



ANNUAL REPORT | 2024



STRATEGIC INTENT STATEMENTS

VISION

The Bank aspires to be a world-class central bank with the highest standards of corporate governance and professional excellence.

MISSION

The mission of the Bank is to contribute to the sound economic and financial well-being of the country. The Bank seeks to promote and maintain:

- monetary stability;
 - safe, sound and stable financial system;
 - efficient payment mechanism;
 - public confidence in the national currency;
 - sound international financial relations;
- and to provide:
- efficient banking services to its various clients; and
 - sound economic and financial advice to Government.



BANK OF BOTSWANA ANNUAL REPORT 2024

**17938 Khama Crescent, Gaborone, Botswana
Tel: 3606000, Website: www.bankofbotswana.bw**

BOARD MEMBERS 2024



Daphne K. Briscoe
Interim Board Chair



Cornelius K. Dekop
Governor



Olesitse H. Masimega[#]



Bernard M. Ditlhabi



Koketso Letsididi^{*}



Kenneth Molosi



Lekgatlhamang Setlhare^{*}



Lipalesa G. Makepe

[#]Permanent Secretary, Ministry of Finance
^{*}Appointed on 1 August 2024

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ABBREVIATIONS USED IN THE REPORT

AACB	-	Association of African Central Banks
AfDB	-	African Development Bank
AI	-	Artificial Intelligence
AML	-	Anti-Money Laundering
APIs	-	Application Programming Interfaces
ARC	-	Audit and Risk Committee
ARV	-	Antiretroviral
BAB	-	Bankers Association of Botswana
BACH	-	Botswana Automated Clearing House
BoBCs	-	Bank of Botswana Certificates
BOCRA	-	Botswana Communications Regulatory Authority
BDC	-	Botswana Development Corporation
BES	-	Business Expectations Survey
BEFS	-	Botswana Economic Financial Statistics
BGI	-	Botswana Geoscience Institute
BHC	-	Botswana Housing Corporation
BISS	-	Botswana Interbank Settlement System
BOT	-	Bank of Thailand
BSB	-	Botswana Savings Bank
BSEL	-	Botswana Stock Exchange Limited
CAR	-	Capital Adequacy Ratio
CBDCs	-	Central Bank Digital Currencies
CCA	-	Competition and Consumer Authority
CCBG	-	Committee of Central Bank Governors
CDD	-	Customer Due Diligence
CEDA	-	Citizen Entrepreneurial Development Agency
CEO	-	Chief Executive Officer
CF	-	Credit Facility
CFT/P	-	Combating the Financing of Terrorism and Proliferation
CSDB	-	Central Securities Depository Company of Botswana
DBGSS	-	De Beers Global Sightholder Sales
DCI	-	Domestic Companies Index
DISB	-	Deposit Insurance Scheme of Botswana
DLT	-	Distributed Ledger Technology
DTCB	-	Diamond Trading Company Botswana
DvP	-	Delivery-versus-payment
EDRMS	-	Electronic Documents and Records Management System
EFT	-	Electronic Funds Transfer
e-GDDS	-	Enhanced General Data Dissemination System
EPS	-	Electronic Payment Services
ERTP	-	Economic Recovery and Transformation Plan

ABBREVIATIONS USED IN THE REPORT

ESAAMLG	-	East and Southern Africa Anti-Money Laundering Group
ESG	-	Environmental, Social and Governance
FCA	-	Financial Conduct Authority
FDI	-	Foreign Direct Investment
FIA	-	Financial Intelligence Agency
FINTECH	-	Financial Technologies
FSAP	-	Financial Sector Assessment Programme
FSB	-	Financial Stability Board
FSC	-	Financial Stability Council
FSR	-	Financial Stability Report
GDP	-	Gross Domestic Product
GDPR	-	General Data Protection Regulation
GEC	-	Governance and Ethics Committee
GFC	-	Global Financial Crisis
GFCF	-	Gross Fixed Capital Formation
GHG	-	Greenhouse Gases
HRC	-	Human Resources Committee
ICT	-	Information and Communications Technology
IFRS	-	International Financial Reporting Standards
IFWG	-	Intergovernmental Fintech Working Group
IIP	-	International Investment Position
IMF	-	International Monetary Fund
IOSCO	-	International Organisation of Securities Commissions
IPS	-	Instant Payment Systems
KYC	-	Know Your Customer
LAR	-	Liquid Asset Ratio
MCM	-	Morupule Coal Mine
MDCB	-	Mineral Development Company Botswana
MEFMI	-	Macroeconomic and Financial Management Institute of Eastern and Southern Africa
MoF	-	Ministry of Finance
MoPR	-	Monetary Policy Rate
MPC	-	Monetary Policy Committee
MPR	-	Monetary Policy Report
MPS	-	Monetary Policy Statement
MSCI	-	Morgan Stanley Composite Index
NBFIRA	-	Non-Bank Financial Institutions Regulatory Authority
NCSS	-	National Clearance and Settlement Systems
NDB	-	National Development Bank
NDP	-	National Development Plan
NEER	-	Nominal Effective Exchange Rate
NEO	-	Net Errors and Omissions

ABBREVIATIONS USED IN THE REPORT

NFTs	-	Non-Fungible Tokens
NFWG	-	National Fintech Working Group
NPLs	-	Non-Performing Loans
NPS	-	National Payments System
NRA	-	National Risk Assessment
NRPS	-	National Retail Payments Switch
ODC	-	Okavango Diamond Company
OIC	-	Office of Insurance Commission
OPEC	-	Organisation of Petroleum Exporting Countries
PDDF	-	Pula Diamonds for Development Fund
PLR	-	Prime Lending Rate
POS	-	Point of Sale
PPPs	-	Public-Private Partnerships
PRRA	-	Primary Reserve Requirement Averaging
PSPs	-	Payment Service Providers
QR	-	Quick response
REER	-	Real Effective Exchange Rate
RPC	-	Regulatory Policy Committee
RTGS	-	Real Time Gross Settlement
SAA	-	Strategic Asset Allocation
SACU	-	Southern African Customs Union
SADC	-	Southern African Development Community
SARB	-	South African Reserve Bank
SCF	-	Standing Credit Facility
SDF	-	Standing Deposit Facility
SEC	-	Securities and Exchange Commission
SDR	-	Special Drawing Rights
SEZs	-	Special Economic Zones
SLF	-	Senior Leadership Forum
SMMEs	-	Small, Micro and Medium Enterprises
SOEs	-	State Owned Enterprises
SONAs	-	State of the Nation Addresses
SupTech	-	Supervisory Technology
SWF	-	Sovereign Wealth Fund
SWIFT	-	Society for Worldwide Interbank Financial Telecommunication
TBT	-	Transaction Balance Tranche
TNDP	-	Transitional National Development Plan
ToR	-	Terms of Reference
TWG	-	Technical Working Group
UBI	-	Usage-Based Insurance

ABBREVIATIONS USED IN THE REPORT

UNDP	-	United Nations Development Programme
USA	-	United States of America
USD	-	United States Dollar
VASPs	-	Virtual asset service providers
VAT	-	Value Added Tax
WUC	-	Water Utilities Corporation
WTI	-	West Texas Intermediate
ZAR	-	South African rand

PART A

CHAPTER 1 : STATUTORY REPORT ON THE OPERATIONS OF THE BANK – 2024

PART A

SENIOR LEADERSHIP FORUM

DEPUTY GOVERNORS



K. S. Masalila



T. A. Kganetsano



S. M. Sealetsa
Advisor, Banking, Currency and Digitisation

HEADS OF DEPARTMENT



J. Selwe
Director, Business Conduct and Regulatory Compliance



J. Ghanie
Director, Information and Communications Technology



G. Ngidi
Director, Prudential Authority and Payments Oversight



C. S. G. Chepete
Director, Corporate Management Services



M. M. Kgogothwane
Director, Protective Services



P. Gower
Director, Human Capital



L. S. Senatla
Director, Statistics, Data Management and Analytics



D. N. Loeto
Chief Financial Officer



L. C. Moseki
Director, Financial Markets



I. Mofalapatla
Director, Research and Financial Stability



A. B. Kgathola
Director, Strategic Planning and Risk Management



G. S. Seganabeng
Director, Banking, Currency and Settlement



K. M. Mothusi
Director, Internal Audit Services

PART A

STATUTORY REPORT ON THE OPERATIONS OF THE BANK – 2024

GOVERNOR'S FOREWORD



The 2024 *Annual Report* is published in accordance with Section 68(1) of the Bank of Botswana (Amendment) Act CAP (55:01). The *Report* provides a comprehensive summary of the operations and audited financial statements of the Bank for the year ended 31 December 2024.

The *Report*, therefore, covers the Bank's key functions and responsibilities including the governance and accountability framework for its performance. These functions and responsibilities can be grouped into broad categories, namely: price stability; maintenance of financial stability; exchange rate policy implementation; banking regulation, licensing and supervision; design and issuance of currency; central banking services; payment infrastructure and settlement; foreign exchange reserves management and provision of banking and settlement services to Government; economic analysis and policy advice to Government; and statistical services.

The 2024 Annual Report is complemented by a theme chapter titled 'Next Generation Payment Systems, Innovation and Financial Technologies – Opportunities for Botswana'. The theme chapter explores the advancement of next-generation payment systems and financial technologies (fintech) and the opportunities it presents for Botswana to improve transaction efficiency, enhance financial

inclusion and support economic diversification. The theme also highlights how the digital payment platforms such as mobile banking and e-wallets can expand financial services, particularly to rural areas, while real-time payment systems and blockchain technology can reduce transaction costs and enhance security. The growth of e-commerce and digital trade can be supported by secure payment gateways, and integration with regional digital global networks can boost trade, and ease cross-border financial flows.

It is further observed that for Botswana to fully benefit from fintech there is need for enhanced and fully functional information and communication technology infrastructure with wider coverage, as well as financing mechanisms for the industry and elevation of digital awareness and usage. In addition, given inherent risks and the need to maintain integrity and stability of the financial system, strong adaptive regulatory frameworks and cybersecurity measures are necessary. In this regard, through strategic investments in technology and payments infrastructures and systems, Botswana could position itself to benefit, in terms of inclusive diversified economic growth, from both organic/innovative sectoral expansion and its positive impact on other sectors.

The Botswana economy (GDP) contracted by 2 percent in the twelve months to September 2024, compared to a growth of 4 percent in the year to September 2023. The contraction in growth is mainly attributable to weak performance of the diamonds sector, as a result of subdued demand. While most non-diamond sectors had posted positive growth, this was generally modest, attributable, in part, to the slow and muted impact of various ongoing economic transformation initiatives (i.e., development of innovation hubs; infrastructure projects; economic diversification drive; beneficiation, National Transformation Strategy and enhancing the business environment); continuance of low productivity; as well as challenges associated with limited fiscal space and sub-optimal performance of the Government Accounting and Budgeting System, which causes disruptions in business operations, implementation of development projects and increased uncertainty in the conduct of fiscal policy. The balance of payments reported a deficit of P20.9 billion in 2024, compared to a revised surplus of P1.7 billion in 2023. The 2024 deficit was primarily due to the current account deficit as exports declined, while the demand for imports remained elevated.

PART A

STATUTORY REPORT ON THE OPERATIONS OF THE BANK – 2024 (Continued)

The Bank recorded a total comprehensive income of P5.8 billion in December 2024 compared to P8 billion recorded in 2023. This outcome resulted from a combination of earnings on the foreign exchange reserves, unrealised fair-value (market) and currency gains. The decrease in market gains was due to volatile global financial markets associated with geopolitical tensions and elevated global inflationary pressures which had an adverse impact on the foreign exchange reserves in terms of inflows and returns. Against this background, the value of foreign exchange reserves decreased by 24.5 percent from P63.7 billion in December 2023 to P48.1 billion in December 2024. In foreign currency terms, the foreign exchange reserves decreased from USD4.8 billion in December 2023 to USD3.5 billion in December 2024, and by 22.9 percent from SDR3.5 billion to SDR2.7 billion, over the same period. The foreign exchange reserves have declined from a peak of 39 months of import cover in 2001 to 6.3 months of import cover in December 2024, which is low by historical standards. In the circumstances, total assets of the Bank decreased by 18 percent from P65.7 billion in December 2023 to P54.2 billion in December 2024.

During 2024, monetary policy in Botswana was conducted in the context of projected lower inflation in the short-to-medium term, due to the decrease in domestic fuel prices, subdued domestic and global economic activity, as well as anticipated lower international commodity prices and trading partner countries' inflation. These conditions provided scope to ease monetary policy, potentially providing support for stronger output growth. Hence, the Monetary Policy Committee (MPC) reduced the Monetary Policy Rate (MoPR) by a cumulative 50 basis points to 1.9 percent in 2024, following a cumulative 25-basis points policy interest rate cut in 2023. Accordingly, the prime lending rate (PLR) of commercial banks declined from 6.51 percent in 2023 to 6.01 percent by end of 2024.

In addition, the MPC reduced the Primary Reserve Requirement (PRR) from 2.5 percent to zero in December 2024. This change was made to address the persistent liquidity shortage experienced by commercial banks in the fourth quarter of 2024. The decline in market liquidity reflected by the decrease in outstanding Bank of Botswana Certificates from P6 billion in December 2023 to P1.2 billion in December 2024, was associated with the slowdown in the pace of government spending amid constrained fiscal position due to weak diamond receipts.

During 2024, the exchange rate policy continued to focus on the maintenance of a stable and competitive real effective exchange rate (REER) of the Pula to support international competitiveness of the domestic industry. The Pula basket weights were maintained at 45 percent for the South African rand and 55 percent for the Special Drawing Rights (SDR), while the 1.51 percent downward rate of crawl was also maintained. Consequently, the REER depreciated by 2.5 percent in 2024 because of the combined effect of the depreciation of the nominal effective exchange rate (NEER) and lower inflation in Botswana relative to the average inflation for the trading partner countries, suggesting a gain in international competitiveness of domestic goods and services in international markets. Overall, the combination of modest interest rates and relatively stable inflation-adjusted exchange rate was generally favourable and supportive of economic growth.

During 2024, the Financial Stability Council (FSC) met in April and November, to deliberate on the state of domestic financial stability, macroprudential policy considerations and issued the Financial Stability Report (FSR) for May and October. The FSC determined that the financial system of Botswana remains resilient; robust; safe; sound; and unconstrained in supporting economic activity. This resilience is attributed to strong regulatory and supervisory measures, as well as sustained profitability and solvency of both banks and non-banks. However, vulnerabilities in the financial system have increased due to rising sovereign/fiscal risks. The subdued demand for diamonds and resultant decrease in export earnings pose a risk for the domestic financial system as declining government revenues narrow the fiscal space and amplify external vulnerabilities through declining foreign exchange reserves. An assessment of the stability of the domestic financial system is comprehensively covered in the May and October 2024 FSRs, which are published on the Bank of Botswana's website.

The credit rating agencies, Moody's Investors Service (Moody's) and S&P Global Ratings (S&P) both undertook annual reviews and credit assessments in 2024, the result of which was maintenance of Botswana's investment grade rating. While noting the weakened net asset position for the Government, the agencies observed that Botswana's rating continues

PART A

STATUTORY REPORT ON THE OPERATIONS OF THE BANK – 2024 (Continued)

to be premised on strong governance institutions and policy frameworks that deliver macroeconomic stability. As an update, in March 2025, S&P changed the outlook from stable to negative noting the potential for delayed recovery of the fiscal position that was in 2024, adversely affected by the sharp decline in diamond receipts.

In fulfilment of its statutory obligations, the Bank's *Annual* and *Banking Supervision Reports* for 2023 were submitted to the Minister of Finance on 31 March 2024, and 30 June 2024, respectively. The Bank also continued to produce a variety of publications which dealt with monetary policy, financial stability, prudential regulation and supervision, as well as economic, financial and other macroeconomic statistics. The key publications, in this regard, include Botswana Economic and Financial Statistics (BEFS), Monetary Policy Statement, Monetary Policy Reports (MPRs), FSR, the Research Bulletin, the Business Expectations Surveys (BES), and the Household Indebtedness Report. The Bank's publications serve to meet the public's expectation of a transparent and accountable central bank in fulfilling the monetary and financial stability policy mandate set out in the Bank of Botswana (Amendment) Act.

The performance of the Bank and capacity to fulfil its mandates continue to be anchored on the adequacy of the organisational structure, core and support skills, information and communication technology resource commitments; continuous innovation; risk management and reporting frameworks; stakeholder communication; and security operations. In addition, the Bank maintains a focus on skills development, through appropriate short- and long-term training programmes, while staff welfare improvement was maintained, with a view to sustain the Bank's operational productivity, durable capacity and leadership capability.

External stakeholder relations were maintained during the year, and the Bank participated in meetings and conferences organised by, among others, the Bank for International Settlements (BIS), the International Monetary Fund (IMF) and the World Bank. At a regional level, the Bank participated in meetings organised by the Southern African Customs Union (SACU); Southern African Development Community (SADC); Committee of Central Bank Governors (CCBG); Association of African Central Banks (AACB); Financial Stability Board Regional Consultative Group for Sub Saharan Africa; and the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI).

The re-enacted Banking Act was passed into law during the Parliament sitting of 14 April 2023. The Act provides a more robust legal foundation for the licensing, regulation and supervision of banks and deposit-taking institutions. It was assented to by the President and published in the Government Gazette as Act no 8/2023 on 26 May 2023. The Act commencement order will be publicised once the Banking Regulations have been approved by the Minister of Finance. The Bank also progressed the review of the National Payments Law, Electronic Payments Services Regulations and further commenced the process of implementing the Data Protection Act. These legislative reforms align with maintenance of conducive macroeconomic policy and regulatory frameworks, as well as institutional arrangements that support Botswana's transition to high-income status by 2036.

The Bank is currently reviewing its ethics and compliance framework to enhance good governance outcomes in accordance with its vision.

Overall, the Bank was successful in discharging its mandate. In that regard, the management and staff of the Bank owe a debt of gratitude to the Board for the guidance and support in implementing the 2024 work programme.

I hope that stakeholders will find the 2024 Annual Report informative.



Cornelius K Dekop

GOVERNOR

PART A

STATUTORY REPORT ON THE OPERATIONS OF THE BANK – 2024 (Continued)

STATUTORY REPORT ON THE OPERATIONS OF THE BANK – 2024

The primary objective of the Bank, as stipulated in Section 4(1) of the Bank of Botswana (Amendment) Act, 2022 is to achieve and maintain domestic price stability. Subject to attaining its primary mandate, the Bank shall contribute to the stability of the financial system and foster and maintain a stable, sound and competitive market-based financial system. Based on this statutory mandate, the Bank's functions and responsibilities are grouped under the following categories:

- (a) Price Stability – the principal objective of the Bank is to preserve the purchasing power of the Pula (the domestic currency), by keeping the rate of inflation low, stable and predictable. Price stability contributes to a sound and stable macroeconomic environment, which is conducive for sustainable economic development, employment creation and rising standards of living. Price stability is achieved through monetary policy formulation and implementation, which involves the setting of the policy interest rate (MoPR) and conduct of open market operations (OMO) through use of BoBCs, currently involving weekly and monthly auctions. The Bank also conducts repo and reverse repo transactions and extends an overnight credit facility to banks. These operations enable the Bank to influence real monetary conditions and ensure that short-term market interest rates are aligned to the policy stance, also serving to foster the orderly and efficient functioning of the financial system.
- (b) Financial Stability – the Bank's policymaking considers the impact of global, regional and domestic economic and policy developments, shocks and other events on the resilience and stability of the domestic financial system, including recognising the crucial interrelationships between macroeconomic policy, real sector and financial sector developments. Accordingly, vulnerability assessments and performance monitoring of the financial sector are conducted with a view to inform policy and adoption of appropriate macroprudential measures to respond to any financial sector imbalances and, therefore, foster financial stability.
- (c) Exchange Rate Policy Implementation – the Bank, through the MPC, implements the country's exchange rate policy, the objective of which is to promote and maintain the international competitiveness of domestic firms and exports as well as contribute to overall macroeconomic stability. The Bank buys and sells foreign exchange at rates determined in accordance with the exchange rate policy and ensures adequacy of foreign exchange to achieve the Bank's objectives and for conduct of international payments by the rest of the economy.
- (d) Banking Regulation, Licensing and Supervision – the Bank regulates, licenses and supervises deposit taking institutions to ensure operational safety, soundness, and prudent management of individual banks. Furthermore, the Bank encourages competition, fair business practices and adherence to the bankers' code of conduct, as well as continuous improvement of services and accessibility for the benefit of the public. Moreover, the Bank is responsible for licensing, regulation and supervision of credit bureaus, foreign exchange dealers (FX Bureaus) and Electronic Payment Services (EPS) or money-value transfer services. In addition to the general powers granted by the Bank of Botswana Act, regulatory functions and responsibilities are carried out pursuant to legal powers granted by the Banking Act (Cap 46:04) (Banking Act), Credit Information Act, 2021 and National Clearance and Settlement Systems Act. Furthermore, the Bank conducts regulatory functions on behalf of Government, with respect to the National Development Bank and Botswana Savings Bank.

PART A

STATUTORY REPORT ON THE OPERATIONS OF THE BANK – 2024 (Continued)

- (e) Design and Issuance of Currency (banknotes and coin) – currency management ensures an adequate supply of high-quality banknotes and coin to facilitate transactions, convenient conduct of payments and economic activity. This entails adherence to stringent standards in design, security and production to sustain integrity and confidence in the national currency; Pula and Thebe, and to avert counterfeiting. In this regard, the Bank withdraws from circulation and destroys soiled and damaged money and replaces it with banknotes and coin of acceptable and high standard.
- (f) Central Banking Services – the Bank serves as the banker, economic and financial advisor, as well as fiscal agent of the Government. The Bank also provides banking services to commercial banks, selected public institutions and international organisations and is a member of the Botswana Automated Clearing House (BACH) operated by the Bankers Association of Botswana (BAB).
- (g) Payment Infrastructure and Settlement – facilitation and maintenance of the integrity and reliability of payments systems enables the timely flow of payments, and efficient settlement. Moreover, oversight and regulation entrench confidence in the payments and settlement systems and mitigates systemic risks. In this regard, the Bank ensures adherence to internationally recommended principles for market infrastructures.
- (h) Management of Official Foreign Exchange Reserves and Making Foreign Payments on Behalf of Government – the Bank manages the country’s foreign exchange reserves. The management of foreign exchange reserves enables the country to meet international financial obligations and payments in foreign currency. The Reserves Management Policies and Investment Guidelines ensure that the foreign exchange reserves are managed prudently to guarantee safety, liquidity and generate return within acceptable risk parameters. These are implemented judiciously to benefit from greater diversification of global markets, while ensuring strong institutional governance, including risk management and compliance practices. In that regard, these policies and guidelines are reviewed regularly.
- (i) Economic Analysis and Policy Advice – the Bank conducts research and economic analysis directed and produce reports that form the basis for policy review and, where appropriate, decisions. Furthermore, the Bank provides advice to Government on macroeconomic and financial policy matters. Overall, it is intended that the output of such research and reviews, will assist Government in addressing national economic development and welfare enhancement agenda.
- (j) Statistical Services – the Bank compiles and consolidates economic, monetary, financial and external sector statistics to inform policy formulation and support the conduct of research. The statistics service extends to the production of internal corporate metrics and analytics, necessary for assessment of progress on internal dynamics in the Bank. Furthermore, there are prospects for Big Data – unstructured data – analysis and integration of such information into the Bank’s information management and analysis frameworks.

In order to achieve its mission and objectives, the Bank utilises various strategies, activities and supportive infrastructure as indicated in Figure 1. In addition to functionality, the construct and design of these institutional arrangements are purposefully meant to reflect the Bank’s value system of a transparent, accountable and responsive institution. The Bank manages its affairs in an efficient manner and ensures that its internal administrative policies, systems and controls protect national interests at all times. Furthermore, the Bank continues to improve capacity and resilience to maintain the status of a well-functioning central bank with the highest standards of governance and professional excellence. In this regard, the Bank ensures policy credibility and public trust and plays its role in the country’s attainment of the objectives of Vision 2036 and the National Transformation Strategy (2023 – 2030).

Figure 1: Mission, Objectives, Strategies and Supportive Structures



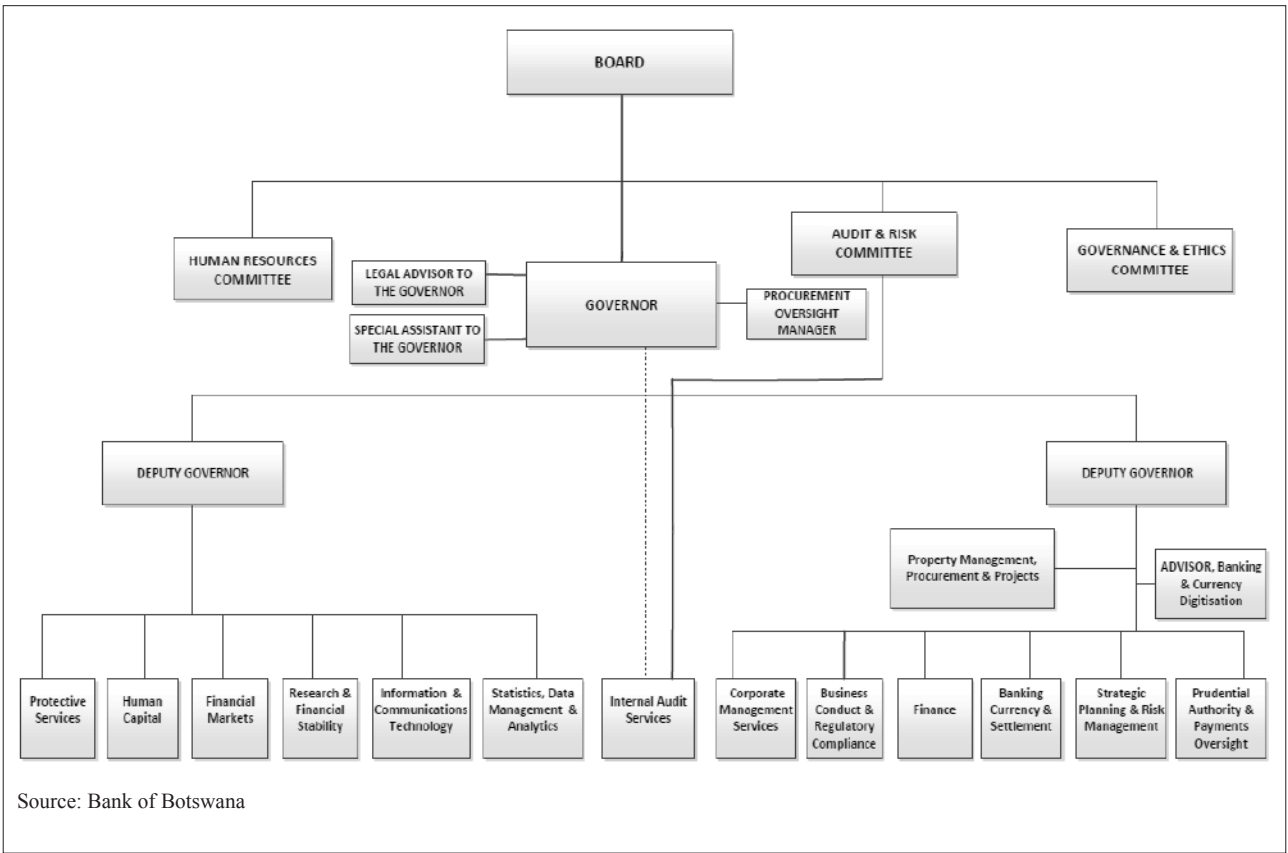
PART A

STATUTORY REPORT ON THE OPERATIONS OF THE BANK – 2024 (Continued)

GOVERNANCE, MANAGEMENT AND ORGANISATIONAL STRUCTURE OF THE BANK

The Board is responsible for policy and general administration of the Bank and has the primary accountability for the governance and performance of the Bank. It is constituted in accordance with Section 9 of the Bank of Botswana (Amendment) Act, 2022. In that regard, the Board is the apex body responsible for good corporate governance, an outcome of good performance, ethical culture, effective control and leadership. In 2024, the Board continued to set the tone for good governance in the Bank under the stewardship of the Interim Chairperson, Ms Daphne Kgaleitso Briscoe.

FIGURE 2: ORGANISATION STRUCTURE AS AT 31 DECEMBER 2024



Board Functions, Membership and Appointments

The principal role of the Board is to oversee and guide the Bank’s general strategic direction, policy formulation and general administration in accordance with the Bank of Botswana (Amendment) Act, 2022, and Bye-Laws. Accordingly, the Board is responsible for ensuring that the policies, management capabilities, administrative systems, security and financial controls necessary to achieve the Bank’s statutory mandate and objectives serve the purpose and implemented in an effective and efficient manner. To this end, the Board establishes a broad framework of monetary, financial, banking, human capital, information technology and security, administrative and other policies to enable the Bank to achieve its objectives. This includes approval of the Bank’s staff establishment, annual budget, and monitoring of the financial and operational performance of the Bank and ensure that the Bank is run in accordance with the Bank of Botswana Act and Bye Laws.

PART A

STATUTORY REPORT ON THE OPERATIONS OF THE BANK – 2024 (Continued)

The Board comprises nine members, two of which are ex-officio members, being the Governor and Permanent Secretary in the Ministry of Finance (MoF). The other seven members are appointed by the MoF from among persons of good standing and experience in business, professional or academic matters; two of whom may be public officers. In the first half of 2024, the Board executed its business with six members and three vacancies. The situation changed in the second half of the year when two new members were appointed into the Board in August 2024, resulting in one vacancy.

The Board is required to meet at least once a quarter and, in practice, it typically meets six times in a year or as may be necessary. In 2024, six ordinary Board meetings and a special meeting were held, as shown in Table 1. The Board has three committees namely: the Audit and Risk Committee (ARC), Human Resources Committee (HRC) and Governance and Ethics Committee (GEC), which are chaired by, and exclusively comprise non-executive members of the Board. The Committees deliberate on matters pertaining to their respective mandates, as set out in their Terms of Reference and make recommendations to the Board.

The Board has delegated the responsibility to review accounting policies, financial regulations and internal controls, as well as appointment of independent external auditors to the ARC. In this regard, the ARC plays a key role in providing oversight of the Bank's management of strategic, market, credit, liquidity, and other financial, operational, information and cyber security risks on behalf of the Board. It also assists the Board regarding evaluation of the adequacy and effectiveness of the Bank's risk management systems, fraud and other risk assessments, internal control systems, accounting practices, information systems and monitoring processes applied by the Management in the day-to-day management and operations of the Bank. During the period under review, the Committee made several approvals, including the Bank's audited financial statements for the year ended 31 December 2023, appointment of external auditors for the ensuing financial year and recommended approval of the 2024 budget to the Board. In general, the ARC has overall oversight for financial reporting and integrity of financial statements of the Bank.

The HRC's primary responsibility is to determine appropriate remuneration policy; staff establishment and retention strategies; general conditions of employment, staff welfare; and approve senior staff appointments (other than Deputy Governors and the Governor, which are appointed by the country's President). Among other key activities, the HRC continued to implement the Human Resources Strategy in the Bank.

The GEC is responsible for fostering a culture of high ethical standards and good governance in the Bank and advise the Board accordingly. Among others, the GEC oversees and ensures the Bank's compliance with domestic and international legal and regulatory requirements, reviews the Bank's Bye-Laws for adequacy and completeness, and ensures effective management of conflicts of interest, personal and insider trading restrictions in the Bank.

PART A

STATUTORY REPORT ON THE OPERATIONS OF THE BANK – 2024 (Continued)

TABLE 1: BOARD MEETINGS AND ATTENDANCE IN 2024

Meetings	BB 1/24 (8 Feb)	SB 1/24 (13 Mar)	BB 2/24 (26 Mar)	BB 3/24 (14 June)	BB 4/24 (29 Aug)	BB 5/24 (15 Nov)	BB 6/24 (6 Dec)
D K Briscoe (Interim Chairperson)	✓	✓	✓	✓	✓	✓	✓
C K Dekop (Governor)	✓	✓	✓	✓	✓	✓	✓
O H Masimega (Ex-Officio)	x	✓	✓	✓	✓	x	✓
B M Ditlhabi (Chairperson HRC)	✓	✓	x	✓	✓	✓	✓
K T Letsididi (Chairperson GEC)	—	—	—	—	✓	✓	✓
L G Makepe (Chairperson ARC)	✓	✓	✓	✓	✓	✓	✓
K Molosi	✓	✓	✓	✓	✓	✓	✓
L L Setlhare	—	—	—	—	✓	✓	✓

Source: Bank of Botswana

Key: ✓ Attended
 x Did not attend
 BB Regular Board Meeting
 SB Special Board Meeting
 — Not yet appointed

PART A

STATUTORY REPORT ON THE OPERATIONS OF THE BANK – 2024 (Continued)

Governor

The Governor serves as the Chief Executive Officer (CEO) of the Bank and responsible to the Board for the prompt execution of Board decisions and Bank policies, as well as general direction and control of the operations of the Bank. On accountability to the key stakeholders, the Governor submits the *Annual Report* on the operations and financial performance, including the audited financial statements of the Bank, to the Minister of Finance within three months (not later than end of March) following the end of the financial year, as stipulated in the Bank of Botswana Act. In turn, the Minister presents the *Annual Report* to Parliament within 30 days, following receipt of the *Report*. Furthermore, as mandated by the Banking Act, the Governor submits the *Banking Supervision Annual Report* to the Minister by the end of June each year. The Governor also publishes in the Government Gazette the monthly statement of financial position of the Bank and submits a copy of the same to the Minister of Finance.

The Monetary Policy, Financial Stability Council and Other Inter-Industry Committees

The Governor chairs the MPC and the FSC. The MPC is the highest decision-making body for monetary policy, responsible for fostering high-level and comprehensive policy analysis, accountability and transparency in formulating, guiding and implementing monetary policy within the framework determined by the Minister of Finance in line with the objectives of the Bank. The MPC comprises nine members; five are employees of the Bank and four are external members appointed by the Minister of Finance. The FSC is a statutory inter-agency body responsible for maintaining and promoting domestic financial stability. It comprises principal officers or CEOs of MoF, the Bank, Non-Bank Financial Institutions Regulatory Authority (NBFIRA), Financial Intelligence Agency (FIA) and Deposit Insurance Scheme of Botswana (DISB). The Botswana Stock Exchange Limited (BSEL) is invited as an observer member, in recognition of its role in capital market development and stability. In effect, these institutions are involved in developing legislation and regulations, policymaking and supervision with respect to the whole or facets of the financial sector. The Governor also chairs several management committees including the Senior Leadership Forum (SLF), Investment Committee and Regulatory Policy Committee (RPC). In addition, the Governor chairs industry-wide consultative fora, namely, the Banking Committee, National Payments Council and bilateral meetings with individual banks.

The Governor represents the Bank at relevant local, regional and international fora. At regional level, the Governor assumed the role of Alternate Chairperson for the Southern Africa sub-Region under the Association of African Central Banks (AACB) in September 2024, a position he will hold for two years before becoming the Chairman for the next two years. He also represents the Bank at other fora, such as the SADC Committee of Central Bank Governors (CCBG) and the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI). At international fora, he serves as the Governor for Botswana in the Non-Executive Board of Governors of the IMF. In October 2024, he assumed the role of Chairperson for the Africa Group 1 Constituency, a position he will hold for two years. The Governor also represents the Bank in the Financial Stability Board Regional Consultative Group for sub-Saharan Africa.

Senior Leadership Forum

The SLF comprises Deputy Governors and Heads of Department and is chaired by the Governor. Senior advisors may be co-opted as members. The Committee has a collective responsibility for advising the Governor on day-to-day administration, including policy formulation, risk and financial management, as well as overall governance of the Bank. It meets at least once a month to monitor, coordinate and review implementation of the Bank's work programme, as well as other developments in the Bank.

PART A

STATUTORY REPORT ON THE OPERATIONS OF THE BANK – 2024 (Continued)

Departments and Divisions

The Research and Financial Stability Department (RFSD) undertakes macroeconomic forecasting and policy review to support the Bank's conduct of monetary policy and implementation of the exchange rate policy. The Department also conducts macroprudential assessments and facilitates coordination with other relevant external entities to ensure macroeconomic and financial stability. Furthermore, the RFSD undertakes research and macroeconomic analysis, monitors the financial sector and evaluates emerging risks and other developments emanating from the macroeconomic environment. In addition, the Department is responsible for the content of the Bank's publications, namely, the statutory *Annual Report*; *FSR*; *Research Bulletin*; *MPS*; *MPR*; *BES* and the *Household Indebtedness Survey*.

The Prudential Authority and Payments Oversight Department (PAPOD) promotes financial stability in Botswana through the regulation and supervision of banks and other financial institutions that fall under the Bank's regulatory and supervisory purview; and oversight of financial market infrastructures and electronic payment service providers (EPSPs). The Department is responsible for ensuring an efficient, sound, secure and reliable banking and national payments systems. To achieve this objective, PAPOD is guided by the Bank of Botswana Act (Cap. 55:01) (as amended), Banking Act (Cap. 46:04), Banking Regulations 1995, National Clearance and Settlement Systems Act, (Cap 46:06), National Clearance and Settlement System Regulations, 2005, Electronic Payments Services Regulations, 2019, Licensing Policy, National Payments System Oversight Policy, and relevant directives, policies and guidelines. PAPOD participates in regional and continental payments infrastructure integration efforts and implements initiatives agreed to and approved by the Committee of Central Bank Governors (CCBG). In addition, the Department sets licensing criteria, establishes prudential policies, conducts on-site and off-site supervision, and ensures regulatory compliance through timely supervisory actions. Through these efforts, PAPOD supports a stable and inclusive financial system that fosters innovation and economic growth. Further, the Department publishes the *Banking Supervision Annual Report*, coordinates and provides advice on the development of regulatory policies and guidelines by the RPC.

The Business Conduct and Regulatory Compliance Department (BCRCD)'s mandate encompasses regulating and supervising the business conduct of commercial banks, bureaux de change, money remitters, and credit bureaus to ensure compliance with the respective statutes under which these entities are licensed, and/or regulated through other enabling laws such as the Financial Intelligence Act (as amended). The mandate to provide oversight on anti-money laundering and combating the financing of terrorism and proliferation (AML/CFT/P) matters includes the investigation of incidences of financial crimes such as ponzi schemes and other illegal deposit-taking activities, while the business conduct mandate focuses on ensuring that regulated institutions treat customers fairly and, exercise a duty of care and skill by always acting in the best interest of customers. Specific to lending institutions, BCRCD strives to foster disclosure and transparency by entities when dealing with clients, ensuring that there is truth-in-lending and that customers are adequately informed of the benefits and disadvantages associated with products and services being offered. The reduction of information asymmetry helps minimise non-performing loans (i.e., bad debts) which in turn augment financial stability.

The Financial Markets Department (FMD) manages foreign exchange reserves and implements decisions of the Investment Committee, carries out foreign exchange dealings and implements monetary policy through OMO. The FMD also conducts other money and capital market activities, including issuing government bonds and treasury bills, and foreign exchange trading with banks. Policy development and market improvements are undertaken under the auspices of the Bond Auction Committee, involving the Bank and the MoF, while consultations with the market are undertaken through the Botswana Financial Markets Committee (comprising the Bank and commercial banks officials).

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STATUTORY REPORT ON THE OPERATIONS OF THE BANK – 2024 (Continued)

The Banking, Currency and Settlement Department (BCSD) oversees the management of currency (Pula banknotes and thebe coin) and the provision of banking services to the Government, commercial banks and selected institutions. The BCSD is also responsible for the settlement of transactions, as well as operating the Real Time Gross Settlement (RTGS) system, known as the Botswana Interbank Settlement System (BISS) and the Society for Worldwide Interbank Financial Telecommunications (SWIFT) system for the Bank.

The Finance Department (FD) is responsible for accounting and reporting the Bank's financial activities, including production of International Financial Reporting Standards (IFRS) compliant monthly and annual financial statements of the Bank, as stipulated in the Bank of Botswana Act. The Chief Financial Officer is also the principal officer of the Bank of Botswana Defined Contribution Staff Pension Fund. The Human Capital Department (HCD) is responsible for human resources planning, talent management, staff recruitment, staff development and training, performance management, compensation and general staff welfare, such as administering health and wellness programmes, disciplinary code and staff loans schemes and supports the work of the HRC of the Board. The Information and Communications Technology Department (ICTD) ensures that the Bank's information technology systems and infrastructure are robust and effective in meeting the needs of the Bank. The Protective Services Department (PSD) is responsible for ensuring the safety and security of Bank staff, information and property, including the safety and environmental function. The PSD liaises with the national law enforcement agencies to ensure that Bank facilities, designated as national key points under the Protected Places and Areas Act, are safe and meet the requisite security standards and practices and, also, in investigations involving currency counterfeits and other financial crimes.

The Strategic Planning and Risk Management Department (SPRMD) ensures coordination of strategic planning, risk management (including insurance management, business continuity and information security management), digitalisation and fintech related initiatives for the Bank. In this regard, the Department developed and maintained frameworks, systems and strategies for effective strategic planning, business continuity, and risk management.

The Corporate Management Services Department (CMSD), through three functional areas of legal affairs and secretariat, communications, and information and knowledge management, provides support and contributes towards achievement of the Bank's mandate and roles with respect to legal and board secretariat, communications, knowledge centre (former library) and an effective records management and registry service, design and dissemination of publications, as well as public education and external relations. The Legal Affairs and Secretariat Division manages the Bank's legal, compliance and reputational risk and is, therefore, responsible for all matters of a legal and compliance nature concerning the Bank, including contracts review, legislative review and drafting, point of contact for external legal counsel, including from other regulatory bodies and international bodies. Furthermore, the Division is responsible for secretarial services to the Board and its various committees, as well as the Senior Leadership Forum, and provides administrative support to Management Committees. The Communications and Information Services Division coordinates communications activities of the Bank to facilitate transparency, credibility, accountability and manage reputation of the Bank for effective policy transmission. The Division coordinates the production of Bank publications, deals with media and public relations with stakeholders, currency museum and public education programme to promote financial and economic literacy as well as enhancing public understanding of the Bank's role in the economic development of Botswana. Furthermore, the Department is responsible for information and knowledge management to improve operational efficiency and foster decision making through the knowledge centre (former library), as well as an effective records management and registry service.

The Statistics, Data Management and Analytics Department (SDMAD), is mandated with collecting, compiling, analysing and disseminating quality data, maintaining dashboards and preparing data visualisations to facilitate the formulation and implementation of monetary policy, conduct of professional economic research and use by interested stakeholders. SDMAD is also responsible for the content of the BEFS. In collaboration with other statistics producing entities, the SDMAD represents the Bank in various statistics related stakeholder committees including, Statistics Producer Committee and its technical group, the Statistics Producer Technical Committee, aimed at enhancing the country's data production and quality standards as per the IMF's international data standards, such as the Enhanced General Data Dissemination System (e-GDDS). In addition, SDMAD compiles internal corporate data to help in the development and analysis of impact of

PART A

STATUTORY REPORT ON THE OPERATIONS OF THE BANK – 2024 (Continued)

administrative policies and to inform management and leadership decisions. The Internal Audit Services Department (IASD) ensures that the Bank's operations are sound and complies with established financial and operational controls as well as governance structures in line with the Bank of Botswana Act, Audit Committee Charter and international best practice, and supports the Board ARC. Its activities are enshrined in the Internal Audit Charter.

Other support services are undertaken through the specialised activities of the Procurement and Property Management Division, which manages facilities, physical developments (projects) and coordinates procurement and has responsibility for custody and maintenance of immovable and movable assets of the Bank, including related equipment.

REVIEW OF THE BANK'S MAIN ACTIVITIES IN 2024

Monetary Policy

The Bank conducts monetary policy primarily through the setting of the MoPR, OMO (using BoBCs) and Primary Reserve Requirements (PRR). Prudential regulations, macroprudential tools and moral suasion may also be used to achieve monetary policy objectives. The primary instruments used to manage liquidity and influence short-term deposit and lending interest rates in the economy are the BoBCs. In addition to the secured credit facility to commercial banks (for intra-day and overnight liquidity management). The Bank operates an interest rate corridor with a 200-basis points width, comprising the Standing Deposit Facility (SDF) at 100 basis points below the MoPR and Standing Credit Facility (SCF) at 100 basis points above the MoPR, available to commercial banks for their daily liquidity management. The interest rate corridor helps ensure that short-term money market interest rates move within a reasonably close range around the MoPR and the close relationship between the policy rate and market interest rate provides the fundamental basis for monetary policy transmission. In addition, the Bank conducts, albeit infrequently, fine-tuning operations (repos and reverse repos) to smoothen the flow of liquidity in the banking system. These are issued at the discretion of the Bank and are offered at the prevailing MoPR. In addition, secured credit facility is available to commercial banks for intra-day and overnight liquidity management.

During 2024, monetary policy in Botswana was conducted in the then context of projected lower inflation in the short-to-medium term given the reduction in domestic fuel prices, subdued domestic and global economic activity and anticipated lower international commodity prices and trading partner countries' inflation. These conditions provided scope to ease monetary policy in support of stronger output growth. Hence, the MoPR was reduced by a cumulative 50 basis points to 1.9 percent in 2024, following a 25-basis points policy rate cut in 2023. In addition, the Bank reduced the Primary Reserve Requirement (PRR) from 2.5 percent in December 2023 to zero in December 2024. This change was done to address the persistent liquidity shortage experienced by commercial banks in the fourth quarter of 2024. The liquidity injection would facilitate the intermediation role of commercial banks in supporting economic activity. Accordingly, the PLR of commercial banks decreased from 6.51 percent to 6.01 percent in the same period.

The Bank held six MPC meetings in 2024, followed by media briefings to facilitate dialogue between the Bank and the media, thus enhancing the Bank's transparency, accountability, policy credibility and prospects for influencing inflation expectations. The Bank published the MPS in February 2024 and three MPRs in April, August and October 2024. These publications are the main media through which the Bank informs the public about the formulation and implementation of monetary policy and, therefore, serve to meet the public's expectation of a transparent and accountable central bank in pursuit of the monetary policy objective. The MPS and MPR provide a comprehensive assessment of economic and financial developments that are likely to influence the inflation path in the medium term and, in turn, the Bank's policy choices predicated on a forward-looking monetary policy framework. The Bank increasingly uses the communication tool to enhance awareness and clarify its mandate, policy performance and guidance. In this respect, the publications promote an understanding of the conduct of monetary policy and help anchor public expectations of a low, predictable and sustainable level of inflation.

PART A

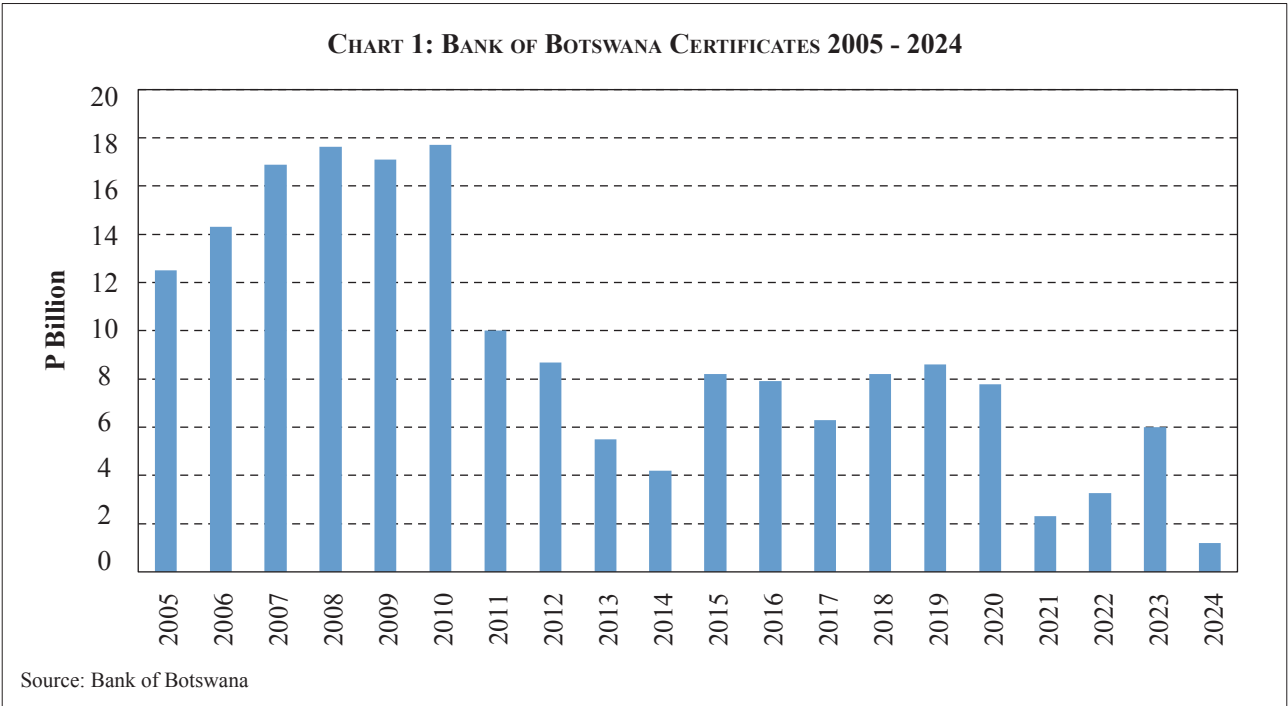
STATUTORY REPORT ON THE OPERATIONS OF THE BANK – 2024 (Continued)

Money and Capital Markets

Open market operations continued to be the main tool for liquidity management in the domestic market, as well as in implementing the decisions of the MPC. This entailed using BoBCs to absorb excess liquidity¹ to maintain interest rates that are consistent with the monetary policy stance. In 2024, open market operations were conducted in an environment of decreased market liquidity, mainly influenced by reduced government spending.

The reforms to monetary operations introduced in April 2022 are now embedded and there was noticeable improvement in monetary policy transmission and the interest rate structure is operating as expected. In addition, the interbank rate is consistently within the interest rate corridor. However, the funding structure of banks, which is uneven across individual banks and mostly dominated by large volatile corporate and asset funds managed deposits, have the effect of raising wholesale deposit rates and suppressing interest rates on retail savings deposits. Liquidity declined significantly in the last half of 2024, thereby, prompting the Bank to intervene by injecting liquidity through fine tuning operations (Repos).

With effect from 1 April 2023, commercial banks were allowed to independently determine their own PLRs, with the expectation that this would enhance policy transmission, promote competition and, thus, help develop and deepen the banking industry. The Bank publishes average PLR to the market for transparency. Outstanding BoBCs amounted to P1.2 billion in 2024, a decrease from P6 billion in 2023 (Chart 1), reflecting a decrease in liquidity resulting mainly from foreign exchange outflows and the continued slowdown in the pace of government expenditure amid subdued government revenue due to the sluggish performance of the diamond sector. The reduction of the PRR injected liquidity of approximately P1.8 billion into the banking system, which allowed commercial banks to perform their necessary intermediation to support economic activity. Furthermore, P2.34 billion worth of Standing Deposit Facility (SDF) was outstanding at the end of December 2024 compared to P3.49 billion the year prior (Table 2).



¹ Excess liquidity in the banking sector is defined here as the sum of commercial banks' overnight deposits at the central bank (current account), commercial banks' deposits in the Standing Deposit Facility (SDF), money absorbed through BoBCs, outstanding reverse repos less repos, Standing Credit Facility (SCF) and the credit facility. This is 'excess' in the sense that it is the net liquidity that the central bank has to absorb (take out of the system), over and above the structural liquidity that is held by the banks in the Primary Reserve Requirement accounts.

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STATUTORY REPORT ON THE OPERATIONS OF THE BANK – 2024 (Continued)

TABLE 2: MONEY MARKET 2023 – 2024

	End-2023			End-2024		
	Outstanding balances ² (P billion)	Interest rate (Percent) ¹		Outstanding balances ² (P billion)	Interest rate (Percent) ¹	
		Nominal	Real		Nominal	Real
3-month Treasury Bills ^{1,3}	3.350	4.30	0.38	2.010	3.08	0.17
6-month Treasury Bills	1.870	4.50	0.58	1.850	3.25	-0.43
12-month Treasury Bills	780	4.98	1.04	1.650	3.52	-1.13
7-day ¹	5.000	2.40	-1.44	0.840	1.90	-2.49
1-month	1.000	2.79	-1.07	0.360	2.24	-2.16
Standing Deposit Facility	3.487	1.40	-2.41	2.344	0.90	-3.44
Standing Credit Facility	0.120	3.40	-0.48	-	2.90	-1.53
Reverse repos	-	2.40	-1.44	-	1.90	-2.49
Repos	-	2.40	-1.44	4.148	1.90	-2.49
88-day deposits	-	-	-	-	-	-
Prime rate		6.51	2.51		6.01	1.44
MoPR		2.40			1.90	

1. Stop-out yield is used for Treasury Bills, while weighted average yield is used for BoBC yields.

2. Book value

3. Original date to maturity

Source: Bank of Botswana

The 7-day BoBC yield decreased from 2.40 percent in December 2023 to 1.90 percent in December 2024, in line with the downward adjustment in the MoPR in December 2024. In 2024, secondary market trading for BoBCs was worth P10 million compared to P25 million traded in 2023. Outstanding Government Bonds of various maturities and Treasury Bills (T-Bills) increased from P29.1 billion in December 2023 to P41.2 billion in December 2024, as Government increased the ceiling for the Government Note Issuance Programme from P30 billion to P55 billion effective 1 April 2024. Primary Dealers and their customers held P18.3 billion (44.56 percent) and P22.8 billion (55.44 percent), respectively, of the Government securities at the end of 2024. Liquidity in the Government Bonds market has improved substantially and, therefore, secondary market activity increased compared to the previous period (Table 3).

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STATUTORY REPORT ON THE OPERATIONS OF THE BANK – 2024 (Continued)

TABLE 3: GOVERNMENT BONDS AND TREASURY BILLS 2023 – 2024

Bond Code	Outstanding (P million) ^{1,2}	End 2023		Outstanding (P million) ^{1,2}	End 2024	
		Market Yields ³ (Percent)			Market Yields ³ (Percent)	
		Yield	Real		Yield	Real
3-month Treasury Bills	3 350	4.30	0.38	2 010	3.08	0.17
6-month Treasury Bills	1 870	4.50	0.58	1 850	3.25	-0.43
12-month Treasury Bills	780	4.98	1.04	1 650	3.52	-1.13
BOTSGB0623	-	-	-	-	-	-
BOTSGB0325	2 217	5.38	1.42	1 689	3.19	0.28
BOTSGB0527	3 029	6.50	2.50	4 115	5.86	2.08
BOTSGB0929	4 399	7.13	3.11	6 214	7.93	3.09
BOTSGB0931	5 795	7.91	3.86	6 504	8.10	3.44
BOTSGB0635	772	8.35	4.28	2 609	8.36	3.69
BOTSGB0640	3 479	8.48	4.41	5 260	8.78	4.10
BOTSGB0943	3 443	8.62	4.54	5 746	9.38	4.67
	29 134			41 153		

1. Where outstanding values differ for the same bond code between the two years, it means the bond was reopened for issuing an additional amount.

2. Book value.

3. Indicative yields.

Source: Bank of Botswana

Exchange Rate Policy

The Bank is responsible for implementing the exchange rate policy. In accordance with Section 21 of the Bank of Botswana (Amendment) Act, 2022, the framework for the determination of the external value of the Pula is set by the President, on recommendation by the Minister of Finance after consultation with the Bank. As part of this framework, the Pula basket weights were maintained at 45 percent and 55 percent for the South African rand (ZAR) and the IMF's SDR in 2024, respectively, reflecting Botswana's trade pattern and financial relationships with the external world. In addition, the Bank implemented an annual downward rate of crawl of 1.51 percent to enhance domestic industry competitiveness.

In 2024, the trade-weighted NEER of the Pula depreciated in line with the rate of crawl of the Pula exchange rate. Similarly, the REER depreciated by 2.5 percent in the same period because of the combined effect of the depreciation of the NEER and a negative inflation differential, and this suggested a gain in international competitiveness of domestic firms. Beyond the exchange rate, durable competitiveness of domestic producers is also achieved through a sustained improvement in productivity, which contributes to lower inflation.

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STATUTORY REPORT ON THE OPERATIONS OF THE BANK – 2024 (Continued)

Financial Stability

The Bank's macroprudential policy conduct considers the influence of global, regional, and domestic developments on the resilience and stability of the domestic financial system. This approach acknowledges the critical interplay between macroeconomic policies, the real economy, financial sector dynamics and external developments. To support this, the Bank conducts vulnerability assessments and monitors the performance of the financial sector, involving the evaluation of the impact of the domestic real economy, fiscal and external developments. These assessments guide the formulation and implementation of macroprudential policies, enabling timely responses to financial sector imbalances to safeguard enduring financial stability. The mandate of the Bank in maintaining financial stability complements that of the FSC, an inter-agency² committee whose main responsibilities include coordination, collaboration, information exchange and implementation of the domestic macroprudential policy framework.

During 2024, the FSC met in April and November, to deliberate on the state of domestic financial stability, macroprudential policy considerations and approve the publication of the FSR for May and October, respectively. The FSC determined that the financial system of Botswana continues to be resilient, robust, safe, sound and unconstrained in supporting economic activity. This resilience was based on strong regulatory and supervisory measures, as well as sustained profitability and solvency of banks and non-banks. However, vulnerabilities have increased in the financial system due to rising sovereign/fiscal risks. Subdued demand for diamonds and resultant decrease in export earnings pose a risk for the domestic financial system as declining government revenues narrow the fiscal space and amplify external vulnerabilities through declining foreign exchange reserves. The market stress observed in the mining sector has heightened vulnerability, especially for government and financial institutions in the mining value chain. An assessment of the stability of the domestic financial system is comprehensively covered in the published May and October 2024 FSRs.

The Bank conducted a Household Indebtedness Survey (HIS) for 2023/24 to identify and assess credit developments in the household sector. The survey used primary data from commercial banks, micro-lenders and hire purchase stores; as well as data on arrears on rent and water bills from the Botswana Housing Corporation (BHC) and Water Utilities Corporation (WUC), respectively. The results indicated that credit was largely extended to clientele that had the most secure jobs, thus the largest credit providers (banks) had good household loan books. Household debt, characterised by low default, therefore, posed minimal risk to financial stability.

The regulatory and supervisory environment of the financial system remains robust and continues to be modernised and strengthened to elevate its effectiveness in controlling risk transmission and reducing vulnerabilities. Between 2022 and 2023, a holistic review of the regulatory and supervisory environment was conducted, resulting in amendments, enactments and re-enactments of several anchor laws. In an effort to ensure effective implementation of these various laws, the MoF is working on a number of regulations including the Banking Regulations, 2023; Banking (Deposit-Taking Institutions) Regulations, 2023; Banking (Appeals Tribunal) Regulations, 2023; Collective Investment Undertaking (Licensing, Recognition and Exemption) Regulations, 2023; and Electronic Payment Services (Amendment) Regulations, 2023. Several of these regulations are expected to be published by the first quarter of 2025. As of 2024, there were several bills before Parliament, including the Non-Bank Lenders Bill, 2024, Medical Aid Funds Bill, 2024, and Health Insurance Bill, 2024, which are expected to help strengthen regulatory supervision and compliance, as well as protect both service providers and their clientele.

² MoF, Bank of Botswana, NBFIRA, DISB, FIA, and the BSEL.

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STATUTORY REPORT ON THE OPERATIONS OF THE BANK – 2024 (Continued)

Furthermore, to enhance domestic financial safety nets, the NBFIRA is developing the Policy Protection Regulations, 2024, that would enable establishment of a fund to ensure protection of insurance policyholders in the event of insolvency and failure of insurers to renew their licences, which may lead to non-honouring of claims. The fund is expected to elevate investors' confidence in the insurance industry. Similarly, the DISB continue to work towards establishing an effective financial safety nets environment. The DISB increased the Deposit Insurance Fund to P55.5 million as of 30 September 2024, following the approval of the Premium Contributions Policy by the Deposit Insurance Committee on 23 May 2024. Furthermore, DISB has applied to the International Association of Deposit Insurers (IADI) to transit from associate membership to full membership. The IADI full membership confers on the DISB the right to effectively leverage on services and technical assistance of IADI aimed at buttressing its work and achieving its strategic objectives, such as maintaining and administering the insurance fund, including risk analysis and surveillance.

Supervision and Regulation of Banks and Payments Systems

During 2024, the Bank continued to monitor the performance of banks through established processes, such as off-site and on-site examination for adherence to prudential, payments and market infrastructure requirements. Furthermore, the Bank held bilateral meetings with banks and their respective external auditors and also arranged trilateral meetings with each financial institution and its external auditor during the year. In addition to the prudential supervisory role, the Bank continued to promote an efficient payments system through upgrade of processes and risk-mitigation measures in payments, clearing and settlement infrastructure and operations, as well as to regulate and oversee the payments system and respective payment-services providers as enshrined in the National Clearance and Settlement Systems (NCSS) Act (Cap. 46:06); and the Electronic Payments Services (EPS) Regulations, Statutory Instrument No 2 of 2019.

The banking industry comprised nine commercial banks and two statutory banks. The commercial banking industry was profitable, with an after-tax profit of P4.1 billion in the 12 months to December 2024, representing an increase of 31.7 percent from the P3.1 million reported in the corresponding period in 2023. The increase in profit was attributable to a 15.7 percent growth in total income from P9.8 billion to P11.4 billion in the same period. Non-performing loans (NPLs) remained unchanged at P3 billion between 2023 and 2024. Overall, asset quality improved with the ratio of NPLs to gross loans and advances declining from 3.7 percent to 3.4 percent in the same period. The average capital adequacy ratio and liquid asset ratio (LAR) for commercial banks were 19.1 percent and 17.9 percent, respectively, in December 2024. Both ratios were higher than the prudential and statutory thresholds of 12.5 percent and 10 percent, indicating that the industry was adequately capitalised and liquid during 2024. Table 4 shows financial soundness indicators for the commercial banking industry.

Overall, total assets of the commercial banking industry grew by 7.7 percent from P133.6 billion in December 2023 to P143.9 billion in December 2024. The increase in total assets is mainly attributed to a 6.5 percent increase in loans and advances from P81.8 billion to P87.1 billion in the same period.

Deposits remained the main source of funding for the commercial banking industry at P114.3 billion in December 2024 (December 2023: P110.3 billion). Total deposits comprised customer deposits and bank deposits amounting to P107.3 billion and P7 billion in December 2024, respectively. The industry average intermediation ratio remained within the 50–80 percent recommended prudential range, at 81.2 percent, in December 2024 (December 2023: 78.6 percent). Overall, the commercial banking sector was assessed to be profitable, adequately capitalised and liquid and in compliance with the statutory and prudential requirements.

PART A

STATUTORY REPORT ON THE OPERATIONS OF THE BANK – 2024 (Continued)

Table 4: Financial Soundness Indicators and Range of Statutory and Prudential Requirements for Licensed Commercial Banks (2021 – 2024)

Financial Soundness Indicators	Statutory Requirement (Percent)	Prudential Benchmark (Percent)	Range of Indicators for Local Banks (Percent)			
			2021	2022	2023	2024
Capital adequacy ratio	≥12.5		15.2 – 26.9	15.1 – 22.0	13.2 – 22.2	14.2 – 23.6
Liquid asset ratio	≥10		14.0 – 20.9	14.9 – 25.6	17.6 – 23.9	11.5 – 32.7
Profitability (return on assets)		Positive	0.4 – 3.0	0.6 – 3.8	(1.5) – 4.2	0.5 – 4.5
Profitability (return on equity)		Positive	3.3 – 36.7	5.1 – 33.4	(8.5) – 32.6	5.5 – 39.6
Asset quality (non-performing loans/total loans)		≤2.5	0.7 – 6.2	0.6 – 5.9	1.4 – 6.0	1.3 – 5.8
Intermediation ratio (advances/deposits)		50 – 80	62.9 – 106.6	61.4 – 100.3	67.3 – 98.0	60.6 – 105.8

Source: Bank of Botswana

Regarding statutory banks, total assets at National Development Bank (NDB) and Botswana Savings Bank (BSB) amounted to P6.7 billion in December 2024, a 44.6 percent increase from P4.6 billion in December 2023. The increase in total assets was mainly attributable to a 65.6 percent increase in gross loans and advances from P3.5 billion to P5.8 billion in the same period. The asset quality of statutory banks improved as reflected by a decrease of 5.6 percent in NPLs from 349.8 million in December 2023 to P330.1 million in December 2024. The decline in statutory banks' NPLs is attributed to a 16.6 percent fall in NPLs at NDB from P259.8 million to 216.7 million in the same period due to the writing-off of the bank's NPLs determined to be irrecoverable.

Further, the statutory bank's ratio of NPLs to gross loans and advances was 5.7 percent in December 2024, down from 10 percent in December 2023. On liquidity, BSB was adequately liquid in the review period, as indicated by a LAR of 15.5 percent, which is above the 10 percent prudential threshold.

BSB made a profit of P56.6 million in the 12 months to December 2024, an increase of 229.5 percent from the P17.2 million reported in December 2023 owing to a revised and revitalised sales strategy, which involved expanding its direct sales-agency network to expand the customer base. On the other hand, NDB reported a loss of P973 thousand in the 12 months to December 2024, although it was an improvement from the loss of P37.9 million recorded in the 12 months to December 2023.

In accordance with Section 39 of the Banking Act, the Bank continued to administer abandoned funds. As of 31 December 2024, the abandoned-funds balance was P34 336 419; claims amounted to P679 895, while P2 857 120 was transferred to the Guardian's Fund.

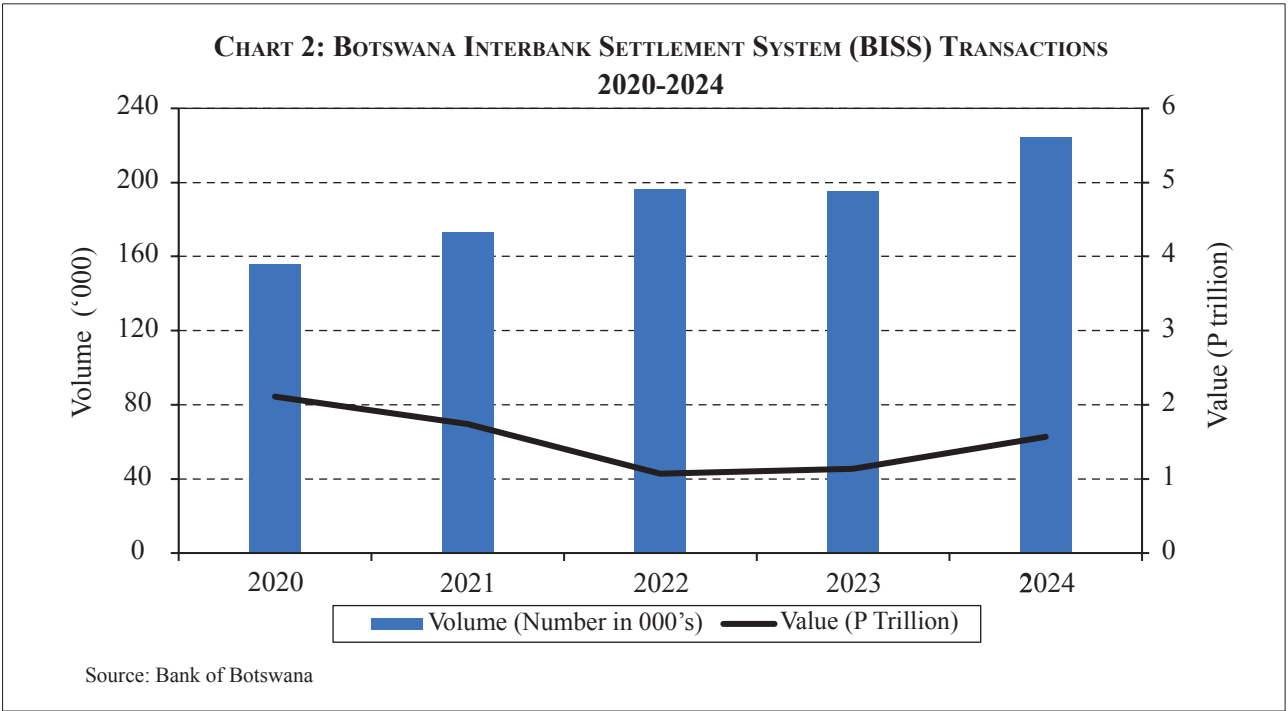
PART A

STATUTORY REPORT ON THE OPERATIONS OF THE BANK – 2024 (Continued)

The Bank continued to ensure the safety, integrity, and efficiency of the National Payments System (NPS) through close monitoring of the various components of the NPS, implementation of the NPS strategies and discharging the oversight function through established processes, such as off-site and on-site inspection of payment systems and electronic-payment-service (EPS) providers to ensure adherence to international best practices. The NPS remained safe, stable, efficient, and resilient, thus ensuring smooth functioning of the financial system. All systemically important payment systems were sound and robust, with minimal concerns for contagion or systemic risk.

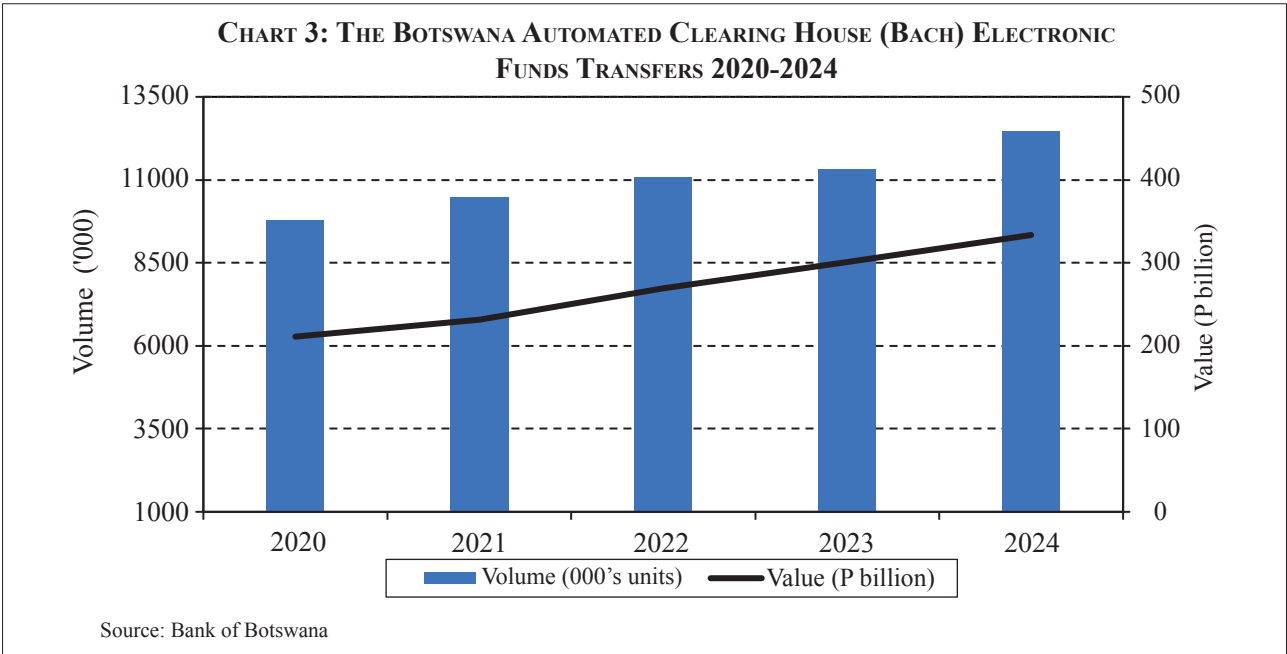
Overall, the key financial market infrastructures operated reliably and efficiently in providing clearing and settlement services. Notably, the Real-Time Gross Settlement system (RTGS), BISS, continued to provide settlement for large and time-critical payment transactions. The BISS remained efficient in facilitating safe and secure interbank payments. The system continued to provide settlement for large and time-critical payment transactions. The system underwent a major upgrade to accommodate the ISO 20022 global messaging standard which in overall will increase efficiency, enhance risk management, interoperability and improve system resilience.

The RTGS, BISS, continued to provide settlement for large and time-critical payment transactions. The system underwent a major upgrade to accommodate the ISO 20022 global messaging standard which in overall will increase efficiency, risk management, interoperability and improve system resilience. The volume of transactions settled in BISS increased by 14.8 percent from 194 726 in 2023 to 223 520 in 2024, while there was an increase in the corresponding value by 38.9 percent from P1.13 trillion to P1.57 trillion (Chart 2) in the same period. On the other hand, the Botswana Automated Clearing House (BACH) catered for low-value transactions through electronic funds transfers (EFTs). Effective from 1 January 2024, BACH ceased to accept cheques for processing. EFT transactions increased by 10.1 percent in volume from 11.31 million in 2023 to 12.45 million in 2024 and by 10.9 percent in value, from P300.9 billion in 2023 to P333.6 billion in 2024 (Chart 3).



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STATUTORY REPORT ON THE OPERATIONS OF THE BANK – 2024 (Continued)



In 2024, the Bank received one application for an EPS licence. The assessment of the application was ongoing as of 31 December 2024. Two licences for EPS providers were revoked in 2024. Consequently, as at the end of 2024, the number of operating EPS providers was 23, while the number of authorised agents was more than 1 500 countrywide. The Bank undertook on-site inspection of four EPS providers. One entity was found to have generally complied with applicable requirements of the EPS Regulations, 2019, while three entities did not comply with EPS Regulations and were each fined P5 000. Furthermore, the Bank, through off-site surveillance, continued to investigate suspected cases of unauthorised payment operations³ and fraud with a view to eradicating malfeasance in the industry to ensure safety and integrity of the national payments system, thus sustaining trust and confidence of consumers.

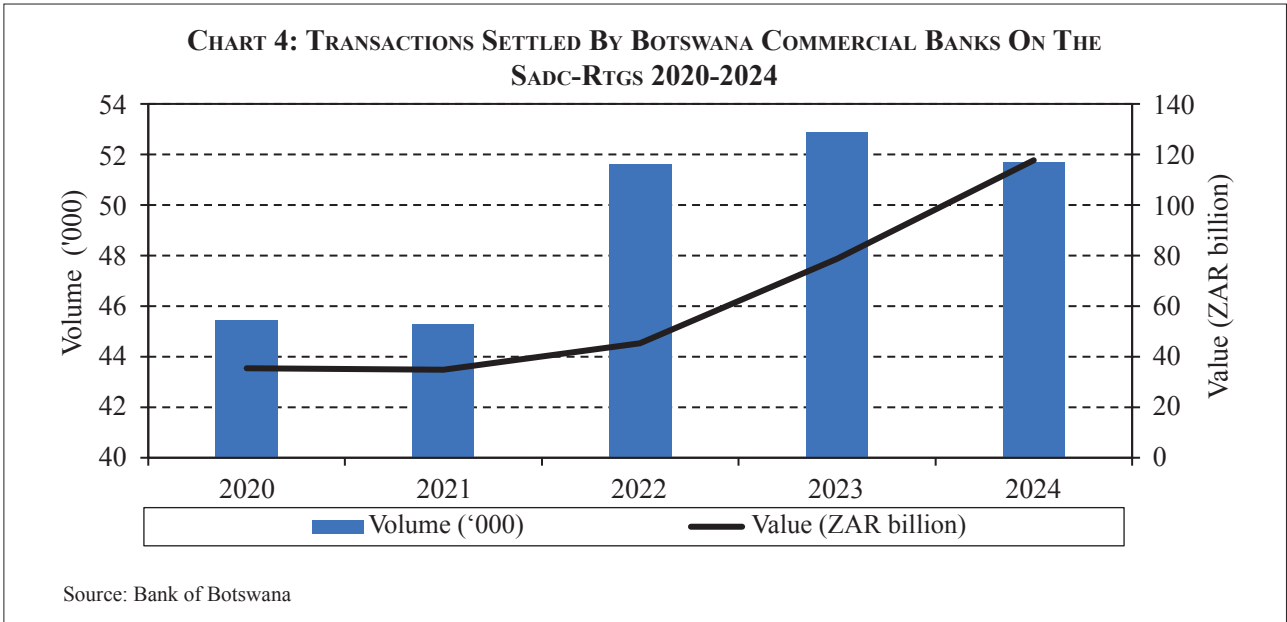
Regionally, in support of integration initiatives of SADC cross-border payments, the Bank facilitated participation of Botswana-based commercial banks in the regional payments infrastructure, the SADC-RTGS⁴ system. As at end of 2024, four Botswana commercial banks participated in the SADC-RTGS and settled P117.7 billion worth of transactions. Chart 4 shows the aggregate volume and value of transactions of settled messages of the four Botswana commercial banks during 2024. In addition, other four banks have expressed interest in joining the SADC-RTGS and were undergoing on-boarding processes as at the end of 2024.

³ For instance, unlicensed payment systems and operators who may be undertaking unauthorised activities and thus contravening Section 14 of the EPS Regulations, which requires EPS providers to seek prior approval when introducing new products.

⁴ The SADC-RTGS transactions are cleared in South African rand.

PART A

STATUTORY REPORT ON THE OPERATIONS OF THE BANK – 2024 (Continued)



The five-year National Payments System Vision and Strategy 2020 – 2024, issued in 2020, came to an end. The strategy outlined the essential characteristics of Botswana’s NPS and identified key strategic actions in developing the country’s payment systems. Overall, about 71 percent of the strategy’s objectives were achieved and attainment of the remaining 29 percent of the objectives will be pursued.

Business Conduct and Regulatory Compliance

(a) AML/CFT/CPF Supervision and Monitoring of Banks and Other Supervised Entities

The Financial Intelligence Act of 2022 (FI Act) mandates the Bank to regulate and supervise entities under its regulatory purview for compliance with the FI Act. The Bank monitors banks, bureau de change, EPS and money or value transfer service (MVTs) providers to ensure that they have effectively implemented risk-based measures, AML/CFT/CPF, as outlined in the FI Act. Additionally, the Bank investigates illegal deposit-taking activities.

In 2024, the Bank continued to monitor supervised institutions for compliance with the AML/CFT obligations as prescribed in the FI Act. The supervision and monitoring were conducted through both on-site examinations and off-site monitoring. During the year, the Bank conducted AML/CFT on-site examinations on three banks, three MVTs/EPS and two bureau de change. Generally, the institutions inspected in 2024 (except for one entity) were found to have significant deficiencies in their AML/CFT obligations. The concerned institutions were directed to adopt corrective measures within prescribed timelines and, in some cases supervisory fines were imposed for non-compliance with the FI Act.

PART A

STATUTORY REPORT ON THE OPERATIONS OF THE BANK – 2024 (Continued)

(b) Illegal Deposit Taking Activities

In 2021, Dafritech Proprietary Limited (Dafritech) was found to be in the business of soliciting deposits from members of the public without a valid licence issued by the Bank, thus, contravening Section 3(1) of the Banking Act. Customers deposited funds into the Dafritech account, which was held with First National Bank of Botswana Limited (FNBB). Dafritech was ordered to cease the operations of soliciting funds from the public. Subsequently, the Bank ordered FNBB to freeze Dafritech's account which had a balance of P832 338 and applied to the High Court for direction on the disposition of the funds held with FNBB. The High Court ordered FNBB to transfer the funds to the Bank. Consequently, in 2024, the Bank issued a public notice requesting customers who had deposited money in the Dafritech account to come forth and claim their funds. As of 31 December 2024, 26 depositors out of a total of 116 depositors had been refunded a total of P393 262 of the Dafritech funds and the remaining balance is P437 983.

(c) Market Conduct Issues

In 2024, the Bank continued to monitor business conduct and regulatory compliance of banks to ensure protection of the interests of customers largely in terms of transparency in the provision of banking services, fair treatment, confidentiality of information and enhancing market integrity. One of the ways to achieve this is through conducting consumer compliance on-site examinations. Accordingly, in 2024, consumer compliance on-site examinations were conducted at two banks. The examinations were meant to assess if banks adhered to the prescribed market conduct standards. Overall, the examinations revealed that the banks were generally compliant. However, there were instances where anomalies were observed and, in such cases, they were directed to adopt corrective measures within a prescribed timeline.

(d) Credit Information Sharing

In accordance with Section 6(1) of the Credit Information Act, 2021, three credit bureaus, namely, TransUnion (Proprietary) Limited, Micro-Finance Credit Bureau (Pty) Ltd, (Micro-Finance) and Credbase (Pty) Ltd (Credbase) were issued with credit bureau licences as of 31 December 2024. Micro-Finance and Credbase have been granted six months to have commenced operations.

Foreign Exchange Reserves Management

The Bank manages the official foreign exchange reserves in accordance with the Board approved Reserves Management Policies and Investment Guidelines and underpinned by the key objectives of safety, liquidity and return based on the Bank's risk tolerance assessment. Accordingly, the Foreign Exchange Reserves are treasured into two portfolios, the Liquidity Portfolio and the long-term investment portfolio (Pula Fund), and managed prudently, with investments in a diversified pool of high-quality financial instruments traded in liquid and developed global markets. Funds are managed via a combination of internal and external mandates, where the Bank engages selected international fund managers. In addition, the Bank has engaged a portfolio consultant, to advise primarily on asset allocation, portfolio distribution and fund manager selection as well as reputable global custodian to safeguard the reserve assets.

The Board approved the newly revised Investment Policy in March 2024, which introduced changes to the strategic asset allocation. The new SAA for the Liquidity Investment Tranche (LIT) is 35:55:10 for equities, bonds and high yield. The Pula Fund had its SAA revised to 60:20:10:10 equities, bonds, high-yield and unlisted infrastructure. However, implementation of the revised investment policy and guidelines was disrupted by the significant and frequent drawdown from the Transaction Balances Tranche (TBT). Against this backdrop and in view of the continued drawdowns, the Bank is undertaking a re-optimisation process to ascertain relevance of the revised SAA.

PART A

STATUTORY REPORT ON THE OPERATIONS OF THE BANK – 2024 (Continued)

The Investment Committee continued to prudently select investments based on careful assessment of prevailing market conditions and outlook. In 2024, volatility remained elevated due to uncertainty surrounding the direction of monetary policy globally, elevated political risks and expectations for a moderate global growth. During the first quarter of 2024, inflation in the US unexpectedly rose causing global bond yields to rise as markets scaled back expectations for central bank monetary policy easing. Nonetheless, equity markets remained strong mostly supported by robust performance of the information and communication technology companies underpinned by artificial intelligence (AI) revolution. Continued strength in the jobs market provided further support to household consumption, which in turn boosted GDP growth, especially in the US. In Europe, growth remained lacklustre as the region struggled with deteriorating industrial activity due to weakening competitiveness amid high input costs and lower productivity. The Asian region maintained decent pace of growth although China faced a prolonged property market crisis, which has dented investor sentiments and resulted in weak equity market returns. In terms of monetary policy, the European Central Bank (ECB), Bank of England (BoE) and the Federal Reserve Bank (Fed) started to cut interest rates in June, July and September, respectively. The Fed commenced with a 50 basis points cut and ended the year with a cumulative 100 basis points cut for 2024.

Against this backdrop, the Bloomberg Global Aggregate Bond Index ended the year lower, posting a 1.7 percent loss. In contrast, equities delivered strong returns, as the Morgan Stanley Composite Index (MSCI world) rose by 15.7 percent in 2024. Developed markets equities continued to outperform emerging markets, with the MSCI developed index posting 17 percent against 5.4 percent for the MSCI emerging market index.

Following the approval of the revised investment policy and guidelines, the number of eligible global markets increased from 22 to 27. However, investment was made in 14 markets for the internally managed portfolio, a slight increase from 13 in the preceding period. Emerging markets continued to face unfavourable market conditions as investors moved capital to developed markets. Furthermore, the US dollar continued to appreciate against emerging markets currencies.

Meanwhile, investments continue to be made based on careful assessment of risk factors including among others, credit ratings, volatility levels, interest rate risk and liquidity risks. Table 5 shows all the eligible markets within the internally managed portfolio.

TABLE 5: INVESTED AND NON-INVESTED MARKETS FOR THE INTERNALLY MANAGED PORTFOLIO

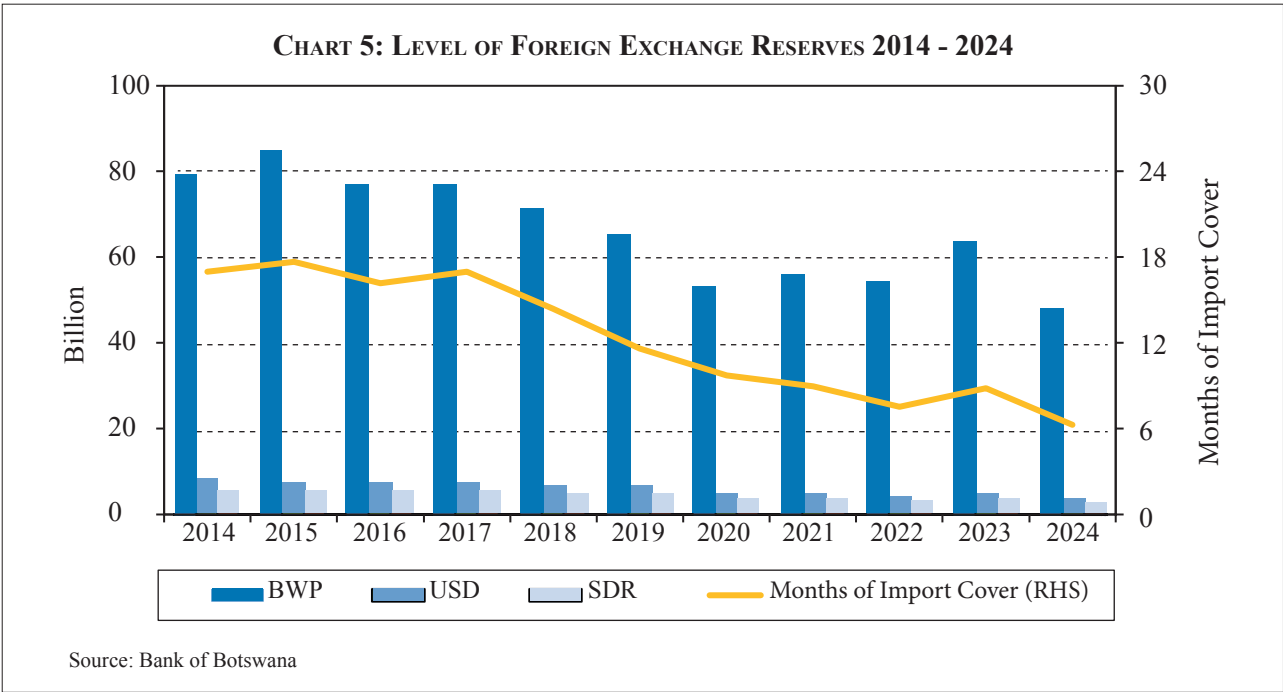
	Invested	Non-Invested
America	United States of America Canada Mexico	Chile Peru Colombia
Europe	Euro-zone Norway United Kingdom Poland	Sweden Switzerland Denmark Czech Republic Hungary Romania
Asia-Pacific	Australia Japan Malaysia New Zealand Singapore Republic of Korea China	Thailand Israel Hong Kong Indonesia

Source: Bank of Botswana

PART A

STATUTORY REPORT ON THE OPERATIONS OF THE BANK – 2024 (Continued)

At the end of December 2024, foreign exchange reserves amounted to P48.1 billion, a decrease of 24.5 percent from P63.7 billion in December 2023 (Chart 5). The decrease reflects low levels of diamond receipts in 2024 and elevated withdrawals from the TBT. In US dollar terms, the level of the foreign exchange reserves decreased by 27.1 percent from USD4.8 billion in December 2023 to USD3.5 billion in December 2024. In SDR terms, the foreign exchange reserves decreased from SDR3.5 billion to SDR2.7 billion. At these levels, the foreign exchange reserves were equivalent to 6.3 months of import cover of goods and services as of 31 December 2024, compared to 8.8 in December 2023.



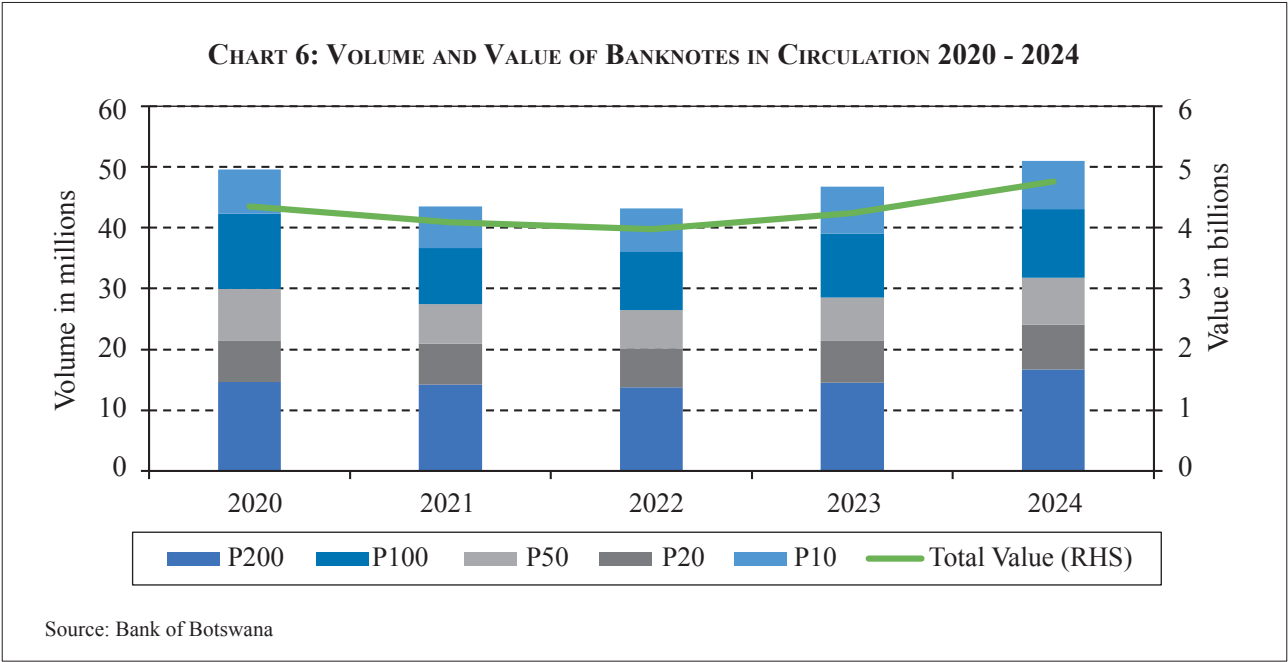
Banking, Currency and Settlement Operations

The Bank continued to manage the supply of banknotes and coins to ensure availability of high-quality currency in circulation. This was achieved through automated and advanced currency processing systems that ensure compliance with the Clean Banknotes and Coin Policy.

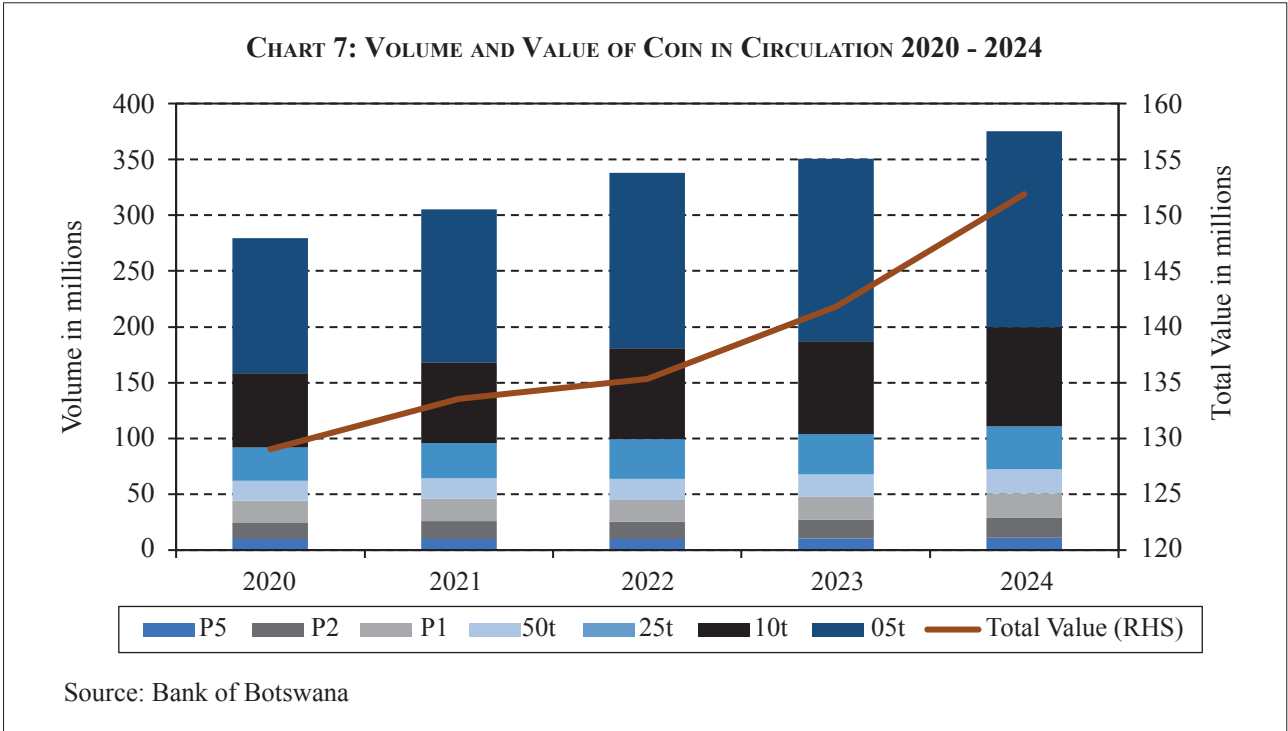
The number of banknotes in circulation increased by 9 percent from P46.8 million in December 2023 to P51 million in December 2024. Consequently, the total value of banknotes in circulation increased by 14.3 percent from P4.2 billion to P4.8 billion in the same period. The net issuance of the P200 and P100 banknote denominations increased significantly by 14.4 percent and 7.6 percent, respectively, while net issuance decreased with respect to the P50 (8.9 percent), P20 (7.6 percent), and P10 (2.5 percent). Overall, there was an increase in the use of cash for payments in 2024 compared to 2023. The P200 denomination continued to have the highest share of total issuance at 32.7 percent, followed by P20 (22.2 percent), P10 (15.5 percent), P50 (15.1 percent) and P100 (14.5 percent) (Chart 6).

PART A

STATUTORY REPORT ON THE OPERATIONS OF THE BANK – 2024 (Continued)



The total net issuance of coin denominations increased by 7.1 percent from P351 million in 2023 to P375 million in 2024. This led to a marginal increase of the value of coins in circulation of 7.1 percent from P142 million to P152 million in 2024. The 5 thebe and 10 thebe denominations had the highest share of total coin net issuance at 7.38 percent and 7.14 percent, respectively (Chart 7).



PART A

STATUTORY REPORT ON THE OPERATIONS OF THE BANK – 2024 (Continued)

The Bank discharged its obligations of providing efficient and reliable banking and settlement services to the public; Botswana Government; commercial banks; Botswana Unified Revenue Service (BURS); and other customers. Thus, the Bank performed settlement of transactions (domestic and foreign) and was responsible for operating the SWIFT system, BISS, core banking system (T24) and Aperta system.

The local community successfully migrated to SWIFT ISO 20022 Messaging Standard in September 2024. Migration to ISO 20022 Messaging Standard was a collaborative effort between the Bank and the BISS Participants, mainly the commercial banks, BURS, Office of the Accountant General (OAG), Central Securities Depository Botswana (CSDB) and BACH. Implementation of the standard marks a significant achievement in the modernisation of the country's payments system and it coincided with the launch of the newly upgraded local RTGS, commonly referred to as the BISS.

The Bank has embarked on the digitalisation of Government revenue collection as part of the strategic initiative of the Bank named "Digital BoB2024". The objective of the digitalisation of banking services is to develop, design and implement modern digital cash handling and management solutions to revolutionise Government revenue collection services and increase efficiency, reduce manual interventions, and facilitate real time processing. The project aims to introduce new cash handling and management solutions, such as Teller Assisted Machines in banking halls and other technology driven platforms to facilitate direct transfers to Government accounts through various payment platforms.

The Single Central Securities Depository project, which partially went live in September 2022, awaits the commencement of Phase 2 to onboard Government bonds, T-Bills and BoBCs. Commencement of this phase has some dependencies on the readiness of the Bank's back-office system which is still undergoing an upgrade.

To execute its mandate of performing the agency role to Government, the Bank diligently processed foreign currency payments and adhered to the stipulated turnaround time for straight forward payment requisitions. The Bank also attained reasonable settlement success rates in processing and settling foreign currency transactions. In its facilitative role, the Bank continued to lead discussions on establishment of a suitable National Retail Payments Switch (NRPS) model for the Botswana market consistent with the Fintech Development Pillar of the National Payment System Vision and Strategy, 2020 – 2024, which seeks to leverage fintech to broaden access to financial services, promote financial inclusion and payments efficiency. Industry engagements pertaining to the gathering of market requirements for a suitable NRPS model were undertaken, involving key market stakeholders, and were concluded in October 2023. The market requirements blueprint is expected to form the basis for acquisition and implementation of an inclusive NRPS solution for Botswana, which will form foundational infrastructure for innovation in financial services.

Fintech

Consistent with the Fintech Development Pillar of the National Payment System Vision and Strategy 2020 – 2024, the Bank embarked on research work on emerging fintech developments to pave way for initiatives that are intended to leverage fintech in the broader development of the digital financial services infrastructure and the deepening of the digital economy. Aligned to that, the Bank facilitated establishment of a National Fintech Working Group (NFWG) mandated to provide strategic direction on matters relating to fintech adoption and regulation at a national level. The NFWG comprises key stakeholders including Government, regulatory authorities, financial services infrastructure providers, and other competent authorities impacted by the emergence of fintech services. The Bank's Digitalisation and Innovation Hub actively monitored local and global fintech developments and their impact on mandates of the Bank, with a view to inform the requisite regulatory policy responses.

PART A

STATUTORY REPORT ON THE OPERATIONS OF THE BANK – 2024 (Continued)

Information Technology

The Bank embarked on several initiatives through its governance strategy to enhance operational efficiency and digital transformation, particularly through the adoption of advanced technologies and secure remote access.

(a) Microsoft Enterprise Agreement

The Microsoft Enterprise Agreement was renewed, which allows for efficient management of the manage Microsoft software, with streamlined license management and compliance, now including the Microsoft E5 suite for enhanced security and analytics, as well as providing comprehensive support for faster cloud services and technical mentorship.

(b) Information Security Operations

The following cybersecurity initiatives were undertaken to improve the Bank's cybersecurity posture and to reduce cyber risk:

- (i) implementing technologies that protect email applications against impersonation fraud;
- (ii) using Microsoft Defender-based technology to identify and prevent identity-related threats for the anticipated remote work arrangement;
- (iii) continual identification and remediation of critical vulnerabilities in the ICT infrastructure and optimising the anti-malware platform;
- (iv) establishment of a robust data protection framework by implementing Microsoft Purview as the primary data governance and compliance solution, which involves classifying sensitive data, creating sensitivity labels, and setting up automated policies to ensure data compliance; and
- (v) undertaking enhanced cybersecurity awareness amongst employees through computer-based training and in-person cybersecurity awareness workshops to foster a culture of cybersecurity vigilance.

(c) Mobile Device Management

The Bank implemented a Mobile Device Management system to protect the confidentiality and integrity of business data accessed through Bank-issued mobile devices. All mobile devices, including laptops, tablets, and cell phones, were enrolled into the system to enable centralised management, policy enforcement, and compliance monitoring.

The Bank also committed to improving its infrastructure, processes and technologies, empowering staff to meet stakeholder needs, adhering to necessary standards, and ensuring system availability and operational continuity. To that end, the Bank undertook several initiatives:

(i) Collaboration Platforms Setup

Rollout of a softphone called MiCollab, which is a feature-rich application that enables full mobility for staff members through their laptops, thus allowing staff to make and receive calls from their laptops, regardless of their location, without being dependent on fixed desktop phones.

(ii) Network Infrastructure Enhancement and Extension of Wi-Fi to the Branches

Corporate Wi-Fi was extended to the Francistown Branch and Cash Management Centre to enhance end-user connectivity and to allow secure access to corporate systems with increased mobility within the Bank.

PART A

STATUTORY REPORT ON THE OPERATIONS OF THE BANK – 2024 (Continued)

(iii) *Bank wide Staff Training and Hot Desking (Office Automation Products)*

The Bank provided ongoing ICT training to enhance employees' digital skills. Hot Desking was implemented to address user challenges and training needs, covering topics such as cybersecurity, call logging, file management, printer management, DocuSign, access to business applications, network connectivity, and Office 365.

(d) *Applications Maintenance*

The Bank undertook the following initiatives:

(i) *T24 Reimplementation*

Phase 1 of the T24 Release 21 reimplementation went live in May 2024 and Phase 2, which includes migrating to the ISO 20022 message standard and developing various interfaces, is ongoing and scheduled to go live in the first quarter of 2025.

(ii) *Botswana Interbank Settlement System*

The Bank upgraded the BISS to the latest version, enhancing functionality and meeting market requirements.

(iii) *Digitalisation of Banking Services*

Preliminary works to automate banking services and government revenue collection have been completed with final consolidation of the infrastructure and software being finetuned for go-live planned for the second quarter of 2025.

Human Resources, Staff Welfare and Pension Fund

(a) *Staff Establishment*

HCD stepped up efforts towards a robust recruitment process to fill the vacant positions in the Bank. The Board approved Staff Establishment was 639 for 2024, representing a 2.5 percent growth from the 623 for 2023. There were 31 vacant positions (4.9 percent) at the end of 2024 compared to 38 vacancies (6.1 percent) as at December 2023. Of the 31 vacancies, 77.4 percent were in the professional cadre, while the remaining were at clerical levels and below. A total of 39 new staff joined the Bank, while 15 terminated employment during the period under review.

(b) *Training*

The Bank continued to prioritise staff development and endeavoured to find cost effective measures to achieve its human capital development needs through long-term, short-term, and part-time learning and other development initiatives. Several staff members benefited from the Bank sponsored short-term, long-term and part-time learning initiatives. As at the end of 2024, 15 staff members were on long-term postgraduate training (Masters and Doctorate) in various disciplines relevant for the Bank's operations. Staff also continued to attend and participate in both online and in-person short courses, workshops/seminars and conferences dedicated to skills development, networking and collaborations.

PART A

STATUTORY REPORT ON THE OPERATIONS OF THE BANK – 2024 (Continued)

(c) *Health and Wellness*

Health and Wellness in the Bank remains a priority involving a supportive environment that enhances staff well-being and productivity. Staff well-being is supported through a Wellness Programme that includes regular medical examinations, disseminating information on various health topics and providing screening tests to staff. The Programme addresses crucial aspects of health and wellness, such as physical and mental health, nutritional wellness, regular health screenings, as well as monitoring and evaluation of infectious and non-infectious, communicable and non-communicable, acute and chronic diseases through the Bank’s medical aid service provider.

In addition to the efforts made through the Wellness Programme, the Bank continues to monitor and being alert to pandemic occurrences. Notwithstanding the declaration that COVID-19 was no longer a Public Health Emergency of International Concern, the Bank continued with monitoring respiratory related manifestations at its Health and Wellness Centre. Furthermore, following the announcement of the Mpox outbreak, the Bank sensitised and raised awareness to staff on the preventive measures.

(d) *Staff Pension Fund*

The Bank of Botswana Defined Contribution Staff Pension Fund declared final investment return for the financial year ended 30 September 2024, as shown at Table 6 below and in line with its investment strategy. The strategy has three-age based portfolios, which put members into less aggressive portfolio as they get closer to retirement, beyond the age of 55 years. The rates of return were higher than the average inflation of 2.8 percent in Botswana for 2024, thus ensuring that Fund Members received real rates of return, amid volatile markets and uncertainty engendered by geopolitical tensions.

TABLE 6: DECLARED INTEREST RATES FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2024

Age group	Active Members (Percent)	Deferred Members (Percent)
Less than 55 years	18.5	17.9
55 to 60 years	16.0	15.5
61 to 65 years	13.6	13.1

Source: Bank of Botswana

Legislation and Governance

The Bank of Botswana (Amendment) Act was passed into law in July 2022 and commenced on 14 February 2023. The re-enacted Banking Act was passed into law at the Parliament sitting of 14 April 2023. It was assented to by the President and published in the Government Gazette as Act no 8/2023 on 26 May 2023. The Act commencement order will be publicised once the Banking Regulations have been approved by the Minister of Finance, to come into operation. The Bank progressed review of the National Payments Law which is at an advanced stage and further commenced the process of implementing the Data Protection Act.

External Relations and Communication

The Bank collaborated with various stakeholders, locally, regionally and globally, on issues of mutual interest through membership and participation in inter-institution committees, working groups, task forces and technical fora. The Bank used various methods of interaction, including media briefings, Press Releases, website and regular Bank publications to provide information to the public and also manage reputational risks.

PART A

STATUTORY REPORT ON THE OPERATIONS OF THE BANK – 2024 (Continued)

External Relations

The Bank facilitated and/or participated in relevant regional and international meetings, as well as consultation, surveillance and technical assistance missions to Botswana. In this regard, the Bank took part in meetings and conferences, organised by the BIS, the IMF and the World Bank. At a regional level, the Bank participated in meetings organised by the SACU, SADC CCBG, AACB and MEFMI.

Communications, Information Management and Public Education

The Bank continued to maintain public trust and accountability through effective communication. In 2024, the Bank continued with engagements with key stakeholders through media briefings, participation at trade fairs, events, and economic briefings, among other activities. In 2024, the Bank's media coverage improved as reflected by the continued positive coverage in the media. Similarly, the Bank's social media content received strong public engagement, as evidenced by increased views, shares and visits.

As already stated earlier in the Section, the Bank submitted its statutory reports, regular documents and press releases, on a timely basis. These were all in the Bank's website. The release of the Bank's Annual Report was followed by conduct of economic briefings for Cabinet and the media.

PART A

CHAPTER 2 : BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

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BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

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PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

STATEMENT OF RESPONSIBILITY OF THE BOARD AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The members of the Board are responsible for the preparation of the annual financial statements of the Bank of Botswana (“the Bank”) comprising the Statement of Financial Position at 31 December 2024, Statement of Profit or Loss and Other Comprehensive Income, Statement of Distribution, Statement of Cash Flows and Statement of Changes in Shareholder’s Funds for the year then ended.

These financial statements include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards, and in the manner required by the Bank of Botswana Act.

The Board members are also responsible for such internal control as the members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The Board members have made an assessment of the ability of the Bank to continue as a going concern and have no reason to believe that the Bank will not be a going concern in the year ahead as provided in Note 37 of these financial statements.

The independent external auditor is responsible for reporting on whether the annual financial statements give a true and fair view in accordance with the applicable financial reporting framework.

Approval of the Annual Financial Statements

The annual financial statements of the Bank, as identified in the first paragraph, were approved by the Board on 25 March 2025 and signed on behalf of the Board by:



Cornelius K Dekop

Governor



Lipalesa Makepe

Board Member and Chairman

(Audit and Risk Committee)

PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)



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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF BANK OF BOTSWANA

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Bank of Botswana ("the Bank") set out on pages 8 to 49, which comprise the statement of financial position as at 31 December 2024, and the statement of profit or loss and other comprehensive income, the statement of changes in shareholder's funds and statement of cash flows for the year then ended, and notes to the financial statements including a summary of material accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Bank of Botswana as at 31 December 2024, and of its financial performance and of its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with other ethical requirements that are relevant to our audit of the financial statements in Botswana. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)



Key Audit Matter	How the matter was addressed in the audit
Valuation of Level 1 Financial Assets Level 1 financial assets total P37,3 billion (2023 - P50,7 billion). Significant auditor attention was given to the valuation of Level 1 financial assets due to the large volume of the instruments as well as the sourcing of observable inputs which required the assistance of EY specialists in the evaluation of market consistent methodologies, and assumptions relative to IFRS 13 requirements, and the quantification of deviations between external market prices and the Bank's prices. The components which make up the financial assets balance required significant auditor attention and effort in performing the required procedures. The disclosures associated with the financial assets are set out in the financial statements: • Significant Accounting Policies - Financial Instruments • Note 1.1 Liquidity Portfolio • Note 1.2 Pula Fund • Note 12 - Categories of Financial Instruments • Note 30 Risk Management in Respect of Financial Instruments • Note 31 - Fair Value of Financial Instruments	Our audit procedures included the following, amongst others: • We obtained an understanding, evaluated the design, implementation and tested the operating effectiveness of the key internal controls over financial assets. • We obtained an understanding of management's processes for the valuation techniques for the fair value of the level 1 financial assets in line with IFRS 13 Fair Value Measurement. • We assessed the reasonability of the exchange rates used in translating asset values into the Bank's reporting currency and for compliance with the Bank's approved methodology. • We compared the pricing inputs used by management to external data sources and assessed the inputs into the reported fund manager and custodian positions. This was performed with the assistance of the EY specialists. • We evaluated the appropriateness of the valuation approaches and methodologies used by Management's specialists against IFRS requirements and generally accepted market practice (price quotation convention) to evaluate the appropriateness of the methodologies applied under the varying circumstances. With the assistance of the EY specialists, we also reperformed the fair value calculations using independent pricing sources. • We assessed the adequacy and completeness of the disclosures regarding the financial assets in the financial statements to determine they were in accordance with IFRS 13 - Fair value measurement and IFRS 7 - Financial instruments disclosures.

PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)



Other Information

Other information comprises the information included in the 49-page document titled "Bank of Botswana Annual Financial Statements for the year ended 31 December 2024" which includes the Statement of Responsibility of the Board and Approval of the Annual Financial Statements and the Statement of Distribution, which we obtained prior to the date of this report, and the Annual Report, which is expected to be made available to us after that date. The Board members are responsible for the other information. Other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the Board Members for the Financial Statements

The Board Members are responsible for the preparation and fair presentation of financial statements in accordance with International Financial Reporting Standards and the requirements of the Bank of Botswana Act (CAP. 55:01) as amended by the Bank of Botswana (Amendment) Act, 2022 and for such internal control as the Board Members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error

In preparing the financial statements, the Board Members are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board Members either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting processes.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error design and perform audit procedures responsive to those risks, and obtain audit

PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)



evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.
- Conclude on the appropriateness of the Boards' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board Members regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board Members with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)



From the matters communicated with the Board Members, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other Legal and Regulatory Requirements

In accordance with the Bank of Botswana Act (CAP 55:01) as amended by the Bank of Botswana (Amendment) Act, 2022 ("the Act"), we confirm:

- We have received all the information and explanations which, to the best of our knowledge and belief were necessary for the performance of our duties as auditors.
- The accounts and related records of the Bank have been kept in a reasonable state; and
- The Bank has complied with all the financial provisions of the Act.

Ernst & Young
Firm of Certified Auditors
Practicing member: Thomas Chitambo (CAP 0011 2025)
Gaborone

26 March 2025

PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2024

	Notes	2024 P'000	2023 P'000
ASSETS			
Foreign Assets			
Liquidity Portfolio	1.1	4 135 365	6 301 900
Investment in bonds		1 880 035	-
Cash and cash equivalents		2 255 330	6 301 900
Pula Fund	1.2	38 460 469	51 829 427
Investment in equities		25 147 452	27 411 329
Investment in bonds		12 179 251	23 255 563
Short term deposits		1 133 766	1 162 535
International Monetary Fund (IMF)			
Reserve Tranche	2.1	904 322	1 002 248
Holdings of Special Drawing Rights (SDR)	2.2	4 602 496	4 526 840
General Subsidy Account	2.3	27 579	27 367
Total Foreign Assets		48 130 231	63 687 782
Domestic Assets			
Repurchase Agreements	28	4 149 431	-
Receivables and Other Assets	3	495 009	585 499
Property, Plant and Equipment and Intangible Assets	4	1 418 908	1 414 191
Total Domestic Assets		6 063 348	1 999 690
TOTAL ASSETS		54 193 579	65 687 472
LIABILITIES AND SHAREHOLDER'S FUNDS			
Foreign Liabilities			
Allocation of IMF Special Drawing Rights	5	4 468 271	4 433 919
Liabilities to Government (IMF Reserve Tranche)	6	405 275	503 200
Total Foreign Liabilities		4 873 546	4 937 119
Domestic Liabilities			
Notes and Coin in Circulation	7	4 891 057	4 360 102
Deposits	8	3 099 437	5 621 384
Standing Deposit Facility	29	2 344 347	3 487 185
Bank of Botswana Certificates	9	1 199 634	5 998 068
Dividend to Government	10	3 444 016	238 758
Payables and Other Liabilities	11	425 627	509 728
Total Domestic Liabilities		15 404 118	20 215 225
Total Liabilities		20 277 664	25 152 344
Shareholder's Funds			
Paid-up Capital	13	150 000	150 000
Government Investment Account			
Pula Fund and Liquidity Portfolio	10.1	251 297	8 577 425
Currency Revaluation Reserve		15 809 166	15 557 760
Fair Value Revaluation Reserve		2 705 452	1 249 943
General Reserve	14	15 000 000	15 000 000
Total Shareholder's Funds		33 915 915	40 535 128
TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS		54 193 579	65 687 472
FOREIGN ASSETS IN US DOLLARS (000) ¹		3 455 751	4 757 477
FOREIGN ASSETS IN SDR (000) ²		2 656 789	3 541 041

1. United States dollar/Pula – 0.0718 (2023: 0.0747)

2. SDR/Pula – 0.0552 (2023: 0.0556)

PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2024

	Notes	2024 P'000	2023 P'000
INCOME			
Interest – foreign exchange reserves	15	1 140 716	1 421 838
Interest Income: amortised cost		463 747	770 843
Interest Income: FVTPL*		676 969	650 995
Dividends – foreign exchange reserves	16	516 738	498 048
Net realised fair value gains on disposal of securities	17	3 850 961	-
Net unrealised fair value gains	20	1 147 183	4 848 715
Net realised currency gains	18	2 282 821	1 519 240
Net unrealised currency gains	19	-	885 269
Impairment reversals on financial assets	30	7 930	278
Profit on foreign exchange deals		32 625	28 493
Net sundry income		9 005 886	9 217 867
EXPENSES			
Interest expense	21	196 314	170 394
Interest (lease liability)		6	137
Administration costs	35	971 720	901 552
Depreciation expense	4	79 281	64 001
Net unrealised currency losses	19	1 979 134	-
Net realised fair value losses on disposal of securities	17	-	48 920
		3 226 455	1 185 004
NET INCOME		5 779 431	8 032 863
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		5 779 431	8 032 863

STATEMENT OF DISTRIBUTION

For the year ended 31 December 2024

	Notes	2024 P'000	2023 P'000
TOTAL COMPREHENSIVE INCOME		5 779 431	8 032 863
Transfer of net currency gains to currency revaluation reserve	22	(251 406)	(2 323 640)
Transfer of unrealised fair value gains to fair value revaluation reserve	23	(1 455 509)	(4 848 715)
NET INCOME TO GOVERNMENT		4 072 516	860 508
Dividend		(838 000)	(829 000)
Residual Net Income	10	(3 234 516)	(31 508)
UNAPPROPRIATED NET INCOME FOR THE PERIOD		-	-

* Fair Value Through Profit or Loss

PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

STATEMENT OF CASHFLOWS For the year ended 31 December 2024

	Notes	2024 P'000	2023 P'000
OPERATING ACTIVITIES			
Cash generated from operations before movements relating to currency in circulation	26	3 263 605	5 750 782
Movement in currency in circulation		530 955	274 218
Cash generated from operations		3 794 560	6 025 000
Interest received		1 129 040	1 300 913
Dividends received		516 738	501 660
Interest paid		(196 314)	(170 394)
Cash generated from operating activities		5 244 024	7 657 179
INVESTING ACTIVITIES			
Proceeds from disposal of property and equipment – other assets		1 092	2 827
Purchase of property and equipment – other assets	4	(85 303)	(324 371)
NET CASH USED IN INVESTING ACTIVITIES		(84 211)	(321 544)
FINANCING ACTIVITIES			
Dividend to Government	10	(867 258)	(894 955)
Government withdrawals		(8 326 127)	(6 239 187)
Interest on lease liability		(6)	(137)
Lease Liability: right-of-use	4.2	(37)	(4 425)
NET CASH USED IN FINANCING ACTIVITIES		(9 193 428)	(7 138 704)
Net increase in Cash and Cash Equivalents		(4 033 616)	196 931
Net foreign exchange (losses)/gains		(11 137)	154 384
Impairment loss		(1 817)	(9 812)
Cash and Cash Equivalents at beginning of year		6 301 900	5 960 397
CASH AND CASH EQUIVALENTS AT YEAR END		2 255 330	6 301 900

PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

STATEMENT OF CHANGES IN SHAREHOLDER'S FUNDS

For the year ended 31 December 2024

	Paid-up Capital	Currency Revaluation Reserve	Fair Value Revaluation Reserve	General Reserve	Government Investment Account	Accumulated Profit/(Loss)	Total
	P'000	P'000	P'000	P'000	P'000	P'000	P'000
Balance at 1 January 2023	25 000	26 759 120	(3 598 772)	1 600 000	14 816 612	15 000	39 616 960
Transfer to Deposit Insurance Scheme	-	-	-	-	-	(15 000)	(15 000)
Total net income for the period	-	-	-	-	-	8 032 863	8 032 863
Government withdrawals	-	-	-	-	(6 239 187)	-	(6 239 187)
Transfer of Gains to Currency Revaluation Reserve	-	2 323 640	-	-	-	(2 323 640)	-
Transfer of Gains to Fair Value Revaluation Reserve	-	-	4 848 715	-	-	(4 848 715)	-
Dividend to Government	-	-	-	-	-	(829 000)	(829 000)
Transfer to Paid-up Capital	125 000	(125 000)	-	-	-	-	-
Transfer to General Reserve	-	(13 400 000)	-	13 400 000	-	-	-
Residual Net Income	-	-	-	-	-	(31 508)	(31 508)
Balance at 31 December 2023	150 000	15 557 760	1 249 943	15 000 000	8 577 425	-	40 535 128
Total net income for the period	-	-	-	-	-	5 779 431	5 779 431
Government withdrawals	-	-	-	-	(8 326 128)	-	(8 326 128)
Transfer of Gains to Currency Revaluation Reserve	-	251 406	-	-	-	(251 406)	-
Transfer of Gains to Fair Value Revaluation Reserve	-	-	1 455 509	-	-	(1 455 509)	-
Dividend to Government	-	-	-	-	-	(838 000)	(838 000)
Residual Net Income	-	-	-	-	-	(3 234 516)	(3 234 516)
Balance at 31 December 2024	150 000	15 809 166	2 705 452	15 000 000	251 297	-	33 915 915

PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

SIGNIFICANT ACCOUNTING POLICIES

For the year ended 31 December 2024

REPORTING ENTITY

Bank of Botswana (“the Bank”) is the Central Bank of the Republic of Botswana established by the Bank of Botswana Act. The physical address of the Bank’s registered office is 17938 Khama Crescent, Gaborone. These financial statements apply to the financial year ended 31 December 2024 and represent the Bank’s statutory financial statements. The Government of Republic of Botswana is the Bank’s sole shareholder.

BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

Statement of Compliance

The principal accounting policies applied in the preparation of the financial statements are stated below. These policies have been consistently applied to all the years presented and comply with the Bank of Botswana Act and the IFRS* Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards), in all material respects unless otherwise stated.

The financial statements were approved by the Board on 25 March 2025.

* International Financial Reporting Standards

Basis of Preparation

These financial statements have been prepared on the historical cost basis, except for financial instruments held at fair value, where fair value basis is considered more appropriate.

Functional and Presentation Currency

The financial statements are presented in Pula, which is the Bank’s functional currency. Except as otherwise indicated, financial information presented in Pula has been rounded to the nearest thousand.

ADOPTION OF REVISED STANDARDS AND INTERPRETATION

As at the date of finalisation of the financial statements, the following standards relevant to the Bank’s operations were available for adoption.

Standard	Effective for annual periods beginning on or after
Sustainability Disclosure Standards: IFRS S1 and S2 The International Sustainability Standards Board (ISSB) issued IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures on 26 June 2023. IFRS S1 and S2 set out overall requirements for an entity to disclose information about its sustainability-related risks and opportunities that are useful to the primary users of general purpose financial reports in making decisions relating to providing resources to the entity. The Bank is assessing the impact on the financial statements resulting from the application of IFRS S1 and S2. The Botswana Integrated Reporting Committee (BIRC) is currently working on compilation of jurisdictional guidelines for adoption of IFRS S1 and S2 in Botswana. The Bank will, therefore, consider the guidelines provided by the BIRC, once they are completed.	1 January 2024, but for subsequent applications, adoption is by jurisdiction using a phased introduction.
Classification of Liabilities as Current or Non-current - Amendments to IAS 1 The amendment changes the requirements to classify a liability as current or non-current if an entity has the right at the end of the reporting period to defer settlement of a liability for at least twelve months after the reporting period, then the liability is classified as non-current. Application of the amendments to IAS 1 was assessed and the standard was adopted, but did not have an impact on these financial statements.	1 January 2024

PART A

SIGNIFICANT ACCOUNTING POLICIES

For the year ended 31 December 2024

STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET EFFECTIVE

As at the date of finalisation of these financial statements, the following standards relevant to the Bank’s operations, are in issue and not yet effective.

Amendments to IFRS 9 and IFRS 7: Classification and Measurement of Financial Instruments The amendments clarify that a financial liability is derecognised on the settlement date and introduces an accounting policy choice to derecognise financial liabilities settled using an electronic payment system before the settlement date, if certain conditions are met. Other clarifications include how to assess the contractual cashflow characteristics of financial assets that include environmental, social and governance (ESG) linked features. The amendments also introduce additional disclosures for financial instruments with contingent features and equity instruments classified at fair value through other comprehensive income (FVOCI). The Bank is in the process of assessing the potential impact on its financial statements resulting from the application of the amendments to IFRS 9 and IFRS 7.	1 January 2026
IFRS 18 Presentation and Disclosures in Financial Statements IFRS 18 replaces IAS 1, and includes requirements for all entities applying IFRS for the presentation and disclosure of information in financial statements. One of the key features of IFRS 18 is the requirement for entities to classify all items of income and expenses into one of the five categories of operating, investing, financing, income taxes and discontinued operations. The categories are complemented by the requirement to present subtotals and totals for operating profit or loss; profit or loss before financing and income taxes; and profit or loss. The Bank is in the process of assessing the potential impact on its financial statements resulting from the application of IFRS 18.	1 January 2027

PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

SIGNIFICANT ACCOUNTING POLICIES

For the year ended 31 December 2024

FINANCIAL INSTRUMENTS

General

Financial instruments carried in the Statement of Financial Position include all assets and liabilities, including derivative instruments and receivables, but exclude property and equipment and other assets (prepayments and other).

Fair Value Measurement

“Fair value” is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

The Bank measures the fair value of a financial instrument using the quoted price in an active market for that particular instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. For financial assets or liabilities with a quoted price, the Bank measures assets at a bid price, and liabilities at an ask price.

When quoted prices in an active market are not available, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction (see valuation models in Note 31).

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Financial Assets

Financial assets are initially measured at fair value plus, in the case of financial assets not measured at fair value through profit or loss, incremental direct transaction costs that are directly attributable to the acquisition of the financial asset are subsequently accounted for depending on their classification as either measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. The classification of financial assets is dependent upon the Bank’s business model for managing its financial assets, and the contractual cash flow characteristics of the financial asset.

Business Model Assessment

The Bank’s business model is determined based on how it manages groups of financial assets in order to achieve set objectives. The Bank, therefore, makes an assessment of the objective of its business model in which assets are held at portfolio level, and not on individual instrument basis. The information considered in assessing the business model include:

- the stated policies and objectives of the portfolio and the operation of those policies in practice, including whether management’s strategy focuses on earning contractual revenue, maintaining a particular earnings profile, or realising cash flows through the sale of assets;
- how the portfolio is evaluated and reported to the Board;
- the risks that affect the performance of the business model (and the financial assets held within the business model) and how those risks are managed;
- how managers of the funds are compensated, that is, whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about the future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank’s stated objectives for managing the financial assets is achieved and how cash flows are realised.

PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

SIGNIFICANT ACCOUNTING POLICIES

For the year ended 31 December 2024

FINANCIAL INSTRUMENTS (Cont'd)

Contractual Cash Flow Characteristics Assessment

The Bank considers the contractual cash flow characteristics of the financial assets it holds in terms of whether the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding. The assessment includes determining whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Financial Assets at Amortised Cost

Financial assets are measured at amortised cost if held within a business model whose objective is to hold assets to collect contractual cash flows; and the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial Assets at Fair Value through Profit or Loss (FVTPL)

The Pula Fund invests over a long-term horizon. The Pula Fund bonds are held within a business model whose objective is to actively trade in liquid markets with the expectation of earning a higher return than could be achieved on conventionally managed investments. Therefore, the business model is neither “hold to collect” nor “hold to collect and sell”, but trading. This is considered to be “other business model” and falls under the residual category of FVTPL. The policy driven sales override the intention to hold to collect contractual cash flows that are solely payments of principal and interest. They have a potential to bring significant variances in the expected income of the Fund due to fair value gains or losses.

Fair value gains and losses of financial assets measured at fair value through profit or loss are recognised in profit or loss.

The classification and measurement of the Bank’s financial assets is detailed as below.

Short-term deposits (mainly balances with banks) for both the Liquidity Portfolio and Pula Fund and assets held with IMF are measured at amortised cost. Receivables and Other Assets includes staff advances which are also measured at amortised cost.

Long-term Investments (Pula Fund)

This is a long-term fund intended to generate returns and maintain the purchasing power of the foreign exchange reserves. It is invested in foreign global financial markets. It is the long-term fund as provided for under Section 35 of the Bank of Botswana Act (CAP 55:01). The Fund invests in bonds, equities and derivatives. These investments may be sold in response to needs for liquidity, changes in interest rates, market prices and exchange rates. Investments in debt securities, equity and derivatives are classified at fair value through profit or loss. These securities are initially recognised at fair value and are subsequently remeasured at fair value, based on bid prices.

The Pula Fund short-term deposits are cash balances relating to investments in bonds and equities whereas the short-term deposits in the Liquidity Portfolio are mainly cash held to meet the banks daily operating expenditure. The short-term deposits funds held under the Pula-fund are mainly held to earn interest and for investment in securities. The central banks’ first point of contact when in need of cash for operational needs will be the liquidity portfolio and not the Pula fund as these funds are held entirely for investment purposes.

All realised and unrealised currency gains/losses are recognised in profit or loss. However, in line with the Bank policy, all currency gains/losses for this Fund are not distributable and are, therefore, transferred to the Currency Revaluation Reserve.

All realised and unrealised fair value changes in investment securities are recognised in profit or loss. Unrealised gains and losses arising from fair value changes of the instruments in this Fund are non-distributable as per the Bank’s policy and are transferred to the Fair value Revaluation Reserve. However, when the investment securities are disposed of, the related accumulated fair value gains/losses are distributable.

PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

SIGNIFICANT ACCOUNTING POLICIES

For the year ended 31 December 2024

FINANCIAL INSTRUMENTS (Cont'd)

Long-term Investments (Pula Fund) (Cont'd)

All purchases and sales of investment securities in the portfolio are recognised at trade date, which is the date the Bank commits to purchase or sell the investments.

Short-term Deposits

Short-term deposits are placed with different deposit taking institutions in the international markets. The duration of the fixed deposits is typically one week to three months. Most are in the Liquidity Portfolio specifically to meet international payments and other transactional needs. The deposits are held with central banks and other high investment graded institutions, with the exception of South Africa where deposits are always held despite the rating because of the important economic and business relationship that exists between Botswana and South Africa. South Africa is Botswana's largest trading partner.

The deposits are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. The resulting gain or loss on disposal of the deposits is recognised in the profit or loss. The expected credit loss model is applied to the deposits under this category. Risk assessment of default to calculate expected credit loss is detailed per Note 30.

Receivables Other Assets

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These arise when the Bank provides a service directly to a counterparty. Receivables and other assets include prepayments, advances to banks and staff advances initially measured at fair value plus incremental direct transaction costs and subsequently measured at amortised cost using the effective interest method less any identified loss allowance at the end of each reporting period.

Derivative Instruments

The Bank uses a variety of derivative instruments to manage its exposure to interest rate and foreign exchange risks. These include interest rate futures, foreign exchange forward contracts, cross-currency swaps and options.

Derivative instruments are initially recognised at fair value and are subsequently remeasured at fair value, based on bid prices for assets held or liabilities to be issued, and ask/offer prices for assets to be acquired or liabilities held. The resulting gain or loss is recognised in the profit or loss.

Standing Credit Facility (SCF)

In April 2022 the Bank undertook monetary policy operations reforms to enhance the efficacy and potency of monetary policy transmission. The reforms included introduction of the Monetary Policy Rate (MoPR) anchored on 7-day BoBCs as the policy rate and collateralised standing credit facility linked to the new monetary policy rate. SCF interest rate is set at 100 basis points above the MoPR and allows commercial banks to borrow from the Bank provided they have the eligible collateral. Instruments eligible for collateral include Bank of Botswana Certificates (BoBCs), Botswana Government bonds and treasury bills. Financial assets arising from the SCF are classified and measured at amortised cost.

Credit Facility

Under the Credit Facility, the Bank provides emergency and intermittent funding to solvent banks, intended to bridge intra-day and overnight liquidity shortages. The advances are secured by any Government of Botswana bond of any maturity, International Finance Corporation Pula denominated note listed on the Botswana Stock Exchange, BoBCs and any other eligible Government guaranteed securities, valued at fair value prices on the date of the transaction. Only high quality, marketable and freely transferable paper with a minimum amount of risk is acceptable as collateral at the discretion of the Bank. A margin/haircut is applied to mitigate risk. The Bank has the right to call for additional collateral, should the value of the security decline during the tenure of the facility. Interest earned on the advances is credited to profit or loss, while advances outstanding as at the Statement of Financial Position date are recorded under "receivables and other assets".

PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

SIGNIFICANT ACCOUNTING POLICIES

For the year ended 31 December 2024

FINANCIAL INSTRUMENTS (Cont'd)

Impairment of Financial Assets

The Bank applies the IFRS 9 expected credit loss model under the general approach for recognition and measurement of impairment losses on financial assets measured at amortised cost. The impairment model is forward looking and recognises expected credit losses (ECL) on financial assets at the end of each reporting date. The standard states that if there has been significant increase in the credit risk of the financial asset after initial recognition, a lifetime expected credit loss should be recognised. However, the Bank only invests in high quality investment grade financial instruments which are considered to have close to zero risk of default, except South Africa deposits held for transactional purposes despite the rating being lower than investment grade.

The Bank also has other domestic financial instruments resulting from its monetary policy, considered low credit risk due to the general assumption that sovereign debt denominated in local currency is extremely low risk of default (usually referred to as “risk-free” from market participant perspective).

In the foregoing the Bank, therefore, measures impairment on financial assets using the 12-month expected credit loss. The Bank at each reporting date determines if financial assets measured at amortised cost are of low credit risk.

Financial assets are credit impaired when there is objective evidence that as a result of one or more events that have occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been adversely impacted. Evidence that a financial asset is credit-impaired include the following observable data:

- significant financial difficulty of the deposit taker;
- a breach of contract such as a default or past due event;
- it is becoming probable that the deposit taker will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a money market instrument because of financial difficulties.

Staff advances are categorised as low risk assets, with controls on issue of loans and their recovery in place. An annual assessment of materiality of any ECL is undertaken. The Bank recognises impairment loss amounting to 12 months ECL for all staff loans. Staff loans are considered low risk as repayments are deducted at source and probability of default is less likely. In the case of ex-staff debts, where there are no terminal benefits to recover the outstanding debt, the remaining debt is wholly impaired. However, determined effort is undertaken to recover the debt.

Advances to banks are collateralised against Bank of Botswana Certificates and Government Bonds, therefore there is no risk of default.

For financial assets carried at amortised cost, the amount of the expected credit loss allowance is the difference between the asset's gross carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Financial Liabilities

The Bank's financial liabilities comprise the following:

(a) Foreign liabilities

Allocation of SDR (IMF Reserve Tranche), Liabilities to Government (IMF Reserve Tranche).

(b) Domestic liabilities

Bank of Botswana Certificates, reverse repurchase agreements, deposits, dividend to Government, payables and other liabilities. Financial liabilities are initially recognised at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

SIGNIFICANT ACCOUNTING POLICIES

For the year ended 31 December 2024

FINANCIAL INSTRUMENTS (Cont'd)

(c) Bank of Botswana Certificates

As one of the primary tools for maintaining monetary stability in the economy, the Bank of Botswana issues its own paper, BoBCs to absorb excess liquidity in the market and thereby influence short-term interest rates. BoBCs are issued at a discount to counterparties. These are measured at amortised cost using the effective interest method, with interest expense recognised on the effective yield basis.

The Bank's liability in respect of BoBCs is stated at offer prices on auction date, adjusted for movements in matured and unmatured discount recognised in profit or loss.

(d) Standing Deposit Facility (SDF)

SDF was introduced as part of monetary policy reforms in April 2022. It is an interest-bearing deposit placement with the Bank by the commercial banks. The SDF interest rate is set at 100 basis points below the MoPR.

Derecognition

The Bank derecognises a financial asset when it loses control over the contractual rights that comprise the asset and transfers substantially all the risks and benefits associated with the asset. This arises when the rights are realised, expire or are surrendered. A financial liability is derecognised when its contractual obligations are discharged, cancelled or expire.

SECURITIES LENDING PROGRAMME

The Bank takes part in a Securities Lending Programme administered by its global custodian, The Northern Trust Company on its behalf. Where securities are lent, the Bank holds collateral in the form of cash or other securities. The securities lent continue to be recorded in the Bank's Statement of Financial Position.

The Bank's global custodian administers the Securities Lending Programme and monitors the securities lent and related collateral against requirements agreed by the Bank.

The Bank records income from lending securities as it accrues.

REPURCHASE AND REVERSE REPURCHASE AGREEMENTS

This facility is one of the mechanisms designed to deal with short-term liquidity fluctuations in the domestic money market. It is available to primary counterparties which are solvent institutions licensed and supervised by the Bank.

The term of a repurchase agreement and reverse repurchase agreement can vary from overnight to 91 days, depending on the liquidity conditions in the domestic market.

Interest earned by the Bank on repurchase agreements and interest paid by the Bank on reverse repurchase agreements is recognised in profit or loss.

OFFSETTING FINANCIAL INSTRUMENTS

The Bank offsets financial assets and liabilities and reports the net balance in the Statement of Financial Position where:

- (a) there is a legally enforceable right to set off; and
- (b) there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

FOREIGN CURRENCIES

All transactions denominated in foreign currencies are translated to Pula at the mid exchange rate at the transaction date. All assets and liabilities denominated in foreign currencies are translated to Pula using mid rates of exchange at the close of the financial year. Foreign currency differences arising on translation are recognised in profit or loss. However, all gains and losses relating to disposals whose proceeds are reinvested in foreign assets, and all the unrealised gains/losses arising on financial instruments are not considered distributable in terms of Bank policy; these items are appropriated to the Currency Revaluation Reserve.

PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

SIGNIFICANT ACCOUNTING POLICIES

For the year ended 31 December 2024

RECOGNITION OF PROVISIONS AND CONTINGENT LIABILITIES

Contingent Liabilities

The Bank discloses a contingent liability where there is a possible obligation depending on whether some uncertain future event occurs or a present obligation, but payment is not probable, or the amount cannot be measured reliably.

Provisions

The Bank recognises provisions when:

- (a) it has a present legal obligation resulting from past events;
- (b) it is probable that an outflow of resources embodying economic benefits will be required to settle this obligation; and
- (c) a reliable estimate of the amount of the obligation can be made.

Measurement of Provisions

The Bank measures the provision at the amount which is the best estimate of the expenditure required to be settled. Risks and uncertainties are taken into account in measuring the provision. Provisions are re-measured at each reporting date. If an outflow is no longer probable, provisions are reversed.

INCOME AND EXPENSE RECOGNITION

Financial Assets Measured at Amortised Cost

Interest income from financial assets measured at amortised cost is calculated using the effective interest method and is recognised in profit or loss. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the effective interest rate includes transaction costs that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability. For financial assets measured at amortised cost, future cash flow estimates are based on the carrying amounts of financial assets adjusted for loss allowances. Changes in carrying amounts are recognised in profit or loss (refer to Note 15).

Financial Assets Measured at FVTPL

For financial assets measured at FVTPL the measure of revenue is the net interest income received from investment securities. Dividends on fair value through profit or loss equity instruments are recognised in profit or loss when the right to receive payment is established. Usually, this is the ex-dividend date for quoted equities (refer to Note 15).

GENERAL RESERVE

Under Section 7 of the Bank of Botswana Act (CAP 55:01), the Bank is required to establish and maintain a General Reserve sufficient to ensure the sustainability of future operations. The Bank may transfer to the General Reserve funds from other reserves, which it maintains, for the purposes of maintaining the required level of the General Reserve.

CURRENCY REVALUATION RESERVE

Any changes in the valuation, in terms of Pula, of the Bank's assets and liabilities in holdings of Special Drawing Rights and foreign currencies as a result of any change in the values of exchange rates of Special Drawing Rights or foreign currencies and in realised currency gains reinvested in foreign assets are transferred to the Currency Revaluation Reserve.

The proportion directly attributable to the Government Investment Account is transferred to such investment account.

PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

SIGNIFICANT ACCOUNTING POLICIES

For the year ended 31 December 2024

FAIR VALUE REVALUATION RESERVE

Any changes in the value of the Bank's long-term investments as a result of any change in the fair values of such investments are transferred to the Fair Value Revaluation Reserve.

The proportion directly attributable to the Government Investment Account is transferred to such investment account.

GOVERNMENT INVESTMENT ACCOUNT

The Government Investment Account, which was established on 1 January 1997, represents the Government's share of foreign exchange reserves in the Pula Fund and Liquidity Portfolio including its share of unrealised fair value and currency gains and losses.

PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

At each Statement of Financial Position date, items of Property, Plant and Equipment are stated at cost less accumulated depreciation and impairment losses, if any. This includes the cost of improving or replacing part of the Property, Plant and Equipment provided the recognition criteria are satisfied. Cost includes expenditure that is directly attributable to the acquisition and construction of an asset.

Intangible assets acquired or internally developed/modified are measured on initial recognition at cost. Costs directly associated with development or obtaining the software are capitalised while indirect costs related to the software development are expensed as incurred. Corporate software applications are capitalised as part of the related item of Property, Plant and Equipment. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. The useful lives of intangible assets are assessed as indefinite unless useful life can be reliably estimated.

Depreciation is calculated on the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

The estimated residual values of Property, Plant and Equipment are reviewed at least annually. The useful lives and depreciation methods of these items are reassessed at each financial year-end and adjusted prospectively.

The Bank considers the pattern of use, technological and commercial obsolescence and regulatory requirements in its assessment of expected useful lives and estimated residual values.

An item of Property, Plant and Equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use.

Any gain or loss arising on disposal or retirement of an item of Property, Plant and Equipment is determined as the difference between the net sales proceeds and the carrying amount of the asset and is recognised in the statement of profit or loss.

Repairs and maintenance costs are recognised in the statement of profit or loss during the financial year in which these costs are incurred. The cost of major renovations is included in the carrying amount of the related asset when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing asset will flow to the entity and the renovation replaces an identifiable part of the asset. Major renovations are depreciated over the remaining useful life of the related asset or over the period until the next planned renovation, whichever period is shorter.

Improvements that can function independently of the underlying asset are capitalised separately based on their specific useful lives. Replacements to Property, Plant and Equipment are accounted for based on the substitution approach. The cost and the accumulated depreciation of the existing assets are removed from the asset register and the new or replacement asset independently recorded over its own useful life.

PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

SIGNIFICANT ACCOUNTING POLICIES

For the year ended 31 December 2024

Depreciation is recognised on a straight-line basis over the estimated useful lives of each part of Property, Plant and Equipment. The depreciation rates are as follows:

	Percent
Buildings	2 – 7
Other Assets	
Furniture, fixtures and equipment	5 – 20
Computer hardware	5 – 20
Corporate software applications	20
Motor vehicles	5 – 25
Right-of-use: Land	4

Intangible Assets

The Bank’s intangible assets are subjected to amortisation and are depreciated using the straight-line method over their estimated useful lives. The Bank’s intangible assets are corporate software applications and are held as part of Property, Plant and Equipment. In determining the useful life of computer software, the Bank considers the shelf life of the operating system, alternative technologies and obsolescence.

Impairment

The carrying values of the Bank’s property and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated to determine the extent of the loss. However, the valuation of land and buildings takes place every three years. These are valued on a fair value basis and the recoverable (revalued) amounts disclosed by way of a note to the financial statements.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss. The recoverable amount of an asset is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value that reflects current market assessments of the time value of money and the risk specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indication that these losses have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment was recognised.

EMPLOYEE BENEFITS

Retirement benefits

Pension benefits are provided for employees through the Bank of Botswana Defined Contribution Staff Pension Fund, in accordance with the Retirement Funds Act, 2022. The contribution per pensionable employee is at the rate of 21.5 percent of pensionable salary, which comprises 16 percent and 1.5 percent payable by the Bank as its contribution to the Fund and for administration costs of the Fund, respectively, and a 4 percent contribution by each active pensionable employee. Other than the contributions made, the Bank has no commitments or obligations to the Fund. Obligations for contributions to the pension fund are recognised in profit or loss in the periods during which services are rendered by employees.

Short-term employee benefits

Short-term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided.

PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

SIGNIFICANT ACCOUNTING POLICIES

For the year ended 31 December 2024

Other benefits

Employee benefit expense consists of staff subsidy on staff loans charged as a period cost based on the differential between the market interest rate and staff rate over the period of the loan.

LEASES

The Bank assesses whether a contract is, or contains a lease, at the time of inception, that is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Bank applies a single recognition and measurement approach for all leases and recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases and leases of low value assets.

For new leases the asset is calculated as the initial amount of the lease liability, plus any lease payments made to the lessor before the lease commencement date, plus any initial direct costs incurred, minus any lease incentives received. The right-of-use asset is subsequently measured at cost less accumulated depreciation and impairment losses. The Bank depreciates the right-of-use assets on a straight-line basis over the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain pre-measurements of the lease liability.

The lease liability is subsequently remeasured by increasing the carrying amount to reflect interest on the lease and by reducing the carrying amount to reflect the lease payments. It is re-measured when there is a change in future lease payments arising from a change in the rate, or in cases of extension or termination option or if there is a revised in-substance fixed lease payment.

The Bank has one leased property which is a piece of land in which the Sports and Recreation facility is built. Lease agreements are negotiated on an individual and separate basis and would normally have an option for renewal upon expiry of the original agreement.

All leases are recognised in the Bank's statement of financial position.

RELATED PARTY TRANSACTIONS

The Bank enters into various transactions with other wholly owned or partly owned Government institutions and its key management personnel (related parties). All related party transactions are entered into a mutually agreed terms and conditions in the ordinary course of business. The transactions with key management personnel are staff benefits provided under the General Conditions of Service of the Bank.

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Determination of fair values of financial instruments with unobservable inputs (or market data) - level 2

If the market for a financial asset is not active, the Bank establishes fair value by using valuation techniques (level 2). These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants (refer to Note 31).

Determination of expected credit losses

The Bank has adopted the Probability of Default and Loss Given Default models in the determination of ECL. In applying these models, the Bank considers factors such as current economic circumstances of the markets in which it holds investments, forward looking economic and financial indicators to consider the likelihood of a default occurring within the next 12 months (refer to Note 30 on the measurement of ECL).

PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

SIGNIFICANT ACCOUNTING POLICIES

For the year ended 31 December 2024

Right-of-use rate for IFRS 16 lease

The lease liability is initially measured at the present value of the lease payments not paid at the commencement date discounted using the rate implicit in the lease or, if that rate cannot be readily determined, the applicable Monetary Policy Rate plus a margin as determined by the Bank, which is the interest rate the Bank is willing to lend in its role as a lender of last resort.

Useful life and residual value of assets

The Bank estimates useful life of each part of Property, Plant and Equipment (refer to significant accounting policies – Property, Plant and Equipment). The useful lives and depreciation methods of these items are reassessed annually. The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year.

PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2024

	2024 P'000	2023 P'000
1. FOREIGN EXCHANGE RESERVES		
1.1 Liquidity Portfolio		
Bonds: FVTPL	1 880 035	-
Short-term deposits: amortised cost	2 257 146	6 311 712
Less: impairment loss (Note 30)	(1 816)	(9 812)
	4 135 365	6 301 900
1.2 Pula Fund		
Equities: FVTPL	25 147 452	27 411 329
Bonds: FVTPL*	12 179 251	23 255 563
Short-term deposits: amortised cost	1 134 481	1 163 273
Less: impairment loss (Note 30)	(715)	(738)
	38 460 469	51 829 427
(a) Statement of Financial Position		
<i>Capital Employed</i>		
Government	134 678	8 308 096
Bank of Botswana	38 325 791	43 521 331
	38 460 469	51 829 427
<i>Employment of Capital</i>		
Investments	38 460 469	51 829 427
Investments expressed in US dollars ('000) ³	2 761 462	3 871 568
Investments expressed in SDR ('000) ⁴	2 123 018	2 881 716
(b) Statement of Profit or Loss and Other Comprehensive Income		
<i>Income</i>		
Interest and dividends	1 216 454	1 196 382
Realised currency revaluation gains	1 991 896	1 488 923
Unrealised currency revaluation (losses)/gains	(1 974 616)	745 849
Realised fair value gains/(losses)	4 003 844	(48 920)
Unrealised fair value gains	1 455 508	4 848 715
Impairment loss reduction on financial assets	23	1 731
	6 693 109	8 232 680
<i>Expenses</i>		
Administration costs	(336 229)	(314 745)
	(336 229)	(314 745)
Net income	6 356 880	7 917 935
<i>Other comprehensive income</i>	-	-
Total comprehensive income	6 356 880	7 917 935

* Included in the Pula Fund are net derivative positions (which qualify for offset) of net derivative asset of P8.1 million (2023: net derivative liability of P35.5 million) made up of derivative assets of P12.1 million (2023: P41.3 million) and derivative liabilities of P4.0 million (2023: P76.8 million). This has been aggregated within the Bonds: FVTPL line item as it is not considered significant to warrant separate disclosure.

³ United States dollar/Pula – 0.0718 (2023: 0.0747)

⁴ SDR/Pula – 0.0552 (2023: 0.0556)

PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2024

	2024 P'000	2023 P'000
2. INTERNATIONAL MONETARY FUND (IMF)		
2.1 Reserve Tranche		
This asset represents the difference between Botswana's Quota in the IMF and IMF Holdings of Pula. Botswana's Quota is the membership subscription, of which at least 25 percent was paid for in foreign currencies and the balance in Pula. The holding of Pula by the IMF, which initially was equal to 75 percent of the quota, has changed from time to time as a result of the use of the Pula by the IMF in lending to member countries.		
The IMF has created an international reserve asset called the Special Drawing Right (SDR). All rights in, and commitments to the IMF are denominated in SDR. The value of the SDR is calculated on the basis of a currency basket comprising the US dollar, euro, Chinese renminbi, Japanese yen, and Pound sterling.		
Quota SDR197 200 000 (2023: SDR197 200 000)	3 575 495	3 548 007
Less: IMF Holdings of Pula	(2 671 173)	(2 545 759)
Reserve Position in IMF	904 322	1 002 248
The IMF Holdings of Pula are represented by the Non-Interest-Bearing Note of P1 477 900 684 (2023: P1 477 900 684) issued by the Government of Botswana in favour of the IMF, maintenance of value currency adjustments and the amount in the current account held at the Bank (included in other deposits in Note 8 – IMF No 1 & 2 accounts).		
2.2 Holdings of Special Drawing Rights		
Balance at the beginning of the year	4 526 840	4 239 750
Net interest & remuneration	47 807	44 596
Currency revaluation	27 849	242 494
	4 602 496	4 526 840
The balance on the account represents the value of Special Drawing Rights (SDR) allocated and purchased less utilisation to date.		
2.3 General Subsidy Account		
Face value (SDR1 520 000)	27 560	27 348
Interest	19	19
	27 579	27 367
This is an investment with the IMF, the purpose of which is to augment the resources of the Poverty Reduction and Growth Trust Fund. The term of investment agreement of 22 August 2022 was extended to 30 August 2027.		
3. RECEIVABLES AND OTHER ASSETS		
Staff loans and advances (Note 12.1)	215 077	213 132
Prepayments	11 395	9 959
Donor funds – Government projects	264 625	345 561
Advance Payment – PulaThebe Project	-	11 513
Trade Receivables (Note 12.1)	610	994
Other	3 302	4 340
	495 009	585 499

PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2024

4. PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

	Freehold Land	Leasehold Land	Buildings	Capital Works in Progress (Redevelopment Project)	Capital Works in Progress (Other Assets) ⁵	Right-of- Use Assets	Other ⁶ Assets	Total
	P'000	P'000	P'000	P'000	P'000	P'000	P'000	P'000
Cost – 31 December 2024								
Balance at the beginning of the year	2 065	4 932	1 179 800	8 100	92 785	606	497 642	1 785 930
Additions	-	-	-	17 670	35 324	-	32 309	85 303
Disposals	-	-	-	-	-	-	(6 282)	(6 282)
Transfers from WIP	-	-	20 767	(19 584)	(64 550)	-	63 367	-
Cost as at 31 December 2024	2 065	4 932	1 200 567	6 186	63 559	606	587 036	1 864 951
Accumulated Depreciation								
Balance at the beginning of the year	-	-	149 156	-	-	533	222 050	371 739
Charge for the year	-	-	30 136	-	-	24	49 120	79 280
Disposals	-	-	-	-	-	-	(4 976)	(4 976)
Balance at year-end	-	-	179 292	-	-	557	266 194	446 043
Net book value at 31 December 2024	2 065	4 932	1 021 275	6 186	63 559	49	320 842	1 418 908
Cost – 31 December 2023								
Balance at the beginning of the year	2 065	4 932	694 785	371 945	10 998	17 985	411 147	1 513 857
Additions	-	-	176 104	7 955	81 825	3 146	55 341	324 371
Disposals	-	-	(20 311)	-	-	(20 525)	(11 462)	(52 298)
Transfers from WIP	-	-	329 222	(371 800)	(38)	-	42 616	-
Cost as at 31 December 2023	2 065	4 932	1 179 800	8 100	92 785	606	497 642	1 785 930
Accumulated Depreciation								
Balance at the beginning of the year	-	-	144 953	-	-	16 659	189 960	351 572
Charge for the year	-	-	18 936	-	-	4 399	40 666	64 001
Disposals	-	-	(14 733)	-	-	(20 525)	(8 576)	(43 834)
Balance at year-end	-	-	149 156	-	-	533	222 050	371 739
Net book value at 31 December 2023	2 065	4 932	1 030 644	8 100	92 785	73	275 592	1 414 191

5. Capital works (other assets) comprises work in progress relating to computer hardware and software projects.

6. Other assets comprise of furniture, fixtures and fittings, computer hardware, computer software and motor vehicles (Note 4.3).

PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2024

4. PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS (Cont'd)

4.1 Breakdown of the right-of-use assets	Land P'000	Buildings P'000	Total P'000
Balance at 1 January 2024	606	-	606
	606	-	606
Accumulated depreciation	557	-	557
	557	-	557
Net book value at 31 December 2024	49	-	49
Balance at 1 January 2023	606	17 379	17 985
Additions	-	3 146	3 146
Matured Leases	-	(20 525)	(20 525)
	606	-	606
Accumulated depreciation	(533)	-	(533)
Net book value at 31 December 2023	73	-	73

4.2 Lease liability: right-of-use

	2024 P'000	2023 P'000
Balance at the beginning of the year	117	1 396
Lease payments: right-of-use	(37)	(4 425)
Additions	-	3 146
Balance at the end of the year	80	117

4.3 Other Assets

	Motor Vehicles P'000	Furniture, Fixtures, Equipment & Other P'000	Computer Hardware P'000	Corporate Software Applications P'000	Total P'000
Cost – 31 December 2024					
Balance at the beginning of the year	22 624	308 855	123 338	42 825	497 642
Additions	1 191	23 343	7 568	207	32 309
Disposals	(1 200)	(2 592)	(2 490)	-	(6 282)
Transfers from WIP	-	27 754	35 613	-	63 367
Balance at year-end	22 615	357 360	164 029	43 032	587 036
Accumulated depreciation					
Balance at the beginning of the year	8 684	118 681	56 951	37 734	222 050
Charge for the year	1 627	22 192	23 186	2 115	49 120
Disposals	(252)	(2 359)	(2 365)	-	(4 976)
Balance at year-end	10 059	138 514	77 772	39 849	266 194
Net book value at 31 December 2024	12 556	218 846	86 257	3 183	320 842

As per IAS 16.73 disclosure of classes of assets have been presented separately to enhance presentation with no impact on the numbers presented.

PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2024

	2024 P'000	2023 P'000
5. ALLOCATION OF IMF SPECIAL DRAWING RIGHTS (SDR)		
Balance at the beginning of the year	4 433 919	4 194 350
Currency revaluation gains for the year	34 352	239 569
	<u>4 468 271</u>	<u>4 433 919</u>
This is the liability of the Bank to the IMF in respect of the allocation of SDR to Botswana.		
6. LIABILITIES TO GOVERNMENT (IMF RESERVE TRANCHE)		
Balance at the beginning of the year	503 200	467 089
Repurchase of SDR	(104 388)	(19 148)
Revaluation currency gains for the year	6 463	55 259
Balance at the end of the year	<u>405 275</u>	<u>503 200</u>
This balance represents the Bank's liability to the Government in respect of the Reserve Tranche position in the IMF (Note 2.1).		
7. NOTES AND COIN IN CIRCULATION		
Notes	4 739 168	4 218 291
Coin	151 889	141 811
	<u>4 891 057</u>	<u>4 360 102</u>
Notes and coin in circulation held by the Bank at the end of the financial year have been netted off against the liability for notes and coin in circulation to reflect the net liability to the public. Notes and coin are a cost to the Bank which becomes a liability on distribution to the public. Notes and coin in circulation are payable on demand.		
8. DEPOSITS		
Government	1 255 899	1 139 754
Bankers - current accounts	99 068	101 455
- statutory reserve accounts	-	2 778 723
- IMF No 1 & 2 accounts	1 181 135	1 040 273
- Other	563 335	561 179
	<u>3 099 437</u>	<u>5 621 384</u>
These deposits are various current accounts of Government, commercial banks, parastatal bodies and others, which are repayable on demand and are interest free. As at 31 December 2024, the statutory reserve accounts had zero balances resulting from reduction of the statutory reserve requirement from 2.5 percent to zero percent, as per the Monetary Policy Committee decision of 5 December 2024.		
9. BANK OF BOTSWANA CERTIFICATES		
Face value	1 200 000	6 000 000
Unmatured discount	(366)	(1 932)
Carrying amount	<u>1 199 634</u>	<u>5 998 068</u>

Bank of Botswana Certificates are issued at various short-term maturity dates (Note 34) and discount rates.

PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2024

	2024 P'000	2023 P'000
10. DIVIDEND TO GOVERNMENT		
Balance due at the beginning of the year	238 758	273 205
Dividend to Government from Pula Fund	838 000	829 000
Paid during the year	(867 258)	(894 955)
Residual net income	3 234 516	31 508
Balance due at the end of the year	3 444 016	238 758
The final instalment of the pre-set dividend of P209 500 000 and the residual net income of P3 234 516 303 unpaid as at 31 December 2024 has been provided for in accordance with Section 6 of the Bank of Botswana Act; which requires that net profits of the Bank be distributed to the shareholder, the Government.		
10.1 GOVERNMENT INVESTMENTS/ (WITHDRAWALS)		
(a) Pula Fund		
Balance at the beginning of the year	8 308 096	14 316 612
Investments	6 932 166	15 255 346
Withdrawals	(15 105 584)	(21 263 862)
Balance at the end of the year	134 678	8 308 096
(b) Liquidity Portfolio		
Balance at the beginning of the year	269 329	500 000
Withdrawals	(152 710)	(230 671)
Balance at the end of the year	116 619	269 329
Total Government Investments	251 297	8 577 425
11. PAYABLES AND OTHER LIABILITIES		
Accounts payable	15 150	22 342
Donor funds – Government projects	264 625	345 561
Lease liability	80	117
Provisions (refer to Note 11.1)	132 874	132 603
Accruals and Other Payables	12 898	9 105
	425 627	509 728

11.1 PROVISIONS

	Provision for Audit fees P'000	Provision for Fund Manager's fees P'000	Provision for leave P'000	Provision for Gratuity P'000	Total P'000
Balance at 1 January 2024	1 066	80 163	38 905	12 469	132 603
Cost paid during the year	(974)	(81 407)	(33 693)	(12 469)	(128 543)
Provision arising during the year	1 216	72 924	34 393	20 281	128 814
Balance at 31 December 2024	1 308	71 680	39 605	20 281	132 874

Details for each class of provision for the period have been provided as per IAS 37.84 disclosure requirements.

PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2024

	2024 P'000	2023 P'000
12. CATEGORIES OF FINANCIAL INSTRUMENTS		
12.1 Financial Assets		
Measured at FVTPL		
Equities	25 147 452	27 411 329
Bonds	14 051 232	23 291 026
Derivative assets	12 091	41 349
	39 210 775	50 743 704
Measured at Amortised Cost		
IMF Reserves	5 534 397	5 556 455
Staff loans and advances	215 077	213 132
Short-term deposits	3 389 096	7 464 435
Trade Receivables	610	994
	9 139 180	13 235 016
Total Financial Assets	48 349 955	63 978 720
The above is disclosed in the Statement of Financial Position as follows:		
Total Foreign Assets	48 130 230	63 687 782
Add: Derivative instruments (liabilities) (Note 1.2)	4 037	76 812
Receivables and Other Assets - staff loans and advances (Note 3)	215 688	214 126
	48 349 955	63 978 720
12.2 Financial Liabilities		
Measured at FVTPL		
Derivative instruments (Note 1.2)	4 037	76 812
Measured at amortised cost		
Bank of Botswana Certificates	1 199 634	5 998 068
Allocation of SDR (IMF)	4 468 271	4 433 919
Liabilities to Government (IMF)	405 275	503 200
Deposits	3 099 437	5 621 384
Standing Deposit Facility	2 344 347	3 487 185
Dividend to Government	3 444 016	238 758
Payables and Other Liabilities	161 001	164 167
	15 126 018	20 523 493

The payables and other liabilities figure excludes Donor funds – Government projects, which do not meet the definition of a financial liability.

PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2024

CATEGORIES OF FINANCIAL INSTRUMENTS (Cont'd)

12.3 Derivative Instruments

The Bank's Reserve Management Policies and Investment Guidelines authorise the use of derivative instruments. The derivatives are held for managing risk.

The table below shows the market values and the total notional exposures of derivative instruments as at year end.

		Asset	Liabilities	Notional Amount	Assets	Liabilities	Notional Amount
		2024	2024	2024	2023	2023	2023
		(P'000)	(P'000)	(P'000)	(P'000)	(P'000)	(P'000)
Swaps	-Buy	11 792	-	2 722	41 222	-	31 077
	-Sell	-	(3 940)	(665)	-	(76 758)	(5 125)
Options	-Buy	299	-	434	127	-	658
	-Sell	-	(97)	(175)	-	(54)	(163)
		12 091	(4 037)	2 315	41 349	(76 812)	26 447

The above derivatives are classified by type of asset and instrument. The assets and liabilities reflect the net position between the market values and the notional amounts.

Swaps

A swap is an agreement between two or more parties to exchange sets of cash flows over a period in the future, typically either in the form of interest rate swaps or currency swaps. The cash flows that the counterparties make are linked to the value of the underlying debt financial instrument or the foreign currency.

Options

An option is an exclusive right, usually obtained for a fee, but not the obligation to buy or sell a specific financial instrument within a specified time. A fixed income option is the exclusive right to either buy or sell specified units of a fixed income security by a specific date. A currency option is an option to either buy or sell a specified currency by a specific date.

PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2024

	2024 P'000	2023 P'000
13. PAID-UP CAPITAL		
Balance at the beginning of the year	150 000	25 000
Transfer from Currency Revaluation Reserve	-	125 000
Authorised and Paid-up Capital	150 000	150 000
The capital is the amount subscribed by the Government in accordance with Section 5(1) of the Bank of Botswana (Amendment) Act, 2022. The Bank is not subject to any externally imposed capital requirements. Therefore, capital is not actively managed. Management considers the Paid-up Capital and the General Reserve to be capital.		
14. GENERAL RESERVE		
Balance at the beginning of the year	15 000 000	1 600 000
Transfer from Currency Revaluation Reserve	-	13 400 000
General Reserve	15 000 000	15 000 000
In the opinion of the Board, the General Reserve, taken together with other reserves which the Bank maintains, is sufficient to ensure the sustainability of future operations of the Bank.		
15. INTEREST – FOREIGN EXCHANGE RESERVES		
Liquidity Portfolio		
Short-term deposits: amortised cost	413 415	694 368
IMF Reserves: amortised cost	40 340	44 597
Pula Fund		
Short-term deposits: amortised cost	9 992	31 878
Bonds: FVTPL	676 969	650 995
	1 140 716	1 421 838

PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2024

	2024	2023
	P'000	P'000
16. DIVIDENDS – FOREIGN EXCHANGE RESERVES		
Pula Fund		
Equities: FVTPL	516 738	498 048
17. NET REALISED FAIR VALUE GAINS/(LOSSES) ON DISPOSAL OF SECURITIES		
Liquidity Portfolio		
Bonds	(152 882)	-
Pula Fund		
Bonds: FVTPL	(311 064)	(466 270)
Derivative instrument: FVTPL	(18 725)	(108 438)
Equities: FVTPL	4 333 632	525 788
	3 850 961	(48 920)
18. NET REALISED CURRENCY GAINS/(LOSSES)		
Liquidity Portfolio		
Short-term deposits: amortised cost	468 935	30 318
Bonds: FVTPL	(178 008)	-
Pula Fund		
Derivative instruments: FVTPL	(1)	(3 321)
Short-term deposits: amortised cost	(25 979)	64 812
Bonds: FVTPL	1 311 092	682 507
Equities: FVTPL	706 782	744 924
	2 282 821	1 519 240
Included above are net currency gains of P25 701 000 (2023: P64 812 000) on disposal of short-term deposits measured at amortised cost.		
19. NET UNREALISED CURRENCY GAINS/(LOSSES)		
Liquidity Portfolio		
Short-term deposits: amortised cost	(90 866)	135 018
Bonds: FVTPL	85 172	-
IMF reserves: amortised cost	1 176	4 402
Pula Fund		
Short-term deposits: amortised cost bonds: FVTPL	(5 443)	19 367
Bonds: FVTPL	(1 322 656)	498 143
Equities: FVTPL	(640 680)	217 195
Derivative instruments: FVTPL	(5 837)	11 144
	(1 979 134)	885 269
20. NET UNREALISED FAIR VALUE GAINS/(LOSSES)		
Liquidity Portfolio		
Bonds FVTPL	(308 326)	-
Pula Fund		
Bonds: FVTPL	748 236	1 141 030
Equities: FVTPL	701 960	3 809 962
Derivative instruments: FVTPL	5 313	(102 277)
	1 147 183	4 848 715

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BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2024

	2024 P'000	2023 P'000
21. INTEREST EXPENSE		
Bank of Botswana Certificates (BoBCs)	167 162	140 051
Standing Deposit Facility	29 152	30 343
	196 314	170 394
22. NET CURRENCY REVALUATION GAINS/(LOSSES) RETAINED IN PROFIT OR LOSS		
Total net realised gains (Note 18)	2 282 821	1 519 240
Total net unrealised (losses)/gains (Note 19)	(1 979 134)	885 269
Total net currency revaluation gains	303 687	2 404 509
Appropriated to Currency Revaluation Reserve:		
Net realised currency gains reinvested in foreign assets	(2 230 540)	(1 438 371)
Net unrealised currency losses/(gains) (Note 19)	1 979 134	(885 269)
Transfer of net currency gains to Currency Revaluation Reserve	(251 406)	(2 323 640)
Net currency revaluation gains retained in profit or loss	52 281	80 869
23. NET FAIR VALUE GAINS/(LOSSES) APPROPRIATED TO FAIR VALUE REVALUATION RESERVE		
Total net realised gains/(losses) (Note 17)	3 850 961	(48 920)
Total net unrealised gains (Note 20)	1 147 183	4 848 715
Total net fair value gains	4 998 144	4 799 795
Appropriated to Fair Value Revaluation Reserve:		
Transfer of unrealised fair value gains to fair value revaluation reserve	(1 147 183)	(4 848 715)
Net fair value gains/(losses) retained in profit or loss	3 850 961	(48 920)

24. COLLATERAL

(a) Credit Facility

There were no open positions as at 31 December 2024 (2023 Nil) under the Credit Facility accounted for as "Advances to Banks".

(b) Securities Lending Programme

Under the Bank's Securities Lending Programme, the Bank has lent securities with a fair value of P4.8 billion (2023: P8.4 billion). The Bank has accepted collateral with fair value of P5.2 billion (2023: P8.8 billion) consisting of government bonds P1.9 billion (2023: P4 billion), cash P2.7 billion (2023: P3.4 billion) and equities P0.6 billion (2023: P1.4 billion).

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BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued))

For the year ended 31 December 2024

25. STATEMENT OF CASHFLOWS

The definition of cash in IAS 7 is not wholly appropriate to the Bank. Due to its role in the creation and withdrawal of currency in circulation, the Bank has no cash balances on its Statement of Financial Position (see Note 7). However, the Bank has the ability to create cash when needed.

	2024	2023
	P'000	P'000
26. CASH GENERATED FROM OPERATIONS		
Net income for the year adjusted for:	5 779 431	8 032 863
Unrealised Exchange losses/(gains)	1 979 134	(885 269)
Unrealised Fair Value gains	(1 455 509)	(4 848 715)
Depreciation Expense	79 281	64 001
Interest on Lease Liability	6	137
Impairment Reversals on Financial Assets	(7 930)	(278)
Losses on Disposal of Property and Equipment	213	(5 636)
Other Impairments	22 900	4 911
Provisions	131 566	131 109
Other Liabilities – Accruals	8 574	4 218
Accrued Interest Income	11 676	117 313
Interest Income	(1 140 716)	(1 421 838)
Dividend Income	(516 738)	(498 048)
Interest Expense	196 314	170 395
	<u>5 088 202</u>	<u>865 163</u>
Deposits – banks and other	(2 638 092)	1 861 495
Deposit Insurance Scheme	-	(15 000)
Deposits – Government	116 145	(37 925)
Bank of Botswana Certificates	(4 798 434)	2 724 258
Repurchase Agreements	(4 149 431)	-
Standing Deposit Facility	(1 142 838)	3 146 108
Standing Credit Facility	-	248 965
Receivables and Other Assets	(90 490)	(208 925)
Payables and Other Liabilities	(224 204)	90 223
Movement in Pula Fund – Foreign reserves	11 102 747	(2 923 580)
Cash generated from operations	<u>3 263 605</u>	<u>5 750 782</u>
27. CAPITAL COMMITMENTS		
Approved and contracted for	51 566	95 654
Approved, but not contracted for	69 205	92 574
	<u>120 771</u>	<u>188 228</u>

These capital commitments will be funded from internal resources.

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BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2024

	2024	2023
	P'000	P'000
28. REPURCHASE AGREEMENTS		
Amortised cost	4 149 430	-
Repurchase agreements (Repos) are used to fine-tune domestic market liquidity, particularly during periods of low liquidity. The Repos are often used for overnight liquidity support offered to banks at the prevailing monetary policy rate (MoPR); and they are collateralised using Bank of Botswana Certificates, Government of Botswana Treasury Bills and bonds. The repurchase agreements reversed on 6 January 2025.		
29. STANDING DEPOSIT FACILITY		
Amortised cost	2 344 347	3 487 185

The Standing Deposit Facility (SDF) acts as the floor of the interest rate corridor and is 100 basis points below the anchor rate (MoPR). The SDF is used as an overnight deposit facility at the SDF rate.

30. RISK MANAGEMENT IN RESPECT OF FINANCIAL INSTRUMENTS

Risk is inherent in the Bank's management of financial instruments comprising primarily foreign currency denominated assets, which are held in various financial instruments and currencies. This risk is managed through a process of ongoing identification, measurement and monitoring that is subject to an extensive framework of risk limits and other controls. The process of risk management is critical to the Bank's ongoing operations, with the day-to-day management of the financial instruments being conducted by the Financial Markets Department. A key element in the risk management of the foreign exchange reserves is safety, defined as the preservation of purchasing power of the foreign exchange reserves. To this end, the Bank has continued to pursue a prudent and diversified investment strategy. The Bank's objectives, policies and procedures for managing the risk exposures and the method used to measure the risks have remained consistent with the prior year. The risk management framework remains sound and effective.

Risk Management Governance Structure

The Bank's risk management governance structure is broadly as follows:

(a) Board

The Board is responsible for the Bank's overall risk management and for approving Reserves Management Policies and the strategic asset allocation. The Board receives quarterly reports on the performance of the portfolio.

(b) Investment Committee

The Investment Committee, which is chaired by the Governor and comprises representatives from relevant areas of the Bank, reviews and approves the Investment Guidelines for the foreign exchange reserves. It meets regularly to review developments in the international financial and capital markets. Where necessary, the Investment Committee makes strategic and tactical decisions on Bank-managed portfolios. The Investment Committee also monitors the performance of the external fund managers and reports on same to the Board.

(c) Financial Markets Department

The Financial Markets Department is responsible for the management of the foreign exchange reserves and has a specialised Risk Management Unit focusing on the risks associated with all the investment portfolios and ensures compliance with the Bank's Reserves Management Policies and Investment Guidelines.

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BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2024

30. RISK MANAGEMENT IN RESPECT OF FINANCIAL INSTRUMENTS (Cont'd)

(d) External Fund Managers and Custody

External fund managers are engaged to complement the Bank's reserve management activity. The Bank uses the services of a custodian which provides custodial services and performance measurement for the Bank's portfolios. The custodian is also responsible for the securities lending programme and ensures that sufficient collateral is provided to mitigate associated risks.

(e) Segregation of Duties

At an operational level, the main feature of risk control is the segregation of duties relating to dealing, settlement, risk monitoring and recording. These responsibilities are split among three Departments: Financial Markets, Banking, Currency and Settlement and Finance.

Tranching of Foreign Exchange Reserves – Liquidity Portfolio and Pula Fund

The Bank of Botswana Act requires the Bank to maintain a primary international reserve, that is, the Liquidity Portfolio, while Section 35 provides for the establishment and maintenance of a long-term investment fund, the Pula Fund. In compliance with the statutory requirements, a major feature of the foreign exchange reserves management strategy is, therefore, to allocate a certain level of reserves to the Liquidity Portfolio, with the remaining amount invested in the Pula Fund.

Pula Fund

Investments of the Pula Fund comprise long-term assets, such as long-dated bonds and equities actively traded in highly liquid global markets, with the expectation of earning a higher return than the risk-free rate. The asset allocation between bonds and equities is determined using a combination of historical data and assumptions. Exercises are also conducted in respect of the Pula Fund risk/return sensitivity analysis, using different portfolio options, where risk is measured by a standard deviation on the rate of return. A small allocation (5 percent) is made to a high yield portfolio with the aim of enhancing the return potential of the reserves. To mitigate currency risk in the high yield portfolio hedging is used to limit non-US dollar currency exposure to no more than 25 percent.

Liquidity Portfolio

In terms of the investment guidelines, liquidity takes precedence over return in the Liquidity Portfolio, given the recurring need to provide foreign exchange to finance international transaction payments. While the eligible investment currencies are similar to those of the Pula Fund, the Liquidity Portfolio is largely invested in shorter-dated assets. The Liquidity Portfolio is sub-divided into the Liquidity Investment Tranche (LIT) and the Transaction Balances Tranche (TBT), comprising highly liquid investments in the Bank's international transaction currencies.

Types of Risk Exposure

The Bank's investment guidelines cover basic types of risk exposures, namely, market risk (currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. These types of risk apply to the foreign assets and liabilities.

(a) Currency Risk

Currency risk or exchange rate risk arises when exchange rates move against the reporting currency. The reserves are invested in diverse currencies to mitigate the impact of exchange rate movements. The Bank's policy is to invest only in currencies with investment grade ratings assigned by Moody's Investors Services, Standard and Poor's and Fitch Ratings. Through a diversified currency allocation, the Bank ensures that the purchasing power of the foreign exchange reserves is preserved. In terms of the investment guidelines, a maximum deviation from the neutral level is 10 percent for currencies rated AAA to AA-, 6 percent for currencies rated between A+ and A-, 5 percent for BBB+. At the end of 2024, the Bank's total exposure to major investment currencies was P42.6 billion (2023: P58.1 billion). The Bank is also exposed to SDR currency risk on net IMF balances amounting to P0.62 billion (2023: P0.62 billion).

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BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2024

30. RISK MANAGEMENT IN RESPECT OF FINANCIAL INSTRUMENTS (Cont'd)

Exposure to Currency Risk

The Table below shows the investment currencies to which the Bank had exposure as at 31 December 2024.

	2024	2023
Major Investment Currencies	(P'000)	(P'000)
AUD	791 703	1 126 269
CAD	562 809	915 868
EURO	3 615 640	6 962 625
GBP	1 085 075	2 216 358
ZAR	507 073	2 565 314
JPY	3 433 542	5 468 304
USD	25 884 745	30 009 787
Other ⁷	6 717 778	8 877 352
Impairment Loss on Financial Assets*		
Liquidity Portfolio (Note 1.1)	(1 816)	(9 812)
Pula Fund (Note 1.2)	(715)	(738)
	42 595 834	58 131 327

* The figures for impairment on financial assets in respect of Liquidity Portfolio and Pula Fund have been presented separately to enhance presentation with no impact on the numbers presented.

(b) Interest Rate Risk

Interest rate risk is the possible loss in the value of a fixed income asset resulting from an adverse movement in interest rates and a consequent change in price. Interest rate risk is measured by modified duration, which measures the sensitivity of the price of a bond to changes in interest rates expressed in years. The Bank benchmarks the interest rate risk for the Pula Fund (fixed income assets) to reflect the long-term nature of the portfolio, with emphasis on higher return. The higher interest rate risks generally compensated by higher returns expected from longer maturity bonds. The modified duration benchmark will vary over time, as changing market conditions and index weights impact the global modified duration of the index. At the end of 2024, the average modified duration of the fixed income portion of the Pula Fund was 5 years (2023: 6.4 years). The Pula Fund's total exposure to interest rate risk was P14.5 billion (2023: P23.3 billion). The Liquidity Portfolio gives priority to liquidity over return and given the constant need to provide foreign exchange to finance international transaction payments, the portfolio is exposed to minimum interest rate risk. The Liquidity Portfolio total exposure to interest rate risk was P1.9 billion (2023: Nil).

(c) Equity Price Risk

Equity price risk is the risk that the value of equities decreases as a result of changes in the level of equity indices and diminution of value of individual stocks. The geographic allocation of equity exposure follows generally the market capitalisation among the equity markets. The investment guidelines stipulate the holding levels of equities. Holdings of more than 10 percent of the voting rights of any one company are not permitted, and the portfolio must hold a reasonable number of stocks. A reasonable spread among the industry sectors is maintained in the portfolio. There are no investments in private placements or unquoted stocks. At the end of 2024, the equity portion of the Pula Fund was P25.4 billion (2023: P27.4 billion).

⁷ Includes emerging markets currencies.

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

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30. RISK MANAGEMENT IN RESPECT OF FINANCIAL INSTRUMENTS (Cont'd)

Market Risk Sensitivity Analysis

The set of assumptions used for each of the risk factors hereunder are not forecasts, but merely “what if” scenarios and the likely impact on the current portfolio, based on selected changes in risk variables over a one-year horizon.

The Table below gives an indication of the risk sensitivities of the portfolio to various risk parameters. Assuming that the probability of the beneficial change in the risk variables are as likely to happen as an adverse change, both potential increase and decrease are shown for the indicated scenarios.

31 December 2024

Risk Variable	Adverse market change			Beneficial market change	
		Scenario	Effect on Statement of Profit or Loss and Other Comprehensive Income ⁸ (P'000)	Scenario	Effect on Statement of Profit or Loss and Other Comprehensive Income (P '000)
Interest Rate Risk		Increase in yields by 400 basis points	3 423 778	Decrease in yields by 400 basis points	(3 423 778)
Currency Risk	Investment currencies	Strengthening of the Pula by 1 percent	420 888	Weakening of the Pula by 1 percent	(420 888)
	South African rand	Strengthening of the Pula by 1 percent	5 071	Weakening of the pula by 1 percent	(5 071)
Equity Risk	Global Equities	Decline in global equity prices by 10 percent	2 514 745	Increase in global equity prices by 10 percent	(2 514 745)

31 December 2023

Risk Variable	Adverse market change			Beneficial market change	
		Scenario	Effect on Statement of Profit or Loss and Other Comprehensive Income ⁹ (P'000)	Scenario	Effect on Statement of Profit or Loss and Other Comprehensive Income (P '000)
Interest Rate Risk		Increase in yields by 400 basis points	5 948 855	Decrease in yields by 400 basis points	(5 948 855)
Currency Risk	Investment currencies	Strengthening of the Pula by 1 percent	561 854	Weakening of the Pula by 1 percent	(561 854)
	South African rand	Strengthening of the Pula by 1 percent	25 653	Weakening of the pula by 1 percent	(25 653)
Equity Risk	Global Equities	Decline in global equity prices by 10 percent	3 289 359	Increase in global equity prices by 10 percent	(3 289 359)

⁸ The effects are expected to have the same impact on shareholder's funds.

⁹ The effects are expected to have the same impact on shareholder's funds.

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BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2024

30. RISK MANAGEMENT IN RESPECT OF FINANCIAL INSTRUMENTS (Cont'd)

The market risk estimates as presented in the Tables above are based on sensitivities to the individual risk factors. The correlation between the risk variables is not reflected in the effect on the Statement of Profit or Loss and Other Comprehensive Income. In view of prevailing market conditions, the Bank maintained the equity risk variable at 10 percent to reflect the average movement of the MSCI World Index in global equity prices. For market risk estimates, the interest rate risk variable remained the same at 400 basis points relative to the 2-year average bond yield movements.

(d) Credit Risk

This is the risk that would arise if an entity that the Bank conducts business with is unable to meet its financial obligations or in the event of an adverse credit event or default. This may be a commercial bank accepting a deposit, a sovereign, supranational or corporate entity issuing a bond or a counterparty with whom the portfolio manager has contracted to buy or sell foreign exchange or money or capital market instruments. In the Bank's endeavour to control credit risk, it deals with only high-quality investment grade institutions or counterparties, as determined by international rating agencies.

Consistent with the Reserves Management Policies and Investment Guidelines, the Bank disinvests whenever the rating of an instrument falls below investment grade. This is with the exception of the "Strategic Yield" portfolio, where a minimum rating of B- is applied. The Strategic Yield portfolio comprises not more than 5 percent of the Pula Fund. In cases where the new lower rating necessitates a lower exposure, holdings are reduced to ensure that the new limit is not exceeded.

The Bank mitigates credit risk by addressing the following underlying issues:

- defining eligible investment instruments;
- pre-qualifying counterparties (financial institutions, brokers/dealers, and intermediaries) doing business with the Bank; and
- diversifying investment portfolios so as to minimise potential losses from securities or individual issuers.

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BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2024

30. RISK MANAGEMENT IN RESPECT OF FINANCIAL INSTRUMENTS (Cont'd)

Exposure to Credit Risk

The Table below shows the maximum exposure to credit risk for the components of the Statement of Financial Position, including derivatives. The maximum exposure is shown gross, before the effect of the above mitigation factors.

	Notes	2024 P'000	2023 P'000
Financial Assets			
Liquidity Portfolio			
Short-term deposits: amortised cost	1.1	4 135 365	6 301 900
Bonds: FVTPL		1 880 035	-
Pula Fund			
Bonds: FVTPL	1.2	12 171 197	23 291 026
Derivative instruments: FVTPL		8 054	41 349
Short-term deposits: amortised cost		1 133 766	1 162 535
International Monetary Fund - amortised cost			
Reserve Tranche	2.1	904 322	1 002 248
Holdings of Special Drawing Rights	2.2	4 602 496	4 526 840
General Subsidy Account	2.3	27 579	27 367
Repurchase Agreements: amortised cost	28	4 149 430	-
Receivables and Other Assets - staff loans and advances: amortised cost		215 688	214 126
Total		29 227 932	36 567 391
Analysis of Credit Exposure by class:			
Measured at fair value			
Bonds		14 051 232	23 291 026
Derivatives		8 054	41 349
Measured at amortised cost			
IMF Reserves		5 534 397	5 556 455
Repurchase Agreements		4 149 430	-
Receivables and Other Assets - staff loans and advances		215 688	214 126
Short-term deposits		5 269 131	7 464 435
Total		25 078 502	36 567 391

While some financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure, but not the maximum risk exposure that could arise in future as a result of changes in values.

Under staff advances, the amount of P153 400 120 (2023: P148 991 989) was for owner-occupied residential mortgage loans. The Bank is the first holder of the mortgage loan bonds. As at year-end, the total value of this collateral was a fair value of P195 280 499 (2023: P195 280 499), based on the property valuation report as at November 2020 (refer to page 22 valuation of properties).

The Tables below reflect the credit exposure based on the fair value of the assets with counterparties as at 31 December 2024.

Credit Exposure on Bonds

Moody's/S&P Rating	Government (P'000)	Corporate (P'000)	2024 Total P'000	2023 Total P'000
AAA	6 258 516	48 317	6 306 833	9 400 047
AA+	399 558	13 819	413 377	1 055 189
AA	967 438	2 977	970 415	2 449 963
AA-	234 490	75 252	309 742	447 140
A+	1 458 478	262 140	1 720 618	3 530 590
A	325 997	169 723	495 720	950 519
Other ¹⁰	1 214 960	2 619 567	3 834 527	5 457 578
	10 859 437	3 191 795	14 051 232	23 291 026

¹⁰ Other includes investments rated below A-, but still remain within the acceptable investment grade (BBB-) as per the investment guidelines.

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BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2024

30. RISK MANAGEMENT IN RESPECT OF FINANCIAL INSTRUMENTS (Cont'd)

Credit Exposure to Banks (Short-term deposits)

	2024	2023
	(P'000)	(P'000)
Fitch Rating		
AAA ¹¹	537 815	2 312 602
AA+	290 004	290 604
AA	200 758	255 063
AA-	1 186 036	2 092 670
A	174 719	27 351
A+	614 688	22 506
BB+	387 607	2 474 186
	3 391 627	7 474 982

Credit Exposure on Securities Lending Programme

The Bank's global custodian manages a Securities Lending Programme as agent of the Bank. Due to the short-term nature of the securities lending transactions, the collateral received under this programme changes on a short-term basis. The securities lending is regulated by a securities lending agreement with the global custodian and follows the general criteria for the Bank's credit exposure. The global custodian monitors the market value of the collateral and, where necessary, obtains additional collateral in line with the underlying agreement.

(e) Instrument Risk

(i) Sovereign Bonds

In accordance with the Reserves Management Policies and Investment Guidelines, the Bank invests in eligible investment grade instruments that are direct obligations or obligations explicitly guaranteed by governments or local governments. Exposure limits are assigned to the specific sovereign countries in accordance with the ratings assigned by at least two credit rating agencies. If an issuer is rated by one rating agency its exposure limit will be downgraded by one notch.

(ii) Corporate Bonds

The Bank invests in investment grade corporate bonds rated BBB- or higher, with the issuer being incorporated and tax resident in a country whose sovereign debt is eligible for investment by the Bank. A reasonable geographical spread of issuers is maintained. This is with the exception of the Strategic Yield Portfolio, which can invest in issuers rated below investment grade with a credit limit of B-.

(f) Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due, hence liquidity is an integral part of the Bank's foreign exchange reserves policies. To limit this risk, the Management manages the assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis. The Bank is exposed to daily Pula liquidity requirements on the deposits it holds on behalf of the shareholder, Government of Botswana, the banking system and other clients holding deposits with the Bank (mainly parastatals). For the purpose of managing foreign exchange reserves, the Bank keeps some of its assets in short-term deposits and other liquid money market instruments to enable the availability of liquidity to meet outflows without incurring undue capital loss and to provide flexibility to respond effectively to changing market requirements.

¹¹ Included in AAA, AA+, AA, A and BB+ are deposits held with central banks.

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BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2024

30. RISK MANAGEMENT IN RESPECT OF FINANCIAL INSTRUMENTS (Cont'd)

Credit Quality Analysis

The Bank uses the following criteria to assess issuer risk

Normal – an issuer or bank will be considered as normal if its credit rating is maintained within investment grade. For staff loans, the Bank mitigates the credit exposure by considering the staff overall indebtedness and all loans are deducted at source.

Concerned – the Bank will be concerned if the credit rating falls to the lowest scale within the investment grade category. Such an issuer will be placed under watch for regular review. The Bank may decide to disinvest if such an issuer is under negative watch for an extended period. For ex-staff debts carrying amounts are recovered from terminal benefits.

Sub-investment grade – an issuer is considered to be in sub-investment grade if the credit ratings fall below investment grade rating.

Default – an issuer is considered to be in default if it is rated below investment grade by two rating agencies. If the rating falls below investment grade, all investments on the issuer will be terminated immediately. In case of deposits, such deposits are expected to be repaid on their due date. For ex-staff debts, where there are no terminal benefits to recover from, the whole outstanding debt is impaired.

The Bank uses international rating agencies namely, Moody's, S&P Global (S&P) and Fitch Group for its credit risk assessment. For commercial banks and other deposit taking institutions investments are allowed only in investment grade rated issuers with a minimum rating of BBB- or equivalent (investment grade). Central banks assume the credit rating of their sovereign.

The Table below shows the Bank's risk criteria mapped to external ratings for short-term deposits.

Risk Criteria	Fitch	Moody's	S&P
Normal	AAA	Aaa	AAA
	AA+	Aa1	AA+
	AA	Aa2	AA
	AA-	Aa3	AA-
	A+	A1	A+
	A	A2	A
	A-	A3	A-
	BBB+	Baa1	BBB+
	BBB	Baa2	BBB
Concerned	BBB-	Baa3	BBB-
Default		Bbb	BB

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BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2024

30. RISK MANAGEMENT IN RESPECT OF FINANCIAL INSTRUMENTS (Cont'd)

Inputs, Assumptions and Techniques used for Estimating Impairment

The key judgements and assumptions adopted by the Bank in addressing the requirements of IFRS 9 for calculation of expected credit losses are discussed below.

Amounts arising from ECL

ECL is measured on a 12-month basis on initial recognition, subsequent measurement where there is no significant increase in credit risk and for low-risk financial assets. A 12-month ECL represent financial assets' lifetime ECL that are expected to arise from default events that are possible within 12-month period following origination of an asset or from each reporting date.

Significant increase in credit risk

The Bank carries high quality financial instruments whose risk is low. An annual assessment of the risk of default at the reporting date is done.

Measurement of ECL

For financial assets relating to foreign assets, the Bank has adopted the Probability of Default and Loss Given Default models in the determination of ECL. In applying these models, the Bank considers factors such as current economic circumstances of the markets in which it holds investments, forward looking economic and financial indicators to consider the likelihood of a default occurring within the next 12 months.

The key inputs into the measurement of ECL are the following:

- Probability of Default (PD) – is the likelihood of default over a given time horizon of one year. The PD is based on the issuer's credit rating such that the probability of default increases as the credit quality deteriorates;
- Loss Given Default (LGD) – is the magnitude of the likely loss, if there is a default by the issuer. It is a percentage of the exposure at default or the share of the exposure to a financial asset that the Bank could lose in the event of default;
- Exposure at Default (EAD) – represents the expected exposure in the event of a default. This is the total value holding of a financial instrument at the time of default.

In determining LGD, the following formula is used:

$LGD = 1 - \text{Recovery Rate (RR)}$; where

$RR = \text{Value of Collateral} / \text{Value of the fair value of investment}$.

The Bank places time deposits with approved correspondent banks, central banks and other reputable international deposit taking institutions. These depositories are considered to have minimum risk of default in line with international ratings. As such, the Bank's short-term deposits are not collateralised, consequently the RR is zero; thus, the LGD remains constant at one. This results in the loss rates being equal to the PDs. The loss rates are determined as per applicable Probabilities of Default Fitch Ratings.

Financial instruments are grouped on the basis of shared risk characteristics that include instrument types, credit risk gradings, collateral type, date of initial recognition, remaining term to maturity, industry and geographical location of the borrower.

The Bank recognises impairment loss amounting to 12 months ECL for all staff loans, which is based on the outstanding ex-staff loans over the total of the same category. In determining the LGD, the LGD is 1 (The percentage of the amount lost in case of default), while the EAD is the total value of each class of loans outstanding at the reporting date.

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BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

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30. RISK MANAGEMENT IN RESPECT OF FINANCIAL INSTRUMENTS (Cont'd)

Model Inputs: 1-Year Default Risk

In determining the Probability of Default for the various sovereigns, PD sourced from Bloomberg are used. These probabilities are derived from models based on economic and financial data that the Bank considers sufficiently comprehensive to provide credible estimates of default risk. The variables listed below are the main inputs in the calculation of the PD for each country the Bank holds investments in cash and cash equivalents:

- (i) expenditure (as a percentage of GDP);
- (ii) revenues (as a percentage of GDP);
- (iii) debt due in twelve months (as a percentage of GDP);
- (iv) long-term debt (as a percentage of GDP);
- (v) refinancing ability;
- (vi) budget surplus/deficit (as a percentage of GDP);
- (vii) non-performing loans (as a percentage of total loans);
- (viii) GDP growth; and
- (ix) political risk score.

Loss allowance

The following Table shows reconciliation from the opening to the closing balance of the loss allowance by class of financial instrument.

	2024	2023
	12-month ECL	12-month ECL
	P'000	P'000
Short-term Deposits at Amortised Cost		
Opening balance	10 613	11 157
Loss allowance/reversals during the year	14	(266)
Net remeasurement of loss allowance	(8 094)	(278)
	2 533	10 613

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BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

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30. RISK MANAGEMENT IN RESPECT OF FINANCIAL INSTRUMENTS (Cont'd)

Financial and Lease Liabilities at Undiscounted Cash Flows

The table below summarises the maturity profile of the Bank's financial and lease liabilities as at 31 December 2024, based on contractual undiscounted repayment obligations.

31 December 2024	Less than 3 months (P'000)	3-12 months (P'000)	1-5 years (P'000)	Over 5 years (P'000)	Total (P'000)
Financial Liabilities					
Derivatives	97	-	2 850	1 090	4 037
Bank of Botswana Certificates	1 199 634	-	-	-	1 199 634
Deposits	3 099 437	-	-	-	3 099 437
Standing Deposit Facility	2 344 347	-	-	-	2 344 347
Allocation of SDR - IMF	-	4 468 271	-	-	4 468 271
Liabilities to Government - IMF	-	405 275	-	-	405 275
Dividend to Government	3 444 016	-	-	-	3 444 016
Payables and Other Liabilities	425 627	-	-	-	425 627
	10 513 158	4 873 546	2 850	1 090	15 390 644
31 December 2024	Less than 3 months (P'000)	3-12 months (P'000)	1-5 years (P'000)	Over 5 years (P'000)	Total (P'000)
Lease Liability	-	-	80	-	80
31 DECEMBER 2023	Less than 3 months (P'000)	3-12 months (P'000)	1-5 years (P'000)	Over 5 years (P'000)	Total (P'000)
Financial Liabilities					
Derivatives	54	6 362	7 437	62 959	76 812
Bank of Botswana Certificates	5 998 068	-	-	-	5 998 068
Deposits	5 621 384	-	-	-	5 621 384
Standing Deposit Facility	3 487 185	-	-	-	3 487 185
Allocation of SDR – IMF	-	4 433 919	-	-	4 433 919
Liabilities to Government – IMF	-	503 200	-	-	503 200
Dividend to Government	238 758	-	-	-	238 758
Payables and Other Liabilities	164 167	-	-	-	164 167
	15 509 616	4 943 481	7 437	62 959	20 523 493
31 December 2023	Less than 3 months (P'000)	3-12 months (P'000)	1-5 years (P'000)	Over 5 years (P'000)	Total (P'000)
Lease Liability	-	-	117	-	117

Interest Rate Benchmark Reform

The Bank's exposure to IBOR in respect of externally managed portfolio as of 31 December 2024, had been converted to interbank offered rates (IBORs) with alternative Risk-Free-Rates (RFR). For conversions made during the year, there were no significant changes in contractual cashflows due to the transition mechanisms used to close out positions. Furthermore, no additional risk management policies were introduced.

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BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

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31. FAIR VALUE OF FINANCIAL INSTRUMENTS

Valuation models and techniques

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes). Multiple price types of bid/offer are sourced from pricing providers including last traded price, settlement, evaluated and primary exchange close time pricing.

The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models and valuation techniques. The fair values are based on net present value, discounted cash flow models and comparison with prices from observable current market transactions and dealer quotes for similar instruments. The Bank uses widely recognised valuation models for determining the fair value of financial instruments, such as interest rates yields, that use only observable market data and require little management judgement and estimation.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risk affecting the specific instrument.

The fair values of Government bonds are derived from market quotations. These are prices dealers will be willing to pay for similar instruments.

The Bank uses discounted cash flow analysis to value Bank of Botswana Certificates (BoBCs), with the yield curve providing the discount factors needed.

The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Fair value of financial instruments measured at fair value- fair value hierarchy

Fair values are categorised into different levels in a fair value hierarchy, which reflects the significance of the inputs used in making the measurements. If the inputs used to measure the fair value of an asset or a liability are categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

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31. FAIR VALUE OF FINANCIAL INSTRUMENTS (Cont'd)

(a) Fair Value of financial instruments measured at fair value

The following Table provides an analysis of the fair value of financial instruments, including their levels in the fair value hierarchy.

31 December 2024	Level 1 P'000	Level 2 P'000	Total P'000
Financial Assets			
Investments Measured at FVTPL			
Bonds	12 167 163	-	12 167 163
Derivative Instruments	-	12 091	12 091
Equities	25 147 452	-	25 147 452
Total financial assets accounted for at fair value	37 314 615	12 091	37 326 706
Financial Liabilities			
Derivative Instruments	-	4 037	4 037
31 December 2023	Level 1 P'000	Level 2 P'000	Total P'000
Financial Assets			
Investments Measured at FVTPL			
Bonds	23 291 026	-	23 291 026
Derivative Instruments	-	41 349	41 349
Equities	27 411 329	-	27 411 329
Total financial assets accounted for at fair value	50 702 355	41 349	50 743 704
Financial Liabilities			
Derivative Instruments	-	76 812	76 812

Financial instruments measured at amortised cost are excluded from the above table.

There were no transfers between levels during the year.

(b) Fair Value of financial instruments measured at amortised cost

In accordance with its accounting policies, the Bank accounts for certain financial instruments at amortised cost and considers that the carrying amounts recognised in the financial statements at amortised cost approximates their fair value. All financial assets measured at amortised cost shown in Notes 12.1 and 12.2 are considered level 2.

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BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

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For the year ended 31 December 2024

32. CLASSIFICATION OF ASSETS AND LIABILITIES

As at 31 December 2024	Current P'000	Non-Current P'000	Total P'000
ASSETS			
Liquidity Portfolio	4 135 365	-	4 135 365
Pula Fund	1 133 763	37 326 706	38 460 469
International Monetary Fund (IMF)			
Reserve Tranche	-	904 322	904 322
Holdings of Special Drawing Rights (SDR)	-	4 602 496	4 602 496
General Subsidy Account	-	27 579	27 579
Receivables and Other Assets	279 932	215 077	495 009
Repurchase Agreements	4 149 431	-	4 149 431
Property, Plant, Equipment and Intangible Assets	-	1 418 908	1 418 908
TOTAL ASSETS	9 698 491	44 495 088	54 193 579

LIABILITIES

Allocation of IMF Special Drawing Rights	4 468 271	-	4 468 271
Liabilities to Government (IMF Reserve Tranche)	405 275	-	405 275
Notes and Coin in Circulation	4 891 057	-	4 891 057
Bank of Botswana Certificates	1 199 634	-	1 199 634
Standing Deposit Facility	2 344 347	-	2 344 347
Deposits	3 099 437	-	3 099 437
Dividend to Government	3 444 016	-	3 444 016
Payables and Other Liabilities	425 627	-	425 627
Total Liabilities	20 277 664	-	20 277 664

As at 31 December 2023	Current P'000	Non-Current P'000	Total P'000
ASSETS			
Liquidity Portfolio	6 301 900	-	6 301 900
Pula Fund	1 127 072	50 702 355	51 829 427
International Monetary Fund (IMF)			
Reserve Tranche	-	1 002 248	1 002 248
Holdings of Special Drawing Rights (SDR)	-	4 526 840	4 526 840
General Subsidy Account	-	27 367	27 367
Receivables and Other Assets	372 310	213 189	585 499
Property, Plant, Equipment and Intangible Assets	-	1 414 191	1 414 191
TOTAL ASSETS	7 801 282	57 886 190	65 687 472

LIABILITIES

Allocation of IMF Special Drawing Rights	4 433 919	-	4 433 919
Liabilities to Government (IMF Reserve Tranche)	503 200	-	503 200
Notes and Coin in Circulation	4 360 102	-	4 360 102
Bank of Botswana Certificates	5 998 068	-	5 998 068
Standing Deposit Facility	3 487 185	-	3 487 185
Deposits	5 621 384	-	5 621 384
Dividend to Government	238 758	-	238 758
Payables and Other Liabilities	509 728	-	509 728
TOTAL LIABILITIES	25 152 344	-	25 152 344

PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2024

33. RELATED PARTY BALANCES AND TRANSACTIONS

Balances and Transactions with the Government

The Bank provides several services to its shareholder, the Government. The main services during the year to 31 December 2024 were:

- (a) Provision of banking services, including holding of the principal accounts of the Government; and
- (b) Being agent for government bonds and treasury bills.

The aggregate balances in Government accounts are disclosed in Note 8.

No charge is made to the Government for provision of these services.

Other Related Party Balances and Transactions

- (a) Amounts due to related parties.

Included in the balance of outstanding "Deposits – Other" in Note 8 are the following balances with Government-owned institutions.

	2024	2023
	P'000	P'000
Botswana Savings Bank	1 470	640
Botswana Unified Revenue Service	34 913	11 139
Total	36 383	11 779

The amounts outstanding are unsecured and have no fixed repayment terms.

- (b) Deposit Insurance Scheme of Botswana

-	25 000
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The Bank established the Deposit Insurance Scheme in line with Section 43A of the Bank of Botswana (Amendment) Act, 2022 to provide insurance against the loss of part or all deposits in a bank. The Scheme is administered by a body independent of the Bank. The Bank has seconded staff to the Scheme, provides office accommodation and meets all the operating costs and may advance funds to the Scheme on such terms and conditions as it deems fit. The Deposit Insurance Scheme levies premiums on banks and shall be charged all costs associated with the payment of deposits and any restructuring of banks, including paying costs of their liquidation. Government provided seed capital of P15 million for the Scheme and P10 million was membership fees from commercial banks.

- (c) Remuneration of Key Management Personnel

Key management personnel comprise the Board Members, Governor, Deputy Governors and Heads of Department.

Gross emoluments of the key management personnel are:

	2024	2023
	P'000	P'000
Non-Executive Board members	2 145	281
Executive Management		
Salaries, allowances and other short-term benefits	36 307	34 760
Post-employment benefits	9 611	9 517
	48 063	44 558

Of the Staff Loans and Advances per Note 3, P7 025 118 (2023: P7 372 535) are attributable to Executive Management.

PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2024

34. GOVERNMENT OF BOTSWANA BONDS AND TREASURY BILLS

In accordance with Section 56 and 57 of the Bank of Botswana Act (CAP 55:01), the Bank acts as agent of the Government for the issuance and management of the Government Bonds and Treasury Bills. An analysis of the Bonds and Treasury Bills issued is provided below:

Government of Botswana Bonds and Treasury Bills issued and switched during the year 2024

Bond/ Treasury Bill	Date of Issue	Date of Maturity	Interest Rate Percent (per annum)	Nominal Value (P' 000)	Discount /Premium (P' 000)	Net Proceeds (P' 000)	Interest Paid (P' 000)	Interest Accrued (P' 000)
BOTSGB0325/876	11 Dec 2024	10 Mar 2025	8	(528 000)	-	-	-	(13 185)
BOTSGB0931/1213	29 May, 31 Jul, 28 Aug 2024	10 Sept 2031	7.75	709 000	39 647	748 647	27 473	17 152
BOTSGB0640/1437	30 Apr, 3 Jul, 28 Aug, 27 Nov, 11 Dec 2024	13 June 2040	6	1 781 339	(251 275)	1 530 064	52 260	5 579
BOTSGB0929/1981	31 Jan, 28 Feb, 29 May, 2 Oct, 27 Nov, 11 Dec 2024	5 Sept 2029	4.8	1 815 380	(144 071)	1 671 308	19 200	28 404
BOTSGB0943/1999	31 Jan, 28 Feb, 29 May, 31 Jul, 2 Oct, 1 Nov 2024	2 Sept 2043	5.3	2 303 000	(638 434)	1 572 611	41 976	40 798
BOTSGB0527/2740	30 Apr, 3 Jul, 31 Jul, 28 Aug, 1 Nov 2024	5 May 2027	5.5	1 086 000	15 204	1 101 204	28 765	9 405
BOTSGB0635/3995	31 Jan, 28 Feb, 30 Apr, 3 Jul, 2 Oct, 1 Nov, 27 Nov 2024	6 June 2035	8.6	1 837 000	120 616	1 957 616	107 973	11 284
BOTSTB0424/5024	4 Jan 2024	3 Apr 2024	-	300 000	(2 715)	297 285	2 715	-
BOTSTB0724/5032	4 Jan 2024	3 Jul 2024	-	470 000	(9 141)	460 858	9 141	-
BOTSTB0424/5081	31 Jan 2024	30 Apr 2024	-	400 000	(3 088)	396 912	3 088	-
BOTSTB0724/5099	31 Jan 2024	31 Jul 2024	-	430 000	(6 858)	423 141	6 858	-
BOTSTB0524/5156	28 Feb 2024	29 May 2024	-	400 000	(2 796)	397 204	2 796	-
BOTSTB0824/5164	28 Feb 2024	28 Aug 2024	-	450 000	(6 502)	443 497	6 502	-
BOTSTB0724/5230	3 Apr 2024	3 Jul 2024	-	300 000	(1 857)	298 143	1 857	-
BOTSTB1024/5248	3 Apr 2024	2 Oct 2024	-	300 000	(3 987)	296 013	3 987	-
BOTSTB0724/5297	30 Apr 2024	31 Jul 2024	-	1 001 000	(6 266)	994 734	6 266	-
BOTSTB1024/5305	30 Apr 2024	30 Oct 2024	-	1 000 000	(12 870)	987 130	12 870	-
BOTSTB0824/5321	29 May 2024	28 Aug 2024	-	1 200 000	(7 428)	1 192 572	7 428	-
BOTSTB1124/5339	29 May 2024	27 Nov 2024	-	1 200 000	(15 360)	1 184 640	15 360	-
BOTSTB1024/5438	3 Jul 2024	2 Oct 2024	-	300 000	(1 845)	298 155	1 845	-
BOTSTB1024/5529	31 Jul 2024	30 Oct 2024	-	500 000	(2 970)	497 030	2 970	-
BOTSTB1124/5560	28 Aug 2024	27 Nov 2024	-	1 000 000	(5 460)	994 540	5 460	-
BOTSTB0125/5107	31 Jan 2024	29 Jan 2025	-	900 000	(29 511)	870 489	-	27 241
BOTSTB0425/5255	3 Apr 2024	2 Apr 2025	-	320 000	(9 206)	310 793	-	6 905
BOTSTB0125/5446	3 Jul 2024	3 Jan 2025	-	900 000	(11 205)	888 795	-	11 083
BOTSTB0125/5537	31 Jul 2024	29 Jan 2025	-	900 000	(10 647)	889 353	-	9 009
BOTSTB0725/5545	31 Jul 2024	30 Jul 2025	-	500 000	(12 165)	487 835	-	5 147
BOTSTB0225/5578	28 Aug 2024	26 Feb 2025	-	800 000	(9 792)	790 208	-	6 779
BOTSTB0125/5651	2 Oct 2024	3 Jan 2025	-	170 000	(1 248)	168 752	-	1 221
BOTSTB0425/5669	2 Oct 2024	2 Apr 2025	-	520 000	(7 665)	512 335	-	3 832
BOTSTB0125/5701	1 Nov 2024	29 Jan 2025	-	785 000	(5 652)	779 348	-	3 874
BOTSTB0425/5719	1 Nov 2024	30 Apr 2025	-	820 000	(12 078)	807 921	-	4 093
BOTSTB1125/5727	1 Nov 2024	5 Nov 2025	-	595 000	(19 635)	575 365	-	3 246
BOTSTB0225/5784	27 Nov 2024	26 Feb 2025	-	395 000	(3 077)	391 923	-	1 183
BOTSTB0525/5792	27 Nov 2024	28 May 2025	-	1 410 000	(23 843)	1 386 157	-	4 585
TOTAL				27 269 719	(1 103 180)	26 166 539	366 790	187 635

PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2024

34. GOVERNMENT OF BOTSWANA BONDS AND TREASURY BILLS (Cont'd)

Government of Botswana Bonds and Treasury Bills issued during the Year 2023

Bond/ Treasury Bill	Date of Issue	Date of Maturity	Interest Rate Percent (per annum)	Nominal Value (P' 000)	Discount /Premium (P' 000)	Net Proceeds (P' 000)	Interest Paid (P' 000)	Interest Accrued (P' 000)
BOTSGB0325/876	22 Nov 2023	10 Mar 2025	8	(1 200 000)	-	-	-	(29 802)
BOTSGB0931/1213	1 Mar, 29 Mar, 3 May, 30 Aug, 29 Nov 2023	10 Sept 2031	7.75	1 053 000	(28 128)	1 024 869	36 928	25 334
BOTSGB0640/1437	1 Mar, 3 May, 30 Aug, 29 Nov 2023	13 June 2040	6	572 000	(121 512)	450 487	22 320	1 781
BOTSGB0929/1981	1 Nov, 29 Nov 2023	5 Sept 2029	4.8	682 936	(30 851)	269 147	9 190	10 626
BOTSGB0943/1999	1 Feb, 29 Mar, 31 May, 5 Jul, 5 Oct, 1 Nov 2023	2 Sept 2043	5.3	1 794 590	(333 901)	713 099	25 095	31 617
BOTSGB0527/2740	1 Feb, 1 Mar, 29 Mar, 31 May, 5 Jul, 30 Aug, 5 Oct 2023	5 May 2027	5.5	1 717 332	(61 408)	903 591	33 935	14 790
BOTSGB0635/3995	31 May, 5 Jul, 5 Oct, 1 Nov 2023	6 June 2035	8.6	772 000	15 302	787 302	34 378	4 716
BOTSTB0423/3623	4 Jan 2023	5 Apr 2023	-	150 000	(1 591)	148 408	1 591	-
BOTSTB0723/3631	4 Jan 2023	5 Jul 2023	-	50 000	(1 287)	48 712	1 287	-
BOTSTB0523/3789	1 Feb 2023	3 May 2023	-	335 000	(3 675)	331 325	3 675	-
BOTSTB0823/3797	1 Feb 2023	2 Aug 2023	-	450 000	(11 722)	438 277	11 722	-
BOTSTB0523/3821	1 Mar 2023	31 May 2023	-	400 000	(4 536)	395 464	4 536	-
BOTSTB0823/3839	1 Mar 2023	30 Aug 2023	-	250 000	(6 672)	243 327	6 672	-
BOTSTB0723/3896	5 Apr 2023	5 Jul 2023	-	300 000	(4 080)	295 920	4 080	-
BOTSTB1023/3904	5 Apr 2023	4 Oct 2023	-	400 000	(12 276)	387 724	12 276	-
BOTSTB0823/3227	3 May 2023	2 Aug 2023	-	420 000	(5 649)	414 351	5 649	-
BOTSTB1123/3946	3 May 2023	1 Nov 2023	-	780 000	(24 414)	755 586	24 414	-
BOTSTB0823/3979	31 May 2023	30 Aug 2023	-	650 000	(8 742)	641 257	8 742	-
BOTSTB1123/3987	31 May 2023	29 Nov 2023	-	550 000	(17 215)	532 785	17 215	-
BOTSTB1023/4084	5 Jul 2023	4 Oct 2023	-	620 000	(8 432)	611 568	8 432	-
BOTSTB1123/4134	2 Aug 2023	1 Nov 2023	-	420 000	(5 678)	414 321	5 678	-
BOTSTB1123/4449	30 Aug 2023	29 Nov 2023	-	350 000	(4 707)	345 292	4 707	-
BOTSTB0124/3805	1 Feb 2023	31 Jan 2024	-	950 000	(50 673)	899 327	-	46 496
BOTSTB0424/3912	5 Apr 2023	3 Apr 2024	-	100 000	(6 200)	93 800	-	4 616
BOTSTB0124/4092	5 Jul 2023	3 Jan 2024	-	270 000	(8 572)	261 427	-	8 478
BOTSTB0124/4142	2 Aug 2023	31 Jan 2024	-	480 000	(13 944)	466 056	-	11 645
BOTSTB0724/4159	2 Aug 2023	31 Jul 2024	-	280 000	(15 834)	264 166	-	6 612
BOTSTB0224/4456	30 Aug 2023	28 Feb 2024	-	550 000	(15 207)	534 792	-	10 361
BOTSTB0124/4514	5 Oct 2023	3 Jan 2024	-	500 000	(6 330)	493 670	-	6 189
BOTSTB0424/4522	5 Oct 2023	3 Apr 2024	-	520 000	(13 546)	506 454	-	6 586
BOTSTB0124/4720	1 Nov 2023	31 Jan 2024	-	300 000	(3 630)	296 370	-	2 433
BOTSTB0424/4738	1 Nov 2023	30 Apr 2024	-	650 000	(15 723)	634 276	-	5 299
BOTSTB1024/4746	1 Nov 2023	30 Oct 2024	-	500 000	(24 875)	475 125	-	4 168
BOTSTB0224/4829	29 Nov 2023	28 Feb 2024	-	300 000	(3 183)	296 817	-	1 154
BOTSTB0524/4837	29 Nov 2023	29 May 2024	-	600 000	(13 170)	586 830	-	2 388
TOTAL				17 516 858	(872 061)	15 961 922	282 522	175 487

- (a) Net proceeds realised from the issue of the bonds of P27 269 719 (2023: P15 961 922 000) were invested in the Government Investment Account. The nominal value of holdings of total outstanding Government Bonds and Treasury Bills as at 31 December 2024, was P41 152 577 650 (2023: P29 133 858 050). The nominal value of redemptions during the year to 31 December 2024, was P15 251 000 000 (2023: P13 857 000 000).

PART A

BANK OF BOTSWANA ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2024

34. GOVERNMENT OF BOTSWANA BONDS AND TREASURY BILLS (Cont'd)

- (b) Interest is payable on all interest earning bonds on a semi-annual basis in arrears. During the year to 31 December 2024, total interest payments of P2 019 504 970 (2023: P1 624 940 668) were made and were funded from the Government's current (remittances) account maintained with the Bank.
- (c) Government Bonds and Treasury Bills are liabilities of Government; and are, therefore, not accounted for in the Statement of Financial Position of the Bank.

35. ADMINISTRATION COSTS

	2024 P'000	2023 P'000
Operating Costs	296 842	291 226
Personnel Costs	624 978	564 118
General Costs	49 900	46 208
	971 720	901 552

Administrative Costs have been presented by function as per IAS 1:104 disclosure requirements.

The Bank's contribution to the Bank of Botswana Defined Contribution Staff Pension Fund for the year ended 31 December 2024 was P63 761 271 (2023: P57 408 088).

36. EVENTS AFTER THE REPORTING DATE

There were no post balance sheet events noted as at the reporting date.

37. GOING CONCERN

The annual financial statements have been prepared based on accounting policies applicable to a going concern. The basis presumes that funds will be available to finance operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business and the Bank will be able to continue for the foreseeable future.

During 2024, the volatile global financial markets associated with geopolitical tensions and elevated global inflationary pressures had an adverse impact on the foreign exchange reserves in terms of inflows and returns. However, the Investment Committee, continued to maintain its primary focus of managing the foreign exchange reserves with the key objectives of preservation of capital (safety); liquidity; returns; and employment of appropriate diversification strategies through investments in emerging markets to optimise the value and return on the foreign exchange reserves, in line with the Reserves Management Policies and Investment Guidelines.

For the year under review, there has been substantial draw-downs of foreign exchange reserves to meet the foreign exchange needs of the economy, as receipts from diamond sales remain subdued. This necessitated withdrawals from the Pula Fund to fund the Liquidity Portfolio and hence a lower level of foreign exchange reserves as at year end.

Management has re-assessed the appropriateness of the use of the going concern assumption in the preparation of these financial statements. Based on the assessment performed, Management is of the view that global growth in 2025 is expected to remain sluggish but resilient. Central banks are expected to continue cutting interest rates to stimulate economic growth. However, divergence in growth across regions is likely to be more pronounced as uncertainty from potential United States of America tariffs and geopolitics could disrupt global growth. Lower interest rates, when implemented, alongside stabilising commodity prices, may boost global demand, potentially increasing foreign exchange reserves from diamond sales. However, the diamond market remains under pressure, with prices of natural and lab grown diamonds continuing to decline due to weak demand, particularly in China, and structural shifts in the industry could strain the Bank's portfolio increasing drawdowns from the Liquidity Portfolio, and necessitate continued asset liquidations from the Pula Fund to support foreign exchange needs of the economy.

Given the overall anticipated growth recovery in 2025, with risks to growth broadly balanced, Management is of the view that the Bank continues to be a going concern, with a strong capital base.

PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024

PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

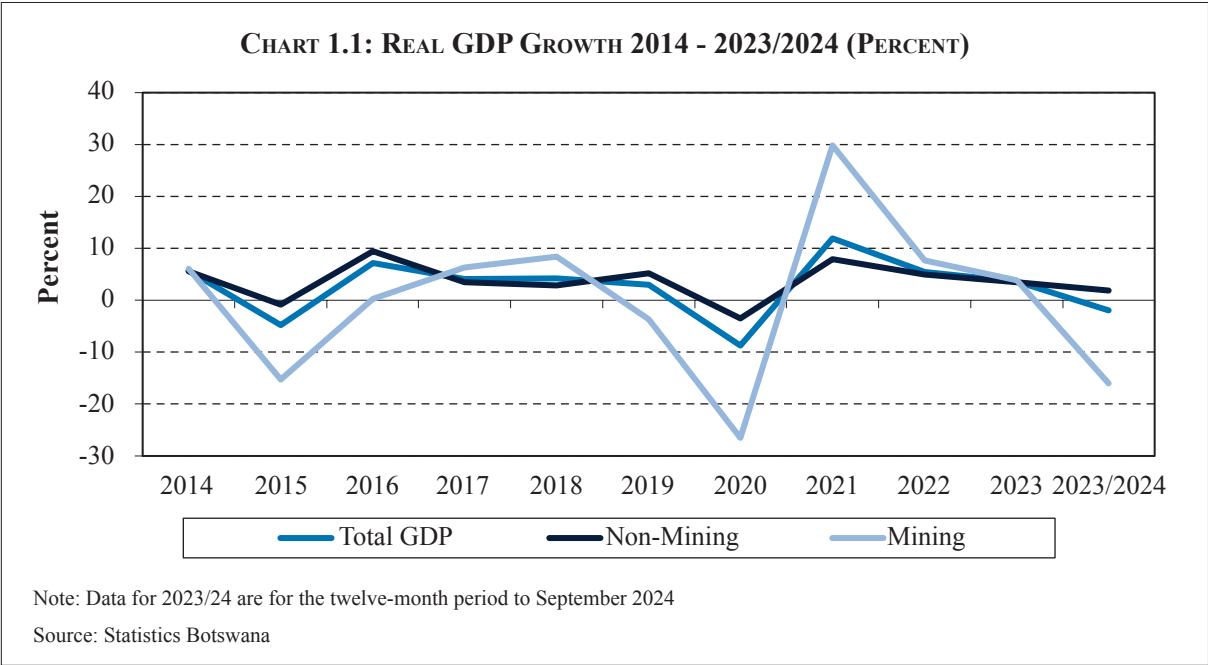
1. OUTPUT AND PRICE DEVELOPMENTS

(a) National Income Accounts

Overview

1.1 Real GDP contracted by 2 percent in the twelve months to September 2024, compared to a growth of 4 percent in the year to September 2023. The contraction is mainly attributable to the deterioration in global economic conditions, and geopolitical events, as well as the growing popularity of other luxury goods in major markets, which has negatively impacted the demand for diamond jewellery and rough diamonds. Weak domestic economic activity could also be attributable to slow and muted impact of economic transformation initiatives so far, continuance of low productivity and drought conditions. Moreover, the weak economic activity could be due to the less-than-optimal performance of the Government Accounting Budgeting System (GABS) which continues to disrupt business operations. The system failure has also led to increased uncertainty in the conduct of fiscal policy.

1.2 Non-Mining GDP grew by 1.9 percent in the twelve months to September 2024, compared to a higher growth of 4.1 percent in the corresponding period in 2023. The deceleration in non-mining GDP growth was mainly due to contraction in the output of the *Diamond Traders and Manufacturing* sectors. The contraction in the output of the *Diamond Traders* sector is attributable to the weak diamond market, notably the combination of subdued demand and prices. For Botswana, this is manifested by contraction in the output of the *Manufacturing* sector, through a significant contraction in *Diamond Sorting, Cutting, Polishing and Setting*. Furthermore, the deceleration in output growth for some sectors, namely, *Agriculture, Forestry and Fishing, Real Estate, Finance, Insurance and Pension Funding, Water and Electricity, Construction, Information and Communication Technology, Accommodation and Food Services, Transport and Storage, Education*, as well as *Administrative and Support Service Activities* also contributed to the overall deceleration in the non-mining sector output growth.

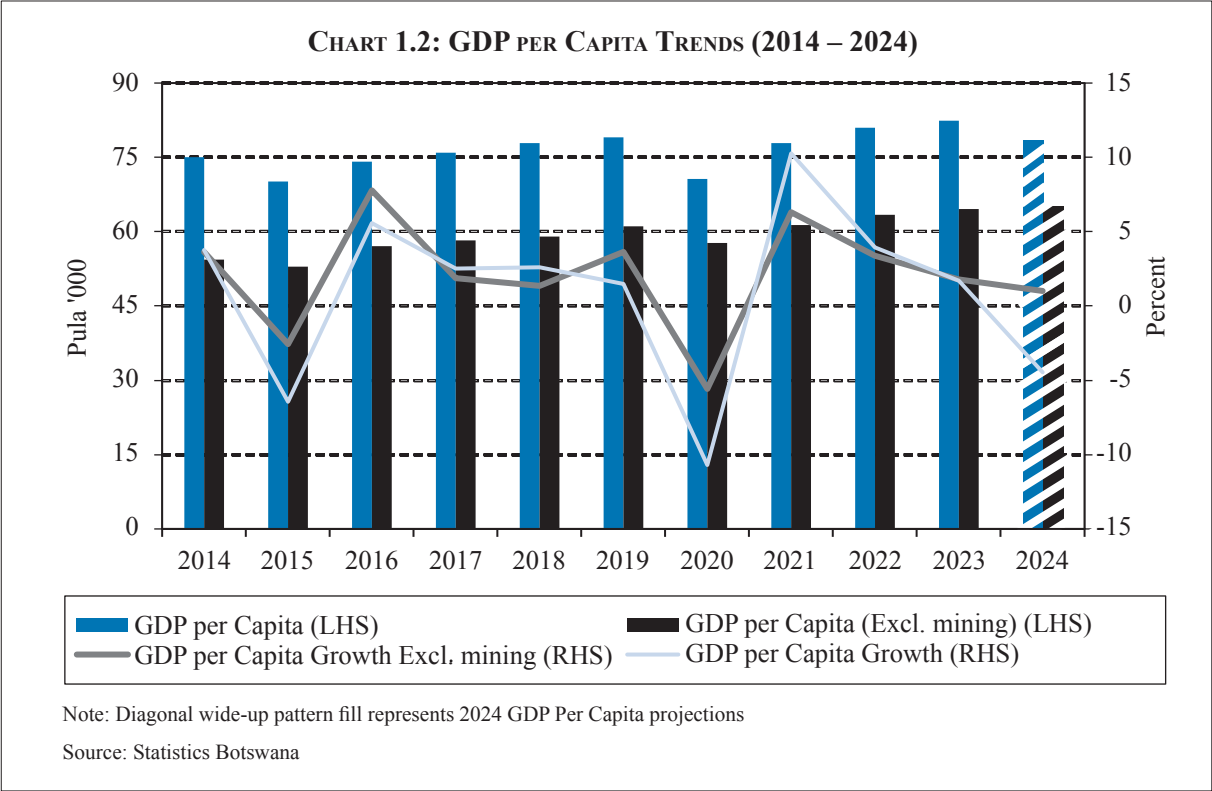


PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

1.3 As shown in Chart 1.1, over the last ten years to 2024, annual rates of economic expansion have been generally low, with sharp contractions in 2015 and 2020 due to the adverse impact of a drastic fall in commodity prices and the impact of COVID-19 pandemic, respectively. While the ten-year growth profile is similar for both the mining and non-mining components of GDP, the former exhibited higher volatility. Related thereto, the profile is also similar for the per capita income

growth rates (Chart 1.2) over the review period. GDP per capita increased by 4.9 percent to P79 088 in 2024 from P74 996 in 2014, albeit with a big drop to P70 628 in 2020, due to the negative impact of the COVID-19 pandemic. In between 2023 and 2024, GDP per capita contracted by 4.5 percent. However, excluding mining output from the calculation, GDP per capita increased marginally by 1 percent.



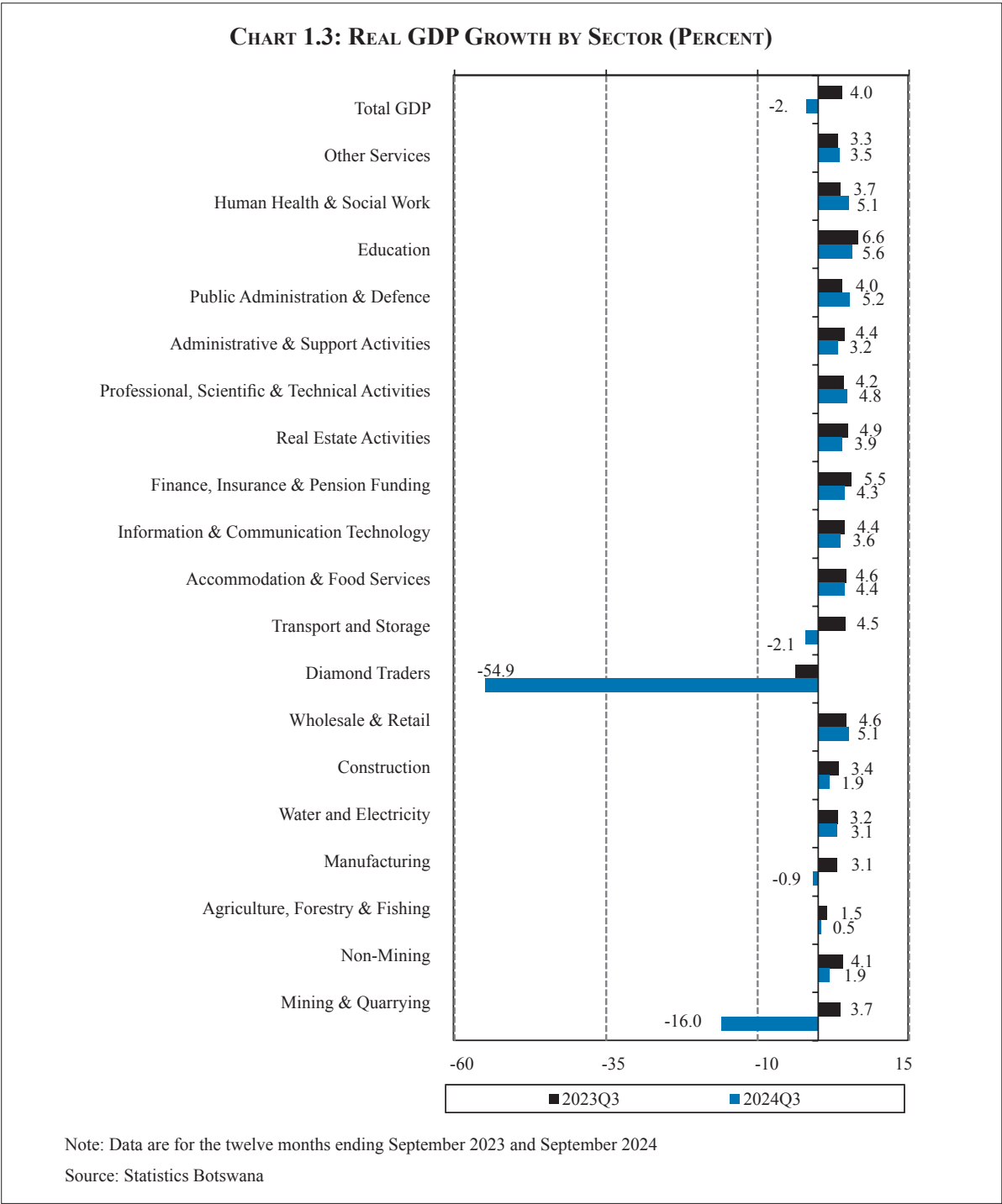
Sectoral Performance

1.4 In the year ending September 2024, most economic sectors experienced a slowdown in real economic activity compared to the previous year, except for *Mining and Quarrying, and Diamond Trading*, which contracted. However,

sectors such as *Other Services, Human Health and Social Work, Public Administration and Defence, Professional, Scientific and Technical Activities, and Wholesale and Retail*, recorded stronger growth in 2024 compared to 2023 (Chart 1.3).

PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)



1.5 Sectors that contributed the most to overall GDP contraction in the year to September 2024 were *Mining and Quarrying; Diamond Traders, Public*

Administration and Defence; Wholesale and Retail; and Construction (Chart 1.4).

PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

CHART 1.4: CONTRIBUTION TO REAL GDP GROWTH BY SECTOR (PERCENT)



- Notes
- 1. Percentage contribution to growth is measured by multiplying the current sector growth by the sector's share of GDP in the previous year.
 - 2. Data for the two periods are for the twelve months ending September 2023 and 2024.

Source: Statistics Botswana

PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

- 1.6 The Mining sector GDP contracted by 16 percent in the year ending September 2024, a notable decline from a growth of 3.7 percent recorded in the year to September 2023. This was due to the slower growth in output of most sub-sectors, led by *mining of diamond*, which contracted by 17 percent, compared to a growth of 3.7 percent in the previous period. The contraction in the sector is mainly due to a combination of external factors, such as subdued global demand, the growing popularity of other luxury goods in major markets, global economic uncertainty, and geopolitical conflicts. Furthermore, *mining of coal* contracted by 3.9 percent in the year ending September 2024, from a growth of 0.4 percent in the previous period, attributable to the reduced demand for coal by Botswana Power Corporation due to Morupule B power plant remediation and maintenance. Furthermore, *mining of copper and nickel*, as well as *gold* and *other metal ores* also contracted. The decrease in *copper and nickel output* was due to closure of operations in part of the year for plant refurbishment, while for *gold*, resource extraction was lower because of depletion as the Mupane Mine approaches the end of its lifespan. Output growth for the *other mining* sub sector decelerated. However, output of *mining support service activities* and *soda-ash and salt* increased in the year ending September 2024, attributable to growing demand by the glass and ceramic manufacturing industries.
- 1.7 *Agriculture* output increased by 0.5 percent in the year to September 2024, compared to a growth of 1.5 percent in the previous year. The deceleration in *Agriculture* production is attributable to lower growth of output of *livestock farming* and the *support services* to the *Agriculture* sub-sectors. *Crop farming and horticulture*, as well as *forestry, logging, fishing and aquaculture* sub sectors contracted in the period under review. The contraction in these sub-sectors could be attributable to the drought that was experienced in 2024 due to extreme and adverse weather conditions, including low rainfall.
- 1.8 *Manufacturing* output contracted by 0.9 percent in the year ending September 2024, compared to a growth of 3.2 percent in the corresponding period in 2023. The contraction is attributable to the decrease in some sub-sectoral output growth, led by *diamond sorting, cutting, polishing and setting*, which significantly contracted by 22.3 percent, from a growth of 4.2 percent in the previous period, in line with the decline in *mining of diamond* due to low trading activity arising from weak demand for diamonds.
- 1.9 *Water and Electricity* output increased annually by 3.1 percent in the year to September 2024, from a growth of 3.2 percent in the 12 months to September 2023. The deceleration in growth of the *electricity supply* sub-sector output, which grew by 2.3 percent from a growth of 6.1 percent in the prior year, contributed to the lower overall sectoral annual expansion. In turn, the lower growth in the output of the *electricity supply* sub-sector is attributable to reduced domestic electricity production due to operational challenges encountered at Morupule B Power Station since the second quarter of 2023. Meanwhile, *water collection, treatment and supply* sub-sector increased by 4.4 percent, compared to a contraction of 1.3 percent in the prior year.
- 1.10 *Construction* output expanded by 1.9 percent in the 12-month period to September 2024, compared to a higher growth of 3.4 percent in the corresponding period in 2023, following completion of some construction projects, including shopping malls across the country.
- 1.11 *Accommodation and Food Services* sector output increased by 4.4 percent in the year to September 2024, compared to a slightly higher growth of 4.6 percent in the corresponding period in 2023. The marginal slowdown was mainly due to the deceleration in the *food services* sub-sector output, which increased by 3.7 percent compared to the significant 5.5 percent growth in the prior year.

PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

- 1.12 *Diamond Traders* sector output substantially contracted by 54.9 percent in the year to September 2024, compared to a growth of 3.6 percent in the previous year, reflecting reduced demand for rough diamonds, mainly due to the weak market and the growing popularity of other luxury goods in major markets.
- 1.13 *Wholesale and Retail* output recorded a growth of 5.1 percent, up from 4.6 percent in the corresponding previous period. This could be partly due to increased purchasing power by consumers, following the reduction of the monetary policy rate in June and August 2024.
- 1.14 *Finance, Insurance and Pension Funding* output grew by 4.3 percent in the 12-month period to September 2024, compared to 5.5 percent growth in the year ending September 2023. Growth in this sector was led by *monetary intermediation and financial services*¹ (6.3 percent) and *financial and insurance and auxiliary services* (2.8 percent).
- 1.15 *Administrative and Support Activities* output increased by 3.2 percent in the year ending September 2024, compared to 4.4 percent growth in the year ending September 2023.
- 1.16 Output of the *Transport and Storage* sector increased by 2.1 percent in 2024, compared to a higher growth of 4.5 percent in 2023, due to the deceleration in the annual rate of increase for *air transport* (13.6 percent), *rail transport* (3.8 percent) and *road transport* (1.2 percent), from 26.6 percent, 4.1 percent and 4 percent, respectively.
- 1.17 *Information and Communication Technology* output increased by 3.6 percent in the year to September 2024, from a growth of 4.4 percent in the corresponding period in the previous year. The slower increase in the sector's output resulted from the deceleration in output growth of the *telecommunication* and the *radio and television broadcasting* sub-sectors.
- 1.18 Output of *Real Estate Activities* rose by 3.9 percent in the 12-months to September 2024, from a growth of 4.9 percent in the corresponding period ending in September 2023. The deceleration in this sector's output could be attributable to the weakening of the real estate sector as demand in the residential rental market deteriorated in the review period.
- 1.19 *Professional, Scientific and Technical Activities* grew by 4.8 percent in the year to September 2024, compared to a growth of 4.2 percent in the corresponding period ending in September 2023, in line with the increase in construction of shopping malls (for example, two regional shopping centres in Mogoditshane) and estates where these skills are most in demand.
- 1.20 *Public Administration and Defence* increased by 5.2 percent in the 12-months to September 2024, from a 4 percent growth in the corresponding period ending in September 2023. The increase is attributable to the acceleration in *public administration*, and *central government activities*.
- 1.21 *Education* output grew by 5.6 percent in the 12-months period ending September 2024, compared to a higher increase of 6.6 percent in the corresponding period ending in September 2023.
- 1.22 *Other Services* output increased by 3.5 percent in the year to September 2024, compared to a slightly lower growth of 3.3 percent in the corresponding period in 2023. The expansion was spread across all sub-sectors² except *Activities of Membership Organisations* which decelerated.

¹ Financial services refer to economic services provided by the finance industry, which encompasses a broad range of businesses that manage money, such as credit unions; banks; insurance companies; accountancy companies; stock brokerage; and investment funds.

² Arts, Entertainment and Recreation; Activities of Membership Organisations; and Other Service Activities.

PART B

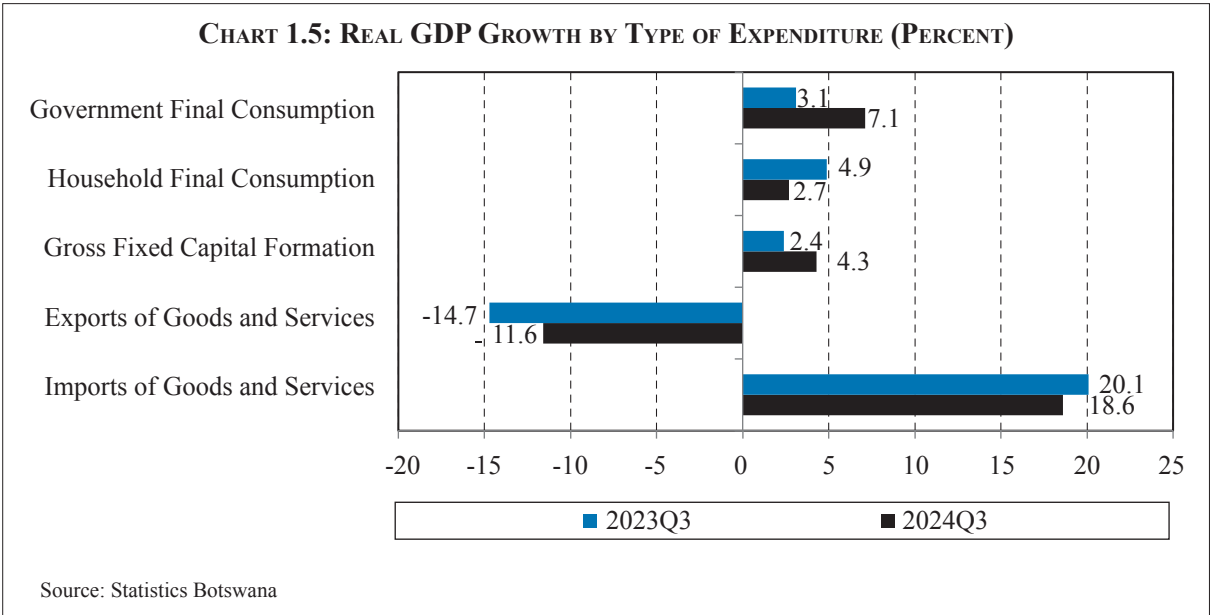
CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

1.23 *Human Health and social work activities* output increased by 5.1 percent and 3.7 percent in the years ending September 2024 and September 2023, respectively.

GDP by Type of Expenditure

1.24 Growth in *Government Final Consumption (GFC)* was 7.1 percent in the twelve months to September 2024, compared to a 3.1 percent expansion in the corresponding period in 2023 (Chart 1.5). The increase in growth in *GFC* was largely due to a faster increase in the output of *individual consumption* and *collective consumption*, which accelerated to 10.9 percent from 6.1 percent, and 6 percent from 2.3 percent, respectively, in the

review period. *Household Final Consumption*, which includes *Non-profit Institutions Serving Households (NPISH)* and *Household Consumption Expenditure*, increased by 2.7 percent in the 12-months ending September 2024, compared to a growth of 4.9 percent recorded in the corresponding period ending in September 2023. The deceleration in growth of *Household Final Consumption* was due to a slowdown in the *NPISH*. However, the annual rate of increase in *Household Consumption Expenditure* was higher in the period under review.



1.25 *Gross Fixed Capital Formation (GFCF)* increased by 4.3 percent in the year to September 2024, compared to a lower growth of 2.4 percent in the previous year. The increase in GFCF was due to the expansion in *investment in transport equipment and plant, machinery and other equipment*.

1.26 *Exports of Goods and Services* decreased by 11.6 percent in the 12-months to September 2024, compared to a larger decrease of 14.7 percent in the corresponding period ending September 2023. The *Imports of Goods and Services* increased by 18.6 percent in the year ending September 2024, compared to a contraction of 20.1 percent in the corresponding period ending September 2023. This is largely due to continued importation of diamonds for aggregation by DeBeers Global Sight holder Sales (DBGSS).

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CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

(b) Economic Growth Prospects

- 1.27 Global economic growth is forecast to remain subdued at 3.3 percent in 2025, slightly higher than the 3.2 percent in 2024 (Table 1.1). Thus, GDP expansion for advanced economies is projected at 1.9 percent in 2025, slightly higher than 1.7 percent in 2024. Meanwhile, growth in the United States is forecast to decrease slightly from 2.8 percent in 2024 to 2.7 percent in 2025, as fiscal policy gradually tightens and softening labour markets slow aggregate demand. For the United Kingdom, economic activity is expected to accelerate from 0.9 percent in 2024 to 1.6 percent in 2025, supported by easing inflationary pressures as the lagged negative effects of high energy prices wane and anticipated lower interest rates. In the Euro Area, growth is expected to pick up from 0.8 percent in 2024 to 1 percent in 2025, mainly on account of stronger consumption on the back of rising real wages and higher investment from easing financial conditions.
- 1.28 For emerging markets and developing economies, growth is expected to remain constant at 4.2 percent between 2024 and 2025. Annual GDP increase in China is expected to slow down from 4.8 percent in 2024 to 4.6 percent in 2025, largely due to weaker private investment and the ongoing property market crisis. Meanwhile, in India, GDP growth is forecast to remain constant at 6.5 percent between 2024 and 2025. Overall, risks to the global economic outlook are assessed to be on

the downside in the medium term, amid elevated policy uncertainty. These include risks of an escalation in regional conflicts; monetary policy remaining tight for too long, which could weigh down on investment and economic prospects; a possible deeper growth slowdown in China; and the continued increase in protectionist policies. Overall, the global growth forecast for 2025 remains below the historical (2000 - 2019) annual average of 3.7 percent.

- 1.29 Domestically, real GDP is projected to contract by 3.1 percent in 2024 before rebounding to a 3.3 percent expansion in 2025, albeit remaining below potential growth. The recovery in growth is premised on the anticipated upturn in the diamond industry in the latter part of 2025, alongside expansion in the non-mining economic sectors. Furthermore, it is anticipated that government interventions aimed at supporting economic recovery, including the proposed structural reforms and fiscal strategy outlined in the 2025/26 Budget, would improve the business environment and strengthen the country's fiscal position and resilience. However, the growth outlook remains subject to downside risks, including heightened geopolitical tensions, climate-related shocks, and global trade fragmentation, exacerbated by escalating tariff disputes between major economies such as China, the United States of America and the Eurozone, as well as the possible weak implementation and traction of domestic reform policies and initiatives.

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CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

TABLE 1.1: GLOBAL GROWTH ESTIMATES AND FORECASTS 2023 - 2025 (PERCENT)

	2023	2024	2025 (Projections)
Global	3.3	3.2	3.3
Advanced economies, of which,	1.7	1.7	1.9
USA	2.9	2.8	2.7
Euro area	0.4	0.8	1.0
Japan	1.5	-0.2	1.1
Emerging markets, of which,	4.4	4.2	4.2
Sub-Saharan Africa	3.6	3.8	4.2
China	5.2	4.8	4.6
India	8.2	6.5	6.5
Russia	3.6	3.8	1.4
South Africa	0.7	0.8	1.5
Botswana	2.7	1.0	5.2

Source: IMF WEO Update January 2025

(c) Employment

1.30 According to Statistics Botswana's Quarterly Multi-Topic Survey for the first quarter of 2024, total employment (formal and informal sector), was estimated at 754 146 persons, compared to 788 616 in the third quarter of 2023³. Government (Public administration) continues to be the single largest employer, constituting 20.3 percent of total employment in the first quarter of 2024 (Table 1.2a). In this regard, personal emoluments constituted the largest share (above 50 percent) of the government recurrent budget, and about 13.4 percent of GDP. The quarterly survey also

indicates an unemployment rate of 27.6 percent in the first quarter of 2024 (youth unemployment at 38.2 percent). Formal sector employment amounted to 504 738 persons in the first quarter of 2024, compared to 490 625 in the third quarter of 2023 (Table 1.2b). Related to that, formal sector average earnings per month were estimated at P6 865 for citizens, P14 080 for non-citizens and P7 143 for all employees in the first quarter of 2024.

³ Statistics Botswana did not conduct the Labour Force Survey in the first, second and fourth quarters of 2023 and the last three quarters of 2024.

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CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

TABLE 1.2A: TOTAL EMPLOYMENT BY INDUSTRY AND GENDER AS AT FIRST QUARTER 2024

Industry/ Economic Activity	Male	Female	Total 2024	Share of Employment (Percent) 2024	Total 2023	Share of Employment (Percent) 2023
Agriculture, Forestry & Fishing	55 820	16 672	72 492	9.6	77 497	9.8
Mining & Quarrying	8 672	1 246	9 918	1.3	11 412	1.4
Manufacturing	24 227	21 637	45 864	6.1	56 947	7.2
Electricity, Gas, & Air Conditioning Supply	1 817	551	2 368	0.3	3 641	0.5
Water Supply, Sewage, Waste Management & Remediation Activities	4 016	2 698	6 715	0.9	6 052	0.8
Construction	43 181	3 192	46 373	6.1	58 884	7.5
Wholesale Trade, except Motor Vehicles & Motorcycles	52 339	66 169	118 508	15.7	124 369	15.8
Transport & Storage	16 508	2 525	19 032	2.5	21 595	2.7
Accommodation & Food Service Activities	13 706	21 291	34 997	4.6	38 661	4.9
Information & Communication	2 603	3 440	6 043	0.8	7 014	0.9
Finance & Insurance Activities	4 901	5 364	10 265	1.4	8 883	1.1
Real Estate Activities	1 299	268	1 568	0.2	3 382	0.4
Professional, Scientific & Technical Activities	6 807	5 215	12 022	1.6	14 628	1.9
Administrative & Support Service Activities	31 096	22 442	53 538	7.1	53 420	6.8
Public Administration	56 473	96 571	153 044	20.3	144 200	18.3
Education	18 180	50 038	68 218	9.0	65 530	8.3
Human Health & Social Work Activities	12 729	17 952	30 681	4.1	29 431	3.7
Arts, Entertainment & Recreation	2 566	1 856	4 421	0.6	2 945	0.4
Other Service Activities	5 384	10 780	16 164	2.1	18 554	2.4
Households as Employers	8 769	31 562	40 330	5.3	40 674	5.2
Activities of Extraterritorial organisations	544	1 041	1 585	0.2	897	0.1
Total	371 638	382 509	754 146	100	788 616	100

Source: Statistics Botswana

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CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

TABLE 1.2B: FORMAL EMPLOYMENT BY INDUSTRY AND GENDER AS AT FIRST QUARTER OF 2024

Industry/Economic Activity	Male	Female	Total 2024	Share of Employment (Percent) 2024	Total 2023	Share of Employment (Percent) 2023
Agriculture, Forestry & Fishing	8 649	5 189	13 838	3.6	12 446	2.5
Mining & Quarrying	7 573	1 246	8 819	2.3	10 357	2.1
Manufacturing	12 252	10 502	22 754	5.9	31 954	6.5
Electricity, Gas, & Air Conditioning Supply	1 817	462	2 280	0.6	3 641	0.7
Water Supply, Sewage, Waste Management & Remediation Activities	2 686	2 241	4 927	1.3	6 052	1.2
Construction	9 999	2 102	12 101	3.1	20 122	4.1
Wholesale Trade, except Motor Vehicles & Motorcycles	27 511	24 465	51 977	13.5	61 488	12.5
Transport & Storage	6480	1 203	7 683	2.0	9 372	1.9
Accommodation & Food Service Activities	7 348	10 834	18 181	4.7	19 893	4.1
Information & Communication	1 755	3 440	5 194	1.4	6 152	1.3
Finance & Insurance Activities	4 175	4 070	8 245	2.1	8 288	1.7
Real Estate Activities	585	0	585	0.2	1 164	0.2
Professional, Scientific & Technical Activities	3 918	4 482	8 400	2.2	11 297	2.3
Administrative & Support Service Activities	23 678	19 576	43 254	11.2	46 913	9.6
Public Administration	36 533	42 328	78 861	20.5	143 647	29.3
Education	16 464	42 478	58 942	15.3	62 151	12.7
Human Health & Social Work Activities	10 434	16 077	26 511	6.9	28 218	5.7
Arts, Entertainment & Recreation	353	1 309	1 662	0.4	2 005	0.4
Other Service Activities	926	2 412	3 338	0.9	4 804	1.0
Households as Employers	706	4 672	5 378	1.4	-	-
Activities of Extraterritorial organisations	544	1041	1 585	0.4	897	0.2
Total	184 386	200 129	384 515	100	490 861	100

Source: Statistics Botswana

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CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

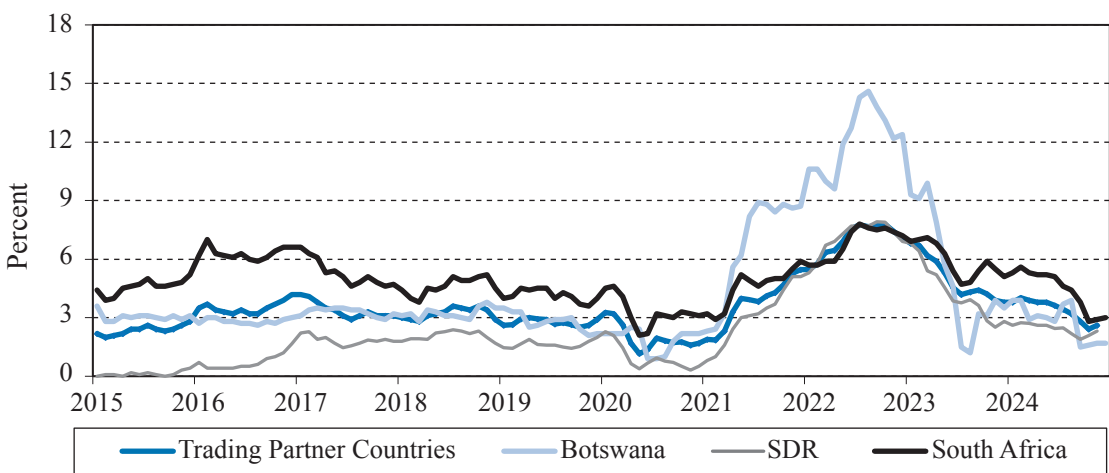
(d) Inflation

1.31 In 2024, global inflation moderated, decreasing from 6.7 percent in 2023 to 5.7 percent. Receding inflationary pressures were mainly due to lagged effects of monetary policy tightening on consumption and investment, squeezing of household budgets, softening labour markets and relatively lower commodity prices, particularly food and oil. The price of the Organization of the Petroleum Exporting Countries (OPEC) reference crude oil basket, Brent crude and West Texas Intermediate (WTI) decreased by 3.2 percent, 2 percent and 1.9 percent, respectively, in 2024, averaging USD80.45 per barrel, USD81.33 per barrel and USD76.46 per barrel. The decrease in oil prices was, in part, due to weak industrial demand for oil, particularly in China; expanding electric cars fleet; as well as expectations for OPEC and its allies' to gradually unwind the extra volume production cuts. These factors helped offset the impact of geopolitical risks and supply threats, thus contributing to the overall decline in oil prices. According to Food and Agriculture Organisation (FAO), the global food price index decreased by 2 percent from an average of 124.5 points in 2023 to an average of 122 points in 2024.

The decrease was due to increased seasonal supply from some major commodity exporting countries, such as maize from Brazil and the US; vegetable oil in the US and South Asia; sugar in Thailand and Brazil; meat in Australia; and modest demand resulting from the restrained global economic activity.

1.32 Inflation for the SDR countries (the USA, Eurozone, China, Japan and the United Kingdom) fell from an average of 4.3 percent in 2023 to an average of 2.4 percent in 2024 (up to November). Similarly, headline inflation in South Africa decreased from an average of 5.9 percent in 2023 to an average of 4.4 percent in 2024, remaining within the country's target range of 3 – 6 percent. Consequently, the trade weighted average inflation for Botswana's trading partner countries decreased from an average of 5 percent in 2023 to an average of 3.3 percent in 2024 (Chart 1.6), thus moderating the impact of imported inflation on domestic prices.

CHART 1.6: BOTSWANA AND TRADING PARTNER COUNTRIES' INFLATION (2015 - 2024)



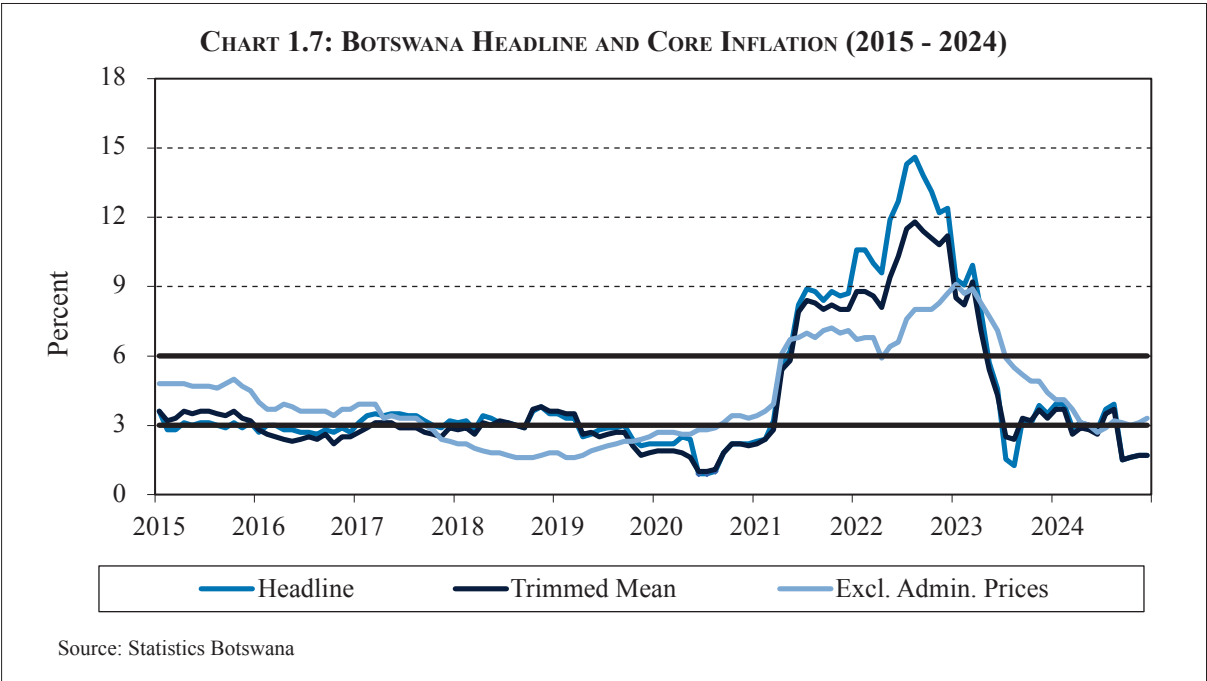
Source: Statistics Botswana, Bank of Botswana and Bloomberg

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CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

1.33 In response to global and domestic developments, domestic inflation decreased significantly over the review period, from an average of 5.2 percent in 2023 to an average of 2.8 percent in 2024. The decrease in inflation in 2024 was on account of the reduction in domestic fuel prices during the year, subdued domestic and global economic activity, and lower international commodity prices and trading partner countries' inflation. In addition,

food price inflation decreased from 6.1 percent in December 2023 to 4.7 percent in December 2024, in the context of the decline in the prices for oils and fats. Regarding core inflation measures, the trimmed mean inflation decreased from an average of 5.1 percent in 2023 to an average of 2.7 percent in 2024, while inflation excluding administered prices decreased from an average of 6.7 percent to 3.3 percent in the same period.

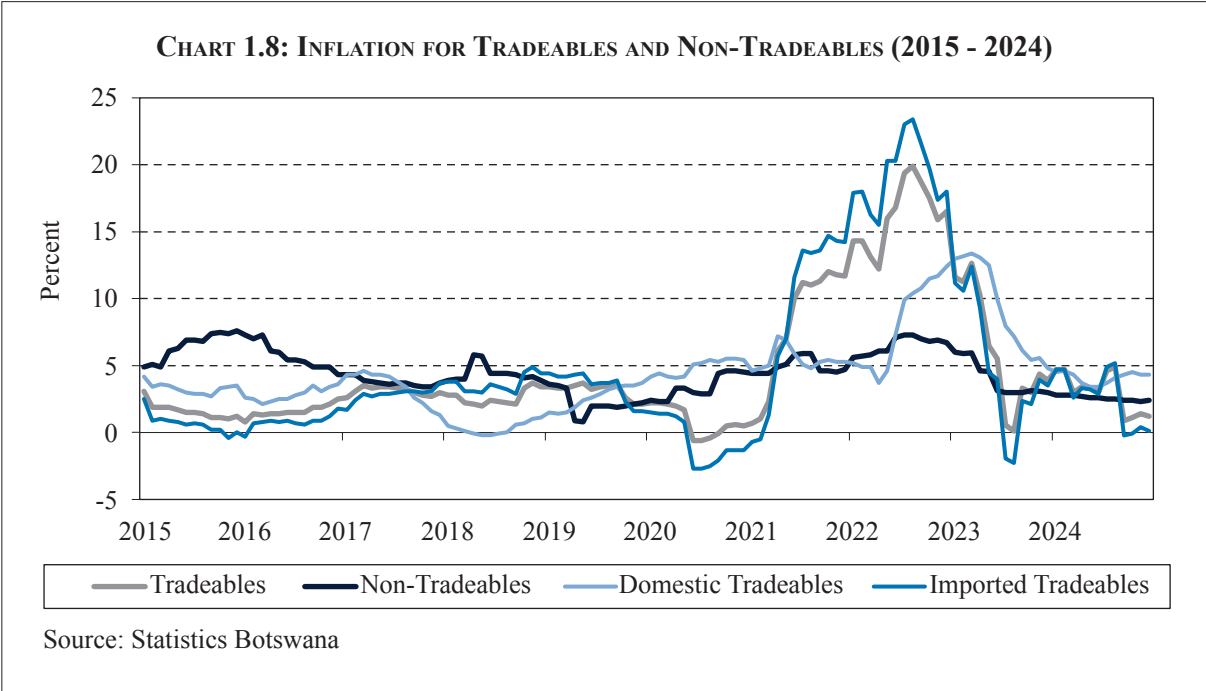


1.34 Inflation for domestic tradeables averaged 4.1 percent in 2024, lower than 9.4 percent in 2023, largely due to the broad-based deceleration in the rate of price increase for domestically produced food items. Similarly, imported tradeables inflation declined from an average of 5 percent in 2023 to 2.6 percent in 2024, reflecting downward

adjustments in domestic fuel prices in 2024. As a result, all tradeables inflation decreased from an average of 6.1 percent in 2023 to 3 percent in 2024, while non-tradeables inflation also decreased from an average of 4 percent to 2.6 percent in the same period (Chart 1.8).

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CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)



- (e) **Inflation Outlook**
- 1.35 Global inflationary pressures are projected to moderate further in 2025, in response to the slower pace of monetary policy easing implemented in 2024, which kept interest rates at relatively high levels, as well as the anticipated lower food and oil prices. In addition, the expected decrease in inflation is due to the anticipated broad-based decrease in core inflation across the regions. Thus, inflation for advanced economies is forecast to ease from 2.6 percent in 2024 to 2.1 percent in 2025, while for emerging market economies, it is forecast to decrease from 7.8 percent to 5.6 percent in the same period. Consequently, global inflation is expected to ease from 5.7 percent in 2024 to 4.2 percent in 2025.
- 1.36 In Botswana, headline inflation is forecast to be within the 3 – 6 percent objective range from the second quarter of 2025 and into the medium term, averaging 3.9 percent in 2025 and 5 percent in 2026. Inflation could be higher than projected if international commodity prices were to increase above current forecasts and supply as well as logistical constraints in the global value chains persist. Tariffs announced by the new US government and reciprocal tariffs from its trading partners are also expected to be inflationary. However, inflation could be lower than currently projected due to subdued domestic and global economic activity, limited fiscal space and the potential fall in international commodity prices. The inflation outcomes could also be affected by possible changes in administered prices not factored in the current projection. The recently announced budget for fiscal year 2025/26 is relatively modest, hence it is expected to have a muted impact on the inflation outlook. The 2025 Monetary Policy Statement provides a detailed analysis of the medium-term outlook for inflation.

PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

2. PUBLIC FINANCE AND THE 2025/26 BUDGET⁴

2.1 The 2025 Budget Speech presented to Parliament on 10 February 2025, marked the first budget of the new administration, following the General Elections in October 2024, and signalled the commencement of the twelfth National Development Plan (NDP 12) during 2025. The implementation of the current Transitional National Development Plan (TNDP) was extended until October 2025, after which NDP 12 will commence, following further consultations to incorporate the vision of the new administration. The extension of the Plan will allow for guidance by governance structures, including an Advisory Council of the National Planning Commission which is yet to be established.

2.2 The Budget was presented against the backdrop of severe fiscal constraints, including declining mineral revenue, climate change risks, and socio-economic challenges, characterised by high youth unemployment, deepening corruption, and declining health and education outcomes. In response, a four-phase reform strategy was proposed to restore economic stability and long-term growth: (a) halting financial haemorrhaging in government to address systemic inefficiencies, strengthen oversight institutions, and create an enabling environment for private sector growth; (b) stabilisation and preparation for take-off to ensure that government operations are efficient and responsive; (c) initial tangible steps of change to accelerate economic diversification in key sectors such as tourism, agriculture, manufacturing, information technology, healthcare, energy and mining; and (d) building a new Botswana through the establishment of a Sovereign Wealth Fund, National Fund of Funds and increased investment in research and development. These reforms are intended to mark a significant shift in the country's approach to economic development, fostering an environment where entrepreneurship thrives and where investments yield maximum returns in terms of job creation, growth, and innovation.

2.3 To achieve these strategic reforms, the 2025/26 Budget presentation outlined key priorities, which include modernising and transforming infrastructure, improving quality of life, innovation and digital transformation, and supporting a private sector-led growth. These priorities are underpinned by a fiscal strategy that focuses on fiscal consolidation and rebuilding financial buffers. To strengthen domestic resource mobilisation, a review of tax legislation was proposed, including a 1.5 percent increase for both the corporate tax and the last bracket of the personal income tax. Additionally, to enhance accountability, the mid-year budget statement will be produced, and the medium-term fiscal framework and public expenditure reviews will be strengthened. As part of efforts to improve quality of life and social welfare, Old Age Pension was increased from P830 to P1400, a targeted monthly allowance of P300 was proposed for newborns until their first birthday, and provision of free sanitary pads to female students.

(a) Budget Performance: 2023/24 and 2024/25⁵

2023/24 Budget Outturn

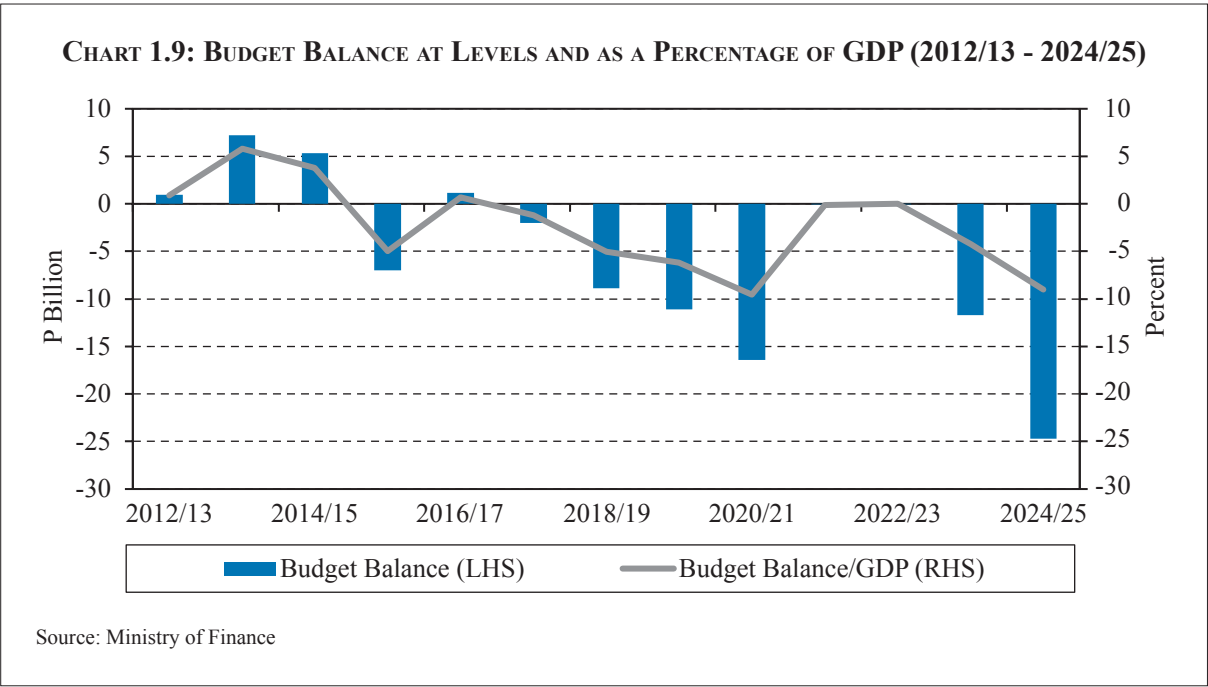
2.4 The preliminary budget outturn for 2023/24 indicates a deterioration in the fiscal position, with the deficit widening to P11.1 billion (4.2 percent of GDP), higher than the deficit of P7.1 billion projected in the revised budget, and a marginal deficit of P1.3 million in 2022/23 (Table 1.3). Total revenue and grants increased slightly by 0.2 percent to P74.3 billion in 2023/24 from P74.1 billion in 2022/23 (Chart 1.9). The increase in revenue and grants was limited by the weaker-than-expected performance in the diamond market.

4 See 2025 Budget Speech.

5 Calculation of percentages is based on figures from tables in this section and may differ from those calculated from rounded off figures in the text.

PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)



2.5 Total expenditure and net lending increased from P74.1 billion in 2022/23 to P85.4 billion in 2023/24 but was lower than the revised budget of P88.8 billion, due to underspending of the development budget. Of the total spending, recurrent expenditure amounted to P64.9 billion, compared to P67.9 billion in the revised budget estimates, representing a decrease of 4.5 percent, thus indicating cost containment measures put in place by government in response to lower projected revenues. Development spending was P20.5 billion, representing a 2.3 percent underperformance compared to the revised budget estimate of P21 billion. The underspending of the development budget was attributed to project implementation challenges, including limited implementation capacity due to the absence of dedicated Project Management Offices, ineffective contract administration resulting in disputes and legal challenges, budget overruns, and slow implementation across government, which resulted in missed opportunities for collaboration and higher costs. Furthermore, delays in supplier payments caused by system downtimes, such as GABS outages, negatively impacting the timely execution of projects.

2024/25 Revised Budget Estimates

- 2.6 The revised budget estimates for 2024/25 indicate a further widening deficit to P24.7 billion (9 percent of GDP), compared to a deficit of P9 billion (3.2 percent of GDP) presented in the original budget (Table 1.3). The deterioration is largely attributed to a significant decline in mineral revenues, which were revised downward to P8.7 billion from P25.2 billion in the original budget. As such, total revenue and grants declined to P68.7 billion in 2024/25, from P74.3 billion in 2023/24 fiscal year.
- 2.7 Total expenditure and net lending were revised downwards to P93.4 billion which is equivalent to 33.9 percent of GDP (slightly above the fiscal rule limiting total expenditure to 30 percent of GDP), from P102.6 billion of the original budget.

PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

TABLE 1.3: GOVERNMENT BUDGET 2023/24 – 2025/26 (P MILLION)

	2023/24			2024/25		2025/26
	Original	Revised	Preliminary	Original	Revised	Budget
Revenue	79 788	81 669	74 259	93 584	68 688	75 489
Mineral Revenue	23 339	26 457	17 677	25 191	8 702	15 747
Non-Mineral Revenue	56 449	45 326	56 582	56 449	59 986	59 742
Expenditure	87 378	88 794	85 367	102 278	93 419	97 607
Recurrent Expenditure	66 511	67 928	64 896	72 606	69 940	73 998
Personal Emoluments	34 438	35 103	33 954	35 462	35 175	36 623
Grants & Subventions	16 600	16 913	15 754	16 773	15 811	16 171
Public Debt Interest	2 369	2 369	2 545	2 621	2 720	3 147
Other Charges	13 104	13 543	12 642	17 751	16 234	18 056
Development Expenditure	21 008	21 008	20 515	29 766	23 573	23 749
Net Lending	-141	-141	-144	-94	-94	-140
Balance	-7 590	-7 126	-11 107	-8 695	-24 731	-22 118

Source: Ministry of Finance

(b) The 2025/26 Budget Proposals

- 2.8 The proposed budget allocation for 2025/26 was prepared under unfavourable economic and financial conditions, characterised by subdued domestic performance, largely due to weak diamond market conditions with GDP estimated to have contracted by 3.1 percent in 2024. However, the economy is projected to rebound to 3.3 percent growth in 2025, supported by an expected recovery in the global diamond market in the latter part of the year.

Revenue

- 2.9 Total revenue and grants for 2025/26 are projected at P75.5 billion, an increase of 9.9 percent from the revised budget for 2024/25 (Table 1.4). The largest contributor remains SACU receipts, although they are projected to decline by 8.8 percent, from P26.7 billion in 2024/25 to P24.4 billion in 2025/26. The second largest contributor is non-mineral income tax, projected to increase by 7.3 percent, from P17.7 billion to P19 billion in the same period. This increase is expected

to be supported by tax legislation reforms to be implemented in the 2025/26 fiscal year, such as modernisation of tax laws and the proposed increase of corporate and personal income taxes. Mineral revenue is projected to increase to P15.7 billion in 2025/26, from P8.7 billion in the revised 2024/25 budget owing to the anticipated recovery in the global diamond market. Value added tax (VAT) is the fourth largest contributor projected at P12 billion, representing a 7.3 percent increase from the revised 2024/25 budget. This growth is underpinned by proposed VAT reforms, including the introduction of VAT on digital trade and the implementation of an electronic VAT invoicing solution. The remaining balance is accounted for by other sundry revenue items, such as Bank of Botswana revenue.

PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

Expenditure

2.10 Total expenditure and net lending for 2025/26 is budgeted at P97.6 billion (33.4 percent of forecast GDP), an increase of 4.5 percent from the P93.4 billion in the revised estimates for 2024/25. Recurrent expenditure is projected to increase by 5.8 percent, from the 2024/25 revised budget projection of P69.9 billion to P74 billion in 2025/26, accounting for 75.8 percent of total spending and slightly breaching the expenditure fiscal rule of 70 percent to recurrent expenditure and 30 percent to development spending. The development budget is projected to marginally increase by 0.7 percent to P23.7 billion in 2025/26, from the revised P23.6 billion in 2024/25.

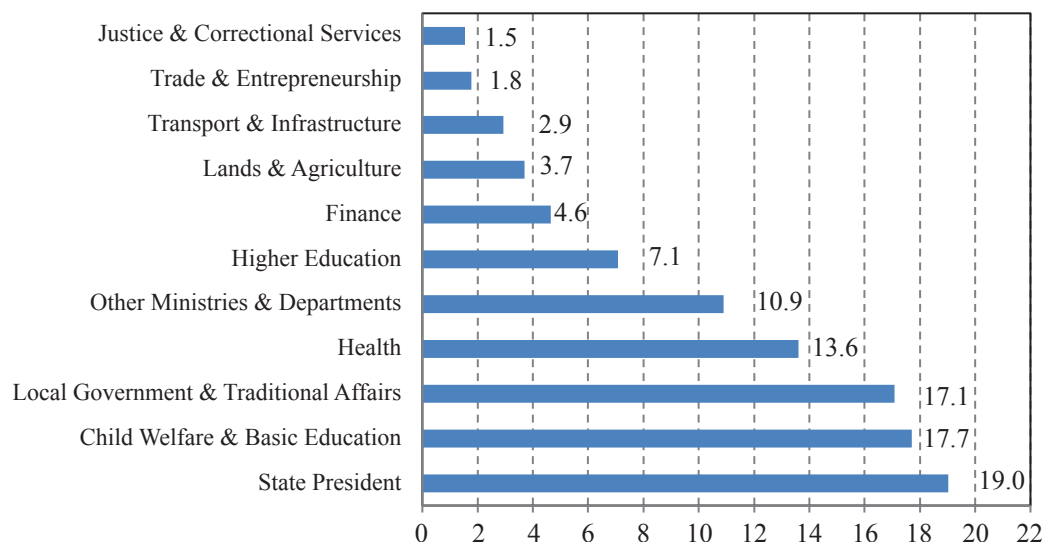
2.11 Personal emoluments, which include public sector wages and salaries, pensions and gratuities, constitute 49.5 percent (P36.6 billion) of recurrent spending in the 2025/26 fiscal year. The balance (50.5 percent) is allocated to grants and subventions to parastatals and local authorities (P16.2 billion or 21.9 percent), “other charges” (P11.2 billion or 24.4 percent), and interest on public debt (P3.1 billion or 4.3 percent). The statutory expenditure is projected at P22.7 billion which is a decrease of 10.8 percent from P25.5 billion of the 2024/25 revised budget. The decline is mainly on account of the maturity of bond BOTSGBO325 in March 2025, as well as netting-off the once-off budget amount for the acquisition of land from Tati Company and Sam Estate, which was purchased. The proposed amount will also cater for public debt obligations, and government’s pension contribution for civil servants to the Botswana Public Officers Pension Fund.

2.12 The recurrent expenditure for the Ministry of State President leads the ministerial allocations with a share of P12.6 billion (19 percent), which will largely cater for operational costs for Botswana Police Service; Botswana Defence Force; Drug Enforcement Agency; and the Chemical, Biological, Radiological and Nuclear Weapons Management Authority (Chart 1.10). The Ministry of Child Welfare and Basic Education was allocated the second largest share of the recurrent ministerial budget at P11.7 billion (17.7 percent), followed by the Ministry of Local Government and Traditional Affairs at P11.3 billion (17.1 percent), Ministry of Health at P8.9 billion (13.5 percent), Ministry of Higher Education at P4.7 billion (7.1 percent), Ministry of Finance at P3.1 billion (4.6 percent), Ministry of Lands and Agriculture at P2.4 billion (3.7 percent), Ministry of Transport and Infrastructure at P1.94 billion (7.6 percent), Ministry of Trade and Entrepreneurship at P1.17 billion (1.8 percent), and Ministry of Justice and Correctional Services at P1.02 billion (1.5 percent). The remaining ministerial budget will be shared by other Ministries and Extra-Ministerial Departments (Chart 1.10).

PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

CHART 1.10: MINISTERIAL ALLOCATION OF THE RECURRENT BUDGET (PERCENT)



Source: Ministry of Finance

TABLE 1.4: GOVERNMENT BUDGET 2020/21 – 2025/26

Fiscal Year (FY)	2020/21	2021/22	2022/23	2023/24*	2024/25*	2025/26*
GDP, current prices (P million)	171 905	218 024	259 410	261 522	275 738	292 385
Growth rate GDP, current prices (percent)	-5.0	26.8	19.0	0.8	5.4	6.0
Budget (P million)					Revised Budget	Budget
Revenue & Grants	49 375	68 570	74 098	74 259	68 688	75 489
Recurrent Expenditure	55 627	56 920	59 714	64 896	69 940	73 998
Development Expenditure	10 228	11 863	14 281	20 515	23 573	23 749
Net Lending	-66	-85	104	-144	-94	-140
Expenditure & Net Lending	65 789	68 698	74 099	85 367	93 419	97 607
Balance	-16 415	-128	-1.27	-11 107	-24 731	-22 118
Share of GDP (percent)						
Revenues & Grants	28.7	31.5	28.6	28.4	24.9	25.8
Recurrent Expenditure	32.4	26.1	23.0	24.8	25.4	25.3
Development Expenditure	5.9	5.4	5.5	7.8	8.5	8.1
Expenditure & Net Lending	38.3	31.5	28.6	32.6	33.9	33.4
Balance	-9.5	-0.1	-0.0	-4.2	-9.0	-7.6

Note: *indicates projections

Source: Ministry of Finance

PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

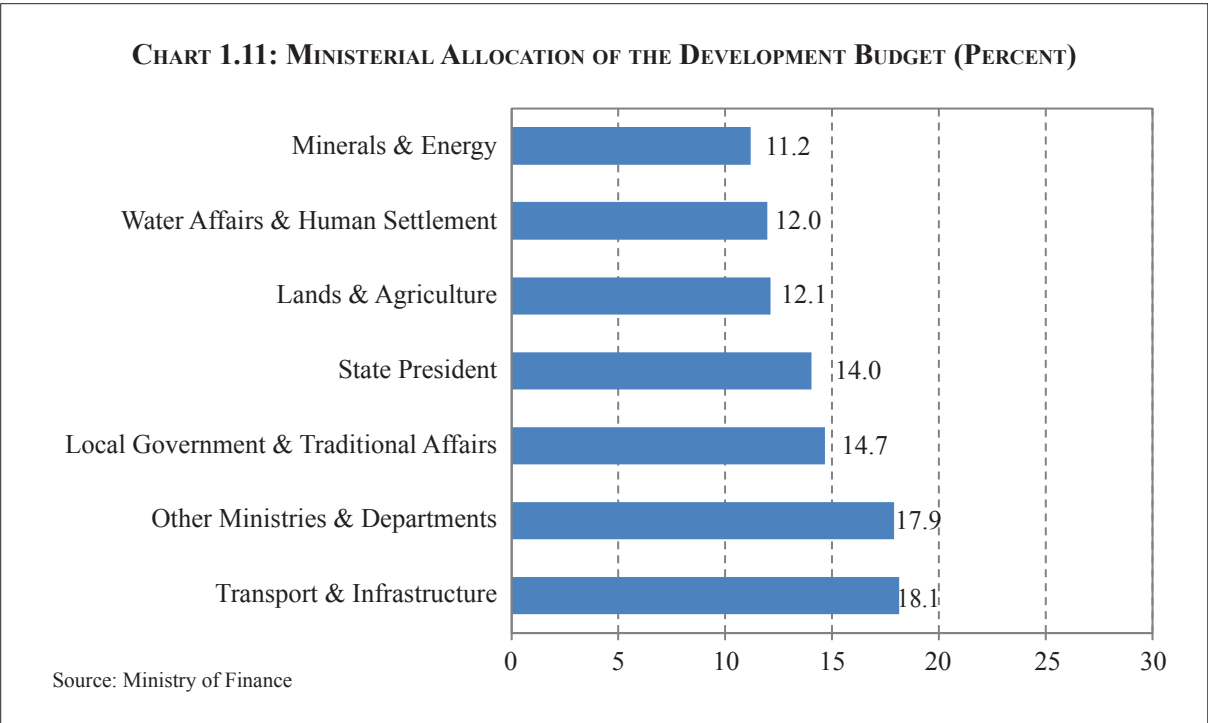
2.13 Of the total development budget, P11.5 billion (48.6 percent) was allocated towards modernising and transforming infrastructure, P9.8 billion (41.3 percent) for improving quality of life, P1.5 billion (6.2 percent) for innovation and digital transformation, while P0.93 billion (3.9 percent) was allocated for supporting private sector led growth. In alignment with these priorities, the largest Ministerial budget share amounting to P4.3 billion or 18.1 percent was allocated to the Ministry of Transport and Infrastructure. Of this budget, 87.7 percent will be allocated to ongoing road projects including those implemented through the Development Manager Model, such as Maun - Mohembo; Francistown - Nata - Maun; Mogoditshane - Gabane - Mmankgodi Junction (Dualling); Rasesa - Lentsweletau - Mahetwe - Hatsalatladi – Diphuduhudu; Palapye - Martin’s Drift; Nata – Kasane; Modipane - Mabalane; Molepolole Bypass; Letlhakeng - Kaudwane; Mohembo - Gudigwa; and Otse-Dibete.

2.14 The second largest share of the proposed development budget of P3.5 billion or 14.6 percent was allocated to the Ministry of Local Government and Traditional Affairs to support vulnerable populations and strengthen culture and heritage. The Ministry of State President was allocated the third largest of the proposed budget at P3.3 billion or 14 percent, to strengthen security institutions, facilitate village internet connectivity, facilitate the creative industry, and financing of social protection and disaster preparedness initiatives. To transform and modernise the agricultural sector, as well as cover land management projects, the Ministry of Lands and Agriculture was allocated P2.9 billion or 12.1 percent of the budget. The Ministry of Water Affairs and Human Settlement was allocated P2.8 billion or 12 percent of the budget to provide quality water, sanitation services and infrastructure, including major projects such as completion of the North South Carrier 2.2, Maun Water and Sanitation, Goodhope Water Supply Scheme Phase 2.2, Moshupa Sanitation, Kanye Sanitation and Boteti South Central Water Supply Scheme.

2.15 Furthermore, the Ministry of Minerals and Energy was allocated P2.7 billion (11.2 percent) of the proposed development budget, with 45.1 percent of the funds allocated to BPC for importing power into the country and facilitate the annual loan repayments. The budget will also cater for other key projects, such as Phase 2 of the Northwest Electricity Grid, Rural Electrification and Network Extension, network reinforcement, and key projects under the Integrated Resource Plan. The rest of Ministries and Departments will share the remaining balance of the proposed development budget of P4.3 billion (17.9 percent).

PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)



2.16 Overall, a budget deficit of P22.1 billion (7.6 percent) is projected for the 2025/26 financial year, indicating a tight fiscal position. The deficit is expected to be financed through a combination of domestic and external borrowing, while ensuring debt sustainability such that total debt remains within the statutory threshold of 40 percent of GDP.

Debt Management

2.17 Government and government-guaranteed debt is projected to reach P74.7 billion in 2025/26, reflecting an increase of 8.9 percent from P68.6 billion in the 2024/25 revised budget. Of this amount, government’s own debt accounts for 85.3 percent, while the remaining balance constitutes government-guaranteed debt (Table 1.5). Total

external debt, including guarantees, is projected at P24.1 billion or 32.2 percent of total government debt, while domestic debt is expected to reach P50.6 billion or 67.8 percent of total government debt. This is in line with the 2024/25 three-year Medium-Term Debt Strategy, which proposed greater domestic resource mobilisation over external borrowing. The strategy was motivated by the need to develop the local currency bond market and provide investment options for repatriated funds following the amendment of the Retirement Funds Act. Overall, total government debt for the 2025/26 financial year is projected at 25.6 percent of forecast GDP, remaining well below the statutory ceiling of 40 percent of GDP. Both domestic and external debt levels are within the prescribed threshold of 20 percent of GDP for each category.

PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

TABLE 1.5: GOVERNMENT DEBT AND GUARANTEES 2021/22 – 2025/26 (P MILLION)

Financial Year	Actual			Projection	
	2021/22	2022/23	2023/24	2024/25	2025/26
External					
External Debt	17 367	16 353	22 086	20 316	18 686
External Guarantees	5 635	5 639	5 639	5 526	5 415
Total External Debt	23 002	21 992	27 725	25 842	24 101
Internal					
Internal Debt	23 588	27 216	30 035	37 051	45 033
Internal Guarantees	1 735	2 001	1 701	5 716	5 602
Total Internal Debt	25 323	29 217	31 736	42 767	50 635
Grand Total	48 325	51 209	59 461	68 609	74 736
GDP for FY	218 024	259 410	261 522	275 738	292 385
Percent of GDP					
External Debt & Guarantees	10.6	8.5	10.6	9.4	8.2
Internal Debt & Guarantees	11.6	11.3	12.1	15.5	17.3
Total Debt & Guarantees	22.2	19.7	22.7	24.9	25.6

Source: Ministry of Finance

PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

3. EXCHANGE RATES, BALANCE OF PAYMENTS AND INTERNATIONAL INVESTMENT POSITION

(a) Exchange Rates

- 3.1 The exchange rate policy supports competitiveness of domestic industries in international and domestic markets, by maintaining a stable REER⁶ of the Pula against a basket of currencies of major trading partner countries. In 2024, the Bank's implementation of the exchange rate policy entailed the maintenance of an annual downward rate of crawl of 1.51 percent for the NEER, together with the Pula basket weights of 45 percent for the South African rand and 55 percent for the SDR, with a view to enhancing domestic industry competitiveness.
- 3.2 Consequently, the NEER of the Pula depreciated by 1.5 percent in 2024 (Table 1.6). On a bilateral basis, the nominal Pula depreciated by 2.4 percent against the South African rand and 0.8 percent against the SDR in 2024. The Pula also depreciated by 3.8 percent against the US dollar, 2.1 percent against the British pound and 0.7 percent against the Chinese renminbi. However, it appreciated by 6.4 percent against the Japanese yen and 2.4 percent against the euro. The movement of the Pula against the SDR constituent currencies largely mirrored the performance of the South African rand against the SDR constituent currencies. The South African rand was relatively strong against major trading currencies in 2024, mainly due to improved sentiments towards emerging markets currencies. The formation of the Government of National Unity (GNU)⁷ in June 2024 provided support to the rand, as investors anticipated that the multiparty parliament would drive long-term economic growth, job creation, land reform, and infrastructure development. The South African rand

also benefited from improvements in electricity supply⁸ and efficiency of the logistics⁹ system. Furthermore, demand for the rand increased due to higher commodity prices, particularly precious metals like gold, and a positive outlook from credit rating agency S&P, which upgraded South Africa's outlook from "stable" to "positive" and affirmed its foreign currency rating at BB-/B and BB/B for local currency. This positive outlook was attributed to the government's economic reforms and increased private investments.

6 The REER is a trade-weighted exchange rate of the Pula (against a fixed basket of currencies, after allowing for relative inflation). It is used as an indicator of changes in the relative competitiveness of the country's tradeable goods and services.

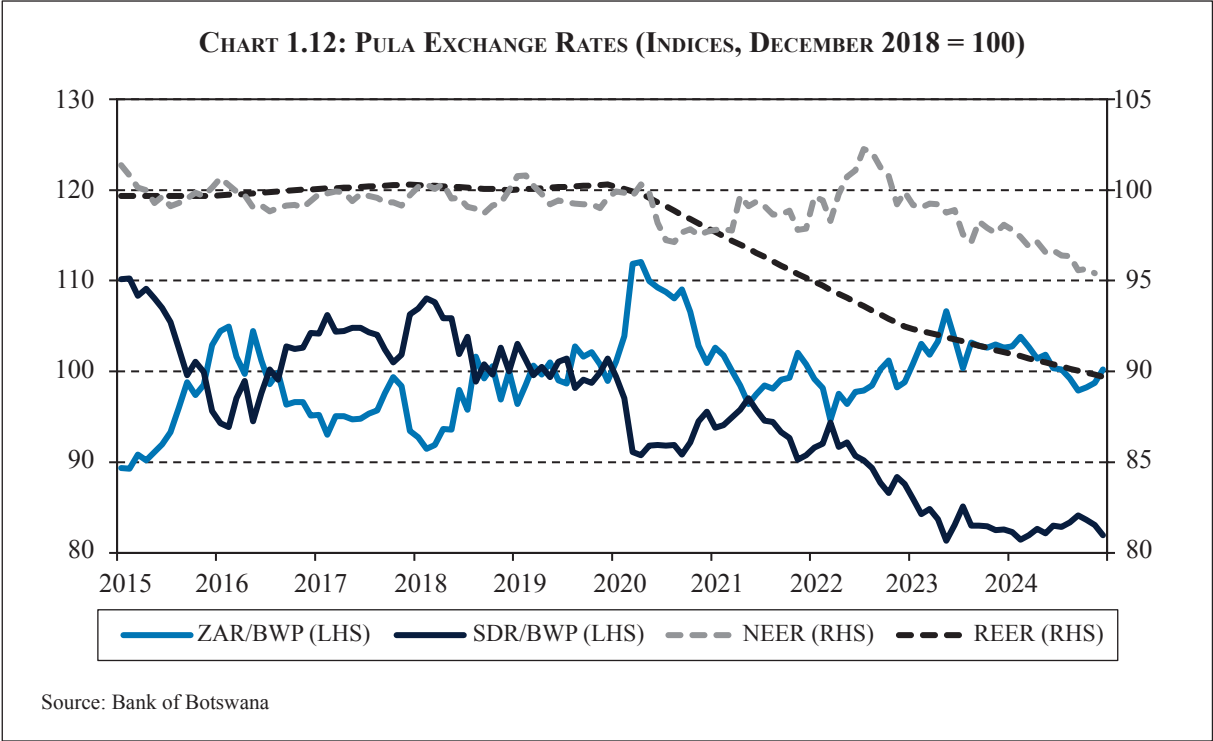
7 The GNU consists of ten parties, the ANC, Democratic Alliance, Inkatha Freedom Party, Patriotic Alliance, GOOD, Pan Africanist Congress, Vryheidsfront Plus, Rise Mzansi, Al Jama-ah and the United Democratic Movement. The collective represents over 70 percent of the seats in South Africa's National Assembly.

8 Load shedding remains suspended until further notice due to ongoing sustained improvements in generation performance due to the success of the Generation Operational Recovery plan which commenced in March 2023.

9 South Africa has made progress in the implementation of reforms in the National Freight Logistics Roadmap which was approved by Cabinet on 8 December 2023. The roadmap is underpinned by the implementation of reforms in the rail sector, which will lead to the creation of a separate rail infrastructure. In the ports system, it aims to enhance the independence of the National Ports Authority and promote competition and private sector participation in port operations.

PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)



3.3 In real terms, the Pula exchange rate (using headline inflation) depreciated by 3.6 percent against the South African rand and 1.5 percent against the SDR in 2024 (Chart 1.12). The REER depreciated by 2.5 percent in the review period, due to the depreciation (rate of crawl) of the NEER (1.5 percent), and a lower inflation in Botswana (2.8 percent) than the average for the trading partner countries (3.3 percent). This depreciation of the REER suggests a gain in competitiveness of

domestic firms in international markets. However, it should be noted that the exchange rate alone is not sufficient to ensure sustainable competitiveness of local producers. Durable competitiveness of domestic producers is mainly achieved through a sustained improvement in productivity, which also contributes to lower inflation.

PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

TABLE 1.6: PULA EXCHANGE RATES AGAINST SELECTED CURRENCIES

Nominal Exchange Rates (Foreign Currency per Pula)			
Currency	December 2023	December 2024	Change (Percent)
SA rand	1.3796	1.3471	-2.4
SDR	0.0554	0.0549	-0.8
US dollar	0.0745	0.0717	-3.8
British pound	0.0584	0.0571	-2.1
Japanese yen	10.52	11.20	6.4
Euro	0.0673	0.0689	2.4
Chinese yuan	0.5284	0.5248	-0.7
NEER (Dec. 2018 = 100)	91.1	89.7	-1.5
Real Pula Exchange Rate Indices ¹ (Dec. 2018 = 100)			
SA rand	106.0	102.2	-3.6
SDR	92.1	90.7	-1.5
US dollar	86.5	82.2	-4.9
British pound	85.1	82.6	-2.9
Japanese yen	126.2	131.8	4.4
Euro	91.6	93.1	1.7
Chinese yuan	101.0	101.9	0.9
REER	99.1	96.7	-2.5

1. All real indices calculated using headline inflation.

Source: Bank of Botswana

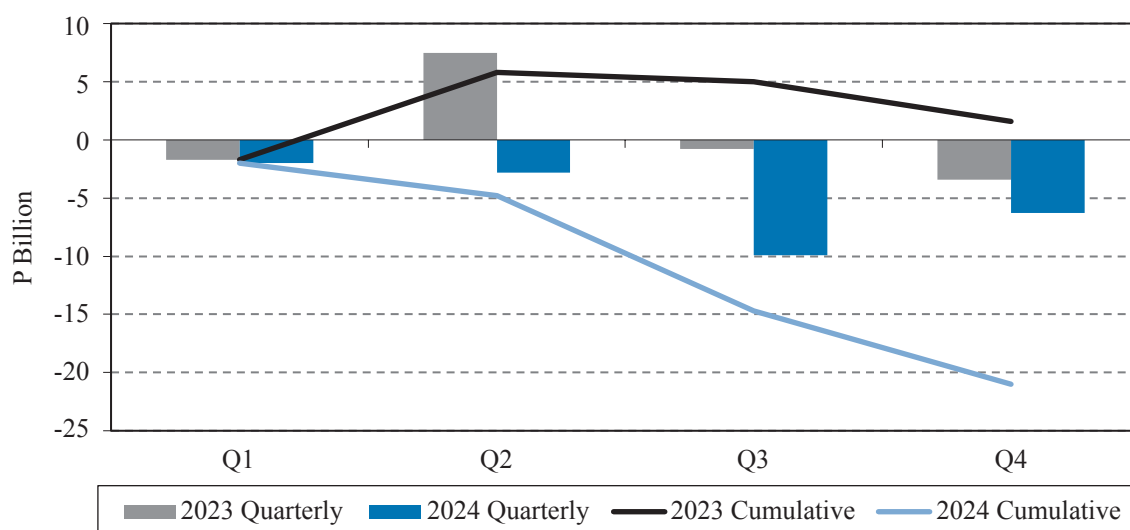
(b) Balance of Payments

- 3.4 Provisional balance of payments figures for 2024 indicate an overall deficit of P20.9 billion, compared to a revised surplus of P1.7 billion in 2023 (Chart 1.13). The 2024 deficit was primarily due to the deterioration of the current account.

PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

CHART 1.13: QUARTERLY BALANCE OF PAYMENTS 2023 AND 2024



Source: Bank of Botswana

TABLE 1.7: BALANCE OF PAYMENTS 2020–2024 (P MILLION)

	2020	2021	2022*	2023*	2024#
Current Account	-17 000	-3 814	-1 606	3 815	-12 406
<i>of which:</i>					
Goods	-22 540	-7 224	6 778	-6 325	-32 843
Services	-9 683	-8 482	-4 443	-3 547	-3 629
Primary Income	278	-2 005	-16 446	-6 320	-3 850
Secondary Income	14 946	13 897	12 505	20 007	27 915
Financial Account	7 681	5 142	-7 766	-438	6 733
Net Errors and Omissions ¹⁰	4 622	6 085	-1 675	2 599	-1 769
Overall Balance	-20 059	-2 871	4 485	1 654	-20 908

* Revised

Provisional

Source: Bank of Botswana

¹⁰ The net errors and omissions (NEO) occur due to overestimation/underestimation of credits (capital inflows, exports of goods and services and other current account receivables) or debits (capital outflows, imports of goods and services and other current account payables). Positive NEO suggest underestimation of credits or overestimation of debits, while negative NEO suggest underestimation of debits or overestimation of credits.

PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

Current Account¹¹

3.5 The current account is estimated to have registered a deficit of P12.4 billion in 2024 from the revised surplus of P3.8 billion in the previous year (Table 1.7). The deficit was on account of merchandise trade deficit, which amounted to P32.8 billion. Also contributing to the current account deficit were the services and primary income accounts, which recorded deficits of P3.6 billion and P3.9 billion in 2024, respectively. The deficits were partly offset by the secondary income account surplus of P27.9 billion.

Merchandise

3.6 The merchandise trade deficit worsened from P6.3 billion recorded in 2023 to P32.8 billion in 2024. The deficit reflected a large decline in the value of exports, from P78 billion to P59.8 billion (23.3 percent) against an increase in imports, from the revised P84.4 billion to P92.7 billion (9.8 percent). Trade in goods continued to be driven by diamond trade (Table 1.8) predominantly undertaken by the De Beers Global Sightholder Sales (DBGSS). In 2024, diamonds accounted for 67.5 percent of exports and 18.1 percent of imports in Botswana’s international merchandise trade. The major export destinations for the past six years were the United Arab Emirates, followed by Belgium, India and South Africa. These four countries collectively accounted for an annual average of 77.3 percent of Botswana’s total exports during 2019 – 2024 (Table 1.9).¹²

TABLE 1.8: DIAMOND TRADE 2022–2024 (P MILLION)

Period	Domestic Sales (1)	Rough Exports (2)	Polished Exports (3)	Total Exports 4 = (2) + (3)	Imports (5)
2022	56 545	71 213	18 091	89 304	27 773
2023	45 516	45 235	16 455	61 690	13 234
2024					
Q1	7 677	11 606	1 536	13 142	3 812
Q2	9 879	10 889	2 337	13 226	5 169
Q3	3 538	4 979	2 335	7 314	3 532
Q4	3 480	5 344	1 341	6 685	5 076
Total	24 574	32 818	7 549	40 367	17 589

Note: Domestic Sales refer to the value of rough diamonds sold by Debswana to DBGSS and Okavango Diamond Company (ODC). These are local sales.

Source: Bank of Botswana

11 The current account comprises trade in goods and services, primary and secondary income accounts.

12 This is based on the average of exports by destination from 2019 to 2024.

PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

TABLE 1.9: TOTAL EXPORTS BY DESTINATION 2019 – 2024 (PERCENT)

Country	2019	2020	2021	2022	2023	2024	Average
United Arab Emirates	18.5	21.3	25.4	27.5	29.5	25.7	24.8
Belgium	19.9	22.8	23.4	18.7	17.2	10.4	18.7
India	21.7	22.4	17.2	15.4	12.4	12.6	17.0
South Africa	9.2	14.3	9.0	10.0	12.1	16.6	11.8
Israel	7.1	5.2	5.8	6.0	3.7	3.1	5.1
Hong Kong	5.7	3.7	4.7	6.2	6.0	0.3	4.4
Namibia	3.1	1.8	1.0	2.2	1.2	2.3	1.9
United States of America	1.4	1.4	1.4	2.1	2.0	0.5	1.5
Canada	0.3	0.1	0.1	0.0	0.0	0.1	0.1
United Kingdom	0.4	0.0	0.0	0.0	0.0	0.0	0.1
Others	12.7	7.2	12.0	11.8	15.9	28.4	14.7
Totals	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bank of Botswana

3.7 Diamond exports registered a substantial decline of 34.6 percent, from P61.7 billion in 2023 to P40.4 billion in 2024, amid poor performance of rough diamond sales, particularly in the second half of the year (Table 1.8). During this period, the world's largest consumers of diamonds, the US and China, both faced economic uncertainties that impacted demand for rough diamonds. Consumers became more cautious about spending on luxury goods, opting for lab-grown diamonds, which are cheaper but have similar physical properties to natural diamonds. In addition, De Beers cut diamond prices in an effort to revive sales. Other commodities that contributed to the decline in exports include Gold (89.3 percent) and live cattle¹³ (19.3 percent). The decline in exports was slightly offset by increases in exports of copper and nickel (44.4 percent), meat and meat products (29.4 percent), textiles (19.8 percent), salt and soda ash (10.3 percent), vehicles and transport equipment¹⁴ (9.5 percent) and other goods (1.5 percent).

3.8 Diamond imports, which accounted for 18.1 percent of total merchandise imports, increased by 32.9 percent, from P13.2 billion in 2023 to P17.6 billion in 2024 as the country continued to import rough diamonds for aggregation activities. Other commodities that registered increases were vehicles and transport equipment (19.6 percent), machinery and electrical equipment (16.5 percent), textiles and footwear (12.3 percent), metals and metal products (7.7 percent), food, beverages and tobacco (4.7 percent) and other goods (13.8 percent). Fuel imports fell by 6.4 percent, from P17.9 billion to P16.8 billion, and this was mainly due to a decline in international crude oil prices while chemicals and rubber products fell by 0.3 percent.

¹³ The decline in live cattle exports was a result of the scaling down of the dispensation of live cattle exports by Government.

¹⁴ These mainly includes re-exports of passenger cars.

PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

TABLE 1.10: EXPORTS 2023 – 2024 (P MILLION)

	2023	2024	Percent Share		Percentage Change
			2023	2024	
Total Exports	78 027	59 842			-23.3
Diamonds	61 690	40 367	79.1	67.5	-34.6
Copper-Nickel	6 957	10 046	8.9	16.8	44.4
Meat and Meat products	312	404	0.4	0.7	29.4
Live Cattle	648	523	0.8	0.9	-19.3
Salt and Soda Ash	1 207	1 332	1.5	2.2	10.3
Gold	286	30	0.4	0.1	-89.3
Textile	376	451	0.5	0.8	19.8
Vehicles and Transport Equipment	527	578	0.7	1.0	9.5
Other Goods ¹⁵	6 024	6 112	7.7	10.2	1.5

Source: Bank of Botswana

TABLE 1.11: IMPORTS 2023 – 2024 (P MILLION)

	2023	2024	Percent Share		Percentage Change
			2023	2024	
Total Imports (c.i.f)	88 193	96 943			9.9
Diamonds	13 233	17 589	15.0	18.1	32.9
Fuel	17 942	16 802	20.3	17.3	-6.4
Food, Beverages and Tobacco	14 278	14 951	16.2	15.4	4.7
Machinery & Electrical Equipment	12 299	14 331	13.9	14.8	16.5
Chemicals & Rubber Products	10 075	10 040	11.4	10.4	-0.3
Metals & Metal Products	4 712	5 075	5.3	5.2	7.7
Textile & Footwear	2 405	2 701	2.7	2.8	12.3
Vehicles & Transport Equipment	6 549	7 830	7.4	8.1	19.6
Other	6 699	7 622	7.6	7.9	13.8

Source: Bank of Botswana

¹⁵ These include hides and skin, iron and steel products, machinery and electrical equipment, plastic and plastic products.

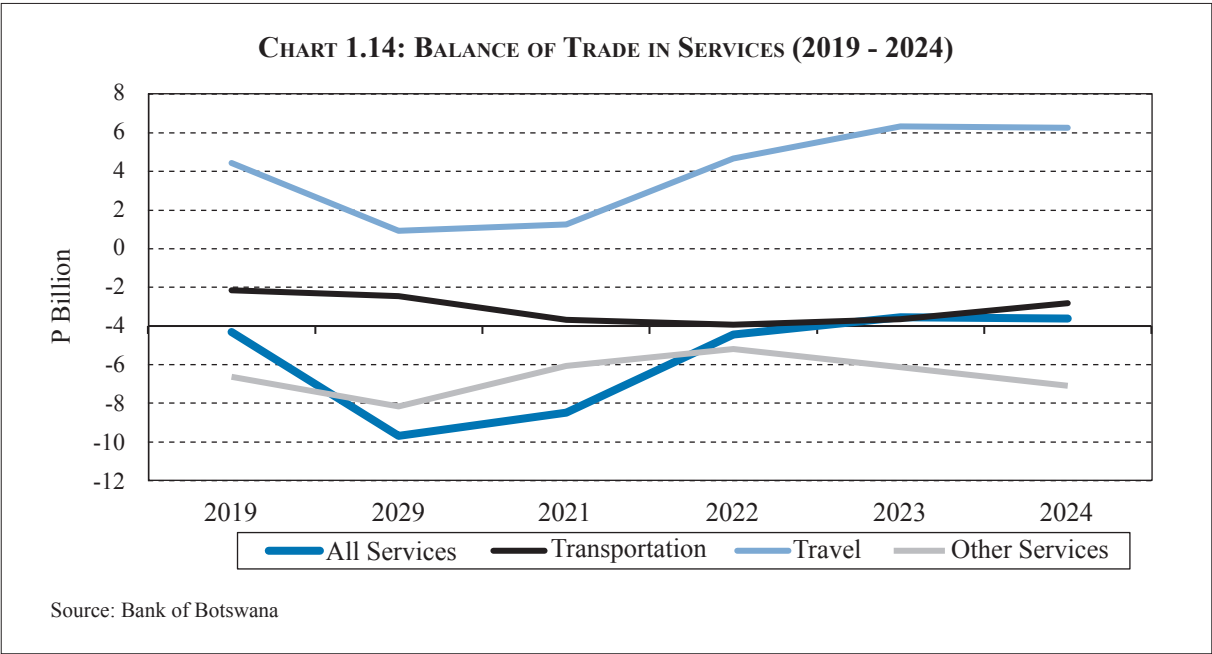
PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

Services

3.9 The services account deficit remained unchanged at P3.6 billion in 2023 and 2024 (Chart 1.14). Exports of travel services grew marginally from the revised P7.3 billion in 2023 to P8 billion in 2024, with imports of the same increasing slightly from P1.1 to P1.8 billion, resulting in a travel services surplus of P6.3 billion from P6.2 billion in 2023. The travel services exports were predominantly driven by non-residents expenditures on local tourism. The tourism industry continues to recover from the effects of the pandemic and has reached the pre-COVID levels of around P7 billion annually. Exports of transport services¹⁶ increased from P469 million in 2023 to P1.9 billion in 2024 while imports of the same increased from

P4.1 billion to P4.7 billion in 2024, resulting in a transport services deficit of P2.8 billion compared to P3.6 billion recorded in the previous year. The increase in imports of transportation services is attributable to an increase in freight of imported goods. Exports and imports of ‘other’ services increased from P2.8 billion to P4 billion and P8.9 billion to P11.1 billion, respectively, during the same period. This resulted in a deficit of P7.1 billion in ‘other’ services category up from P6.1 billion recorded in 2023. The deficit in this category was driven by imports of intellectual property services, telecommunications services, as well as professional and technical services.



16 Transportation services include passenger fares; freight (road, sea, air, rail and clearing charges); and ‘other’ services (landing fee, aircraft hire and air charter).

PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

Primary Income Account

- 3.10 The primary income account, which records wages, salaries, investment income and ‘other’ primary income (taxes, subsidies, natural resource rent) between residents and non-residents, registered an estimated deficit of P3.8 billion in 2024, compared to the previous year’s revised deficit of P6.3 billion. The smaller deficit was primarily a result of a reduction in investment income payments to non-residents. Dividends and retained earnings¹⁷ are the major drivers of investment income outflows and these are estimated to have decreased from P7.8 billion in 2023 to P4.9 billion in 2024. The credit side of the primary income account is driven by the country’s foreign exchange reserves earnings and, in 2024, income earned from the reserves was estimated at P1.7 billion, compared to P1.9 million in 2023.

Secondary Income Account

- 3.11 Secondary income consists of government and private transfers, with the former constituting the largest share. The account registered a surplus of P27.9 billion in 2024, an increase of 39.5 percent from the previous year’s surplus of P20 billion. The larger surplus was a result of higher SACU receipts during the 2024/2025 financial year. The country received revenue amounting to P26.7 billion from the Customs Union in 2024, 23.6 percent higher than the P21.6 billion received in 2023. Net private transfers, dominated by Non-Governmental Organisations, registered a surplus of P2.1 billion in 2024 from a deficit of P850 million in 2023.

Financial Account

- 3.12 The financial account, comprising direct investment, portfolio investment, financial derivatives and other¹⁸ investment sub-accounts, is estimated to have registered a net outflow of P6.7 billion in 2024¹⁹, from the revised net inflow of P438 million in 2023. The net outflow was mainly attributable to portfolio and other investments outflows.
- 3.13 The direct investment account is estimated to have registered a lower net inflow of P6.3 billion in 2024, in comparison to a revised net inflow of P10.1 billion in 2023. During 2024, Botswana residents increased their net holdings of offshore equity and debt by P41 million, in comparison to a revised decrease of the same by P43 million in the previous period. The residents received FDI amounting to P6.3 billion in 2024, compared to P10.1 billion in 2023. The bulk of the inflows were intercompany loans extended to locally based subsidiaries to finance daily operations.
- 3.14 The portfolio investment account is estimated to have recorded a net outflow of P4.8 billion in 2024, compared to the revised net outflow of P10.3 billion in 2023. Portfolio investment assets, which mainly comprise offshore investments in equity and debt securities by the local pension funds, are estimated to have increased by P5.3 billion in 2024, compared to an increase of P10.9 billion in 2023. The decrease in outflows was mainly due to implementation of the Botswana pension funds foreign assets/domestic assets cap from 70/30 to 50/50, which is expected to reduce offshore portfolio investments. Portfolio investment inflows are on the other hand, estimated to have grown by P464 million during the year under review, compared to an increase of P541 million in 2023.

17 Retained earnings by foreign-owned businesses are an imputed outflow in the income account, matched by an offsetting inflow of foreign direct investment referred to as reinvestment of earnings.

18 ‘Other’ investment comprises borrowing from/lending to foreign entities not classified as direct investment and portfolio investment. These include government and non-government loans, currency and deposits, trade credits and ‘other’ equity. Other equity is an investment that is below 10 percent and not tradable i.e., investments or shareholding in limited liability enterprises.

19 The 2023 balances are based on preliminary estimates.

PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

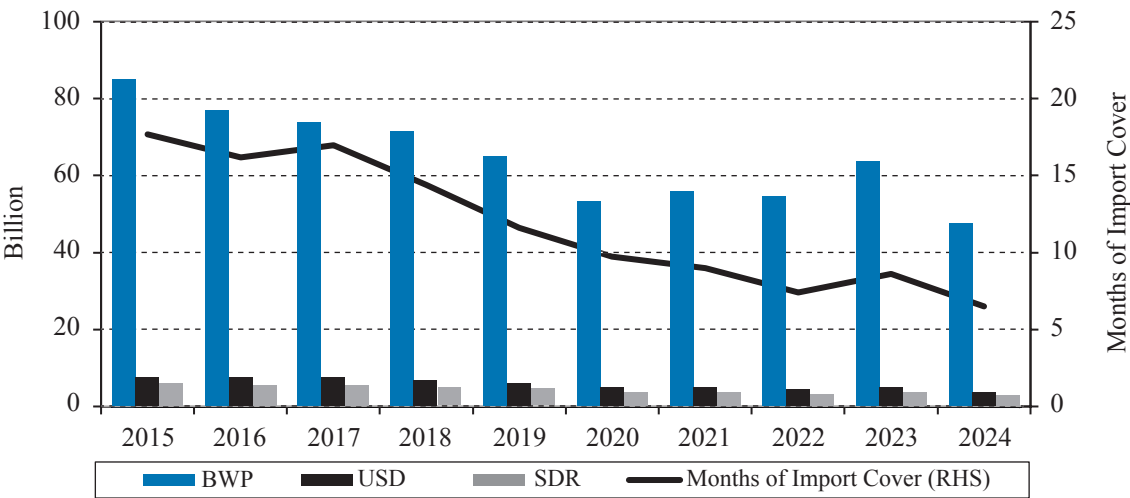
3.15 ‘Other’ investment account is estimated to have recorded a net outflow of P8.2 billion in 2024, in comparison to the revised inflow of P694 million recorded in 2023. The net outflow was mainly due to an increase in foreign bank deposits by local banks. Total assets in this investment category increased by P5.9 billion compared to a decline of P2.2 billion in total liabilities.

Foreign Exchange Reserves

3.16 Botswana’s foreign exchange reserves were estimated at P48.1 billion as at the end of December 2024, a decrease of 24.5 percent from P63.7 billion in December 2023 (Chart 1.15). The substantial decline was primarily a result of the maintenance of an elevated spending pattern against low foreign exchange receipts. Diamonds

exports, which contribute to the buildup of the reserves plunged from P61.7 billion in 2023 to P40.4 billion in 2024, subsequently leading to a balance of payments deficit and a decline in reserves. In foreign currency terms, the reserves decreased by 27.1 percent from USD4.8 billion in December 2023 to USD3.5 billion in December 2024 and by 22.9 percent from SDR3.5 billion to SDR2.7 billion over the same period. The level of foreign exchange reserves in December 2024 was equivalent to 6.3 months of import cover of goods and services, compared to 8.6 in December 2023.

CHART 1.15: LEVEL OF FOREIGN EXCHANGE RESERVES (2015 - 2024)



Source: Bank of Botswana

PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

(c) Balance of Payments Outlook

3.17 The oversupply of rough diamonds, declining prices, a shift of the global demand from natural to lab-grown diamonds as well as the overall uncertainty that prevails in the industry and end-product consumer markets have translated into overall weak demand for rough diamonds. This is expected to adversely continue affecting demand for Botswana's rough diamonds and hence the current account and overall balance of payments in the short-to-medium term. The negative outlook is however, expected to be cushioned by SACU receipts and the anticipated rebound in the diamond industry later in 2025. According to the IMF's January 2025 World Economic Outlook, China and the US economies are anticipated to grow by 4.6 percent and 2.1 percent, respectively. As major diamond end-product consumers, growth in these economies is pivotal to the resurgence of the diamond sales and a rebound in the industry. In addition, the anticipated growth in the country's tourism sector combined with the new Government's commitment to support sustainable growth through diversification of the economy into other value creating sectors are expected to support the country's external sector and, therefore, the current account and the overall balance of payments. Overall, the narrow export base continues to make the domestic economy susceptible to external shocks, which could undermine the outcome of the external sector in 2025.

International Investment Position (IIP) and Foreign Investment

(i) International Investment Position

3.18 The country's net international investment position was estimated at P53.9 billion as at the end of 2024, a 22 percent decline from the revised net position of P69.1 billion in 2023. The lower net position resulted from a 5 percent decrease in foreign assets, from the revised position of P196 billion to P186.2 billion against a 4.3 percent increase in foreign liabilities, from the revised position of P126.9 billion to P132.4 billion during the same period.

3.19 Contributing to the fall in foreign assets were the official foreign exchange reserves, which decreased by 24.5 percent, from P63.7 billion in 2023 to P48.1 billion in 2024. The reserves, which accounted for 25.8 percent of total foreign assets at the end of 2024 have been on a downward trajectory since the first quarter of 2024. The SACU receipts, which increased during 2024 mitigated an otherwise larger decline in the reserves. The stock of foreign direct investment held abroad fell from P15.1 billion to P14.2 billion while the financial derivatives stock decreased from P91 million to P49 million.

3.20 Portfolio investments, which at 47.2 percent, accounted for the largest share of foreign assets are estimated to have registered a growth of 6.4 percent, from P82.5 billion in 2023 to P87.8 billion in 2024. The growth was a result of gains from investments in equity and bond markets, which grew by 7.7 percent and 11.2 percent, respectively. Equity and bonds account for over 90 percent of pension funds investments held abroad, while the rest comprise near cash/near cash and alternative investments. The pension funds assets held abroad accounted for 57.4 percent of total pension funds assets, which was within the required limit of 50-59 as at the end of 2024. The stock of 'Other' investment also registered a growth of 4.3 percent, from P34.6 billion in 2023 to P36.1 billion in 2024, reflecting an increase in deposits held with foreign banks.

PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

3.21 The 4.3 percent increase in the stock of foreign liabilities was primarily attributable to the increase in the country's stock of foreign direct investment (FDI), which accounted for 69 percent of Botswana's inward foreign investments in 2024 increased from the revised position of P87.3 billion in 2023 to P132.4 billion. The increase was on account of an increase in intercompany loans to local enterprises. Portfolio investment, which accounted for a meagre 0.9 percent of foreign liabilities increased from the revised position of P774 million in 2023 to P1.1 billion in 2024 while the stock of 'Other' investments increased from the revised P38.8 billion to P39.9 billion. 'Other' investments liabilities accounted for 33.8 percent of the stock of foreign liabilities as at the end of 2024 and Government external loans, which were estimated at P21.3 billion as at September 2024, contributed to the increase in this investment category.

(ii) *Foreign Investment in Botswana by Industry and Country Classification in 2023²⁰*

3.22 As at the end of 2023, the country's stock of foreign investments from various countries amounted to P126.9 billion (Tables 1.12 and 1.13), an increase of 27.7 percent from the 2022 position of P99.4 billion. The stock of inward FDI accounted for 68.8 percent of the foreign investments while all other investments accounted for the remaining 31.2 percent. The mining, manufacturing, and finance sectors accounted for the largest share of FDI at 37.5 percent, 31.7 percent and 19.4 percent, respectively. The diamond cutting and polishing sector accounted for a considerable share of the manufacturing industry, at 89.6 percent. The wholesale and retail sector accounted for 5.2 percent while 6.2 percent of FDI was spread across all other sectors.

3.23 At P51.6 billion (59.2 percent), Europe held the largest share of FDI, followed by Africa at P21.5 billion (24.6 percent) and America at P7.5 billion (8.5 percent). The United Kingdom accounted for most of the FDI from Europe and this was dominated by the mining, finance and manufacturing industries. South Africa accounted for P13.5 billion of the FDI from Africa and industries that attracted South African investments were manufacturing, finance and retail. Canada held P3.5 billion of the FDI stock from America and this was mainly invested in the mining industry.

3.24 Other investments stock which comprises investment categories, portfolio investment, financial derivatives and 'other' investment amounted to P39.6 billion as at the end of 2023. The sectors that dominated this category include public administration (46.4 percent), other (33 percent) and finance (15.9 percent). Other regions, which include international organisations such as the African Development Bank (AfDB) and International Bank for Reconstruction and Development (IBRD) held P31.4 billion (79.2 percent) of other investment and these included loans to Government. Africa provided P5 billion (12.7 percent) of other investment with South Africa accounting for P3.2 billion of the investment. Industries that attracted South African investments in this category were wholesale and retail as well as financial services sectors and these investments were mainly in the form of trade credits and loans.

20 The annual Balance of Payments Survey, from which financial investment statistics are derived, is conducted with a lag of one year, therefore the analysis of foreign investment by industry and country is for 2023.

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CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

TABLE 1.12: LEVEL OF FOREIGN INVESTMENT IN BOTSWANA BY INDUSTRY 2023 (P MILLION)

Industry	Foreign Direct Investment	Other Investment	Total
Mining	32 756	553	33 309
Manufacturing	27 685	518	28 203
Mining Related	24 808	33	
Finance	16 958	6 283	23 242
Commercial Banks	14 118	6 154	
Wholesale and Retail	4 506	643	5 149
Wholesale	664	345	
Electricity, Gas and Water	202	4	205
Real Estate and Business Services	203	0	203
Transport, Storage and Communication	559	24	583
Construction	497	22	518
Hospitality	1 656	101	1 756
Public Administration	0	18397	18 397
Other	2 260	13066	15 326
Total	87 281	39 610	126 892

Source: Bank of Botswana

TABLE 1.13: LEVEL OF FOREIGN INVESTMENT IN BOTSWANA BY REGION 2023 (P MILLION)

Country	Foreign Direct Investment	Other Investment	Total
America	7 447	898	8 345
<i>of which</i>			
United States	40	401	441
Canada	3 544	478	4 022
Europe	51 644	1 279	52 923
<i>of which</i>			
United Kingdom	47 735	70	47 805
France	746	136	882
Netherlands	494	0	494
Luxembourg	14	315	329
Other Europe	2 655	758	3 413
Asia	1 583	1 048	2 631
<i>of which</i>			
India	322	9	331
China, Hong Kong	613	22	635
China, Mainland	67	16	83
Africa	21 482	5 016	26 498
<i>of which</i>			
South Africa	13 513	3 233	16 745
Mauritius	6 478	207	6 684
Other	5 126	31 368	36 494
Total	87 281	39 610	126 892

Source: Bank of Botswana

PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

4. MONEY AND CAPITAL MARKETS

(a) Monetary Policy and Liquidity Management

- 4.1 In 2024, monetary policy was implemented in the context of projections for lower inflation in the short-to-medium term, due to the absence of significant upward adjustments in domestic fuel prices in 2024 compared to 2023; impact of the reduction in domestic fuel prices during the year; subdued domestic and global economic activity; limited domestic fiscal space; as well as anticipated lower international commodity prices and trading partner countries' inflation, while the economy also operated below potential. Business expectations also indicated that inflation would remain within the medium-term objective range, ensuring that inflation expectations were well anchored.
- 4.2 These conditions provided scope to ease monetary policy in support of stronger output growth. Hence, the MoPR was reduced by 50 basis points to 1.9 percent in 2024, following a 25-basis points policy rate decrease in 2023. Similarly, the PLR decreased from 6.51 percent to 6.01 percent in the same period. Wholesale deposit interest rates generally increased, mainly because of decreased liquidity in the domestic market. Due to the larger decrease in the inflation rate compared to the nominal interest rates between December 2023 and December 2024, the real rate of interest for the 7day BoBC increased from -1.1 percent to -0.20 percent. The nominal yield on the 1month BoBCs decreased from 2.79 percent in December 2023 to 2.24 percent in December 2024.

- 4.3 Open market operations remained the main liquidity management tool in the domestic market, as well as in implementing decisions of the MPC. This entailed the use of BoBCs to mop-up excess liquidity²¹ to maintain interest rates that are consistent with the monetary policy stance. Open market operations in 2024 were conducted in an environment of substantially decreased market liquidity, mainly due to foreign exchange outflows and the continued slowdown in the pace of government expenditure amid subdued government revenue resulting from sluggish performance of the diamond sector.
- 4.4 Therefore, the MPC reduced the PRR from 2.5 percent to zero on 11 December 2024. The MPC observed that the market liquidity in the banking system had declined considerably, thereby constraining the desired impact of the accommodative monetary policy stance. The reduction of the PRR injected liquidity of approximately P1.8 billion into the banking system, enabling commercial banks to continue to perform their necessary intermediation to support economic activity. Outstanding BoBCs amounted to P1.2 billion in December 2024, a significant decrease from P6 billion in December 2023, reflecting the decrease in liquidity.

21 Excess liquidity in the banking sector is defined here as the sum of commercial banks' overnight deposits at the central bank (current account), commercial banks' deposits in the Standing Deposit Facility (SDF), money absorbed through BoBCs, outstanding reverse repos less repos, Standing Credit Facility (SCF) and the credit facility (CF). This is 'excess' in the sense that it is the net liquidity that the central bank has to absorb (take out of the system), over and above the structural liquidity that is held by the banks in the Primary Reserve Requirement accounts.

PART B

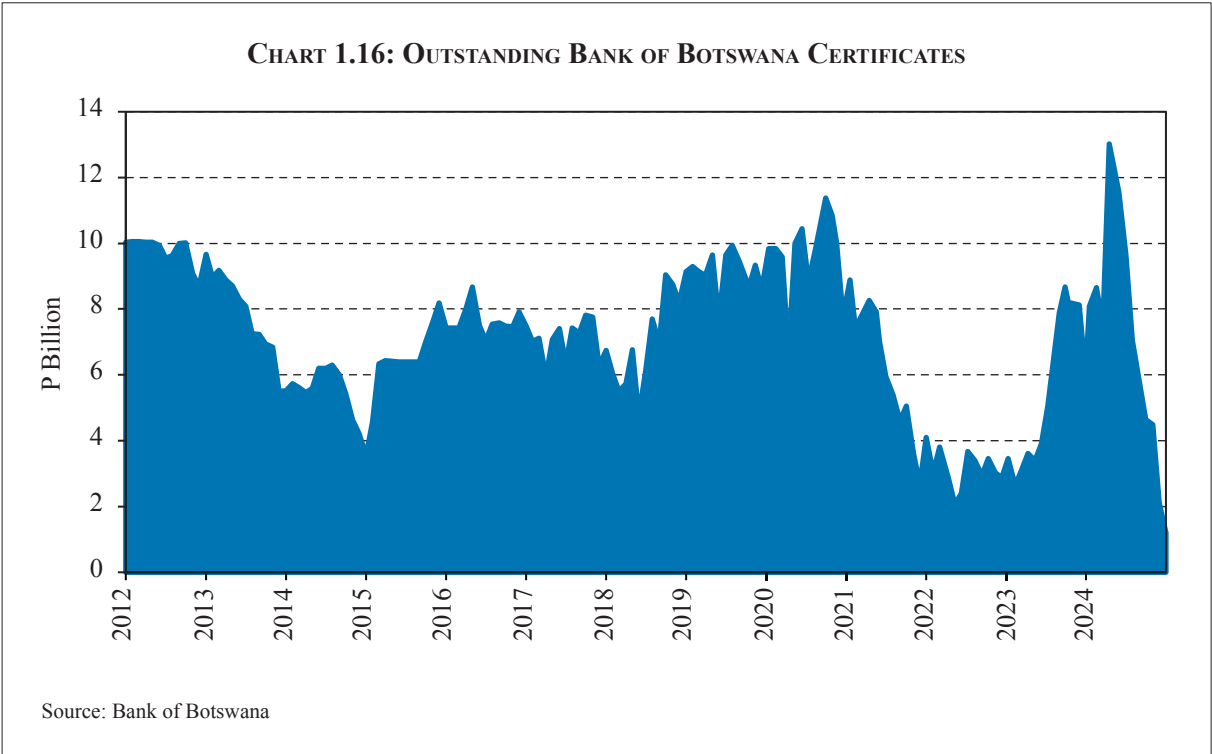
CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

- 4.5

Furthermore, since the introduction of monetary operations reforms in 2022, the Bank issued, for the first time, repos in 2024 with P4.148 billion outstanding as at December 2024. The liquidity injection reflected the substantial reduction in market liquidity coupled with a seasonal volatility which resulted in an overall short position in the market. Commercial Banks accessed the Credit Facility (CF) amounting to P230 million over the December 2024 period compared to none in December 2023. There were no outstanding reverse repos and Standing Credit Facility (SCF) balances at the end of 2024. Meanwhile, P2.344 billion worth of Standing Deposit Facility (SDF) was outstanding at the end of December 2024 compared to P3.49 billion the year prior.
- 4.6

The reforms to monetary operations introduced in April 2022 are now embedded in the Bank’s monetary policy operations and as expected, there is some noticeable improvement in policy transmission and the interest rate structure is operating as expected. Notably, the interbank rate consistently trades within the interest rate corridor but tends to trade closer to the floor of the interest rate corridor (SDF Rate) due to structural excess liquidity in the market.
- 4.7

However, the funding structure of banks, which is uneven across individual banks and predominated by large volatile corporate and asset funds managed deposits, have the effect of raising wholesale deposit rates and suppressing interest rates on retail deposits.



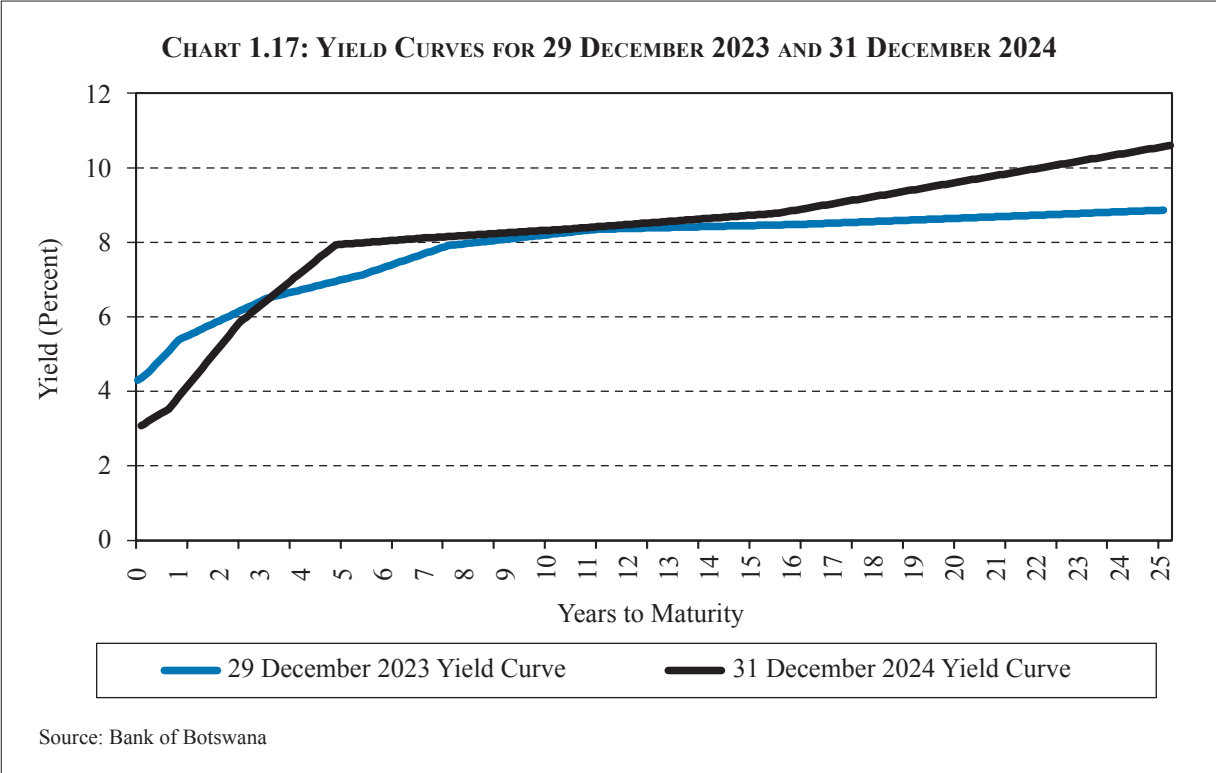
PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

- 4.8 With effect from 1 April 2023, commercial banks were allowed to independently determine their own PLRs with the expectation that this would enhance monetary policy transmission, promote competition and, thus, help develop and deepen the banking industry. Commercial banks report their PLRs to the Bank, and the Bank publishes the average PLR to the market for transparency. As stated above, following the reduction in MoPR by 50 basis points to 1.9 percent in December 2024, commercial banks decreased their PLRs by the same magnitude from 6.51 percent in December 2023 to 6.01 percent in December 2024.
- 4.9 Parliament increased the ceiling for the Government Note Issuance Programme, from P30 billion to a new limit of P55 billion effective 1 April 2024, following the programme reaching its upper limit in February 2024. The Government Bond Programme increasingly plays an important role as an alternative source of government funding. Outstanding bonds of various maturities and T-Bills increased from P29.1 billion in December 2023 to P41.2 billion in December 2024. The number of Government bonds was unchanged at seven in 2024. Primary Dealers and their customers held P18.3 billion (44.56 percent) and P32.1 billion (55.44 percent), respectively, of the government securities at the end of 2024.
- 4.10 Chart 1.17 shows Government bonds and T-Bills yields as at the end of December 2024 compared to December 2023. Over the review period, a comparison of TBills and Government bonds yields indicates that yields decreased at the shorter end of the yield curve, in line with the decrease in the MoPR. However, yields increased at the medium end and spiking significantly at the longer end of the curve. The increase in the yields was on the back of the significantly lower market liquidity amid increased funding requirement by the Government. The government securities market improved owing to institutional and operational changes, including enhanced transparency and market innovations. Switch auctions were undertaken during the year to help support the management of refinancing risk and liquidity in the domestic bond market and diversify the pool of securities offered by the government. Overall, the demand for Government bonds was volatile in 2024 following significant changes in the market. The demand for the securities was strong in the first half of 2024, supported by excess liquidity emanating from the repatriation of pension funds and government spending. However, towards the end of 2024, the depressed liquidity conditions due to the slowdown in diamond revenue led to weaker demand, particularly for long-term-bonds.

PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)



(b) Financial Stability Developments

4.11 In 2024, the domestic financial system was assessed to be resilient, robust, safe, sound, and unconstrained in providing, innovating, and growing the range of financial services to support the economy. The enduring stability of the financial system was supported by a conducive macroeconomic environment, characterised by the prevailing accommodative monetary conditions and strong capital position, liquidity buffers, and profitability of both banks and non-banks. Commercial bank lending increased by 5.7 percent in November 2024 which was supportive to economic growth. At below 4 percent in 2024, the ratio of non-performing loans to total loans was relatively modest; thus, credit developments posed minimal risk to financial stability. In addition, the stress tests for banks validated the strong solvency and resilience. Furthermore, there was some

notable recovery in the domestic capital market as reflected in the appreciation of key market indices and improved turnover, while financial market infrastructures remain stable and robust, thus promoting domestic financial stability.

4.12 The macroeconomic environment was challenging during the year and posed a threat to financial stability. The domestic economy contracted, while the fiscal and external positions deteriorated, including a decline in foreign exchange reserves that could undermine the exchange rate framework and financial stability. Challenges to the fiscal position and the exchange rate framework could impact financial stability, thus the need for appropriate responses. Overall, financial sector vulnerabilities remained generally contained and risks were effectively mitigated, hence no macroprudential policy actions or responses were deemed necessary in 2024.

PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

(c) Banking System

Domestic Credit

4.13 Annual growth in commercial bank credit decelerated to 6.5 percent in 2024 from 7.1 percent in 2023 (Chart 1.18). The slower growth in commercial bank credit was, in part, indicative of the decrease in loan uptake by businesses in the period under review, specifically parastatals and repayments in industries such as agriculture, real estate and manufacturing. Business sector credit growth was 10.0 percent in December 2024, a decrease from 11.4 percent recorded in 2023. Meanwhile, credit to businesses excluding parastatals increased by 13.9 percent during December 2024, compared to an expansion of 5.2 percent in 2023. The increase in allocation of credit to businesses was in the form of increased loan utilisation and issuance of new loans extended to some companies in the mining, manufacturing, electricity and water, construction, trade, finance, as well as business services industries.

4.14 For households, annual credit expansion decelerated to 4.6 percent in 2024, from 4.9 percent in 2023. This decline was primarily driven by reduced pace of lending for motor vehicles, credit cards, and residential property from 13.3 percent to 8.6 percent, 2.4 percent to -0.7 percent and 8.2 percent to 1.0 percent, respectively, in the period under review. Meanwhile, there was an increase in the growth of unsecured personal loans from 3.3 percent to 6 percent. As a result, the share of mortgages in total household credit decreased from 27.6 percent to 26.7 percent while the share of unsecured personal loans in total household credit increased slightly from 66.6 percent to 67.5 percent, in the period under review.

4.15 The ratio of private sector credit to GDP remains relatively low at 32.1 percent in 2024, falling from 40.3 percent in 2020, while that of private businesses declined from 13.4 percent in 2020 to 11.2 percent in 2024. However, the ratio increased slightly in 2023 and 2024 (Table 1.14). This suggests scope for further relative expansion of the sector to widen its support for economic activity, while retaining appropriate risk management frameworks, soundness and stability.

TABLE 1.14: SECTORAL CREDIT AND GDP, 2020 – 2024 (P BILLION)

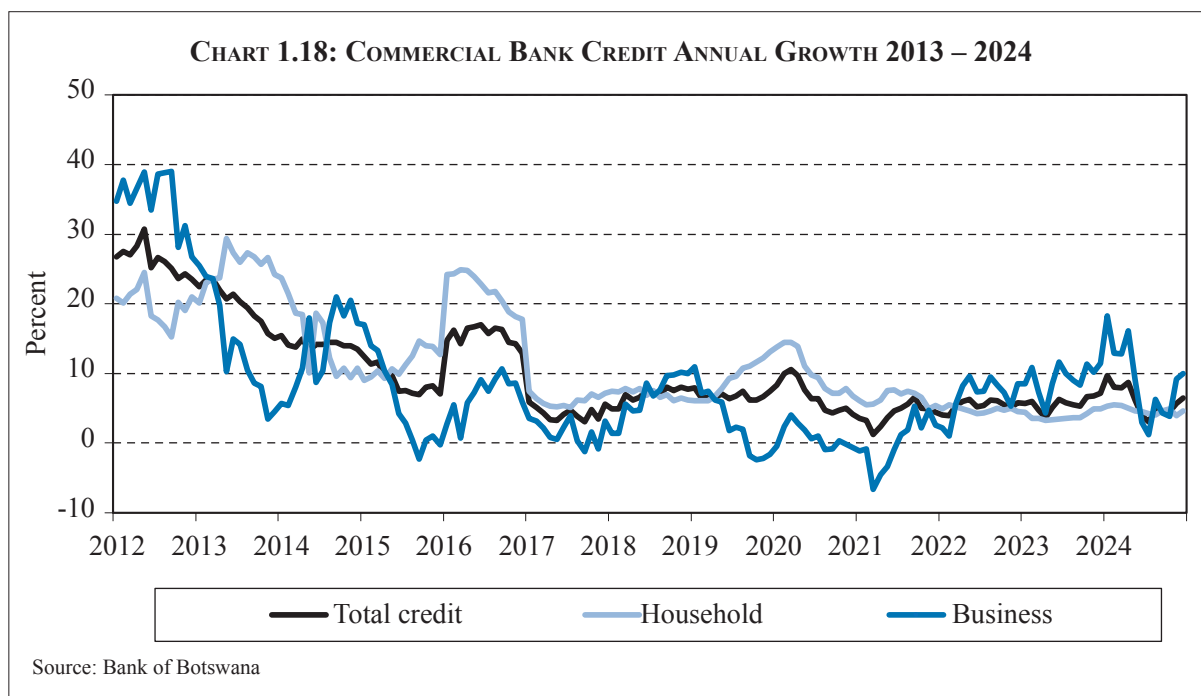
	2020	2021	2022	2023	2024
GDP (current)	171.7	207.9	251.4	263.7	260.7
Private Credit*	69.1	72.2	76.4	81.2	83.8
Ratio (percent)	40.3	34.7	30.4	31.0	32.1
Private Business	23.0	23.6	25.6	28.5	29.3
Ratio (percent)	13.4	11.3	10.2	10.8	11.2

Note: * Private credit refers to total bank credit excluding central and local government.

Source: Bank of Botswana

PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)



4.16 Banks' asset quality was good in 2024, characterised by relatively low and stable credit default rates as the ratio of NPLs to total credit decreased slightly from 3.7 percent in December 2023 to 3.4 percent in December 2024. Nevertheless, there continues to be a risk to asset quality associated with the high proportion of the relatively more expensive unsecured lending (at 68.9 percent of household credit as at December 2024) in total commercial bank credit (44.1 percent). This profile of assets potentially exposes the household sector to any sudden and sharp increase in borrowing costs, as well as loss of employment. The risks are, however, moderated to the extent that credit is widely distributed to many employees in different sectors of the economy, a large proportion of which are in the public sector. Moreover, the extension of credit to salaried individuals enables proper credit evaluation using ascertained income as the basis for determining repayment capacity. Furthermore, credit risk is mitigated in cases of loans that are protected by insurance for loss of employment. Overall, the capital, asset quality, liquidity and profitability levels that meet prudential requirements indicate a generally sound and stable banking system.

Monetary Aggregates

4.17 Growth in broad money supply (M2) was 4.8 percent in 2024, albeit lower than the 9.2 percent recorded in the corresponding period in 2023 (Table 1.15). The growth of money supply resulted from an increase in credit to the private and parastatals sectors to fund growth enhancing opportunities. Moreover, there was a decrease in public sector deposits at the Bank of Botswana and in net foreign assets (attributable to the increase in claims on non-residents by other depository corporations), which also had an expansionary effect on M2. By component, current account (transferable) deposits increased by 7 percent, while interest bearing deposits increased by 3.5 percent in 2024. The ratio of money supply to GDP (a measure of financial deepening) increased to 45.5 percent in the year to September 2024, compared to 40.3 percent in 2023, signalling increased provision of financial services evidenced by the increase in credit extension to the private and parastatal sectors.

PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

TABLE 1.15: AGGREGATE INDICATORS OF DEPOSITORY CORPORATIONS

	Levels (P billion)				
	Annual percentage change in parenthesis				
	2024	2023	2022	2021	2020
M2/GDP (Financial Deepening)	45.5*	41.7	40.0	45.3	52.3
	59.5	70.0	65.0	64.4	62.0
Net foreign assets	(-14.9)	(7.7)	(0.9)	(3.8)	(-14.9)
	15.1	3.4	-4.9	-0.1	-0.7
Net credit to government	(-348.9)	(168.3)	(-4 404)	(84.1)	(96.3)
Credit to private and parastatal sectors	93.9	87.0	80.9	76.6	72.9
	(7.9)	(7.5)	(5.7)	(5.0)	(5.8)
	-4.1	-8.3	-7.2	-6.1	-12.9
Other items net	(-50.9)	(-15.6)	(-16.3)	(52.4)	(6.4)
	33.6	31.0	24.9	24.4	23.5
M1	(7.9)	(24.5)	(2.0)	(3.8)	(17.4)
	115.3	110.0	100.7	94.3	89.8
M2	(4.8)	(9.2)	(6.8)	(5.0)	(5.9)
	5 357	10 706	16 940	10 954	7 122
Government deposits	(-47.9)	(-36.8)	(54.7)	(53.8)	(-69.4)
	3 805	10 459	16 735	10 789	6 979
of which at BoB	(-48.8)	(-37.5)	(55.1)	(54.6)	(-69.8)

Note: *As at September 2024

Source: Bank of Botswana and other depository corporations.

Bank of Botswana

- 4.18 Total assets and liabilities of the Bank of Botswana decreased by 17.5 percent from P65.7 billion in December 2023 to P54.2 billion in December 2024. The decrease in the statement of financial position of the Bank was mainly due to the 24.4 percent decrease in foreign exchange reserves which includes the contraction of the Pula Fund, Liquidity Portfolio and assets at the IMF by 25.8 percent, 34.4 percent and 0.4 percent, in that order. Fixed assets increased by 0.3 percent in the year to December 2024 compared to 21.7 percent in the corresponding period in 2023. On the liability

side, the total shareholder's funds, which largely comprise the Currency Revaluation Reserve, decreased by 16.3 percent from P40.5 billion in December 2023 to 54.2 billion in December 2024. Commercial bank deposits at the Bank of Botswana (including primary reserve requirement balances) decreased by 100 percent from P2.8 billion in December 2023 to P99.1 thousand in December 2024. The decline in commercial bank deposits was mainly due to the monetary policy decision to reduce the primary reserve requirement from 2.5 percent to zero effective December 2024.

PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

Other Depository Corporations

4.19 The statement of financial position of commercial banks grew by 7.7 percent from P133.6 billion in December 2023 to P144 billion in December 2024. On the assets side, gross loans and advances (largest component of assets at 60.5 percent) increased by 6.5 percent from P81.8 billion in December 2023 to P87.1 billion in December 2024, while the debt securities increased by 75.2 percent. Holdings of Bank of Botswana certificates decreased by 76.5 percent in December 2024, while holding of Government T-bills increased by 21.9 percent over the same period. With respect to liabilities, deposits at commercial banks and capital and reserves rose by 3.0 percent and 9.9 percent, in December 2024 whereas government deposits declined by 9.2 percent in the same period. Wholesale business deposits continue to be the main source of funding for commercial banks (74.3 percent of total deposits in December 2024). The ratio of commercial bank credit to GDP was 32.1 percent in September 2024, a decrease from 40.3 percent in September 2023.

4.20 For Botswana Savings Bank (BSB), total assets and liabilities increased by 58.3 percent, from P3.4 billion in 2023 to P5.3 billion in 2024. Gross loans and advances and cash and deposits at banks (liquid assets) increased by 87.7 percent and 43.3 percent in 2024; while other assets decreased by 41.7 percent. On the liabilities side, savings deposits increased by 82.4 percent in 2024, from P2.4 billion to P4.4 billion, compared to a decrease of 6.8 percent in 2023. Capital and reserves increased by 29.3 percent compared with a growth of 7.8 percent in 2023.

(d) Other Financial Corporations

4.21 The statement of financial position of the National Development Bank (NDB) increased by 9.6 percent, from P1.3 billion in December 2023 to P1.4 billion in December 2024, compared to an increase of 6.4 percent in 2023. The increase in the statement of financial position of NDB was attributable to increased capital and reserves by 34.0 percent, while loan liabilities (borrowings to fund own operations) and other liabilities decreased

by 25.0 percent and 22.5 percent, respectively. On the assets side, loans and advances increased by 38.0 percent, partly substituting for the 44.4 percent fall in liquid assets.

4.22 The statement of financial position of Citizen Entrepreneurial Development Agency (CEDA) increased by 10.3 percent to P1.9 billion in December 2024, from P1.7 billion in December 2023. The increase in the statement of financial position was due to an increase in loans and advances by 0.1 percent during the period under review. On the liability side, capital and reserves increased by 6.8 percent in the same period.

4.23 Total assets and liabilities of Botswana Development Corporation (BDC) decreased by 11.3 percent from P5.2 billion in December 2023 to P4.6 billion in December 2024. This performance was largely attributable to a 14.2 percent and 22.5 percent fall in borrowings and reserves. Meanwhile, there was an increase in loans, advances and leasing by 0.5 percent. Deposit holdings at commercial banks and fixed assets decreased by 71.7 percent and 14.6 percent, respectively, in the same period.

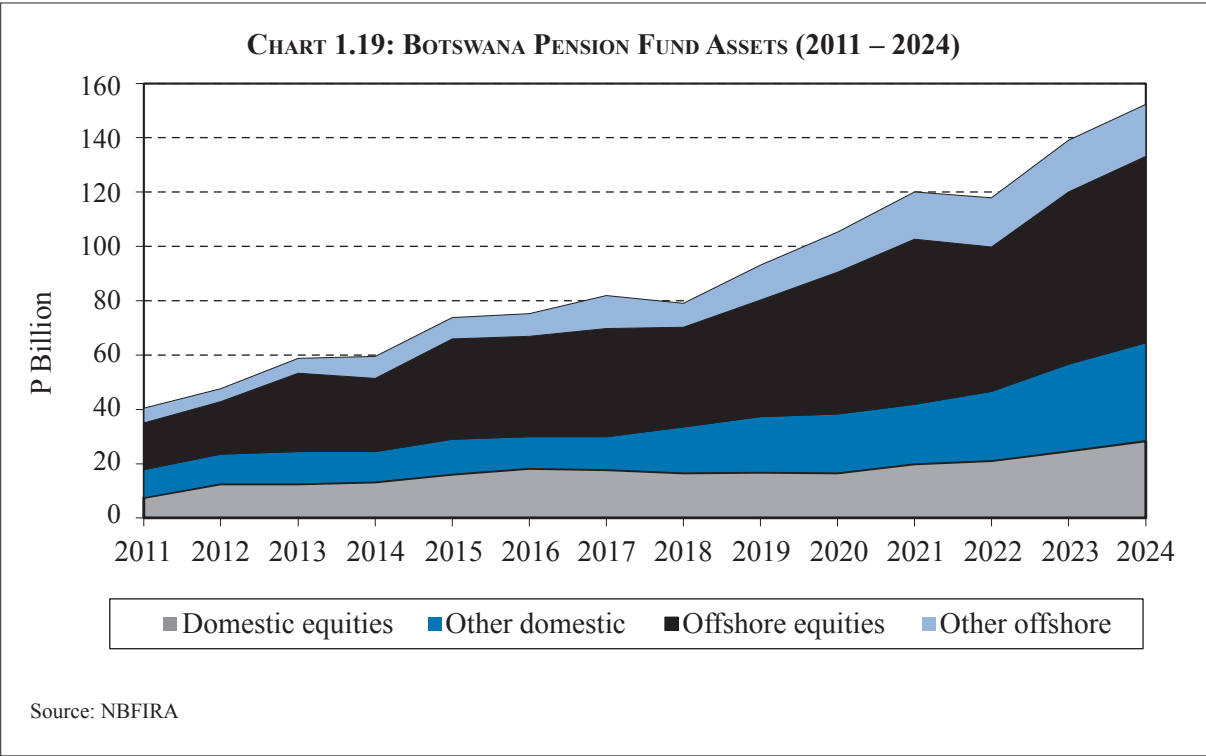
4.24 The Domestic Companies Index (DCI) of the Botswana Stock Exchange (BSE) increased by 12.5 percent to 10 049.1 in December 2024, compared to 15.6 percent in 2023. This performance reflects the continued recovery of the local equity market. The market capitalisation of domestic companies rose by 12.6 percent, from P47.9 billion in 2023 to P54 billion in 2024, due to the increase in share prices of most listed companies. In terms of price per share movements, several companies recorded increases, namely: Standard Chartered (32.3 percent), Chobe (16.9 percent) and Sefalana (23.6 percent). The Foreign Companies Index increased by 15 percent to 2 834.2 in 2024, compared to 57.7 percent in 2023, with share price of CA Sales recording an increase of 71.4 percent. The shares traded in 2024 were worth P1.7 billion compared to P4.1 billion traded in 2023 reflecting an exceptional and noteworthy performance in 2023, primarily on account of the historic trade of BIHL shares in September 2023, valued at P2.9 billion.

PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

4.25 Assets of pension funds increased by 9.6 percent from P139 billion December 2023 to P152.3 billion in December 2024 (Chart 1.19), reflecting growth in fair value gains. By asset class, investment in primary listed domestic equities increased by 12.9 percent to P21.9 billion in the twelve months ending December 2024, while holdings of offshore equities rose by 7.7 percent to P68.6 billion due to the increase in prices (valuations). Meanwhile, the value of domestic bonds held by pension funds rose by 23.5 percent to P16.1 billion, while offshore bonds increased by 11.7 percent to P10.9 billion in December 2024. Investment in local

property increased from P3.9 billion to P4.4 billion in the same period. The proportion of assets invested offshore by pension funds decreased from 59.4 percent in December 2023 to 57.6 percent in December 2024. The ratio of assets of pension funds to nominal GDP was 57.3 percent in the third quarter of 2024 compared to 49.4 percent in the corresponding period in 2023.



PART B

CHAPTER 1 : THE BOTSWANA ECONOMY IN 2024 (Continued)

(e) Sovereign Credit Rating

- 4.26 Moody's published a full surveillance report on 25 October 2024, following consultations on 9-10 October 2024, which resulted in no credit rating action. Moody's indicated that the risks to the economic outlook are balanced. On the upside, Botswana could benefit from a reduction in global diamond supply over the medium term as other diamond-producing countries close mines. In addition, Botswana's ongoing infrastructure development and economic diversification efforts could significantly support its credit profile, provided these initiatives are successful. On the downside, competition from other luxury goods, higher government spending that does not lead to sustainable growth and diversification, and declining fiscal buffers could increase Botswana's debt burden. These factors, coupled with elevated social risks such as high-income inequality and persistent high unemployment may pose future challenges. However, Botswana's strong governance and robust institutions help mitigate these risks to some extent.
- 4.27 On 16 September 2024, S&P Global Ratings (S&P) published a surveillance report on Botswana, following consultations in August 2024, which resulted in no credit rating action. The surveillance report indicated that despite the downturn in the diamond market, Botswana's GDP growth was expected to remain relatively resilient over the medium term. S&P noted that it could lower ratings on Botswana if external performance underperformed relative to forecasts. This could occur if the recovery of the diamond sector, both upstream and downstream, was short lived because of prolonged global economic slowdown. However, the ratings could be raised if economic growth in Botswana was to significantly exceed expectations, supported by diversification of the export base.

PART B

CHAPTER 2 : NEXT GENERATION PAYMENT SYSTEMS, INNOVATION AND FINANCIAL TECHNOLOGIES – OPPORTUNITIES FOR BOTSWANA

PART B

NEXT GENERATION PAYMENT SYSTEMS, INNOVATION AND FINANCIAL TECHNOLOGIES – OPPORTUNITIES FOR BOTSWANA (Continued)

1. INTRODUCTION

(i) Overview of Payment Systems, Evolution and the Importance of Embracing Innovation

- 1.1 In today's interconnected world, payment systems²² are the lifeblood of modern economies, the critical infrastructure that allows individuals, businesses, and governments to seamlessly exchange value. Payment systems are mechanisms established to facilitate the clearing²³ and settlement²⁴ of monetary and other financial transactions. Botswana's National Payment System (NPS) is a crucial component of the nation's financial system and economic infrastructure, encompassing all facets of financial flows within the economy and entails the entire payment process that involves infrastructures; mechanisms; institutions; agreements; procedures or processes; as well as rules and laws involved in processing payment instructions.
- 1.2 The evolution of payment systems has been a remarkable journey, transforming from rudimentary bartering and cash-based transactions to the current sophisticated digital networks. This evolution has been driven by technological advancements, changing consumer expectations, regulatory changes and the increasing interconnectedness of global commerce. Botswana stands at a pivotal juncture, poised to leverage the transformative potential of next generation payment systems and financial technologies (fintech) to foster economic growth, supporting financial inclusion, strengthen economic integration and build an adaptive infrastructure capable of meeting both

local and regional needs. Expanding financial inclusion to reach the under-served population and integrate them into the formal financial system is not merely a social imperative, but a key driver of sustainable economic growth, stability, and equity in Botswana.

- 1.3 The global shift towards digital payments presents both challenges and opportunities for Botswana to modernise its NPS and leapfrog traditional infrastructure limitations associated with legacy banking infrastructure and cash-based transactions. Emerging threats such as cyber-attacks, and identity theft, alongside regulatory challenges in consumer protection, cybersecurity and data privacy, complicate the security landscape of modern payment systems. However, this modernisation goes beyond adopting new technologies; it focuses on strategically integrating innovations to lessen inefficiencies, enhance financial access and drive a more dynamic and competitive economy. Embracing these advancements presents opportunities for strengthening economic integration, supporting financial inclusion, and building a more adaptive infrastructure capable of satisfying domestic and regional needs. Therefore, central banks and regulators should adapt to the evolving technologies to ensure innovation benefits while also safeguarding monetary policy and financial stability. By embracing this transformative potential, Botswana can unlock significant benefits, including enhanced financial inclusion, reduced transaction costs, improved efficiency and transparency in domestic and cross-border payments, as well as increased competitiveness in the global marketplace.

22 A payment system refers to the framework and mechanisms through which monetary transactions are processed, authorised, cleared, and settled. It includes various channels such as cash, checks, electronic transfers, and card payments and facilitate the exchange of funds between individuals, businesses, and financial institutions. Payment systems ensure the smooth and secure transfer of money, supporting economic transactions and enhance financial inclusion. According to the Bank for International Settlements (BIS), payment systems are essential components of the financial infrastructure that underpin the functioning of modern economies (BIS, 2021).

23 The process of transmitting, reconciling and, in some cases, confirming payment orders or security transfer instructions prior to settlement, possibly including the netting of instructions and the establishment of final positions for settlement (BIS, 2003).

24 An act that discharges obligations in respect of funds or securities transfers between two or more parties (BIS, 2003).

PART B

NEXT GENERATION PAYMENT SYSTEMS, INNOVATION AND FINANCIAL TECHNOLOGIES – OPPORTUNITIES FOR BOTSWANA (Continued)

1.4 A key objective of this theme chapter is to provide insights on next-generation payment systems, innovation, and fintech as critical enablers of economic growth, financial inclusion, and resilience. The chapter seeks to analyse the opportunities and challenges presented by these advancements, examining their potential to transform Botswana's financial landscape. By delving into emerging trends, the report will highlight developments in digital payments, fintech solutions, inflation dynamics, and economic resilience, providing insights that can guide future policy and regulatory frameworks. It also evaluates the economic and financial impacts of emerging technologies while benchmarking Botswana's financial landscape against global best practices. The report also covers aspects relating to Botswana's integration into the regional, continental and global payments infrastructures to facilitate the conduct of seamless and cost-effective cross border payments. Additionally, the report aims to enhance public awareness by educating key stakeholders, including financial institutions, businesses, and the public on critical developments in the financial system. While Botswana's payments landscape is evolving, the chapter also focuses on the role of the Bank of Botswana in facilitating a conducive environment for innovation through appropriate legislation, policies and regulations; this is particularly relevant for the facilitation and development of fintechs in Botswana. Furthermore, by providing a comprehensive assessment of Botswana's NPS, this report will provide actionable recommendations for creating a thriving and inclusive digital financial ecosystem. These include recommendations for policies that support fintech innovation or incentives to drive digital literacy. Ultimately, the goal is to ensure that Botswana remains competitive in the evolving global financial environment.

1.5 This Theme Chapter addresses the issues highlighted above as follows: Section 2 provides an overview of the payment systems infrastructure in Botswana; Section 3 discusses the revolution of the payment landscape while the regulatory requirements are discussed in Section 4. Section 5 assesses Botswana's readiness to adopt next generation payment systems while Section 6 analyses the fintech opportunities for Botswana. The implications of next generation payment systems are discussed in Section 7 and Section 8 concludes the Theme Chapter, with key takeaways.

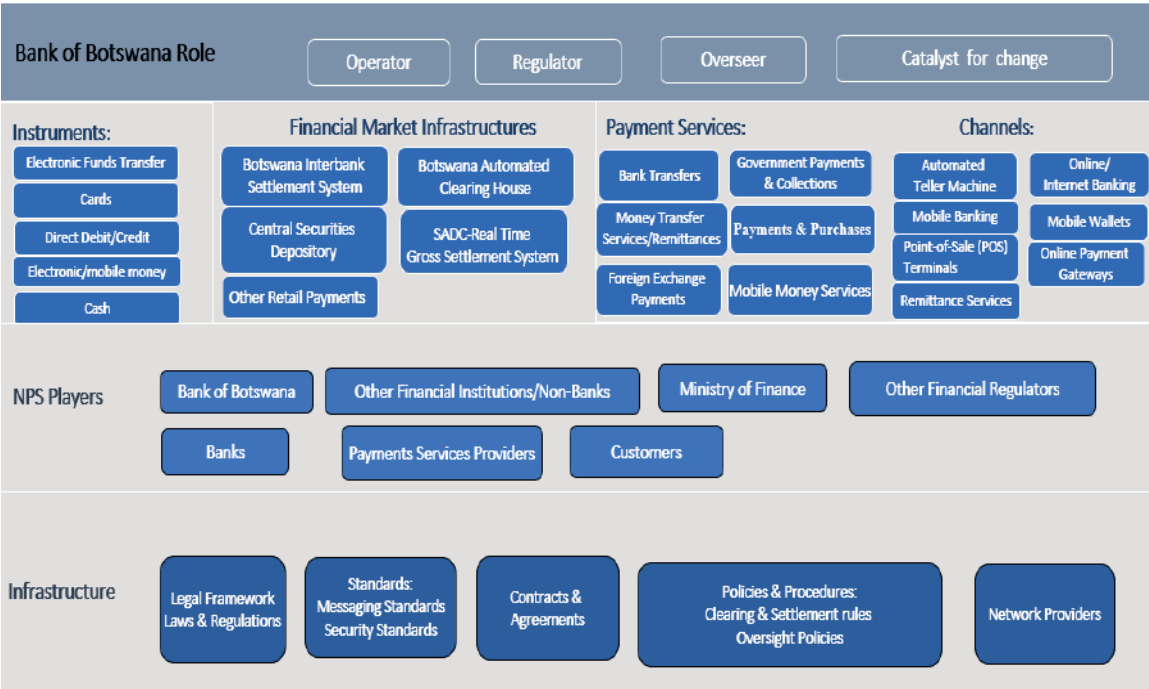
2. PAYMENT SYSTEM INFRASTRUCTURE IN BOTSWANA AND ITS FUNCTIONS

2.1 Botswana's core NPS architecture consists of various components (Figure 1). At the core of Botswana's NPS, is the legal authority vested in the Bank under the National Clearance and Settlement Systems (NCSS) Act (CAP 46:06) 2003, along with Electronic Payment Services (EPS) regulations 2019, that empower the Bank of Botswana (Bank) to oversee, regulate and maintain the functionality, stability and efficiency of the country's payment systems. Thus, the Bank plays a multifaceted role in the NPS, acting as a regulator, operator, overseer and catalyst for change. The NPS key stakeholders are the Bank, commercial banks, financial industry regulators, government entities, financial institutions, payment services providers (PSPs) and consumers. Botswana's payment ecosystem comprises critical financial market infrastructures (payment, clearing and settlement systems) and diverse instruments, channels and payment services. The NPS is supported by robust technology infrastructure, a comprehensive legal and regulatory framework, operational policies and standardised protocols (ISO 20022, security, interoperability and data protection).

PART B

NEXT GENERATION PAYMENT SYSTEMS, INNOVATION AND FINANCIAL TECHNOLOGIES – OPPORTUNITIES FOR BOTSWANA (Continued)

FIGURE 2.1: BOTSWANA’S PAYMENT SYSTEMS ARCHITECTURE



Source: Bank of Botswana

2.2 Payment systems in Botswana are broadly categorised into two: retail and wholesale (large value) payment systems. Large-value payment systems are designed to prioritise safety, security, timeliness, speed and resilience because of the high transaction values and critical nature of the transactions they process. These systems are essential for the proper functioning of the financial system as any failure could trigger disruptions

or transmit shocks, both at the domestic and international level. On the other hand, retail payment systems facilitate high-volume and low-value payments between individuals, businesses and public authorities. They are largely facilitated by clearing houses, payment switches and other providers of switching, clearing or settlement.

PART B

NEXT GENERATION PAYMENT SYSTEMS, INNOVATION AND FINANCIAL TECHNOLOGIES – OPPORTUNITIES FOR BOTSWANA (Continued)

(a) Functions of the Payment Systems in Botswana

- 2.3 The functions of Botswana's NPS are multifaceted and crucial for the country's economy. Primarily, the NPS facilitates secure and efficient fund transfers between individuals, businesses and government entities, facilitating payments for goods, services and other financial obligations. Through robust (effective and well-regulated and managed) clearing and settlement mechanisms, payment systems help minimise delays and counterparty risks while enabling liquidity management, thus fostering maintenance of financial stability. The NPS supports effective liquidity flow management across the financial sector through real-time gross settlement, intraday liquidity facilities, central bank liquidity support, net settlement systems, liquidity monitoring, and risk management oversight, ensuring that sufficient funds are available for timely transaction processing, mitigating settlement risks, and maintain financial stability. Furthermore, the NPS is designed to mitigate systemic risks²⁵, such as those stemming from operational failures or cybersecurity threats and to provide a resilient infrastructure that is adaptable to evolving needs, thereby, enhancing trust in the financial sector.
- 2.4 In this sense, a secure and accessible NPS fosters system integrity and consumer confidence in the financial system, encouraging greater economic participation and contributing to broader socio-economic goals such as financial inclusion and welfare enhancements. Overall, an effective NPS ensures seamless financial flows that facilitate economic activity. Furthermore, payment systems facilitate regional and international integration by enabling cross-border payments which are essential for trade and economic cooperation. These interconnected functions collectively contribute to a resilient, efficient and future-ready financial ecosystem.

(b) Payment Processes, Infrastructure and Mechanisms

- 2.5 The payment, clearing and settlement process in Botswana begins with the initiation of a payment, where a payer instructs a bank or a payment service provider to transfer funds to a payee. The process of fulfilling the payment obligation can thus be divided into two distinct stages. The first stage is the clearing process, where payment details are transmitted from the payer to the payee, often involving intermediary or clearing banks. The second stage is settlement, where the actual value transfer occurs, typically not in physical cash but as a claim on the payer's bank. Payment obligations are thus executed through various payment, clearing and settlement systems, as well as payment service providers, facilitated by various technology infrastructures.
- 2.6 The core financial market infrastructures (FMIs) are defined as multilateral systems among participating institutions, including the operator of the system, used for the purposes of clearing, settling, or recording payments, securities, derivatives, or other financial transactions²⁶. In Botswana these include the clearing and settlement systems, the Botswana Automated Clearing House (BACH), the Botswana Interbank Settlement System (BISS) and the Central Securities Depository Botswana (CSDB). Payment infrastructures that enable cross-border payments include the Southern African Development Community Real Time Gross Settlement System (SADC-RTGS) and supported by technology infrastructures such as the Society for Worldwide Interbank Financial Telecommunications (SWIFT) network, which is global.

²⁵ Systemic risk is defined in the NCSS Act, 2003 as "the risk of failure by one participant in a clearance and settlement system, or in financial markets generally, to meet its required obligations resulting in other participants or financial institutions being unable to meet their obligations (including settlement obligations in a clearance and settlement system) when due".

²⁶ Bank for International Settlement (BIS) – IOSCO, (2012). Report on Principles for financial market infrastructures.

PART B

NEXT GENERATION PAYMENT SYSTEMS, INNOVATION AND FINANCIAL TECHNOLOGIES – OPPORTUNITIES FOR BOTSWANA (Continued)

(i) Botswana Automated Clearing House

- 2.7 The BACH facilitates efficient clearing of high-volume, low-value transactions, such as electronic funds transfers (credit transfers, direct debits and credits), between participating banks. Owned and operated by the Bankers Association of Botswana, BACH centralised processing reduces the number of individual fund transfers, improving efficiency and minimising liquidity shortages. BACH obligations are, in turn, settled through the BISS.

(ii) The Botswana Interbank Settlement System

- 2.8 The BISS serves as Botswana's RTGS system²⁷, without deferral and on a gross basis, typically on a payment-by-payment basis. Owned and operated by the Bank, BISS facilitates the final and irrevocable settlement of high-value interbank transfers in real-time using central bank money²⁸. As a systemically important payment system (SIPS)²⁹, BISS is crucial for financial system stability, reducing counterparty risk and fostering confidence. Additionally, real-time gross settlement transfers are settled individually in central bank money thus, minimising settlement and systemic risks associated with deferred net settlement and ultimately fostering the stability of the broader financial system.

(iii) Central Securities Depository Botswana

- 2.9 The CSDB is a critical component of Botswana's capital markets that facilitates the clearing and settlement of securities transactions on the Botswana Stock Exchange. A CSD is "an entity that provides securities accounts, central safekeeping services, and asset services, which may include the administration of corporate actions and redemptions and plays an important role in helping to ensure the integrity of securities issues (that is, ensure that securities are not accidentally or fraudulently created or destroyed or their details changed)". It provides a centralised and secure platform for managing and transferring securities (shares and bonds, for example). Managed by the Botswana Stock Exchange Limited (BSEL), the CSDB employs a delivery-versus-payment (DvP) model with settlement occurring three business days (T+3) after the transaction date, ensuring that the transfer of securities and the corresponding payment occur simultaneously, thereby minimising settlement risk. To streamline securities settlement, CSDB transactions are settled via the BISS.

(iv) SADC–RTGS System

- 2.10 The SADC–RTGS system facilitates real-time and high-value settlement of cross-border transactions among commercial banks and central banks of participating SADC member states. Hosted and operated by the South African Reserve Bank (SARB) with the South African rand (ZAR) as a settlement currency, it reduces risks associated with delayed payments within the SADC region as the rand is widely used in the SADC region. The SADC–RTGS system accommodates central banks and commercial banks authorised by their respective central banks to undertake cross-border payments. The SADC–RTGS system has been hailed as one of the success stories under the area of finance and investment in the region.

²⁷ The continuous (real-time) settlement of funds or securities transfers individually on an order-by-order basis (without netting) (BIS, 2003).

²⁸ Finality means irrevocable and unconditional. An irrevocable and unconditional transfer therefore means a transfer which cannot be revoked by the transferor and is unconditional (BIS, 2003).

²⁹ The methodology for designating a SIPS assesses its impact on financial stability, monetary policy, and the economy, based on key factors such as size, substitutability, interconnectedness, and operational and financial risks. The criteria for designating a payment system as SIPS is guided by Principles for Financial Market Infrastructures (PFMI) set by the Committee on Payments and Market Infrastructures – International Organization of Securities Commissions (CPMI-IOSCO).

PART B

NEXT GENERATION PAYMENT SYSTEMS, INNOVATION AND FINANCIAL TECHNOLOGIES – OPPORTUNITIES FOR BOTSWANA (Continued)

(v) *Society for Worldwide Interbank Financial Telecommunications*

- 2.11 SWIFT serves as a critical infrastructure support for Botswana's NPS, primarily facilitating international transactions. While SWIFT is a member-owned cooperative based in Belgium, it is not a central bank system, it is governed by its member institutions, including banks and financial market infrastructures globally. It acts as a secure global network enabling banks and other financial institutions to exchange standardised financial messages, automating and streamlining the process of sending and receiving payment instructions. The infrastructure reduces operational risks and inefficiencies associated with manual processes and enhances the overall security and speed of processing of international payments. While SWIFT does not directly handle the settlement of funds (that is typically done through settlement systems), its standardised messaging ensures accurate and efficient communication of payment instructions between Botswana's financial institutions and their counterparts globally.

(vi) *Other Retail Payment Systems*

- 2.12 Apart from traditional banking, a range of electronic payment service providers (EPSPs) and financial technology (fintech) companies significantly contribute to Botswana's retail payment landscape. These include mobile money platforms, which broaden financial inclusion, especially in under-served areas, and drive the growth of digital financial services; payment gateways and aggregators³⁰ who acts as intermediaries between merchants, customers, and financial institutions to facilitate secure online transactions for businesses and e-commerce; established card networks (Visa, Mastercard), which offer global reach; and international remittance services such as Western Union and MoneyGram. Emerging fintech platforms, including PayPal and cryptocurrency exchanges,

further diversify payment options, introducing innovative digital payment and investment tools. Collectively, these EPSPs and fintech companies foster competition, continuous innovation and modernisation and economic development (as own sources of growth and enablers of other sectors), aligning with Botswana's broader financial sector goals and inclusive growth economic aspirations.

(c) **Payment Instruments**

- 2.13 Botswana's payment systems utilise a combination of traditional and modern payment instruments, including cash, Electronic Funds Transfers (EFTs), payment cards, mobile money and Blockchain-based payments. Given the advances in digital payments and to risk manage the NPS, cheques were abolished in December 2023. Cash remains a dominant method for in-person transactions, valued for its immediate settlement and accessibility. However, its vulnerabilities to theft, loss and misuse underlie the shift towards digital alternatives. It also can require costly time and travel person-to-person contact. As such, electronic methods are rapidly gaining traction, with EFTs streamlining various transactions, offering efficiency and security, though access remains a challenge for the under served and financially excluded populations. However, the rapid growth of mobile money providers enhances financial inclusion, particularly in underserved areas, offering a crucial financial service to the financially excluded groups. The increasing adoption of payment cards (debit, credit and prepaid) also contributes to financial inclusion. Furthermore, the emergence of innovative technologies continues to shape the future of payments in Botswana. Quick-response (QR) code payments offer the potential for enhanced security, efficiency and accessibility, representing promising opportunities for further modernisation and expansion of financial services.

30 Payment gateways and aggregators facilitate secure online transactions by acting as intermediaries between businesses, customers, and financial institutions, enabling the authorisation, encryption, and processing of payments while allowing merchants to accept multiple payment methods without requiring direct bank integration.

PART B

NEXT GENERATION PAYMENT SYSTEMS, INNOVATION AND FINANCIAL TECHNOLOGIES – OPPORTUNITIES FOR BOTSWANA (Continued)

3. THE EVOLUTION OF THE PAYMENTS LANDSCAPE AND FINTECH PRODUCTS

3.1 The global payments ecosystem has been rapidly evolving over the past two decades because of technological advancements in the provision of financial services. The nature of payment systems has, therefore, changed phenomenally, from the advent of cash transactions to digital payments powered by cutting-edge technology, with a gradual move towards widely accessible, convenient and secure payment methods. As indicated by the Financial Stability Institute of the Bank for International Settlements, “Technology has enabled financial innovation, resulting in new business models, applications, processes or products with an associated material effect on financial markets and institutions and the provision of financial services”.³¹

3.2 This evolution in payment services is also propelled by changing consumer behaviour, expectations and the need to integrate and align financial services with technological advancements and platforms for the provision of services by other sectors. Besides convenience and security, there is a strong push for contactless transactions in the post-COVID-19 era, which has given further impetus to digital financial services innovation. While some financial service providers continue to rely on legacy information and communications technology (ICT) infrastructure and manual practices, financial technology driven firms are offering customers innovative financial products and services with improved efficiencies and security.

3.3 Consequently, most jurisdictions have instituted adaptive, yet enabling, regulations in response to fintech developments to monitor financial activities and the conduct of financial service providers. On the one hand, there is the need to prevent monopolistic (exploitative and captive) behaviour, manage risk and retain integrity of the financial system while, on the other hand, jurisdictions around the globe have instituted innovation facilitator policy responses such as the introduction of regulatory sandboxes, innovation hubs/labs and the use of innovation accelerators to foster financial services and encourage fair competition. Coordinated and guided facilitation and regulatory developments are also guided by institutions such as the Bank for International Settlements.³²

(a) Digital Payment Methods

3.4 Digital payments are transactions facilitated through online or other electronic media.³³ This includes internet bank transfers, wire transfers and eCheques as well as mobile wallets and digital payment apps such as GooglePay. Digital payments have become an important component of economic evolution, reshaping the way individuals interact with the financial system.³⁴ The demand for cashless, digital, frictionless and faster or instant payments in Botswana is expected to continue to grow as new and innovative payment methods emerge. This requires businesses to make a shift, adapt an omni-channel commerce strategy, and invest in refining their digital experiences to meet their changing customers’ preferences. Below are the broad categorisations and description of digital payments.

31 Financial Stability Institute, Bank for International Settlements, (2021). *Fintech and Payments: regulating digital payment services and e-money*; FSI Insights on policy Implementation No.33.

32 <https://www.bis.org/about/bisih/projects.htm>.

33 Financial Stability Institute, Bank for International Settlements, (2021). *Fintech and Payments: regulating digital payment services and e-money*; FSI Insights on policy Implementation No.33.

34 Committee on Payments and Market Infrastructures, Bank for International Settlements, (2023). *Digital payments make gains, but cash remains*; CPMI Brief 1.

PART B

NEXT GENERATION PAYMENT SYSTEMS, INNOVATION AND FINANCIAL TECHNOLOGIES – OPPORTUNITIES FOR BOTSWANA (Continued)

(i) Digital Wallets

- 3.5 Digital wallets emerged as a convenient alternative to traditional card-based payments. These wallets allow users to store payment information securely and are referred to as online payment tools, usually in the form of mobile or web applications, enabling seamless and contactless transactions for in-store, online, and peer-to-peer payments. The wallet securely stores virtual versions of payments cards and uses a software to link the users' encrypted and tokenised (for personalisation and security) payment details to the vendor that the transaction is being made with.

(ii) Peer to Peer (P2P) Mobile Payments

- 3.6 P2P payment platforms enable person-to-person transactions by enabling seamless, cashless transfers directly between individual customer bank accounts or digital wallets. These systems enhance convenience, security, and financial inclusion by allowing users to send and receive funds instantly using just an email address or phone number, paving the way for the next generation of fast, efficient, and accessible digital payments.

(iii) Next Generation Payments

- 3.7 Next-generation payments are advancements in payment technologies which use newer technologies such as artificial intelligence (AI) and blockchain³⁵ to deliver instant real-time enhanced seamless integration across platforms to cater for the evolving needs and preferences of both consumers and businesses.³⁶

- 3.8 Key features of next-generation payments include use of contactless payment methods that use Near Field Communication (NFC) technology; mobile wallets accessible via smartphones, blockchain based payments for secure and transparent transactions; biometric identification and authentication, such as use of fingerprints or facial recognition; payment tokenisation for protection of sensitive card information; instant payments; and QR based payments.

(iv) Instant Payments/Fast Payments

- 3.9 Instant payments are credit transfers that make funds available in a payee's account within ten seconds of a payment order being made.³⁷ Instant payments systems (IPS), also known as fast payment systems (FPS), underpin inter-operable payment services that enable instant receipt of funds in a payee's account on a 24/7/365 basis. Furthermore, they support the use of new payment processes such as "request to pay" and the use of QR codes to enable use of mobile apps for initiating and accepting payment requests and integrating payments seamlessly with applications used for underlying business and social interactions.
- 3.10 Given these advancements, in over 70 countries (Figure 2), domestic payments reach their destination including cross-border payments, in seconds at near-zero cost to the sender or recipient, enabled by the growing availability of instant payment systems. However, there is currently no instant payment clearing and settlement infrastructure in Botswana. The planned National Retail Payments Switch for Botswana will be an important infrastructure and facilitator in this regard.

35 Marr, B. 2022. Top 10 Tech Trends In 2023 Everyone Must Be Ready For. <https://www.forbes.com>

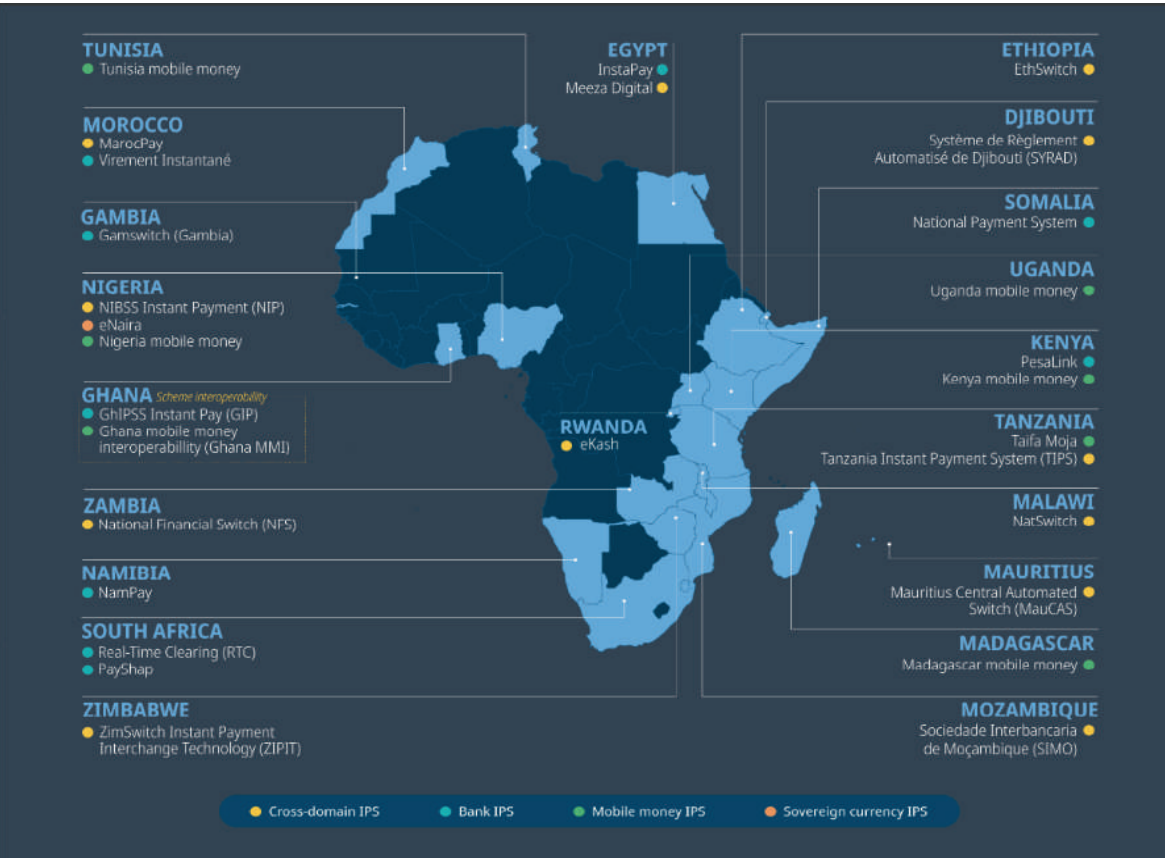
36 Taneja, V. (2024). Next-Gen Payment Processing Technologies: What They Are and Their Benefits.

37 European Central Bank, (2024). What are Instant Payments? <https://www.ecb.europa.eu/>

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NEXT GENERATION PAYMENT SYSTEMS, INNOVATION AND FINANCIAL TECHNOLOGIES – OPPORTUNITIES FOR BOTSWANA (Continued)

FIGURE 2.2: ACTIVE IPS/FPS IN AFRICA AS AT JUNE 2023



Source: AfricaNenda SIIPS, 2023

(v) Mobile Wallets

3.11 Mobile payments are initiated, activated, or confirmed through mobile devices. A mobile wallet, therefore, is an app for smartphones or tablets that allow for organising payment cards, coupons, vouchers and identification to facilitate financial transactions.³⁸ These wallets integrate with bank accounts, cards, and digital currencies, enabling seamless transactions for shopping, bill payments, and peer-to-peer transfers. With features like biometric authentication and tokenisation,

they enhance security while promoting financial inclusion by providing access to digital financial services for the under-served and financially excluded groups.

38 Au, A. and Kauffman, R. (2008). The Economics of Mobile Payments: Understanding Stakeholder Issues for an Emerging Financial Technology Application, Electronic Commerce Research and Applications.

PART B

NEXT GENERATION PAYMENT SYSTEMS, INNOVATION AND FINANCIAL TECHNOLOGIES – OPPORTUNITIES FOR BOTSWANA (Continued)

(vi) Blockchain-Based Payments

- 3.12 Blockchain payments are based on blockchain technology, a distributed database that records transactions, to enable peer-to-peer transactions without intermediaries, offering decentralisation, transparency, and security. Blockchains accept payment methods such as cryptocurrencies, stablecoins, blockchain-based payment gateways, decentralised exchanges, and Non-Fungible Tokens (NFTs). While blockchain technology does not directly facilitate bank transfers, platforms exist that bridge traditional banking and blockchain, enabling seamless conversion between fiat currency and digital assets. It is estimated that blockchain can reduce bank infrastructure costs by 30 percent.³⁹ By the first quarter of 2024, blockchain technology had processed over USD 270 billion in transactions.⁴⁰

(vii) Biometric Authentication Based Payments

- 3.13 Biometric authentication-based payments use people's distinct biological characteristics, such as fingerprint, face, eyes, heartbeat or voice to securely authenticate their identity and financial transactions, ensuring enhanced security and convenience. Biometric Payment Systems enhance security and convenience by using unique biological traits for authentication and reducing fraud risks. They eliminate the need for passwords, PINs, or physical payment methods, offering a faster and more secure payment experience. Widely adopted in banking and retail, the market for biometric payment technology is projected to grow significantly, reaching USD18.4 billion by 2029, reflecting its increasing acceptance.

(viii) Tokenisation

- 3.14 Another breakthrough in financial technologies is the process of tokenisation, which generates and records a digital representation of traditional assets on a programmable platform.⁴¹ In the context of money and other assets, one of the technologies that has gained prominence is Distributed Ledger Technology (DLT).
- 3.15 While tokenisation was initially used for crypto assets, it is making inroads into the regulated financial sector. Regulated private institutions and the public sector are investing in initiatives that cover several use cases, such as tokenised bond issuance, tokenised commercial bank deposits and tokenised repurchase agreements.⁴² In the context of money and other assets, tokens may represent claims on or representations of real or financial assets. Tokens can be useful to the extent that they facilitate the processes of issuing, storing and/or transferring value. Tokenisation replaces sensitive card information with a unique token, preventing fraudsters from accessing personal data and enhancing the security of online and mobile payments.

(ix) Quick Response Code-based Payments

- 3.16 QR code-based payment solutions allow users to scan QR codes to initiate transactions quickly and securely. There are also QR code wallets that enable point of sale (POS) purchases. The wallets may be merchant or financial institution-branded and are usually a closed loop.

39 Hassani, H., Huang, X., and Silva, E. (2018) 'Banking with Blockchain-Ed Big Data'. *Journal of Management Analytics* 5 (4), 256-275.

40 Martinez, Z. (2024). Blockchain Payments: The Future of Secure B2B Transactions <https://www.paystand.com/>.

41 BIS. (2024).

42 Tokenisation in the Context of Money and Other Assets: Concepts and Implications for Central Banks.

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NEXT GENERATION PAYMENT SYSTEMS, INNOVATION AND FINANCIAL TECHNOLOGIES – OPPORTUNITIES FOR BOTSWANA (Continued)

- 3.17 Consumer-presented QR Code wallets involve either a mobile app displaying a QR code that has been downloaded and stored in the mobile wallet, which the customer scans at the POS reader; or the app generating a one-time dynamic QR code, which is presented to the merchant. The technology is considered a quick, easy, and inexpensive way for merchants to implement mobile wallet solutions, partially because NFC is not required. QR codes work with any phone with mobile app capability and typically with any credit, debit, prepaid, or store gift cards. The merchant POS needs only a scanner and QR code reader software to generate and read the QR code.
- 3.18 Overall, the revolution of digital payments, in particular, next generation payments and their contribution towards facilitating digital trade continues to play a fundamental role in global economic growth. The widespread adoption of digital payments has brought many advantages, benefiting consumers, businesses, and economies. They enable the use of cutting-edge digital security technologies that comprise high assurance methods of authentication and encryption to protect sensitive personal and financial data. This greatly reduces the risk of credential theft and fraud while also providing detailed real-time records, that allow users to track their spending patterns and enhance financial management.
- 3.19 Notwithstanding, digital payments present challenges that need to be addressed to ensure safe adoption and implementation, as well as retention of financial system integrity and stability, including user confidence in the financial system and payments platforms. Notably, there are associated risks, cybersecurity and data breaches that require robust security measures to safeguard user information. The collection of vast amounts of data generated by digital payments raises concerns about privacy and how this information is used

by financial institutions and third-party providers. Therefore, as digital payments continue to evolve, consumer education on various options, security best practices, and potential risks is essential to build trust and ensure responsible usage. In addition, there is need for regulation to continue to be adaptive to new developments, while at the same time being facilitative.

(b) Digital Assets and Currencies

- 3.20 The emergence and increasing adoption of digital representations of value promises faster, convenient as well as cheaper payments and value transfers.⁴³ These digital assets and currencies, which broadly refer to systems of storing value and rights digitally, encompass digital currencies including central bank digital currencies (CBDC), cryptocurrencies, stable coins and virtual assets. Table 1 summarises the key attributes of digital assets and currencies. However, it's crucial to acknowledge the potential challenges. Cryptocurrencies are characterised by high price volatility, raising questions about their viability as a reliable medium of exchange. Stablecoins, while designed to maintain a stable value, are subject to de-pegging risks if they lose their peg to the underlying asset. Regulatory uncertainty and the potential for illicit use are further concerns that need to be addressed to ensure the responsible development and adoption of these assets.

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Schwarz, N. et al., (2021). Virtual Assets and Anti-Money Laundering and Combating the Financing of Terrorism (1): Some Legal and Practical Considerations. *International Monetary Fund: Fintech Notes*, p. 22.

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TABLE 2.1: DIGITAL ASSETS AND CURRENCIES

Digital Product	Description	Underlying Technology	Advantages	Disadvantages
CBDC	A digital form of a country's fiat currency issued and regulated by its central bank.	DLT or centralised databases.	Promotes financial inclusion, reduces transaction costs, enhances payment efficiency, and improves monetary policy implementation.	Implementation challenges, risk of cyberattacks, and potential disintermediation of commercial banks.
Cryptocurrencies	Decentralised digital assets that uses cryptographic technology to secure transactions and operate independently of central banks.	Blockchain or DLT.	Enhanced privacy, borderless transactions, and decentralisation.	High price volatility, lack of regulation, and potential for illicit use.
Stable Coins	Cryptocurrencies pegged to stable assets such as fiat currency or commodities to reduce volatility.	Blockchain or DLT.	Stable value, efficient cross-border payments, and potential for bridging traditional finance and decentralised finance (DeFi).	Regulatory uncertainty, potential centralisation in asset backing, and risks of de-pegging.
Virtual Assets	Digital representations of value, transferred electronically and used for payment or investment, not tied to a central authority.	Blockchain, DLT, or other decentralised technologies.	Flexibility in use, innovation in financial systems, and potential for economic empowerment.	Lack of consumer protection, and susceptibility to fraud and cyberattacks.

Source: Bank of Botswana Annual Report, 2019

3.21 Private digital assets and currencies enhance financial efficiency by reducing transaction costs and eliminating intermediaries, but they pose risks like financial disintermediation and cyber threats. In response, central banks are exploring CBDCs, which offer stability, financial inclusion, and efficiency while maintaining monetary sovereignty. However, the introduction of CBDCs could disrupt financial systems by prompting depositors to transfer funds from traditional bank account into central bank issued digital currencies, thereby reducing bank deposits, increasing funding costs, and heightening financial stability risks, particularly in periods of financial crises. Despite these concerns, global interest in CBDCs is growing, with many central banks conducting research and pilot programmes. In line with global trends, the Bank has initiated a CBDC exploration journey under the Digital BoB 2024 strategy,

conducting research, training, and benchmarking efforts, including learning from the Central Bank of the Bahamas. A multidisciplinary CBDC Working Group has been established in the Bank to assess feasibility, infrastructure, legal frameworks, and the potential impact of a CBDC before making an adoption decision.

3.22 Nationally, Botswana has taken steps to regulate crypto assets through the Virtual Asset Act of 2022, administered primarily by the Non-Bank Financial Institutions Regulatory Authority. As at the end of 2023, there were two licensed and operating virtual asset service providers (VASPs) in Botswana: Yellow Card (Pty) Limited and Express Minds (Pty) Limited. The two VASPs provide products that facilitate purchase, sale, and exchange of crypto assets, P2P remittances, B2B payments, and cross-border payments.

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NEXT GENERATION PAYMENT SYSTEMS, INNOVATION AND FINANCIAL TECHNOLOGIES – OPPORTUNITIES FOR BOTSWANA (Continued)

- (c) Digital Insurance and Digital Investments

3.23

Digital insurance and investment platforms are transforming the financial landscape by leveraging advanced technologies such as AI, block chain and Internet of Things (IoT). In insurance, digital platforms enable insurers to reach underinsured population, offering affordable, tailored products while improving customer experience and automating processes like claims. However, challenges related to data security, regulatory compliance, and consumer trust persist, especially with innovations like Usage-Based Insurance (UBI) and parametric insurance. These models raise concerns over privacy, pricing discrimination, and regulatory alignment, requiring clear communication and collaboration between InsurTech firms and regulators to ensure consumer protection and foster innovation.
- 3.24

In digital investments, advancements like robo-advisors and fractional ownership are democratising access to financial products and reducing barriers for investors, including those without access to traditional advisors. These platforms enhance transparency, lower fees, and provide real-time market insights, allowing a broader demographic to invest based on personal financial goals. As digital insurance and investment services converge, integrated platforms are simplifying financial planning and enhancing literacy. However, regulatory oversight and the volatility of digital assets pose risks, necessitating adaptable regulations to support growth, protect consumers, and ensure the stability of digital financial services in emerging markets.
- 3.25

The next section, therefore, addresses the legislative and regulatory adaptation and advances required in the new digital driven payment platforms.

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NEXT GENERATION PAYMENT SYSTEMS, INNOVATION AND FINANCIAL TECHNOLOGIES – OPPORTUNITIES FOR BOTSWANA (Continued)

4. LEGISLATION AND REGULATORY REQUIREMENTS

(a) Overview of Legislation/Regulatory Frameworks Needed to Govern Fintech Products and Ensure Consumer Protection

4.1 The expansion of fintech in Botswana presents both challenges and opportunities. While innovative financial products and services have the potential to revolutionise access to financial services, increase efficiency and foster competition, they require a robust and adaptable legal and regulatory framework. This framework is essential for governance, consumer protection and maintaining the integrity and stability of the financial system. It is critical the legal and regulatory framework fosters innovation and competition while simultaneously safeguarding consumers from potential risks and upholding the stability of the broader financial system. Creating a flexible, adaptive and facilitative regulatory environment that encourages innovation while safeguarding consumer rights will, thus, be key to fostering a thriving fintech ecosystem. Furthermore, integrating fintech with the robust regulatory framework helps create a balanced ecosystem where innovation and regulatory compliance coexist, promoting a stable and consumer-focused financial environment, while enabling sectoral vibrancy, viability and growth and optimising potential to enable and support other sectors. Several foundational principles are used to guide the development of this framework.

(i) Consumer Protection

4.2 Elements of consumer protection include transparency and fairness relating to easily understandable information about fintech products and services, including associated fees, risks and limitations. The framework also emphasises data protection and privacy, requiring stringent regulations to safeguard consumer information. Furthermore, effective and readily accessible dispute resolution mechanisms are critical for addressing grievances. In Botswana, the

Competition and Consumer Authority (CCA), mandated by the Consumer Protection Act, 2018, works to protect the interests of consumers through investigations and control of unfair business practices. The Data Protection Act, 2024 regulates the protection of personal data to ensure that privacy of individuals in relation to their personal data is maintained. The Act aligns with international standards, such as the General Data Protection Regulation (GDPR), mandating user consent, access rights and data minimisation. The Data Protection Act provides safeguards against identity theft in the digital space by enforcing stricter data security measures, requiring consent for data processing, mandating breach notifications, and holding entities accountable for misuse of personal information in big data environments.

(ii) Financial Stability

4.3 The legal and regulatory framework must safeguard the stability and integrity of the financial system. Relevant legislation in this regard, includes the Bank of Botswana Act, the Banking Act, NBFIRA Act, National Clearing and Settlements Act, the Virtual Assets Act, EPS Regulations, Financial Intelligence Act, Data Protection Act, Consumer Protection Act, Electronic Communications and Transactions Act, and Cybercrime and Computer-Related Crimes Act. These laws ensure financial stability, security, and consumer protection in the digital economy. The framework requires careful assessment and mitigation of systemic risks associated with fintech, including those related to interconnectedness, cybersecurity vulnerabilities and the potential concentration of power within dominant platforms. Robust mechanisms for oversight and supervision are essential to prevent the risks from destabilising the broader financial landscape. Overall, the legislation addresses market entry and exit, governance, operational and prudential requirements, risk management, reporting prescriptions and compliance obligations, institutional arrangements and relationships and consumer protection, as well as AML/CFT and cybersecurity protocols to safeguard financial integrity and mitigate risks associated with digital financial services.

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NEXT GENERATION PAYMENT SYSTEMS, INNOVATION AND FINANCIAL TECHNOLOGIES – OPPORTUNITIES FOR BOTSWANA (Continued)

(iii) *Innovation and Competition*

- 4.4 The regulatory approach should be sufficiently flexible and adaptive to accommodate emerging technologies and evolving business models without stifling innovation or competition. A principle-based framework, focusing on desired outcomes rather than overly prescriptive rules, is typically preferred. The use of regulatory sandboxes provides a crucial mechanism for controlled experimentation with new products and services, allowing regulators to assess risks and benefits before wider market release.

(iv) *Licensing and Oversight*

- 4.5 A clear and efficient licensing process (enabled by legislation) is vital for fintech companies, including those involved with payments infrastructures and platforms, operating within Botswana. The licensing and oversight of fintech products is risk-based, differentiating regulatory requirements according to the specific activities and inherent risks of each fintech firm. The oversight framework clearly defines licensing criteria, operational standards and compliance obligations for various fintech sectors (e.g., digital payments, lending and investment platforms). It also includes provisions for ongoing monitoring and supervision, allowing for timely interventions to address any risks or non-compliance issues. Regular audits and comprehensive reporting requirements further strengthen oversight.

(v) *Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT)*

- 4.6 Robust AML/CFT regulations are essential to prevent the exploitation of fintech platforms for illicit activities. This necessitates implementing Know Your Customer (KYC) and Customer Due Diligence (CDD) requirements, advanced transaction monitoring systems and established reporting procedures for suspicious activities. Effective international cooperation and information-sharing are crucial given the often cross-border nature of financial crimes. The Financial Intelligence Act (FIA) and related

legislation and regulations play a key role in AML/CFT compliance for all financial entities, including fintech firms.

(vi) *Cybersecurity and Data Security*

- 4.7 Fintech companies must adhere to stringent cybersecurity laws such as the Cybercrime and Computer Related Crimes Act and standards to protect against cyberattacks and data breaches. This includes mandatory security audits, incident reporting requirements and the adoption of appropriate security protocols and technologies. The framework provides guidance on data encryption, access control and building system resilience to maintain the confidentiality, integrity and availability of consumer data.

(vii) *Regulatory Sandboxes, Enforcement and Future-Oriented Considerations*

- 4.8 Effective fintech regulation requires a multi-pronged approach. In addition to the standard legal and regulatory requirements, a developmental approach may involve regulatory sandboxes (Box 1) which enable controlled testing of innovative products, enabling business opportunities and reducing licensing uncertainty and providing valuable insights on future approaches to facilitation and regulation. Notwithstanding, the regulatory sandbox environment would still require robust enforcement mechanisms, including clear penalties and efficient investigation processes; crucial for ensuring compliance. Overall, a future-oriented strategy necessitates regular review and adaptation of the regulatory framework, incorporating technological advancements, global best practices, stakeholder input (including fintech firms and consumer groups) and leveraging RegTech and SupTech (Box 2) for modernised and technology driven oversight aligned to business operations.

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- 4.9 Overall, a comprehensive and forward-thinking legal and regulatory framework is indispensable for harnessing the potential of fintech, while simultaneously ensuring consumer protection and financial stability in Botswana. Notably, the regulatory framework must balance the need to encourage innovation and competition with the protection of consumers and the maintenance of a secure and stable financial system. A proactive, adaptable and collaborative approach incorporating continuous monitoring and review is vital to ensure the long-term success and relevance of the regulatory landscape for modern payments systems. Moreover, Botswana's regulatory framework should align with international best practice and standards. This alignment facilitates cross-border collaboration and reduces regulatory arbitrage and complexities and help to foster efficiency and international competitiveness of Botswana's fintech sector.

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NEXT GENERATION PAYMENT SYSTEMS, INNOVATION AND FINANCIAL TECHNOLOGIES – OPPORTUNITIES FOR BOTSWANA (Continued)

Box 1: REGULATORY SANDBOXES

Introduction

The introduction of new technologies in the financial services sector brings additional risks and changes the existing risks inherent in the financial system. To effectively assess these risks, a deep understanding of the technologies driving innovative products and services is essential, necessitating an enhancement of supervisory knowledge and capacity. As a result, regulatory authorities worldwide are increasingly implementing a variety of regulatory initiatives, such as regulatory sandboxes, to deepen their understanding of emerging fintech activities, business models, and the associated risks and incentives.

A regulatory sandbox is a structured framework that enables fintechs and other financial services providers to experiment with new products, services, or business models in a controlled environment.² This environment offers some regulatory flexibility, alongside specific safeguards to manage associated risks, all overseen by a regulatory body. Regulatory sandboxes encourage greater interaction between fintechs and regulators, helping fintech firms to understand regulatory and supervisory expectations. Similarly, sandboxes help regulators comprehend the opportunities and risks associated with financial innovations and the implication on financial stability.

Potential Benefits and Risks of Regulatory Sandboxes

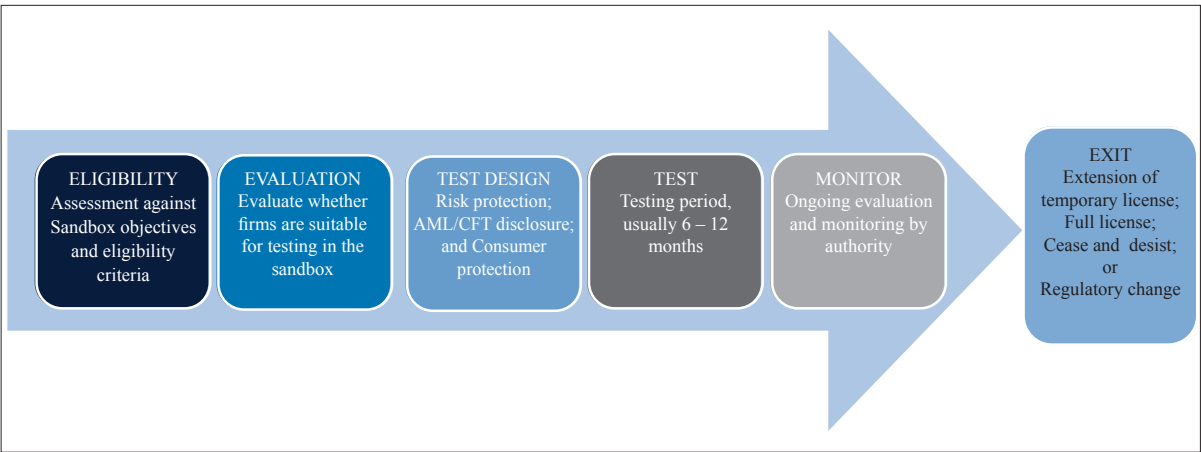
As innovation disrupts the financial services sector, it presents both benefits and risks. According to a report by the World Bank on Global Experiences from Regulatory Sandboxes, potential benefits that may arise from the operationalisation of a regulatory sandbox include facilitation of innovation and regulatory change through evidence-based policy decisions; promotion of financial inclusion; facilitation of market entry for startups; enhancement of supervisory understanding of emerging technologies; consumer protection by keeping regulators informed and up to date on innovative solutions and technologies; and stimulation of market competition and reduction of time to market.³

Conversely, there are significant concerns regarding the possible adverse effects of regulatory sandboxes on consumer protection and financial stability. Critics contend that regulators may prioritise innovation at the expense of implementing adequate safeguards to protect the public and uphold consumer interests.⁴ This concern becomes particularly relevant if a regulatory sandbox is primarily designed to attract fintech companies and investors to a jurisdiction, potentially compromising financial stability and consumer protection in the process.

The Regulatory Sandboxing Process

The regulatory sandboxing process tends to be resource-intensive and lengthy, following a structured, iterative process that guides market participants from entry to exit (see Figure 3).⁵

FIGURE 2.3: A TYPICAL REGULATORY SANDBOX LIFECYCLE



Source: Adapted from the World Bank (2020)

The regulatory sandboxing process consists of six stages, beginning with a financial institution’s application for inclusion in the sandbox and an eligibility assessment by the regulator. The process culminates in exiting the test environment, where the regulatory authority evaluates and determines the appropriate exit strategy. These stages are staggered and activated progressively until the experiment is complete.

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Country Cases of Regulatory Sandboxes

Reasons for establishing regulatory sandboxes vary by jurisdiction and are often driven by supervisory goals, the legal framework, and the specific scope of the sandbox.⁶ Regulatory authorities typically emphasise statutory objectives such as promoting financial stability; building confidence in the financial sector; and ensuring consumer protection as the legal grounds for establishing a regulatory sandbox.

(a) United Kingdom - Financial Conduct Authority (FCA)

The FCA pioneered regulatory sandboxing by creating its regulatory sandbox in May 2016. The motive for establishing the regulatory sandbox was to address legal concerns occasioned by the growing development of fintech products and services. Another objective was to reduce the cost and time for market entry by emerging fintech startups. Since its inception, the FCA's sandbox has received over 630 applications, as of November 2024, and has undertaken tests with firms that leverage technologies such as Artificial Intelligence/Machine Learning (AI/ML), Distributed Ledger Technologies (DLT), open banking, Application Programming Interfaces (APIs), digital identifications systems, RegTech and data analytics.⁷ As of June 2022, the FCA reported that 92 percent of firms participating in its regulatory sandbox achieved authorisation, with 80 percent of these firms remaining operational after testing.⁸

(b) Thailand - Bank of Thailand (BOT), the Securities and Exchange Commission (SEC), and the Office of Insurance Commission (OIC)

In Thailand, three regulators have introduced regulatory sandboxes: the BoT, the SEC, and the OIC. Each sandbox pertains to a distinct aspect of the financial system: payments, remote identity verification, and insurance, respectively. However, the sandboxes vary in their approach, eligibility, and mandate. The BoT sandbox concentrates on new, unprecedented innovations and has so far focused on quick-response (QR) codes and cross-border payments. The SEC sandbox permits fintechs to trial new eKYC (electronic know your customer) technologies, while the OIC sandbox has facilitated testing of InsurTech innovations by insurers, agents, and InsurTech firms.

(c) South Africa - Intergovernmental Fintech Working Group (IFWG)

South Africa established a regulatory sandbox that is operated by the IFWG.⁹ The first cohort of sandboxing participants was enrolled in April 2020 representing a broad range of financial services, including payments, savings, deposits, lending, and investments.

Conclusion

In conclusion, a regulatory sandbox serves as an important platform for regulators to collaborate with fintech service providers and conduct experiments. This facilitates the identification of regulatory gaps and enhances understanding of how emerging fintech activities can be integrated into existing legal and regulatory frameworks. Additionally, it provides insights into how these frameworks may be refined to accommodate new technologies. The establishment of regulatory sandboxes is increasingly recognised as a proactive policy response to the rapid evolution of fintech across the globe. According to the World Bank,¹⁰ by the end of 2020, there were 73 regulatory sandboxes for financial services announced or operational in 57 countries. Notably, East Asia and the Pacific had the highest number, with 19 sandboxes, followed by Europe with 18, and Africa with 9. This development presents an opportunity for local financial services regulators to assess their regulatory practices and consider the potential economic advantages that regulatory sandboxes may bring.

Sources:

- 1,4 Parenti, R. (2020). Regulatory Sandboxes and Innovation Hubs for FinTech, Study for the committee on Economic and Monetary Affairs, Policy Department for Economic, Scientific and Quality of Life Policies, European Parliament
- 2,3,6,10 The World Bank (2020). Global Experiences from Regulatory Sandboxes
- 5 The World Bank (2020). How Regulators Respond to Fintech: Evaluating the Different Approaches: *Sandboxes and Beyond*
- 7 <https://www.fca.org.uk/firms/innovation/regulatory-sandbox/accepted-firms>
- 8 Financial Conduct Authority, (2022). Innovation and regulation: *Partners for success in financial services*.
- 9 IFWG – a FinTech collaborative forum consisting of South African financial sector regulators, including the National Treasury, the Financial Intelligence Centre (FIC), the Financial Sector Conduct Authority (FSCA), the National Credit Regulator (NCR), the South African Reserve Bank (SARB), South African Revenue Service (SARS), and the Competition Commission.

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NEXT GENERATION PAYMENT SYSTEMS, INNOVATION AND FINANCIAL TECHNOLOGIES – OPPORTUNITIES FOR BOTSWANA (Continued)

BOX 2: REGTECH AND SUPTECH

Introduction

RegTech refers to the use of technology by regulated financial institutions to fulfil their reporting and compliance obligations.¹ SupTech refers to the use of technology by supervisory authorities to improve and optimise the supervisory function.² The Financial Stability Board (FSB) indicates that SupTech has the potential to improve oversight, surveillance, and analytical capabilities.³ Additionally, it could produce real-time risk indicators that aid in forward-looking, judgment-based supervision and policymaking. RegTech can enhance the efficiency of adhering to regulations and improve financial service providers' risk management strategies. The emergence of RegTech and SupTech ecosystems, supported by suitable financial market infrastructure, presents significant opportunities for enhancing oversight and promoting financial stability.

Evolution of the RegTech and SupTech Landscape

The origins of RegTech and SupTech can be traced back to the 1990s and extend into the post COVID-19 era, as highlighted below.⁴

- (i) *Evolution before the 2007/8 Global Financial Crisis (1987–2008)* – the 1987 market crash prompted regulators and supervisors to digitise their operations. This is exemplified by the evolution of the United States (US) Securities and Exchange Commission's Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system, a financial market infrastructure system that integrates digital disclosure requirements (RegTech) while also allowing supervisors to monitor compliance and enforcement (SupTech).
- (ii) *The aftermath of the 2007/8 Global Financial Crisis (2008–2019)* – this era is characterised by supervisors' need for improved risk management oversight, as well as the importance of technology, particularly the digitisation of compliance reporting and the development of data analytics systems to analyse the vast amounts of data generated due to increased regulatory requirements.
- (iii) *COVID-19 and the next decade* – the rapid digital transformation that occurred in response to the COVID-19 pandemic has highlighted the critical role of digital financial services in the global economy. This transformative period has also given rise to advanced RegTech and SupTech solutions that effectively leverage emerging technologies, including Application Programming Interfaces (APIs), Distributed Ledger Technologies, and cloud computing.

Application of RegTech Solutions by Regulated Financial Institutions

A survey conducted by the Financial Stability Board (FSB) indicates that regulated institutions primarily use RegTech tools for purposes such as regulatory reporting, fraud detection, risk management, and anti-money laundering (AML) and counter-financing of terrorism (CFT)⁵. There is also a notable upward trend in the focus on Know Your Customer (KYC) and digital identification practices. The survey further identifies key technologies that underpin the deployment of RegTech solutions. These include cloud computing, Natural Language Processing, and Machine Learning. However, the survey indicates that the growing reliance on these technologies may introduce challenges for regulatory authorities, particularly increased operational and cyber security risks.

Advanced RegTech solutions have the potential to facilitate active data access and extraction for financial authorities, paving the way for a shift from traditional regulatory data reporting to a model characterised by regulatory "data-sharing". This evolution significantly transforms the way in which financial authorities acquire data. Instead of financial institutions actively reporting or transmitting data to authorities through the "push approach", financial authorities could be granted on-demand access to the data maintained by regulated institutions through the "pull approach". Furthermore, emerging technologies such as distributed ledger technology (DLT) have the potential to revolutionise the regulatory reporting process, enabling a scenario in which records of all financial transactions are stored on a distributed ledger, granting financial authorities immediate access to relevant information⁶. This innovation effectively eliminates the need for intermediate steps in the regulatory reporting framework.

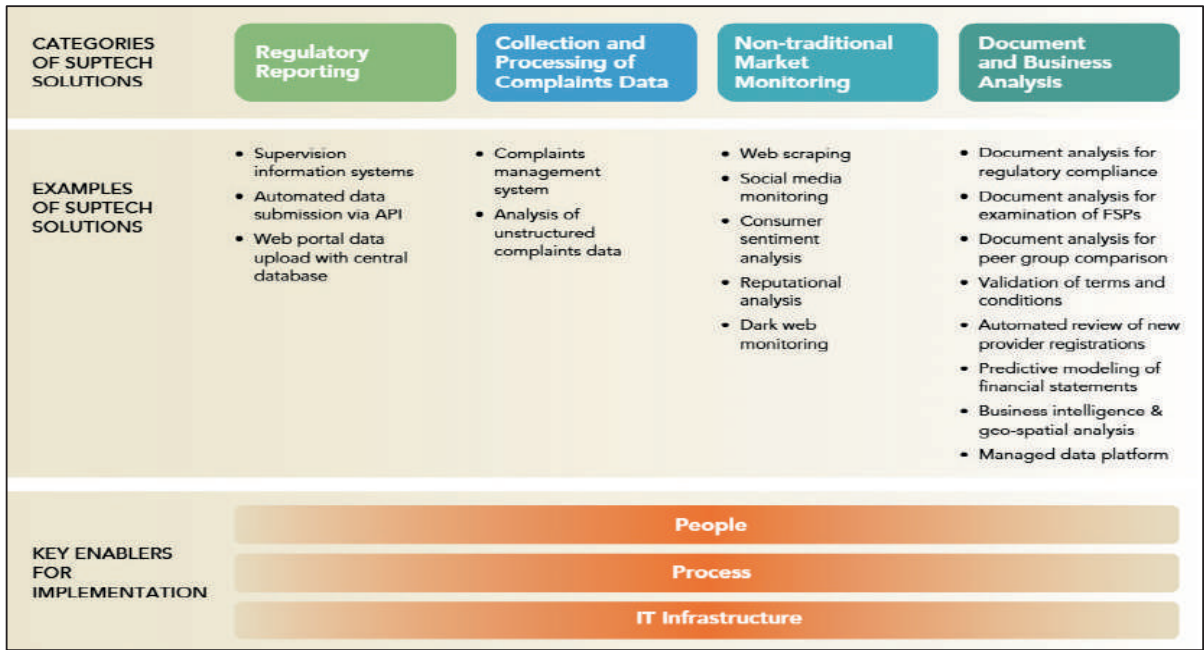
SupTech Solutions for Market Conduct Supervision

The primary categories of SupTech solutions for market conduct supervision include (i) solutions for regulatory reporting by supervised institutions; (ii) solutions for the collection and processing of complaints data; (iii) solutions for non-traditional market monitoring; and (iv) solutions for document and business analysis. Within these categories, a total of 18 distinct SupTech solutions are identified⁷, see Figure 4.

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FIGURE 2.4: SUPTECH SOLUTIONS FOR MARKET CONDUCT SUPERVISION



Source: World Bank Group (2021)

SupTech solutions for market conduct supervision vary in complexity. Supervisory authorities, particularly in low and middle-income countries, should prioritise adopting solutions that enhance their capabilities in areas where they currently have limitations. Once foundational capabilities are established within a designated category, authorities can further enhance their effectiveness by integrating more advanced solutions that are tailored to their supervisory requirements and resource constraints. To facilitate this transformation, strategic investment in three key areas is necessary: the development of human resources; the optimisation of processes; and the enhancement of IT infrastructure.

Conclusion

The integration of emerging technologies into regulatory and supervisory processes presents a significant opportunity to enhance oversight. As regulators globally begin to adopt SupTech innovations to streamline supervision and ensure effective oversight, it is vital to align with these advancements in supervisory practices. Furthermore, RegTech solutions offer the potential to improve transparency, and promote enhanced collaboration between supervisors and regulated entities in meeting their compliance obligations. Therefore, it is essential for regulators and supervisors to establish supportive policy frameworks that foster a robust RegTech and SupTech ecosystem. These frameworks should also address emerging issues related to data governance and cybersecurity.

Sources:

1 Bank for International Settlements, (2018). Innovation Technology in Financial Supervision (SupTech): *The Experience of Early Users*

2,7 The World Bank, (2021). The Next Wave of SupTech Innovation: *SupTech Solutions for Market Conduct Supervision*

3,5 Financial Stability Board, (2020). The Use of Supervisory and Regulatory Technology by Authorities and Regulated Institutions: *Market Developments and Financial Stability Implications*

4 Asian Development Bank, (2022). Building Regulatory and Supervisory Technology Ecosystems: *For Asia's Financial Stability and Sustainable Development*

6 Financial Stability Institute, (2020). From data reporting to data-sharing: *How far can SupTech and other innovations challenge the status quo of regulatory reporting? FSI Insights on Policy Implementation No. 29*

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5. BOTSWANA'S READINESS TO ADOPT NEXT GENERATION PAYMENT SYSTEMS

(a) Assessment of the Current Infrastructure, Innovation Climate, and Stakeholder Readiness

5.1 Opportunities exist for Botswana to modernise the payments infrastructure to foster innovation in financial services and establish the requisite legal and regulatory frameworks in readiness for adoption of next generation payments. In that regard, it is necessary to evaluate and explore Botswana's current capabilities and identify strengths and areas for improvement, to provide a basis for the development of a strategic roadmap that will enable the country to harness the full potential of next-generation payment systems, driving economic growth and enhancing financial resilience. This include analysing the maturity of existing digital infrastructure, the regulatory environment that fosters or hinders innovation and preparedness of stakeholders to adopt and integrate these cutting-edge solutions.

(i) Infrastructure Assessment

5.2 Botswana's current infrastructure presents both strengths and weaknesses in its capacity to support next-generation payment systems. On the positive side, the country boasts a relatively well-developed information and ICT infrastructure. High mobile penetration rates, particularly among younger demographics, provide a solid foundation for the expansion of mobile money services and other digital payment solutions. The existing payment systems, including the BISS, BACH, SADC-RTGS and CSDB provide essential functionality and a functional base to the core payment system infrastructure both locally and regionally. However, further investment is needed to enhance interoperability and integrate newer technologies seamlessly. Moreover, these systems require modernisation and constant upgrades to enhance their capacity to handle increased volumes and complexity of transactions expected with the wider adoption of digital payments. The recent upgrade of the BISS and migration to ISO 20022, is indeed a testament of Botswana's strides

in modernising its NPS. The SADC-RTGS has also undergone similar upgrades and a successful ISO migration.

5.3 A significant challenge lies in bridging the digital divide between urban and rural areas. While internet and mobile penetration are relatively high in urban centres, access remains limited in many rural communities. This disparity necessitates strategic investment in expanding network coverage and improving internet connectivity across the country. Addressing network and internet coverage challenges will ensure achievement of truly inclusive financial access and widespread adoption of next-generation payment systems.

5.4 Furthermore, existing systems lack comprehensive interoperability and seamless transitions between different payment methods and providers are often hampered by a lack of integration between various platforms. This lack of connectivity creates friction for users and limits the overall efficiency of the payment ecosystem. The planned development of a modern, interoperable national payments switch will, therefore, integrate various payment channels (mobile money, cards, online banking) onto a single platform, significantly improving efficiency, reducing costs and enhancing security.

5.5 Finally, robust cybersecurity infrastructure is essential. The increased reliance on digital systems necessitates advanced security protocols and measures to protect against fraud, data breaches and cyberattacks. Proactive investments in cybersecurity and the implementation of stringent data protection standards are crucial for building public trust and confidence in the digital payment ecosystem.

(ii) Innovation Climate Analysis

5.6 Botswana's innovation climate is evolving and promising, characterised by a growing collaboration between established financial institutions and emerging fintech companies. This collaboration is fostering the development of innovative financial products and services, driving competition and improving efficiency within the financial sector. Furthermore, the Botswana Digitalisation and Innovation Hub

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supports the fintech entrepreneurial ecosystem offering promising opportunities for startups. The ecosystem supports small businesses with tools to scale quickly, helping them overcome initial barriers and encouraging them to bring innovative solutions to the market, while being attentive to any debilitating risks.

- 5.7 However, several challenges remain. Access to funding for Fintech startups continues to be a significant hurdle. Many innovative companies struggle to secure the capital needed for research, development, and market expansion, limiting the pace of innovation and the overall growth of the Fintech ecosystem. Furthermore, the availability of skilled talent and technical expertise remains a constraint. Developing a robust talent pipeline through targeted education and training initiatives is essential for supporting fintech growth and ensuring the long-term success of the transition to next-generation payment systems.
- 5.8 A supportive regulatory environment is key to fostering further innovation and attracting investment. The introduction of regulatory sandboxes provides a valuable tool for enabling controlled testing of new products and services, reducing uncertainty for fintech firms and allowing regulators to assess the associated risks in a structured environment. Moreover, the existing legal and regulatory framework in Botswana provides a foundational base for the financial sector, encompassing legislation such as the NCSS Act and the EPS Regulations. The ongoing development of a comprehensive NPS law will be critical in providing a clear and adaptable legal foundation for the sector, setting standards for licensing, consumer protection and risk management. The new law should be sufficiently flexible to adapt to the rapid pace of technological change, promoting innovation while maintaining a stable and secure financial system.
- 5.9 Furthermore, several existing strategic frameworks provide a supportive environment for Botswana's transition to next-generation payment systems. The National Fintech Strategy, for example, provides a roadmap for the development

and regulation of fintech activities, aiming to foster innovation while mitigating potential risks. The National Financial Inclusion Strategy complements this by focusing on expanding access to financial services for all citizens, promoting the adoption of digital payment solutions as a key mechanism for achieving this goal. The NPS Strategy provides a clear vision for modernising the national payments system, identifying key objectives and outlining a plan for integrating next-generation payment technologies. These interconnected strategies provide a cohesive and supportive environment for the successful adoption and integration of next-generation payment systems, reinforcing Botswana's preparedness for this critical transformation. The synergistic alignment of these strategies creates a strong foundation for sustainable growth within the financial sector, maximising the opportunities presented by the transition to a modern, efficient and inclusive payment ecosystem.

(iii) Stakeholder Readiness Evaluation

- 5.10 The success of adopting next-generation payment systems in Botswana depends critically on the preparedness of key stakeholders. While commercial banks are actively embracing digital transformation and collaborating with fintech companies, there is a considerable need to extend this adoption to smaller businesses and the informal sector. Many SMEs lack the resources, awareness, or technical expertise to effectively utilise digital payment solutions. Targeted initiatives focusing on capacity building, financial literacy and promoting the benefits of digital payments, will be essential to bridge this gap.

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NEXT GENERATION PAYMENT SYSTEMS, INNOVATION AND FINANCIAL TECHNOLOGIES – OPPORTUNITIES FOR BOTSWANA (Continued)

5.11 Equally crucial is the readiness of consumers. While younger generations readily adopt digital technologies, the adoption rate remains lower amongst older demographics and particularly in rural areas. Addressing the digital literacy gap through comprehensive educational programs is essential. Building public trust and confidence in the security of digital payment platforms is paramount to encourage widespread usage. This requires clear communication highlighting the security measures in place, proactive efforts to address cybersecurity concerns and accessible customer support channels to promptly address any issues or concerns. Government support and initiatives promoting financial inclusion will also play a pivotal role in motivating wider adoption.

5.12 Botswana's readiness to adopt next-generation payment systems is significantly bolstered by several strategic initiatives and structural changes within the Bank and the broader regulatory landscape. The establishment of dedicated fintech and payment systems functions within the Bank signifies a proactive commitment to navigating the evolving financial landscape. These dedicated units provide focused expertise and resources for developing and implementing effective policies and strategies related to fintech innovation and the modernisation of the NPS. The centralised approach ensures coordinated oversight and facilitates effective collaboration between the Bank and other stakeholders, including fintech companies, financial institutions and government agencies. The expertise housed within these units is crucial for navigating the complexities of regulating and overseeing emerging technologies while ensuring the stability and security of the financial system.

6. IMPLICATIONS OF NEXT GENERATION PAYMENT SYSTEMS, INNOVATION AND FINTECH ON MONETARY POLICY, FINANCIAL STABILITY AND EXCHANGE RATE POLICY

6.1 The ongoing advancements in technology, especially in payment systems and fintech, are reshaping the regulatory environment. As the financial services evolve, regulators are tasked with ensuring that they meet a growing array of supervisory requirements. Compliance obligations stemming from regulatory reforms, coupled with the rise of new business models in financial services, pose significant challenges to regulators. Furthermore, the widespread availability of big data adds to the complexity of regulatory oversight.

6.2 These technological advancements necessitate the development of regulatory technology (RegTech) and supervisory technology (SupTech) tools. These tools aim to facilitate compliance, monitor market behaviour, and provide more effective oversight. By doing so, regulators can support the smooth implementation of monetary policy, ensuring the stability, safety and soundness of the financial system.

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(a) Implications on Monetary Policy

- 6.3 In Botswana, as in many other countries, the primary goal of monetary policy is price stability, defined as a low and stable level of inflation. In these economies, monetary policy frameworks are forward-looking with changes in policy rates used to guide inflation towards a target/target range. While the fintech sector is still in its early stages, the rapid development of mobile money services and the potential introduction of CBDCs could have significant effects on the way monetary policy is implemented and transmitted. Currently, the implications of fintech on monetary policy are still hypothetical, but the growing adoption of mobile money platforms, particularly in Botswana, offers a promising avenue for assessing how these innovations could affect monetary policy.
- 6.4 Mobile money platforms have expanded significantly in Botswana, providing services such as deposit taking, money transfers and lending. These services have reduced transaction costs, increased financial inclusion and enhanced economic efficiency. As mobile money platforms integrate into the broader financial system, they could strengthen the transmission of monetary policy.
- 6.5 One of the key takeaways mobile money could influence monetary policy is by bringing more money into the formal banking system. As the usage of mobile money grows, it may reduce the amount of cash held outside of the banking system, leading to an increase in the volume of money circulating within commercial banks. This formalisation of financial transactions enhances the effectiveness of monetary policy since more of the economy is directly influenced by policy rate changes. Furthermore, as mobile money platforms aggregate funds, these funds remain in commercial banks, which could then be used for credit creation, stimulating productive investments and boosting economy activity.
- 6.6 The advent of new central bank digital payment instruments like CBDCs has the potential to alter retail, wholesale and cross-border payments in a manner that could have spillover effects on various transmission channels of monetary policy. The implication of CBDCs on monetary policy can be challenging as they depend on the design features or operation of the CBDC and the degree and speed of adoption. The introduction of retail CBDCs can trigger substitution of bank deposits for CBDC holdings. Depending on the severity and scale of this substitution, changes in the public holdings of cash and deposits may lead to bank deposit disintermediation, instability in the velocity of money and volatility of commercial bank reserves. Conventional monetary policy transmission channels, the credit and interest rate channel, would thus, certainly be undermined by these outcomes.
- 6.7 Concerning the credit channel, a marked decline in commercial bank deposit mobilisation would curtail the total stock of loanable funds to the economy, reducing the significance of bank lending in the overall monetary policy transmission process. The interest rate transmission mechanism on the other hand, would slightly be different, manifesting indirectly through commercial banks' financial risk exposure. That is, whereas deposits can be withdrawn anytime, loans are contractual and cannot be recalled before their maturity. Therefore, a sudden large withdrawal of deposits could cause liquidity risks that may result in bank insolvency. The ensuing banking system stress can undermine the interbank market role in providing liquidity thereby weakening monetary policy transmission through the interest rate channel.
- 6.8 The use of CBDCs in cross-border transactions also has monetary policy implications for both the issuing and recipient countries. For the issuing countries, if foreign demand for their CBDCs is high, the corresponding increase in currency outside the country would negatively affect the issuing country's ability to control price movements. The corresponding capital inflows could exert upward pressures on exchange rates which, depending on the share of imports in the consumer basket, could have implications for

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inflation and monetary policy implementation. For the recipient countries, increased currency substitution reduces monetary authorities' control over domestic liquidity by limiting the component over which the authorities have direct influence. The combined potential effect for both issuing and recipient countries is that faster access to cross-border settlement could cause liquidity to flow rapidly from one currency asset market into another. The increased speed in cross-border payments could amplify capital flow volatility that affects the domestic monetary authorities' ability to manage exchange rates and monetary policy.

(b) Implications on Financial Stability

- 6.9 The transformative power of fintechs presents beneficial outcomes that include significant opportunities for efficiencies, productivity gains and value creation. However, these advancements require nuanced understanding to balance the gains from financial development with potential associated financial system disturbances. Notably, fintechs can enhance the efficacy and resilience of the financial system through decentralisation and diversification of payment systems. At the same time, advanced analytics and real-time monitoring tools using AI can also provide early warning signals for systemic risks, while decentralisation can diversify liquidity sources, thereby alleviating liquidity constraints, reducing solvency and liquidity risks, compared to more institutionally concentrated markets. Essentially, operational efficiency can be attained through automation, transparency and real time settlement with further gains on financial services inclusivity, particularly in the underserved segments of the population.
- 6.10 At the same time, rapid digitalisation of the financial system adds greater complexity and interconnectedness that can propagate contagion risk during periods of financial stress (e.g., during a bank run), invariably raising systemic risk. Similarly, real-time payment innovations may alter liquidity management practices for financial institutions, further fragmenting liquidity

flows across multiple platforms and, therefore, complicating central banks' ability to monitor and intervene effectively. Associated cybersecurity threats, including ransomware attacks, data breaches and system compromises, among others, have become increasingly sophisticated, with significant operational losses. To further compound risks in the fintech landscape, regulatory infrastructure for effective oversight is lacking and lagging financial innovation, creating pockets of vulnerabilities that could disrupt effective financial sector development.

- 6.11 Despite these challenges, by leveraging technology and data analytics and investing in research and development, policymakers can stay ahead of technological developments. This will improve the design of financial sector regulations to allow for innovative financial products and services and better customer satisfaction, while at the same time, striking a balance between security, efficiency and affordability, to unlock potential for a smoother, safer and more inclusive financial sector.
- 6.12 These risks necessitate robust cybersecurity protocols, multi-layered defences and international cooperation to protect against attacks and prevent disruption of critical payment services, both globally and domestically. Furthermore, global cooperation among regulators, central banks and industry stakeholders is critical, paving way for harmonised standards for international payments and data sharing to reduce fragmentation and enhance systemic stability. Policymakers must, however, strike a balance between fostering innovation and mitigating risks to financial stability. Proportional and technology-neutral regulations can address this challenge, while encouraging competition and innovation.
- 6.13 Under these circumstances, the use of stress testing, as well as AI and big data becomes relevant in extracting trends and observations from non-conventional data to inform micro and macroprudential policy. Collaboration and coordination between stakeholders will be crucial

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to harnessing the benefits of innovations while safeguarding the stability and resilience of the financial system.

(c) Implications on Exchange Rate Policy

- 6.14 The advent of next-generation payment systems is reshaping cross-border transactions, offering significant benefits in efficiency, lower transaction costs and financial inclusion, as earlier alluded. However, these innovations could present notable challenges for exchange rate policy, which has traditionally been influenced by factors such as interest rates, inflation and fiscal policy.
- 6.15 The real-time payments lower transaction costs, which makes exchange rates more sensitive to market forces and can complicate central banks' efforts to manage volatility. These systems also enable faster, larger cross-border capital flows, potentially increasing market instability and requiring policy adjustments. However, blockchain technology enhances transparency and security, which could support stability in foreign exchange markets. While fintech boosts financial inclusion, especially in emerging markets, it may lead to higher demand for foreign currencies and amplify volatility. Moreover, easier access to global markets makes capital flows more responsive to economic conditions, complicating monetary policy effectiveness. The influx of capital can strain foreign exchange reserves, necessitating more frequent interventions by central banks. Finally, cryptocurrency platforms intensify competition in the foreign exchange market, affecting supply and demand dynamics, which in turn impacts exchange rates.
- 6.16 The exploration of CBDCs by central banks also have significant implications for exchange rate policy. One key concern is the risk of currency substitution, particularly in countries with unstable currencies, where CBDCs could replace the local currency, undermining domestic monetary policy and destabilising exchange rates. Additionally, CBDCs facilitate faster and cheaper transactions, which could alter cross-

border capital flows, requiring central banks to carefully manage their impact on exchange rate stability. The rise of CBDCs, especially in major economies, could also shift the global balance of currency dominance, prompting central banks to adjust interest rates and foreign exchange reserves in order to remain competitive on the global stage.

7. OPPORTUNITIES FOR BOTSWANA IN NEXT GENERATION PAYMENT SYSTEMS, INNOVATION AND FINTECH

- 7.1 The global shift towards digital payments presents a unique opportunity for Botswana to leverage next-generation payment systems and fintech innovations and modernise its NPS, leapfrog traditional limitations and foster inclusive growth. By strategically adopting next-generation payment systems and fintech innovations, Botswana can enhance financial accessibility, improve efficiency, and strengthen economic resilience. To fully capitalise on these advancements, a multi-faceted approach is required. Meanwhile, several key opportunities exist for Botswana to leverage next generation payment systems and fintech innovation.

(a) Enhanced Financial Inclusion

- 7.2 Botswana's relatively high mobile penetration rates estimated at 185 percent in 2024, provides a strong foundation for expanding digital financial services and improving financial inclusion. Mobile money and digital wallets can bridge the gap for the unbanked and under-banked populations, offering accessible and affordable financial services, particularly in rural areas. Based on FinScope Botswana 2020 survey, with 82 percent of adults having a bank account but only 56 percent holding traditional bank accounts, fintech solutions such as mobile-based savings, credit, and insurance products can help close this gap by providing more flexible and user-friendly alternatives. Further development and promotion of digital payment systems will empower

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individuals, stimulate economic activity, and integrate previously excluded segments into the formal financial system. Additionally, the digitalisation of payments through contactless transactions, QR codes, and mobile wallets reduces reliance on cash and traditional banking, making financial services more convenient and cost-effective. Lower transaction fees, especially for cross-border payments, further enhance affordability, while advanced security features like biometric authentication and tokenisation help protect financial data and prevent fraud. Financial literacy and digital education initiatives will be critical in ensuring that individuals confidently adopt and utilise digital payment methods, improving financial management and transparency. For ordinary citizens, this means increased convenience, lower transaction costs, enhanced security through features like biometric authentication and tokenisation, and greater control over their finances through real-time transaction tracking.

- 7.3 Supporting small, micro, and medium enterprises (SMMEs) through digital financial solutions presents another major opportunity for Botswana. The SMMEs financing gap, estimated at 18.6 percent of GDP, highlights the need for alternative credit solutions. Digital lending platforms that use transaction history and behavioural data for credit assessment can improve access to financing for SMMEs, bypassing traditional banking barriers. Additionally, digital supply chain finance solutions can help small businesses manage cash flow more efficiently, optimise operations, and expand market participation. By integrating fintech-driven credit and payment solutions, Botswana can unlock the economic potential of its SMME sector, fostering entrepreneurship, job creation, and overall economic growth. Additionally, Botswana's increasing literacy rate,

which reached 88.6 percent for individuals aged 15 – 65 years, creates an enabling environment for digital financial education initiatives. By leveraging fintech solutions, Botswana can enhance financial literacy, promote responsible financial behaviour, and empower individuals and businesses to participate more actively in the formal financial system.

(b) Modernised Payment Infrastructure

- 7.4 Investments in robust digital infrastructure, including among others, expanding nationwide internet connectivity, particularly in underserved areas, are crucial in unlocking the economic potential. Botswana's plan to invest in a state-of-the-art, interoperable national payments switch is, therefore, crucial towards streamlining transactions and seamlessly integrate diverse payment methods. This would, significantly reduce processing times and costs and enhance security by integrating various payment methods (mobile money, cards, online banking) onto a single platform. This improved efficiency would benefit businesses of all sizes, from micro-enterprises to large corporations, streamlining operations and improving cash flow management. The switch should be designed with future scalability and adaptability in mind, anticipating the integration of emerging technologies. This will require the development and implementation of key standards, including interoperability, security, data protection and operational standards, all crucial for ensuring a robust, efficient and trustworthy national payment system.
- 7.5 Furthermore, fast-tracking modernisation initiatives such as the development of a single, integrated CSDB will improve Botswana's capital markets by reducing inefficiencies, operational risks and costs. It will enhance market transparency, improve competitiveness and attract more investment by streamlining securities clearing and settlement. The modernisation will benefit all stakeholders, fostering a more robust and attractive investment environment.

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(c) Enhanced Interoperability Between Different Financial Systems

- 7.6 The complete migration to the ISO 20022 messaging standard is crucial for aligning Botswana's financial infrastructure with global best practices. This globally recognised standard enhances interoperability between different financial systems, improving the speed, efficiency and security of domestic and cross-border transactions. By adopting ISO 20022, Botswana's financial institutions will be better equipped to participate in global markets, fostering greater integration and access to international investment opportunities. The increased data richness provided by ISO 20022 will also improve risk management and regulatory oversight, contributing to a more robust and resilient financial system.

(d) Leveraging Fintech Innovation

- 7.7 The adoption of InsurTech in Botswana offers opportunities to develop digital insurance solutions, such as microinsurance for farmers and small businesses, enhancing financial resilience in under-served communities. Leveraging data analytics for personalised pricing and risk assessment can lead to fairer, more competitive premiums, while digital distribution and claims processing can boost efficiency and insurance penetration. Similarly, RegTech can streamline compliance for financial institutions by automating regulatory reporting and enhancing fraud detection through AI and machine learning, improving financial security while reducing costs. A strong RegTech ecosystem will support both institutions and regulators in maintaining a transparent and secure financial sector. Meanwhile, WealthTech can expand access to investment opportunities through robo-advisors and digital platforms, making wealth management more inclusive. By integrating financial literacy tools, WealthTech can empower individuals to make informed investment decisions, fostering economic resilience and encouraging broader participation in local capital markets.

- 7.8 A supportive regulatory environment for such opportunities is crucial for fostering a vibrant fintech ecosystem. This involves establishing clear guidelines that encourage innovation, while mitigating potential risks. The exploration and implementation of regulatory sandboxes can provide a controlled environment for fintech companies to test new products and services, accelerating the pace of development and adoption. Furthermore, partnerships between established financial institutions and innovative fintech startups can combine traditional expertise with cutting-edge technological solutions, fostering rapid growth and development.

(e) Facilitating Public-Private Partnerships

- 7.9 Public-private partnerships (PPPs) present a significant opportunity for advancing Botswana's next-generation payment systems and fintech sector. Collaboration between the government, financial institutions, and fintech startups through structured PPPs can accelerate the development and adoption of innovative digital payment solutions. By leveraging private sector expertise, investment, and technology, PPPs can enhance financial infrastructure, expand digital access, and drive inclusive economic growth. Additionally, joint initiatives can foster regulatory innovation, ensuring that policies are adaptable to emerging technologies while maintaining financial stability and consumer protection. Strengthening these partnerships will be crucial in scaling digital financial services, promoting financial literacy, and fostering a dynamic fintech ecosystem in Botswana. Establishing a framework for PPPs can enable knowledge-sharing, joint investment in financial infrastructure, and regulatory support for emerging fintech startups. Additionally, providing funding and resources for fintech entrepreneurs can stimulate innovation and attract private sector investment. Strong public-private cooperation will, therefore, be instrumental in scaling fintech adoption and fostering an inclusive financial ecosystem.

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(f) Strengthening Regional Integration

- 7.10 Botswana’s active participation in regional payment systems, such as the SADC-RTGS, is essential for facilitating and easing cross-border trade, thus potentially greater regional economic integration. Botswana’s participation in the SADC-RTGS and its planned onboarding of the Pula as a settlement currency in the SADC-RTGS system in 2025 are expected to enhance regional financial integration by enabling faster, safer, and more cost-effective cross-border transactions. This move will reduce reliance on third-party currencies, lowering foreign exchange risks and transaction costs associated with correspondent banking for businesses and individuals. Additionally, it will promote trade efficiency, support financial inclusion by enabling seamless regional payments, and strengthen the resilience of Botswana’s financial system. Aligning with regional payment infrastructure also positions Botswana for deeper economic cooperation and enhances the global competitiveness of its financial sector.
- 7.11 Furthermore, onboarding the Pula on SADC-RTGS aligns with regional objectives to improve cross-border payments, leveraging the Pula’s stability and credibility to foster greater economic integration and reduce reliance on the ZAR and non-regional currencies (like the US dollar), thereby minimising transaction costs and exchange rate risks. The streamlined payment processing and enhanced liquidity management will benefit both Botswana and other SADC member countries. Furthermore, the SADC-RTGS provides valuable data on regional payment flows to inform policy development, allows for multi-currency settlement which reduces exchange rate risk and ultimately strengthens financial stability in the SADC region. As of 2024, four commercial banks in Botswana actively participated in the SADC-RTGS system, with substantial transaction volumes and values.⁴⁴

⁴⁴ Four additional banks have expressed interest to join the SADC-RTGS, and two are in the final stages of the onboarding process.

(g) Digitalisation of Government Payments

- 7.12 The Bank plays a key role in government payments by acting as the primary settlement agent for government transactions, ensuring efficient, secure, and timely transfers. The digitalisation of government payments presents a significant opportunity for the Bank to enhance the efficiency, transparency, and security of public financial transactions. The Bank’s “Digital BoB2024” initiative thus presents a transformative opportunity to revolutionise government revenue collection. By implementing modern digital cash handling and management solutions, including fully automated banking facility with advanced technology (interactive kiosks, cash recycling machines, digital portals and POS devices), the aim is to increase efficiency, reduce manual processes and enable real-time processing and reporting. Real-time processing and integration with the Government Accounting and Budgeting System (GABS) will ensure immediate crediting of funds and streamlined reporting. Streamlined cash handling will reduce errors and delays, while enhanced traceability will strengthen financial accountability. Ultimately, in the area of payments, “Digital BoB2024” will contribute to a more efficient and transparent government financial system, supporting fiscal management and resilience and, broadly, Botswana’s economic development goals. This shift would not only reduce operational costs but also create a more seamless and secure environment for citizens and businesses.

(h) Regulatory Leadership and Policy Innovation

- 7.13 Botswana has the opportunity to establish itself as a regional leader in fintech regulation and oversight by developing a robust and adaptive regulatory framework for digital payments, open banking, and emerging financial technologies. A well-structured regulatory environment can foster innovation while ensuring financial stability, consumer protection, and cybersecurity resilience. By implementing progressive policies

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that support digital payment interoperability, real-time transactions, and fintech-driven financial services, Botswana can attract investment and encourage the growth of a competitive fintech sector. Furthermore, planned regulatory innovations such as regulatory sandboxes and open banking frameworks can facilitate the safe testing of new financial products and services, allowing regulators to strike a balance between innovation and risk management. In so doing, the Bank is developing a National Payment Systems Law to align with international best practices and regional regulatory frameworks, as well as enhancing its credibility as a fintech-friendly jurisdiction, fostering cross-border collaboration and strengthening its financial ecosystem in the digital age.

(i) Leveraging Blockchain Technology

- 7.14 Blockchain technology holds significant promise for improving financial transactions in Botswana, particularly in cross-border remittances, digital identity verification, and asset tokenisation. Implementing blockchain-based remittance solutions can reduce transaction costs and processing times, benefiting individuals and businesses engaged in regional trade. Additionally, blockchain-enabled digital identity verification systems can streamline KYC processes, reducing fraud while enhancing financial inclusion. Exploring the tokenisation of real-world assets, such as real estate and commodities, can create new investment opportunities and improve market liquidity. By leveraging blockchain innovation, Botswana can modernise its financial sector and boost investor confidence.

(j) Promoting Open Banking

- 7.15 Establishing a regulatory framework for open banking can foster competition and innovation in Botswana's financial sector by enabling seamless data-sharing between banks and fintech providers. Encouraging banks to develop APIs will allow third-party developers to create innovative financial products tailored to consumer needs.

Open banking can enhance customer experience by providing personalised financial management tools, improving access to credit, and promoting financial transparency. By embracing open banking principles, Botswana can accelerate digital transformation and drive greater financial inclusion.

(k) Growing the Local Services Industry through E-payments

- 7.16 The adoption of e-payment solutions can significantly boost the local services industry by addressing several key challenges and unlocking substantial opportunities. Some of the benefits, opportunities and enabling factors of electronic payments that could result in growth of the local service industry are outlined below.

Expansion of Market Access and Enhanced Customer Experience

- 7.17 E-payments empower local service providers to transcend geographical limitations, reaching both domestic and international markets. Businesses in sectors such as hospitality, tourism, retail and professional services can leverage online platforms and digital payment systems to attract a broader customer base and expand reach increasing revenue streams and enhancing competitiveness.

Increased Accessibility and Convenience

- 7.18 E-payments improve service accessibility, particularly in underserved areas. Geographical barriers and logistical challenges that previously hindered access to financial services are largely overcome by enabling transactions via mobile devices. For small businesses, e-payments offer broader reach, accessing customers nationally and potentially internationally, creating a more competitive landscape.

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Reduced Transaction Costs and Improved Efficiency

- 7.19 E-payments offer substantial cost savings compared to cash-based transactions, which often incur hidden costs (handling fees, security and theft risks). The efficiency gains from automating invoicing, payments and reconciliation processes reduce administrative overheads, allowing businesses to focus on core operations and improving cash flow management.

Enhanced Security and Transparency

- 7.20 E-payments enhance security and transparency through digital safeguards such as encryption, two-factor authentication and fraud detection mechanisms. The ability to analyse payment data also supports improved financial planning and regulatory compliance for businesses.

Financial Inclusion and SMME Growth

- 7.21 E-payments are key to achieving Botswana's financial inclusion goals, providing access to essential financial services for previously excluded populations. Digital transaction histories can also serve as alternative credit scoring mechanisms, expanding access to credit for SMMEs and individuals lacking traditional credit records. This fosters entrepreneurship and job creation, driving economic diversification.

Promotion of Innovation and Digital Transformation

- 7.22 The adoption of e-payments encourages innovation in service delivery. New business models and services thrive when seamless digital payments are readily available. Integrating advanced technologies like AI and blockchain further enhances security, reduces fraud and improves customer experience.

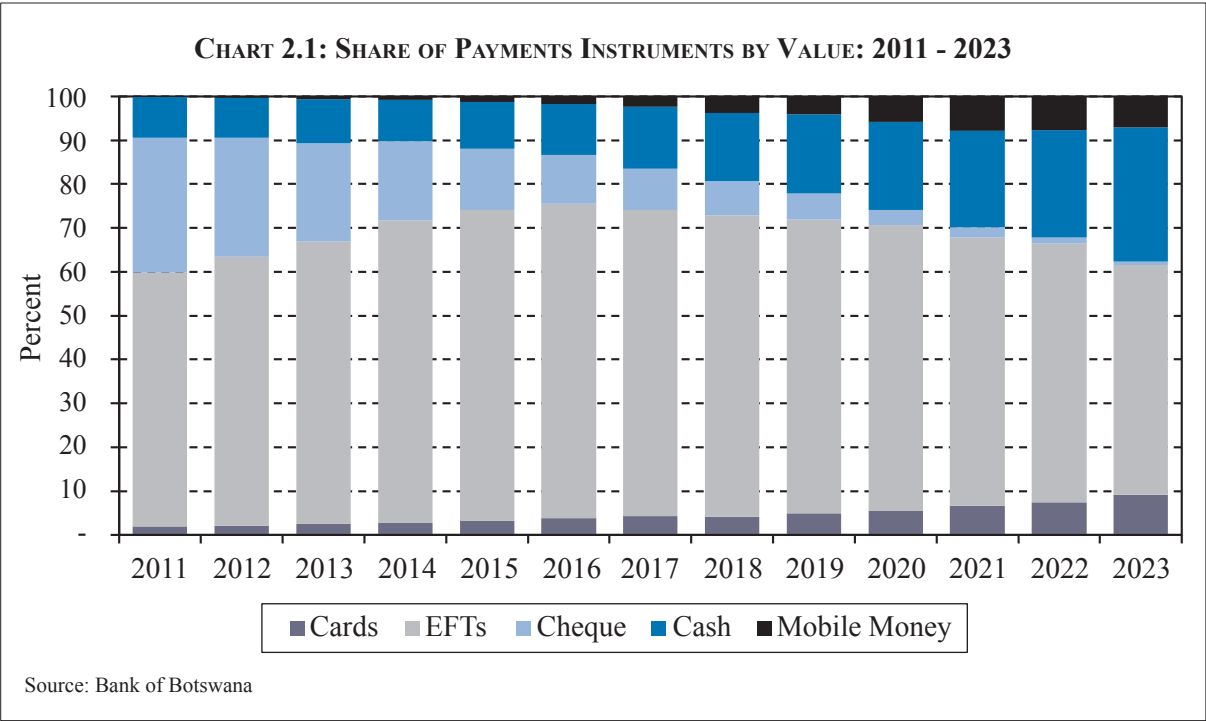
- 7.23 Embracing e-payments is not merely a technological upgrade but a strategic imperative for Botswana's economic growth. By fostering a supportive regulatory environment, promoting digital literacy and leveraging the potential of fintech, Botswana can fully realise the transformative power of e-payments to drive the growth of its local services industry and enhance its overall economic competitiveness.

(I) Deepening and Improving Competition and Efficiency in the Domestic Financial System

- 7.24 Mobile money has improved competition in Botswana, especially in the payments and digital lending space. Over the last decade, mobile money has, while diversifying the available means of payment, provided the under-served adults access to financial services (deposit-taking, money or value transfer and lending). Mobile money accounts increased from 0.73 million in 2014 to 2.99 million in 2023. Subsequently, the proportion of mobile money payments to total payments increased from 1 percent to 8 percent (Chart 1). Mobile money has contributed to reduction in transaction fees by traditional payment service providers, especially for international money transfers. Mobile money operators have competitive edge over traditional banks in terms of transferring money value internationally. As at December 2024, mobile money charged an average of P77.50 per international transaction, while banks charged an average of P334.20. Furthermore, provision of digital loans (i.e., Nstakolle and Myzaka loan) by mobile money service providers in partnership with traditional lenders, has increased availability of credit to unbanked thus potentially increasing competition in the loan market. Increased uptake and diversification of mobile money product offering (merchants) could further deepen competition.

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7.25 Loan and equity crowdfunding has also increased access and competition in the loans and equity market. Peer-to-peer crowdfunding has reduced the start-ups and individuals’ appetite to seek traditional sources of funding. It has provided a financing alternative for start-ups, which are mostly denied credit by traditional banks and cannot raise equity through the stock exchange mainly due to the stringent loan requirements (lack of credit history, collateral and others) and listing requirements. The increasing availability of borderless crowdfunding platforms could potentially increase competition in the domestic credit and equity market.

7.26 Fintech also has potential to improve efficiency in the domestic financial sector. It offers means through which institutions can deliver financial products or services in a timely manner, at a reasonable cost. Examples of fintech activities with the potential to improve efficiency in the financial sector include CBDCs, cryptocurrencies and stablecoins given their advantages as

outlined in Table 1. The outlined attendant risks or disadvantages require robust regulatory frameworks and safeguards that in the same breadth, do not stifle the innovation.

7.27 In Botswana, although there is currently no official stablecoin or cryptocurrency issued or sanctioned by the Bank of Botswana or other financial regulatory authorities, the use of digital assets such as Bitcoin and Ethereum is steadily gaining traction within the local financial ecosystem.⁴⁵ Platforms including Yellow Card, Binance, and Paxful have facilitated the trading and exchange of cryptocurrencies, enabling both individuals and businesses to engage in these digital transactions.⁴⁶ Nonetheless, at present, there is no stablecoin specifically pegged to the Botswana Pula nor any stablecoin uniquely tailored for Botswana’s economy.⁴⁷

45 Bank of Botswana, (2021). Statement on Crypto Assets – Participation and Regulation.

46 UPay (2024). Crypto Adoption Around the World: Botswana.

47 Freeman Law, (n.d.). Botswana and Cryptocurrency.

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7.28 The impact of fintech has already been felt in the payment services space in Botswana, wherein they increased market share (in terms of loans) of one of the commercial banks. Moreover, through creation of faster, cheaper and more convenient service provision, they have influenced the traditional intermediaries to innovate and explore ways to reduce transactions and increase efficiency. However, their impact on competition and efficiency could be facilitated through clear and innovation-friendly legal and regulatory frameworks as well as use of innovation facilitators.

(m) Innovation Hub Projects Geared Towards Next Generation Payments and Fintech

7.29 The Bank of Botswana, guided by the results of a Fintech Landscape Mapping Survey conducted in 2022, established an Innovation Hub in January 2023. The Hub provides strategic direction on adoption of fintech services as well as the necessary regulatory policy responses geared towards facilitating adoption of fintech. To achieve its mandate, the Innovation Hub monitors both local and global fintech developments, assessing their potential impact on key mandates of the Bank and providing guidance on the requisite regulatory policy responses aimed at striking the right balance between facilitating innovation while safeguarding the stability, integrity and safety of the financial system.

7.30 To that end, the Innovation Hub has several projects that are geared towards facilitating safe fintech driven innovations in financial services with a view to enable next-generation payments and the modernisation of the Botswana payments ecosystem through adoption of innovative fintech solutions. These projects include:

National Retail Payments Switch

7.31 Consistent with the NPS Vision and Strategy (2020 – 2024), which set out the essential characteristics of Botswana's future NPS and identified strategic actions in the continued development of the country's payment system, the country is undertaking a project that entails design, development and implementation of an inclusive, interoperable and futureproof NRPS is in progress. The overarching goal of the project is to create a modernised NPS that fosters innovation empowers stakeholders, promotes financial inclusion and effectively adapts to the dynamic payments landscape in Botswana and beyond. The NRPS project also aims to leverage innovative payment technologies and drive sustainable economic growth.

7.32 Key stakeholders driving the acquisition and implementation of the NRPS project include key Government departments being the Ministry of State President, the Ministry of Finance and the Ministry of Communications, Knowledge and Technology; the commercial banking sector represented by the Bankers Association of Botswana (BAB); mobile money operators; and the Bank of Botswana in its facilitative role. These stakeholders' collaborative efforts are geared towards addressing shortcomings and inefficiencies of the existing payments ecosystem, facilitating achievement of Government primary objectives of financial inclusion and cost effectiveness.

7.33 The switch will have the capacity to facilitate the following next generation payments and innovative fintech driven services as in Figure 5.

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FIGURE 2.5: NEXT GENERATION PAYMENTS AND FINTECH SERVICES



Source: Bank of Botswana

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- 7.34 The switch is intended to serve as an extensible foundational payments infrastructure that would facilitate innovation in financial services, leveraging the open architecture of the infrastructure and support for market integration through APIs.

Development of a National Fintech Strategy

- 7.35 Consistent with the strategic objectives of the Fintech Development Pillar of the NPS Vision and Strategy, 2020 – 2024, the Innovation Hub has facilitated establishment of a National Fintech Working Group, comprising financial services regulatory authorities including the Bank of Botswana; the Non-Bank Financial Institutions Regulatory Authority; Botswana Communications Regulatory Authority (BOCRA); key Government Ministries and Departments; BAB representing all commercial banks; infrastructure providers, such as Botswana Fibre Networks; and the Fintech Association of Botswana, among others.
- 7.36 The purpose of the National Fintech Working Group is to provide strategic direction, at a national level and an integrated approach towards the safe and orderly adoption, regulation and oversight of fintech developments across the local financial services industry. The Working Group will facilitate ongoing cross-sectoral collaboration on fintech regulation and oversight with a view to manage emerging risks, foster financial stability and facilitate the safe adoption of innovative technologies in support of the broader economy. In this respect, the Working Group is developing the National Fintech Strategy (2025 – 2030).
- 7.37 The Strategy, therefore, will serve as a vehicle for implementation of national goals that are anchored on leveraging innovative emerging fintechs as set in both the NPS Strategy and the eCommerce Strategy. The primary objective of the National Fintech Strategy is to position Botswana as the best regional fintech hub for modernisation of financial services, digitalisation of cross-border trade and inclusion of marginalised communities and SMMEs through innovative fintech solutions.

Fintech Analytical Assessment Framework

- 7.38 The Financial Stability Board and the Bank for International Settlements provides guidance on the regulatory treatment of fintech. Thus, the guiding principle for the regulation of fintech services is “same activity, same risks, same regulation” or “same activity, same risks, same regulatory outcomes”. Consistent with this guiding principle and having observed the increasing adoption of fintech services by the local financial services industry as well as the growing integration of banks and other non-bank financial institutions, the National Fintech Working Group, led by the Bank of Botswana, has developed a Fintech Analytical Assessment Framework. This is in furtherance of the Botswana financial services regulatory authorities’ mandate of maintaining the integrity, safety and stability of the financial system as well as the development and enhancement of the NPS in line with the Fintech Development Pillar of the NPS Vision and Strategy 2022 – 2024.
- 7.39 The objective of the Fintech Analytical Assessment Framework is to guide the Botswana financial services sector on:
- (i) identification of economic activities that are fintech activities;
 - (ii) licensing and designation of fintech activities for prudential supervision, regulation and oversight;
 - (iii) identification, analysis and management of emerging risks that may not be effectively addressed by existing legal and regulatory frameworks; and
 - (iv) promotion of legal certainty of emerging innovative fintech services through a transparent, comprehensive and sound legal framework for emerging fintech products and services as well as institution of appropriate policy responses to safeguard the stability and integrity of the financial system.

PART B

NEXT GENERATION PAYMENT SYSTEMS, INNOVATION AND FINANCIAL TECHNOLOGIES – OPPORTUNITIES FOR BOTSWANA (Continued)

7.40 Consistent with the FSB's guiding principle, the Framework outlines guidelines for regulation of the different fintech activities in Botswana. The guidelines build on existing legal and regulatory frameworks for incumbent financial services and accommodate emerging next generation technologies to create a level playing field between incumbent financial services and emerging fintechs. The guidelines are also intended to facilitate regular review of existing legal and regulatory frameworks to provide legal certainty for emerging innovative technologies and services. Furthermore, the four step Framework provides for testing of emerging technologies that may not be covered by existing legal and regulatory frameworks under regulatory supervision before entry into the market, through regulatory sandboxing.

8. CONCLUSION AND RECOMMENDATIONS

8.1 The transformative evolution of payment technologies over the years has led to the emergence of various fintech products and services and more recently, next generation payments, which are driven by advancements in innovative technologies such as blockchain, DLTs, AI, biometric identification and authentication, among others. Unlike conventional payment channels and instruments, next generation payments embrace digital solutions designed to offer convenience, security, efficiency and seamless integration across platforms to cater to the evolving needs and preferences of both consumers and businesses. While next generation payments have challenges associated with advancements in technology such as increased cyber threats and data breaches, they provide a host of opportunities and benefits which include efficiency, real-time processing, accessibility, cost effectiveness and improved customer experience, thus offering faster and more seamless payment experiences.

8.2 The role of regulatory authorities such as the Bank requires creating clear and adaptable policies that foster technological innovation while addressing inherent emerging risks to safeguard the stability and safety of the financial system. Further, it is imperative for regulators to actively collaborate with industry stakeholders to build trust and foster the development of sustainable solutions that promote economic resilience. In creating a conducive environment for innovation, expanding the digital infrastructure, especially to regions with low internet penetration must be a priority in support of Government financial inclusion objectives as digital infrastructure serves as the foundation for broader financial inclusion. By adopting a proactive, supportive stance, regulators such as the Bank can cultivate an ecosystem where digital financial services inclusive of emerging next generation payments not only thrive but also drive inclusive, sustainable development across diverse markets.

8.3 Collaboration efforts by the National Fintech Working Group, led by the Bank, are geared towards creating a conducive environment for orderly and safe innovation, further enhancing efficiencies brought by the fintech ecosystem. A Fintech Analytical Assessment Framework has been developed for the Botswana financial services sector to guide adoption and regulation of fintech services, facilitating orderly entry into the market for emerging fintechs. The use of innovation facilitators such as regulatory sandboxes, innovation hubs and innovation accelerators would support the ingenuity to innovate in financial services, providing the requisite credibility for emerging fintech firms and the adoption of next generation payments.

8.4 The Bank, in collaboration with key industry stakeholders, leads the acquisition, design, development and implementation of an inclusive, interoperable and futureproof NRPS for 24/7/365 clearing and settlement of retail transactions. The switch, whose design principles will provide for capabilities to support next generation payments is intended to serve as foundational payments infrastructure around which further innovations

PART B

NEXT GENERATION PAYMENT SYSTEMS, INNOVATION AND FINANCIAL TECHNOLOGIES – OPPORTUNITIES FOR BOTSWANA (Continued)

in financial services can be developed to meet Government priorities of financial inclusion and cost effectiveness. Collectively, these initiatives are intended to transform the Botswana payments landscape by creating an environment that enables adoption of innovative next generation payments to broaden financial inclusion, enhance digital financial services and deepen the broader digital economy.

8.5 The implementation of new technologies such as blockchain, AI and ML, adoption of new standards, increasing participation in RTGS along with the integration of RTGS with other systems can bring about significant changes and improvements in the financial systems. These innovations can drive efficiency and economic growth, positioning Botswana for success in the evolving global financial landscape. However, as payment systems become more interconnected and technology dependent, the risk of cyberattacks increases. The Bank, in collaboration with industry stakeholders, must continue to prioritise the development of robust cybersecurity frameworks to protect the integrity and security of the RTGS systems and other critical financial infrastructure. Furthermore, regulations should strike a balance, ensuring that they do not stifle innovation but instead encourage the adoption of emerging technologies that enhance financial system efficiency and resilience.

8.6 To ensure that Botswana remains at the forefront of fintech innovation while maintaining the safety and stability of its financial system, the following recommendations are proposed:

- (a) **Strengthen Regulatory Frameworks:** Develop and implement flexible, technology-neutral policies that encourage fintech innovation while addressing emerging risks. This includes enhancing the regulatory capacity to respond quickly to new technologies and financial products.
- (b) **Expand Digital Infrastructure:** Focus on extending internet access and improving digital infrastructure, particularly in

underserved regions, to ensure equitable access to financial services and to meet financial inclusion objectives.

- (c) **Public-Private Partnerships:** Encourage collaboration between the government, financial institutions, and fintech companies to drive innovation and implement new payment technologies.
- (d) **Support Innovation:** Leverage innovation facilitators like regulatory sandboxes, innovation hubs, and accelerators to support the safe testing and scaling of fintech solutions. These initiatives will help foster a vibrant fintech ecosystem while maintaining regulatory oversight.
- (e) **Ensure Cybersecurity Resilience:** As new technologies such as blockchain, AI, and ML are integrated into financial systems, there should be a continuous focus on enhancing cybersecurity measures. This will protect sensitive financial data, mitigate the risks of cyberattacks, and ensure the integrity of the payment system.
- (f) **Monitor Technological Integration:** Ensure that the integration of next-generation payment systems like RTGS, blockchain, and AI is done with appropriate risk assessments and regulatory safeguards. These technologies should be continuously monitored to address any vulnerabilities that may arise.
- (g) **Increase Public Fintech Awareness:** Educating the public is necessary to equip consumers of fintech-driven products with the knowledge and tools to understand and mitigate the risks associated with market offerings.

8.7 By following these recommendations, Botswana can unlock the full potential of fintech, enhance its financial infrastructure, and drive inclusive, sustainable economic growth.



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