

Research Update:

Botswana 'BBB+' Ratings Affirmed; Outlook Remains Negative On Lingering Fiscal Stress

March 19, 2021

Overview

- We expect Botswana's diamond export-dependent economy to grow by 6% in real terms in 2021 as the mining sector recovers from 2020's large pandemic-induced contraction.
- Absent a setback in diamond exports, we expect the fiscal and current account deficits to fall gradually over the next few years, and foreign exchange currency reserves to stabilize at current levels, after a substantial drop in 2020.
- A stable and predictable institutional framework continues to support the ratings, and the monetary policy framework supports macroeconomic stability
- We affirmed our 'BBB+/A-2' ratings on Botswana and maintained the negative outlook.

Rating Action

On March 19, 2021, S&P Global Ratings affirmed its 'BBB+/A-2' long- and short-term foreign and local currency sovereign credit ratings on Botswana. The outlook is negative. At the same time, we 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 negative outlook reflects the risks that the impact of the COVID-19 pandemic continues to pose to Botswana's economic and fiscal performance over the next 12 months. These are primarily linked to the performance of the global diamond industry, on which the country depends substantially.

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 demand for diamonds or prices failed to recover

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sustainably following a large contraction in 2020. Botswana's fiscal and external assets have declined over the past few years, which makes the country more vulnerable to volatility in the diamond industry.

Upside scenario

We could revise the outlook to stable if Botswana's budgetary performance improves, in turn helping preserve the remaining fiscal and balance-of-payment buffers.

Rationale

Botswana depends substantially on the diamond sector, which accounts for about a quarter of GDP. As a result, its economy is susceptible to external shocks. The country is experiencing the pandemic's negative effects on its fiscal and balance of payments performance, after an already-challenging 2019. The lockdown has had a significant negative impact on economic activity, with diamond third sightholder sales in 2020 being cancelled because of global travel restrictions. Diamond production at Debswana (a 50-50 joint venture between De Beers and the government) also came to a standstill for a month last year amid weak global demand. Overall, we estimate that diamond production contracted more than anticipated, by 35% in 2020.

More recently, toward year-end 2020, diamond demand has recovered in China and the U.S. Signs of more sustained demand and prices were also visible in De Beers' first two sight sales in 2021 and we forecast that this should support Botswana's gradual economic rebound.

Even so, we believe uncertainty remains elevated with a number of potential risks for Botswana's diamond sector in the near future. In our view, apart from domestic factors, prospects would ultimately depend to a significant extent on international developments, such as vaccination rates and future restrictions, which would underpin the pace of return of international travel, high street reopenings, and subsequent demand for diamonds.

We estimate that Botswana's general government deficit amounted to a substantial 8% of GDP in 2020 and that it will fall to 5% of GDP in 2021. The latter forecast assumes a recovery of export volumes and 20% rebound in the average foreign price of diamonds.

Despite the deterioration in fiscal metrics over the past year, our ratings on Botswana remain supported by the country's still-modest net general government debt, its net external asset position, and a predictable institutional framework. 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 currencies).

Institutional and economic profile: The economic rebound in 2021 is clouded by uncertainty

- We expect diamond production and prices will start recovering in 2021.
- Nonmining activities will be hampered by uncertainty regarding the vaccination rollout and risks of intermittent economic restrictions.
- Botswana's domestic institutional framework and monetary policy framework support the ratings.

In 2020, Botswana's economic performance was negatively affected by the diamond sector's weak

performance. Prices declined 10% in 2020 following a 6% drop in 2019. We assume prices will recover to pre-pandemic levels this year. Production levels fell 35% in 2020 to 17 million carats, due to a sharp decline in global demand from the pandemic, and domestic restrictions that led to mines closing for a month. We expect production will increase to pre-pandemic levels in 2021. Our assumptions reflect an uptick of demand in China and the U.S., and the gradual reopening of economies in Europe.

The performance of nonmining sectors also fell in 2020, owing to the lockdowns. However, agriculture recovered, with a 3% growth rate in second- and third-quarter 2020, thanks to good rain levels. We expect that nonmining sectors, excluding government services, will continue to underperform in 2021 compared with pre-pandemic growth because of intermittent restrictions in the country, given that the vaccine rollout is gradual. Household consumption growth slowed to 2.8% in 2020 from 3.7% in 2019 following containment measures such as social distancing and reduced operating hours.

Overall, we project that Botswana's economy will rebound by 6% in 2021 following an estimated contraction of 7.7% in 2020. We expect real GDP will return to pre-pandemic levels in 2022, mostly with the mining sector's rebound. At the same time, we think that the tourism sector (another important sector, accounting for about 10% of the country's exports before the pandemic) will recover only slowly starting in 2022 and hinges on the pace of global vaccination.

Botswana's unemployment increased to a high 24.5% in 2020 but could rise further as the suspension of layoffs ends in March 2021. We expect unemployment will hover at about 25% in the next few years, largely affecting young people. Absent a broader economy and a buoyant private sector, the diamond sector will continue to largely shape the growth outlook.

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 political landscape reflects the dominance of the Botswana Democratic Party (BDP) on parliament, after winning two-thirds of the National Assembly seats in the most recent elections in 2019. While the BDP has been in power since a democratic system was established in Botswana in 1966, the party has seen smooth changes in leadership.

Flexibility and performance profile: Downside fiscal stress persists despite the still-strong government balance sheet

- The pandemic has led to a notable widening of Botswana's fiscal deficits.
- We project that the current account will also post deficits through 2024.
- The banking system remains stable and mostly domestic-deposit funded, dominated by subsidiaries of South African banks.

Botswana's fiscal revenue depends on two main sources: diamond revenue and receipts from its membership in the Southern African Customs Union (SACU). The latter reflect the customs duties levied on regional trade between several member states, including South Africa, Namibia, Lesotho, and Eswatini (formerly known as Swaziland). These are first combined at the South African level before being distributed back to these countries according to a predetermined

formula.

Both revenue streams have been under stress, given the pandemic. At the same time, the mining sector's performance suffered last year and remains subject to risks.

We estimate that Botswana will post a general government deficit of about 8.0% of GDP in fiscal 2020 (year ending March 31, 2021), after posting a deficit of 5.6% in fiscal 2019. This is largely because of a collapse in diamond income, which generally accounts for about one-third of revenue. Stimulus measures in the form of tax deferrals until March 2021 and quicker turnaround of value-added tax (VAT) refunds also contributed to the weak fiscal performance in 2020. Although SACU revenue improved by 6% in 2020, accounting for 35% of government revenue, the impact from weaker trade typically comes with a lag, so we expect they could underperform in 2021-2022.

The government introduced a series of fiscal measures to support revenue generation starting in April 2021. The VAT increase to 14% from 12% will make it more in line with that of neighboring countries such as South Africa. However, lower dividend income will continue to constrain revenue, due to Debswana's ongoing investment. Public salary adjustments beyond inflation levels are unlikely, following the 10% adjustment during the past two fiscal years. Still, we project that Botswana will likely run a fiscal deficit throughout our forecast horizon, which will narrow to 5% in fiscal year 2021-2022 and 3% of GDP in fiscal year 2022-2023.

The government has drawn down BWP12 billion on its fiscal assets to finance an estimated BWP15 billion deficit in fiscal 2020. However, it also issued BWP7 billion for fiscal 2020 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 and 2023.

We estimate net general government debt to GDP ratio will average 17% of GDP over the forecast period, rising from only 3% of GDP in 2019, as gross general government debt will average 22%-23% 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 not exceed 5% of revenue for fiscal years 2021-2024 in a context of low global interest rates.

We estimate a current account deficit at more than 10% of GDP in 2020. We expect Botswana to record a trade deficit at least through 2024, largely from sustained imports and a gradual diamond exports recovery, which account for 90% of goods exports, and tourism, which generally accounts for 10% of export receipts. We forecast a prolonged current account deficit but narrowing to 4% of GDP by 2024. As a result, Botswana's gross external financing needs will average 80% of current account receipts plus usable reserves over 2021-2024.

We forecast reserves will stabilize at about \$5 billion through 2024 as the country will raise more external debt. Forming part of the reserves is the Pula Fund, established to save some 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, which averaged 1.9% in 2020, below the central bank's 3%-6% range, because of subdued demand. We forecast inflation will rise to 4% in fiscal 2021-2022, on the back of higher fuel prices and a VAT increase. 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

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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.

Nair Purnima contributed research to this report.

Key Statistics

Table 1

Botswana--Selected Indicators

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Economic indicators (%)										
Nominal GDP (bil. LC)	146	171	180	190	198	183	199	209	224	241
Nominal GDP (bil. \$)	14	16	17	19	18	16	18	19	20	22
GDP per capita (000s \$)	6.8	7.2	7.9	8.3	8.0	6.8	7.7	7.8	8.1	8.5
Real GDP growth	(1.7)	4.3	2.9	4.5	3.0	(7.7)	6.0	3.0	4.0	4.5
Real GDP per capita growth	(3.2)	2.4	0.8	2.2	0.7	(9.6)	3.9	1.0	2.0	2.5
Real investment growth	8.8	3.6	(8.8)	8.1	6.6	(4.0)	3.5	4.0	4.5	4.5
Investment/GDP	33.7	26.1	28.5	31.2	36.8	35.1	35.2	34.0	33.3	32.7
Savings/GDP	35.8	33.8	33.9	31.8	29.2	24.5	28.3	27.3	27.5	28.7
Exports/GDP	49.8	52.6	39.7	40.3	33.5	29.3	33.5	35.1	35.8	35.6
Real exports growth	(18.3)	13.1	(16.2)	7.2	(16.6)	(10.0)	8.0	5.0	6.0	5.0
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	2.1	7.7	5.3	0.6	(7.6)	(10.6)	(6.9)	(6.7)	(5.7)	(4.0)
Current account balance/CARs	3.3	12.4	10.4	1.2	(17.8)	(26.6)	(16.2)	(15.1)	(12.9)	(9.2)
CARs/GDP	63.8	62.1	51.1	50.4	42.7	40.0	42.6	44.3	44.6	43.9
Trade balance/GDP	(4.9)	9.4	4.7	2.6	(5.9)	(9.7)	(5.6)	(4.6)	(3.6)	(2.6)
Net FDI/GDP	1.4	(0.2)	1.5	1.1	1.2	1.2	1.8	1.8	1.8	1.8
Net portfolio equity inflow/GDP	(7.6)	(0.8)	(2.0)	1.5	(3.4)	(1.5)	(0.3)	(0.3)	0.2	0.2
Gross external financing needs/CARs plus usable reserves	54.7	53.0	54.8	60.3	69.3	71.3	78.0	81.7	82.6	81.0
Narrow net external debt/CARs	(62.6)	(52.8)	(63.9)	(54.6)	(58.0)	(50.4)	(30.9)	(20.2)	(16.2)	(14.3)

Table 1

Botswana--Selected Indicators (cont.)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Narrow net external debt/CAPs	(64.7)	(60.3)	(71.3)	(55.3)	(49.3)	(39.8)	(26.6)	(17.6)	(14.4)	(13.1)
Net external liabilities/CARs	(81.6)	(55.6)	(81.6)	(57.3)	(75.6)	(69.7)	(44.4)	(29.2)	(18.0)	(11.4)
Net external liabilities/CAPs	(84.3)	(63.5)	(91.0)	(58.0)	(64.2)	(55.1)	(38.2)	(25.4)	(15.9)	(10.4)
Short-term external debt by remaining maturity/CARs	7.5	6.5	9.4	9.7	10.4	13.4	11.8	12.3	12.9	12.6
Usable reserves/CAPs (months)	11.2	10.6	10.8	9.7	8.7	9.1	6.6	5.8	5.6	5.5
Usable reserves (mil. \$)	7,546	7,189	7,491	6,657	6,170	4,996	4,741	4,704	4,758	4,972
Fiscal indicators (general government; %)										
Balance/GDP	(4.8)	0.7	(1.1)	(4.7)	(5.6)	(8.0)	(5)	(3.0)	(2)	(1.0)
Change in net debt/GDP	1.6	3.3	(1.7)	2.5	5.0	8.0	5.0	3.0	2.0	1.0
Primary balance/GDP	(4.2)	1.2	(0.6)	(4.2)	(5.0)	(7.4)	(4.4)	(2.2)	(1.1)	(0.1)
Revenue/GDP	32.5	33.7	31.3	28.1	27.5	27.0	27.0	27.0	27.0	29.0
Expenditures/GDP	37.3	33.0	32.4	32.8	33.1	35.0	32.0	30.0	29.0	30.0
Interest/revenues	1.7	1.5	1.8	1.7	2.2	2.2	2.3	2.9	3.2	3.0
Debt/GDP	17.9	15.8	13.6	13.7	14.8	17.4	21.0	23.0	23.5	22.8
Debt/revenues	55.2	47.0	43.4	48.7	53.8	64.4	77.8	85.2	86.9	78.6
Net debt/GDP	(7.7)	(3.3)	(4.9)	(2.1)	3.0	11.2	15.3	17.6	18.4	18.1
Liquid assets/GDP	25.6	19.1	18.4	15.7	11.8	6.1	5.7	5.4	5.0	4.7
Monetary indicators (%)										
CPI growth	3.0	2.8	3.3	3.2	2.8	1.9	4.0	4.0	4.0	4.0
GDP deflator growth	1.9	12.0	2.6	1.2	0.8	0.5	2.5	2.0	3.0	3.0
Exchange rate, year-end (LC/\$)	11.24	10.65	9.87	10.73	10.62	10.79	10.90	11.00	11.20	11.20
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	35.2	31.4	31.4	32.2	33.5	37.9	37.0	37.7	38.0	38.1
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

Table 1

Botswana--Selected Indicators (cont.)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
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. 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

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/(CAP + 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. 40% 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."

Table 2

Botswana--Ratings Score Snapshot (cont.)

Key rating factors	Score	Explanation
Notches of supplemental adjustments and flexibility	0	
Final rating		
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, March 10, 2021
- Sovereign Ratings History, March 10, 2021
- Sovereign Ratings Score Snapshot, March 2, 2021
- Sovereign Debt 2021: Global Borrowing Will Stay High To Spur Economic Recovery, March 1, 2021
- Banking Industry Country Risk Assessment Update: February 2021, Feb. 25, 2021
- Global Sovereign Rating Trends 2021: Mounting Debt And Uncertainty Underpin A Negative Outlook Bias, Jan. 27, 2021
- Sovereign Risk Indicators, Dec. 14, 2020; a free interactive version is available at <http://www.spratings.com/sri>
- Research Update: Botswana Outlook Revised To Negative On Rising And Protracted Fiscal And External Pressures; 'BBB+/A-2' Ratings Affirmed, Sept. 18, 2020
- 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

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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

Botswana

Sovereign Credit Rating	BBB+/Negative/A-2
Transfer & Convertibility Assessment	A

Bank of Botswana

Sovereign Credit Rating	BBB+/Negative/A-2
Short-Term Debt	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: Sept. 18, 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: Sept. 18, 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.

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