

Announcement: Moody's: Botswana's credit profile supported by robust balance sheet, but constrained by diamond sector dependence

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DIFC - Dubai, November 28, 2013 -- In a report published today, Moody's Investors Service says that Botswana's A2 government bond rating with a stable outlook balances the government's relatively strong balance sheet, net external creditor position and its low debt burden against its small economy, which remains heavily dependent on the diamond industry.

The rating agency's report is an annual update to the markets and does not constitute a rating action.

Moody's notes that Botswana's key credit strengths include the government's robust balance sheet, as highlighted by its fiscal surplus of around 1% of GDP in 2012 (compared with a deficit of -12.3% in 2009) and its low debt levels of around 18.5% of GDP in 2012. These results reflect the government's prudent approach to fiscal policy and the effectiveness of its consolidation measures to date. Furthermore, Botswana's sovereign wealth fund, the Pula Fund, adds a significant buffer against shocks and shortfalls in government revenue. Moreover, unlike many other resource-rich countries in the developing world, Botswana's government has managed income from its diamond mines with a long-term view to promote economic and social development. As a result, the government has remained a net creditor throughout the global financial crisis.

Conversely, Moody's says that Botswana's heavy reliance on the diamond industry is a key credit weakness. Despite the government's efforts to diversify the economy, the mining industry's share of gross value added remains high at around 20% in 2012, albeit down from 29% in the 2000s. As a result of this narrow economic base, the economy is highly susceptible to shocks, as reflected in the 7.8% contraction in GDP during the global financial crisis in 2009.

Moody's notes that upward pressure on Botswana's A2 rating could develop as a result of a successful implementation of the economic diversification strategies over the medium term, coupled with the accumulation of an even larger net financial position. In turn, a large deterioration in its net asset position over the medium term could exert downward pressure on the ratings, given that the country's financial buffer was more than halved during the global financial crisis. Moody's expects to see fiscal consolidation and economic diversification becoming more crucial to preserving the country's economic strength given that its diamond mine resources will begin to deplete in 2030.

Moody's annual credit report on Botswana is now available on www.moodys.com. Subscribers can access the report at: https://www.moodys.com/research/Botswana-Government-of-Analysis--PBC_160798

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