BANK OF BOTSWANA

PRESS RELEASE

MOODY'S AFFIRMS THE "A3" AND THE STABLE OUTLOOK SOVEREIGN CREDIT RATING FOR BOTSWANA

On October 27, 2023, Moody's Investors Service (Moody's) released an update of the sovereign credit rating for Botswana. The rating agency affirmed the Government of Botswana's long-term local and foreign currency issuer ratings at "**A3**" for 2023 and maintained a "stable outlook".

According to Moody's, the ratings are underpinned by the country's very low debt levels, and its robust institutional frameworks and governance strength, balancing economic concentration in mining and related activities, as well as very low susceptibility to political, liquidity and banking-related event risks. The rating agency also indicated that the stable outlook reflects balanced risks premised on expectation that the demand for Botswana's diamond will remain strong despite a softened global outlook for diamond prices. However, Moody's observed that the country is exposed to fiscal shocks given the depletion of fiscal buffers. Notwithstanding, they noted that continuing strong governance and robust institutions support Botswana's capacity to respond to shocks despite the decreased fiscal buffers.

Moody's indicated that a rating upgrade could occur if Botswana improved resilience to economic shocks, supported by higher buffers and reduced vulnerabilities of its budget structure to sudden declines in the Southern African Customs Union and mineral revenues. Additionally, a rating upgrade could be achieved if the country could reduce economic and fiscal reliance on the mining sector, supported by efforts to boost economic diversification and improve the business environment, as well as a successful implementation of the government’s development agenda without a marked increase in the debt burden.

On the other hand, the agency stated that a rating downgrade may arise in the event of a deterioration in Botswana's fiscal metrics beyond current expectations because of difficulties in implementing fiscal consolidation, following the surge in development spending. A significant increase in financial support to state-owned enterprises, or a markedly weaker growth outlook could also lead to a downgrade of the rating.

This rating affirms the country’s general good economic performance and management. Therefore, reinforcing the need to maintain strong institutions and policy frameworks that deliver macroeconomic stability. Furthermore, it underscores the importance of ensuring traction of ongoing economic structural transformation and policy reforms by Government. It is observed that these are necessary to accelerate economic diversification and industrialisation, rebuilding of fiscal buffers and, overall, economic resilience.