MOODY'S
RATINGS

Rating Action: Moody's Ratings downgrades Botswana's ratings to Baa2 from Baa1, changes outlook to stable

25 Sep 2026

New York, September 25, 2026 -- Moody's Ratings (Moody's) has today downgraded the Government of Botswana's domestic- and foreign-currency long-term issuer ratings to Baa2 from Baa1. The outlook was changed to stable from negative.

The downgrade to Baa2 reflects the expected deterioration in Botswana's public finances. The government continues to run large, even though gradually narrowing, fiscal deficits, driving a steady increase in debt as financial assets have been depleted since 2024. Recently adopted revenue and expenditure measures, while significant, will slow but not reverse this trend. Assuming effective implementation, we still expect government debt to rise to 41% of GDP in the fiscal year ending 31 March 2028 (fiscal 2027) from 31% in fiscal 2025 and to continue increasing thereafter absent more effective fiscal consolidation. That being said, a still-moderate debt burden relative to peers, affordable domestic financing conditions, a strong external position and robust institutions support the Baa2 rating.

The stable outlook reflects balanced risks at the Baa2 rating level. The potential for a stronger fiscal policy response and a more sustained recovery in diamond or other mining production could slow the pace debt accumulation. A developed domestic investor base and external buffers provide capacity to absorb some fiscal underperformance without triggering a spiraling of debt. On the other hand, weaker-than-expected revenue from the new tax measures, underperformance of diamond or Southern African Customs Union (SACU) receipts, or a renewed tightening of domestic financing conditions could accelerate the rise in debt.

Botswana's local currency (LC) and foreign currency (FC) country ceilings have been lowered to A2 and A3, from A1 and A2, respectively. The three-notch gap between the LC ceiling and the sovereign rating balances predictable institutions and government action, low political risk and limited external imbalances against the government's significant footprint in the economy and its reliance on a single revenue source. The FC celling is positioned one notch the LC ceiling reflecting moderate policy effectiveness and low external indebtedness.

RATINGS RATIONALE

RATIONALE FOR THE DOWNGRADE OF THE RATINGS TO Baa2

The downgrade to Baa2 reflects a weakening of Botswana's fiscal resilience. With financial buffers largely exhausted and large fiscal deficits expected to persist, the decline in diamond-related revenue is likely to contribute to a continued increase in debt despite the ongoing policy response. Reliance on SACU transfers further exposes fiscal outcomes to external developments that are largely outside the government's control. As a result, Botswana has less capacity to absorb shocks than similarly rated sovereigns, increasing the risk of further erosion in fiscal strength absent more effective fiscal adjustment.

Recently adopted revenue and expenditure measures will slow the fiscal deterioration. The government has raised corporate and personal income tax rates and broadened the value-added tax (VAT) base by extending VAT to remote services and narrowing zero-rating. Stronger tax administration, including electronic invoicing and compliance management, could raise collections further over time. On the expenditure side, centralized procurement and reductions to discretionary spending have constrained outlays.

However, even assuming effective implementation, fiscal deficits will remain large, narrowing only gradually to 5.8% of GDP in fiscal 2027 from 6.3%-6.4% in fiscal 2025-26. As a result, we forecast government debt will rise to 41% of GDP in fiscal 2027 and to around 50% by the end of the decade. Debt relative to revenue will deteriorate faster than debt to GDP, because structurally lower mining receipts and limited expansion in the non-mining tax base constrain revenue growth. Interest payments will increase to 5.9% of revenue by fiscal 2027 from 5.1% in fiscal 2025 and continue to increase thereafter. Nevertheless, Botswana's debt and interest burdens will remain below the Baa-rated medians of 55% of GDP and 9% of revenue respectively. This provides some fiscal space, although that space is modest relative to the potential size of revenue shocks from the diamond sector and volatile SACU transfers.

A strong external position with a net international investment position of 21% of GDP and robust institutions support the Baa2 rating. The peaceful transfer of power following the 2024 election, the first change in governing party since independence, demonstrates the durability of Botswana's political institutions. The Bank of Botswana's response to liquidity and foreign-exchange pressures indicates continued policy capacity.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects our assessment that risks to Botswana's credit profile are balanced at the Baa2 rating level.

The principal downside risks are that diamond or SACU revenue underperforms, and enacted revenue and expenditure measures deliver smaller or less durable gains than we assume. Wider deficits would accelerate debt accumulation, and larger funding needs would strain the domestic debt market. Higher borrowing costs, weaker investor demand at government debt auctions or reduced access to development-bank financing would compound the effect on debt affordability and government liquidity. These risks are mitigated by the developed domestic investor base and access to external concessional financing, and by foreign-exchange reserves of around six months of imports, which reduce the risk that fiscal slippage would quickly develop into liquidity or external payment stress.

Conversely, fiscal outcomes could surprise positively if the government responds more forcefully to revenue pressure, building on the measures adopted this year, if the revenue measures and tighter expenditure controls deliver larger and more durable gains, or if diamond prices and sales recover more strongly than we assume. Progress in diversifying the economy away from the diamond sector would also support stronger growth and government revenue.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CONSIDERATIONS

Botswana's ESG Credit Impact Score of CIS-3 indicates that ESG considerations are having a limited impact on the current rating, with potential for greater negative impact over time. The country is moderately exposed to environmental risks and highly exposed to social risks. This exposure is mitigated by high resilience, reflecting a relatively strong governance profile, moderate wealth levels, and fiscal metrics that provide space to respond to environmental and social risks.

Botswana is highly exposed to social risks, as reflected in its S-4 issuer profile score. Progress in reducing high unemployment, in particular among the youth, and high-income inequality lags compared to Botswana's relatively strong economic performance and sound institutions, in part reflecting dependence on the mining sector, limited private sector job creation, and labor market distortions. Outcomes in terms of health, and to a lesser extent education, are not commensurate with the level of income and social spending.

GDP per capita (PPP basis, US$): 20,732 (2025) (also known as Per Capita Income)

Real GDP growth (% change): -0.9% (2025) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 3.9% (2025)

Gen. Gov. Financial Balance/GDP: -6.3% (2025) (also known as Fiscal Balance)

Current Account Balance/GDP: 3.7% (2025) (also known as External Balance)

External debt/GDP: 15.7% (2025)

Economic resiliency: ba1

Default history: No default events (on bonds or loans) have been recorded since 1983.

On 23 September 2026, a rating committee was called to discuss the rating of the Botswana, Government of. The main points raised during the discussion were: The issuer's economic fundamentals, including its economic strength, have materially decreased. The issuer's institutions and governance strength have materially decreased. The issuer's fiscal or financial strength, including its debt profile, has not materially changed.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Upward pressure on the rating could arise if fiscal outcomes are materially stronger than our forecasts, placing government debt on a stable or even declining path at a lower level than we currently expect. This could result from a stronger fiscal response, including sustained growth in non-mining revenue and durable expenditure restraint, or from a more sustained recovery in mining revenue. A sustained improvement in financing conditions, including lower borrowing costs and longer maturities in the domestic market, would also support the rating over time. Over the medium term, a structural broadening of exports, economic growth and government revenue would reduce Botswana's exposure to the mining sector and support upward rating pressure, as would the reaccumulating of financial assets.

Downward pressure on the rating could arise if fiscal outcomes are materially weaker than our forecasts, placing debt and interest costs on a steeper upward path than we currently expect. This could result from weaker mining or SACU revenue, underperformance of the new fiscal measures or continued rapid expenditure growth. A sustained deterioration in financing conditions, including materially higher borrowing costs or an inability to secure expected external financing, or a marked decline in foreign-exchange reserves would increase liquidity and external risks and place downward pressure on the rating. Downward pressure could also arise if the government were to materially increase its investment in De Beers through debt-financed transactions or other forms of support that result in a sustained increase in government debt or contingent liabilities.

The principal methodology used in these ratings was Sovereigns published in May 2026 and available at https://ratings.moodys.com/rmc-documents/466021. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this credit rating action, if applicable.

Botswana's 'ba3' economic strength score is set one notch below the initial score of 'ba2' to reflect the concentration of economic activity in the mining sector. This leads to a final scorecard-indicated outcome of Baa1-Baa3, which is below the initial scorecard-indicated outcome of A3-Baa2. The assigned rating is within the final scorecard-indicated outcome.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

For any affected securities or rated entities receiving direct credit support/credit substitution from another entity or entities subject to a credit rating action (the supporting entity), and whose ratings may change as a result of a credit rating action as to the supporting entity, the associated regulatory disclosures will relate to the supporting entity. Exceptions to this approach may be applicable in certain jurisdictions.

For ratings issued on a program, series, category/class of debt or security, certain regulatory disclosures applicable to each rating of a subsequently issued bond or note of the same series, category/class of debt, or security, or pursuant to a program for which the ratings are derived exclusively from existing ratings, in accordance with Moody's rating practices, can be found in the most recent Credit Rating Announcement related to the same class of Credit Rating.

For provisional ratings, the Credit Rating Announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating.

Moody's does not always publish a separate Credit Rating Announcement for each Credit Rating assigned in the Anticipated Ratings Process or Subsequent Ratings Process.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1462204.

The Global Scale Credit Rating(s) discussed in this Credit Rating Announcement was(were) issued by one of Moody's affiliates outside the EU and UK and is(are) endorsed for use in the EU and UK in accordance with the EU and UK CRA Regulation.

Please see https://ratings.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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David Rogovic
SVP - Ratings

Lucie Villa
SVP - Ratings

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653
