



BANK OF BOTSWANA

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PRESS RELEASE

GOVERNOR PARTICIPATED IN THE 2019 ANNUAL MEETINGS OF INTERNATIONAL MONETARY FUND AND WORLD BANK

The Governor of the Bank of Botswana, Mr Moses D Pelaelo, accompanied by a delegation of Bank senior staff, participated in the annual meetings of the International Monetary Fund (IMF) and World Bank Group (WBG) in Washington DC from October 14 – 20, 2019. In his capacity as the Governor for Botswana in the Non-Executive Board of the IMF, the Governor attended the Combined Plenary addressed by the newly appointed IMF Managing Director, Ms Kristalina Georgieva and the President of the WBG, Mr David Malpass. The Governor also took part in the meetings of the International Monetary and Financial Committee (IMFC), Africa Group 1 Constituency of the IMF, which comprises 23 Sub-Saharan countries, the Commonwealth Central Bank Governors, as well as the Macroeconomic and Financial Management Institute (MEFMI) of Eastern and Southern Africa Board of Governors and the Combined Forum of Governors and Permanent Secretaries under the theme of governance.

The IMF/WBG meetings deliberated on, among others, recent economic and financial developments, prospects for global economic growth, challenges and the related policy responses. It was observed that there was a synchronised slowdown in global GDP growth to 3 percent in 2019, the lowest since the Great Global Financial Crisis of 2008-9, down from 3.6 percent in 2018. The slowdown was attributed to; among other factors, broad-based deceleration in growth of industrial output and trade as well as low business confidence and weaker investment amid rising trade barriers and geopolitical tensions. Furthermore, global economic performance was undermined by lack of traction of structural reforms in the advanced economies and China while idiosyncratic factors weighed down on growth in some emerging market economies. A modest recovery in output is, however, projected in 2020 with forecast global growth of 3.4 percent. The projected recovery, to be mainly driven by emerging markets and developing economies, remains precarious with elevated downside risks in an environment of policy uncertainty and sustained negative impact of trade and geopolitical tensions on business confidence, investment and growth, against the backdrop of limited policy space, high and rising debt levels and heightened financial vulnerabilities. Maintenance of low

interest rates for longer alongside any abrupt shift in risk sentiment could expose financial vulnerabilities accumulated in the recent past. Moreover, low inflation could become entrenched and constrain the prospect for monetary policy to influence economic recovery in the future. Meanwhile, economic growth in Sub-Saharan Africa economy is projected at 3.2 percent and 3.6 percent in 2019 and 2020, respectively, with a wide heterogeneity in performance among the various countries.

In recognition of prospective developments, the meetings emphasised the need for pre-emptive action and policy reform. These measures include, inter alia, to cooperatively de-escalate trade and geopolitical tensions, including addressing the roots of dissatisfaction with the global trading system, and improving the governance of trade and rolling back tariffs. For emerging markets and low income countries, monetary policy could be eased to support weakening economic activity where inflation is well-anchored. For countries with high levels of public debt, the implementation of medium term strategies and fiscal consolidation are necessary, and should be carefully calibrated to be growth-friendly and safeguard social objectives. Furthermore, rationalisation of subsidies, enhanced fiscal data, promoting competition and flexible markets as well as implementation of medium-term revenue strategies and improved efficiency in domestic resource mobilisation efforts can create opportunities to raise social spending and investments in productive infrastructure. Overall, there was need, globally, for well-tailored structural reforms to raise potential output and productivity and respond adequately to climate change. At the same time, it was necessary to build resilience to economic shocks and natural disasters and maintain policies to achieve balanced inclusive growth; thus fair and equitable economic and social outcomes.

Meanwhile, it was noted that financial system vulnerabilities have continued to build and that medium term financial stability risks remain elevated. Highlighted in this regard was the rising corporate debt burden due to, in the main, sustained low global interest rates; growth in riskier and more illiquid assets held by institutional investors; and the greater reliance on external borrowing by emerging and frontier market economies. It was observed that there was need to mitigate these risks through stricter supervisory oversight; adoption of sound macroprudential policy tools where financial vulnerabilities are building, including outside the banking sector; strengthened supervisory oversight and disclosures for institutional investors; and implementing prudent sovereign debt management practices and frameworks. The meetings emphasised the importance of maintaining globally cooperative solutions, including completing and implementing the financial regulatory reform agenda.

In view of the global challenges and emerging developments, it was noted that, consistent with its mandate, the IMF policy agenda would include (a) strengthening frameworks for global cooperation to improve trade and reduce excessive global imbalances through policy advice on macroeconomic and structural policies that support sustainable growth, tackling illicit financial flows, effective AML-CFT infrastructure and work on international taxation to mitigate risks

of tax avoidance and profit shifting due to growing digital activities; (b) enhance resilience to address external shocks and macroeconomic consequences of climate change, natural disasters and cyber risks; (c) developing an Integrated Policy Framework to achieve macroeconomic policy resilience towards sustained growth and stability. The Framework involves providing member countries with a more systematic assessment of, and a deeper understanding of, the unintended consequences of a mix of policies and spill over effects of the interactions of both domestic and international policies; and (d) to analyse options for member countries to boost inclusive growth, reduce inequality and poverty by providing opportunities for all people through adequate, efficient and fiscally-sustainable social spending as well as promoting greater economic participation and productivity including financial inclusion and attainment of Sustainable Development Goals.

The Governor also attended several briefings and seminars focusing on various issues such as climate change and central banks, digital strategies, fiscal and financial sector governance, public debt, and financial literacy. Issues specific to the Bank and the economic and policy developments in Botswana were discussed bilaterally with relevant departments of the International Monetary Fund. The next IMF and the WBG meetings (Spring Meetings) will be held on April 18, 2020.

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