S&P Global Ratings

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Research Update:

Botswana Ratings Lowered To 'BBB+/A-2' On Expected Prolonged Fiscal And External Deficits; Outlook Stable

March 27, 2020

Overview

- A prolonged weaker diamond export market will likely continue to undermine Botswana's export and fiscal revenues.
- In addition, expenditure pressures are rising from the increasing public sector wage bill and are likely to delay fiscal consolidation in the near term.
- We therefore expect that, over the next few years, Botswana will run twin deficits that gradually drain its traditionally strong savings.
- We are consequently lowering our long-term ratings on Botswana to 'BBB+' from 'A-' and affirming our short-term rating at 'A-2'. The outlook is stable.

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Rating Action

On March 27, 2020, S&P Global Ratings lowered its long-term foreign and local currency sovereign credit ratings on Botswana to 'BBB+' from 'A-' and affirmed its short-term rating at 'A-2'. The outlook is stable.

We also lowered our transfer and convertibility assessment on Botswana to 'A' from 'A+'.

At the same time, we lowered our long-term foreign and local currency sovereign credit ratings on the Bank of Botswana to 'BBB+' from 'A-', because we equalize our ratings on the central bank with those on the sovereign. We affirmed the 'A-2' short-term rating on the central bank. The outlook is stable.

Outlook

The stable outlook on Botswana balances our expectation of large twin deficits over the coming two years, due to weaker diamond revenue because of the current global recession, with our assumption that the country's liquid external assets will continue to exceed its external debt.

Downside scenario

We could lower our ratings on Botswana if prolonged weaker diamond demand and prices alongside mounting spending pressure cause a deterioration of the country's fiscal and external metrics beyond our current assumptions. This could in turn lead to debilitated growth prospects, which would constrain Botswana's credit quality.

Upside scenario

An upgrade is unlikely over the next two years. However, we could raise the ratings if Botswana's policy reforms generate sufficient external buffers, supported by a broader export base, to maintain fiscal and external balances over our forecast horizon for 2020-2022.

Rationale

We believe that Botswana's weakening fiscal and external balance sheets are vulnerable to a prolonged depressed diamond market. We now expect the country will have closed 2019 with a current account deficit of more than 8% of GDP. Botswana is set to post twin deficits in the next few years. We expect this will gradually reduce its traditionally strong fiscal and external buffers over the medium term.

On the supply side, repair work in the country's major mines slowed domestic diamond production in 2019. Furthermore, demand from China, one of Botswana's main diamond markets, dropped in February because of the economic deceleration exacerbated by the COVID-19 pandemic. We expect the slump in global growth to continue to weigh on diamond demand and prices over the coming months. Despite a mild recovery in January 2020, overall diamond production and prices have been weaker this fiscal year.

The ratings are supported by a stable and predictable institutional framework, which supports relative fiscal prudence and low government debt. In addition, Botswana's contingent liabilities are limited. Its monetary policy framework supports macroeconomic stability, supported by the crawling peg exchange regime, but the limited size of the private sector somewhat constrains the framework's effectiveness.

Institutional and economic profile: A weakened diamond sector and depressed global economy will hinder growth

- We expect diamond production will remain weak in 2020 and continue to be a source of volatility.
- Non-mining activities will support only modest growth of below 3%.
- The institutional framework remains intact following the 2019 elections.

Lower diamond prices led to an unexpectedly high current account deficit in fiscal 2019. Prices declined by 6% in 2019 as demand subsided for rough diamond in China and the U.S. Production levels fell to 23.7 million carats from 24.5 million carats in 2018 due to planned repairs in Botswana's major mines. That said, we do not see any structural weakness in diamond production for 2020 as Debswana produces on demand. We project that Botswana's economy will expand by a modest 2.6% in 2020 assuming that the COVID-19 pandemic somewhat stabilizes by mid-2020, down from 3.6% in 2019. Our forecast reflects flat growth of diamond exports through 2021, compared with an estimated reduction of about 20% of current account receipts in 2019. This is in a context of expected depressed global demand for diamond for the first half of 2020, exacerbated by the COVID-19 pandemic. We also expect the tourism sector will be severely affected by the lockdown imposed by many countries in March 2020. Tourism receipts account for about 10% exports receipts.

Debswana, a 50-50 joint venture between De Beers and the Botswana government, is the main producer of diamonds in Botswana. Its mines are Orapa and Jwaneng--the latter being the world's most valuable diamond mine. Debswana is investing in expanding operations at Jwaneng with the Cut 9 project, which extends the mine's lifespan to 2035, and at Orapa with the Cut 3 project. We believe these projects strengthen Botswana's role as a key diamond producer well into the coming decade. We expect De Beers and the government to continue their longstanding relationship as they finalize renewed sales agreement, since the current one expires in June.

In addition, we expect growth in the non-mining sectors will remain steady, largely driven by financial services and the agriculture sector, which is now recovering after severe drought in 2019. Domestic demand will continue to support consumption and growth in 2020, following the public sector salary and minimum wage increases adopted in 2019.

We believe that economic diversification will be gradual since industries such as meat production and agriculture lack sufficient scale to broaden the economic base sustainably in the medium-term. We expect unemployment will remain above 20% (largely concentrated in the youth) until diversification benefits emerge.

Absent a wider economic base and a buoyant private sector, the diamond sector will continue to largely shape the growth outlook in the medium and long term. This further underscores the economy's vulnerability to external shocks.

Botswana has been a beacon of institutional stability across the region, and it has a positive track record of sustainable public finances and a steady macroeconomy. Despite the unprecedented divisions during the 2019 electoral campaigns, the policy framework remains largely unchanged and predictable. The Botswana Democratic Party (BDP) recorded a clear victory in October 2019, leaving the opposition coalition with a limited margin to maneuver. The outcome of the last election is unlikely to affect social cohesion and reinforces the need to accelerate the implementation of the national development plan.

Botswana's natural wealth as one of the world's largest rough diamond producers has been prudently managed, enabling the country to emerge over the past few decades to middle-income status. The government's accumulation of savings underpins its conservative track record in wealth management but recent declines of these reserves also point to limited financing options.

Flexibility and performance profile: Structural weaknesses are materializing on Botswana's balance sheets on the back of declining external buffers

- Botswana is set to post more moderate fiscal deficits in 2019-2020, but we now expect a sizable current account deficit through 2021-2022.
- The country's current account balance continues under pressure from the weak diamond sector and depressed global economy.
- Inflation will normalize within the Bank of Botswana's 3%-6% target range over 2020-2023,

which supports macroeconomic stability.

Botswana's fiscal revenues depend on two main sources, accounting for half the total, evenly spread between diamond revenues and receipts from membership in Southern African Customs Union (SACU). Both fluctuate; while diamonds depend on international markets, SACU revenues stem from regional trade. Thus, fiscal outcomes are subject to volatility. Botswana has posted fiscal deficits since 2017. We estimate that Botswana will post a general government deficit of about 2.0% of GDP in the fiscal year ending March 31, 2020, after posting a deficit of 4.7% in fiscal 2018. This is partly driven by lower capital expenditure and a Botswana pula (BWP) 5 billion windfall transfer from the Bank of Botswana, resulting from the asset reallocation of the reserves introduced late 2018.

We understand that the government will reinvest part of its dividends to finance its share of Debswana's projects at Jwaneng and Orapa. These investments will ensure higher revenues from diamond production over the longer term but could exacerbate fiscal strain over the next three-to-five years.

Additionally, the 2020-2021 budget reflects an increase of more than 10% in the public sector wage bill, which we understand is the new base line following years of no salary adjustment. We have revised our deficit projection for Botswana's 2020 fiscal year upward to 2.5% due to global headwinds that will curb revenue.

We expect the fiscal consolidation will only be gradual, as the government balances pressure on lower mineral revenues and increasing wage bill. We forecast that Botswana will likely run a fiscal deficit throughout our forecast horizon, but it will narrow to 1% of GDP in 2022-2023. This is in line with the government's commitment to fiscal consolidation.

We project that the government will continue to finance its deficits partly by drawing down on its liquidity buffers, and partly via domestic or concessional borrowings. However, we expect the mix to rebalance gradually toward domestic debt over the forecast horizon as the government will likely increase its domestic bond program to BWP20 billion from BWP15 billion. At the same time, we understand that drawing from savings will also decline after 2021, reflecting lower financing needs as twin deficits narrow, supporting the need to preserve external buffers. Hence, we estimate gross general government debt relative to GDP to increase slightly, averaging 15% over 2020-2023. Approximately 56% of gross government debt is external, of which more than 75% is variable rate loans with multilateral and bilateral lenders, while the remaining 44% is domestic debt. As a result, we expect interest-servicing costs will not exceed 2% of revenues for fiscal 2020-2021 in a context of low global interest rates. In addition, we estimate that contingent liabilities from the financial and nonfinancial public sectors are limited accounting for less than 5% of GDP.

We expect Botswana to record a trade deficit over the forecast horizon, largely driven by lower diamond exports, which account for 90% of goods exports. Preliminary current account data for 2019 indicates Botswana recorded a current account deficit of about 8.4% in 2019. If the recovery in the diamond market is slow, as we expect, Botswana will be experiencing sustained current account deficits for the medium term. That is, we forecast a prolonged current account deficit averaging 3.6% through 2023. It is highly likely the COVID-19 pandemic will severely affect revenue from the tourism sector, which accounts for about 10% of total exports. At the same time, we anticipate SACU receipts will weaken further to about 7% of GDP in 2019 from about 8% in 2018, on the back of bleak economic prospects in South Africa.

As a result, Botswana's gross external financing needs will increase from 60% of current account receipts (CARs) plus useable reserves in 2018 to average at least 70% over 2020-2023. Since foreign direct investments and external debt borrowing is low, financing of the current account largely rely on central bank reserves. Botswana's foreign currency reserves, including the Pula Fund, declined by 8.7% to $6.1 billion as of Dec. 31, 2019, from $6.7 billion in 2018. The Pula Fund, which is part of the foreign currency reserves, is a sovereign wealth fund established in 1994 with the intention of saving some diamond export receipts for future generations. We expect the performance of the reserves following the new investment strategy aimed at maximizing returns through geographic diversification to be more correlated to global capital markets performance, and prone to more volatility in 2020 because of recent global developments.

Botswana operates a crawling peg for the pula against the South African rand and the International Monetary Fund's special drawing rights--a basket of major currencies. The Bank of Botswana adjusted the peg downward by 1.5% for 2020 but left the breakdown of the basket currencies unchanged (45% South African rand and 55% SDR). The peg helps the Bank of Botswana control inflation, which we expect will normalize around 3.0%-3.5% in 2020-21, within the bank's 3%-6% target. Annual inflation amounted to a low 2.2% in 2019, but we expect it to inch up in the second half of the year to 3.0%, reflecting higher electricity and water tariffs as well as the public sector salary increase. We expect the central bank will continue with its accommodative monetary stance on the backdrop of moderate economic growth in 2020.

The central bank has broad operational independence and the crawling peg exchange rate regime offers flexibility. Nevertheless, the currency peg, along with the narrowness of the economy and local debt markets, limits the effectiveness of the country's monetary policy options, in our view.

Credit to private enterprises and households recorded a year-on-year expansion of 7.6% in 2019, similar to the previous year. Corporate credit growth fell to less than 2%, reflecting fewer lending opportunities in the corporate space and loan repayments. Conversely, lending to households has increased over the same period, and accounted for about two thirds of total loans. In our view, concentration in the household lending segment remains a key credit risk for banks because of the high household leverage. Nonperforming loans reduced to 4.8% in 2019 from 5.5% a year earlier, due to improved recoveries in the corporate book, which in turn supported the sector's profitability and capitalization metrics, with return on equity averaging 16.2% in 2019. That said, we expect the current difficult global conditions will lead to a weakening of asset quality and an increase of stage 2 loans as banks face some restructuring of their mining, trade and tourism exposures. We think contingent liabilities stemming from the banking sector are limited, given that the sector is largely dominated by well-managed South African banks and public sector banks account for about 2% of market share by total 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.

Key Statistics

Table 1

Botswana Selected Indicators

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Economic indicators (%)										
Nominal GDP (bil. BWP)	146	146	171	180	190	203	216	231	248	270
Nominal GDP (bil. $)	16	14	16	17	19	19	20	20	21	23
GDP per capita (000s $)	7.8	6.8	7.2	7.9	8.3	8.2	8.4	8.5	8.7	9.1
Real GDP growth	4.1	(1.7)	4.3	2.9	4.5	3.6	2.6	3.5	4.0	4.5

Table 1

Botswana Selected Indicators (cont.)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Real GDP per capita growth	2.8	(3.2)	2.4	0.8	2.2	1.4	0.6	1.5	2.0	2.5
Real investment growth	1.5	8.8	3.6	(8.8)	8.1	3.8	5.0	3.0	5.0	5.0
Investment/GDP	26.4	28.9	26.2	28.3	30.5	39.7	37.6	37.3	37.0	39.5
Savings/GDP	37.0	31.1	33.9	34.4	31.7	31.3	30.7	32.6	35.2	38.7
Exports/GDP	60.7	53.0	52.5	39.9	40.8	30.7	29.4	29.4	30.4	30.6
Real exports growth	7.7	(16.3)	6.1	(16.0)	8.0	(14.5)	3.0	4.0	5.0	5.0
Unemployment rate	20.0	17.7	17.7	17.7	17.7	20.7	21.0	21.0	21.0	21.0
External indicators (%)										
Current account balance/GDP	10.7	2.2	7.8	6.1	1.2	(8.4)	(6.9)	(4.8)	(1.8)	(0.8)
Current account balance/CARs	15.0	3.4	12.5	11.9	2.4	(21.1)	(18.3)	(12.5)	(4.6)	(2.0)
CARs/GDP	71.3	63.9	62.0	51.3	51.0	40.0	38.0	38.1	39.1	39.2
Trade balance/GDP	4.6	(4.8)	9.4	4.8	2.6	(6.8)	(5.1)	(3.6)	(2.5)	(2.5)
Net FDI/GDP	2.5	1.4	(0.3)	1.0	0.6	0.6	0.6	0.6	0.6	0.6
Net portfolio equity inflow/GDP	(1.9)	(7.6)	(0.9)	(2.0)	0.9	1.0	1.0	1.0	1.0	1.0
Gross external financing needs/CARs plus usable reserves	54.7	54.7	52.9	54.0	59.7	69.4	70.4	71.5	71.1	70.0
Narrow net external debt/CARs	(54.0)	(62.5)	(52.9)	(65.0)	(56.7)	(64.1)	(56.3)	(48.8)	(48.3)	(50.4)
Narrow net external debt/CAPs	(63.5)	(64.7)	(60.4)	(73.7)	(58.1)	(52.9)	(47.6)	(43.3)	(46.2)	(49.4)
Net external liabilities/CARs	(64.4)	(81.4)	(55.6)	(80.7)	(61.7)	(67.6)	(55.7)	(44.0)	(39.6)	(37.0)
Net external liabilities/CAPs	(75.7)	(84.3)	(63.6)	(91.6)	(63.2)	(55.9)	(47.0)	(39.1)	(37.9)	(36.2)
Short-term external debt by remaining maturity/CARs	6.1	7.5	6.5	9.4	9.1	9.5	9.9	9.7	9.0	8.4
Usable reserves/CAPs (months)	9.4	11.2	10.7	11.0	9.7	8.7	8.3	7.6	6.9	6.8
Usable reserves (mil. $)	8,323	7,546	7,189	7,491	6,657	6,158	5,499	4,997	5,150	5,538
Fiscal indicators (general government; %)										
Balance/GDP	3.7	(4.8)	0.7	(1.1)	(4.7)	(2.0)	(2.5)	(1.8)	(1.6)	(1.0)
Change in net debt/GDP	(5.3)	1.6	3.3	(1.7)	2.5	2.0	2.5	1.8	1.6	1.0
Primary balance/GDP	4.1	(4.2)	1.2	(0.6)	(4.2)	(1.5)	(2.0)	(1.3)	(1.1)	(0.5)
Revenue/GDP	38.3	32.5	33.7	31.3	28.1	28.0	27.0	26.0	25.5	25.0
Expenditures/GDP	34.7	37.3	33.0	32.4	32.8	30.0	29.5	27.8	27.1	26.0
Interest/revenues	1.3	1.7	1.5	1.8	1.7	1.8	1.8	2.1	2.0	2.0
Debt/GDP	17.4	17.9	15.8	13.6	13.7	13.6	15.1	15.2	15.3	14.7
Debt/revenues	45.5	55.2	47.0	43.4	48.7	48.6	55.9	58.6	60.2	59.0

Table 1

Botswana Selected Indicators (cont.)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Net debt/GDP	(9.4)	(7.7)	(3.3)	(4.9)	(2.1)	0.1	2.6	4.2	5.5	6.1
Liquid assets/GDP	26.8	25.6	19.1	18.4	15.7	13.5	12.5	11.0	9.9	8.7
Monetary indicators (%)										
CPI growth	4.4	3.0	2.8	3.3	3.2	2.2	3.0	3.5	3.5	4.0
GDP deflator growth	11.9	1.9	12.0	2.6	1.2	2.9	3.5	3.5	3.5	4.0
Exchange rate, year-end (BWP/$)	9.51	11.24	10.65	9.87	10.73	10.62	11.20	11.50	11.80	12.00
Banks' claims on resident non-gov't sector growth	14.2	8.5	4.3	5.5	8.4	7.6	8.0	8.0	8.0	8.0
Banks' claims on resident non-gov't sector/GDP	32.5	35.2	31.4	31.4	32.2	32.5	33.1	33.3	33.4	33.2
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	15.5	16.9	16.0	16.8	14.7	16.0	16.0	16.0	16.0
Real effective exchange rate growth	0.6	2.4	1.9	(1.4)	(0.2)	1.1	N/A	N/A	N/A	N/A

Sources: Sources: Bank of Botswana, International Monetary Fund (Economic Indicators), Bank of Botswana (External Indicators), Bank of Botswana, Ministry of Finance and Economic Development (Fiscal Indicators), and Bank of Botswana, International Monetary Fund, 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 assets held by 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 economic growth. Cohesive civil society. 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.
		Concentrated 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/(CAR + useable reserves) as per Selected Indicators in Table 1.

Table 2

Botswana Ratings Score Snapshot (cont.)

Key rating factors	Score	Explanation
		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 potentially volatile revenue base due to volatile diamond prices. Mineral revenues ranged 25%-35% of revenues in 2018-2019.
Fiscal assessment: debt burden	1	Based on net general government debt (% of GDP) and general government interest expenditures (% of general government revenues) as per Selected Indicators in Table 1.
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 may be limited because of the small size of the private sector.
Indicative rating	bbb+	As per Table 1 of "Sovereign Rating Methodology."
Notches of supplemental adjustments and flexibility	0	
Final 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

- 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: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- Stress Scenario: The Sovereigns Most Vulnerable To A COVID-19-Related Slowdown In Tourism, March 17, 2020
- Sovereign Ratings History, March 13, 2020
- Sovereign Ratings List, March 13, 2020

- Sovereign Ratings Score Snapshot, March 3, 2020
- Sovereign Debt 2020: Emerging Market EMEA Borrowing Will Likely Inch Up 0.6% To $473.3 Billion, Feb. 20, 2020
- Sovereign Debt 2020: Global Borrowing To Increase To $8.1 Trillion Amid Favorable Financing Conditions, Feb. 20, 2020
- Global Sovereign Rating Trends 2020: Sovereign Debt Buildup Continues, Jan. 29 2020
- 2018 Annual Sovereign default And Rating Transition Study, March 15, 2019

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

Downgraded; Ratings Affirmed

	To	From
Botswana		
Sovereign Credit Rating	BBB+/Stable/A-2	A-/Stable/A-2
Transfer & Convertibility Assessment	A	A+
Bank of Botswana		
Sovereign Credit Rating	BBB+/Stable/A-2	A-/Stable/A-2
Short-Term Debt	A-2	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: Oct. 25, 2019

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: Oct. 25, 2019

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.