 to A-3, the economic outlook was upgraded from negative to stable. Thus, Botswana's sovereign credit ratings remain the highest in Sub-Saharan Africa.

The third presentation, by Dr Lesedi Says Senatla, Director, Research and Financial Stability Department, will report on economic developments in 2021 and provide updates of key economic variables. As Dr Senatla will ably explain, the

economy faces many headwinds notwithstanding the rapid global and domestic recovery which, in the context of Covid-19 induced demand – supply imbalances, logistical and supply-chain bottlenecks as well as the onset of the Russia-Ukraine war, unleashed a dramatic shock to global and domestic inflation trajectory requiring appropriate and measured monetary policy response. The persistent geopolitical tensions and resultant spillovers also entail significant threats to global economic growth in the immediate future and, therefore, the demand for Botswana’s main exports, especially diamonds and tourism.

The fourth and final presentation is the 2021 Theme Topic, the summary of which will be presented by Deputy Director, Research and Financial Stability Department, Mr Innocent Molalapata, titled “Harnessing Technology for Economic Transformation and Inclusive Growth”. The Chapter explores in detail and takes inventory of the country’s state of readiness for a digitally-led economic transformation. The theme topic, therefore, covers the historical evolution and impact of technology on economic development, from the first to the fourth industrial revolution; ICT factor requirements and preparedness (performance indicators for Botswana compared to selected peer upper middle-income

and other countries in the region) and we make proposals for closing the identified performance gaps.

This research work supports the view that, to propel the country to high-income status by 2036, there is a need for a dedicated focus on improving existing digital ecosystem and related ICT infrastructure to improve availability and affordability of internet and development of a critical mass of digital skills. Indeed, this presents the most realistic path for raising total factor productivity in Botswana, and build economic resilience underpinned by fostering innovation-friendly policies, leveraging on available technologies to foster inclusive growth and balanced economic development.

I now call on the Chief Financial Officer, Mr Daniel Loeto, to start the Economic Briefing with a presentation on financial performance and highlights of the Bank's operations in 2021, with updates for the first half of this year.

Mr Loeto Sir.