

## BANK OF BOTSWANA

### PRESS RELEASE

#### Credit Rating by Standard and Poor's

Standard & Poor's Ratings Services (S & P) announced today that it had affirmed its long- and short-term local currency rating of A+ and A-1, respectively, on Botswana. The A-/A-1 long-term and short-term foreign currency ratings were also affirmed.

S & P said that Botswana's ratings continue to be underpinned by its balance sheet strength, prudent economic policies and stable political environment. Public sector net external assets at about 130% of current account receipts provide the Government with significant flexibility to absorb economic shocks. Fiscal deficits since 2001/02 mainly due to cyclical factors do not reflect a change from the government's policy of sustainable budgets and the budget is projected to return to broad balance this year. Looking ahead, the HIV/AIDS crisis could require extra health and social spending of 3-4 percent of GDP annually. It is, however, expected that Government, which has built a good track record of prudent fiscal policies, will curb spending growth in non-health/non-social areas in the years ahead to secure budget outcomes at least close to balance.

The ratings are further supported by the country's well-managed minerals economy and long record of political stability. Botswana produces about one third of the world's gem diamonds. High returns on investment, competitive mining laws, and stability have underpinned a long record of economic development with real per capita GDP growth averaging more than 7 percent over the past 30 years. Looking ahead, Botswana's stable, market-friendly environment, sound macroeconomic policies, and investment in education and infrastructure should help attract the investment needed to secure medium-term real GDP growth of 3-4 percent.

Botswana's ratings remain constrained by its narrow economy and challenges posed by the HIV/AIDS epidemic. Per capita GDP at about \$3,500 is the lowest among 'A' rated sovereigns. With the diamond sector accounting for more than one-third of GDP and 70% of exports, Botswana remains heavily dependent on the performance of the global diamond market. Also, diamond production, the driving force behind past growth and budget surpluses in the past, is reaching a plateau. Therefore, future income growth will rest largely on the performance of the non-mineral sector, which however will be particularly affected by the HIV/AIDS epidemic. With nearly 30 percent of the adult population estimated to be infected by HIV, AIDS cases are increasing sharply, and will increasingly affect GDP growth, domestic savings, and public finance negatively over this decade.

S & P 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 rating could improve in the medium term if economic diversification progresses, and if government successfully controls non-health spending, broadens its revenue base and thus keeps budgets close to balance. Conversely the rating would be under pressure if fiscal discipline is lost.

The full report from Standard and Poor's will be posted in the Bank of Botswana website, ([www.bankofbotswana.bw](http://www.bankofbotswana.bw)).

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