

Announcement: Moody's: Botswana maintains strong balance sheet, but heavy reliance on diamond industry still poses risk

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London, 10 December 2014 -- London, December 10 2014 -- The Government of Botswana (A2 stable) benefits from its robust balance sheet supported by a low debt burden and the country's strong net external credit position, says Moody's Investors Service in a report published today. However, the country's small economy remains heavily dependent on the diamond industry, a key credit weakness.

The report, "Botswana, Government of", is now available on www.moody.com. Moody's subscribers can access this report via the link provided at the end of this press release. The rating agency's report is an update to the markets and does not constitute a rating action.

"The most important driver behind Botswana's rating is its very high fiscal strength, as illustrated by a track record of prudent fiscal policies and effective consolidation measures, which should favour surpluses going forward," says Aurelien Mali, Moody's Senior Analytical Advisor -- Africa and one of the authors of the report. "Furthermore, Botswana's sovereign wealth fund, the Pula Fund, adds a significant buffer against shocks and shortfalls in government revenue."

Under the National Development Plan (NDP), Botswana defines fiscal rules, including rules on the total size of spending relative to GDP, as well as the ratio of recurrent and development spending. According to Moody's, the government has built up a track record of fiscal discipline and compliance with NDPs, with results from fiscal year 2013-14 showing a fiscal surplus of around 5.6% of GDP, significantly above the previous estimate of 1.0% of GDP. The trend marks a sharp contrast from 2009, when Botswana registered a budget deficit of 12.3%. Furthermore, as a result of Botswana's rapid fiscal consolidation, general government debt is set to reach 17.4% of GDP in 2014, well below the peak of 20.1% in 2011. Debt levels have averaged a low 18.6% of GDP in the past five years, and Moody's expects that the debt levels will continue to decrease for the foreseeable future.

Nevertheless, a key vulnerability for Botswana is the economy's high reliance on the diamond industry, which makes it highly susceptible to shocks. While Botswana's position as a leading diamond producer is a source of strength for the country, the fact that diamond exports, both rough and polished, comprised 87% of total exports in 2013 in dollar terms, means that economic activity, exports growth and foreign exchange generation are highly correlated to the fortunes of the diamond industry. Despite efforts to diversify the economy, the mining industry's share of gross value added remained high at around 25% in 2013.

Although the Botswana's finite diamond resources are now estimated to extend to 2050 with the necessary investment in existing mines, economic diversification will still become increasingly crucial to preserving the country's economic strength, says Moody's.

Subscribers can access this report via this link:

http://www.moody.com/viewresearchdoc.aspx?docid=PBC_177634

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