CareEdge Global assigns Long Term Foreign Currency Rating of BBB+ (Unsolicited) to the Republic of Botswana

Credit Profile

Botswana's credit profile derives support from its adequate external position arising from positive trade conditions and comfortable foreign currency assets. The country's fiscal position is also characterized by a manageable deficit and a low debt burden. The economy is supported by effective governance and institutions as compared to regional peers. However, the credit profile is weighed down by a concentrated economic profile and relatively weak monetary structure.

The government's spending plans to support diversification beyond the minerals sector, the proposed rationalization of key state-owned enterprises (SOEs), and its plans to develop the domestic debt market are key elements to monitor.

Strengths

- Effective governance and political stability
- Abundance of mineral resources
- Adequate external position supported by a strong foreign currency buffer in the form of the Pula Fund and the Government Investment Account (GIA)

Weaknesses

- Dependence of the economy on the diamond sector, which contributes approximately 15% of the GDP
- Weak monetary structure

Key Monitorables

- Diversification in economic profile
- Longer-term impact of potential demand shift towards lab grown diamonds
- Improvement in performance of state-owned enterprises (SOEs)
- Development of the domestic debt market
- Election outcomes, particularly if the ruling party loses its majority- a first since democracy

Key Rating Drivers

Economic Structure & Resilience

Botswana's economy benefits from its high income (USD 15,752 GDP per capita, constant PPP in 2023) levels. However, its size is small (GDP of USD 20.4 billion in 2023), and the economy is heavily reliant on the diamond industry (15% of GDP and around 80% of exports in 2023). Nonetheless, Botswana remains the second largest diamond producer in the world. Following weakness during 2023 and H1 2024, in the near term, the diamond sector is expected to benefit from positive global demand dynamics as well as the recently announced investment of Debswana (a joint venture between the government and De Beers) in the Jwaneng diamond mine, signalling long-term confidence in the diamond industry. Further, the recent discovery of the world's second largest diamond may keep mining activity in Botswana robust. Against this backdrop, GDP is expected to grow at an average annual rate of 4% over the medium term.

Over the long term though, growth prospects will be linked to the success of reforms and economic diversification, as the diamond industry faces risks from lab-grown diamonds and uncertainty pertaining to diamond tracking proposals by the G7. Nonetheless, the government aims to develop its manufacturing sector through public sector investment and reforms. Further, the ongoing investments in the country's mineral sector and core infrastructure, such as the development of both copper and silver capacity by private mining companies and the completion of the Morupule power station, will lend support in diversifying the economy.

Fiscal Strength

The government projects the fiscal deficit to be contained below 3% in FY24/25. Even as the government fiscal stance is expansionary, the Southern African Customs Union (SACU) transfers and revenue mobilising methods like VAT and e-billing will prevent a steep rise in fiscal deficits. The diamond market's recovery will also support revenue. The government's diversification agenda will be channelled towards higher expenditure in sports, research and infrastructure development, amongst others. The fiscal position is expected to turn to a surplus of 0.5% in FY25/26 and 0.6% in FY26/27.

The country's general government (GG) debt-to-GDP is very low at around 19% in 2023 and this position is likely to be maintained over the medium-term. Around 46% of GG debt is externally held, although most of these are concessional. There are some contingent liabilities, estimated at around 3% of GDP (2023), arising from state-owned enterprises (SOEs), although a plan for their rationalization could potentially reduce any significant fiscal impact.

External Position & Linkages

The current account (CA) was in surplus prior to the pandemic years, after which this turned into a deficit. From 2022, it once again returned to surplus territory, although the recent downturn in global diamond demand has seen the CA back in deficit territory, at -0.4% of GDP in 2023 and is expected to widen to -1.2% in 2024. Nonetheless, the CA is expected to average a surplus of around 1.2% between 2025-2028 on the back of sustained diamond exports. Imports are also expected to increase due to capital expenditure increasing on the back of higher spending plans, but the trade balance should remain comfortable.

Foreign currency reserves are sufficient to cover around 7.3 months of imports (2023). The reserve position improves significantly when considering the availability of the Pula Fund (23% of GDP in 2023), and the Government Investment Account (GIA), (5% of GDP). The Pula Fund is the Sovereign Wealth Fund of Botswana consisting of accumulated income from diamond exports over the years that are preserved for future generations. While the GIA represents windfalls from previously accumulated budget surpluses. Nonetheless, high exposure to commodity price volatility poses a risk to the external position.

Monetary & Financial Stability

The exchange rate regime is a crawling band, where the currency is pegged against a trade-weighted currency basket, consisting of the South African Rand and the IMF special drawing rights (SDRs). The rate is adjusted as the difference between the forecast inflation of trading partners and 4.5%, the mid-point of the Bank of Botswana's (BoB) target band (3-6%). According to the IMF, while the regime has allowed for stable inflation and some real effective exchange rate (REER) stability, the share of nonmineral exports has declined, and economic diversification has stalled over the past decade.

Inflation was lower on average in 2023 at 5.1%, within the BoB's target range and significantly lower than the 12.2% in 2022 as both food and fuel prices have come down significantly. The overall inflation trajectory is declining and forecast at the mid-point of the BoB's band over the medium-term.

Banks are mostly locally funded through deposits, reducing the vulnerability of banks' funding profiles to external shocks. However, the concentration of business deposits in banks' funding structures weakens profitability. The domestic debt market remains underdeveloped, and banks have had to rely on the BoB's certificates of deposit and invest a significant portion of their assets offshore.

Institutions & Quality of Governance

The economy is supported by strong institutions and quality of governance arising from prudent macroeconomic policies and responsible natural resources management. The government has effectively managed policy challenges in a timely manner. There is also progress on reforms to enable economic and export diversification.

Botswana will see general elections in October 2024. The ruling Botswana Democratic Party (BOP) has held a majority in parliament since the country's independence in 1966. The BOP is expected to retain its majority, as the main opposition party, is unlikely to make sufficient inroads as a formidable opposition party. As such, policy continuity should prevail. However, if the BOP loses its majority, it will be the first since democracy, and the current policy path will remain uncertain. As such, this will remain a key monitorable.

Botswana – Select Indicators									
	Unit	2018	2019	2020	2021	2022	2023	2024 F	2025 F
Economic Indicators									
Nominal GDP	USD Billion	17.0	16.7	14.9	18.7	20.4	20.4	21.4	22.8
GDP Per Capita (Constant-PPP)	USD	14,962	15,118	13,546	14,907	15,518	15,752	16,049	16,521
Real GDP Growth	%	4.2	3.0	-8.7	11.9	5.8	3.2	1.0	4.6
GFCF/ GDP	%	26.4	28.8	27.6	26.4	24.3	25.7	-	-
Gross Domestic Savings/ GDP	%	27.4	24.1	15.3	25.2	31.5	28.1	-	-
Exports (G&S)/GDP	%	44.2	37.1	31.3	41.9	43.5	31.7	-	-
Working-Age (15-64) Population (% Share in Total)	%	63.0	63.1	63.3	63.5	63.7	64.0	64.3	64.6
Old-Age (65+) Population (% Share in Total)	%	3.4	3.5	3.5	3.6	3.7	3.8	3.9	4.0
Fiscal Indicators – General Government									
Fiscal Balance/ GDP	%	-5.1	-8.6	-10.9	-2.4	0.04	-4.7	-6.0	-1.7
Revenue/ GDP	%	30.5	28.3	25.6	29.0	29.1	28.4	28.2	28.8
Expenditure/ GDP	%	35.6	36.9	36.5	31.4	29.1	33.1	34.2	30.6
GG Gross Debt/ GDP	%	14.9	16.5	18.7	18.7	17.8	19.4	17.9	16.8
GG External Debt (by Creditor)/ GG Gross Debt	%	-	-	41.7	45.0	42.0	45.9	46.3	39.9
Interest/ Revenue	%	2.0	2.2	2.4	1.7	2.2	3.1	3.4	3.7
External Indicators									
Current Account Balance/ GDP	%	0.4	-6.9	-10.3	-1.3	3.0	-0.4	-1.2	2.5
FDI, Net Inflows/ GDP	%	1.7	0.6	0.2	-1.7	1.1	3.5	3.3	-
Outstanding FII Liabilities/ GDP	%	0.9	0.9	0.9	0.7	0.5	0.5	-	-
NIIP/ GDP	%	30.6	31.2	40.3	37.9	26.5	27.5	-	-
Foreign Exchange Reserves	USD Billion	6.7	6.2	4.9	4.8	4.3	4.8	4.6	4.9
Import Cover	Months	10.4	9.8	6.4	6.6	7.1	7.3	6.3	6.0
External Debt/GDP	%	10.5	9.4	10.7	10.6	9.7	10.6	-	-
Monetary and Financial Indicators									
CPI Inflation	%	3.2	2.8	1.9	6.7	12.2	5.1	4.02	4.5
Exchange Rate (Average)	LC per USD	10.2	10.8	11.5	11.1	12.4	13.6	-	-
Non-Performing Loans/ Total Gross Loans	%	5.4	4.8	4.3	4.2	3.8	3.7	-	-
Private debt, loans and debt securities/ GDP	%	37.7	38.6	41.9	35.7	33.8	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2023

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long Term Foreign Currency (Unsolicited)	BBB+	October 3, 2024

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Criteria Applied

CareEdge Sovereign Rating Methodology

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