

## BANK OF BOTSWANA

### PRESS RELEASE

#### 2002 Credit Rating By Standard and Poor's

Standard and Poor's (SP) Ratings Services have today released their 2002 credit rating report on Botswana. The sovereign credit ratings that SP assigned to Botswana last year – single 'A' for long term foreign currency debt; 'A1' for short term foreign currency debt; and single 'A' plus 'A1' for long and short term local currency debt – remain unchanged, as does the stable outlook. SP added that the affirmation of the rating balances fiscal flexibility and a track record of economic and political stability against significant development needs, dependence on the global diamond market, and the mounting macroeconomic impact of the HIV/AIDS epidemic.

SP's ratings on Botswana are supported by the following factors:

Balance-sheet strength and expenditure flexibility.

Public sector net external assets, at 170 percent of current account receipts, are among the highest of rated sovereigns, bolstering the Government's capacity to absorb potential shocks. Revenues from abundant diamond resources, coupled with fiscal prudence, have enabled Botswana to record healthy budget surpluses. In the coming years, the HIV/AIDS epidemic will reduce general government surpluses from their long-term average of 6 percent of GDP. The strong fiscal position, however, should allow Botswana to absorb AIDS-related costs without significantly eroding its sovereign creditworthiness.

A strong and well-managed minerals economy, coupled with a long record of political and macroeconomic stability.

Botswana produces about one-third of the world's gem diamonds - a comparative advantage which it maximizes through a longstanding and mutually beneficial relationship with De Beers, which controls two-thirds of the world market. High returns on investment, competitive mining laws and stability attract leading international mining companies, underpinning a long record of economic development, with real per capita GDP growth averaging more than 7 percent per year over the past 30 years.

However, the ratings on Botswana are constrained by the following factors:

A narrow economy with the lowest per capita GDP among 'A' rated sovereigns, at US dollar 3,300.

With the diamond sector accounting for more than one-third of GDP and 70 percent of exports, Botswana remains heavily dependent on the performance of the global diamond market. Going forward, with diamond production leveling off, further progress in poverty alleviation and income growth rests largely on the performance of the non-mineral sector. Notwithstanding Botswana's market-friendly environment, sound macroeconomic policies, and investment in education and infrastructure, the non-mineral sector remains highly dependent on government expenditure for growth, and its growth prospects are particularly affected by the HIV/AIDS epidemic.

The uncertain macroeconomic impact of the HIV/AIDS epidemic.

With more than one-third of the 14-49 year old population estimated to be infected with HIV/AIDS, cases will increase sharply over the next five years, negatively affecting GDP growth, domestic savings and public finances for many years to come.

Looking forward, SP consider that the stable outlook for the rating balances Botswana's strong public sector net asset position against the challenges of its development needs, and the economic and social consequences of the AIDS epidemic. Botswana is relatively well placed economically and fiscally to withstand the AIDS crisis. In particular, the capital-intensive mining sector provides a robust base for the economy. Structural budget surpluses of 1 – 2 percent of GDP remain achievable, while development

expenditure (budgeted at 23 percent of GDP in 2002/2003) is the primary candidate for cuts to offset AIDS-related spending pressures.

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