

Research Update:

Botswana 'BBB+/A-2' Ratings Affirmed; Outlook Revised To Stable From Negative On Strong Diamond Sector Recovery

September 17, 2021

Overview

- We expect Botswana's diamond export-dependent economy will rebound by 8.5% in real terms in 2021 because the diamond industry is rebounding from 2020's large pandemic-induced contraction.
- As a result, we expect the fiscal and current account deficits will start narrowing in 2021 and 2022 before yielding a small surplus from 2023, resulting in the gradual strengthening of foreign exchange reserves.
- A stable and predictable institutional framework continues to support the ratings, and the monetary policy framework supports macroeconomic stability.
- We revised the outlook on Botswana to stable from negative and affirmed our 'BBB+/A-2' ratings.

Rating Action

On Sept. 17, 2021, S&P Global Ratings revised its outlook on Botswana to stable from negative and affirmed its 'BBB+/A-2' long- and short-term foreign and local currency sovereign credit ratings.

At the same time, we revised our outlook to stable and affirmed our 'BBB+/A-2' long- and short-term foreign and local currency credit ratings on the Bank of Botswana, which we equalize with our ratings on the sovereign.

Outlook

The stable outlook reflects our expectation that Botswana's economic rebound, supported by a strong diamond sector recovery, will lead to a material improvement of the fiscal and external performance over the next two years.

PRIMARY CREDIT ANALYST

Samira Mensah
Johannesburg
+ 27 11 214 4869
samira.mensah
@spglobal.com

SECONDARY CONTACT

Ravi Bhatia
London
+ 44 20 7176 7113
ravi.bhatia
@spglobal.com

RESEARCH CONTRIBUTOR

Purnima Nair
CRISIL Global Analytical Center, an
S&P affiliate, Mumbai

ADDITIONAL CONTACT

EMEA Sovereign and IPF
SovereignIPF
@spglobal.com

Downside scenario

We could lower our ratings on Botswana if fiscal or external performance were weaker than our forecasts. This could happen, for instance, if recovery of upstream and downstream diamond segments was delayed or short-lived because of further fallout from the pandemic.

Upside scenario

We could raise the ratings if Botswana manages to rebuild its fiscal and external buffers significantly, alongside a diversification of its export base. This would help shield the economy from future external shocks.

Rationale

Diamond prices have recovered to prepandemic levels after a sharp decline in 2020, and demand has begun to recover, especially in China and the U.S. The ongoing economic recovery in key diamond markets and restocking of the midstream (diamond cutting and polishing) segment will drive demand for rough diamonds in 2021-2022. Diamond production at Debswana (a 50-50 joint venture between De Beers and the government) is set to recover to more normalized levels in 2021 after contracting by 26% in 2020. Overall, we estimate that production will rebound by close to 30% in 2021, despite some supply constraints at one of Botswana's two main diamond mines, Orapa.

Although the performance of nonmining sectors will benefit to some extent from the mining sector recovery, trade, hotels, and restaurants have been affected by curfew hours and intermittent restrictions because of delays in vaccination. In addition, the end of the state of emergency in September 2021 may lead to loss of jobs, which will further undermine the recovery of nonmining sectors. Supply chain disruptions and the possibility of further variants could compound the risks.

At the same time, Botswana is making reasonable progress on vaccination, despite global supply constraints earlier this year. So far, it has vaccinated 21% of its adult population, thanks largely to the COVAX supply of doses, while an additional acquisition of 1.9 million doses should allow the government to fully vaccinate all adults by year-end 2021. The pace of vaccination compares well with other sub-Saharan African countries, and is underpinned by a small adult population of about 1.53 million.

We estimate that Botswana's general government deficit will fall to 4% of GDP in 2021 after reaching a large 8.4% in 2020. Despite the deterioration in fiscal metrics in 2020, our ratings on Botswana remain supported by the country's still-modest net general government debt (stock) levels, its net external asset position, and a largely predictable and robust institutional framework. Macroeconomic stability is also underpinned by a proactive and independent central bank. We anticipate that the Botswana pula (BWP) will remain in a crawling peg exchange rate arrangement against the South African rand and the IMF's special drawing rights (a basket of major trading partners).

Institutional and economic profile: The robust economic rebound in 2021 stems from a strong recovery of the mining sector

- We expect diamond production and prices will recover to prepandemic levels in 2021 and the

sector will remain strong.

- Nonmining activities should be aided by the end of the state of emergency in September 2021, and the vaccination rollout, but tourism will take time to fully recover.
- Botswana's domestic institutional framework and monetary policy framework remain relatively strong, and support the ratings.

We anticipate the economic recovery will largely be driven by a strong performance of the mining sector starting 2021. After a full month production standstill in 2020, Botswana's diamond production fell to 17 million carat (MC) for full-year 2020. We expect output will rebound closer to normalized levels of 22-24 MC in 2021. We estimate prices will recover to prepandemic levels this year, following a sharp decline of over 20% last year. Our assumptions reflect sustained global demand in the U.S., China, and India, and the restocking needs driven by the opening of retailers. In addition, the Khoemacau copper mine commenced production in 2021 and will gradually increase output to reach about 60,000 tonnes of copper metal. A second copper mine will come onstream over the medium term and will also support Botswana's emerging copper production capacity.

Following a sharp contraction of 8.5% in 2020, we project that Botswana's economy will rebound by 8.5% in 2021, largely reflecting the rebound in the mining sector, as well as base effects and technical changes stemming from a GDP rebasing. Botswana recently rebased its national accounts data, with 2016 as its new base year, to better reflect the various economic sectors' performance and changes in the economy since 2006. As a result, the economy expanded marginally by 0.7% year-on-year in first-quarter 2021 compared with 1.2% growth in the same period in 2020. This performance largely excludes the pandemic fallout that only started after March 2020.

The performance of nonmining sectors will be underpinned to some extent by that of the mining sector, but is subject to greater uncertainty because of delayed procurement and rollout of vaccines, which led to an extension of the state of emergency for another six months after the previous one ended in March 2021. Trade, hotels, and restaurants have been affected by curfew hours and intermittent restrictions this year. At the same time, we think that the tourism sector (accounting for about 10% of the country's exports before the pandemic) will recover only slowly, starting in 2022, and will also be partly tied to the pace of global vaccination. We forecast GDP growth will return to prepandemic levels, normalizing at 4% per year from 2022, in the absence of significant progress in economic reform and greater contribution of the private sector.

Botswana's unemployment increased to a high 24.5% in 2020 and could rise further as the suspension of layoffs ends in September 2021. We expect unemployment will hover at about 25% in the next few years, largely affecting young people. Without a broader economy and a buoyant private sector, the diamond and services sectors will continue to largely shape the growth outlook.

COVID-19 vaccination reached 21% of the adult population at end of August 2021, which compares well with other sub-Saharan African countries, but is below that of countries at the same rating level. Delays in procurement have stalled the rollout, but the government expects to receive enough doses in third-quarter 2021 to vaccinate the rest of its 1.53 million adults by year-end 2021.

In our view, Botswana's institutional arrangements are among the strongest in the region, which has underpinned the prudent management of the country's natural wealth, given its status as one of the world's largest rough diamond producers. This, in turn, enabled Botswana to emerge over the past few decades to middle-income status. At the same time, the current pressures have tested the economic policy framework's limits. The government's accumulation of savings

underscores its conservative record in wealth management, but recent declines in these reserves point to the need to diversify the economy and financing options.

The government has managed the pandemic fallout quite effectively, providing timely support to households and vulnerable businesses by establishing the Pandemic Relief Fund to better track and report related spending. In addition, the government has made progress in the enhancement of its legislative and supervision of Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) framework to mitigate risks to the financial sector. The recent increase of the government domestic debt program has been supported by the central bank's parallel reduction of short-term certificate issuances. On the political front, while the Botswana Democratic Party (BDP) dominates the political landscape, changes in leadership have been reasonably smooth.

Flexibility and performance profile: Twin deficits will narrow in 2021, supported by fiscal consolidation and stronger external sector performance

- Botswana is committed to fiscal consolidation but the path may be sinuous.
- Stronger mineral exports will help turn around the trade balance and lead to a small current account surplus by 2023.
- The banking system remains stable and mostly domestic-deposit funded, dominated by subsidiaries of South African banks.

Botswana's efforts to turn around the current trends and accelerate fiscal consolidation by creating fiscal space and raising revenue for fiscal 2021/22 (year ending March 31, 2022) will improve macroeconomic stability.

Botswana's main sources of fiscal revenue are rising in 2021. The mining sector's stronger performance will support revenue generation as well as the government's resource mobilization efforts. The government introduced a series of fiscal measures to support revenue generation starting in April 2021. The VAT increase to 14% from 12% brings Botswana's rate closer to that of neighboring countries such as South Africa.

In addition, Southern African Customs Union (SACU) revenue (which are lagged; based on two years previously) increased 18% in 2020, accounting for a third of government revenue. This reflects the customs duties levied on regional trade between several member states, including South Africa, Namibia, Lesotho, and Eswatini. This revenue is first combined at the South African level before being distributed back to member countries according to a predetermined formula, with a time lag. As a result, we expect this revenue will decline in 2022, given weaker trade in 2020. That said, mining revenue and nonmineral income stemming from higher domestic consumption, for instance, may offset lower SACU receipts.

Botswana posted a general government deficit of about 8.4% of GDP in fiscal 2020/21, higher than the 6% recorded in fiscal 2019/20. This is largely because of a collapse in diamond income, which generally accounts for about one-third of revenue. Stimulus measures amounting to BWP6.98 billion (4% of GDP) also contributed to the weak fiscal performance in 2020.

The government has created fiscal space by reallocating resources from projects not yet started to vaccine procurement. Public salary adjustments beyond inflation are unlikely, following the 10% adjustment during the past two fiscal years. Overall, we project that the fiscal deficit will narrow to 4% in fiscal 2021/22-2022/23 before turning into a small surplus of 1% in fiscal 2024/25.

Botswana entered the pandemic with healthy fiscal buffers and resorted to using them before starting to issue domestic debt. It largely tapped into the Government Investment Account (GIA) to

finance the fiscal 2020/21 deficit, drawing down BWP12 billion on its fiscal assets to finance the almost BWP15 billion deficit in fiscal 2020/21. However, it also issued BWP7 billion for fiscal 2020/21 and will continue to draw down on its BWP30 billion debt issuance program to finance the approximately BWP16 billion cumulative forecast deficit for fiscal years 2022/23 and 2023/24.

Botswana's debt will increase in the short term before declining over the medium term. We estimate net general government debt will average close to 20% of GDP over the forecast period, rising from only 3% of GDP in 2019, as gross general government debt will average 21%-22% of GDP over 2021-2024. External gross government debt will continue to account for at least 40% of total government debt. While more than 85% is variable-rate loans with multilateral and bilateral lenders, we forecast interest-servicing costs will remain well below 5% of revenue for fiscal years 2021/22-2024/25 in a context of low global interest rates.

Botswana recorded a current account deficit of 10.1% of GDP in 2020. We expect Botswana's trade balance will narrow materially to about 5% of GDP in 2021 on stronger mineral receipts, of which diamonds account for about 90% of goods exports. We forecast the current account will turn into a small surplus of about 1% of GDP in fiscal 2024/25, despite expected lower transfer receipts stemming from SACU. Our forecasts reflect a gradual recovery of tourism receipts, which account for 10% of export receipts, and mid-single-digit growth in mineral exports. At the same time, we expect imports will increase by low single digits over our forecast period, reaching 2014 levels through 2024 as Botswana will likely execute its infrastructure project pipeline gradually. As a result, Botswana's gross external financing needs will average 73% of current account receipts plus usable reserves over 2021-2024.

We forecast reserves will gradually improve to above \$5 billion through 2024 as the country will raise more external debt. Forming part of the reserves is the Pula Fund, established to save a portion of diamond export receipts for future generations.

Botswana operates a crawling peg exchange regime against a basket of currencies comprising the South African rand and the IMF's special drawing rights. The central bank has broad operational independence and the crawling peg exchange rate regime offers some flexibility. The Bank of Botswana plans to maintain the downward rate of crawl of 2.87%, introduced in May 2020 to support its export base. The peg helps control inflation, although the latter averaged 5.3% in the first seven months of 2021 from a low of 1.9% on average in 2020. The rise in inflation was largely due to the increase in VAT and administered prices, which added 5.2 percentage points to inflation in 2021. Their effects are expected to subside in 2022. We forecast inflation will reduce below 6% in fiscal 2022/23 and average 4.25% in fiscals 2023/24-2024/25, balancing sustained domestic consumption and stabilization of diamond prices. We expect the central bank will continue with its accommodative monetary stance after cutting its benchmark rate by a cumulative 100 basis points in 2020 to 3.75%, to boost lending. We forecast a moderate uptick in lending by 6% in 2021 after muted 4.5% growth in 2020, despite additional liquidity injected through the reduction of the primary reserve requirements to 2.5%.

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 total banking sector 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.

Key Statistics

Table 1

Botswana Selected Indicators

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Mil. BWP										
Economic indicators (%)										
Nominal GDP (bil. LC)	138	164	166	173	178	173	198	213	228	244
Nominal GDP (bil. \$)	14	15	16	17	17	15	18	19	20	21
GDP per capita (000s \$)	6.4	7.0	7.3	7.5	7.2	6.4	7.6	7.8	8.1	8.4
Real GDP growth	(5.7)	7.0	4.0	4.0	3.0	(8.5)	8.5	4.0	4.0	4.0
Real GDP per capita growth	(7.1)	5.1	1.9	1.7	0.8	(10.4)	6.4	2.0	2.0	2.0
Real investment growth	3.7	7.0	(4.6)	8.6	10.2	(7.7)	6.4	4.0	4.5	4.5
Investment/GDP	28.9	22.1	25.2	27.0	33.6	34.6	30.5	27.4	25.5	25.4
Savings/GDP	31.1	30.0	31.0	27.7	26.5	24.0	25.5	24.4	26.2	27.2
Exports/GDP	52.9	54.6	43.0	44.5	37.4	31.1	35.7	38.9	40.8	40.8
Real exports growth	(7.4)	(8.4)	(5.5)	11.9	(7.1)	(18.1)	15.0	10.0	8.0	6.0
Unemployment rate	17.7	20.7	20.7	20.7	20.7	22.2	24.5	24.5	24.5	24.5
External indicators (%)										
Current account balance/GDP	2.2	8.0	5.8	0.7	(7.1)	(10.6)	(5.0)	(3.0)	0.7	1.8
Current account balance/CARs	3.3	12.4	10.4	1.2	(14.8)	(24.9)	(11.2)	(6.6)	1.3	3.6
CARs/GDP	67.8	64.4	55.3	55.6	47.6	42.5	44.4	46.1	49.5	49.5
Trade balance/GDP	(5.2)	9.8	5.1	2.9	(6.5)	(13.4)	(4.9)	(1.0)	1.4	1.7
Net FDI/GDP	1.4	(0.2)	1.6	1.2	0.7	0.6	1.3	1.5	1.5	1.0
Net portfolio equity inflow/GDP	(8.1)	(0.9)	(2.1)	1.7	(3.3)	(5.4)	(1.8)	(1.6)	(1.5)	(1.5)
Gross external financing needs/CARs plus usable reserves	54.7	53.0	54.8	60.4	68.3	71.5	76.1	76.8	74.3	71.6
Narrow net external debt/CARs	(62.6)	(52.8)	(63.9)	(52.8)	(53.0)	(51.4)	(31.0)	(23.2)	(22.3)	(22.2)
Narrow net external debt/CAPs	(64.7)	(60.3)	(71.3)	(53.4)	(46.1)	(41.2)	(27.9)	(21.8)	(22.6)	(23.0)
Net external liabilities/CARs	(81.6)	(55.6)	(81.6)	(55.4)	(66.5)	(82.6)	(55.3)	(45.1)	(41.1)	(41.3)
Net external liabilities/CAPs	(84.3)	(63.5)	(91.0)	(56.1)	(57.9)	(66.1)	(49.7)	(42.4)	(41.7)	(42.9)
Short-term external debt by remaining maturity/CARs	7.5	6.5	9.4	9.7	11.1	15.6	11.3	11.6	10.8	10.0
Usable reserves/CAPs (months)	11.2	10.6	10.8	9.7	8.8	9.3	6.6	6.1	5.8	6.1
Usable reserves (mil. \$)	7,546	7,189	7,491	6,657	6,170	4,941	4,765	4,741	5,179	5,452

Table 1

Botswana Selected Indicators (cont.)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Fiscal indicators (general government; %)										
Balance/GDP	(5.1)	0.7	(1.2)	(5.1)	(6.2)	(8.4)	(4.0)	(4.0)	(1.0)	1.0
Change in net debt/GDP	1.7	3.4	(1.8)	2.8	5.5	12.0	4.0	4.0	1.0	(1.0)
Primary balance/GDP	(4.5)	1.2	(0.6)	(4.3)	(5.4)	(7.7)	(3.4)	(3.3)	(0.2)	1.8
Revenue/GDP	34.5	34.9	33.9	31.0	30.4	29.7	31.0	28.0	32.0	32.0
Expenditures/GDP	39.6	34.2	35.1	36.1	36.6	38.1	35.0	32.0	33.0	31.0
Interest/revenues	1.7	1.5	1.8	2.7	2.8	2.3	2.1	2.5	2.5	2.6
Debt/GDP	19.0	16.4	14.7	15.1	16.4	19.5	19.5	21.7	22.6	20.1
Debt/revenues	55.2	47.0	43.4	48.7	53.8	65.8	62.8	77.5	70.6	62.8
Net debt/GDP	(8.2)	(3.5)	(5.2)	(2.3)	3.3	15.4	17.4	20.2	19.9	17.6
Liquid assets/GDP	27.2	19.9	19.9	17.4	13.0	4.1	2.1	1.5	2.7	2.5
Monetary indicators (%)										
CPI growth	3.0	2.8	3.3	3.2	2.8	1.9	6.9	5.5	4.5	4.0
GDP deflator growth	3.8	11.7	(2.6)	(0.3)	0.4	5.7	6.0	3.0	3.0	3.0
Exchange rate, year-end (LC/\$)	11.24	10.65	9.87	10.73	10.62	10.79	10.99	11.20	11.30	11.40
Banks' claims on resident non-gov't sector growth	8.5	4.3	5.5	8.4	7.8	5.0	6.0	7.0	8.0	8.0
Banks' claims on resident non-gov't sector/GDP	37.4	32.6	34.0	35.5	37.0	40.3	37.1	37.1	37.4	37.7
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	16.9	16.0	16.8	14.7	17.0	13.0	15.0	16.0	16.0
Real effective exchange rate growth	2.4	1.9	(1.4)	(0.2)	1.1	N/A	N/A	N/A	N/A	N/A

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. LC--Local currency. 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

Botswana Ratings Score Snapshot

Key rating factors	Score	Explanation
Institutional assessment	3	Generally effective policy making, 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/(CAP + usable 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. 40% of gross government debt is denominated in foreign currency.
Monetary assessment	4	The pula's exchange rate regime 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	
Foreign currency	BBB+	Default risks do not apply differently to foreign- and local-currency debt.
Notches of uplift	0	
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. 8, 2021
- Sovereign Ratings History, Sept. 8, 2021
- Sovereign Ratings Score Snapshot, Sept. 6, 2021
- Sovereign Risk Indicators, July 12, 2021. Interactive version available at <http://www.spratings.com/sri>
- Default, Transition, and Recovery: 2020 Annual Sovereign Default And Rating Transition Study, April 12, 2021
- Botswana 'BBB+' Ratings Affirmed, Outlook Remains Negative On Lingering Fiscal Stress; March 18, 2021
- Sovereign Debt 2021: Global Borrowing Will Stay High To Spur Economic Recovery, March 1, 2021

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

Ratings Affirmed; Outlook Action

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

Regulatory Disclosures

Botswana

- Primary Credit Analyst: Samira Mensah, Director
- Rating Committee Chairperson: Ravi Bhatia
- Date initial rating assigned: April 2, 2001
- Date of previous review: March 19, 2021

Bank of Botswana

- Primary Credit Analyst: Samira Mensah, Director
- Rating Committee Chairperson: Ravi Bhatia
- Date initial rating assigned: May 3, 2001
- Date of previous review: March 19, 2021

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.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.