

BANK OF BOTSWANA

PRESS RELEASE

Standard and Poor's Releases Botswana's 2004 Sovereign Credit Rating

Standard and Poor's (S & P) have released Botswana's 2004 sovereign credit rating; they have again affirmed its A/A-1 foreign currency and A+/A-1 local currency sovereign credit ratings for Botswana.

S & P said that Botswana's ratings reflect the country's strong public sector balance sheet, well-managed mineral-based economy and political and macroeconomic stability; these attributes are, however, balanced by the narrowness of the economy and the challenges posed by the HIV/AIDS pandemic. Public sector net external assets, at about 130 percent of current account receipts in 2004, are among the highest of any rated sovereign, thus enhancing the Government's capacity to absorb any potential shocks. Going forward, spending pressures and the HIV/AIDS pandemic, combined with a plateau in mineral revenues, could represent important fiscal challenges. Nevertheless, the Government, which has built a track record of prudent fiscal policies, is expected to curb spending growth in other areas in the years ahead, to secure sustainable budget outcomes.

Botswana produces about one-third of the world's gem diamonds by value, and leading international mining companies have been attracted by high returns on investment, competitive mining laws and political and economic stability. This has underpinned a strong record of economic development, with real per capita GDP growth averaging more than 7 percent per year over the past 30 years. In the medium term, Botswana's stable and market-friendly environment, sound macroeconomic policies and investment in education and infrastructure should help to attract the investment needed to secure real GDP growth of 3 - 4 percent.

Nevertheless, with the diamond sector accounting for more than one-third of GDP and 80 percent of exports, Botswana remains heavily dependent on the performance of the global diamond market. In addition, diamond production, the main source of past growth and budget surpluses, is reaching a plateau. As a result, future income growth will largely rest on the performance of the non-mineral sector which, however, will be particularly affected by the HIV/AIDS epidemic. In addition, per capita GDP, at about USD 4 600 in 2004, is the lowest among 'A' rated sovereigns. Moreover, with about one third of the 14 - 49 year-old population estimated to be infected by HIV, cases of AIDS are rising sharply and will increasingly affect GDP growth, domestic savings and public finances over the next decade.

S & P have pointed out that the stable outlook balances Botswana's strong public sector net asset position against the challenges of its development needs and the AIDS crisis. The ratings could improve in the medium-term if economic diversification progresses, and if the Government is successful in controlling spending, broadening its revenue base, thereby keeping budgets close to balance. Conversely, the ratings would come under pressure if fiscal discipline were significantly weakened.

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