

Research Update:

Botswana 'BBB+/A-2' Ratings Affirmed On Sustained Diamond Sector Performance; Outlook Stable

September 16, 2022

Overview

- We expect Botswana's diamond export-dependent economy will be resilient to weakening global economic conditions.
- We expect a broadly balanced fiscal position and modest current account surpluses over 2022-2025.
- We therefore affirmed our 'BBB+/A-2' ratings on Botswana and the Bank of Botswana and kept the outlooks stable.

Rating Action

On Sept. 16, 2022, 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 stable.

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. The outlook is stable.

Outlook

The stable outlook on the sovereign balances our expectation that demand for Botswana's diamonds will remain robust against downside risks stemming from weakening global economic activity.

Downside scenario

We could lower our ratings on Botswana if fiscal or external performance were materially weaker than our forecasts. This could happen, for instance, if recovery of upstream and downstream

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diamond segments was short-lived because of a prolonged global economic slowdown.

Upside scenario

We could raise the ratings if economic growth or wealth levels in Botswana were to significantly increase beyond our expectations, supported by diversification of Botswana's export base, which would in turn lead to greater economic resilience.

Rationale

Economic growth in Botswana accelerated to 11.4% in 2021 on the robust recovery of the diamond sector. Diamond production in Botswana increased to 23 million carats (CT) in 2021, from 17 million CT in 2020. Production in Botswana will likely range between 22 million CT and 25 million CT over the next three years as supply and demand dynamics remain supportive in the wake of a rationalization of the upstream (production) and midstream (diamond cutting and polishing) segments and restocking of retail jewelers following the COVID-19 pandemic.

Sanctions on Russian Alrosa, one of the world's largest diamond mining companies, should support demand for non-Russian-sourced diamonds, particularly from the large U.S. market.

Polished diamond prices rose 23.6% in the first half of 2022 compared with the same period last year, partly because of disruptions to Alrosa's business.

Global diamond production reached an estimated 116 million CT from a low 111 million CT in 2020. This is still below the record of 152 million CT in 2017. We expect global production to normalize at 120 million CT-125 million CT over the next two-to-three years.

We expect Botswana's current account and fiscal outcomes will be supported by sustained diamond revenue through 2025. We forecast the current account will record an average surplus of 2.3% of GDP in 2023-2025, with the government budget in a largely balanced position averaging 0.4% of GDP over the same period. As a result, we expect the country's fiscal buffers to be maintained, while external buffers should increase. Meanwhile, GDP growth will average 4.5% in 2023-2024. We expect inflation pressures to remain elevated through 2024. Botswana has made good progress on the vaccination front, with 65% of the population being fully vaccinated against the SARS-CoV-2 virus. This result should mitigate the emergence of new coronavirus variants and the potential resurgence of economic restrictions.

Our 'BBB+/A-2' foreign currency ratings on Botswana reflect the country's strong institutional framework compared with that of regional peers, 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 as a middle-income country. Economic 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 a trade-weighted basket of currencies comprising the South African rand and the IMF's unit of account, the special drawing right.

Institutional and economic profile: The diamond sector will shape growth prospects

- Our expectation of a sustained strong performance by the diamond sector supports our growth outlook for the next few years.

- Public sector investments will drive growth in non-mining sectors.
- Botswana's institutional and monetary policy frameworks remain relatively strong, and support the ratings.

Botswana's economic growth outlook is largely shaped by the performance of the diamond sector. Diamond production at Debswana (a 50-50 joint venture between De Beers and the government) jumped by about 30% in 2021 following strong demand in the U.S. and China (early 2022).

Debswana is the main producer of diamonds in Botswana. Demand for diamonds has remained strong in 2022, largely stemming from the expectation that Debswana's production will exceed 24 million CT in 2022. That said, production constraints at Debswana's Orapa and Jwaneng open mines will lead to a slight reduction of output in 2023-2024 before a new rock type is mined at Orapa. Debswana's investments are on track for expanding operations at Jwaneng with the Cut 9 project, which will extend the mine's lifespan to 2033, and at Orapa with the Cut 3 project that will prolong the mine's lifespan for 10 years until 2038. We believe these projects will strengthen Botswana's role as a leading global diamond producer well into the coming decade. We expect De Beers and the government will continue their longstanding relationship.

Supportive supply and demand dynamics are underpinned by the deleveraging of large diamond producers (De Beers and Alrosa produce about 60% of the global diamond output) and the destocking and rationalization of diamond polishers' Indian business model. That said, we expect global inflation pressures will linger through 2023 and could dampen discretionary spending in the U.S. and Europe. On that basis, we expect polished diamond prices to soften but stabilize in 2023, above previous highs. Polished diamond prices exceeded pre-pandemic levels and increased by an average 12% in 2021 according to the Antwerp Diamond Index.

The ramp-up of mining operations in Khoemacau to full capacity in 2022 and the development of an open-pit silver-copper mine in the Kalahari copper belt, along with rising copper prices, will further support the mining sector's growth over the next two to three years.

Growth in non-mining sectors will be supported by improved access to water and electricity, following years of public investments in the country's infrastructure, including the completion of the Morupule B Power Station. Other key sectors such as construction, trade, transport, and tourism will likely record 4%-6% growth in 2022 owing to elevated inflation. High food and fuel prices will constrain domestic consumption in the next 12-36 months to 2%-3% per year.

We expect GDP growth will moderate to 3.5% in 2022 because we assume more muted growth of domestic consumption at 2.4% compared with 3.2% in 2021. More positively, risks associated with the emergence of coronavirus variants are mitigated by the population's relatively high vaccination rate. Our projections for the next two to three years point to an average growth of 4.5% in 2023-2025.

Growth prospects farther out depend on the acceleration of public sector projects and policy reforms. The government's economic recovery and transformation plan aims to expand productive capacity and facilitate export-led sectors to strengthen economic resilience. The pandemic has delayed the rationalization of the business model of some state-owned enterprises (SOEs). We understand that the government will prioritize the reform of commercial SOEs, such as Botswana Meat Commission and Air Botswana in 2023. The merging and rationalization of noncommercial SOEs will increase efficiency and free up capacity to tackle project planning.

As one of the world's largest rough diamond producers, Botswana emerged as a middle-income country in 2005 and is looking to achieve a high-income status by 2036. Prudent management of the country's natural wealth is underpinned by a predictable and stable institutional framework, which continues to support the ratings.

Flexibility and performance profile: Botswana will maintain its fiscal buffer, while external buffers will strengthen gradually on the back of stronger export revenue

- Stronger mineral revenue will support broadly balanced fiscal outcomes, resulting in muted domestic debt issuance and the government's net asset position remaining broadly the same.
- Gradually widening current account surpluses will strengthen foreign currency reserves and support the pula exchange rate.
- Inflation will remain elevated through 2024, despite higher interest rates.

We expect Botswana will record a small budget surplus of 0.2% of GDP for the 2023 fiscal year (April 2022-March 2023) on increased mineral revenue supported by strong diamond prices and higher volumes. They represented the largest share (43%) of fiscal revenue (56% of the government's budget for the fiscal year) in the first four months of fiscal 2023. This translated into a surplus of 1.7% of GDP. We expect Southern Africa Customs Union (SACU) revenue to normalize at BWP14 billion-BWP15 billion on resumption of trade flows, while value-added tax (VAT) income will remain resilient at BWP10 billion-BWP12 billion. SACU revenue is made up of customs duties levied on regional trade flows between several member states, including South Africa, Namibia, Lesotho, and Eswatini. The government decided to reduce the VAT rate to 12% from 14% for the six months ending January 2023 to alleviate inflationary pressures on households and reduced to zero the rate for some essential products. The VAT rate was increased in fiscal 2022 to align it closer with that of neighboring countries, such as South Africa. Income revenue from the Bank of Botswana will likely decline sharply from the BWP5.6 billion windfall recorded for fiscal 2022 because of increased market volatility. Every year the Bank of Botswana transfers a predetermined amount to the national treasury as part of the dividend stemming from the government's financial assets abroad.

We expect expenditure will increase by 3% in fiscal 2023 compared with fiscal 2022 on higher aid and grant disbursements. A 5% wage increase was already reflected in the budget performance as of July 2022. The government projects the development expenditure budget will increase an ambitious 40%, which will largely determine the extent of the budget outturn, in our opinion. The government tends to underspend in this area because projects are tabled in the budget, although they may be implemented outside of the budget period.

Fiscal 2022 led to a small deficit of BWP8 million (0.00% of GDP) versus the projected BWP10 billion deficit (5% of GDP), aided by stronger mineral revenue performance and underexecution of expenditure stemming from disbursements of grants and subventions and development plans. Investment revenue from government assets more than doubled against initial projections of BWP2.5 billion.

Over the next two-to-three years, we project a gradual modest improvement of the fiscal surplus to 0.5% of GDP. Our projections are more conservative than the authorities', which project a budget surplus of about 2% for fiscal 2024. Our assumptions of mineral revenue and an acceleration of capital expenditure are more conservative as the government executes on its 11th National Development Plan and the economic recovery and transformation plan.

Botswana's debt stock (including public guarantees) is low at about 20% of GDP (within the statutory debt limit of 40% of GDP) in 2022. Foreign currency-denominated debt accounts for more than 40% of total government debt. Most of the external debt was contracted with multilateral institutions and is denominated in U.S. dollars, and the majority of debt service goes

toward the African Development Bank (AFDB), which accounts for about 60% of total external debt. The government also contracted two external loans from the World Bank and the AFDB in 2021 for a combined amount of \$387 million disbursed over 2021 and 2022.

The government's domestic issuance program remains in place, which it had doubled to BWP30 billion in 2020 to help finance projected deficits and enable the government to rebalance the stock of debt toward domestic borrowing. The current domestic issuance plan targets an estimated BWP3 billion for fiscal 2023. We expect issuances will slow through fiscal 2024 because of a more positive fiscal outcome.

Debt service costs will increase in 2022 but remain manageable for Botswana, despite the large share (92%) of external debt at variable rates. We estimate that general government interest paid will jump to 2.9% of general government revenue in 2022 compared with 1.7% in 2021 owing to higher interest rates.

We expect general government debt will moderate over the next two-to-three years, averaging 17% over 2023-2025. The gradual phase-in of the new rule that requires pension funds to limit their offshore investments to 50% will require the government to develop a new plan of domestic issuance. This will in time contribute to deeper domestic capital markets. Pension funds' offshore exposure was about 60% on June 30, 2022.

The government should remain in a relatively strong net asset position averaging about 9% of GDP over 2022-2025. The Pula Fund, established in 1994 with the aim of preserving part of the income from diamond exports for future generations, represents 23% of GDP. The Government Investment Account (GIA; about 7% of GDP in 2022) increased by 55% to about BWP11 billion. We expect the GIA will reach about BWP15 billion in fiscal 2023.

The strong performance of the diamond exports will underpin the encouraging momentum in the trade account that we expect will turn positive in 2025. We expect Botswana's current account will record a surplus of about 1.5% in 2022 following a small deficit of BWP1 billion in 2021. The improvement is the result of better-than-expected mineral exports and resilient SACU transfers. At the same time, we forecast imports will grow because of capital imports, which we expect will increase by about 4%-6% over our forecast period through 2025, and exceed 2013 levels (the highest point) in 2022 as the government implements its development projects. We forecast the current account surplus will average 2.3% of GDP in 2023-2025, on the basis of sustained diamond exports and ramp-up of copper and nickel exports through 2025. This will contribute to rebuilding Botswana's external buffers.

We forecast foreign currency reserves, including the Pula Fund, will gradually improve to about \$6.5 billion through 2025 (from \$4.8 billion in 2021) on stronger export receipts. This will in turn support the pula exchange rate. The Bank of Botswana has been using the flexibility of the crawling peg mechanism since 2005 to ensure economic stability. The downward rate of crawl of 2.87%, introduced in May 2020 was maintained in 2022 to support its export base. Since January, the pula depreciated 1.6% (as of July 2022), which was consistent with the rate of crawl. We anticipate that the pula will remain in a crawling peg exchange rate arrangement against the South African rand and the IMF's special drawing right.

The inflation outlook has increased in 2022, averaging 11.4% in the first seven months of 2022 on the back of higher domestic fuel prices, public transport fares, private school fees, and the upward adjustment in Botswana Housing Corp. rentals, which added a combined 6.5 percentage points. Further fuel price adjustments and transport costs contributed to inflation rising above 14% in July 2022. We forecast inflation will average 11.2% in 2022, supported by a reduction of VAT to 12% from 14% and additional measures to help households will support a downward trajectory in 2022. Global food and energy prices have been declining recently, which should

contribute to a moderation of inflation in 2023. We forecast that inflation will moderate to 7.8% in 2023, still above the central bank's 3%-6% target.

Because of the likely elevated inflation through 2024, the Bank of Botswana tightened its monetary policy stance, raising its monetary policy rate twice, by 51 basis points in April and 50 basis points in June 2022, to 2.15%. This will likely moderate credit extension to the private sector, which we expect to grow by 4.5% in 2022 compared with 5.1% in 2021. Credit leverage in the private sector will remain moderate accounting for about a third of 2022 GDP.

Contingent liabilities stemming from the banking sector are limited, given that the sector is largely dominated by well-managed subsidiaries of South African banks. We expect financial support through the budget to weak SOEs will reduce as the government's efforts to reform SOEs lead to improved efficiency.

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

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Economic indicators (%)										
Nominal GDP (bil. BWP)	164	167	174	180	171	195	216	236	257	278
Nominal GDP (bil. \$)	15	16	17	17	15	18	18	20	22	24
GDP per capita (000s \$)	7.0	7.3	7.6	7.2	6.3	7.3	7.5	8.1	8.6	9.1
Real GDP growth	7.2	4.1	4.2	3.0	(8.7)	11.4	3.5	4.0	4.5	5.0
Real GDP per capita growth	5.3	2.0	1.9	0.8	(10.6)	9.2	1.5	2.0	2.5	2.9
Real investment growth	7.0	(4.6)	8.6	10.2	(9.2)	(0.3)	2.0	2.5	3.0	3.5
Investment/GDP	22.1	25.2	26.4	32.9	30.1	25.4	25.2	25.4	25.8	25.2
Savings/GDP	30.0	31.5	27.1	26.0	21.8	25.4	26.8	27.0	27.7	28.5
Exports/GDP	54.6	42.9	44.2	37.2	31.4	44.6	46.1	44.8	43.7	43.7
Real exports growth	(8.4)	(5.5)	11.9	(7.1)	(18.1)	32.8	8.0	4.0	4.0	6.0
Unemployment rate	20.7	20.7	20.7	20.7	24.5	26.0	25.0	25.0	24.5	24.5
External indicators (%)										
Current account balance/GDP	8.0	6.3	0.7	(6.9)	(8.3)	0.0	1.7	1.6	1.9	3.3
Current account balance/CARs	12.4	11.2	1.2	(14.4)	(18.5)	0.0	2.9	2.9	3.7	6.3
CARs/GDP	64.4	56.0	55.6	47.8	44.8	55.3	56.4	54.0	52.3	52.0
Trade balance/GDP	9.8	5.0	2.9	(6.4)	(13.2)	(3.5)	(1.5)	(0.8)	(0.2)	1.0
Net FDI/GDP	(0.2)	1.6	1.2	0.7	0.7	0.6	0.6	0.6	0.8	0.8
Net portfolio equity inflow/GDP	(0.9)	(2.1)	1.7	(3.3)	(5.4)	(4.1)	(1.6)	(1)	(3.5)	(3.3)

Table 1

Botswana--Selected Indicators (cont.)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Gross external financing needs/CARs plus usable reserves	52.7	53.0	59.0	67.0	66.8	70.7	71.3	70.6	69.8	67.6
Narrow net external debt/CARs	(53.1)	(62.7)	(52.3)	(50.8)	(59.3)	(34.4)	(36.0)	(37.6)	(39.1)	(42.5)
Narrow net external debt/CAPs	(60.6)	(70.7)	(53.0)	(44.4)	(50.1)	(34.4)	(37.1)	(38.7)	(40.6)	(45.4)
Net external liabilities/CARs	(55.9)	(80.2)	(55.0)	(65.3)	(89.9)	(64.4)	(65.2)	(66.2)	(71.0)	(76.8)
Net external liabilities/CAPs	(63.8)	(90.4)	(55.7)	(57.1)	(75.9)	(64.4)	(67.1)	(68.2)	(73.7)	(82.0)
Short-term external debt by remaining maturity/CARs	6.0	6.7	6.8	8.3	9.7	6.6	6.9	6.5	6.2	5.8
Usable reserves/CAPs (months)	10.7	10.8	9.6	8.7	9.3	6.1	5.7	5.8	5.8	6.0
Usable reserves (mil. \$)	7,213	7,468	6,655	6,141	4,946	4,770	5,075	5,354	5,776	6,550
Fiscal indicators (general government; %)										
Balance/GDP	0.7	(1.2)	(5.1)	(6.2)	(9.6)	0.0	0.1	0.2	0.5	0.5
Change in net debt/GDP	8.1	0.0	4.1	9.0	19.1	1.8	(0.1)	(0.2)	(0.5)	(0.5)
Primary balance/GDP	1.2	(0.6)	(4.5)	(5.5)	(8.9)	0.6	1.0	1.1	1.3	1.2
Revenue/GDP	34.9	33.9	30.8	30.2	28.9	35.0	30.0	30.0	30.0	30.0
Expenditures/GDP	34.2	35.0	35.9	36.4	38.5	35.1	29.9	29.8	29.5	29.5
Interest/revenues	1.5	1.8	2.0	2.2	2.4	1.7	2.9	2.8	2.6	2.3
Debt/GDP	16.4	14.7	15.0	16.3	19.7	20.7	20.5	18.8	17.3	16.0
Debt/revenues	47.0	43.4	48.7	53.8	68.3	59.0	68.3	62.5	57.6	53.2
Net debt/GDP	(49.3)	(48.7)	(42.6)	(32.2)	(14.7)	(11.1)	(10.1)	(9.5)	(9.2)	(9.0)
Liquid assets/GDP	65.7	63.3	57.5	48.5	34.4	31.8	30.6	28.2	26.5	25.0
Monetary indicators (%)										
CPI growth	2.8	3.3	3.2	2.8	1.9	6.7	11.2	7.8	6.5	5.5
GDP deflator growth	11.9	(2.6)	0.1	0.3	4.4	2.5	7.0	5.0	4.0	3.0
Exchange rate, year-end (BWP/\$)	10.65	9.87	10.73	10.62	10.79	11.74	11.76	11.75	11.78	11.75
Banks' claims on resident non-gov't sector growth	4.3	5.5	8.4	7.8	5.0	5.6	4.5	5.0	5.5	6.5
Banks' claims on resident non-gov't sector/GDP	32.6	33.9	35.3	36.8	40.6	37.6	35.4	34.1	33.1	32.6
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	16.9	16.0	16.8	14.7	17.0	18.5	19.0	19.0	19.5	20.0

Table 1

Botswana--Selected Indicators (cont.)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Real effective exchange rate growth	1.9	(1.4)	(0.2)	1.1	N/A	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. 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.
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	2	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 revenue) as per Selected Indicators in Table 1. While general government debt stock is low, more than 40% of gross government debt is denominated in foreign currency.
Monetary assessment	4	The pula is at 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 constrained by the limited credit leverage to the 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	
Sovereign 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

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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 History, Sept. 13, 2022
- Sovereign Ratings List, Sept. 13, 2022
- Sovereign Ratings Score Snapshot, Sept. 2, 2022
- Sovereign Risk Indicators, July 11, 2022. An interactive version is available at <http://www.spratings.com/sri>
- 2021 Annual Global Sovereign Default And Rating Transition Study, May 4, 2022

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+/Stable/A-2
Transfer & Convertibility Assessment	A

Bank of Botswana

Sovereign Credit Rating	BBB+/Stable/A-2
Short-Term Debt	A-2

Regulatory Disclosures

Botswana

- Primary Credit Analyst: Samira Mensah, Director
- Rating Committee Chairperson: Trevor Cullinan
- Date initial rating assigned: April 2, 2001
- Date of previous review: Sept. 17, 2021

Bank of Botswana

- Primary Credit Analyst: Samira Mensah, Director
- Rating Committee Chairperson: Trevor Cullinan
- Date initial rating assigned: May 3, 2001
- Date of previous review: Sept. 17, 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.

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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/sourceId/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; or Stockholm (46) 8-440-5914

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