

## Fragile state in a fragile region

### General Information



GDP	USD10.308bn (World ranking 129, World Bank 2012)
Population	14.85 million (World ranking 68, World Bank 2012)
Form of state	Republic
Head of government	Ibrahim Boubacar Keita
Next elections	2018, presidential and legislative



### Strengths

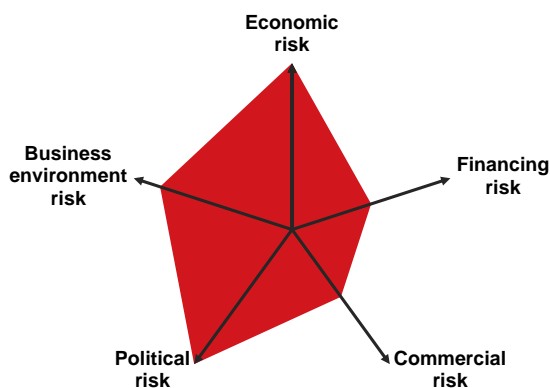
- Natural resource base includes gold and agricultural crops such as cotton.
- Low inflation and limited transfer and exchange rate risks as a result of membership of the CFA franc zone.
- Large-scale debt relief in 2003-06 resulted in a more manageable external debt burden.

### Weaknesses

- Significant domestic and regional security and stability risks. Existential threat to the current sovereign state.
- Close to epicentre of the Ebola epidemic.
- High levels of poverty.
- Poor infrastructure and a landlocked position limit economic development and impose additional trading costs.
- Lack of significant economic diversification from the primary sector.
- Narrow fiscal base and inefficient tax administration partly explain large and recurrent fiscal deficits.
- Large current account deficits, only partly covered by FDI.
- Weak business environment.

### Country Rating

**D4**



Source: Euler Hermes

### Trade structure

By destination/origin (% of total)

Exports	Rank	Imports
South Africa	30% 1 18%	Senegal
China	26% 2 14%	France
Malaysia	7% 3 11%	China
Switzerland	7% 4 11%	Côte d'Ivoire
Burkina Faso	4% 5 3%	Germany

By product (% of total)

Exports	Rank	Imports
Gold, non-monetary	40% 1 18%	Petroleum and related materials
Textiles fibres and their wastes	38% 2 7%	Road vehicles
Fertilizers	5% 3 6%	Non metallic mineral manufactures, n.e.s.
Live animals	3% 4 6%	Medicinal and pharmaceutical products
Oil seeds and oleaginous fruits	3% 5 5%	Specialised machinery

Source: UNCTAD (2012)

### Stability and security concerns overshadow economic developments

The economy is weighted towards the agricultural sector (39% of GDP and the major employer) and mining (gold accounts for 40% of total export earnings). Growth and earnings capacity therefore depend to a high degree on climatic conditions (particularly rainfall levels) and internationally-determined commodity prices (cotton, as well as gold). However, the economy is overshadowed by domestic politics and regional risks. Recent events (including insurrection and armed conflict in the north) raise the spectre of the state as now constituted not being in existence in the future.

### GDP growth constrained by adverse stability and security issues

Annual average real GDP growth in the ten-year period up to end-2013 was +3.6%, a rate relatively consistent with the average for Sub-Saharan Africa over that period and generally above that of South Africa. The economy contracted in 2012 when most activities, including industrial output and agricultural production, were disrupted because of a significant downward spiral in security.

The short- to medium-term outlooks depend on developments in relation to regional security issues and domestic political stability. Risks remain high. However, the near-term economic prospects have improved following the presidential and parliamentary elections in 2013. EH expects GDP will increase by +5% in 2014 and +4.5% in 2015 but this represents a rebound from the conflict years of 2011-13 and much depends on securing stability in the north and east of the country and on the outlook for global commodity prices, particularly cotton and gold.

### Inflationary pressures remain low

Inflationary pressures are low relative to the average for Sub-Saharan Africa (see chart) and this partly reflects Mali's membership of the CFA franc zone (see below).

### Membership of the CFA franc bloc provides some financial security

Mali is a member of the Economic Community of West African States (ECOWAS), the West African Economic Monetary Union (WAEMU) and other regional organisations. Membership of the CFA franc zone provides for low exchange rate and transfer risk. Mali also has relatively good relations with donor countries, in particular with the EU and institutions such as the UN, IMF and World Bank. Indeed, the return of a degree of domestic political stability helped unlock access to aid pledges in May 2013 of USD3.25 billion. Aid disbursements are subject to continuation of relative stability.

In early November 2013, the EU and World Bank pledged a further USD8.25 billion in aid to five Sahelian countries, including Mali, reflecting a strong international commitment to promote regional growth and assist in improvements in security. Of the total, the World Bank pledged USD1.5 billion over the next two years and the EU USD6.75 billion over a seven-year period.

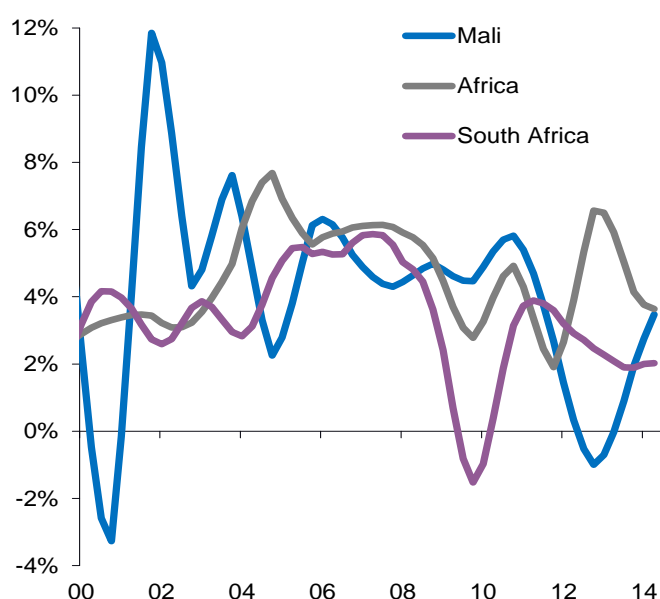
EH does not expect a change in the CFA franc mechanism, with the fixed peg to the euro remaining 655.957 francs per EUR through to end-2015.

Key economic forecasts

	2012	2013	2014f	2015f
GDP growth (% change)	-1.0	1.5	5.0	4.5
Inflation (% end-year)	2.4	0.0	1.2	2.8
Fiscal balance (% of GDP)	-1.2	-2.7	-4.3	-3.4
Public debt (% of GDP)	29.9	32.1	32.4	33.8
Current account (% of GDP)	-2.7	-5.9	-8.1	-9.5
External debt (% of GDP)	30.8	29.8	27.9	27.7

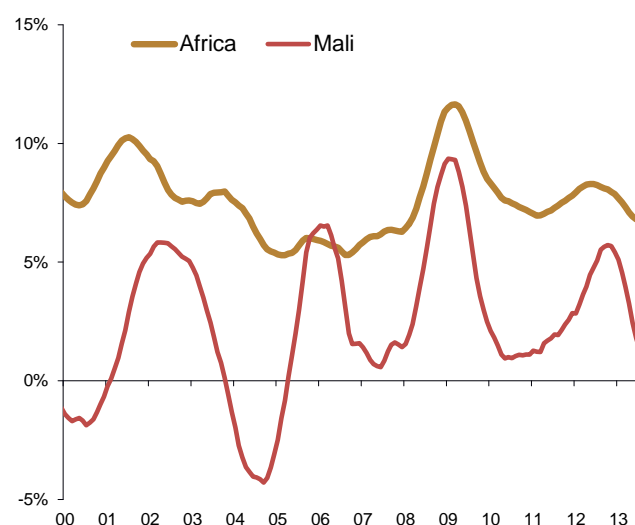
Sources: IHS Global Insight, national sources, Euler Hermes

GDP growth profile (y/y, 4 quarters cumulated, %)



Sources: IHS Global Insight, Euler Hermes

Inflation (%)



Sources: IHS Global Insight, Euler Hermes

## Large current account deficits, but international support is in place and...

The external accounts remain fragile, reflecting the uncertainties of the political transition and regional security concerns. However, bilateral and multilateral support is now in place (subject to a satisfactory evolution of the political process). Non-humanitarian assistance was restored following restoration of political order in 2012 and further financial aid was made available to cover shortfalls in fiscal and external balances. EH expects a current account deficit of over -8% of GDP in 2014 and -9.5% in 2015, given the development needs of the country.

### ...external debt servicing commitments are low

In the past, Mali had significant external debt problems. However, as a result of large-scale debt relief in 2006 under the HIPC initiative, external debt fell sharply from 213% of export earnings in 2005 to 72% in 2008, although it has since risen again (85% in 2013). Considering the re-accumulation of new external debt and the large structural fiscal and current account deficits, it remains to be seen if Mali is able to sustain relatively manageable levels of indebtedness. In any event, the country will remain dependent on foreign aid into the longer term.

### Planning for the future

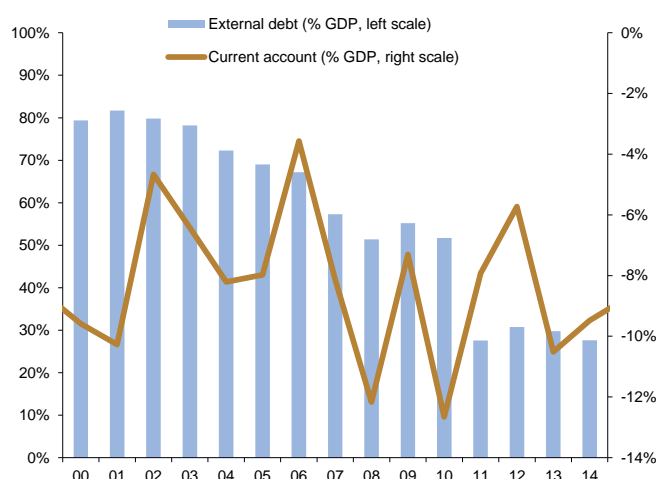
At the beginning of December 2014, the IMF reviewed progress under the economic programme supported by a three-year Extended Credit Facility (ECF) agreed by the Fund in December 2013. Following the review, the IMF approved a further disbursement (USD11.7 million) of the ECF but noted that the economic recovery is fragile and "clouded by a difficult security situation and risk of Ebola epidemic".

The planning cycle was interrupted by the internal political/security dynamics of 2011-13 and the attempts to recover from that position. The planning background focuses on the Growth and Poverty Reduction Strategy Paper for 2012-17 and the Plan for the Sustainable Revival of Mali and has five key long-term pillars:

- (i) peace and security
- (ii) macro-economic stability
- (iii) pro-poor growth
- (iv) equitable access to quality social services
- (v) governance

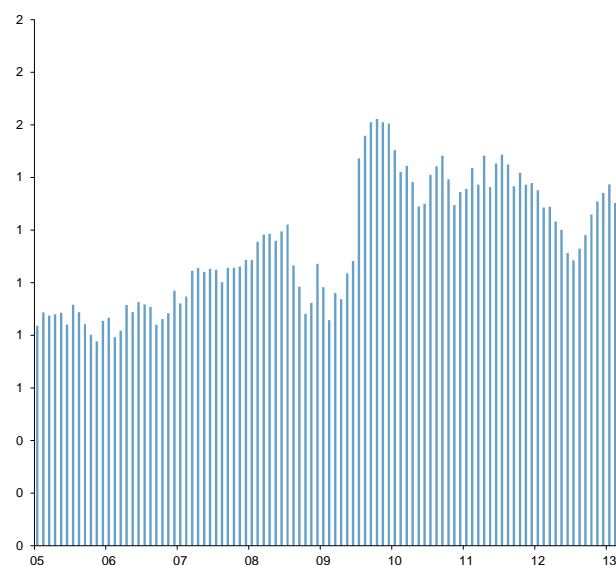
and short-term requirements that focus on humanitarian assistance, political transparency, the return of governmental authority in the north of the country and reconciliation among the population at large.

### External debt and current account balance (% of GDP)



Sources: IHS Global Insight, Euler Hermes

### Foreign exchange reserves (USD bn)



Sources: IHS Global Insight, Euler Hermes

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