

Credit Rating by Moody's Investors Service

Moody's Investors Service has today released their 2003 credit rating report on Botswana. The sovereign credit ratings that Moody's assigned to Botswana in 2001 – A2 for long term foreign currency debt, Prime-1 (P-1) for short term foreign currency debt, and A1 for domestic currency debt – remain unchanged, as does the “stable” outlook. Moody's have explained that the ratings reflect favourable debt and liquidity positions, and emphasised that prudent utilisation of diamond export earnings that has led to a rapid expansion of infrastructure and living standards since 1966 underpin a stable rating outlook. However, Moody's highlighted the severe challenges facing the public finances with diamond production capacity having peaked while spending pressures, such as for HIV/AIDS-related treatment, education and other social welfare programmes, continue to grow.

In their 2003 report, Moody's has emphasised that policy makers will need to continue to focus on promoting economic diversification. While progress has been slow, there are encouraging signs as contributions to GDP from some of the non-mining sectors of the economy have steadily increased over the years. The report notes that the trade-and-tourism-related sector, financial services and transport and communications sectors grew much faster than total GDP in 2002/03. While acknowledging the Government's efforts to diversify the economy, Moody's believes that the diversification strategy could benefit from more clarity and focus. Moody's also notes that a proliferation of government programmes and agencies without proper coordination could undermine efforts to attract foreign investment.

Moody's has pointed out that Botswana's rating stability is based on the Government's commitment to restore a balanced budget in 2003/04. Concern was expressed about the substantial budget deficits registered in 2001/02 and 2002/03, noting that continued deficits of such magnitude are not sustainable. Moody's has emphasised that in its evaluation of Botswana's creditworthiness, they will continue to focus on the authorities' approach to dealing with revenue shortfalls against the ever increasing recurrent expenditures.

The rating agency's report, “Botswana: Global Credit Research”, is a second update to the markets since the initial credit rating was obtained in 2001. The full text of the report will be available on the Bank of Botswana's website (www.bankofbotswana.bw).

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