Research Update:

Botswana Outlook Revised To Negative On Rising And Protracted Fiscal And External Pressures; 'BBB+/A-2' Ratings Affirmed

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Overview

- We expect Botswana's GDP to contract by 9% in 2020 because of the adverse impact of the COVID-19 pandemic, compounded by weaker diamond exports.
- The fallout from the current pressures could delay medium-term fiscal consolidation and further erode Botswana's external buffers
- A stable and predictable institutional framework continues to support the ratings, and the monetary policy framework supports macroeconomic stability.
- We are revising our outlook on Botswana to negative from stable and affirming our 'BBB+/A-2' ratings.

Rating Action

On Sept. 18, 2020, S&P Global Ratings revised the outlook on Botswana to negative from stable. At the same time, we affirmed our 'BBB+/A-2' long- and short-term foreign and local currency sovereign credit ratings on Botswana.

We also affirmed our 'BBB+/A-2' long- and short-term foreign and local currency sovereign credit ratings on the Bank of Botswana, because we equalize them with our ratings on the sovereign.

Outlook

The negative outlook reflects our view of anticipated higher pressures on Botswana's economic, external, and fiscal performance over the next two years, stemming from the impact of the global pandemic, notably on diamond exports.

Downside scenario

We could lower our ratings on Botswana if the fiscal trajectory remained weak, beyond the initial impact of the pandemic. This could happen if diamond prices and demand failed to recover in the next two years. In such a case, ongoing spending pressures could derail fiscal adjustments, and the current account deficit could widen beyond our current assumptions, potentially leading to gross external financing needs exceeding 100% of current account receipts (CARs) and usable reserves.

Upside scenario

We could revise the outlook to stable if Botswana is able to restore its fiscal balance to more manageable levels through fiscal discipline and an upturn in the global diamond market. If Botswana manages to prevent a further decline of external buffers, that could also support the ratings at their current levels and a stable outlook.

Rationale

Botswana is experiencing the negative effects of the COVID-19 pandemic after a challenging 2019 fiscal and external performance. The economic lockdown has had a material negative impact on economic activity, with diamond third and fourth sightholder sales being cancelled because of global travel restrictions. Similar to many African countries, Botswana introduced fiscal and monetary relief measures to mitigate the impact. The Bank of Botswana cut its benchmark rate and injected Botswana pula (BWP) 1.6 billion (about US$140 million) into the banking sector by reducing reserve requirements.

As a result of the combined effects of the economic meltdown and collapse of diamond demand, prices, and production in 2020, fiscal and external balances are weaker than we anticipated in our previous forecasts. We now forecast that the economic contraction will be close to 10% in 2020, reflecting the past lockdowns and potential future intermittent lockdowns in the capital city for the remainder of 2020. We consider 2020 economic underperformance as a one-off event, and we project an economic rebound of 6% in 2021.

The aggregate diamond industry accounts for about a quarter of Botswana's GDP. This makes its economy highly susceptible to external shocks. Diamond production at Debswana came to a standstill for a month earlier this year, and very low global demand is unlikely to sustainably change the dynamics in 2020, despite some signs of recovery of diamond demand in China and the U.S. We forecast diamond production will contract by 25% in 2020 after an already challenging 2019.

Although the banking sector accounts for about 50% (by total assets) of the country's GDP, we project credit growth will be moderate at about 5% in 2020.

Botswana is set to post twin deficits in the next two years. It has posted fiscal deficits since 2017. We initially projected a 2.5% fiscal deficit for 2020-2021 on the back of muted but positive real GDP growth of 2.6%, prior to the pandemic's onset. We have revised our fiscal deficit projection for Botswana's 2020 fiscal year (ending March 31, 2021) upward to 8% due to the global headwinds.

We now expect the country will close the 2020 fiscal year with a current account deficit of about 12% of GDP compared with 7.9% in fiscal 2019. We project the current account deficit will average 7% through 2023, on the back of lower diamond exports and receipts from membership in the

Southern African Customs Union (SACU). We also expect tourism could take longer to recover from the pandemic.

We expect the twin deficits will continue to reduce the country's traditionally strong fiscal and external buffers over the medium term. Botswana's weakening fiscal and external balance sheets are vulnerable to a prolonged depression of the diamond market.

We understand that Botswana is planning to raise domestic and external debt from a low base to finance its deficits, but we project that foreign currency reserves will continue to decline over the medium term.

A stable and predictable institutional framework supports the ratings. That said, the current pressures are testing Botswana's historical commitment to fiscal prudence and low indebtedness, on the back of generally limited contingent liabilities. Its monetary policy framework underpins macroeconomic stability, supported by the crawling peg exchange regime against the South African rand and the International Monetary Fund's special drawing rights (a basket of major currencies), but the limited size of the private sector somewhat constrains the framework's effectiveness.

Institutional and economic profile: A weakened diamond sector and depressed global economy will lead to a sharp economic contraction in 2020

- We expect diamond production and prices will remain weak for the rest of 2020.
- Non-mining activities will be hampered by intermittent lockdowns.
- The institutional framework remains intact following the 2019 elections.

Lower diamond prices led to an unexpectedly high current account deficit in fiscal 2019. Prices declined by 6% in 2019 as demand subsided for rough diamonds in China and the U.S. Production levels fell in 2019 to 23.2 million carats from 24.1 million carats in 2018, due to planned repairs in Botswana's major mines. The country's diamond production decreased by 68% to 1.8 million carats in the second quarter of 2020 (production at Jwaneng fell 65% and at Orapa by 72%) because of the nationwide lockdown and the implementation of COVID-19 safety measures that introduced additional workforce rotation. We expect production will remain low because Debswana produces on demand. We assume a U-shape recovery of diamond exports, reflecting an uptick of demand in China and reopening of economies in Europe and the U.S. Production and prices will likely pick up only in 2021-2022, after falling by about 10% year to date according to the Zimnisky Global Rough Diamond Index.

We project that Botswana's economy will contract by 9% in fiscal 2020 before expanding by 6% in fiscal 2021 with real GDP recovering to pre-crisis levels in fiscal 2022. The government of Botswana introduced some stimulus measures with a relief fund of BWP2 billion (1% of GDP) and BWP1.1 billion of loan guarantees to support businesses. We estimate current account receipts will decline by about 25% in 2020 versus 2019. We think the tourism sector, which is an important source of external receipts (about 10% export receipts in 2019), will recover only slowly.

The non-mining sectors, moreover, have been significant contributors to growth in 2018-2019. Their performance declined in the first quarter of 2020 by 5%-6%, versus the same period of 2019, except agriculture, which improved 7%, recovering from a severe drought in 2019. We expect non-mining sectors, excluding government services will continue to underperform in 2020 because of intermittent lockdowns in the country.

Domestic demand has been more muted in the first quarter of 2020, increasing by a mere 2%

compared with 7%-8% growth in 2017-2019, and was disrupted in the second quarter by the lockdown. That said, the public sector's salary and minimum wage increases adopted in 2019 should come into effect in the third quarter and could help boost consumption toward the end of 2020. Finally, we expect unemployment will remain above 20% over our forecast horizon through 2023, largely concentrated among young people. Absent a wider economic base and a buoyant private sector, the diamond sector will continue to largely shape the growth outlook in the medium and long term.

Botswana has been a beacon of institutional stability across the region, and it has had a positive record of sustainable public finances and a steady macroeconomy. But the current pressures are testing the limits of the economic policy framework. Despite the unprecedented divisions during the 2019 electoral campaigns, the policy framework remains largely unchanged and predictable. The Botswana Democratic Party (BDP) recorded a clear victory in October 2019, leaving the opposition coalition with a limited margin to maneuver. Botswana's natural wealth as one of the world's largest rough diamond producers has been prudently managed, enabling the country to emerge over the past few decades to middle-income status. The government's accumulation of savings underscores its conservative record in wealth management, but recent declines of these reserves also point to limited financing options.

Flexibility and performance profile: External buffers are declining, reflecting structural weaknesses of Botswana's balance sheet.

- The impact of the pandemic is undermining Botswana's fiscal outlook.
- The country's current account balance turned into a deficit in 2019 and will continue to be under pressure in 2020-2021.
- External buffers are reducing while financing needs are rising.

Botswana's fiscal revenue depends on two main sources, diamond revenue and receipts from membership in SACU. Both fluctuate and we expect they will underperform because of the current global economic outlook. We forecast a 7% reduction of SACU revenue in the next two years. Thus, fiscal outcomes are subject to volatility, and Botswana has posted fiscal deficits since 2017.

We estimate that Botswana will post a general government deficit of about 8.0% of GDP in the 2020 fiscal year ending March 31, 2021, after posting a deficit of 4.9% in fiscal 2019. This is largely the result of a collapse in diamond revenue, which generally accounts for about one-third of revenue. At the same time, SACU receipts will continue to be affected by regional trade partners, chief among them South Africa. The fiscal revenue side will continue to be constrained by ongoing investments through dividend reduction in Debswana's projects over the medium term. Stimulus measures in the form of tax deferrals until March 2021 and quicker turnaround of value-added tax refunds will likely tighten cash flows in 2020. Although we do not expect further salary adjustments beyond inflation levels, following the 10% adjustment during this fiscal year, delay of capital expenditure may provide the government only limited flexibility. Therefore, we project that Botswana will likely run a fiscal deficit throughout our forecast horizon, but it will narrow to 1.8% of GDP in the last year of our forecast, 2022-2023.

We now project that the government will largely finance an estimated BWP15 billion deficit in fiscal 2020 via domestic and concessional borrowings. However, it will continue to draw down on its liquidity buffers. We expect the debt mix to rebalance gradually toward domestic debt over the forecast horizon because the government is planning to increase its domestic bond program to BWP30 billion from BWP15 billion. Hence, we estimate gross general government debt relative to

GDP will increase materially, averaging 25% over 2020-2023. Approximately 55% of gross government debt is external, of which more than 75% is variable rate loans with multilateral and bilateral lenders, while the remaining 45% is domestic debt. As a result, we expect interest-servicing costs will not exceed 5% of revenue for fiscals 2020-2023 in a context of low global interest rates.

At the same time, we project a 12% current account deficit in 2020. We expect Botswana to record a trade deficit through 2023, largely driven by lower diamond exports, which account for 90% of goods exports, and tourism, which generally accounts for 10% of export receipts. That is, we forecast a prolonged current account deficit averaging 7% of GDP through 2023. As a result, Botswana's gross external financing needs will increase from the mid-50% range of CARs plus useable reserves in 2018 to average at 78% over 2020-2023.

Since foreign direct investments and external debt borrowing is low, financing of the current account partly relies on central bank reserves. We forecast reserves will drop below $5 billion in 2020, but recover somewhat toward the end of our forecast period. The Pula Fund is a sovereign wealth fund established to save some diamond export receipts for future generations. The performance of the investment portfolio has been positive since the introduction of the new asset allocation framework, contributing to a BWP3 billion windfall transfer from the Bank of Botswana to the government account for fiscal 2020.

Botswana operates a crawling peg exchange regime against a basket of currencies comprising the South African rand and the International Monetary Fund's special drawing rights (a basket of major currencies). The central bank has broad operational independence and the crawling peg exchange rate regime offers flexibility. The Bank of Botswana implemented two downward re-adjustments to the annual rate of crawl by 1.51% in January and 2.87% in May 2020 to support its export base against a weaker South African rand (which accounts for 45% of the currency basket). The peg helps control inflation, which we forecast will remain below the central bank's 3%-6% target in fiscal 2020. Inflation averaged 1.9% in the first seven months of 2020 on the back of lower fuel prices. We expect the central bank will continue with its accommodative monetary stance after cutting its benchmark rate by 50 basis points in April 2020 to 4.25% to boost lending. That said, we forecast more muted loan growth of about 5% in 2020, despite additional liquidity injected through the reduction of the primary reserve requirements to 2.5%.

In our view, concentration in the household lending segment remains a key credit risk for banks because of the relatively high household leverage (household debt represents 20% of GDP). Nonperforming loans declined further to 4.5% at end-June 2020 from 4.8% at year-end 2019, on the back of improved recoveries in the corporate book. That said, we expect the current difficult global conditions will lead to some restructuring of banks' mining, trade, and tourism exposures, as well as higher risk migration to stage 3 loans as defined in International Financial Reporting Standard No.9.

We think contingent liabilities stemming from the banking sector are limited, given that the sector is largely dominated by well-managed subsidiaries of South African banks and public sector banks account for only about 2% of market share by total assets. External refinancing risk is minimal, despite the dominance of foreign banks, which are largely funded by domestic customer deposits.

We equalize the ratings on the Bank of Botswana with our ratings on the sovereign, given that we consider monetary authorities as analytically inseparable from the sovereign.

Environmental, social, and governance (ESG) credit factors for this credit rating change:

- Health and safety

Key Statistics

Table 1

Botswana Selected Indicators

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Economic indicators (%)										
Nominal GDP (bil. BWP)	146	146	171	180	190	197	180	196	209	225
Nominal GDP (bil. $)	16	14	16	17	19	18	16	17	18	19
GDP per capita (000s $)	7.8	6.8	7.2	7.9	8.3	8.0	6.9	7.0	7.2	7.5
Real GDP growth	4.1	(1.7)	4.3	2.9	4.5	3.0	(9.0)	6.0	4.5	4.5
Real GDP per capita growth	2.8	(3.2)	2.4	0.8	2.2	0.7	(10.8)	3.9	2.5	2.5
Real investment growth	1.5	8.8	3.6	(8.8)	8.1	6.5	(3.0)	1.0	4.0	6.0
Investment/GDP	26.4	28.9	26.2	28.3	31.2	37.3	31.7	31.6	32.6	35.4
Savings/GDP	36.9	30.9	33.9	33.6	31.8	29.7	19.5	23.2	27.0	33.0
Exports/GDP	60.7	53.0	52.5	39.9	40.3	33.6	25.8	32.7	37.7	44.3
Real exports growth	7.7	(16.3)	6.1	(16.0)	7.1	(16.6)	(26.0)	25.0	15.0	15.0
Unemployment rate	20.0	17.7	20.7	20.7	20.7	20.7	20.7	20.7	20.7	20.7
External indicators (%)										
Current account balance/GDP	10.5	2.1	7.7	5.3	0.6	(7.6)	(12.2)	(8.4)	(5.6)	(2.4)
Current account balance/CARs	14.8	3.3	12.4	10.4	1.2	(17.8)	(33.8)	(19.5)	(11.9)	(4.4)
CARs/GDP	71.2	63.8	62.1	51.1	50.4	42.7	36.2	43.3	47.0	53.3
Trade balance/GDP	4.4	(4.9)	9.4	4.7	2.6	(5.9)	(9.8)	(6.2)	(2.3)	1.9
Net FDI/GDP	2.5	1.4	(0.2)	1.5	1.1	1.2	1.2	1.2	1.5	1.8
Net portfolio equity inflow/GDP	(1.9)	(7.6)	(0.8)	(2.0)	1.5	(3.4)	(1.5)	(1)	(0.8)	0.2
Gross external financing needs/CARs plus usable reserves	54.7	54.7	53.0	54.8	60.3	69.3	72.7	78.6	81.1	80.3
Narrow net external debt/CARs	(54.1)	(62.6)	(52.8)	(63.9)	(54.6)	(57.6)	(46.8)	(23.4)	(14.5)	(12.3)
Narrow net external debt/CAPs	(63.5)	(64.7)	(60.3)	(71.3)	(55.3)	(48.9)	(35.0)	(19.6)	(13.0)	(11.8)
Net external liabilities/CARs	(64.5)	(81.6)	(55.6)	(81.6)	(57.3)	(75.2)	(71.5)	(43.0)	(30.3)	(21.6)
Net external liabilities/CAPs	(75.7)	(84.3)	(63.5)	(91.0)	(58.0)	(63.9)	(53.4)	(36.0)	(27.1)	(20.7)
Short-term external debt by remaining maturity/CARs	6.1	7.5	6.5	9.4	9.7	10.4	14.5	13.0	12.1	10.5
Usable reserves/CAPs (months)	9.4	11.2	10.6	10.8	9.7	8.7	9.3	6.9	5.7	5.0
Usable reserves (mil. $)	8,323	7,546	7,189	7,491	6,657	6,141	4,997	4,370	4,304	4,521

Table 1

Botswana Selected Indicators (cont.)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Fiscal indicators (general government; %)										
Balance/GDP	3.7	(4.8)	0.7	(1.1)	(4.7)	(4.9)	(8.0)	(6.0)	(1.8)	1.8
Change in net debt/GDP	(5.3)	1.6	3.3	(1.7)	2.5	4.9	8.0	6.0	1.8	(1.8)
Primary balance/GDP	4.1	(4.2)	1.2	(0.6)	(4.2)	(4.4)	(7.4)	(5.2)	(0.8)	2.6
Revenue/GDP	38.3	32.5	33.7	31.3	28.1	29.0	27.0	27.0	28.0	29.0
Expenditures/GDP	34.7	37.3	33.0	32.4	32.8	33.9	35.0	33.0	29.8	27.3
Interest/revenues	1.3	1.7	1.5	1.8	1.7	1.8	2.3	3.1	3.4	3.1
Debt/GDP	17.4	17.9	15.8	13.6	13.7	14.7	23.8	27.2	26.8	22.7
Debt/revenues	45.5	55.2	47.0	43.4	48.7	50.8	88.3	100.7	95.6	78.2
Net debt/GDP	(9.4)	(7.7)	(3.3)	(4.9)	(2.1)	2.9	11.2	16.3	17.1	14.1
Liquid assets/GDP	26.8	25.6	19.1	18.4	15.7	11.8	12.6	10.9	9.7	8.6
Monetary indicators (%)										
CPI growth	4.4	3.0	2.8	3.3	3.2	2.8	2.0	2.5	3.0	3.5
GDP deflator growth	11.9	1.9	12.0	2.6	1.2	0.6	0.5	2.5	2.0	3.0
Exchange rate, year-end (BWP/$)	9.51	11.24	10.65	9.87	10.73	10.62	11.50	11.80	12.00	12.00
Banks' claims on resident non-gov't sector growth	14.2	8.5	4.3	5.5	8.4	7.6	5.0	7.0	8.0	8.0
Banks' claims on resident non-gov't sector/GDP	32.5	35.2	31.4	31.4	32.2	33.4	38.4	37.8	38.3	38.4
Foreign currency share of claims by banks on residents	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Foreign currency share of residents' bank deposits	15.5	15.5	16.9	16.0	16.8	14.7	12.0	13.0	15.0	16.0
Real effective exchange rate growth	0.6	2.4	1.9	(1.4)	(0.2)	1.1	N/A	N/A	N/A	N/A

Sources: Sources: Bank of Botswana, IMF (Economic Indicators), Bank of Botswana (External Indicators), Bank of Botswana, Ministry of Finance and Economic Development (Fiscal Indicators), and Bank of Botswana, IMF, Bruegel (Monetary Indicators).

Adjustments: None.

Definitions: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid claims on nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. N/A--Not applicable. BWP--Botswana pula. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

Ratings Score Snapshot

Table 2

Botswana Ratings Score Snapshot

Key rating factors	Score	Explanation
Institutional assessment	3	Generally effective policy making in recent years promoting sustainable public finances and macroeconomic stability. Cohesive civil society, although discontent regarding high unemployment could rise. There is a generally unbiased enforcement of contracts and respect for the rule of law. Statistics can be subject to large revisions.
Economic assessment	5	Based on GDP per capita (US$) and growth trends as per Selected Indicators in Table 1.
		Narrow economy, with significant exposure to the diamond industry at above 20% of GDP.
External assessment	2	Based on narrow net external debt and gross external financing needs/(CAR + useable reserves) as per Selected Indicators in Table 1.
		The sovereign's external data lack consistency, as demonstrated by errors and omissions.
Fiscal assessment: flexibility and performance	3	Based on the change in net general government debt (% of GDP) as per Selected Indicators in Table 1.
		The sovereign has a volatile revenue base, with mineral revenue accounting for about 35% of revenue.
Fiscal assessment: debt burden	1	Based on net general government debt (% of GDP) and general government interest expenditure (% of general government revenues) as per Selected Indicators in Table 1.
		55% of gross government debt is denominated in foreign currency.
Monetary assessment	4	The pula is a crawling peg. The central bank has operational independence and uses market based instruments such as policy rates to transmit monetary policy to the banking sector and the economy, but effectiveness is limited because of the limited private sector.
Indicative rating	bbb+	As per Table 1 of "Sovereign Rating Methodology."
Notches of supplemental adjustments and flexibility	0	
Sovereign credit rating		
Foreign currency	BBB+	
Notches of uplift	0	Default risks do not apply differently to foreign- and local-currency debt.
Local currency	BBB+	

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

Related Criteria

- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- Sovereign Ratings List, Sept. 3, 2020
- Sovereign Ratings History, Sept. 3, 2020
- Sovereign Ratings Score Snapshot, Sept. 2, 2020
- Banking Industry Country Risk Assessment Update: August 2020, Aug. 21, 2020
- Sovereign Risk Indicators, July 14, 2020; a free interactive version is available at http://www.spratings.com/sri
- Default, Transition, and Recovery: 2019 Annual Sovereign Default And Rating Transition Study, May 18, 2020
- COVID-19 Deals A Larger, Longer Hit To Global GDP, April 16, 2020
- Global Sovereign Rating Trends: First-Quarter 2020, April 8, 2020
- Sovereign Debt 2020: Global Borrowing To Increase To $8.1 Trillion Amid Favorable Financing Conditions, Feb. 20, 2020
- Global Sovereign Rating Trends 2020: Sovereign Debt Buildup Continues, Jan. 29, 2020

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Outlook Action; Ratings Affirmed

	To	From
Botswana		
Sovereign Credit Rating	BBB+/Negative/A-2	BBB+/Stable/A-2
Transfer & Convertibility Assessment	A	A
Short-Term Debt	A-2	A-2
Bank of Botswana		
Sovereign Credit Rating	BBB+/Negative/A-2	BBB+/Stable/A-2

Regulatory Disclosures

Botswana

-- Primary Credit Analyst: Samira Mensah, Director

-- Rating Committee Chairperson: Christian Esters

-- Date initial rating assigned: April 2, 2001

-- Date of previous review: March 27, 2020

Bank of Botswana

-- Primary Credit Analyst: Samira Mensah, Director

-- Rating Committee Chairperson: Christian Esters

-- Date initial rating assigned: May 3, 2001

-- Date of previous review: March 27, 2020

Disclaimers

This rating has been determined by a rating committee based solely on the committee's independent evaluation of the credit risks and merits of the issuer or issue being rated in accordance with S&P Global Ratings published criteria and no part of this rating was influenced by any other business activities of S&P Global Ratings.

This credit rating is solicited. The rated entity did participate in the credit rating process. S&P Global Ratings did have access to the accounts, financial records and other relevant internal, non-public documents of the rated entity or a related third party. S&P Global Ratings has used information from sources believed to be reliable but does not guarantee the accuracy, adequacy, or completeness of any information used.

Materials Used In The Credit Rating Process: Sufficient information in general consists of both (i) financial statements that describe the Issuer's financial condition, results of operations and cash-flows, and (ii) a description of the activities and obligations of the entity including of its governance and legal structure.

This credit rating was disclosed to the rated entity or related third party before being issued.

S&P Global Ratings' regulatory disclosures (PCRs) are published as of a point-in-time, which is current as of the date a Credit Rating Action was last published. S&P Global Ratings updates the PCR for a given Credit Rating to include any changes to PCR disclosures only when a subsequent Credit Rating Action is published. Thus, disclosure information in this PCR may not reflect changes to data within PCR disclosures that can occur over time subsequent to the publication of a PCR but that are not otherwise associated with a Credit Rating Action.

Glossary

- Consumer price index (CPI): Index of prices of a representative set of consumer goods regularly bought by a typical household.
- Current account balance: Exports of goods and services minus imports of the same plus net factor income plus official and private net transfers.
- Current account receipts (CAR): Proceeds from exports of goods and services plus factor income earned by residents from nonresidents plus official and private transfers to residents from nonresidents.
- Date initial rating assigned: The date S&P Global Ratings assigned the long-term foreign currency issuer credit rating on the entity.
- Date of previous review: The date S&P Global Ratings last reviewed the credit rating on the entity.
- Debt burden assessment: Reflects a sovereign's prospective debt level, as indicated by the general government debt relative to GDP (including assessment of contingent liabilities), the interest cost of the debt relative to general government revenue, and debt structure and funding access.
- Depository corporation claims: Claims from resident depository corporations (excluding those of the central bank) on the resident nongovernment sector.
- Economic assessment: Based on the analysis of economic structure and growth prospects. Reflects income levels (GDP per capita), economic growth prospects, and economic diversity and volatility.
- External assessment: Based on the analysis of external liquidity and international investment position as well as the status of a sovereign's currency in international transactions. Reflects a country's ability to obtain funds from abroad necessary to meet its public- and private-sector obligations to nonresidents.
- Fiscal performance and flexibility assessment: Reflects the sustainability of sovereign's fiscal deficits. Based on the prospective change in general government debt, calculated as a percentage of GDP, taking into account long-term trends and a government's fiscal flexibility and vulnerabilities.
- Foreign direct investment (FDI): Direct investment by nonresidents.
- GDP per capita: GDP divided by population.
- General government: Aggregate of the national, regional, and local government sectors,

including social security and other defined benefit public-sector pension systems, and excluding intergovernmental transactions.

- General government debt: Debt incurred by national, regional, and local governments and central bank debt.
- General government interest: Interest payments on general government debt.
- General government liquid financial assets: General government deposits in financial institutions (unless the deposits are a source of support to the recipient institution), widely traded securities, plus minority arms-length holdings of incorporated enterprises that are widely traded plus balances of defined-benefit government-run pension plans or social security funds (or stabilization or other freely available funds) that are held in bank deposits, widely traded securities, or other liquid forms.
- Gross domestic product (GDP): Total market value of goods and services produced by resident factors of production.
- Gross external financing needs: Current account payments plus short-term external debt at the end of the prior year, including nonresident deposits at the end of the prior year plus long-term external debt maturing within the year.
- Institutional assessment: An analysis of how a government's institutions and policymaking affect a sovereign's credit fundamentals by delivering sustainable public finances, promoting balanced economic growth, and responding to economic or political shocks. Reflects the effectiveness, stability, and predictability of the sovereign's policymaking and political institutions; transparency and accountability of institutions, data, and processes; the sovereign's debt payment culture; and security risks.
- Monetary base: Local currency in circulation plus the monetary authority's local currency liabilities to other depository corporations.
- Monetary assessment: The extent to which a sovereign's monetary authority can fulfill its mandate while supporting sustainable economic growth and attenuating major economic or financial shocks. Based on the analysis of the sovereign's ability to coordinate monetary policy with fiscal and other economic policies to support sustainable economic growth; the credibility of monetary policy, and the effectiveness of market-oriented monetary mechanisms.
- Narrow net external debt: Stock of foreign and local currency public- and private-sector borrowings from nonresidents minus official reserves minus public-sector liquid claims on nonresidents minus financial sector loans to, deposits with, or investments in nonresident entities.
- Net general government debt: General government debt minus general government liquid financial assets.
- Net external liabilities: Total public- and private-sector liabilities to nonresidents minus total external assets.
- Official reserves: Monetary authority liquid claims in foreign currency (including gold) on nonresidents.
- Real GDP per capita: Constant-price per capita GDP.
- Terms of trade: Price of goods exports relative to price of goods imports.
- Usable reserves: Official reserves minus items not readily available for foreign exchange operations and repayment of external debt.