

## Abiy's Folly and (One, Major) Consequence for Ethiopia

By M Mikael, 03/02/2021

In a recent exclusive report on one of the atrocities that were indiscriminately perpetrated on the Tigrayan population by Abiy's military and his foreign allies in destruction, CNN's reporter contemplates: *"...Many of those abuses have been blamed on Eritrean soldiers, whose presence on the ground suggests that Abiy's much-lauded peace deal with Eritrean President Isaias Afwerki set the stage for the two sides to wage war against the TPLF -- their mutual enemy."*<sup>1</sup> Essentially, Abiy's so called "peace deal" was in fact a 'war deal'—indeed, it's a sad reflection on the decision of the Nobel Peace Prize Committee, however well-intentioned it was, that a cynical move by Abiy in concert with Isaias ended up earning him the coveted Peace Prize. It is a matter of time until Abiy (and his partner in brutality, Isaias) will be held personally accountable for the crimes of war and crimes on humanity that they committed in tandem but the damage and consequences of their actions on their respective countries—(we will just discuss Ethiopia as Eritrea is another story altogether)—are going to be truly ruinous.

This can easily be observed by looking at recent actions by global rating agencies (Fitch Ratings, S&P, etc.) which have uniformly "downgraded" Ethiopia's long-term foreign and local currency sovereign credit ratings. Fitch Ratings downgraded Ethiopia's 'Long-Term Foreign Currency Issuer Default Rating (IDR) to 'CCC' from the previous rating of 'B' while S&P followed soon after with its own downgrade to 'B-' from a previous rating of 'B'.

The detailed report by Fitch (a screen-shot of which is shown below)<sup>2</sup> together with the history and progression of past ratings are particularly illustrative of the peril the country is facing and will continue to face as a direct result of the follies of Abiy, major among them being deciding to wage war on the country's own citizens, (of all times!), during a raging pandemic.

**Fitch**Ratings

PEOPLE PRODUCT INSIGHTS

### RATING ACTION COMMENTARY

## Fitch Downgrades Ethiopia to 'CCC'

Tue 09 Feb, 2021 - 9:15 AM ET

Fitch Ratings - Hong Kong - 09 Feb 2021: Fitch Ratings has downgraded Ethiopia's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'CCC' from 'B'.



Fitch typically does not assign Outlooks or apply modifiers to sovereigns with a rating of 'CCC' or below.

The following excerpt from the report details the recent (latest) downgrade ratings of the various credit types – one can observe that the downgrade was across all credit types. Fitch notes that it "typically does not assign Outlooks or apply modifiers" to countries with a rating of "'CCC' or below". This is an important caveat especially when one tries to understand past performance and future prospects—

basically, Fitch is saying it doesn't have the confidence to assign or advise on the outlook of such a low-rated country credit.

RATING	ACTION	DATE	TYPE
CCC	Downgrade	09-Feb-2021	LTR
C	Downgrade	09-Feb-2021	STR
B-	Downgrade	09-Feb-2021	Country Ceiling
C	Downgrade	09-Feb-2021	Local Currency Short Term Issuer Default Rating
CCC	Downgrade	09-Feb-2021	Local Currency Long Term Issuer Default Rating

Looking at the rating history of the country (screen-shot below)<sup>3</sup>, one can see that from the inception of its credit rating on May 9, 2014, it had a respectable rating of 'B' with an 'Outlook' of 'Stable' that went all the way up to October 1, 2019 when all of a sudden, its rating had a 'Negative Outlook'. It is remarkable that this 'Outlook' downgrade occurred just a year and half after Abiy came to power, especially given that there was tremendous good will from all the world by opening up opportunities to help the new prime minister succeed in his endeavors.

**RATING HISTORY**

LTR	STR	COUNTRY CEILING		LOCAL CURRENCY SHORT TERM ISSUER DEFAULT RATING		LOCAL CURRENCY LONG TERM ISSUER DEFAULT RATING			
DATE:	09-Feb-2021	30-Jun-2020	01-Oct-2019	23-Nov-2018	05-Jul-2018	21-Dec-2017	08-Jun-2017	07-Oct-2016	08-Apr-2016
RATING:	CCC	B <sup>-</sup>	B <sup>-</sup>	B <sup>+</sup>	B <sup>+</sup>	B <sup>+</sup>	B <sup>+</sup>	B <sup>+</sup>	B <sup>+</sup>
ACTION:	Downgrade	Affirmed	Affirmed	Affirmed	Affirmed	Affirmed	Affirmed	Affirmed	Affirmed

**RATING HISTORY**

LTR	STR	COUNTRY CEILING		LOCAL CURRENCY SHORT TERM ISSUER DEFAULT RATING		LOCAL CURRENCY LONG TERM ISSUER DEFAULT RATING			
DATE:	05-Jul-2018	21-Dec-2017	08-Jun-2017	07-Oct-2016	08-Apr-2016	09-Oct-2015	10-Apr-2015	07-Nov-2014	09-May-2014
RATING:	B <sup>+</sup>	B <sup>+</sup>	B <sup>+</sup>	B <sup>+</sup>	B <sup>+</sup>	B <sup>+</sup>	B <sup>+</sup>	B <sup>+</sup>	B <sup>+</sup>
ACTION:	Affirmed	Affirmed	Affirmed	Affirmed	Affirmed	Affirmed	Affirmed	Affirmed	New Rating

**RATINGS KEY**

POSITIVE	OUTLOOK	WATCH
NEGATIVE		
EVOLVING		
STABLE		

The rating in June 2020 showed no improvement staying with a 'Negative Outlook' while the rating a little over 6 months later on February 9, 2021 pushed down the country's credit to 'CCC' (with no 'Outlook' rating) – basically, rendering the country's credit to the equivalent of a 'junk bond' status.

Fitch notes that the downgrade “reflects the government’s announcement” to use a framework for “Debt Treatments” that is “untested” and hence “explicitly raises the risk of a default event”. It further states that this action could lead Ethiopia’s outstanding bond and “other commercial debt” to be restructured “potentially representing a distressed debt exchange...”. But the question here is what forced Abiy’s government to use said framework for “Debt Treatments” when it was clear (and they had to know) it would trigger universal rating downgrades?

Given that Abiy initially trumpeted (and perhaps believed?) he could start and complete war in 15 days, it is not hard to imagine the same level of ignorance and incompetence managing the country’s economy. Abiy and his acolytes would not understand the universal fact that Fitch mentions in its report: “greater political unrest” could “act as a drag on FDI and tax collection and exert further upward pressure on inflation”. They would also not be able to comprehend that political unrest “could also lead to worsening relations with some bilateral partners and hold up donor flows” an example of which Fitch cites as “the suspension of some flows from the EU in December”. But what we have in Ethiopia now is not even “political unrest”—it’s something many orders of magnitude more dreadful and destructive; it is a full-fledged civil war unleashed by Abiy on his own people with the invited help of a foreign country.

Abiy and his supporters may still not grasp (or have the capacity to grasp) the consequences of such a disastrous war on the country’s economy, but to say that the effect would, as mentioned, be ruinous would perhaps be the understatement of the year to any other informed observer. In fact, it could greatly exacerbate the existential threat Ethiopia is facing as a nation and hasten its demise unless those (in the country) who have their cowardly heads (expediently) buried in the sand wake up and take remedial measures urgently.

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<sup>1</sup> <https://www.cnn.com/2021/02/26/africa/ethiopia-tigray-dengelat-massacre-intl/index.html>

<sup>2</sup> <https://www.fitchratings.com/research/sovereigns/fitch-downgrades-ethiopia-to-ccc-09-02-2021>

<sup>3</sup> <https://www.fitchratings.com/entity/ethiopia-93705890>