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29 November 2021

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RATINGS

Cote d'Ivoire

	Foreign Currency	Local Currency
Gov. Bond Rating	Ba3/STA	Ba3/STA
Country Ceiling	Baa3	Baa2

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Government of Côte d'Ivoire - Ba3 stable

Annual credit analysis

OVERVIEW AND OUTLOOK

The credit profile of Côte d'Ivoire is primarily supported by the economy's resilience, growing diversification and healthy growth prospects, which are underpinned by structural reforms and public investment in infrastructure. Moreover, the sovereign has relatively strong fiscal fundamentals and sustainable debt levels, supported by substantial international financial support. Additional credit support comes from the country's participation in the West African Economic and Monetary Union and its relatively developed regional financial sector.

Côte d'Ivoire's institutional strength is its major credit constraint. Like many peers, it still receives relatively low scores on the Worldwide Governance Indicators, though these scores are likely to continue to improve steadily following major institutional reforms over the past decade. Côte d'Ivoire is also susceptible to event risk, driven mostly by political risks given continued heightened political tensions following presidential elections in October 2020 that the opposition boycotted. The coronavirus pandemic has caused the deterioration of several Côte d'Ivoire's credit metrics, particularly growth, the fiscal deficit and the debt burden.

The stable outlook indicates a balance of upside and downside pressures. On the upside, sustained strong growth through further shifts towards higher value-added exports could raise incomes faster than expected and contribute to higher revenues, enhancing fiscal flexibility. On the downside, a re-emergence of lasting political tensions or a longer than expected delay in economic recovery to pre-pandemic growth level could impair investment and weaken the government's balance sheet if it led to a rapid increase in government spending without a commensurate rise in revenue.

We would consider an upgrade in the event of: (1) a strong recovery and continuation of robust and balanced growth that leads to better credit fundamentals, especially fiscal metrics; (2) further material improvements in governance and competitiveness; (3) a durable reduction in political risk if the demands of the various parts of the population are addressed without material fiscal costs. Conversely, we would consider a downgrade in the event of: (1) an inability to keep the fiscal deficit at a moderate level translating into weakened fiscal strength; (2) the re-emergence of significant political and social tensions that would hinder the country's medium-term growth prospects; or (3) rising macroeconomic imbalances that would jeopardise the sustainability of growth.

This credit analysis elaborates on Côte d'Ivoire's credit profile in terms of economic strength, institutions and governance strength, fiscal strength and susceptibility to event risk, which are the four main analytic factors in Sovereign Ratings Methodology.

CREDIT PROFILE

Our determination of a sovereign's government bond rating is based on the consideration of four rating factors: Economic strength, institutions and governance strength, fiscal strength and susceptibility to event risk. When a direct and imminent threat becomes a constraint, that can only lower the scorecard-indicated outcome. For more information please see our Sovereign Ratings Methodology.

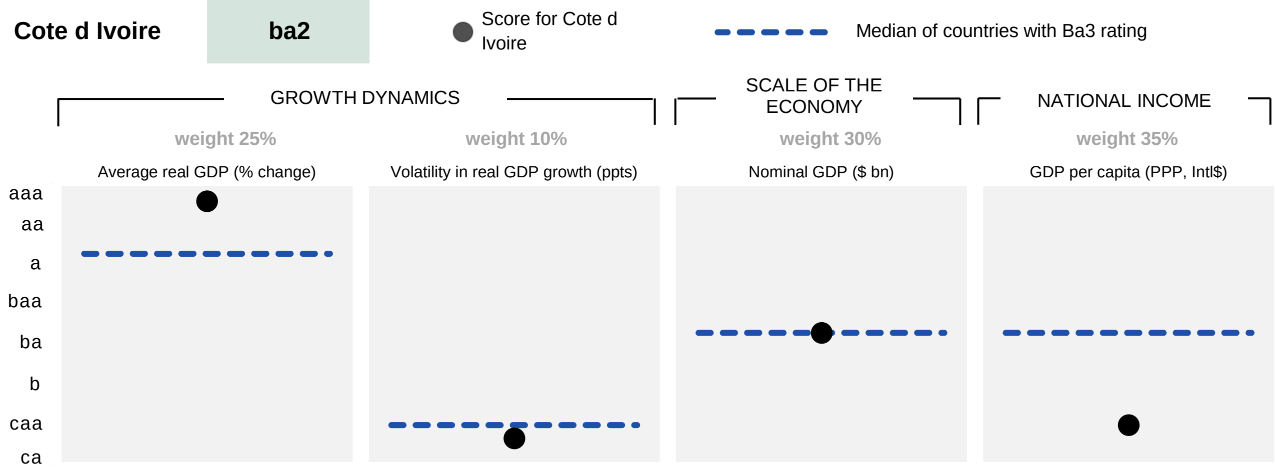
Economic strength score: ba2

Factor 1: Overall score

Scale	aaa	aa1	aa2	aa3	a1	a2	a3	baa1	baa2	baa3	ba1	ba2	ba3	b1	b2	b3	caa1	caa2	caa3	ca	
+												Final									-

Factor 1: Sub-scores

Cote d Ivoire	ba2



Economic strength evaluates the economic structure, primarily reflected in economic growth, the scale of the economy and wealth, as well as in structural factors that point to a country's long-term economic robustness and shock-absorption capacity. Adjustments to the economic strength factor score most often reflect our judgement regarding the economy's flexibility, diversity, productivity and labour supply challenges.
Note: the initial factor score is shown in light blue in the scale above. In case the initial and final factor scores are the same, only the final score will appear in the table above.

We assess Côte d'Ivoire's economic strength as "ba2". Our assessment incorporates the economy's small size; low per capita income; high growth and renewed investment in infrastructure; and low but improving economic competitiveness. The economy's structure is increasingly diversified, with high potential in mining and hydrocarbon production. Côte d'Ivoire shares its "ba2" score for economic strength with sovereigns such as Armenia (Ba3 stable), Georgia (Ba2 stable), and Tanzania (B2 stable).

Exhibit 1

Peer comparison table factor 1: Economic strength

	Cote d Ivoire Ba3/STA	ba2 Median	Armenia Ba3/STA	Georgia Ba2/STA	Ethiopia Caa2/NEG	Tanzania B2/STA	Ghana B3/NEG	Botswana A3/STA
Final score	ba2		ba2	ba2	ba2	ba2	ba2	ba2
Initial score	ba2		ba2	ba2	baa3	ba1	ba2	ba2
Nominal GDP ($ billion)	61.3	61.3	12.6	15.9	107.7	64.5	68.9	15.1
GDP per capita (PPP, Intl$)	5,349.5	8,305.4	13,329.3	14,849.3	2,907.9	2,925.6	5,798.9	15,492.5
Average real GDP (% change)	6.4	3.8	4.1	3.8	7.6	5.9	4.9	3.5
Volatility in real GDP growth (ppts)	4.3	4.3	4.5	3.7	1.6	1.6	4.6	5.8

Sources: National authorities, IMF and Moody's Investors Service

Côte d'Ivoire's strong economic recovery is likely to continue over the next few years

Côte d'Ivoire is a medium-sized country with GDP of $61.3 billion in 2020 (see Exhibit 2) and a fast-growing population (2.6% per year), estimated at 27 million. Per capita GDP was $5,350 in 2020 on a PPP basis, above the Sub-Saharan Africa median(see Exhibit 3). , double that of Uganda (B2 stable) and Ethiopia (Caa2 negative), and above Senegal (Ba3 negative). Côte d'Ivoire's economy has been one of the fastest growing in Sub-Saharan Africa for more than a decade.

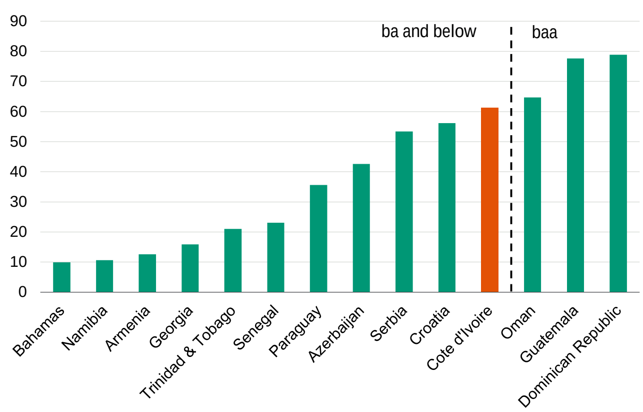
Compared the median contraction in Sub-Saharan Africa of 1.2% in 2020, Côte d'Ivoire's economy actually grew 2.0% thanks due largely to the resilience of its large export-oriented agricultural sector (particularly because of strong cocoa prices) and a rapid policy response backed by the international community. We forecast a rebound in domestic demand and a recovery in exports and investment will drive growth of 6.5% in 2021, offsetting periods of electricity shortages and weak growth in sectors like tourism still affected by the pandemic. Public spending tied to the Economic, Social and Humanitarian Support Plan worth around CFA 392 billion (1.1% of GDP) will have provided further support to the economy.[1]

We forecast average real economic growth of around 7% between 2022 and 2025, supported by the rollout of the government's National Development Plan (NDP) 2021-25, which aims to ramp up both public but mainly private-sector investment and boost productivity. More specifically, the plan envisages the development of several industrial zones (Akoupé-Zeudji, Korhogo, Bouaké, Bonoua, Séguéla, Bondoukou and Yamoussoukro), an increase in the country's electricity generation capacity to 3,428 MW in 2025 from 2,229 MW in 2020, modernization of sectors with significant value-added goods (cocoa, rice, pineapples and mango), and the development of major infrastructure projects. However, our baseline forecasts remain vulnerable to pandemic developments given low vaccination levels.

Côte d'Ivoire's high rate of growth has been sustained for more than a decade with the aim to increase the level of investment in the economy

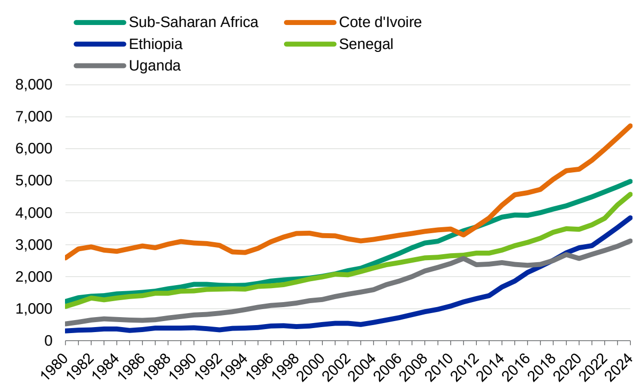
As Exhibit 4 shows, Côte d'Ivoire's average real growth rate was just 0.4% during the successive political crises that spanned the period between the 1999 coup and the country's short civil war at the start of 2011. Combined with population increases and a lack of investment, this caused its social indicators to deteriorate sharply.

Exhibit 2
Côte d'Ivoire scores "ba2" for economic strength
Nominal GDP ($ billion, 2020) and F1 economic strength score



Sources: National authorities and Moody's Investors Service

Exhibit 3
Per capita income is ahead of peers
GDP per capita ($, PPP basis)



Sources: IMF and Moody's Investors Service

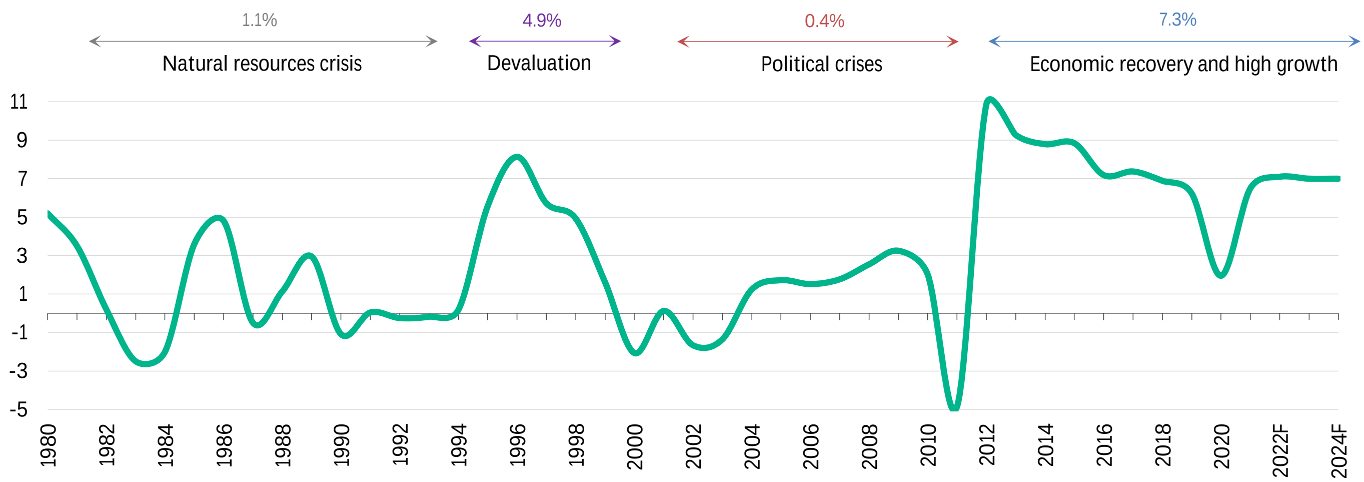
However, since President Alassane Ouattara took office in 2011, his successive administrations have allowed for a quantitative and qualitative acceleration in growth, particularly in the manufacturing, construction and service sectors. After GDP contracted by 4.2% in 2011 – the year of post-electoral conflict – growth averaged 7.5% between 2012 and 2020 (before the 2015 GDP rebasing, see below).

The authorities are seeking to revive the "Ivorian economic miracle" of 1960-78, when the country recorded robust growth of 8% and investment rates of 20% of GDP annually, driven by the agricultural sector, which provided the country with basic infrastructure. National development plans aim to accelerate structural changes in the country.

Exhibit 4

Successive crises resulted in two lost decades, but growth has been robust since 2011 with the exception of 2020

Real GDP growth (%, annual and average per period)

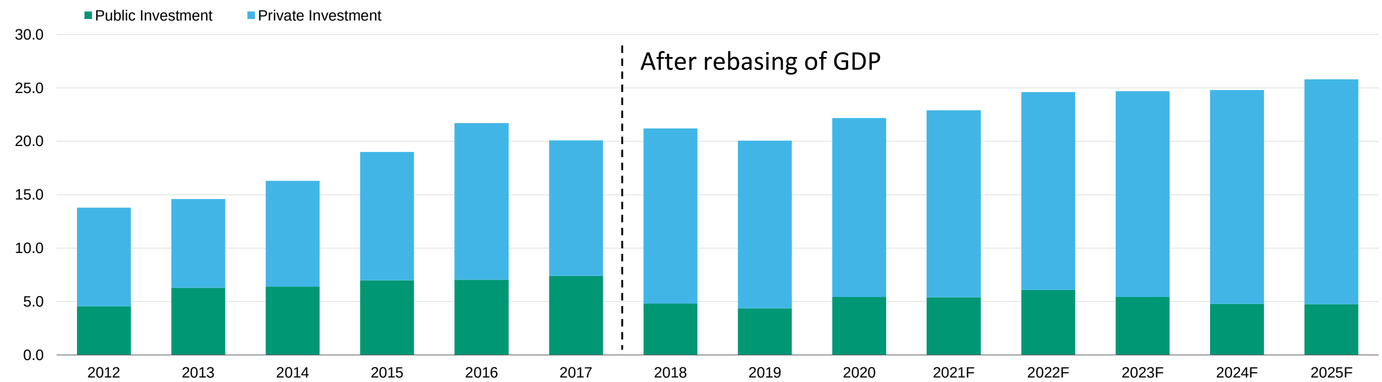


Sources: IMF and Moody's Investors Service

The NDP 2021-25, estimated at around $100 billion, will support the country's growth targets. The majority of the national development plan's funding is expected to come from the private sector (75%), with the remaining 25% to come from the public sector (including the government and the official donor community). A conference will be organised to this effect similarly to prior NDPs. The previous plan (NDP 2016-20) was smaller in size ($50 billion) and had shown positive results, though mobilisation of private investment fell short of target.

Nonetheless, growth in private investment has still outpaced a strong rise in public investment since 2011 (see Exhibit 5). Public investment geared towards heavy infrastructure such as roads, or social infrastructure such as schools, has risen to around 5% of GDP in the last few years from 2.6% in 2011, while private investment increased to almost 16.8% of GDP in 2020 from 5.6% in 2011. This improving trend brought the country's overall investment ratio to around 22.2% of GDP in 2020, slightly below the average investment rate for Sub-Saharan economies of 23.1%, according to the IMF's World Economic Outlook. The government's goal was to reach a minimum of 25% investment to GDP by 2020, with private investment representing 15% and public investment 10%. The government was not able to attain its public investment goal because of fiscal consolidation efforts alongside the adverse consequences of the pandemic.

Exhibit 5
Private investment has more than doubled in recent years
% GDP (not rebased)



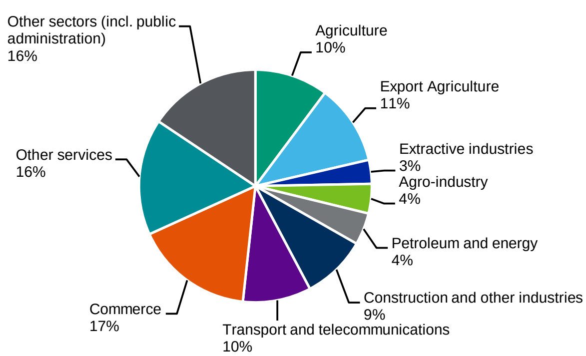
Source: National authorities

A relatively diversified economy driven by a competitive and export-oriented agricultural sector...

In 2020, Côte d'Ivoire rebased its GDP with 2015 as reference year. This creates a significant break in the series, with nominal growth for 2015 reaching 55% (12.2% previously without the rebasing). The increase follows a multiyear exercise supported by the World Bank (IBRD, Aaa stable) and African Development Bank (Aaa stable) to better measure the Ivorian economy. While the economy is much larger than previously captured, this suggests that the informal sector is also bigger in absolute terms.

The share of the agricultural sector remains quite large at 21% of GDP (see Exhibit 6), but has declined steadily over the years driven by the faster growth of the industry and services sectors. The exception was in 2020, when the industrial and services sectors came under pressure because of the pandemic. It is worth noting that the agricultural sector provides income for two thirds of the population and accounts for the largest share of export revenue.

Exhibit 6
Côte d'Ivoire's economy is diversified
Composition of nominal GDP by sector, 2020



Source: National authorities

Unlike most other countries in the region, where subsistence agriculture dominates, Côte d'Ivoire's agriculture sector is relatively mechanised and export-oriented following former President Félix Houphouët-Boigny's efforts to base Côte d'Ivoire's development on agriculture.

Côte d'Ivoire is the world's leading producer of cocoa (around 40% of global production) and cola nuts; the largest global producer and leading global exporter of cashew nuts; the leading African producer of dry rubber and bananas, the second-largest African producer of palm oil; and one of the largest African producers of cotton and coffee. Accordingly, the economy and largest share of exports are likely to remain agriculture-based and subject to commodity price volatility.

Moving on to the secondary and services sectors, their shares out of total GDP only slightly declined last year despite facing supply-side constraints. For instance, the secondary sector attained 20.9% GDP in 2020 from 21.2% in 2019, but was still higher than 19.5% of GDP in 2015, reflecting the economy's growing resilience. Similarly, the manufacturing sector, which is included in industry, fell to 17.5% from 18.2% in 2019, but still higher than the 16.2% in 2015.

The economy has been relatively resilient to cocoa price shocks and the coronavirus pandemic

Côte d'Ivoire's economy was resilient to a sharp drop in the price of cocoa in 2016-17 given its relatively diversified structure. Moreover, the value-added content in its exports will continue to increase, which will gradually reduce the economy's vulnerability to commodity price shocks and thereby its economic resilience.

The diversification of agricultural production in other sectors such as cashew nuts, palm oil, bananas, manioc and rubber supports an increase in the value of exports. Côte d'Ivoire's goal was to increase the transformation rate of agricultural goods with ambitious targets to reach in the successive NDPs.

Greater diversification in the processing of products in the agricultural and mining sectors will support growth of around 7%-8% over the next few years. In addition, sustained strong growth, if inclusive, will eventually raise living standards and households' capacity to absorb income shocks. Historically, this growth has been realised in tandem with an increase in official reserves and did not cause any macroeconomic imbalances.

Exhibit 7

Production of Côte d'Ivoire's main commodities is likely to stabilise
Tonnes, thousand

Production	2016	2017	2018	2019	2020E	2021F	2022F
Cocoa	1,634	2,034	2,113	2,235	2,173	2,100	2,020
Coton	332	353	387	482	490	536	589
Cashew nut	650	711	761	635	849	900	963
Palm oil	451	482	514	535	514	527	541
Bananas	427	438	465	500	508	539	577

Source: National authorities

Improvements in the mining, energy and infrastructure sectors to support the country's industrialisation strategy

Côte d'Ivoire's mining sector grew to around 3% of GDP in 2020 from just 1% of GDP in 2001. Gold production stood at 38.5 tonnes in 2020, compared to around 32.6 tonnes in 2019, 25 tonnes per year on average during the 2016-18 period and just 12.4 tonnes in 2011.

The government expects total gold production to reach 40 tonnes in 2021. New mines will start operations in the coming years; more than 170 exploration permits were granted following the introduction of the 2014 mining code that clarifies the taxation of mining projects. Nonetheless, gold production remains low given that Côte d'Ivoire accounts for one third of West Africa's Birimian greenstone belt. By comparison, Ghana, the region's leading gold producer with production of around 100 tonnes per year, accounts for around 20% of the belt.

Manganese production has also grown rapidly to 1.3 million tonnes in 2020 from 121,000 tonnes in 2012 and nickel production, which began in 2017, reached 1.4 million tonnes in 2020 (see Exhibit 8). At these levels, manganese and nickel will require new investment in infrastructure to allow further development. Côte d'Ivoire also has significant bauxite, copper, and diamond resources.

Exhibit 8
Mining production has steadily increased

Production	2016	2017	2018	2019	2020E	2021F	2022F
Gold (tonnes)	25.1	25.4	24.5	32.6	38.5	40.0	42.0
Manganese (thousands of tonnes)	200	510	798	1,182	1,311	1,350	1,400
Diamond (thousands of carats)	16	7	6	4	4	4	3
Nickel (thousands of tonnes)	-	380	890	660	1,348	1,400	1,450

Source: National authorities

The oil and gas sector is also developing, with oil major Eni (Baa1 stable) announcing the discovery of a major offshore oilfield in Côte d'Ivoire's block CI-101 in September 2021. The company, which holds a 90% stake in the block with the remaining held by Petroci Holding, confirmed that the discovery contained between 1.5 billion to 2 billion barrels of crude oil and 1.8 trillion to 2.4 trillion cubic feet of gas. This is a significant discovery given that until now proven reserves were only estimated to be around 190 million barrels of oil and 0.7 trillion cubic feet of gas. Over the coming years, rising oil production (currently at around 30,000 barrels per day (bpd)) will support government revenues and diversify export earnings traditionally reliant on the agriculture sector. However, these benefits currently remain uncertain because the developments of this offshore oil discovery will take years to put in place while the world is trying to accelerate the carbon transition to significantly curb global carbon emissions

Moreover, the government's commitment to infrastructure investments, including energy infrastructure, will support the economy and its competitiveness. Water and electricity infrastructure, road and rail networks and ports are being rehabilitated and developed to support the development of the agriculture, agro-industry and mining sectors.

Electricity production is particularly advanced relative to regional peers, with the country exporting 10% of its production to Burkina Faso, Ghana and Liberia. While production capacity was at 2,229 MW in 2020, the country aims to increase installed electricity to 3,428 MW by 2025. This goal will be achieved through the development of new power projects using thermal, but also hydroelectric and solar energy (Exhibit 9). Upon the completion of those projects, Côte d'Ivoire will be able to export around 20% of electricity generated to neighbouring countries, match the increase in domestic demand estimated at around 150 MW per year, and also ensure the further development of the country's agribusiness and mining operations.

Exhibit 9
Major Power Projects Pipeline

Projects	Type	Capacity (MW)
CIPREL 5 combined cycle thermal power plants	Thermal	390
AZITO 4	Thermal	253
SONGON	Thermal	372
San-Pedro	Coal	700
Grobopopoli	Hydroelectric	112
Singrobo-Ahouaty	Hydroelectric	44
Korhogo Solaire	Solar photovoltaic	25
Poro Power	Solar photovoltaic	50
Boundiali	Solar photovoltaic	37.5
Ferké	Solar photovoltaic	25

Source: National authorities

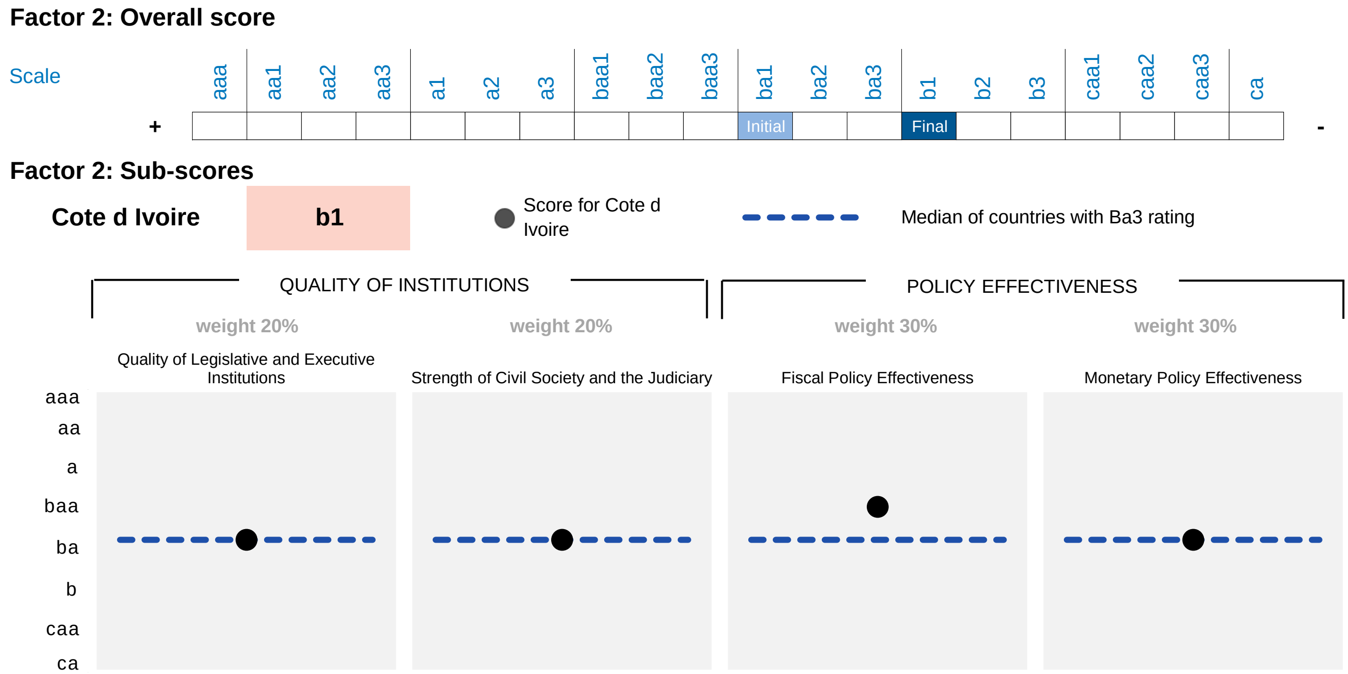
Structural reforms are being implemented across all sectors of the economy to boost its attractiveness to investors

Economic liberalism and trade openness have been integral components of Côte d'Ivoire's economic policy since independence, but government intervention in the economy slowed sharply after commodity (including agricultural) prices collapsed in the early 1980s. As a result, levels of state ownership in the economy are some of the lowest in Sub-Saharan Africa. Côte d'Ivoire is one of the few countries where foreign investors do not need a local sponsor. As a result, the private sector has traditionally been the main driver of economic growth. Moreover, according to the country's 2014 census, non-nationals account for around 25% of the population.

This liberalism is best exemplified by the electricity sector, which was privatised in the 1990s. Côte d'Ivoire is one of the few countries that has a small surplus of electricity production, which it exports to countries in West Africa. Private-sector power producers already account for more than half of total electricity production and continue to grow, as further investment through public-private partnerships is encouraged. The information technology sector, led by the telecommunications industry, is mostly privately owned. While the Coffee and Cocoa Council regulates the cocoa and coffee sectors, agriculture has essentially developed based on private stakes in the economy, with small-scale producers comprising the vast majority of farmers.

The government has also implemented a scheme to help small and medium-sized enterprises (SMEs) increase their contribution to GDP. The goal was for the industry sector, including manufacturing, to reach 40% of GDP by 2020 from 29% at the end of 2019. Although this goal was not reached, the strategy's implementation has strengthened the manufacturing sector, including through the opening of new cement factories. An action plan has been implemented to increase access to finance and markets to reduce the proportion of informal exchanges and create new industrial zones. The PK24 industrial zone in Abidjan, for example, has been rehabilitated and extended by 127 hectares. Industrialisation is likely to come mainly from agribusiness and light manufacturing.

Institutions and governance strength score: b1



Institutions and governance strength evaluates whether the country's institutional features are conducive to supporting a country's ability and willingness to repay its debt. A related aspect is the government's capacity to conduct sound economic policies that foster economic growth and prosperity. Institutions and governance strength is most often adjusted for the track record of default, which can only lower the final score.

Note: the initial factor score is shown in light blue in the scale above. In case the initial and final factor scores are the same, only the final score will appear in the table above.

Our "b1" assessment of Côte d'Ivoire's institutions and governance strength includes a "-3" adjustment because of the country's two past defaults, including its 2011 default on the 2032 eurobond. Our assessment takes into account the generally positive trend in the country's governance indicators in recent years from a very low level. In particular, it includes strong fiscal management and the ability to maintain reform momentum during a series of shocks, which compares favourably with peers balanced by a civil society that remains weak to influence decisions. The government has put a series of measures in place to boost private-sector activity, including establishing a commercial court, encouraging lending to SMEs, and privatising remaining state-owned enterprises (SOEs). Côte d'Ivoire also has a sound track record of low and stable inflation because of its WAEMU membership. Countries sharing a "b1" score for institutions and governance strength include Azerbaijan (Ba2 positive), the Dominican Republic (Ba3 stable) and Kenya (B2 negative).

Exhibit 10

Peer comparison table factor 2: Institutions and governance strength

	Cote d Ivoire Ba3/STA	b1 Median	Albania B1/STA	Bahrain B2/NEG	Costa Rica B2/NEG	Fiji B1/NEG	Jamaica B2/STA	Senegal Ba3/NEG
Final score	b1		ba2	ba2	ba2	ba2	ba2	ba2
Initial score	ba1		ba2	ba2	ba2	ba2	baa2	ba2
Quality of legislative & executive institutions	ba	b	ba	ba	ba	b	a	ba
Strength of civil society & judiciary	ba	b	ba	baa	a	b	baa	ba
Fiscal policy effectiveness	baa	b	ba	caa	b	ba	baa	ba
Monetary & macro policy effectiveness	ba	ba	ba	baa	ba	baa	ba	ba
Fiscal balance/GDP (3-year average)	-5.2	-5.2	-6.4	-10.7	-6.0	-11.1	-0.7	-5.5
Average inflation (% change)	1.2	4.0	2.3	1.2	1.8	1.8	4.8	1.5
Volatility of inflation (ppts)	1.6	2.6	0.6	1.7	2.0	2.6	2.3	1.3

Sources: National authorities, IMF and Moody's Investors Service

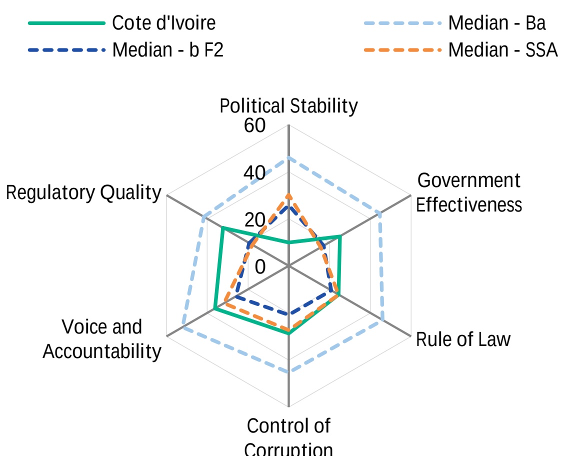
Institutional framework has improved markedly over the past 10 years

The authorities have made a major push to reform the country's institutions since President Alassane Ouattara came to power in 2011. Although most of Côte d'Ivoire's governance indicators have largely improved since then (with the exception of political stability, see Exhibits 11 and 12), we believe that current indicators are lagging and do not yet reflect the actual progress the government has made on institutional reform. The country's overall World Bank Country Policy and Institutional Assessment (CPIA) score has also improved, to 3.5 in 2020 from 3.2 in 2013, reflecting progress in general governance (the Sub-Saharan African IDA average is 3.1). Within Africa, Côte d'Ivoire ranks 18 on the Mo Ibrahim foundation's index of African governance (IIAG), an improvement of 15 places since 2010.

Exhibit 11

Côte d'Ivoire's 2020 Worldwide Governance Indicators remain lower than the Ba median

% rank, Moody's-rated sovereigns

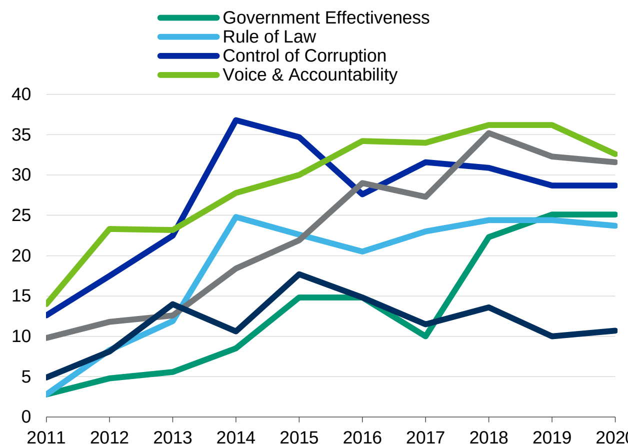


Sources: Worldwide Governance Indicators and Moody's Investors Service

Exhibit 12

Governance indicators have improved steadily since 2011 but have plateaued since 2018

% rank, Moody's-rated sovereigns



Sources: Worldwide Governance Indicators and Moody's Investors Service

Côte d'Ivoire also receives support from the international community, particularly the IMF, which has provided two consecutive Extended Credit Facilities (ECFs) since 2011. The first was aimed at strengthening public policy-making institutions, while the second offered support in implementing Côte d'Ivoire's second NDP. These arrangements brought total financial support to approximately $2.3 billion, including $0.9 billion disbursed in April 2020 to fight the coronavirus pandemic. Relations with international institutions in general remain very good and we expect a new programme to oversee the new NDP 2021-25 to be agreed soon.

Reforms have also allowed Côte d'Ivoire to make significant progress on social indicators. The country's poverty headcount ratio (the share of the population living on less than $1.25 PPP per day) fell to 35% in 2015 from nearly 50% after the 2011 civil war, according to the United Nations Development Programme. However, poverty levels remain high and reducing poverty remains one of the government's top priorities, especially following the impact of the pandemic. Social spending, particularly on health and education, has been ring-fenced and increased significantly in nominal terms.

Quality of legislative and executive institutions and strength of civil society and the judiciary are relatively weak

While civil society institutions exist in Côte d'Ivoire, their ability to act as an effective check on the exercise of government power is constrained. The recent presidential election, which the opposition boycotted, and violence during and after the election campaign illustrate the fragility of the country's institutions and civil society. Some of Côte d'Ivoire's WGI scores, including government effectiveness, regulatory quality and rule of law, are relatively weak at below zero (composite index with values ranging from -2.5 to 2.5; higher values correspond to stronger governance). Although the government has been able to implement a number of structural reforms since 2011, particularly for the economy, the strengthening of political institutions remains incomplete even after a new constitution was adopted in 2016.

Budget and public finance reforms have been paramount in supporting our assessment of fiscal effectiveness at "baa"

To boost the level of investment in the economy, particularly by the private sector, the authorities since 2012 have sought to increase capital spending to improve basic infrastructure (electricity, energy, roads, water and sanitation).

Given limits on the government's balance sheet, it has funded most of these increases through enhanced resource mobilisation and improvements in budget execution. For example, the government was able to increase the recovery rate of cheques paid at customs offices to 100% from 71% between 2014 and 2016. Cheques are now scanned and sent to the tax office for immediate monitoring. If the cheque is not backed by sufficient funds, the exporter (who is now identified by a unique identity number for tax purposes) will have its licence to export suspended if the funds are not provided within 10 days. Another example is the reduction in the amount of time taken to make VAT reimbursements to less than 48 hours from 13.2 months by modifying the law so that 10% of VAT receipts are set aside for that purpose.

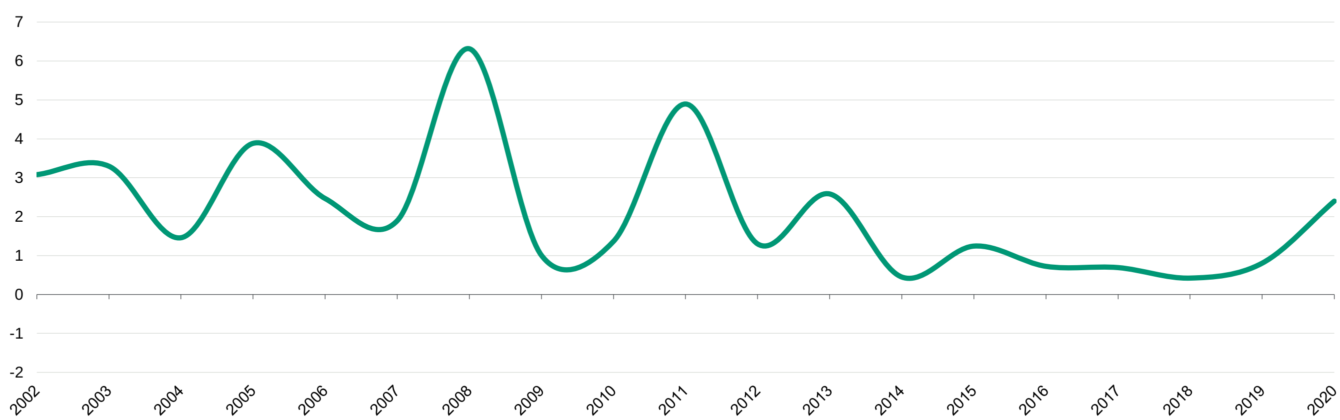
In addition, the authorities are promoting the use of information technology to streamline public service in all departments. Since 2017, companies with turnover of more than CFA200 million ($0.33 million) have been able to pay their taxes online.

With the GDP rebasing exercise now fully implemented, the level of government revenue has significantly declined as a share of GDP, to around 15% from 20%. This highlights the significant efforts that remain in terms of additional revenue generation to return to a level of capital spending of between 7% and 8% of GDP pre-rebasing, which will require more challenging structural reforms. Based on its past record, we believe the administration will be able to implement such reforms over the medium term.

WAEMU membership supports our "ba" assessment of monetary policy effectiveness

The West African Economic and Monetary Union (WAEMU) comprises eight countries and 127 million people sharing a common currency, the CFA franc (see Appendix 1 for further information on the CFA zone framework), and provides a rigid framework for monetary and foreign-exchange policies enforced by the Central Bank of West African States (BCEAO). The latter pursues an inflation target that has enabled member countries to maintain outstanding price stability over time (see Exhibit 13). Among peers, WAEMU members such as Côte d'Ivoire and Senegal have the lowest levels of inflation.

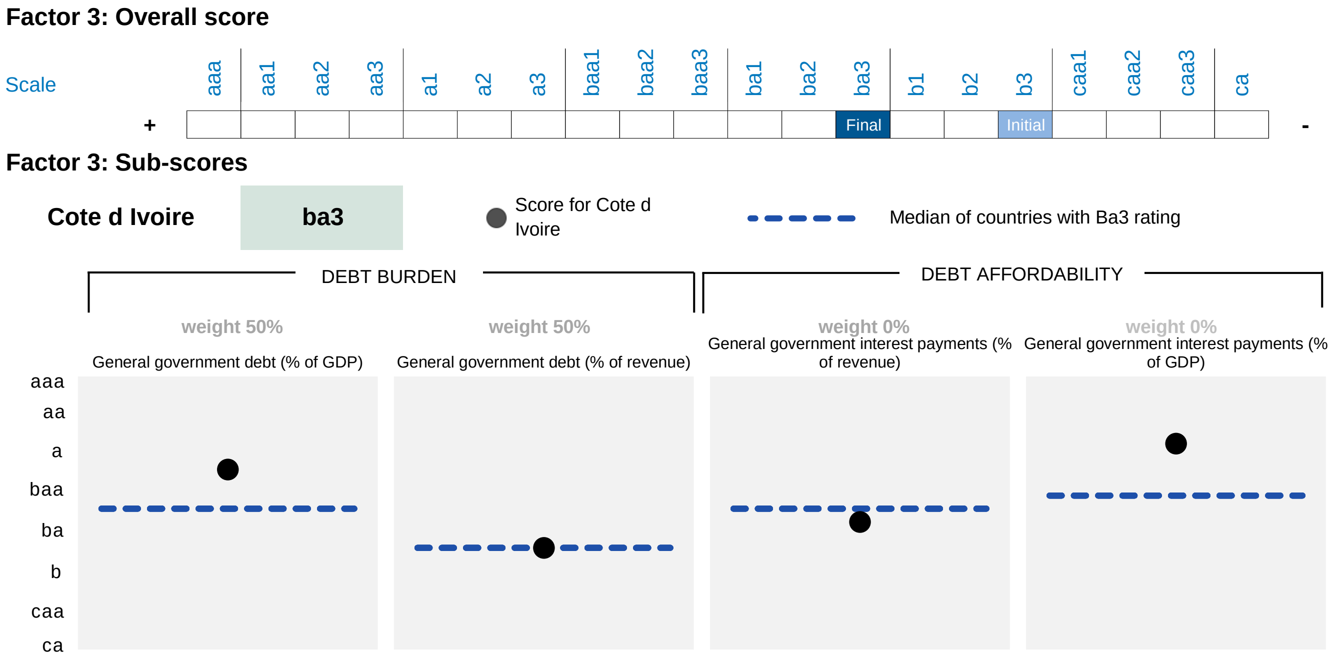
Exhibit 13
Côte d'Ivoire's moderate inflation reflects its WAEMU membership
% change



Source: International Monetary Fund

WAEMU membership also strengthens fiscal policy. Because the BCEAO cannot act as a lender of last resort, it cannot finance government deficits, which has helped improve the efficiency of some member countries' tax systems. The BCEAO also guarantees the banking regulator's independence. WAEMU membership also acts as a catalyst for structural reforms, encouraging member states to adopt specific common regulations to foster economic integration among themselves. For example, convergence criteria requiring member states to achieve a 3% of GDP deficit supports fiscal consolidation in the region. Because of the pandemic, however, this objective has been suspended. Various institutions also help member countries monitor and put pressure on countries that are not on track to meet their targets (see Susceptibility to event risk section below for information on the ECO).

Fiscal strength score: ba3



Fiscal strength captures the overall health of government finances, incorporating the assessment of relative debt burdens and debt affordability as well as the structure of government debt. Some governments have a greater ability to carry a higher debt burden at affordable rates than others. Fiscal strength is adjusted for the debt trend, the share of foreign currency debt in government debt, other public sector debt and for cases in which public sector financial assets or sovereign wealth funds are present. Depending on the adjustment factor, the overall score of fiscal strength can be lowered or increased.

Note: the initial factor score is shown in light blue in the scale above. In case the initial and final factor scores are the same, only the final score will appear in the table above.

We assess Côte d'Ivoire's fiscal strength as "ba3", three notches above the initial score of "b3", mainly to reduce the negative impact of the growing foreign-currency share of debt by discounting the euro-denominated share. The WAEMU peg to the euro is credible partly because of the French Treasury's guarantee, which minimises the risk of rapid currency depreciation inflating the debt burden. Côte d'Ivoire's fiscal strength is supported by the government's moderate debt burden and its efforts to generate more revenue to finance a relatively high level of capital spending. In addition, government debt remains relatively affordable, although the government has mainly borrowed on commercial terms. Other countries with a "ba3" score include Bangladesh (Ba3 stable), Cambodia (B2 stable) and Greece (Ba3 stable).

Exhibit 14

Peer comparison table factor 3: Fiscal strength

	Cote d Ivoire Ba3/STA	ba3 Median	Bangladesh Ba3/STA	Cambodia B2/STA	Greece Ba3/STA	Panama Baa2/STA	Mauritius Baa2/NEG	Panama Baa2/STA
Final score	ba3		ba3	ba3	ba3	ba3	ba3	ba3
Initial score	b3		ba3	ba1	ba3	b1	b1	b1
Gen. gov. debt (% of GDP)	47.6	55.6	31.7	34.4	206.3	69.8	76.5	69.8
Gen. gov. debt (% of revenue)	317.7	312.7	323.3	150.5	415.0	378.6	336.6	378.6
Gen. gov. interest payments (% of GDP)	1.9	2.0	2.1	0.4	3.0	2.7	2.9	2.7
Gen. gov. int. payments (% of revenue)	12.6	10.3	21.7	1.6	6.0	14.5	12.1	14.5

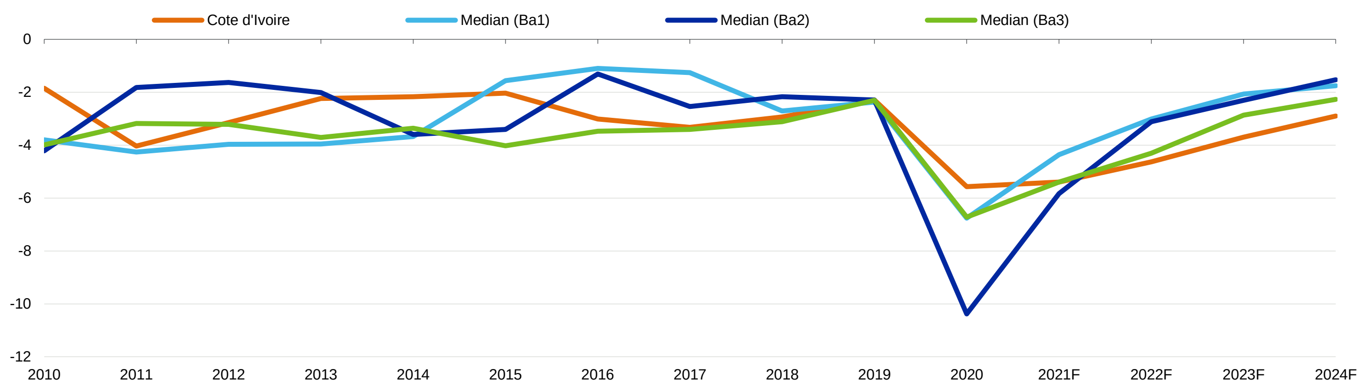
Sources: National authorities, IMF and Moody's Investors Service

Pandemic and security spending drove a large fiscal deficit in 2021, but the authorities remain committed to fiscal consolidation

The pandemic and the related global downturn widened Côte d'Ivoire's fiscal deficit significantly to 5.6% of GDP in 2020, from 2.4% in 2019. We forecast a similar deficit worth around 5.4% of GDP in 2021 because the government has decided to maintain high spending levels to support the economic recovery: the government has earmarked CFA 392 billion (1.1% of GDP) worth of pandemic-related spending in 2021.[2] Security spending in response to terrorist threats in the north together with periods of electricity shortages have also generated costs worth around 0.6% of GDP in 2021. Although Côte d'Ivoire's anticipated fiscal deficit for 2021 is large, it remains in line with peers (see Exhibit 15). To ensure an environment conducive to economic recovery, the WAEMU also announced a temporary suspension of the Convergence Pact (which sets out the criteria for harmonised macroeconomic indicators, including a maximum 3% of GDP fiscal deficit) because of the pandemic.

However, the authorities remain committed to fiscal consolidation with an objective to reduce the deficit to 3% by 2024. A third of the forecasted improvement will be driven by increasing revenue and two thirds by spending cuts (mostly social and pandemic-related spending). We forecast a slightly higher average deficit 3.5% during the 2022-25 period given President Ouattarra is likely to maintain social spending to preserve social cohesion and reduce inequality.

Exhibit 15
Côte d'Ivoire's fiscal deterioration is less significant than peers in 2020
General government financial balance, % nominal GDP

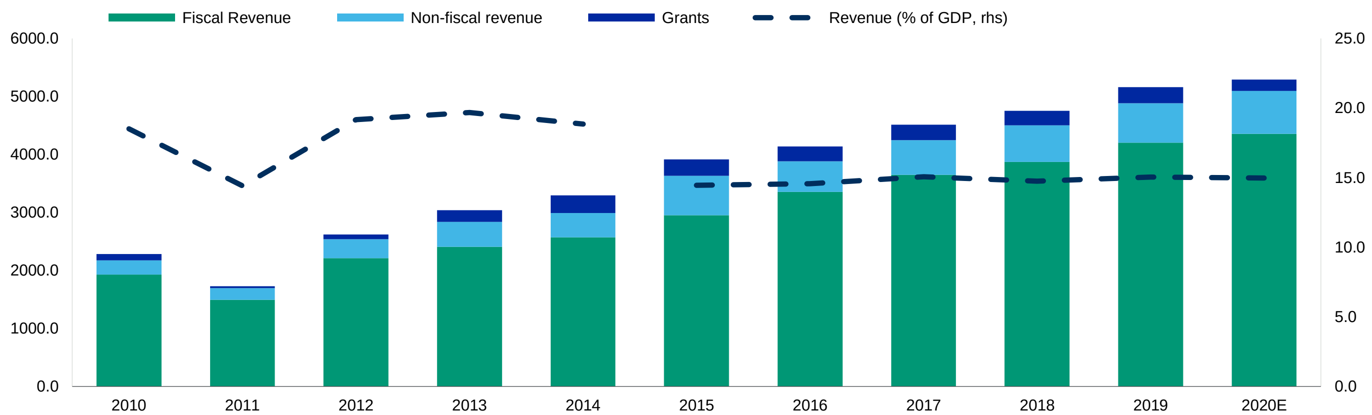


Sources: Ministry of Economy and Finance and Moody's Investors Service

An increased in revenue has financed a rise in capital spending

Between 2011 and 2020, the government steadily increased its revenue intake (including grants) to around 20% of GDP, which kept pace with or even exceeded nominal GDP growth over the same period (see Exhibit 16). In particular, efforts to improve tax collection have increased income from direct taxes by 50% between 2016 and 2019. Government revenue is also less dependent on cocoa prices, with cocoa-related revenue accounting for around 10% of total revenue. However, with the rebasing exercise revenue are now around 15% of the rebased GDP in 2020, close to the bottom decile of our rated sovereigns, which includes countries such as Benin (14.0% of GDP in 2020, B1 stable), Ethiopia (11.7%) and Pakistan (15.2%, B3 stable). The government is committed to accelerate its efforts to increase tax revenue because the economy is now assessed to be much larger and diversified than previously thought.

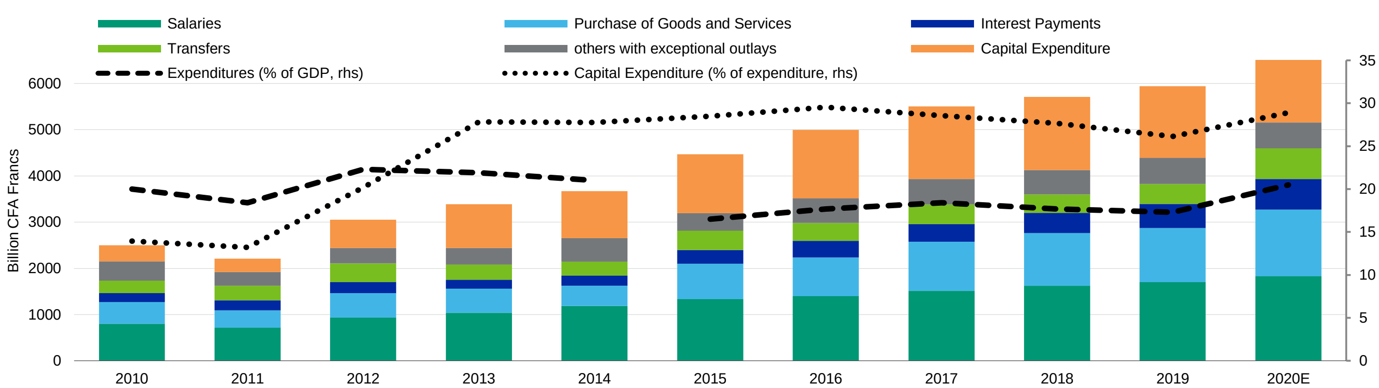
Exhibit 16
Government revenue has more than doubled over the past 10 years in nominal terms
CFA francs, billion (left), and % of GDP* (right)



*Series break in 2015 due to GDP rebasing exercise.
Sources: National authorities and Moody's Investors Service

The government used much of this additional revenue to finance capital expenditure, which has risen by around 24% on a compound annual growth rate basis since 2011 (total spending increased 14% over the same period). The government has also reduced public-sector salaries to around 40% of total revenue in 2020 from 46% in 2014. This prudent approach to public finances has resulted in modest deficits of 2%-4% of GDP since 2012. Achieving the government's goal will likely occur later since reaching such a ratio will require a greater amount of spending.

Exhibit 17
Capital spending has increased significantly since 2011 in nominal terms
CFA francs, billion (left) and %* (right)

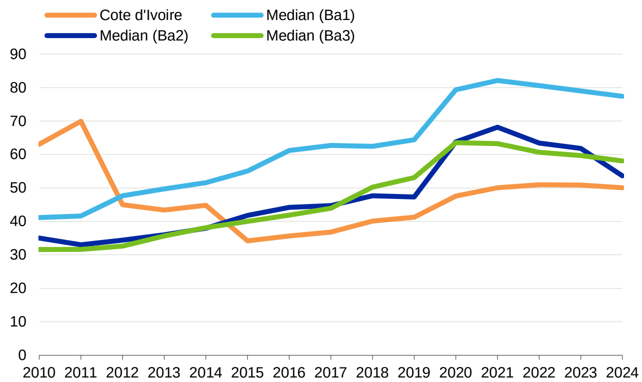


*Series break in 2015 due to GDP rebasing exercise.
Sources: National authorities and Moody's Investors Service

Debt metrics will continue to deteriorate in 2021

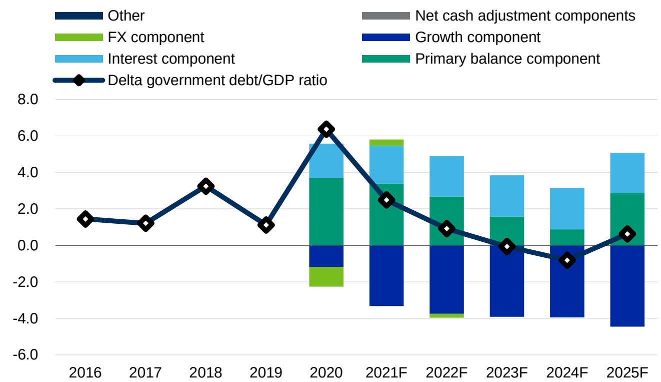
Persistent deficits will push general government debt upwards to 50% of GDP in 2021, where we expect it will stabilise over our forecast period (see Exhibits 18-21). However, the country's debt-to-revenue and interest payments-to-revenue ratios will continue to rise to 336.2% and 13.6% in 2021, respectively, from 317.7% and 12.6% in 2020. However, they will remain in line with their Ba3-rated peers.

Exhibit 18
Côte d'Ivoire's debt-to-GDP ratio fell significantly after the GDP rebasing exercise and now compares favourably with peers
Debt, % GDP



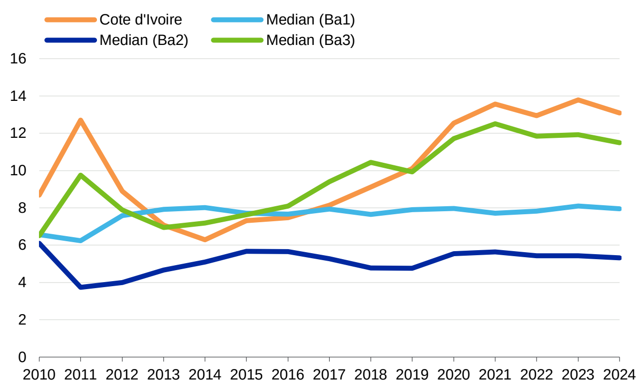
Sources: National authorities and Moody's Investors Service

Exhibit 19
Contribution to changes in government debt
% of GDP



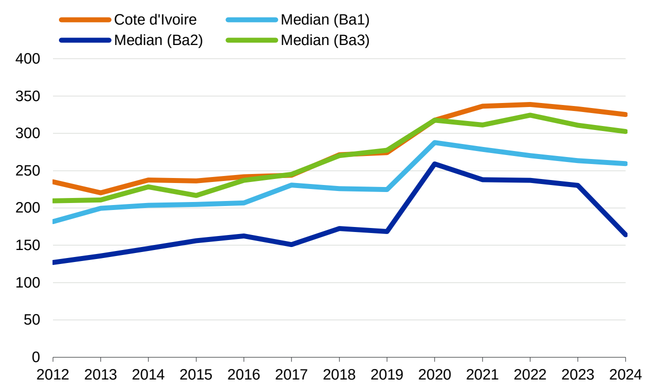
Source: Moody's Investors Service

Exhibit 20
Debt affordability has deteriorated, in line with Ba3-rated peers
Interest payments, % revenue



Sources: National authorities and Moody's Investors Service

Exhibit 21
The debt-to-revenue ratio worsened in 2020
Debt, % revenue



Sources: National authorities and Moody's Investors Service

The GDP rebasing was so large that Côte d'Ivoire's debt is now similar to the level recorded in 2012 after debt relief was granted as part of the Heavily Indebted Poor Countries (HIPC) initiative. According to the terms of the arrangement with the Paris Club, Côte d'Ivoire committed to not granting a more favourable agreement to any other creditor, which means that the government has legacy arrears on its external debt dating from that time. However, it has not accumulated new external arrears since then.

The government's external debt, as presented by the authorities and the IMF, includes a large proportion of debt reduction and development contracts (C2D), which we do not consider as debt because they are part of fully fledged debt-forgiveness mechanisms. The C2D is a debt relief initiative granted by France (Aa2 stable) under which the debtor country continues to service the debt that has been canceled but receives the payment back as a subsidy from France. The subsidy is deposited in a special account with the BCEAO and earmarked for selected poverty-reduction programmes.

In addition, public-sector companies are less likely to require government financial support. The total debt of public-sector companies – 74% of which is guaranteed – amounted to CFA1,150 billion, or 3.3% of GDP, at the end of 2020. The country's two largest public companies, national refinery company Société Ivorienne de Raffinage (SIR) and national electricity company CI-Energies, had their existing debt restructured in 2019, significantly reducing the risk that contingent liabilities could crystallise on the government balance sheet. The reduced risk was also because, in SIR's case, a tax on oil at the pump ensures the repayment of €525 million of loans. In the case of CI-Energies (€450 million), no new arrears are likely to accrue because the average cost of electricity has declined significantly, in tandem with the commissioning of new infrastructure including the Soubré dam.

Debt levels increase but are less sensitive to foreign-exchange risk

Around 54% of government debt was external and foreign currency-denominated at the end of 2020, with the remainder domestic and local currency-denominated. The equivalent figure in 2013 was just 40%. The growing share of external debt can partly be explained by large euro-denominated eurobond issuances in 2017, 2018, 2019 and 2020. Foreign-exchange risk is relatively contained because of Côte d'Ivoire's WAEMU membership and increasing issuance in euros. It has also swapped most of its dollar-denominated external debt service into euros until end-2024. Therefore, its external debt payments are 95% covered in euros until that date. A large but falling share of external debt is owed to bilateral and multilateral lenders at long maturities and low interest rates. The remainder is held by international banks and eurobond investors. Banks are the main holders of domestic debt.

An increase in commercial borrowing and a rise in debt have led to a deterioration in debt-affordability (interest/revenue) from 6.3% in 2014 to 12% in 2020. We expect it to remain in the 12%-14% range during our forecast period given long tenures (see Exhibit 20). In addition, the maturity of government debt is increasing and averaged 8.6 years as of year-end 2020, including 4.5 years for domestic debt and 12 years for external debt. Greater reliance on concessional borrowing from international financial institutions such as the IMF and World Bank during the post pandemic period will support this trend.

Côte d'Ivoire has been able to issue in euros at longer maturities and at rates below long-term local-currency issuances and will likely continue issuing euro-denominated debt while attempting to promote concessional lending. This suggests that, while external debt is growing, exchange-rate risk on the country's debt is falling with the decline of debt denominated in euros.

Susceptibility to event risk score: baa

Factor 4: Overall score

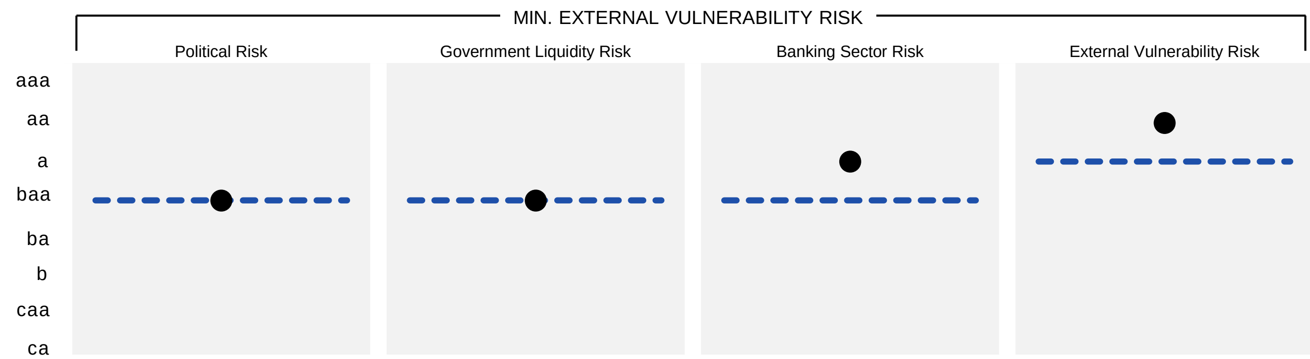
Scale	aaa	aa	a	baa	ba	b	caa	ca	
+				Final					-

Factor 4: Sub-scores

Cote d Ivoire **baa**

Score for Cote d Ivoire — Median of countries with Ba3 rating

Overall adjustment to Factor 4 Susceptibility to Event Risk: 0



Susceptibility to event risk evaluates a country's vulnerability to the risk that sudden events may severely strain public finances, thus increasing the country's probability of default. Such risks include political, government liquidity, banking sector and external vulnerability risks. Susceptibility of event risk is a constraint which can only lower the scorecard-indicated outcome.

Note: the initial factor score is shown in light blue in the scale above. In case the initial and final factor scores are the same, only the final score will appear in the table above.

Our "baa" assessments of political risk and government liquidity risk drive Côte d'Ivoire's "baa" score for susceptibility to event risk.

Political risk: baa

Growing inequality, as well as the possible re-emergence of lasting political tensions, inform our "baa" assessment of political and liquidity risk. Although the political environment is unpredictable, our baseline scenario remains that violence is only likely to be sporadic and that widespread instability is unlikely. Other countries with a political risk score of "baa" include Greece, Guatemala (Ba1 negative) and Bangladesh.

Exhibit 22

Peer comparison table factor 4a: Political risk

	Cote d Ivoire Ba3/STA	baa Median	Bangladesh Ba3/STA	Georgia Ba2/STA	Greece Ba3/STA	Guatemala Ba1/NEG	Oman Ba3/STA	Namibia Ba3/NEG
Final score	baa		baa	baa	baa	baa	baa	baa
Voice & accountability, score[1]	-0.5	0.0	-0.8	0.1	1.0	-0.4	-1.1	0.6
Political stability, score[1]	-1.0	-0.1	-0.9	-0.4	0.1	-0.4	0.4	0.6

[1] Composite index with values from about -2.50 to 2.50: higher values correspond to better governance.
Source: National authorities, IMF and Moody's Investors Service

Political environment remains polarised after the electoral success of the ruling party

In November 2020, the Ivorian Constitutional Council declared incumbent President Ouattara the winner of the October 2020 presidential election in the first round, with 94% of the vote. The two main opposition parties boycotted the elections. There were also allegations of blocked or closed polling stations in some places, as well as voter intimidation. Nevertheless, the national electoral commission said the participation rate was 54%. The opposition's inability to agree on a common strategy and a single candidate during the election campaign is likely to have compromised its chances of success. Despite these tensions, the situation did not descend into the type of widespread civil unrest seen in 2010-11. In particular, both the country and the government had significantly strengthened after a decade of strong economic growth.

Political tensions have also abated to a large extent, especially since the legislative elections organised in April 2021 which were also won by the ruling party called the Rassemblement des Houphouetistes pour la Démocratie et la Paix (RHDP). Although the government has not yet been opened to opposition parties similarly to the first mandate, President Ouattara's reconciliation process saw former President Laurent Gbagbo return to Côte d'Ivoire following his acquittal by the International Criminal Court. Mr Ouattara also met with other leaders including former President Henri Konan Bédié and Pascal Affi N'Guessan respective leaders of the Parti Démocratique de Côte d'Ivoire (PDCI) and the Front Populaire Ivoirien (FPI). Although, the electoral cycles have passed, the political scene remains polarised around Côte d'Ivoire's last three presidents.

Growing inequality could lead to social unrest

Social considerations are material to Côte d'Ivoire's rating. Notwithstanding high rates of growth over the past decade, high poverty levels together with growing income inequality could threaten political stability in the future. That said, we have seen some progress in access to basic services such as water and electricity as a result of government efforts to improve the country's overall physical and social infrastructure.

In 2017, civil servants went on strike over salary arrears and increases, as well as pension issues. The government made also payments to former rebels who had been integrated into the army after the 2011 civil conflict. Such discontent highlights how some sections of the population feel they are not sharing in Côte d'Ivoire's high growth. A key challenge facing the new administration is to make economic growth more inclusive, which would support political stability. Growing inequality forms part of our assessment of domestic political risk.

Government liquidity risk: baa

We assess government liquidity risk as "baa", reflecting government financing needs of 8.9% of GDP in 2021, down from 10.3% in 2020. This is due to the still present but waning impact of the pandemic on government finances. Before 2020, financing needs had been falling since 2017 because of the higher average maturity of Côte d'Ivoire's debt. Government financing typically takes the form of concessional funding from bilateral and multilateral lenders (though this share is declining), and bond issuance on international and regional capital markets. We expect government gross borrowing requirements to continue to decline as fiscal consolidation gathers space.

Exhibit 23

Peer comparison table factor 4b: Government liquidity risk

	Cote d Ivoire Ba3/STA	baa Median	Armenia Ba3/STA	Bahamas Ba3/NEG	Bangladesh Ba3/STA	Senegal Ba3/NEG	Serbia Ba2/STA	Namibia Ba3/NEG
Final score	baa		baa	baa	baa	baa	baa	baa
Initial score	baa		baa	baa	baa	baa	a	baa
Ease of access to funding	baa	baa	baa	baa	baa	baa	a	baa
Gross borrowing requirements (% of GDP)	8.9	9.7	10.1	19.1	10.7	10.7	13.5	38.1

Source: National authorities, IMF and Moody's Investors Service

The average maturity of domestic debt was 4.5 years as of end-2020 compared with 3.5 years in 2013; external debt was 12 years. CFA-denominated debt fell to 46% of total debt in 2020 from 61% in 2013. Overall, the average maturity is likely to continue to increase because the authorities will also try to favour external concessional borrowing from international financial institutions, which is typically granted over longer maturities. Because of the pandemic, the IMF and World Bank have been supportive of many middle and low-income countries in 2020, a trend that has continued in 2021.

Côte d'Ivoire has diversified its sources of funding since 2014, when it regained access to global capital markets. Having issued a $750 million, 10-year sovereign eurobond in July 2014, it issued a $1 billion, 12-year eurobond in February 2015, a $1.25 billion 16-year bond and a €625 million eight-year note in 2017, and a €1.7 billion eurobond in two equal tranches (with 12- and 30-year maturities and yields of 5.2% and 6.6%, respectively) in 2018. The issuances highlight the country's access to international markets.

In 2019, Côte d'Ivoire externally funded almost €500 million of its fiscal deficit with seven-year semi-concessional euro-denominated loans from international banks, as well as €200 million from a €1.7 billion eurobond issuance executed in October 2019. The remaining €1.5 billion of the eurobond issuance was used in a liability-management exercise to reprofile its debt service by buying mostly existing dollar-denominated debt instruments over the next six years. This forms part of the government's strategy of prioritising issuance in euros because of its very low exchange-rate risk. For that reason, we net out the share of euro-denominated debt from total external debt to assess the risk of a sudden depreciation in the stock of debt.

In 2020, Côte d'Ivoire issued $1.2 billion worth of international bonds, with the proceeds used to finance the country's fiscal deficit. With the recent issuances, the stock of debt in foreign currency excluding euros accounted for slightly less than 30% of the total at the end of 2020.

Côte d'Ivoire's access to developing regional capital markets (the WAEMU market) supports our assessment of relatively low government liquidity risk. As the largest economy in the WAEMU, it has been its largest issuer for several years, while its debt instruments enjoy the status of regional risk-free assets that define the yield curve, with maturities of more than 12 years.

Côte d'Ivoire returned to the regional market in 2020 with new issuances, as well as to rollover its existing domestic debt. However, we expect the stock of domestic debt as a percentage of GDP to decline because of the authorities' strategy of lengthening maturities for both domestic and external debt instruments, while increasing the share of euro-denominated debt. Nonetheless, we expect this decline to slow over the next two years because of the pandemic and increased reliance on the regional capital market.

Côte d'Ivoire is also one of the few countries at its stage of development in which foreign investors are buying domestic issuances. The country has twice issued the equivalent of $300 million in the form of sukuk (Islamic bonds), which were largely bought by institutional investors in the Gulf.

The BCEAO has created the UMOA-Titres agency to increase member states' capacity to access domestic financing. The WAEMU has also established a financial stability fund. The fund's objective is to provide liquidity support to sovereigns when needed, securing sovereign members' debt payments and limiting spillover risks within the CFA franc zone. However, the regional financial system remains relatively underdeveloped and banks still account for most government asset purchases.

Banking system risk: a

Our assessment of banking sector risk is "a". The system is small, with total domestic assets representing 39.9% of GDP at the end of 2020. As of the end of 2020, 29 banks accounted for more than 80% of the financial services market, with insurance companies making up the remainder. Most banks are foreign-owned and the four major banks are subsidiaries of foreign banking groups. The banking system's capitalisation is relatively low.

Exhibit 24

Peer comparison table factor 4c: Banking sector risk

	Cote d Ivoire Ba3/STA	a Median	Paraguay Ba1/STA	Trinidad & Tobago Ba2/STA	eSwatini B3/STA	Panama Baa2/STA	Philippines Baa2/STA	Indonesia Baa2/STA
Final score	a		a	a	a	a	a	a
Initial score	a		a	a	a	a	a	a
BCA[1]	--	baa1	ba2	--	--	baa3	baa3	baa3
BSCE[2]	ba1-ba2	baa2	ba1-ba2	ba1-ba2	ba1-ba2	baa3	baa3	baa3
Total domestic bank assets (% of GDP)	39.9	152.0	67.3	108.6	--	192.0	95.3	60.5

[1] BCA is an average of Baseline Credit Assessments (BCAs) for rated domestic banks, weighted by bank assets.
[2] Where we have no or small rating coverage in a system, we estimate the risk of Banking Sector Credit Event (BSCE) based on available data for aggregate banking system.
Source: National authorities, IMF and Moody's Investors Service

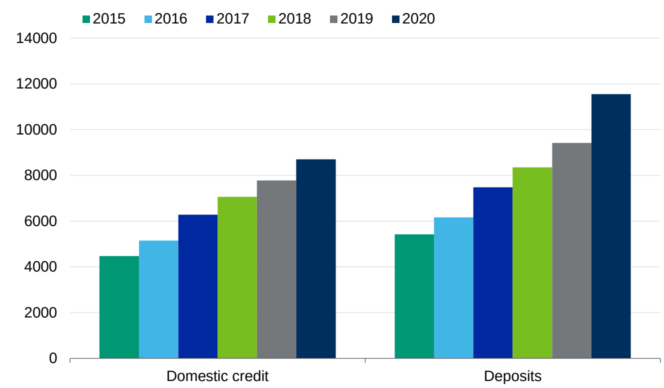
Bank branches are mainly located in Abidjan, where most of the country's economic activity is concentrated. As a result, the penetration rate of banking services is weak (though increasing) at just above 20% at the end of 2018 (almost 65% if mobile money accounts and microfinance accounts are included). Market shares are unevenly distributed because subsidiaries of foreign banks dominate the sector. However, these subsidiaries generally have the most robust balance sheets and comply with all prudential requirements.

Rapid loan growth in recent years has mirrored strong nominal GDP growth and reached 11.9% in 2020, partly reflecting the correlation between credit to the private sector and public investment in the economy. Bank assets rose by 19% in 2020 after growing by 20% in 2019. The banking system is mostly funded by customer deposits, which rose by an average 16% annually between 2016 and 2020, having risen by 20% annually in 2014-15. The system is relatively liquid and had a loan-to-deposit ratio of 75% at the end of 2020 (see Exhibit 25).

Exhibit 25

Domestic credit is rapidly increasing but remains lower than deposits

CFA francs, billion

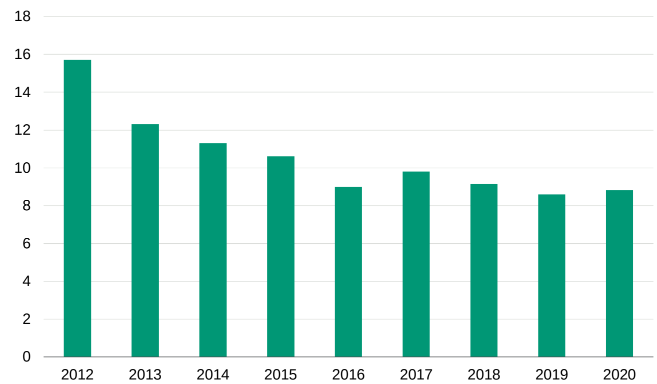


Sources: IMF and Central Bank of West African States

Exhibit 26

NPLs have broadly fallen since 2012

NPLs as % of total loans



Sources: Central Bank of West African States

The banking system poses limited contingent-liability risks to public finances and has proved resilient in the past. No bank has failed despite adverse effects such as the ones related to the political and security crisis of 2010-11 for example. However, despite some improvement since, the overall quality of bank portfolios remains weak, particularly those of small state-owned banks. The authorities have privatised and divested from some banks over the last few years, but retain a presence in Banque Nationale d'Investissement, Versus Bank, Banque de l'Habitat de Côte d'Ivoire and Banque Populaire de Côte d'Ivoire, the last of which is being restructured.

Outstanding gross nonperforming loans (NPLs) accounted for 8.8% of lending at the end of 2020, compared with 16.9% in 2011 (see Exhibit 26). We expect the stock of NPLs to decrease following the expected recovery in the economy in 2021. In terms of capitalisation, capital adequacy rose to 10.2% as of June 2019 from 9.1% in June 2018. The BCEAO is targeting a ratio of 11.5% at the end of 2022 as it implements the new Basel III regulations.

External vulnerability risk: aa

We assess Côte d'Ivoire's external vulnerability risk as "aa". A balance of payments crisis is very unlikely because of the country's membership of the WAEMU, through which the French Treasury guarantees the CFA franc's convertibility based on a fixed exchange rate with the euro.

Exhibit 27

Peer comparison table factor 4d: External vulnerability risk

	Cote d Ivoire	aa Median	Brazil	Philippines	Peru	United Arab Emirates	Qatar	Malta
	Ba3/STA		Ba2/STA	Baa2/STA	Baa1/STA	Aa2/STA	Aa3/STA	A2/NEG
Final score	aa		aa	aa	aa	aa	aa	aa
Initial score	aa		aa	aa	aa	aa	aa	aa
Current account balance (% of GDP)	-3.1	0.8	-1.8	3.6	0.8	5.9	-2.5	-2.9
Net IIP (% of GDP)[1]	--	9.4	-38.4	-5.6	-39.7	--	--	60.3
External debt (% of current account receipts)	158.0	172.0	241.7	82.2	172.0	95.9	325.8	357.4
External vulnerability indicator (EVI)[2]	21.3	32.0	39.0	21.6	25.0	206.8	303.7	--

[1] Net international investment position (% of GDP).
[2] (Short-term external debt + currently maturing long-term debt + total nonresident deposits over one year)/official foreign exchange reserves.
Source: National authorities, IMF and Moody's Investors Service

Côte d'Ivoire benefits from currency stability and robust external accounts

Côte d'Ivoire recorded a small current-account surplus of 1% of GDP on average between 2000 and 2020, supported by a structural trade surplus. However, the current-account deficit reached 3.1% in 2020 because of higher imports (equipment related to infrastructure projects) and cocoa price volatility and is set to slightly increase to 3.3% in 2021. Côte d'Ivoire's current account is likely to show resilience to the pandemic shock, supported by a lower energy bill because of significantly lower oil prices, so long as the price of cocoa does not fall significantly. Average cocoa prices have been stable on average since the beginning of the pandemic.

In the next few years, we expect the country's cocoa export receipts to increase following an agreement with Ghana to influence global prices and increase the benefits to producers (both governments and farmers alike). We expect the deficit to narrow slightly in the coming years because of higher prices for agricultural goods. Rising foreign direct investment finances is expected to fund almost half the deficit. The overall balance of payments has been positive (CFA387 billion at the end of 2020) because of government external borrowing. In addition, Côte d'Ivoire's export market is well diversified, with export destinations mostly across Europe and Africa. External debt remains relatively low at 37% of GDP in 2020 though debt-service costs, which fell following the cancellation of debt in 2012, have been increasing lately.

Local banks had a positive net external assets position of $600 million in 2018. Banks are required to repatriate at least 80% of export proceeds to the CFA zone, though they have failed to do so for a prolonged period. The BCEAO intends to continue to tighten this scheme and could impose fines to encourage compliance. Doing so would likely generate a significant and rapid structural increase in foreign-currency reserves and benefit the wider balance of payments. The repatriation rate has been markedly rising to 61.8% in 2018 from 29.5% in 2017; its objective is 80%.

Regarding Côte d'Ivoire's external vulnerability indicator (EVI, external short-term debt plus maturing long-term external debt divided by foreign-exchange reserves), we look at the entire WAEMU zone rather than individual countries. We expect the WAEMU's EVI to remain around 30% in 2021 as a consequence of the pandemic. The recent global SDR allocation by the IMF resulted for the WAEMU to a $2.3 billion transfer to the BCEAO reserves that we expect at around $21 billion at the end of 2021 from $16 billion in 2020.

The risk of a CFA franc devaluation remains very low

A devaluation of the CFA franc is the main financial risk that Côte d'Ivoire faces. Such a development would instantly increase debt relative to public revenue because close to 60% of public debt is foreign currency-denominated. A devaluation would also significantly increase the cost of servicing this debt. However, a CFA zone balance of payments crisis is highly unlikely because capital inflows have generally covered current-account deficits. Moreover, we expect the CFA zone's official reserves to continue to increase over the next few years.

Although the CFA franc was devalued by 50% relative to the French franc in 1994, we view the risk of this happening again as very low. The devaluation was spurred by a fall in the BCEAO reserve ratio (bank notes issued and deposits with the central bank) to below 17% in 1993. Whenever reserves fall below 20% of the monetary base, the BCEAO is required to take measures to reduce the monetary base, a scheme similar to those operated in currency board arrangements. Should reserves reach zero, the central bank would need to implement new measures to support reserves like import compression measures. This situation has occurred once, in 1991, though the French Treasury maintained the exchange rate during this period.

While it failed to generate the desired level of growth, the 1994 devaluation increased the coverage ratio to 84%. The ratio even exceeded 100% between 1999 and 2012, though it fell to 73.4% at the end of 2017. Several large issuances by both Côte d'Ivoire and Senegal over the last five years support the pool of reserves. The WAEMU region and the Central Africa franc zone differ markedly with respect to their reserves, with the latter having experienced significant volatility because of the successive oil price shocks in 2015-16 and 2020.

Over the past decade, a series of crises in the two monetary subregions of the CFA zone has tested the 70-year monetary arrangement, which has remained intact on each occasion. In addition, devaluation would need to be agreed by all the countries in the CFA zone (western and central Africa) and the French Treasury. As a result, it would be extremely unlikely to take place without a prolonged public debate.

The eco will be delayed further by the pandemic

In July 2019, the 15 member countries of the Economic Community of West African States (ECOWAS) – which includes the eight member countries of the WAEMU, as well as seven other countries that have their own currencies, such as Ghana and Nigeria (B2 negative) – agreed to adopt a common currency, the eco to replace all the existing currencies. The first step from the WAEMU was to symbolically change the name of the CFA franc to the eco in 2020. In addition, the share of the WAEMU's foreign-exchange reserves at the Banque de France were rapatriated to Dakar at the BCEAO, where France is no longer represented. All members that adopted the eco would have to agree on a transition mechanism. A two-tier approach is likely, with those countries now using the CFA franc to adopt the eco first. There are no details on what the current currency arrangement with France – under which the French Treasury guarantees the CFA franc's convertibility – will be in the long run, although it will remain in place for the foreseeable future.

Even if the ultimate goal is a flexible currency for the ECOWAS region (as aimed for by the union's founding fathers), this is a long-term objective. To date, the political will has been present to make progress on achieving that goal and the name of the common currency has been agreed. All other aspects will be negotiated in the future, particularly the convergence criteria that will allow countries to join the monetary union. There has been no indication of how the peg to the euro will be modified. France's support of the CFA zone is very strong for the francophone countries, but it remains open to consensual change, as long as that change is carefully and progressively implemented. However, the pandemic has pushed realisation of the eco still further into the future.

ESG considerations

Côte d'Ivoire's ESG Credit Impact Score is Highly Negative (CIS-4)

Exhibit 28
ESG Credit Impact Score

For an issuer scored CIS-4 (Highly Negative), its ESG attributes are overall considered as having a discernible negative impact on the current rating. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-3.

Source: Moody's Investors Service

Côte d'Ivoire's ESG Credit Impact Score is highly negative (**CIS-4**), reflecting a high exposure to social risk, a moderate exposure to environmental risk, and a weak governance that, along with low income levels, reduce the country's resilience to S and E risks.

Exhibit 29
ESG Issuer Profile Scores

Source: Moody's Investors Service

Environmental

Côte d'Ivoire's exposure to environmental risks is moderately negative, reflected in its **E-3** issuer profile score. The country is a leading exporter of agricultural products and a large part of the population still relies on agriculture. As a result, Côte d'Ivoire is vulnerable to climate change, including droughts, deforestation, and land degradation. A significant environmental shock could influence some key credit metrics such as GDP growth, household income, and agricultural export earnings.

Social

Exposure to social risks is highly negative (**S-4** issuer profile score), mainly related to poverty, health and safety, low education outcomes, and relatively poor access to basic services. While safety issues have dramatically improved since the 2010-11 civil conflict, recent presidential elections have recharged a highly polarised political environment and led to some violence. Additionally, growing income inequality could threaten political stability in the future. Notwithstanding its high levels of growth over the last decade, low wealth levels, and high, albeit improving, levels of poverty remain.

Governance

Côte d'Ivoire's weak institutions and governance profile constrain its rating, as captured by a highly negative G issuer profile score (**G-4**). Since the civil conflict in 2010-11, the country's institutional framework has seen a positive trend, with all its worldwide governance indicators improving, reaching on average the 25th percentile in 2019 from below the 10th percentile in 2011. Côte d'Ivoire defaulted in 2000 and again in 2011, which also highlights the weak institutional framework (albeit improving since).

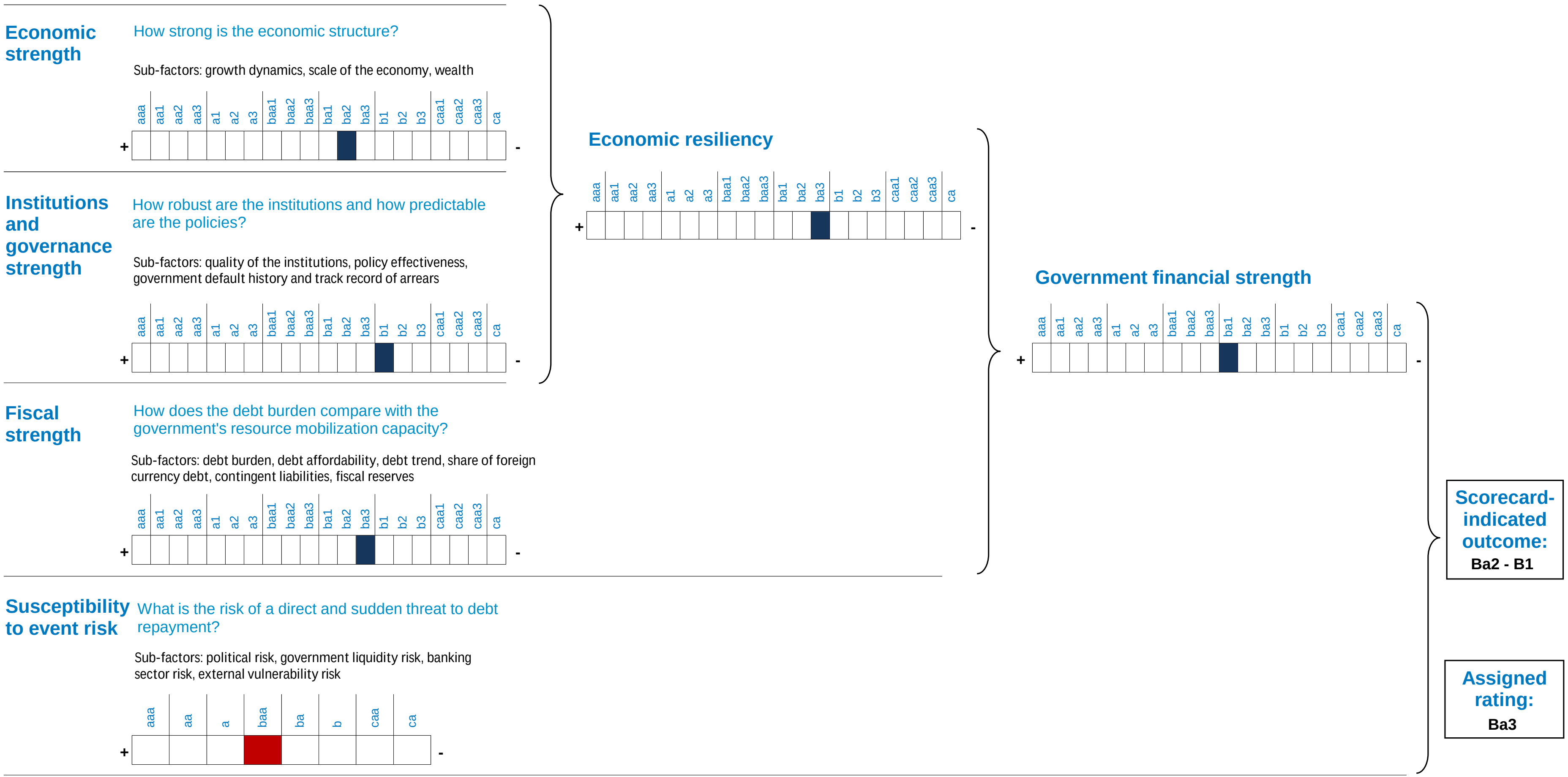
All of these considerations are further discussed in the "Credit profile" section above. Our approach to ESG is explained in our report on how the scores depict varied and largely credit-negative impact of ESG factors and our cross-sector methodology General Principles for Assessing Environmental, Social and Governance Risks Methodology.

Scorecard-indicated outcome

Combining the scores for individual factors provides the scorecard-indicated outcome. While the information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the scorecard-indicated outcome. Thus, the rating process is deliberative and not mechanical, meaning that it depends on peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the scorecard-indicated outcome. For more information please see our Sovereign Ratings Methodology.

Exhibit 30

Sovereign rating metrics: Cote d'Ivoire



Source: Moody's Investors Service

Comparatives

This section compares credit relevant information regarding Cote d'Ivoire with other sovereigns that we rate. It focuses on a comparison with sovereigns within the same scorecard-indicated outcome and shows the relevant credit metrics and factor scores. Côte d'Ivoire's average real GDP growth ranks above its peers, but its GDP per capita is lower. We assess institutional strength at "b1". In terms of fiscal strength, Côte d'Ivoire's debt stock and interest payments relative to its economy and revenue are stronger than its peers. The country's susceptibility to event risk score at "baa" is determined by domestic political risks.

Exhibit 31
Cote d'Ivoire's key peers

Cote d Ivoire Key Peers

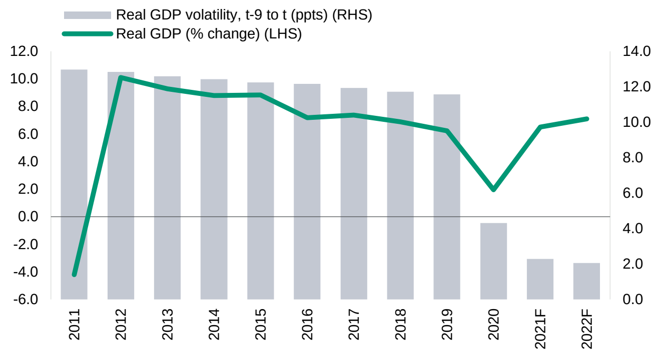
	Year	Cote d Ivoire	Vietnam	Benin	Dominican Republic	Serbia	Armenia	Ba3 Median	Sub-Saharan Africa Median
Rating/outlook		Ba3/STA	Ba3/POS	B1/STA	Ba3/STA	Ba2/STA	Ba3/STA	Ba3	B2
Scorecard-indicated outcome		Ba2 - B1	Ba1 - Ba3	Ba3 - B2	Ba3 - B2	Baa3 - Ba2	Ba2 - B1	Ba2 - B1	B1 - B3
Factor 1		**ba2**	**a3**	**ba3**	**baa2**	**ba1**	**ba2**	**ba1**	**ba3**
Nominal GDP ($ bn)	2020	61.3	340.7	15.6	78.8	53.3	12.6	63.0	18.1
GDP per capita (PPP, Intl$)	2020	5,349	10,897	3,499	18,620	19,146	13,329	12,113	3,687
Avg. real GDP (% change)	2016 - 2025F	6.4	6.5	5.8	4.7	3.6	4.1	4.4	4.7
Volatility in real GDP growth (ppts)	2011 - 2020	4.3	1.3	1.9	4.1	2.2	4.5	4.2	2.7
Factor 2		**b1**	**b1**	**ba3**	**b1**	**baa3**	**baa3**	**ba2**	**b3**
Quality of legislative & executive institutions	Latest available	ba	b	b	ba	baa	ba	ba	b
Strength of civil society & judiciary	Latest available	ba	b	b	b	ba	ba	ba	b
Fiscal policy effectiveness	Latest available	baa	b	ba	b	baa	baa	ba	b
Monetary & macro policy effectiveness	Latest available	ba	ba	ba	ba	baa	baa	ba	b
Gen. gov. fiscal balance (% of GDP)	2020 - 2022F	-5.2	-2.8	-4.3	-5.2	-5.6	-3.6	-5.7	-5.5
Average inflation (% change)	2016 - 2025F	1.2	3.5	1.4	4.0	2.1	2.7	2.1	4.1
Volatility of inflation (ppts)	2011 - 2020	1.6	5.2	2.3	2.1	3.5	2.6	1.5	2.1
Factor 3		**Ba3**	**baa2**	**b2**	**caa3**	**ba1**	**b1**	**b2**	**b3**
Gen. gov. debt (% of GDP)	2020	47.6	39.1	46.4	58.3	57.8	63.5	62.9	56.7
Gen. gov. debt (% of revenue)	2020	317.7	205.0	332.4	410.7	141.1	243.9	317.8	317.7
Gen. gov. interest payments (% of revenue)	2020	12.6	7.1	14.1	22.8	4.9	10.2	11.7	12.6
Gen. gov. interest payments (% of GDP)	2020	1.9	1.4	2.0	3.2	2.0	2.7	2.8	2.2
Factor 4		**baa**	**b**	**baa**	**baa**	**baa**	**ba**	**baa**	**ba**
Political risk	Latest available	**baa**	**baa**	**baa**	**a**	**a**	**ba**	**baa**	**ba**
Government liquidity risk	Latest available	**baa**	**a**	**baa**	**baa**	**baa**	**baa**	**baa**	**ba**
Gross borrowing requirements (% of GDP)	2021F	8.9	6.1	9.6	8.8	13.5	10.1	10.4	10.9
Banking sector risk	Latest available	**a**	**b**	**baa**	**baa**	**baa**	**ba**	**baa**	**baa**
BSCE[1]	Latest available	ba1-ba2	ba3-b3	ba3-b3	ba3-b3	ba1-ba2	ba3-b3	ba3-b3	ba3-b3
Total domestic bank assets (% of GDP)	2020	39.9	174.3	39.6	46.8	87.4	108.3	108.3	43.6
External vulnerability risk	Latest available	**aa**	**a**	**a**	**baa**	**a**	**ba**	**a**	**baa**
Current account balance (% of GDP)	2020	-3.1	3.7	-3.8	-2.0	-4.1	-3.8	-3.5	-3.7
External vulnerability indicator (EVI)	2022F	21.3	41.7	21.3	75.2	72.2	119.2	41.7	48.7
External debt (% of current account receipts)	2020	158.0	41.4	129.3	189.7	121.9	231.8	158.0	154.6
Net international investment position (% of GDP)	2020	--	--	--	-75.4	-97.4	-81.4	-72.1	-56.1

[1] BSCE is our estimate of the risk of a Banking Sector Credit Event (BSCE), which we use for sovereigns where we have no or very limited rating coverage of a system.
Sources: National authorities, IMF, Moody's Investors Service

DATA, CHARTS AND REFERENCES

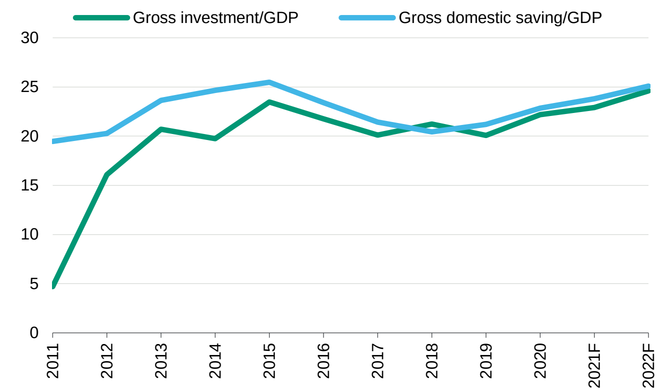
Chart pack: Côte d'Ivoire

Exhibit 32
Economic growth



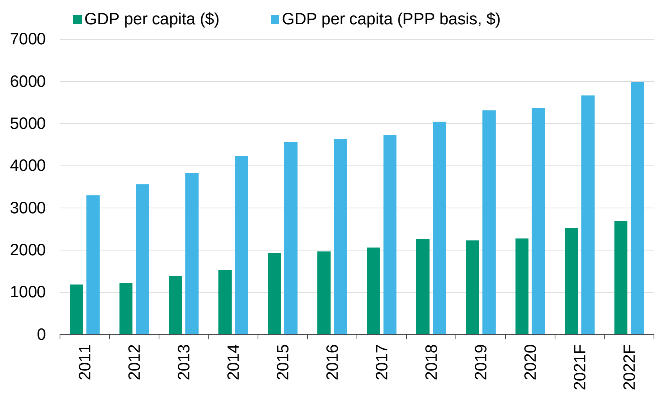
Source: Moody's Investors Service

Exhibit 33
Investment and saving



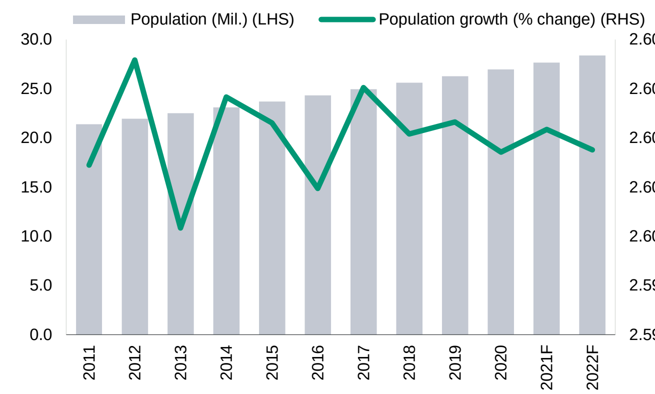
Source: Moody's Investors Service

Exhibit 34
National income



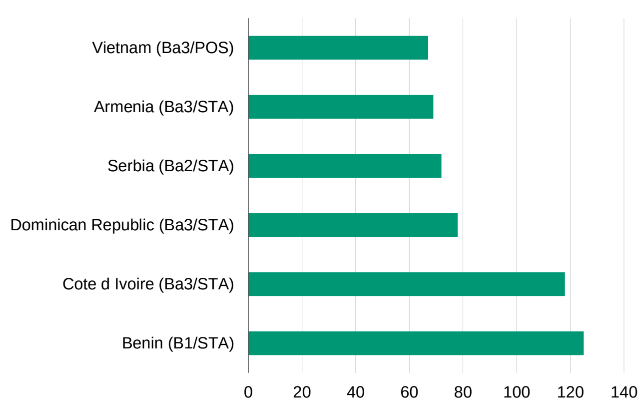
Source: Moody's Investors Service

Exhibit 35
Population



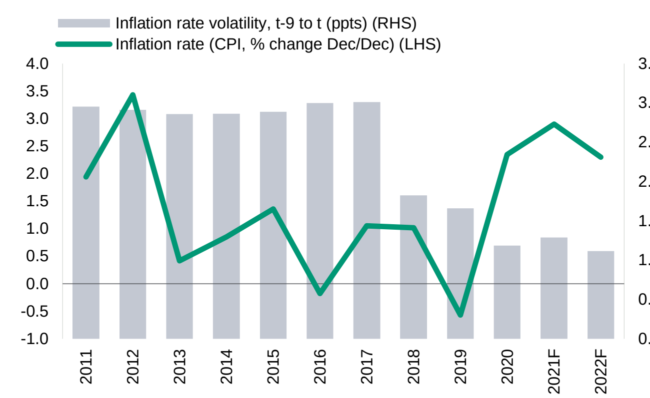
Source: Moody's Investors Service

Exhibit 36
Global Competitiveness Index
Rank 118 out of 141 countries



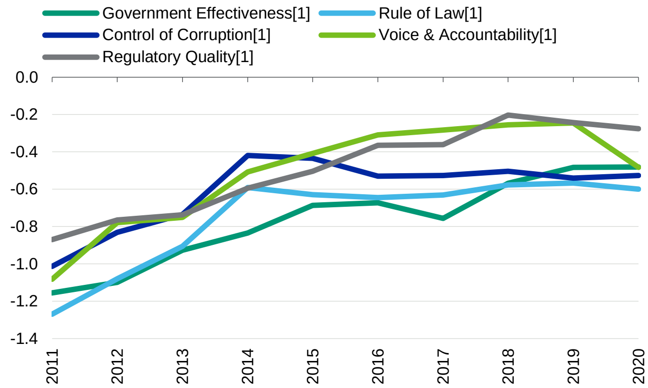
Source: World Economic Forum

Exhibit 37
Inflation and inflation volatility



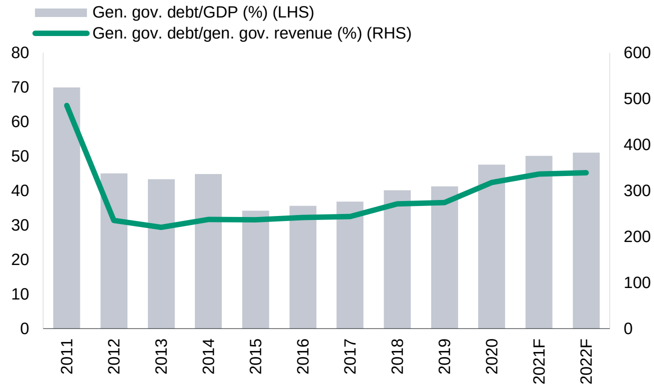
Source: Moody's Investors Service

Exhibit 38
Institutional framework and effectiveness



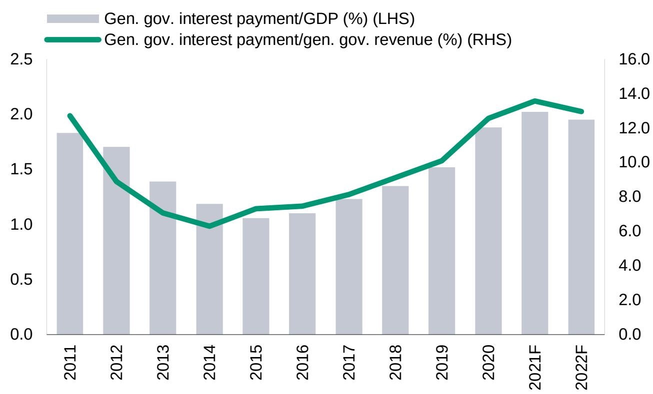
Notes: [1] Composite index with values from about -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions.
Source: Worldwide Governance Indicators

Exhibit 39
Debt burden



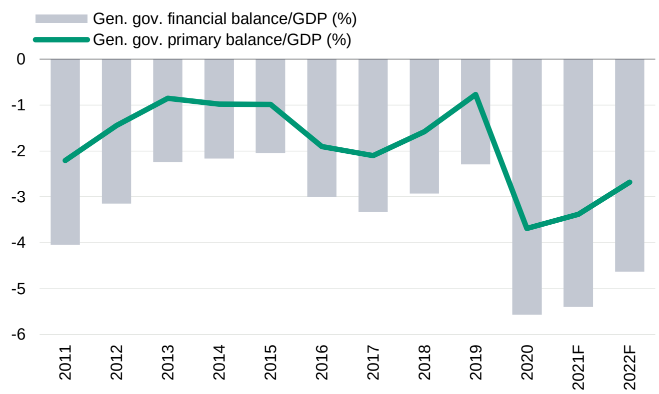
Source: Moody's Investors Service

Exhibit 40
Debt affordability



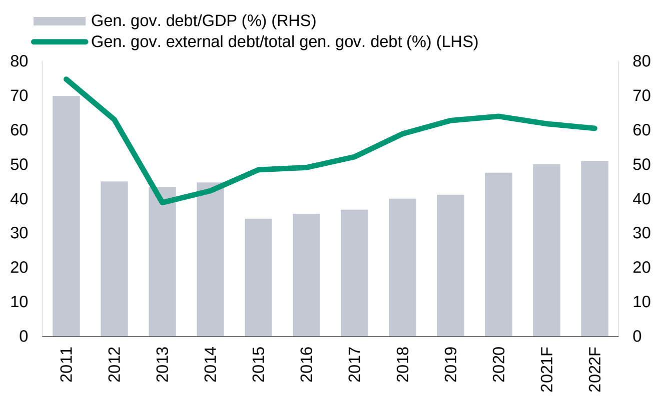
Source: Moody's Investors Service

Exhibit 41
Financial balance



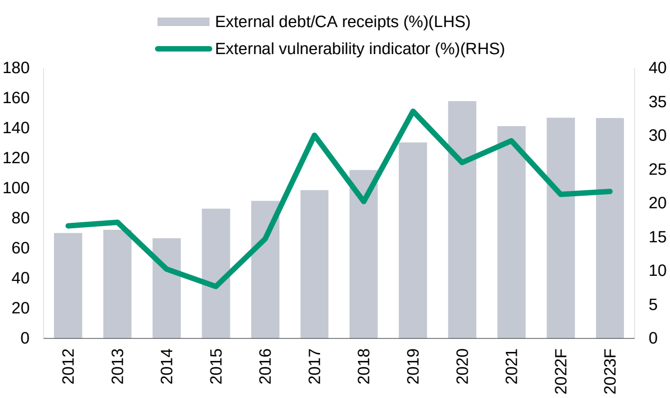
Source: Moody's Investors Service

Exhibit 42
Government liquidity risk



Source: Moody's Investors Service

Exhibit 43
External vulnerability risk



Source: Moody's Investors Service

Rating history

Exhibit 44

Côte d'Ivoire[1]

Long Term Ratings		Outlook	Review Action		Short Term Ratings		Action Date
Foreign Currency	Local Currency		Foreign Currency	Local Currency	Foreign Currency	Local Currency	
Ba3	Ba3	STA			NP	NP	Aug-20
Ba3	Ba3	RUR	Possible Downgrade	Possible Downgrade	NP	NP	Jun-20
Ba3	Ba3	STA	-	-	NP	NP	Nov-15
B1	B1	POS	-	-	NP	NP	Jul-14

Notes: [1] Table excludes rating affirmations and ceilings. Please visit the issuer page for Cote d'Ivoire for the full rating history.
Source: Moody's Investors Service

Annual statistics

Exhibit 45

Côte d' Ivoire

	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	2021F	2022F
Economic structure and performance												
Nominal GDP (US$ bil.)	25.4	26.8	31.3	35.3	45.8	47.9	51.5	58.0	58.5	61.3	68.9	73.6
Population (Mil.)	21.4	22.0	22.5	23.1	23.7	24.3	25.0	25.6	26.3	27.0	27.7	28.4
GDP per capita (US$)	1,186	1,220	1,388	1,528	1,931	1,970	2,062	2,264	2,228	2,276	2,491	2,593
GDP per capita (PPP basis, US$)	3,303	3,563	3,834	4,237	4,558	4,629	4,730	5,045	5,317	5,349	--	--
Nominal GDP (% change, local currency)[1]	-2.8	14.2	12.9	13.0	55.1	4.9	5.4	7.6	6.4	3.0	7.5	8.1
Real GDP (% change)[1]	-4.2	10.1	9.3	8.8	8.8	7.2	7.4	6.9	6.2	2.0	6.5	7.1
Inflation (CPI, % change Dec/Dec)	1.9	3.4	0.4	0.9	1.4	-0.2	1.1	1.0	-0.6	2.3	2.9	2.3
Gross investment/GDP	4.7	16.1	20.7	19.7	23.5	21.7	20.1	21.2	20.1	22.2	22.9	24.6
Gross domestic saving/GDP	19.5	20.3	23.6	24.6	25.5	23.4	21.4	20.4	21.2	22.9	23.8	25.1
Nominal exports of G & S (% change, US$ basis)	8.4	-4.1	-0.9	6.8	-9.7	-5.9	8.8	2.4	6.0	-3.5	17.5	1.2
Nominal imports of G & S (% change, US$ basis)	-12.1	26.5	0.7	0.6	-4.3	-5.4	10.7	11.7	-2.5	-1.6	16.4	3.0
Openness of the economy[2]	91.2	93.7	80.1	73.6	52.7	47.5	48.5	46.1	46.4	43.1	44.9	42.9
Government Effectiveness[3]	-1.2	-1.1	-0.9	-0.8	-0.7	-0.7	-0.8	-0.6	-0.5	-0.5	--	--
Government finance												
Gen. gov. revenue/GDP	14.4	19.2	19.7	18.9	14.5	14.7	15.1	14.8	15.0	15.0	14.9	15.1
Gen. gov. expenditures/GDP	18.4	22.3	21.9	21.0	16.5	17.7	18.4	17.7	17.3	20.5	20.3	19.7
Gen. gov. financial balance/GDP	-4.0	-3.1	-2.2	-2.2	-2.0	-3.0	-3.3	-2.9	-2.3	-5.6	-5.4	-4.6
Gen. gov. primary balance/GDP	-2.2	-1.4	-0.9	-1.0	-1.0	-1.9	-2.1	-1.6	-0.8	-3.7	-3.4	-2.7
Gen. gov. debt (US$ bil.)	16.5	9.4	11.1	11.9	13.2	14.5	18.4	20.3	22.8	31.4	33.9	37.6
Gen. gov. debt/GDP	69.9	34.1	34.0	36.9	29.5	31.7	33.5	36.0	38.8	47.6	50.1	51.0
Gen. gov. debt/gen. gov. revenue	485.3	178.1	173.0	195.7	203.7	215.4	222.1	243.7	257.8	317.7	336.2	338.7
Gen. gov. interest payments/gen. gov. revenue	12.7	8.9	7.1	6.3	7.3	7.5	8.1	9.1	10.1	12.6	13.6	13.0
Gen. gov. FC & FC-indexed debt/gen. gov. debt	70.1	56.1	38.1	40.9	47.0	44.1	49.0	57.6	59.3	54.2	51.3	51.0
External payments and debt												
Nominal exchange rate (local currency per US$, Dec)	507.0	497.2	475.6	540.3	602.5	622.3	547.0	572.9	583.9	534.6	560.6	555.9
Real eff. exchange rate (% change)	2.2	-4.6	3.4	0.5	-6.6	1.4	-0.7	2.4	-3.9	5.1	--	--
Current account balance (US$ bil.)	2.7	-0.3	-0.6	0.5	-0.2	-0.4	-1.0	-2.3	-1.3	-1.9	-2.3	-2.6
Current account balance/GDP	10.5	-1.2	-2.0	1.4	-0.4	-0.9	-2.0	-3.9	-2.3	-3.1	-3.3	-3.5
External debt (US$ bil.)	12.8	9.5	9.9	9.8	11.4	11.5	13.4	16.2	19.8	22.9	23.7	25.6
Public external debt/total external debt	77.4	52.9	64.6	67.5	74.7	73.0	77.7	81.7	79.4	91.0	91.7	92.3
Short-term external debt/total external debt	--	--	--	--	--	--	--	--	--	--	--	--
External debt/GDP	50.4	35.6	31.5	27.8	24.9	23.9	26.1	27.9	33.9	37.4	34.4	34.8
External debt/CA receipts[4]	89.9	70.1	72.4	66.6	86.4	91.5	98.6	115.9	134.8	158.0	138.7	147.4
Interest paid on external debt (US$ bil.)	0.2	0.1	0.2	0.2	0.3	0.3	0.3	0.4	0.5	0.7	0.6	0.7
Amortization paid on external debt (US$ bil.)	0.6	0.5	0.8	0.7	0.5	1.2	1.8	1.2	2.4	2.1	0.6	0.8
Net foreign direct investment/GDP	1.1	1.2	1.3	1.2	1.0	1.1	0.6	0.8	1.3	1.0	1.1	1.2
Net international investment position/GDP	-22.0	8.4	7.1	7.3	4.9	4.0	3.6	2.4	-2.9	--	--	--
Official forex reserves (US$ bil.)[5]	11.4	11.0	10.9	10.5	10.0	8.2	10.4	11.9	14.1	15.0	20.5	21.0
Net foreign assets of domestic banks (US$ bil.)	0.3	0.6	0.5	0.4	0.4	0.6	0.4	0.6	--	--	--	--

	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	2021F	2022F
Monetary, external vulnerability and liquidity indicators												
M2 (% change Dec/Dec)	10.7	6.8	11.4	16.0	19.1	10.4	8.8	13.5	11.0	21.4	--	--
Monetary policy rate (% per annum, Dec 31)	3.3	3.0	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.0	--	--
Domestic credit (% change Dec/Dec)	1.4	19.6	20.2	19.4	19.7	11.5	11.0	13.1	8.1	20.2	--	--
Domestic credit/GDP	24.0	25.1	26.8	28.3	21.8	23.2	24.4	25.7	26.1	30.4	--	--
M2/official forex reserves (X)	0.8	0.9	1.1	1.1	1.3	1.6	1.6	1.5	1.4	1.7	--	--
Total external debt/official forex reserves	112.1	87.0	90.2	93.6	114.4	139.0	128.7	135.8	140.6	152.7	115.5	121.8
Debt service ratio[6]	5.8	4.7	7.1	5.8	5.9	11.8	15.6	11.6	19.8	18.9	7.3	8.4
External vulnerability indicator (EVI)[7][8]	15.2	16.6	17.2	10.2	7.7	14.7	30.0	20.3	33.6	26.0	29.2	21.3
Liquidity ratio[9]	45.6	38.1	-14.0	-30.1	-3.1	13.8	1.7	7.7	14.2	--	--	--
Total liabilities due BIS banks/total assets held in BIS banks	119.0	108.5	110.7	135.2	74.4	56.6	41.4	30.6	22.5	--	--	--
"Dollarization" ratio[10]	7.1	9.8	9.0	10.5	10.4	10.8	11.0	11.0	11.0	11.0	--	--
"Dollarization" vulnerability indicator[11]	4.1	6.2	6.6	8.6	9.7	12.1	12.4	12.1	13.5	17.1	--	--

[1] A rebasing exercise from 2015 explains the large GDP growth number that year.
[2] Sum of Exports and Imports of Goods and Services/GDP
[3] Composite index with values from about -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions
[4] Current Account Receipts
[5] Pooled foreign exchange reserves at the Central Bank of the Monetary Union, the BCEAO
[6] (Interest + Current-Year Repayment of Principal)/Current Account Receipts
[7] (Short-Term External Debt + Currently Maturing Long-Term External Debt + Total Nonresident Deposits Over One Year)/Official Foreign Exchange Reserves
[8] At WAEMU level; Public only for long-term debt; Excludes Total nonresident deposits over one year
[9] Liabilities to BIS Banks Falling Due Within One Year/Total Assets Held in BIS Banks
[10] Total Foreign Currency Deposits in the Domestic Banking System/Total Deposits in the Domestic Banking System
[11] Total Foreign Currency Deposits in the Domestic Banking System/(Official Foreign Exchange Reserves + Foreign Assets of Domestic Banks)
Source: Moody's Investors Service

Moody's related publications

» **Credit Opinion**: Government of Côte d'Ivoire – Ba3 Stable: Update following assignment of ESG credit impact scores, 11 February 2021

» **Rating Methodology**: Sovereign Ratings Methodology, 25 November 2019

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Endnotes

1 The budget allocated CFA 337 billion to the plan, excluding the health spending estimated at around CFA 55 billion which explains the one-year delay to fiscal consolidation outlined in the fiscal strength section.

2 The authorities' response to the pandemic included health and economic packages targeting the most affected households and companies.

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