Republic of Botswana's rating downgraded to 'CareEdge BBB/Negative'

Issuer rating (Long-Term Foreign Currency)	CareEdge BBB/Negative (Unsolicited) [Downgraded from CareEdge BBB+/Negative]

CareEdge Global has downgraded the Long-Term Foreign Currency Rating of the **Republic of Botswana** to **'CareEdge BBB'** (Unsolicited) from **'CareEdge BBB+'**, while maintaining the Negative outlook.

Rationale

The rating downgrade reflects Botswana's weakening credit profile driven by a deteriorating fiscal position and slowing economic activity, following a prolonged slump in the global diamonds market. Following a second consecutive year of GDP contraction in 2025, fiscal deficit widened more than expected, while limited fiscal consolidation pushed up debt levels and depleted fiscal buffers.

The global diamond market remains weak, reflecting subdued luxury demand, elevated inventory levels across the supply chain, increasing competition from lab-grown diamonds, and rising geopolitical uncertainty. Given the economy's heavy reliance on the diamond sector (which comprised 87% of exports in 2022 before slipping to 65.6% in 2025), these developments have depressed economic growth, exposing the country's limited diversification and vulnerability to external commodity shocks. Botswana's economy contracted by 0.7% in 2025, after a 2.8% contraction in 2024, reflecting prolonged weakness in mining activity and spillover effects on broader economic sectors.

The fiscal position has deteriorated materially over the past two fiscal years due to lower mineral revenues and persistent expenditure pressures. Fiscal deficit is estimated to have widened to 9.3% of GDP in FY26 from 7.3% in FY25. While the authorities have outlined fiscal consolidation measures in the FY27 Budget, the pace of adjustment is expected to be gradual amid continued diamond revenue constraints and upside pressures on the public wage bill.

The weakening of the fiscal trajectory has led to near depletion of Botswana's Government Investment Account (GIA) buffers, from BWP 10.9 billion as of November 2023 to BWP 2.4 billion as of November 2025, while gross general government (GGG) debt and refinancing needs are increasing steadily. Financing conditions have also become less supportive, reflected in weaker demand for sovereign bond issuances and rising domestic yields, increasing borrowing costs and reducing fiscal flexibility.

On the external front, Botswana's current account returned to a surplus, supported by stronger

Southern African Customs Union[1] (SACU) receipts and De Beers Group's rebalancing initiatives. However, external vulnerabilities remain elevated as foreign direct investment (FDI) net inflows have weakened, and reserves, although relatively adequate (7.2 months of import cover as of February 2026), but with the current account expected to revert to a deficit in 2026 and FDI inflows subdued, reserve buffers face potential drawdown pressures.

Middle East crisis spillovers have raised import and administered prices, tightening monetary conditions. While the IMF projects inflation to average a more moderate 5.1% in 2026, the Bank of Botswana (BoB) expects it significantly higher at around 8.7%, breaching the upper bound of the 3-6% target range, which could further constrain real incomes, domestic demand, and policy flexibility amid an already weak growth environment.

Outlook: Negative

The negative outlook on Botswana reflects rising risks to fiscal and external stability amid persistent weakness in the global diamond market and continued structural dependence on the sector. Growth continues to be highly volatile, as shown by the sharp swing from 8.2% in Q3 2025 to a contraction of 5.4% in Q4 2025, while the medium-term recovery is uncertain despite the projected 3.1% growth in 2026 by the BoB. Fiscal pressures are intensifying, with widening deficits and declining buffers limiting policy space. The current account surplus remains contingent on exceptional events rather than a durable improvement in underlying export dynamics. Furthermore, upside risks to inflation persist from external shocks and exchange rate pressures.

Upside scenario

The outlook could be revised to stable if the diamond sector picks up, triggering an improvement in the current account balance and translating into higher economic growth. Fiscal consolidation through stronger revenue mobilisation and expenditure control, and successful implementation of reforms and diversification efforts under National Development Plan (NDP) 12 and the Botswana Economic Transformation Program (BETP) would also improve the outlook.

Downside scenario

The rating could be downgraded if prolonged weakness in global diamond demand and heightened geopolitical uncertainty further erode exports and revenue. Downward pressure would also arise from failed fiscal consolidation that results in persistently elevated fiscal deficits, and a faster-than-expected rise in GGG debt, and tighter financing conditions amid weak investor demand and rising yields. A renewed deterioration in external buffers, including weaker reserves and FDI inflows, would amplify pressure on the rating.

[1] Southern African Customs Union (SACU) is a customs union of Botswana, South Africa, Namibia, Lesotho, and Eswatini that shares a common external tariff and distributes pooled customs and excise revenues among members.

Key rating drivers

Economic structure & resilience

Following a 2.8% contraction in 2024, real GDP fell by an 0.7% in 2025, marking one of the most prolonged downturns in the country's modern economic history. The limited development of non-mining sectors, including services, tourism, agriculture, and manufacturing leave the country with very few economic buffers to absorb commodity-driven shocks, exposing the credit profile to external sensitivity.

The global diamond market continues to face severe headwinds. Subdued luxury consumption in key markets, elevated inventory levels, and the accelerating penetration of lab-grown diamonds have collectively suppressed prices and volumes. Recently, rising geopolitical uncertainty and a 15% tariff imposed by the US on diamond exports further dampened demand prospects. These structural shifts in the diamond market raise questions about the pace and durability of cyclical recovery. Though the country's key commercial arrangement with De Beers through the Debswana joint venture and the Okavango Diamond Company's (ODC) rough diamond allocations have provided a temporary respite in export volumes through margin concessions, it cannot be construed as a sustainable recovery in end-market demand.

The depth of Botswana's economic vulnerability is further underscored by persistent quarterly weakness since Q1 2024, with the economy contracting for several consecutive quarters amid prolonged weakness in mining activity and broad spillover effects across sectors. A brief rebound of 8.2% in Q3 2025 proved short-lived, with the economy reverting to a contraction of 5.4% in Q4 2025, highlighting the limited depth of non-mining activity and the absence of meaningful counter-cyclical buffers. Supply-side constraints, particularly around electricity availability and infrastructure bottlenecks, continue to weigh on productive capacity outside the mining sector, further limiting overall economic resilience.

Over the medium term, the BoB projects a recovery to 3.1% growth in 2026, contingent on a partial normalisation in diamond market conditions and the easing of supply-side constraints. However, the medium-term recovery trajectory is uncertain given persistent structural challenges. The government is advancing its structural reform agenda under the NDP 12 and the BETP, which targets diversification into services, tourism, agriculture, and manufacturing. The realisation of pledged large-scale investments, including the USD 12 billion commitment by Qatar's Al Mansour Holdings in energy, tourism, and agribusiness remains a key medium-term upside, although actual disbursement timelines and economic impact remain to be demonstrated. Until meaningful diversification materialises, the economy will be structurally susceptible to commodity-driven volatility and the credit profile will be constrained by this concentration risk.

Fiscal strength

Botswana's fiscal position has deteriorated materially and at a pace faster than previously anticipated. As per the government, the fiscal deficit widened to 7.3% of GDP in FY25 and is projected to widen further to 9.3% of GDP in FY26, driven by the continued compression of mineral revenue, and decline in customs and excise revenue. According to the IMF, mineral revenue, which had historically contributed 46% of total revenues in FY23, is estimated to have fallen sharply to 12.4% in FY26, as diamond sector output and prices weakened. Persistent expenditure pressures have compounded the revenue shortfall, with the public sector wage bill remaining a key rigidity (wages and salaries are estimated by the IMF to account for 41% of total expenditure in FY26), limiting the scope for meaningful near-term fiscal adjustment.

The near depletion of the GIA represents one of the most significant adverse developments in Botswana's fiscal profile. The GIA, at 6.5% of GDP in June 2023, declined to around 2.8% of GDP in FY24 and is now assessed as nearly depleted. The exhaustion of this buffer materially reduces the government's capacity to smooth expenditure in the face of revenue volatility and increases its reliance on debt financing.

As a result, GGG debt jumped from approximately 22.5% of GDP in 2023 to an estimated 38.6% in FY25 and is projected to reach 64.4% of GDP by 2031. Although Botswana's debt burden started from a relatively low level, the rapid pace of accumulation is a key rating concern. Refinancing risks are also increasing in tandem with rising gross borrowing requirements. The interest-to-revenue ratio, though still manageable at 3.4% in 2024, has been rising and is estimated to have approached 4-5% in 2025, with rise in debt level.

As per the IMF, financing conditions have deteriorated in parallel with fiscal fundamentals. Demand for domestic sovereign bond issuances has weakened, while yields on government securities have risen, increasing the cost of new borrowing and reducing fiscal flexibility.

The government has outlined fiscal consolidation measures in the FY27 Budget, encompassing both revenue mobilisation and expenditure rationalisation. However, the pace of adjustment is expected to be gradual, constrained by continued weakness in diamond revenue and limited room to reduce the wage bill in the near term. The credibility and execution of the consolidation plan will be a key determinant of future fiscal trajectories.

External position & linkages

Botswana's external position has improved slightly, with the current account returning to surplus of 3.7% in 2025 from a deficit of 4.2% of GDP in 2024. This improvement has been driven by two key factors: higher SACU revenue transfers, which strengthened external inflows, and De Beers Group's rebalancing strategy, which involved accepting lower margins to support diamond production and sustain export volumes.

Nevertheless, the concentration of export revenues in a single commodity means that any further deterioration in global diamond market conditions could rapidly reverse the current account improvement.

FDI net inflows have weakened, reflecting subdued investor confidence in the economic outlook amid the prolonged recession and uncertain recovery trajectory. The net international investment position (NIIP) has also declined to 16.5% of GDP in 2025 from 20.0% in 2024.

Foreign exchange reserves were adequate at 7.2 months of import cover as of February 2026. However, the IMF expects the current account balance to revert to a deficit of 1.9% of GDP in 2026. As a result, pressures on the external position could lead to a renewed drawdown in reserve levels, particularly given the economy's continued dependence on diamond sector revenues and limited export diversification.

Monetary & financial stability

The BoB increased the rate of crawl to 2.76% per annum from 1.51% and widened the trading bands from ±0.5% to ±7.5% in July 2025. Since then, the Pula has appreciated by approximately 4.9% against the USD between April 2025 and April 2026, partly reflecting the higher interest rate differential following policy rate hike.

Monetary conditions have become increasingly challenging. Following a period of relative price stability, with inflation averaging 2.8% in 2024 and 2025, respectively, headline inflation surged sharply from 4.2% in March 2026 to 10.3% in April 2026, breaching the BoB's medium-term objective range of 3-6%. The deterioration is driven by elevated global oil prices stemming from the ongoing Middle East conflict, which has fed directly into domestic fuel and import costs. The BoB expects inflation to average 8.7% in 2026, with risks skewed firmly to the upside, reflecting potential second-round effects from the recent fuel price increase, possible further administered price adjustments in electricity and public transport, and rising food inflation following the outbreak of Foot and Mouth Disease in January 2026, and the associated livestock movement and slaughter restrictions.

The BoB raised the Monetary Policy Rate (MoPR) by 200 basis points to 5.5% in April 2026, marking the highest level since 2017. Along with high inflation, the policy adjustment was driven by domestic money market strains. Tight liquidity and high government borrowing pushed Treasury bill yields and bank funding costs significantly above the policy rate. This weakened monetary policy transmission and prompted commercial banks to raise prime lending rates as reliance on short-term wholesale funding grew. Therefore, the BoB framed the move as a recalibration to improve alignment between market interest rates and the policy framework, rather than a conventional demand-suppressing tightening cycle. Concurrently, the central bank sought to limit the pass-through to borrowing costs, recognising the fragile state of domestic economic activity and the largely supply-driven nature of inflation.

Non-performing loans are contained at around 3.2% of gross loans in 2025 and the financial sector does not currently present a systemic risk. Nonetheless, the combination of weak growth, declining real incomes, and tighter monetary conditions could weigh on asset quality and credit growth over the medium term, warranting continued monitoring.

Institutions & quality of governance

Botswana continues to benefit from strong institutional foundations, sound rule of law, prudent macroeconomic management, and a long record of responsible natural resource governance. The 2024 general election marked a historic political transition when the Botswana Democratic Party (BDP) lost its near six-decade governing majority to the Umbrella for Democratic Change (UDC). The new administration has demonstrated broad policy continuity on key economic and structural reform priorities. However, the government's capacity to manage the economic challenges is increasingly being tested. Limited evidence of meaningful fiscal consolidation and rapidly depleting fiscal buffers challenge the durability of Botswana's traditionally prudent macroeconomic stance.

Progress on the structural reform agenda, including SOE rationalisation, domestic debt market development, and diversification initiatives under NDP 12 and BETP, is a key monitorable. The administration's ability to advance these priorities while managing mounting social pressures will be critical in determining whether Botswana's institutional strengths translate into improved economic and fiscal outcomes over the medium term.

Selected indicators									
	Unit	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026 F**	**2027 F**
Economic indicators									
Nominal GDP	USD billion	14.9	18.8	20.3	19.4	19.4	19.5	21.9	23.7
GDP per capita (constant-PPP)	USD	16,290	17,961	18,647	18,933	18,069	17,711	18,303	18,461
Real GDP growth	%	-8.7	11.9	5.5	3.2	-2.8	-0.7	4.7	2.2
GFCF/GDP	%	27.6	26.4	24.4	25.7	28.3	28.1	-	-
Gross domestic savings/GDP	%	15.3	25.2	31.5	27.8	22.6	-	-	-
Exports (G&S)/GDP	%	31.3	41.9	43.5	32.2	27.4	-	-	-
Working age (15-64) population (% share in total)	%	63.2	63.5	63.7	63.7	63.8	64.0	64.1	64.2
Old age (65+) population (% share in total)	%	3.9	3.9	3.9	4.0	4.0	4.1	4.1	4.2
Fiscal indicators – general government									
Fiscal balance/GDP	%	-11.5	-2.5	0.0	-4.2	-7.8	-10.3	-9.0	-7.5
Revenue/GDP	%	27.0	30.6	29.5	28.2	26.0	24.5	25.1	25.6
Expenditure/GDP	%	38.5	33.0	29.5	32.4	33.8	34.9	34.1	33.1
GG gross debt/GDP	%	23.5	22.3	21.0	22.5	33.2	38.6	47.0	51.9
GG external debt (by creditor)/GG gross debt	%	53.0	39.4	42.4	41.0	42.4	30.0	-	-
Interest/revenue	%	2.4	1.7	2.2	2.2	3.4	-	-	-
External indicators									
Current account balance/GDP	%	-9.8	-1.8	-0.6	1.5	-4.2	3.7	-1.9	-1.4
FDI, net inflows/GDP	%	0.2	-1.7	3.5	3.8	2.4	-3.4	-	-
Outstanding FII liabilities/GDP	%	0.9	0.7	0.5	0.3	0.4	-	-	-
NIIP/GDP	%	40.3	37.9	26.6	26.5	20.0	16.5	-	-
Foreign exchange reserves	USD billion	4.9	4.8	4.3	4.8	3.5	3.3	2.9	3.0
Import cover	Months	7.7	6.0	7.1	7.0	5.4	4.6	4.1	3.9
External debt/GDP	%	8.6	7.6	8.0	7.3	8.4	7.8	-	-
Monetary and financial indicators									
CPI inflation	%	1.9	6.7	12.2	5.1	2.8	2.8	5.1	5.7
Exchange rate (average)	LC per USD	11.4	11.1	12.3	13.4	13.6	13.5	-	-
Non-performing loans/total gross loans	%	4.3	4.2	3.8	3.7	3.4	3.2	-	-
Private debt, loans and debt securities/GDP	%	41.9	35.7	31.7	32.2	35.3	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. Latest available data for 2024

Solicitation Status
The rating is unsolicited

Rating history

Instrument	Type	Rating	Date
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge BBB/Negative	May 29, 2026
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge BBB+/Negative	September 29, 2025
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge BBB+	October 03, 2024

Criteria applied
CareEdge Sovereign Rating Methodology

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