



## **\*\*Coronavirus Covid-19 Update\*\***

The risks associated with doing business are likely to be negatively impacted by the global coronavirus pandemic. Severe disruption to supply chains caused by lockdown procedures in many countries will affect country risk ratings. Demand will also be lower than initially anticipated as export earnings will be reduced amid a global economic slowdown and falls in both business and consumer confidence, as well as lower investment due to decreasing corporate earnings. We advise clients to monitor the containment efforts, as the adverse economic and supply chain effects will persist until the outbreak is controlled.

# Country Insight Snapshot

## Botswana

July 2020





## OVERVIEW

OVERALL COUNTRY RISK RATING: DB3c

**Slight risk:** Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

A

**Rating Outlook:** Stable →

## CORE OUTLOOK

- + Policy will switch from boosting growth via faster infrastructure investment towards countering the impact of the Covid-19 pandemic, at least for a temporary period.
- + The key longer-term aim is to encourage a more dynamic and diversified private sector, possibly including the privatisation of state assets.
- Heavy reliance on diamond exports puts the budget and the balance of payments under pressure when the market is weak, as in 2019 and 2020.
- The licensing of three independent power producers will alleviate electricity shortages in the medium-term and potentially allow Botswana to become a power exporter.

## KEY DEVELOPMENT

Botswana will suffer a deeper recession in 2020 than initially presumed, but FX reserves will remain sufficiently high to curtail credit risks.

## CREDIT ENVIRONMENT OUTLOOK

A

**Trend:** Stable →

Key Development has had a negative impact on the outlook.

## SUPPLY ENVIRONMENT OUTLOOK

A

**Trend:** Stable →

Key Development has had a negative impact on the outlook.

## MARKET ENVIRONMENT OUTLOOK

A

**Trend:** Deteriorating ↘

Key Development has had a negative impact on the outlook.

## POLITICAL ENVIRONMENT OUTLOOK

A

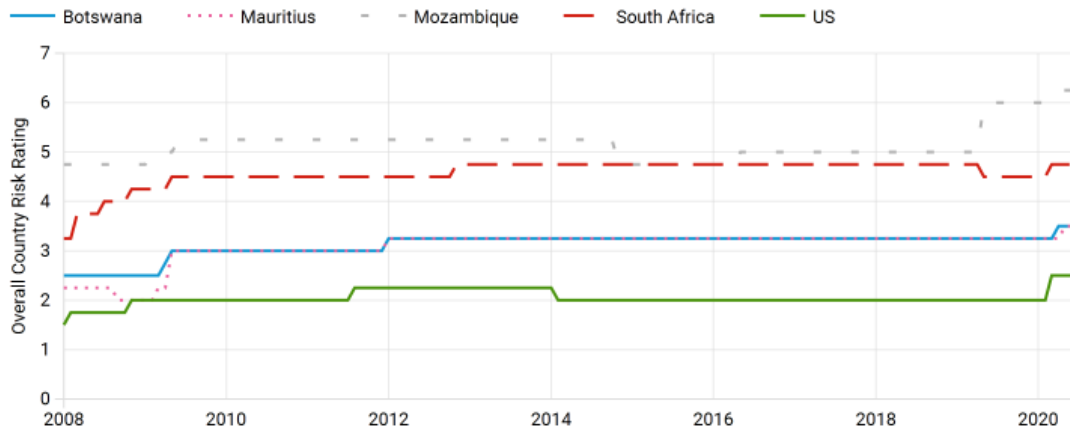
**Trend:** Stable →

Key Development has had a neutral impact on the outlook.



## KEY INDICATORS

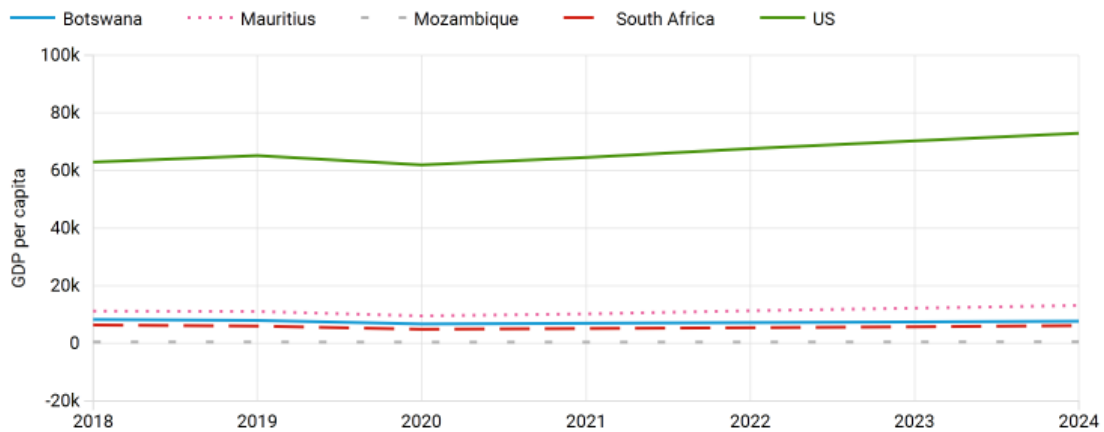
### Rating History and Comparison



Source: Dun & Bradstreet

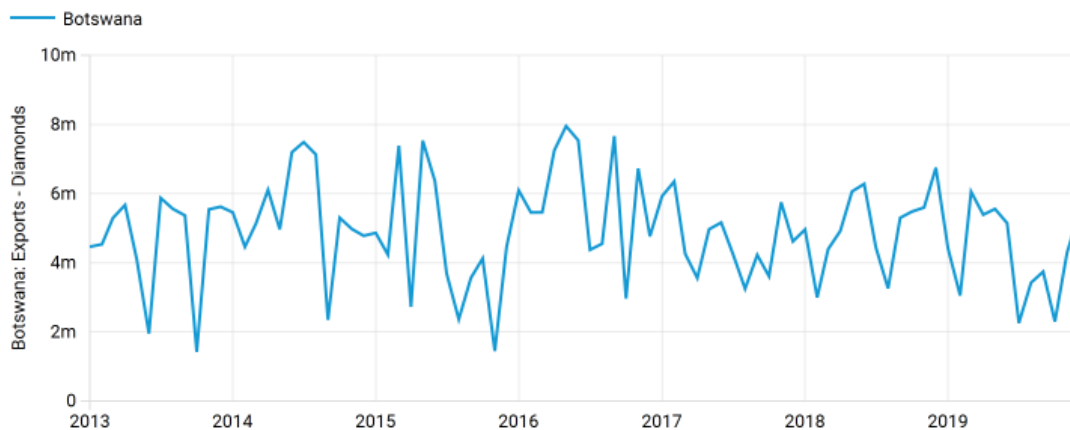
Note: 1 = Low Risk, 7 = High Risk

### Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

### Botswana: Exports - Diamonds



Source: Central Statistical Office of Botswana



## Economic Indicators

Indicator	2017	2018	2019	2020f	2021f	2022f	2023f	2024f
Antwerp Diamond Index	127.3	128.9	128.0	105.0	110.0	130.1	127.5	127.5
C/A balance % GDP	5.3	0.6	-7.6	-9.9	-7.8	-6.9	-6.2	-5.6
Govt balance, % GDP	-1.1	-4.6	-4.3	-7.5	-4.5	-3.5	-3.0	-3.0
Inflation, annual avge %	3.3	3.2	2.8	2.5	3.0	3.5	3.5	3.5
Real GDP Growth, %	2.9	4.5	3.0	-6.0	4.5	3.9	3.5	3.6

Source: Haver Analytics/Dun & Bradstreet

## TRADE AND COMMERCIAL ENVIRONMENT

Investment in energy is poised to rise after the government licensed three independent power producers in June, with the aim of becoming a net electricity exporter, rather than an importer reliant on sometimes erratic supplies from South Africa. The entry of new private-sector suppliers, which have been handed 15-year licenses, will end the state-owned Botswana Power Corporation's electricity monopoly. The two biggest projects, of 600 megawatts (MW) and 225-MW, will be coal-fired plants, focused on exports to the Southern Africa Power Pool and Zambia, respectively. New coal-fired plants are highly questionable on environmental grounds, but Botswana has abundant coal and the region is short of power, especially for heavy users like mines. The third, much smaller license goes to Tlou Energy for an innovative 2-MW coal-bed methane plant, which could offer significant future potential if technology proves viable at a small-scale. The prospective addition of 827-MW to the grid will almost double Botswana's current generating capacity of about 900-MW, although projects' timescales are uncertain. Botswana also plans to announce the winning tender for two 50 MW solar plants in September.

## TRADE TERMS AND TRANSFER SITUATION

### Minimum Terms: SD

*The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.*

### Recommended Terms: LC

*Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.*

### Usual Terms: 30-90 days

*Normal period of credit associated with transactions with companies in the stated country.*

### Local Delays: 0-2 month

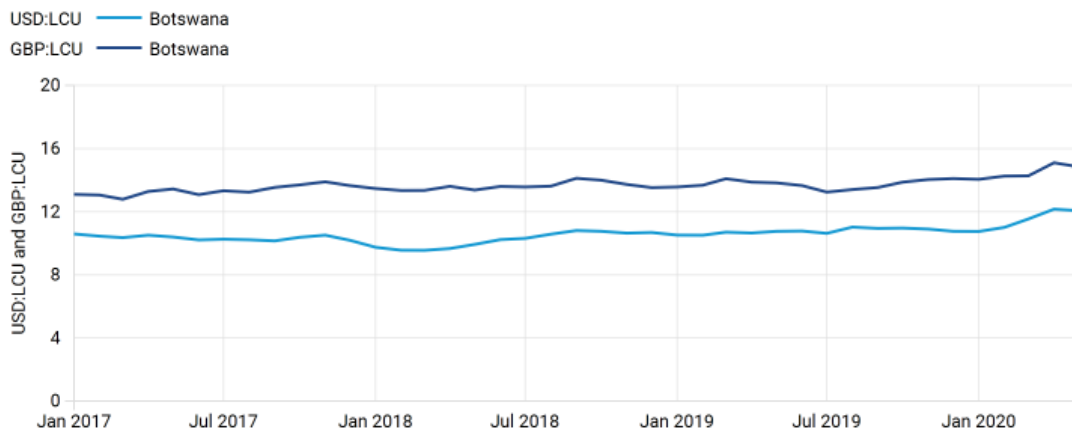
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### FX/Bank Delays: 1-2 months

*The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.*



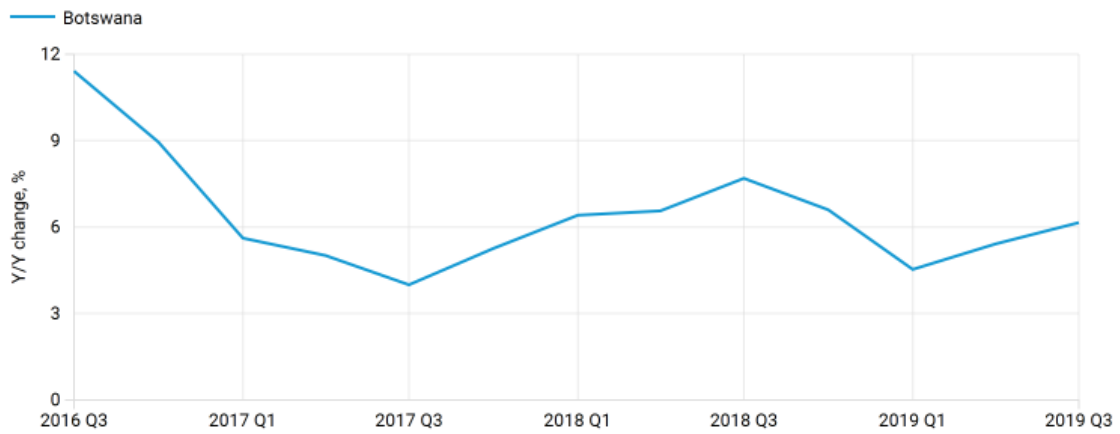
## Exchange Rate



Source: International Monetary Fund/Dun & Bradstreet

*LCU (local currency unit) = Botswanan pula*

## Bank Lending to the Private Sector



Source: IMF, Central Banks, Haver Analytics



## RISKS AND OPPORTUNITIES

### Short-Term Economic Outlook

#### *A deeper recession in prospect*

Botswana's economic prospects in 2020 have continued to deteriorate because of the damaging impact of the global coronavirus pandemic on trade, transport, travel, tourism and investment. The health impact is small in Botswana to date, but the recession will be deeper than we originally projected, with real GDP poised to shrink by 6.0% (revised from a 2.5% contraction). The economic impact will be transmitted in four main ways; by a steep decline in demand for diamonds (Botswana's leading export), by a temporary collapse in the valuable tourism sector, by a decline in FDI and by a deep recession and disruptions to logistics in South Africa, Botswana's main trade partner.

Botswana's heavy reliance on diamonds, a luxury commodity accounting for 90.6% of exports in 2019, leaves it highly exposed to weaker global markets. The impact is being compounded by the temporary cessation of local diamond auctions by De Beers (because of flight bans), which saw diamond exports fall to zero in April. Botswana will be less affected by the regionwide fall in remittances, as the country is not a major recipient, but it will suffer from reduced transfers from the Southern Africa Customs Union (albeit with a time lag).

With most mines and exploration ventures now having restarted, albeit at reduced capacity, prospects for H2 2020 are improving. The ongoing relaxation of lockdown restrictions, coupled with pandemic-relief packages, will support household spending and business operations. A 50bp cut in the benchmark interest rate to 4.25% in April will support credit uptake, while inflation is muted. Agriculture will benefit from better rainfall in the 2019/20 season, and both international tourism and local diamond auctions will probably resume before year-end.

A recession in 2020 is unavoidable but credit risks will be curtailed by Botswana's healthy stock of FX and its low level of external debt (11.0% of GDP in 2019). Despite a projected 15.0% fall in FX reserves to USD5.2bn in 2020, import cover will remain substantial at 10.7 months, helped by lower imports and much cheaper oil. As a result, Botswana has not sought access to IMF and World Bank support but is keeping the option open. A deeper recession in 2020 will be followed by a slightly faster recovery in 2021, with our growth forecast rising to 4.5% (from 4.0%).

### Market Potential

#### *FDI poised to slump*

Botswana's FDI inflows slipped by 8.7% to USD216m in 2019, in line with a 9.9% aggregate slide in Sub-Saharan Africa (SSA), according to UNCTAD's *World Investment Report 2020* in June. The local and regional declines in 2019 partly reflect an upward revision to FDI inflows in 2018 (by 24.9% to USD286m in Botswana's case) but prospects for 2020 are much bleaker. UNCTAD forecasts that regional FDI inflows will plummet by 25-40% in 2020, hit by delays to existing projects, the shelving of some proposed ventures and a drop in reinvested earnings (a key component of FDI) as company finances come under pressure.

The precise impact will vary by country and by sector, with telecoms and renewable energy being the most resilient, and oil and gas the most vulnerable. Local officials expect FDI inflows to fall by 30-40% in 2020, towards the upper end of UNCTAD's range, implying a reduction to USD130m, with mining bearing the brunt, followed by tourism. Botswana's rich mineral endowment will probably see many non-diamond projects delayed (or slowed down) rather than cancelled, but fresh investment in diamonds will be subdued until the global market recovers and high stock levels are run down.



## COUNTRY PROFILE AND STATISTICS

### Overview

Botswana is a landlocked country in southern Africa. It gained independence from the UK in 1966, and has remained one of the most stable democracies in Africa. Botswana has evolved into a middle income, developing country, supported by sound economic policies and a dominant diamond industry. The government's long-term national development plan focuses on economic diversification in an effort to reduce the heavy reliance on mineral wealth and to create employment.

Commercial risk is relatively low: Botswana ranks as one of Africa's least-corrupt countries; and the banking sector, although small, is relatively efficient, well-capitalised and considered to be financially sound. The country also benefits financially from the revenue-sharing formula of the Southern African Customs Union.

### Key Facts

Key Fact	Detail
Head of state	President Mokgweetsi Masisi
Capital	Gaborone
Timezone	GMT +02-00
Official languages	Setswana, English
Population (millions)	2.3
GDP (USD billions)	18.3
GDP per capita (USD)	7,961
Life expectancy (years)	68.1
Literacy (% of adult pop.)	88.2
Surface area (sq km)	581,730

Source: Various sources/Dun & Bradstreet

### Historical Data

Metric	2015	2016	2017	2018	2019
Real GDP growth (%)	-1.7	4.3	2.9	4.5	3.0
Nominal GDP in USDbn	14	16	17	19	18
Nominal GDP in local currency (bn)	146	171	180	190	197
GDP per Capita in USD	6,800	7,244	7,893	8,280	7,961
Population (year-end, m)	2.1	2.2	2.2	2.3	2.3
Exchange rate (yr avge, USD-LCU)	10.1	10.9	10.3	10.2	10.8
Current Account in USDbn	0.3	1.2	0.9	0.1	-1.4
Current Account (% of GDP)	2.1	7.7	5.3	0.6	-7.6
FX reserves (year-end, USDbn)	7.5	7.2	7.5	6.7	6.2
Import Cover (months)	11.2	12.5	14.4	10.9	10.0
Inflation (annual avge, %)	3.1	2.8	3.3	3.2	2.8
Govt Balance (% GDP)	-4.7	0.6	-1.1	-4.6	-4.3

Source: Haver Analytics/Dun & Bradstreet





## Forecasts

Metric	2020f	2021f	2022f	2023f	2024f
Real GDP growth (%)	-6.0	4.5	3.9	3.5	3.6
Nominal GDP in USDbn	16	17	18	18	19
Nominal GDP in local currency (bn)	190	205	220	236	253
GDP per Capita in USD	6,735	6,967	7,210	7,442	7,696
Population (year-end, m)	2.4	2.4	2.4	2.5	2.5
Exchange rate (yr avge, USD-LCU)	12.0	12.3	12.5	12.8	13.0
Current Account in USDbn	-1.6	-1.3	-1.2	-1.2	-1.1
Current Account (% of GDP)	-9.9	-7.8	-6.9	-6.2	-5.6
FX reserves (year-end, USDbn)	5.2	5.5	5.6	5.7	5.8
Import Cover (months)	10.7	10.9	11.1	11.3	11.5
Inflation (annual avge, %)	2.5	3.0	3.5	3.5	3.5
Govt Balance (% GDP)	-7.5	-4.5	-3.5	-3.0	-3.0

Source: Haver Analytics/Dun & Bradstreet

## Comparative Market Indicators

Indicator	Botswana	Mauritius	Mozambique	S. Africa	US
Income per Capita (USD)	6,735	9,538	429	4,891	61,945
Country Population (m)	2.4	1.3	31.3	59.3	331.0
Internet users (% of population)	39.4	53.2	17.5	54.0	76.2
Real GDP Growth (% p.a., 2020 - 2029)	3.5 - 5.5	2.6 - 3.9	6.1 - 7.3	1.7 - 2.8	1.5 - 3.3

Source: Various sources/Dun & Bradstreet



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