



**BANK OF BOTSWANA**

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**PRESS RELEASE**

**MOODY'S AFFIRMS THE "A2" SOVEREIGN CREDIT RATING AND CHANGES THE OUTLOOK ON BOTSWANA'S RATING FROM STABLE TO NEGATIVE**

Moody's Investors Service (Moody's), in the latest out-of-calendar review of the credit ratings, affirmed Botswana's rating of '**A2**' for long-term bonds denominated in both domestic and foreign currency, and changed the outlook from **stable** to **negative**.

According to Moody's, this update to the recent March 2020 rating, on a date that deviates from the previously published sovereign release calendar, is prompted by the risks associated with coronavirus shocks, given Botswana's strong dependency on the diamonds industry for growth, exports and budget revenues. The revision of the outlook from stable to negative reflects the increasing risks of lower growth, higher budget deficits and likely resultant increase in government borrowing. In their assessment, Moody's observed that these adverse effects of COVID-19 pandemic, combined with the current challenges the government faces on fiscal consolidation, could mean further deterioration of fiscal metrics to a level not consistent with the 'A2' sovereign credit rating.

The affirmation of the rating, at 'A2', is underpinned by the Government's still strong, albeit deteriorating, fiscal and debt metrics, in particular the relatively low public debt level, high debt affordability and fiscal and external liquidity buffers that help in mitigating the impact of the coronavirus shock. Furthermore, the country's track record of fiscal prudence, adherence to the rule of law, robust institutions and effective policy making, as well as the current level of the Pula Fund, continue to provide key fiscal

and external buffers. The affirmation of the rating is also supported by macroeconomic stability underpinned by sound monetary policy; contained liquidity and banking sector risks, as well as limited susceptibility to event risks given Botswana's track record of political stability.

Moody's has indicated that there is a potential to change the outlook to stable if the observed deterioration of the fiscal metrics, caused by the coronavirus shock, is likely to be stabilised by credible fiscal measures aimed at rebuilding fiscal buffers in the long term and reduce fiscal vulnerabilities posed by the rigid budget structure. The ratings could be revised downwards on account of challenges encountered in halting the fiscal deterioration associated with the pandemic, suggesting a durable deterioration of fiscal strength. Similarly, Moody's cautioned that a material weakening of the fiscal metrics, as a result of either an increase in financial support to state-owned enterprises, larger gross borrowing requirements or a further deterioration of the external position, beyond current forecasts, will increase the likelihood of a downgrade.

Overall, Moody's assessment is that the country's economic fundamentals, economic strength, debt profile, institutions and governance strength, have not materially changed since the last rating; hence the affirmation of the 'A2' credit rating of Botswana.

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