MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns B3 first-time issuer rating to the Government of the Republic of Mali with a stable outlook

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New York, February 26, 2019 -- Moody's Investors Service ("Moody's") has today assigned first-time local and foreign currency issuer ratings of B3 to the Government of the Republic of Mali (Mali, Government of). The outlook is stable.

The key factors supporting the B3 ratings are as follows:

1- Low (-) economic strength as very low income levels and limited diversification constrain the economy's capacity to absorb shocks, notwithstanding robust growth supported by international aid and loans;

2- Very Low (+) institutional strength, with in particular a very weak institutional framework which offsets some support to the credit profile from a relatively prudent management of public finances and ongoing improvements in revenue collection;

3- Moderate (-) fiscal strength, reflecting a low debt burden but also a very high share of foreign currency denominated debt and limited fiscal flexibility;

4- High (-) susceptibility to event risk, driven by political risk as the conflict mainly in the North of the country continues.

The stable outlook reflects Moody's expectations that the upside and the downside risks to the sovereign credit profile are broadly balanced at the B3 rating level. Ongoing robust growth and fiscal prudence would help maintain a stable debt burden and strong debt affordability driven by the availability of concessional lending. Over time, such stability would point to strengthening institutions. However, a renewed and prolonged escalation of political tensions could threaten economic growth. In the context of the country's weak institutions, this could significantly weaken the ability of the government to contain the negative impact on public finances.

Concurrently, Moody's has assigned local-currency and foreign-currency bond and deposit ceilings at Ba3.

RATINGS RATIONALE

RATIONALE FOR THE B3 RATING

VERY LOW INCOME LEVELS AND LIMITED DIVERSIFICATION WEIGH ON ECONOMIC STRENGTH, DESPITE ROBUST GROWTH SUPPORTED BY INTERNATIONAL AID AND LOANS

Moody's assesses Mali's economic strength at "Low (-)". Mali's economy's shock absorption capacity is constrained by its very small size, with nominal GDP estimated to be around $17 billion in 2018, and limited diversification. It is heavily dependent on the agricultural and mining (gold) sector, and as a result, vulnerable to swings in commodity prices.

The economy's reliance on subsistence agriculture (around 40% of value added and 60% of employment) makes it vulnerable to natural disasters and long-term climate change.

Moreover, very low income levels, at just above $2,000 in 2017 in GDP per capita terms at purchasing power parity, reduce households' capacity to face income shocks. Very low competitiveness indicates that significant diversification that would allow for a marked rise in income levels is unlikely.

Notwithstanding these constraints, the economy continues to benefit from international financial support, in place since the political and security crisis in 2011-12. Such support has contributed to robust GDP growth, which Moody's expects to remain around 5% in the next few years.

VERY WEAK INSTITUTIONAL FRAMEWORK DESPITE PRUDENT FISCAL POLICY

Moody's assessment of Mali's institutional strength is informed by its very low scores in the Worldwide Governance Indicators. Mali scores in the bottom decile of Moody's rated sovereigns on government effectiveness and rule of law and in the bottom quartile on control of corruption, institutional features that Moody's takes into account in its assessment of sovereigns' credit quality.

Ongoing political tensions since 2011 undermine the institutional framework, including respect for the rule of law and government effectiveness. The tensions also reduce economic policy effectiveness by impinging on the ability of the government to implement policy measures that would durably raise living standards.

The assessment of institutional strength takes into account the fact that the involvement of the international community in domestic security and economic policy supports the country's institutions. In particular, the IMF's Extended Credit Facility (likely to be renewed in 2019) anchors Mali's economic and development programme while supporting macroeconomic stability.

The government has shown its commitment to fiscal prudence and the objectives of the IMF programme. It has broadened the revenue base to around 20% of GDP in 2017, which has contributed to moderate budget deficits. Moody's expects a similar management of public finances to continue, albeit with slower increases in revenue going forward in the context of the government's decentralisation strategy.

MODERATE FISCAL STRENGTH REFLECTING A LOW DEBT BURDEN AND VERY HIGH SHARE OF FOREIGN CURRENCY DENOMINATED DEBT

Mali's fiscal strength, which Moody's assesses at "Moderate (-)", reflects a low debt burden, with debt at 35.6% of GDP at the end of 2017, and high debt affordability reflecting the government's reliance on concessional debt (close to 70% of total government debt), with interest payments absorbing only slightly more than 4% of revenue.

While debt-to-GDP has risen steadily -- by close to 20 percentage points -- over the last decade, the authorities' control over the budget results in small, predictable deficits. The increase is partially explained by the weakening of the euro to the US dollar in recent years since the CFA franc is pegged to the euro and most of Mali's debt is denominated in US dollars. That said, the gradually increasing reliance on domestic debt issued on the regional capital market suggests that Mali's debt affordability will weaken from its currently high levels over the coming years.

Moody's expects the debt burden to be broadly stable around the current levels and continue to compare favorably to B-rated peers. However, the government's fiscal flexibility is constrained by the country's significant development expenditure needs and by the fact that a large part of the population and corporate sector is not being taxed. This situation often generates debt management challenges to governments in very low income economies similar to Mali.

HIGH SUSCEPTIBILITY TO EVENT RISK, DRIVEN BY POLITICAL RISK

The susceptibility to political event risk is a significant constraint to Mali's rating. The historical conflict between the government and the Tuareg people has transformed in recent years into a broader fight against violent extremism.

While the reconciliation and reconstruction efforts are likely to continue with the recent re-election of President Ibrahim Boubacar Keita, this new conflict is extremely challenging to policymakers and poses significant constraints to the economy's development. Moody's expects the security challenges mainly in the north of the country, where the Tuareg (5% of the overall population) are concentrated, to continue for the foreseeable future. An escalation of the conflict could significantly impede the government's ability to govern and implement its economic, social and fiscal policy.

Moody's assessment of the susceptibility to banking sector event risk is "Low". Banks' capitalization levels are relatively strong, with a solvency ratio slightly below 15% for the system as a whole. The system's assets, that give an indication of the potential size of contingent liabilities for the government, are moderate at 49.7% of GDP at the end of 2017.

While the government's gross borrowing requirements are relatively low, between 7% and 8% of GDP expected in 2019-20 according to Moody's estimates, increasing reliance on more expensive funding from the regional capital market to fund the deficits, denotes some liquidity risk captured in Moody's overall assessment of the sovereign's susceptibility to government liquidity risk at "Moderate".

Mali relies on debt inflows to finance about half its current account deficits, which Moody's expects to hover around 6-6.5% of GDP in the next few years. While this points to some balance of payments vulnerability, the susceptibility to external vulnerability risks are "Very Low (+)", mitigated by the country's membership of the West Africa Economic and Monetary Union (WAEMU) which involves an arrangement under which the French Treasury guarantees the convertibility of the domestic currency into euros at a fixed rate.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects Moody's assessment that the upside and the downside risks to the sovereign credit profile are broadly balanced at the B3 rating level.

Ongoing robust growth around 5% of GDP in real terms and fiscal prudence with deficit below the 3% of GDP would help maintain a stable debt burden and strong debt affordability. Over time, such stability would point to strengthening institutions. However, a renewed and prolonged escalation of political tensions could threaten economic growth and negatively impact public finances.

WHAT COULD CHANGE THE RATING UP

Moody's would likely upgrade Mali's rating if a durable stabilisation of the security situation pointed to strengthening institutions and significantly improved economic conditions, with fast growing income levels and rising competitiveness.

WHAT COULD CHANGE THE RATING DOWN

Moody's would likely downgrade Mali's rating if the security situation were to worsen to a level that would durably dampen growth and weaken fiscal strength. Renewed political tensions and a worsening security situation could result from a premature withdrawal of the international community's support to the country.

A prolonged period of lower commodity prices and/or over time, repeated natural disasters, that undermined the government's and the economy's sources of revenue would also put downward pressure on the rating.

GDP per capita (PPP basis, US$): 2,182 (2017 Actual) (also known as Per Capita Income)

Real GDP growth (% change): 5.3 (2017 Actual) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 1.8 (2017 Actual)

Gen. Gov. Financial Balance/GDP: -2.9 (2017 Actual) (also known as Fiscal Balance)

Current Account Balance/GDP: -5.8 (2017 Actual) (also known as External Balance)

External debt/GDP: 28.5 (2017 Actual)

Level of economic development: Low level of economic resilience

Default history: No default events (on bonds or loans) have been recorded since 1983.

On 29 of November 2018, a rating committee was held to consider the issuer's Economic Strength, Institutional Strength, Fiscal Strength and Susceptibility to Event Risk, with a view to assigning a first-time public issuer rating to the government of Mali.

The local market analyst for this rating is Aurelien Mali (+971) 423 79537.

The principal methodology used in these ratings was Sovereign Bond Ratings published in November 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this credit rating action, if applicable.

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Elisa Parisi-Capone
Vice President - Senior Analyst
Sovereign Risk Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Marie Diron
MD - Sovereign Risk
Sovereign Risk Group
JOURNALISTS: 852 3758 1350
Client Service: 852 3551 3077

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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