MOODY'S
RATINGS

Rating Action: Moody's Ratings downgrades Botswana's ratings to Baa1 from A3, maintains negative outlook

17 Oct 2025

London, October 17, 2025 -- Moody's Ratings (Moody's) has today downgraded the Government of Botswana's domestic- and foreign-currency long-term issuer ratings to Baa1 from A3 and maintained the negative outlook.

The rating downgrade reflects the government's challenges in adjusting to the structural downturn in the diamond industry, which contributes roughly 30% of GDP and 90% of goods exports, resulting in economic contraction, weakened external buffers, and increasing government debt. Since our outlook changed from stable to negative in April 2025, the global diamond downturn has continued and is unlikely to reverse. Although Botswana's governance framework had previously been effective, it now struggles to adapt its economic and fiscal model.

The negative outlook reflects the risk of a sharper credit deterioration than we currently expect, amid continued weakness in the diamond sector and its difficult replacement as an engine of economic activity and foreign exchange earnings. We anticipate that the government will gradually implement a broad and coordinated policy response, with debt peaking at 40% of GDP over the medium term. However, downside risks persist, including external factors like the potential normalization of revenues from the Southern African Customs Union (SACU) and further challenges in key diamond markets, as well as domestic issues such as structural economic constraints and difficulties in coordinating an effective institutional response. With the financial assets stored in the Government Investment Account (GIA) almost entirely depleted, the government is more vulnerable to higher interest rates and rising debt.

Botswana's local currency (LC) and foreign currency (FC) country ceilings have been lowered to A1 and A2, from Aa3 and A1, respectively. The three-notch gap between LC ceiling and the sovereign rating reflects predictable institutions and government actions, low political risk and external imbalances against the government's significant footprint in the economy and reliance on a single revenue source. The one-notch gap between the FC ceiling and the LC ceiling reflects moderate policy effectiveness and low external indebtedness that point to limited transfer and convertibility risks.

RATINGS RATIONALE

RATIONALE FOR THE RATINGS DOWNGRADE

The downgrade is primarily driven by the government's challenges in adapting to the diamond industry downturn, both short and long term.

The downturn in the diamond industry which started in 2023 has continued throughout 2025, exposing weak effectiveness of previous policies in support of economic diversification. Botswana's economy contracted by 3% in 2024 and will likely decline by an additional 6% in 2025 as it remains exposed to global demand shocks and technological disruption from lab-grown alternatives and changes in consumer preferences, pressures which we assess to be structural. Despite a 24% fall in mining output in 2024, inventories reached record highs.

Botswana's growth prospects are being undermined by repeated delays to the implementation of NDP 12, due to weak inter-ministerial coordination and insufficient strategic planning, slowing the pace of reforms. Payment delays in the health sector have led to inflated costs and funding gaps, a trend worsened by the withdrawal of USAID support, contributing to funding pressures and challenges in delivering essential care.

The economy remains heavily reliant on capital-intensive diamond mining, diversification efforts lag due to reform delays, while exposure to climate shocks persist. Unemployment is high—27.6% overall and 38.2% among the youth—while public employment dominates formal jobs and spending, highlighting structural rigidities.

Diamond exports also continue to drive foreign exchange, but the sector's weakness has widened the current account deficit and brought reserves to a historic low, even though measures to allow more currency adjustment under the crawling peg regime have mitigated the deterioration. In the meantime, the government has nearly depleted its financial buffers, like the GIA, by repeatedly withdrawing to cover fiscal deficits, weakening shock absorption capacity and exposing it to higher interest rates.

RATIONALE FOR THE NEGATIVE OUTLOOK

The negative outlook reflects the risk of a sharper credit deterioration than we currently expect amid continued weakness in the diamond sector and its difficult replacement as an engine of economic activity and foreign exchange earnings.

While authorities have committed to structural reforms and economic diversification, progress has been slow and uneven. Key initiatives—such as improving the efficiency of state-owned enterprises and digitizing public services—face resistance from vested interests, and many reforms will take years to yield tangible results. Fiscal pressures further constrain the government's capacity to invest in high-return projects.

Under our baseline, we expect that the government will gradually advance its reform agenda with debt peaking at 40% of GDP over the medium term. However, downside risks persist. Botswana is exposed to a potential decrease in SACU revenues and headwinds in key export markets, particularly diamonds. Domestically, structural economic constraints and institutional coordination challenges could hinder reform momentum more than we currently assume.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

Botswana's ESG Credit Impact Score of CIS-3 indicates that ESG considerations are having a limited impact on the 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 strong fiscal metrics that provide fiscal space to respond to E and S risks.

Botswana's credit profile is moderately exposed to environmental risks as reflected in its E-3 issuer profile score. Botswana is affected by water scarcity and vulnerable to recurrent droughts, although it has relatively low economic reliance on agriculture compared to other sub-Saharan African sovereigns.

Exposure to social risks is highly negative (S-4 issuer profile score), as 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.

Botswana has a G-2 issuer profile score. The country performs strongly on the Worldwide Governance Indicators. Botswana has been characterized by sound management of the natural resources income. Nevertheless, efficiency of spending remains low.

GDP per capita (PPP basis, US$): 19,039 (2024) (also known as Per Capita Income)

Real GDP growth (% change): -3% (2024) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 1.7% (2024)

Gen. Gov. Financial Balance/GDP: -7.6% (2024) (also known as Fiscal Balance)

Current Account Balance/GDP: -4.7% (2024) (also known as External Balance)

External debt/GDP: 11.6% (2024)

Economic resiliency: baa3

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

On 14 October 2025, 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 not materially changed. The issuer's institutions and governance strength have not materially changed. The issuer's fiscal or financial strength, including its debt profile, has not materially changed. The issuer's susceptibility to event risks has not materially changed.

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

Given the negative outlook, a rating upgrade is unlikely in the near term. A stabilization in the outlook could be aided by a lasting recovery in global diamond demand, boosting exports, growth, and fiscal revenue. However, cyclical improvement alone will not create upward rating pressure. Establishing a track record of effective fiscal consolidation and affordable domestic credit access would support a stabilization of the outlook. Economic, export, and fiscal diversification—through the Botswana Economic Transformation Programme (BETP), which focuses on developing a strong domestic private sector, implementing structural reforms, and reducing reliance on volatile SACU revenues—could eventually improve the rating.

Conversely, a further deterioration in Botswana's fiscal and debt metrics beyond our current expectations, a structurally weaker medium-term growth outlook, and continued delays in policies to address the country's narrow economic, fiscal, and export base would increase the risk of another ratings downgrade. Additional signs of vulnerability—such as an increase in the government cost of borrowings, and public debt rising more rapidly than we currently expect, or a continued decline in foreign exchange reserves —would further undermine creditworthiness and could trigger a downgrade.

The principal methodology used in these ratings was Sovereigns published in November 2022 and available at https://ratings.moodys.com/rmc-documents/395819. 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.

The net effect of any adjustments applied to rating factor scores or scorecard outputs under the primary methodology(ies), if any, was not material to the ratings addressed in this announcement.

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.

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