

BANK OF BOTSWANA

Public Notice

Standard and Poor's Releases Botswana's 2005 Sovereign Credit Rating

Standard & Poor's (S & P) have released Botswana's 2005 sovereign credit rating; they have again affirmed the 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 100 percent of current account receipts in 2005, 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 committed to maintaining a balanced budget over the economic cycle by curbing spending growth in non-priority areas.

The annual GDP rate of growth is forecast by S & P to slow to an average of between 3.5 percent and 4 percent, compared to 5.4 percent of the period 2000-04. While this is still a respectable rate of economic growth, this reduced level may not be supportive of the Government's objective of reducing unemployment and raising per capita income level which, at USD5 600 in 2005, remains one of the lowest among the 'A' rated sovereigns. Moreover, with about one third of the 14 - 49 year-old population estimated to be infected by HIV, the cases of AIDS are rising sharply and will increasingly affect GDP growth, domestic savings and public finances negatively in the current 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. Although the Government recognises the need to accelerate economic reforms to encourage development outside the mining sector, there is concern that necessary reforms, particularly privatisation and improving the business environment, have moved only slowly. The ratings could improve in the medium-term if reforms gain pace, thus supporting economic diversification and Botswana's long-term fiscal strength. Conversely, the ratings would come under pressure if necessary structural reforms continue to be delayed or if slower than projected growth undermines the sustainability of the fiscal position.

The full report from Standard and Poor's will be posted on the Bank of Botswana website (www.bankofbotswana.bw) in due course.

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