

BEST'S COUNTRY RISK REPORT

Botswana CRT-4

August 22, 2019

Region: Sub-Saharan Africa

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects AM Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Botswana, a CRT-5 country, has high levels of economic and financial system risk, and a moderate level of political risk.
- The country experienced an uptick in GDP growth in 2018, from 2.9% in 2017 to 4.6% in 2018. GDP growth over the medium term is expected to average around 4% but is dependent on the successful implementation of structural reforms.
- Inflation in Botswana is around 4% and is expected to stay within the central bank's target range.
- The majority of countries in Sub-Saharan Africa are categorized as CRT-5, the exceptions being Mauritius at CRT-3, and South Africa at CRT-4.



- **Country Risk Tier 1 (CRT-1)** Very Low Level of Country Risk
- **Country Risk Tier 2 (CRT-2)** Low Level of Country Risk
- **Country Risk Tier 3 (CRT-3)** Moderate Level of Country Risk
- **Country Risk Tier 4 (CRT-4)** High Level of Country Risk
- **Country Risk Tier 5 (CRT-5)** Very High Level of Country Risk

Regional Summary: Sub-Saharan Africa

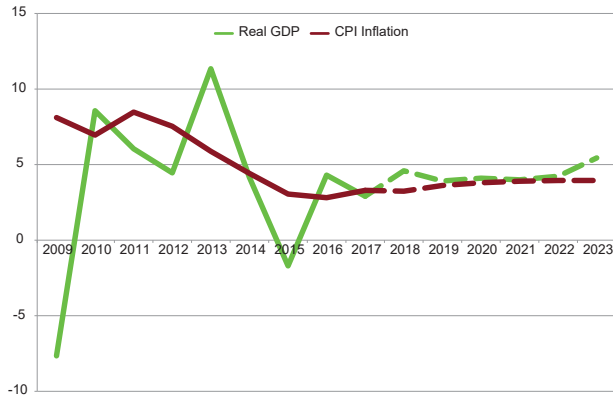
- Growth is expected to pick up, driven by public investment in the region's more diversified economies. However, the largest economies in Sub-Saharan Africa are likely to lag the regional growth average due to changing oil dynamics and depressed business confidence linked to corruption fallout. Growth in the region's two largest economies—Nigeria and South Africa (which account for two thirds of the region's population)—is expected to be anemic.
- The region faces several headwinds that limit potential, including entrenched poverty, pervasive corruption, heightened global trade tensions, inadequate infrastructure, an unstable security environment, and a vulnerability to natural disasters.
- The region's sovereign debt increased from a median 31% of GDP in 2013 to 56% in 2018. Given the region's development challenges, the pace of the increase is unsustainable.
- The African Continental Free Trade Agreement (AfCFTA) went into force in May 2019. AfCFTA seeks to bolster continental African trade by reducing tariffs by 90%, harmonizing trade rules, and establishing a single market for goods and labor.

Vital Statistics 2018		
Nominal GDP	USD bn	19.00
Population	mil	2.3
GDP Per Capita	USD	8,137
Real GDP Growth	%	4.6
Inflation Rate	%	3.2
United Nations Estimates		
Literacy Rate	%	
Urbanization	%	68.7
Dependency Ratio	%	54.7
Life Expectancy	Years	67.6
Median Age	Years	24.4
Insurance Statistics		
Insurance Regulator	Ministry of Finance and Economic Development (MFED)	
Premiums Written (Life)	USD mil	360
Premiums Written (Non-Life)	USD mil	122
Premiums Growth (2017 - 2018)	%	18.0
Regional Comparison		
		Country Risk Tier
Botswana		CRT-4
South Africa		CRT-4
Namibia		CRT-4
Ghana		CRT-5
Kenya		CRT-5
Tanzania		CRT-5

Source: IMF, UN, Swiss Re, Axco and AM Best



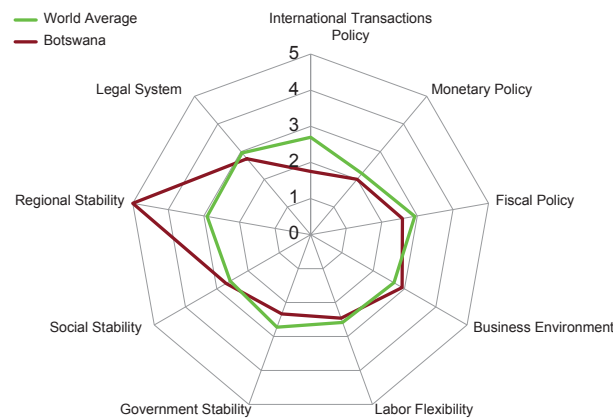
Economic Growth (%)



Source: IMF World Economic Outlook and AM Best

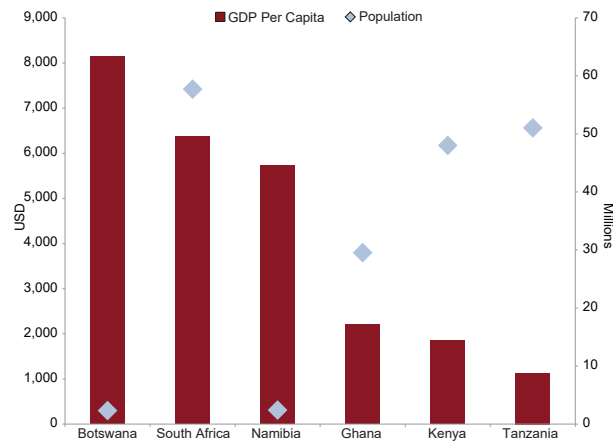
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: AM Best

GDP Per Capita and Population



Source: IMF and AM Best

Economic Risk: High

- The diamond mining industry is the primary driver of Botswana's economy, accounting for over 60% of its total exports and over 30% of its GDP. A heavy reliance on one industry exposes the country to considerable risk. Aware of this vulnerability, the government is seeking to diversify its economy by supporting areas such as manufacturing and tourism.
- Since the 2015 economic slowdown, the government has used a countercyclical fiscal policy, which, in combination with accommodative monetary policy, has supported non-mining industries and contributed to relative economic stability.
- The World Bank ranks Botswana 86th out of 190 countries on its 2019 Ease of Doing Business survey. Some challenges to doing business include skill shortages and a backlogged court. Efforts are being made to improve the business environment.
- Due to adverse weather events such as El Niño, agriculture is expected to weigh on growth prospects.

Political Risk: Moderate

- The Botswana Democratic Party (BDW) has been the country's governing party since independence, but has been losing support in recent years. The party is currently led by President Mokweetsi Masisi; policy priorities include economic diversification, privatization, and prudent use of its natural resources. General elections are scheduled for October 2019.
- The National Development Plan, launched in 2017, aims to reform structural weaknesses by promoting private sector development and expanding the economy beyond diamond mining.
- Botswana has an established and independent legal system, where corruption is not a significant concern. Its legal framework is business friendly.
- Significant civil unrest is rare in Botswana, though student protests have occurred in recent years.

Financial System Risk: High

- The Ministry of Finance and Economic Development is responsible for overseeing the insurance industry. According to the IMF, Botswana's financial system is sound, but still requires close monitoring.
- Monetary policy is expected to remain accommodative given low inflation.
- Botswana does not face any imminent liquidity problems, due to large reserves of foreign currency. It also benefits from current account surpluses, supportive macroeconomic policies, and a light debt burden.
- The IMF recommends that Botswana deepen its capital markets and improving the information available on potential borrowers.