



BANK OF BOTSWANA

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MEDIA RELEASE

RESPONSE TO THE IMPACT OF COVID-19 PANDEMIC

1. Introduction

- 1.1 The Bank of Botswana recognises the pervasive adverse impact of the Coronavirus (Covid-19) pandemic on the financial sector and the economy in general. Accordingly, the Bank continues to monitor and respond, in the broader national context, to the developments in areas of its responsibility. In particular, the Bank has a statutory mandate and public policy responsibility to contribute to macroeconomic and financial stability as well as proper functioning of the banking and payments system.
- 1.2 The outbreak and subsequent spread of the Covid-19 (coronavirus) is, first and foremost, a health issue, requiring both medical responses and containing the spread of infections to save human life. As an employer and member of the community, the Bank complies fully with Government pronouncements on measures to address the pandemic. Therefore, consistent with the foregoing, operations and availability of Bank staff will inevitably be scaled down during the period of state of emergency for the disease containment. Notwithstanding, the Bank commits to full, effective and sustained discharge of its key mandates and performance of its functions and operations.

2. **Economic Impact**

2.1 The mitigation measures intended to save people's lives and contain the spread of the Coronavirus are severely curtailing economic activity, as production, supply chains and provision of services are disrupted. Related to the negative impact on economic activity, is the volatility of the global financial markets, where stock markets have generally fallen; and commodity markets, where the oil price has decreased markedly. Therefore, global growth projections for 2020 have been significantly revised downwards. The prognosis by forecasters suggests, in the short-term, a big negative impact in the first two quarters of 2020; with expectations of recovery of economic activity in the latter part of the year and into 2021, assuming that the spread of Covid-19 is contained and vaccines are developed.

2.2 As an open economy that is integrated with regional and global economies, Botswana will be affected through several channels, among others, probable local infections; weaker global demand affecting exports (diamonds and tourism, for example); disruption to global supply chains affecting local production and project execution; and travel and social gathering restrictions affecting tourism and hospitality sectors, as well as conferencing, sports and entertainment activities. Other channels include impact of disruption of domestic economic activity on the banking system and likely reduction in fiscal and external buffers. Moreover, weak performance of global financial markets will impact on the foreign exchange reserves. Overall, GDP growth in 2020 is expected to be much lower than the earlier projection of 4.4 percent.

2.3 **The Bank's Preparedness and Responses**

2.4 Consultations: The Bank participates in the relevant Government fora deliberating on the review of economic policies, including monetary and financial policies designed to sustain the functioning of essential sectors and support for the economy. The Bank also convened meetings of the Financial Stability Council and

the Banking Committee to consider appropriate responses to achieve these objectives. The following measures include the outcome of such consultations:

- 2.5 Banking and Currency Services: The Bank will maintain uninterrupted supply and availability of clean banknotes and coin, as well as banking services, primarily to Government and commercial banks.
- 2.6 Digital and Mobile Money Transactions: The Bank generally promotes and encourages the use of digital payment platforms and channels. This is broadly for purposes of financial and economic inclusion, but more especially in the current circumstances, in support of social distancing, reduction of movement of people and cash handling. Therefore, commercial banks have committed to reducing the charges for digital transactions by at least 25 percent. In addition, consistent with provisions of the Electronic Payments Services Regulations, the limits on mobile money transactions have been raised as follows:
- (a) maximum single transaction, from P5 000 to P10 000;
 - (b) maximum daily transaction, from P10 000 to P15 000; and
 - (c) maximum monthly aggregate, from P20 000 to P30 000.
- 2.7 Mobile Money Operators (MMOs) should continue to be diligent and ensure compliance with existing frameworks on anti-money laundering and combating of the financing of terrorism (AML/CFT). Similar to the action by banks, MMOs are implored to reduce prices and promote the use of mobile money and other digital platforms for transactions.
- 2.8 Payments, Clearing and Settlement: Normal clearing and settlement of transactions through the Real-Time Gross Settlement, known as Botswana Interbank Settlement System (BISS) and Botswana Automated Clearing House (BACH) will be maintained. Similarly, messaging and foreign payments will be conducted as normal.

2.9 Capital Relief and Liquidity Support for Commercial Banks: To enable banks to satisfy capital requirements and address liquidity challenges as they continue to support economic activity under conditions of possible increase in credit defaults and need for additional lending. In this regard:

- (a) the prudential capital adequacy ratio (CAR) for banks operating in Botswana has been reduced from 15 percent to 12.5 percent;
- (b) Commercial bank liquidity is currently adequate. Moreover, normal operations facilitate augmentation of liquidity for individual banks on an ongoing basis. These include the interbank market and the purchase and sale of Bank of Botswana Certificates (BoBCs), including repos (that is, buying back of previously purchased BoBCs) and reverse repos (purchase of additional BoBCs after auction). To alleviate any possible pressure on the banks and extend potential additional sources of liquidity, the following measures are being introduced:
 - (i) the cost of accessing overnight funding by licensed commercial banks from the Bank of Botswana Credit Facility will be provided at the prevailing Bank Rate (currently 4.75 percent), without the current punitive 6 percentage points above the Bank Rate;
 - (ii) repo facilities currently available only on an overnight basis will be offered against eligible securities with maturity of up to 92 days; and
 - (iii) subject to completing regulations and arrangements relating to valuation (haircuts) and custody, the collateral pool for borrowing by licensed commercial banks from the Bank of Botswana will be extended to include all corporate bonds listed and traded on the Botswana Stock Exchange.

2.10 Commercial Bank Loans: the Bank acknowledges the granting by banks of moratoria on loans with a good repayment history for up to six months and the offer to restructure loans for entities adversely affected by Covid-19. Against this

background, the Bank will generally exercise regulatory forbearance in relation to assessment of non-performing loans and determination of expected credit losses, for regulatory and compliance purposes.

3. **Conclusion**

- 3.1 Given that the full extent of economic and financial disruption from COVID-19 is yet to be established, the measures currently expended by the Bank of Botswana will continue to be reviewed as the need arises. Furthermore, the Bank has a suite of other policy options that could be implemented and respond, in a timely and effective manner to provide liquidity to financial intermediaries or preserve market liquidity.
- 3.2 The Bank is committed to acting decisively and timely to maintain price and financial stability in order to support economic activity.

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