MOODY'S INVESTORS SERVICE

CREDIT ANALYSIS

Rate this Research

Côte d'Ivoire, Government of

RATINGS

Côte d'Ivoire

	Foreign Currency	Local Currency
Gov. Bond Rating	B1/POS	B1/POS
Country Ceiling	Baa3	Baa3
Bank Deposit Ceiling	Baa3	Baa3

Table of Contents:

Analyst Contacts:

DUBAI +971.4.401.9536

Aurelien Mali +971.4.237.9537
Vice President – Senior Analyst
aurelien.mali@moodys.com

Mathias Angonin +971.4.237.9548
Associate Analyst
mathias.angonin@moodys.com

This Credit Analysis provides an in-depth discussion of credit rating(s) for Côte d'Ivoire, Government of and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website.

Overview and Outlook

Côte d'Ivoire's B1 rating is primarily supported by the economy's growing diversification and high growth prospects, which are underpinned by structural reforms and public investment in infrastructure. Moreover, the sovereign has relatively strong fiscal fundamentals and low debt levels, supported by substantial donor support and debt forgiveness over the last few years. Additional credit support comes from the country's participation in the West African Economic and Monetary Union (WAEMU), and its relatively developed regional financial sector which has been able to absorb an increasing share of government debt.

In contrast, Côte d'Ivoire's major credit constraint is its weak institutional strength. Like many of its sub-Saharan African peers, it scores low on the World Bank's World Governance Indicators and underperforms many rated peers. However, it has experienced major structural reforms that will improve the country's ranking in the next few years. Côte d'Ivoire is also exposed to a moderate susceptibility to event risk, which is driven primarily by political risks. Deep political divisions within the country led to a brief civil war in 2011 that required international intervention, though we highlight that recent efforts at national reconciliation have lessened the associated risks.

The positive outlook assigned to the rating reflects Côte d'Ivoire's prospects for accelerating economic growth and structural reforms, which are likely to be supported by political stability, IMF and donor support.

Upward credit pressure could develop as a result of (1) continued structural reforms, accelerating public and private investment; (2) further reduction in the country's public debt burden; and (3) improvements in governance, supported by a consolidation of political stability. Downward pressure would be exerted on the rating in the event of (1) a reversal of recent structural reforms; (2) an inability to keep the fiscal deficit at a moderate level; or (3) the re-emergence of significant political and social tensions that would in turn hinder the country's medium-term growth prospects.

This Credit Analysis elaborates on Côte d'Ivoire's credit profile in terms of Economic Strength, Institutional Strength, Fiscal Strength and Susceptibility to Event Risk, which are the four main analytic factors in Moody's Sovereign Bond Rating Methodology.

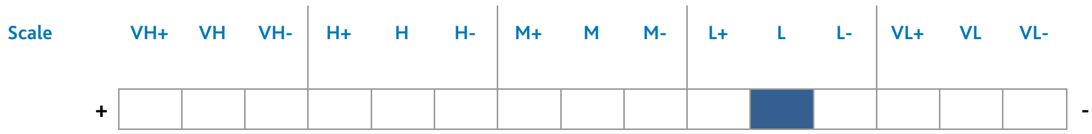
Rating Rationale

Our determination of a sovereign's government bond rating is based on the consideration of four rating factors: Economic Strength, Institutional Strength, Fiscal Strength and Susceptibility to Event Risk. When a direct and imminent threat becomes a constraint, that can only lower the preliminary rating range. For more information please see our Sovereign Bond Rating Methodology.

Economic Strength: Low

Côte d'Ivoire shows a reinvigorated economy and is a major agricultural producer, benefitting from the return of political stability and infrastructure investments

Factor 1



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. Economic strength is adjusted in case excessive credit growth is present and the risks of a boom-bust cycle are building. This 'Credit Boom' adjustment factor can only lower the overall score of economic strength.

Moody's scores Côte d'Ivoire's economic strength as Low, a ranking shared by sovereigns such as Senegal (B1 stable), or, outside Africa, El Salvador (Ba3 stable), Mongolia (B1 negative), Papua New Guinea (B1 stable).

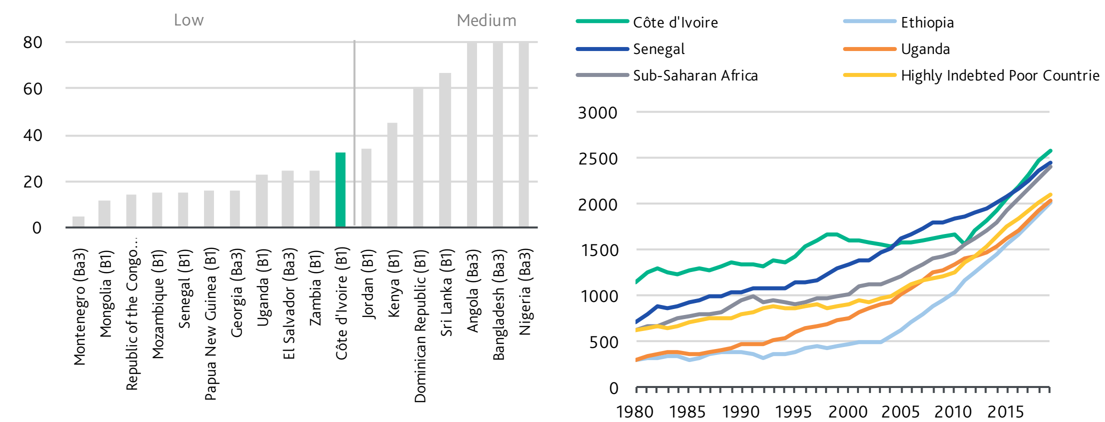
A poor but medium-sized country, with rapidly increasing per capita income

Côte d'Ivoire is a medium-sized country, with a GDP of $32 billion at the end of 2013 and a fast growing population (3% per year) estimated at 24 million. Per capita GDP is only $1,819 in terms of purchasing power parity, placing it among the average for sub-Saharan African countries and ahead of Uganda (B1, stable) Ethiopia (B1, stable) and Zambia (B1, stable). According to the IMF and as illustrated in Exhibit 1, its per capita GDP could surpass Senegal's by 2017 due to strong economic growth.

EXHIBIT 1

Cote d'Ivoire is relatively large and its GPD per capita is increasing faster than that of other Sub-Saharan countries

Nominal GDP (USD Bil.), 2013 GDP Per Capita PPP (USD)



Sources: IMF, Moody's

After rapid post-independence development, three decades of relatively low growth were recorded

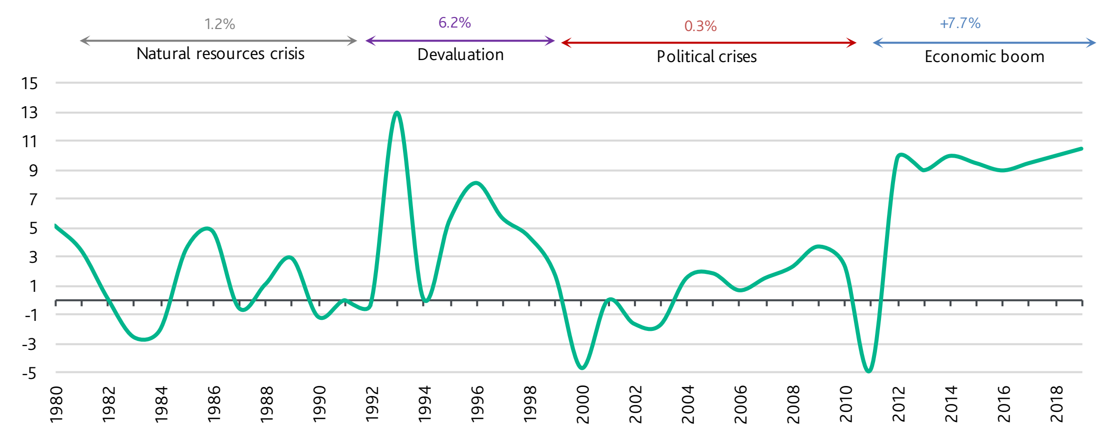
Since independence, the Côte d'Ivoire economy has gone through four distinct phases. During the first (1960-78), robust growth (8% annually) and investment rates (20% of GDP) were driven by the agricultural sector. This period of prosperity provided the country with basic infrastructure, and partly explains what is commonly known as the "Ivorian economic miracle".

In contrast, the second period (1980-93) was characterized by economic and social crises, an average real growth rate of 1.2% and an investment rate below 10% of GDP. The collapse of commodity prices and the rise in the debt burden forced major structural adjustments, particularly retrenchments in government spending.

The next period was short – from 1993 to 1998 – when the country reached an impressive average growth of 6.2%. This was mainly explained by the economic effects of currency devaluation.

EXHIBIT 2

Successive crises have led to two lost decades for Cote d'Ivoire, but growth is recovering strongly



Sources: IMF, Moody's

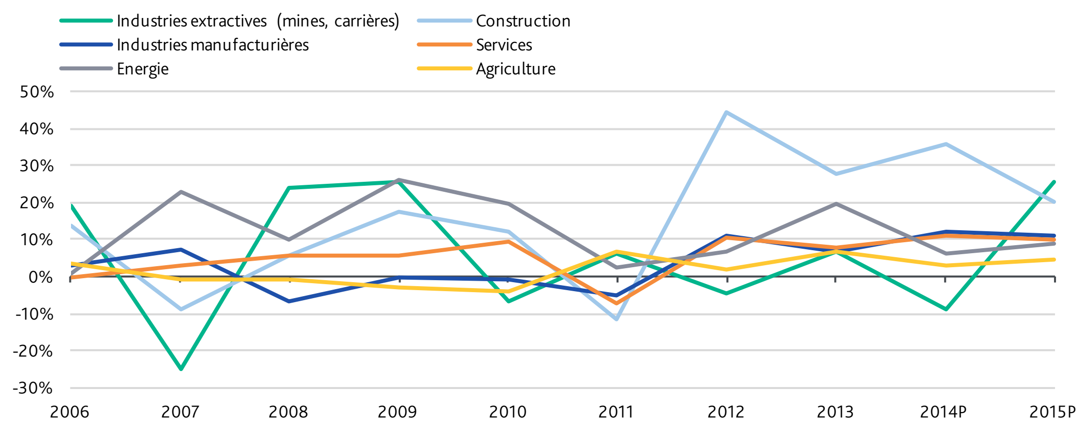
Political crises defined the most recent period (see Susceptibility to Event Risk) extending from the 1999 coup to the second civil war at the beginning of 2011. The average real growth rate stood at 0.3% during the period. Thirty years of low growth (averaging 1.7%), combined with population increases and the lack of investment, led to a very sharp deterioration in social indicators.

However, the return to political stability after President Ouattara took office in 2011 has supported a quantitative and qualitative acceleration in growth over the past three years, particularly in the mining, construction and service sectors. After GDP contracted 4.7% in 2011 – the year of the post electoral conflict – growth returned to 9.8% in 2012 and 9.1% in 2013, and is forecasted at 10% in 2014. Côte d'Ivoire currently has a medium-term growth outlook of approximately 9% (slightly above IMF forecasts around 8%), higher than the average for sub-Saharan countries and the above-mentioned B-rated countries.

EXHIBIT 3

Construction and mining have spearheaded the beginning of a period of high growth

Real GDP Growth by sector



Sources: National authorities, IMF, Moody's

In addition, significant progress on social indicators is being achieved. The poverty headcount ratio, which was nearly 50% just after the 2011 civil war is clearly falling. In addition, significant progress on social indicators is being achieved. The poverty headcount ratio, which was nearly 50% just after the 2011 civil war is clearly falling. However, poverty is still high and its reduction remains one of the new government's priorities. Improvements in the supply of electricity to cities and villages are also notable, with an increase of 200 localities per year. With 33% of households connected to the power grid in 2010, the objective of 50% by 2015 is attainable given monthly average connection rate. Access to water is another major project, with complete coverage of Abidjan accomplished in 2014. Previously, the city reported a deficit of 200,000 m^3 per day. The country's strategic development guidelines are set out in detail in its 2012-2015 and 2016-2020 National Development Plans (NDPs; see Institutional Strength for more information).

Economy driven by a competitive and export-oriented agricultural sector, which still has very high potential for development

As illustrated in Exhibit 4, although the Ivory Coast economy is relatively diversified, agriculture remains its largest component. This sector contributes around 25% of GDP and 40% of export revenue, providing income to two thirds of the population.

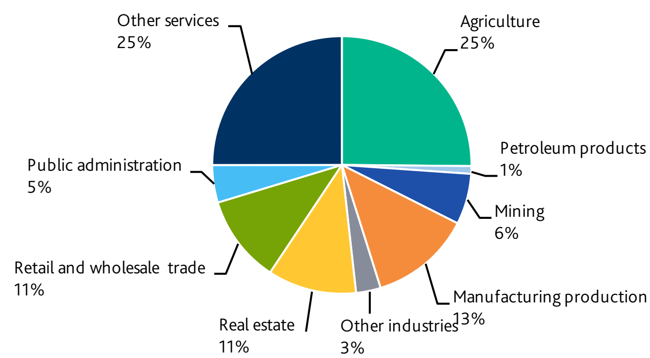
But unlike most other countries in the region where subsistence agriculture dominates, Côte d'Ivoire's sector is mechanised and export oriented, reflecting President Houphouët-Boigny's decision to base the country's development on agriculture post-independence.

In particular, the Ivory Coast is the leading world producer of cocoa (40% of production) and cola nuts; the second largest global producer and leading global exporter of cashew nuts; the leading African producer of rubber, bananas and tuna; the second largest African producer of palm oil; and the third largest African producer of cotton and coffee. Accordingly, the economy and largest share of exports will likely stay agriculture based and therefore subject to commodity price volatility.

EXHIBIT 4

Cote d'Ivoire's GDP is relatively diversified

Composition of Nominal GDP, by sector, 2013



Sources: Autorites ivoiriennes

The predominance of the sector explains large projects like the National Agricultural Investment Plan (NAIP) and why over CFA2,000 billion ($4 billion) has been earmarked under the NDP, with the support of external financial partners. The latter has four clear objectives: (1) food security with agricultural growth of around 9% and the creation of over 2 million jobs, which will reduce the poverty rate in a significant way; (2) sustainable development of cash and export crops; (3) at least 60% private sector involvement; and (4) enhanced governance of the agricultural sector.

Côte d'Ivoire produces basic foodstuffs in high volumes and exports them throughout the sub-Saharan region. Annual exports of yams, manioc, plantains and cereals surpass 10 million tonnes. Nonetheless, there are shortages, particularly in animal protein, dairy production and rice production. However, by 2016, rice production will have tripled since 2011; i.e., from 550,000 tonnes in 2011 and in surplus at over 1.8 million tonnes by 2016 (already 1290 000 tonnes in 2013). Côte-d'Ivoire, to export sustainably, has decided with the NAIP, to create regional wholesale markets, improve rural roads, rehabilitate agricultural irrigation, and assist in mechanisation and the installation of processing equipment. This investment will have an almost immediate impact. For example, 30 to 40% of some local commodities are lost due to an inadequate road or transport network.

With cash and export crops, the coffee and cocoa commodity chain remains the most advanced. From 1.5 million tonnes in 2014, cocoa production is targeted to reach 2 million tonnes before 2020, with 50% to be processed domestically. Despite crises, the country has remained the largest exporter as the beans are amongst the best quality available on the market. Cultivation of hevea trees for latex is expanding rapidly, with over 100,000 hectares planted. The objective is 600,000 tonnes annually, compared to 290,000 in 2014.

Oil palm trees cover 200,000 hectares and annual palm oil production totals 450,000 tonnes. A total of 70% comes from village planters. The objective is 600,000 tonnes in 2020. The country produced 450,000 tonnes of cashew nuts in 2014, with a processing rate of only 10%. Apart from increasing productivity, the objective is to raise the processing rate to 100% because this work is labour intensive and so can help lower unemployment.

Ambitious targets have also been set for cotton, sugar cane, bananas, pineapples and mangos. To safeguard domestic or foreign investors, the implementation of the Rural Land Law[1] should allow for the emergence of a real rural real estate market. A large transformation industry already exists in Côte d'Ivoire. There are also 3,500 co-operatives, mainly involved in the coffee and cocoa chain. Another 120 co-operative unions and four federations are involved in cotton, cashew nuts, palm oil and hevea.

The Agricultural Orientation Law seeks to establish a marketing board to improve competitiveness and the allocation of revenue to planters. For example, the authorities ensure that 60% of the revenue is allocated to planters in the coffee and cocoa commodity chain.

Côte d'Ivoire still exhibits outstanding agro-industrial potential. The country has 24 million cultivable hectares, only 40% of which are farmed. It has a climate hospitable to agricultural diversification, and agricultural research centers that have provided some of the most productive agricultural varieties. Cote d'Ivoire also has 77 billion m3 of mobilisable water resources compared to estimated needs of 9 billion m^3 in 2025. 80% of the production is unprocessed and the existing plantation could produce more only one quarter of its genetic potentially currently exploited.

Were the authorities to achieve even half of the NAIP even based solely on public investment, the fundamentals of the agricultural sector would greatly benefit the economy and the implications for poverty reduction should be significant. It is important to mention that Côte d'Ivoire's trade balance already shows a slight surplus. Improvements in productivity (yield/ha and infrastructure) could triple agricultural production, on average. The authorities want to achieve a processing rate of at least 50% for agricultural products in 2020, which would increase the domestic value added.

Mining sector shows very high growth potential

Rapid developments in the mining sector are relatively recent for Côte d'Ivoire. While the sector accounted for only 1% of GDP in 2001, it already represented approximately 7.3% of the economy in 2013. Almost all of the sector will be concentrated in gold, manganese, bauxite, copper, nickel and diamond production.

The sector is likely to record accelerated growth in the next few years. A total of 13 new gold and iron mining licenses were granted in 2013. In May 2013, Côte d'Ivoire obtained status as an Extractive Industries Transparency Initiative (EITI) Compliant Country, and it introduced a new mining code in March 2014. This new code clarifies taxation of mining projects to attract new foreign investors. Finally, the embargo on diamonds exports – implemented under the Kimberley Process – was lifted in 2014.

[1] Only the national government, local and regional authorities as well as individuals can own land. To protect the operators' rights and facilitate the establishment of leases recognised by law, the Rural Land Law provides for a 10-year period to establish customary rights.

Gold production is concentrated at five sites, the most important of which are Tongon, Ity, Bonikro and Agbaou. Production could reach 17 tonnes in 2014, compared to only 13 tonnes in 2012. Five other mines will go into operation by the end of 2015 and 120 exploration permits were granted in 2013, evidence of the sector's promising outlook. Manganese has developed strongly over the past few years. Production rose from 120,000 tonnes in 2012 to 254,000 tonnes in 2013, and the authorities expect it to increase by another 75% in 2014 due to the opening of three mines. Côte d'Ivoire has reserves estimated at 4 billion tonnes of iron ore, 1.2 billion tonnes of bauxite and several hundred million tonnes of nickel. Mining of these reserves should begin in the next few years and, unlike neighbor countries, benefits from an existing infrastructure. The project to extend the port of San Pedro has been approved. A wharf to load ore will be added and will be connected to the San Pedro-Man railway line. Diamond mining remains small scale, but the industrial potential is large.

However, the scale of mineral operations is still low, if we consider the fact that Côte d'Ivoire possesses one third of West Africa's Birimian greenstone belt. By way of comparison, Ghana, the region's leading gold producer with production estimated at 96.5 tonnes in 2014, holds about 20% of this belt. The mining sector is certainly bound to play a major role in the country's economic development due to its structuring and the ripple effects on other economic sectors.

Hydrocarbon production has strong potential, and Côte d'Ivoire is a net exporter of electricity

Although under- developed (less than 1% of GDP), the oil and gas sector offers major growth potential. Current production is 25,000 barrels per day of crude and 39,000 of barrels – in terms of oil equivalent – for natural gas per day, with a gross extraction cost of approximately $28 per barrel. Today, proven reserves total approximately 215 million barrels (excluding new discoveries), with probable reserves of over one billion barrels. Côte d'Ivoire also has 262 million barrels – in terms of oil equivalent -- of gas reserves and 1.2 billion barrels of probable reserves. This means about 20 years of proven reserves at the current pace of production.

PETROCI, the national oil company, works in partnerships with foreign oil operators. A total of 4 blocks are in production and 23 in exploration. The prospects are leading to more investmentsin this sector because five new fields have been found since 2011. A new Petroleum Code was adopted in April 2012. Total S.A. (Aa1, negative) in April 2014 announced a new deep offshore discovery in Côte d'Ivoire's western basin. The French company is very active with plans to drill two new wells in different blocks in 2014. Côte d'Ivoire's Société Ivoirienne de Raffinage (SIR) has a refining capacity of 75,000 barrels per day, 48% of which is re-exported by sea and 8% by land to neighbouring countries, including Nigeria, Mali and Burkina Faso.

Electricity production is particularly advanced and Côte d'Ivoire exports 10% to Burkina Faso and Liberia. The current capacity of 1,650 MW will grow to 3,000 MW by 2018 and 4,000 MW by 2020, with over 20% exported by 2020. Electricity is mainly produced with domestic natural gas. Private electric utilities use 45%, while Compagnie Ivoirienne d'Electricité (CIE)[2] uses 40% of domestic gas.

Prices for Côte d'Ivoire natural gas, which previously was burned, are low, assuring a relatively low electricity price when compared to the sub-region (CFA francs 74 per kW/h compared to CFA francs 180 in Senegal, for example). The private producers' margin is included in the final price. This situation explains the viability of the private investments announced for the sector, which will

[2] CIE has also been privatised. It holds the usufruct to the production facilities and networks inherited from the state-owned company. It ensures their operation and maintenance, while major work is covered by the government if necessary. It also proceeds with collections.

strengthen Côte d'Ivoire's role as a regional energy hub and its ability to supply domestic demand. The latter will be driven in part by the development of the manufacturing (agri-food) industry and mining.

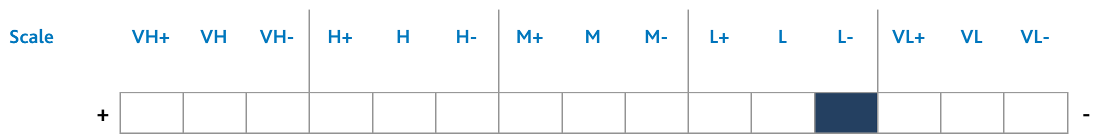
The country's two leading private producers, Ciprel and Azito, have opted for the combined cycle technology, which means the addition of a steam turbine to an existing gas turbine. This technology will generate electricity without additional gas by using the heat lost from the gas cycle. Their production will increase by 111 MW and 130 MW respectively for investments of over CFA francs 200 billion in each case. Three other combined cycle projects are planned by private investors, two near Abidjan and one near Jacqueville, for an additional capacity of 1,100 MW.

The government's strategy is geared to the recovery of private investment, creating sustainable jobs, supported by growing public investment in infrastructure and structural reforms. At the same time, it will seek to improve the economy's attractiveness to investors and strengthen its institutions. Energy, water, road networks and ports are being rehabilitated and developed, so that the agriculture, agro-industry and mining sectors develop further. The coherence of this strategy and the results already obtained over the past three years support expectations that real double-digit growth is expected from 2014 and at least up to 2020.

Institutional Strength: Low (-)

Return to political stability has spearheaded an institutional regeneration, but legacy of conflict weighs on development

Factor 2



Institutional 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 of institutional strength is the capacity of the government to conduct sound economic policies that foster economic growth and prosperity. Institutional strength is adjusted for the track record of default. This adjustment can only lower the overall score of institutional strength.

We score the institutional strength of the Côte d'Ivoire in the Low (-) category, a ranking shared by countries such as Kenya (B1 stable) and Mozambique (B1 stable), or, outside Africa, Bolivia (Ba3 stable) and the Dominican Republic (B1 stable). Our assessment of Cote d'Ivoire's Institutional Strength is supported by membership of WAEMU, reform momentum and peer comparison analysis.

Recent reforms suggest a marked improvement in governance following more than fifteen years of political instability

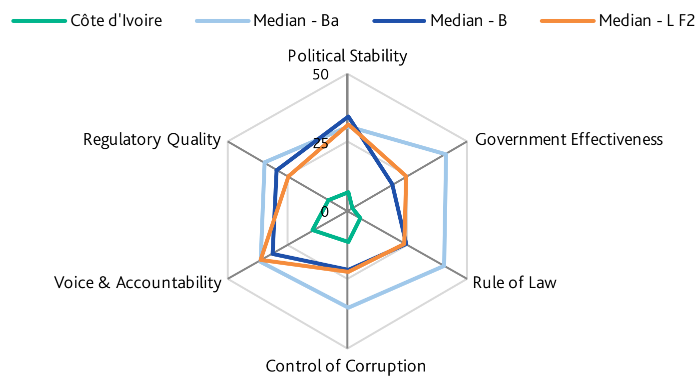
The period of political instability sparked by the death of President Houphouet-Boigny in 1994 significantly weakened Ivorian institutional development. Not only did the military coup staged in December 1999, contested elections in October 2000 followed by the September 2002 rebellion (which nearly split the nation in two) led to a deteriorating security situation, they also prevented the implementation of important structural reforms by all successive governments. For example, major agrarian and judicial reforms were repeatedly postponed.

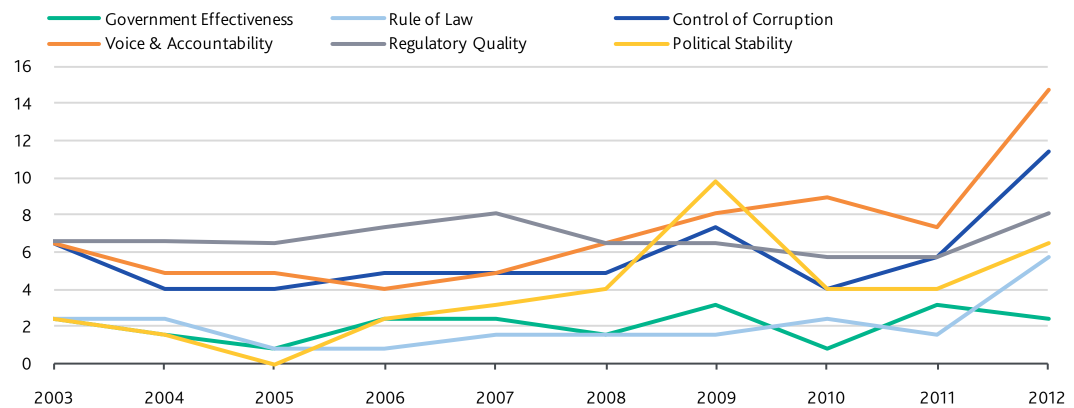
As such, Ivorian institutions continued to weaken until the 2011 civil war. Ultimately, the civil war marked the culmination of extreme political polarization, having been exacerbated by the tight 2010 presidential election. Although the spill-over effects of the 2011 conflict have gradually faded as the security situation significantly improves, the harm caused to institutions will take time to heal.

This development lag is clearly reflected in the World Bank Governance Indicators (see Exhibit 5). The Côte d'Ivoire's score of government effectiveness is one of the lowest among Moody's-rated countries, ahead of the Democratic Republic of the Congo (B3 stable) and the Republic of the Congo (Ba3 stable), and in line with that of Venezuela (Caa1 negative).

EXHIBIT 5

Côte d'Ivoire's World Bank's governance indicators are lower than countries scored "Very Low" for Institutional Strength but there has been an strong institutional "takeoff" since 2011





Sources: World Bank, based on Moody's-rated countries

However, we note that all governance indicators reveal an improvement from 2011 onwards, with the exception of government effectiveness. We also note that the latter does not fully account for the expected benefits that are likely to accrue from a series of ambitious reforms implemented since President Alassane Ouattara came to office. This progress is reflected in the country's completion of the Heavily Indebted Poor Countries (HIPC) program, when in June 2012 the International Monetary Fund (IMF) and the International Development Association (IDA) agreed on a $3.1 billion external debt relief for the country, acknowledging the implementation of the poverty reduction strategy, the regular reporting of government finance data and the governance reform achievements in the cocoa sector.

Côte d'Ivoire also received support from the IMF through an Extended Credit Facility (ECF) arrangement approved in October 2011 for a period of three years and extended to December 2014 following the fifth review. This program is geared towards strengthening public policy-making institutions through specific performance criteria. The government has also reiterated its willingness to expedite the reform of the Ivorian economy's governance framework. Relations with internationals institutions are excellent and it is likely that another program with the IMF will be signed in 2015.

The National Development Plan outlines the government's strategy for a second "Ivorian miracle"

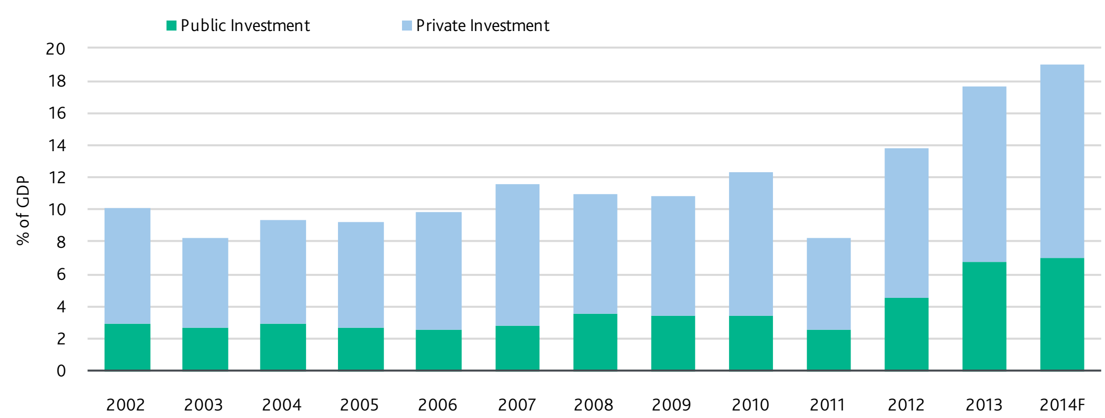
In 2011, the government outlined a National Development Plan (NDP-2012-2015) with the goal of making Côte d'Ivoire an emerging country by the year 2020. The NDP also aims to achieve an increase in foreign direct investments to 11% of GDP and double-digit growth from 2015 by creating one of the most competitive business environments in Africa through a series of structural reforms.

The plan has received strong backing from the international community, with roughly $22 billion pledged during meetings of the consultative group in Paris to help implement the NDP. Its progress was reflected in the World Bank's Doing Business 2014 report, which ranked the Côte d'Ivoire among the Top 10 economies in improving business regulation. In total, 40% of the NDP will be funded by the public sector and 60% by the private sector, making the latter the guarantor of a sustainable increase in investment in the Ivorian economy in the long term.

As part of the regulation, the Côte d'Ivoire Investment Promotion Centre (CEPICI) was established to act as a centre for investment in the country and coordinates and streamlines all government actions in this area. A new investment code was also introduced in 2012 which, in addition to a range of incentives, ensures, for example, government assistance to businesses affected by social disruption as well as access to developed industrial zones. Preliminary results are encouraging, with growth in private investment outpacing a strong rise in public investment over the past three years (see Exhibit 6). In fact, public investment geared towards heavy infrastructure such as roads, or social infrastructure such as school construction, rose from 2.5% in 2011 to 7.2% in 2014, while private investment increased from 5.4%-10.4% of GDP over the same period. Although this remains below the average investment rate of about 22% registered by sub-Saharan Africa economies, the improving trend has already brought Côte d'Ivoire significantly closer to it. Moreover, foreign direct investment has more than tripled to 3% of GDP in 2013.

EXHIBIT 6

Private investment has more than double recently



Sources: National authorities

Structural reforms now implemented across all sectors of the economy to boost its attractiveness

Economic liberalism and trade openness have been integral components of the Côte d'Ivoire's economic policy since the country's independence (e.g., 28% of the population is made up of non-nationals). As a result, the private sector is traditionally the major driver of economic growth, especially after the fact that government intervention slowed sharply in the early eighties in the wake of collapsing commodity prices (including agricultural) and ensuing budgetary adjustments. Overall, state ownership in the economy has been fairly limited compared to other countries in Sub-Saharan Africa.

This liberalism is best exemplified by the electricity sector, which was privatized in the 1990s. As a result, it is one of the few countries to boast a surplus of electricity production that is exported to the countries of the sub-Saharan region. Private sector power producers already account for more than half of electricity production and invite further investment through public-private partnerships (PPPs) in this strategic industry. The telecoms industry has also been privatized and the government has announced its intention to divest its minority stake in Côte d'Ivoire Telecom. While the cocoa and coffee sectors are regulated by the Coffee and Cocoa Board, agriculture has essentially developed based on private stakes in the economy, with small-scale producers composing the vast majority of farmers. Unlike many countries in the sub-Saharan region, Côte d'Ivoire has eliminated all fuel subsidies, with fuel prices now regulated by the market. In addition, the government also implemented a scheme to support small and medium-sized enterprises (SMEs), so as to increase their contribution to the country's GDP to 40% by the year 2020 from 18% at present. To achieve this, an action plan has been developed to enhance access to finance and to markets, to reduce the proportion of informal exchanges and to create new industrial zones. Minimum capital requirements and capital duties for firm creation were also abolished, while a single one-stop shop was implemented for opening a business and paying taxes, which should enable Côte d'Ivoire to continue to make rapid headway in various international rankings.

Recent major reforms aim at accelerating the implementation of public and private investments, and include the establishment of a commercial court in August 2012, which has already yielded highly satisfactory results. Since its set-up, timelines for litigation procedures have already been cut to an average of three months from several years. The creation of a court of appeal to complement this new judicial tool is also being considered. In addition, a new public procurement code, which incorporates the Western African Economic and Monetary Union's (WAEMU) guidelines and enforced by the set-up of a regulatory authority, was introduced in 2009 that reduced public procurement timelines to 88 days from 322, with the opportunity to appeal in the event that limits are exceeded. Still, there remain areas of improvement, with the IMF highlighting that public procurement contracts awarded as a result of non-competitive procedures still accounted for approximately 80% of the total in the first half of 2013.[3]

The mining sector, for its part, has gained from the recent introduction of a mining code, which has been supported by international organizations and is more competitive than the previous one so as to attract investors into the sector. In order to enhance sector transparency and in addition to a new legal framework, in May 2013, Côte d'Ivoire became a EITI (Extractive Industries Transparency Initiative) compliant country[4], which is a global initiative intended to improve governance of natural resources. Also, a new more flexible Petroleum Code adopted in August 2012 has attracted many foreign firms into this sector.

---

3 International Monetary Fund, 2013 Article IV Consultation and Fourth Review Under the Extended Credit Facility Arrangement, January 2014

4 The EITI, based on Oslo, currently has 27 compliant countries and 17 candidate countries, including the US .

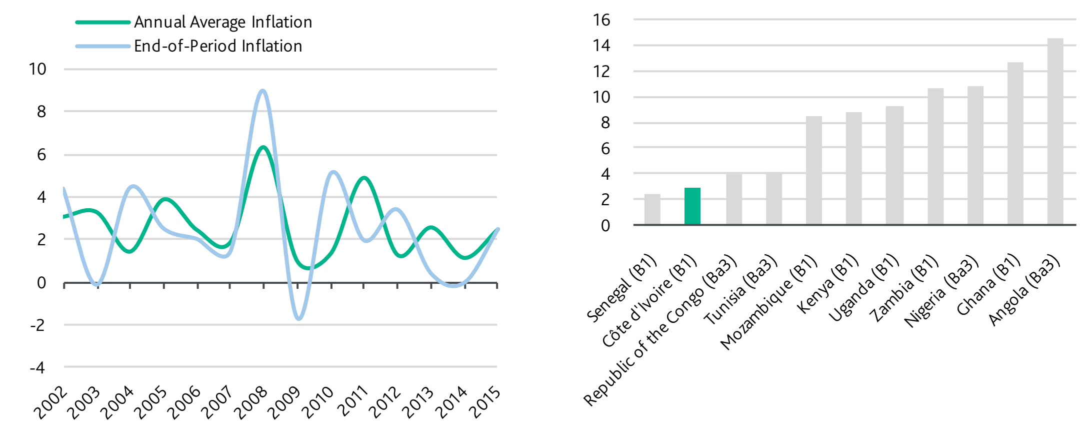
The Western African Economic and Monetary Union has been highly beneficial for monetary stability and in terms of institutional anchoring

The WAEMU is comprised of eight countries and 80 million people sharing a common currency, the CFA franc. As a result, it 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, which has enabled its member countries to maintain outstanding price stability over time (see Exhibit 7). In fact, amongst its peers, Côte d'Ivoire and Senegal (B1) have the lowest level of inflation.

EXHIBIT 7

Inflation still moderate given Côte d'Ivoire's WAEMU membership

Côte d'Ivoire inflation rate | Average annual inflation rate (2004-2013)



Sources: IMF, Ivorian authorities

Moreover, WAEMU membership tapers fiscal policy since the BCEAO may not act as a lender of last resort and cannot therefore finance government deficits. The BCEAO also guarantees the banking regulator's independence. Finally, the WAEMU acts as a catalyst for structural reforms, encouraging member states to adopt specific common regulations in order to foster economic integration among themselves. There are also various institutions which help member countries monitor and exert pressure pressures on those not on track with targets.

Côte d'Ivoire plays a crucial role in this community, as it accounts for 40% of the WAEMU's GDP and has historically acted as a driver of regional integration. We highlight that the renewed growth and reform momentum in Côte d'Ivoire is likely to trigger a revitalization of economic integration initiatives and activity in the WAEMU.

The CFA Zone

Côte d'Ivoire is part of the WAEMU, whose currency (the CFA franc) has been linked to the euro through an agreement between participating countries and the French Treasury for over 69 years. Participation in the CFA franc zone has the following features:

» WAEMU members do not have their own central bank, monetary policy, currency or exchange-rate regime. There is one central bank for the union, the BCEAO, located in Dakar. The central bank sets monetary policy for the monetary union. The exchange-rate regime, in particular the level of the peg to the euro, is reached by a multilateral unanimous decision between the French Treasury and all the countries participating in the CFA zone.

» The currency reserves of the participating countries are pooled at the central bank. In turn, at least 50% of the reserves are deposited on a current account held by the French Treasury at the Banque de France. In addition, they earn an interest rate of EONIA +100 bps.

» The French Treasury acts as guarantor of the exchange-rate regime and ensures unlimited convertibility of the CFA franc with the euro. In practice, this support takes the form of an unlimited overdraft facility granted to the Western African central bank on its account at the Banque de France with the French Treasury. Note that the convertibility is not backed by a monetary arrangement (ECB support) but by an international agreement, with support from the French government.

» There are no capital transactions within the CFA zone, but there are capital controls between the zone and the rest of the world. In particular, the central bank reserves the right to compel private and public institutions within the area to redeem their foreign-currency holdings in return for CFA francs. Export revenue, for example, have to be repatriated and converted to CFA francs.

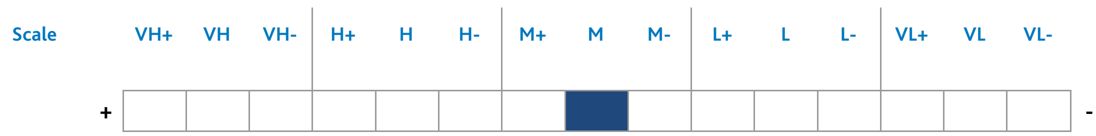
Participation in the CFA zone greatly reduces the risk that exchange-rate depreciation raises the cost of servicing foreign-currency debt. It does not eliminate this risk, however, because (1) not all foreign-currency debt is euro-denominated; and (2) the possibility of al devaluation of the CFA franc relative to the euro exists: in 1994, the CFA franc was devalued by 50%.

The WAEMU is also an economic union with an integrated financial system and unified customs, in which the free movement of persons and of capital is assured. The WAEMU Treaty establishes the harmonization of tax systems through common tax bases and brackets and has enabled the establishment of common external tariffs.

Fiscal Strength: Moderate

Debt relief obtained in 2012 and maintenance of moderate budget deficits reduce the risks related to public finances

Factor 3



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.

Moody's scores government financial strength as "Moderate", the same as other similarly rated sovereigns, such as Morocco (Ba1 negative), Armenia (Ba2 stable), Vietnam (B2 stable), and Zambia (B1 stable).

Relatively strong budget revenues still capable of robust growth

Government revenues have fluctuated around 20% of GDP, despite double-digit nominal growth over the past three years. Tax revenue is mainly dependent on large corporates, which contribute 80% of revenue. These are defined as companies with revenues exceeding CFA 1 billion ($2 million).

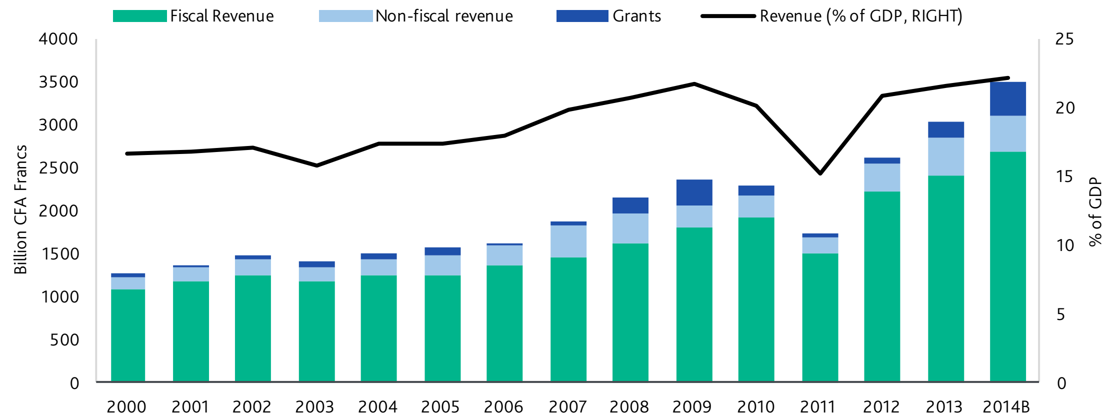
Such revenues are relatively diversified (see Exhibit 8) and relatively resilient because they only declined by approximately 25% in 2011 when the country was gripped by civil war.

Moreover, between 2002 and 2007, when relations with international partners were disrupted and foreign aid was cut off, Côte d'Ivoire was still able to generate sufficient revenue through its own channels, allowing it to operate almost normally.

In particular, taxes on the export of coffee and cocoa still accounted for approximately 14% of revenue at the end of 2013. The risks for prices for these commodities are generally hedged through forward sales contracts one year in advance, thereby limiting the impact of any significant unexpected price volatility.

Separately, oil and gas revenues account for 7% to 8% of tax revenues. Their levels most recently followed a one-third decline in production. Output has now stabilized around 25,000 barrels a day. Mining revenues, despite rapid and sustainable growth of 20% per year, are still low at around CFA francs 7 billion in 2013.

EXHIBIT 8
Composition of government revenue



Sources: Finance Ministry

The government's objective is to free up more resources so that it can finance investment. In particular, a revenue increase equal to 2% of GDP seems attainable by 2016. To curb the informal economy, (estimated at over one third of GDP), the government has initiated many reforms. For example, it has simplified procedures as well as reduced costs and delays in the establishment of a business. With a wait of less than 24 hours and a cost of CFA 15,000 ($30 US) for registration, the authorities have largely reduced potential barriers to the development of the formal economy.

They have also refined the tax base with the creation of a tax identification and collection centre for mid-sized companies. These enterprises are defined as having revenues of between CFA 400 million and CFA 3 billion.

Improved efficiency in VAT collections – which comprised nearly 24% of total revenue in 2013 – is also being pursued. Measures also include a reduction in exemptions from the 18% rate and an end to refund delays, with 10% of revenue now allocated to VAT refunds.

Zero tolerance for fraud is also being strictly enforced, with the customs department already collecting penalties. The systematic rotation of controllers is mandatory. Export scanners are being installed in the ports and at borders to check the contents of containers and to ensure better customs control.

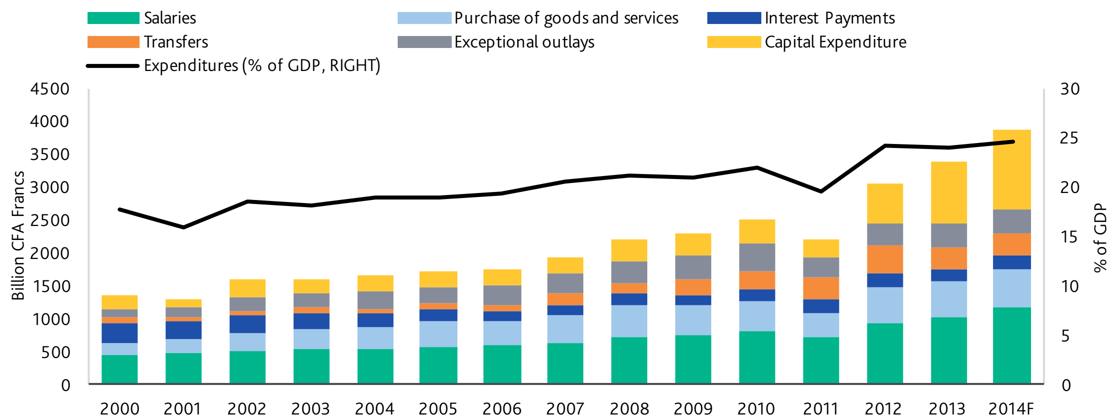
Rapidly growing expenditures, mainly to finance the country's infrastructure

Firstly, it is important to note that, except in 2011, current expenditures are completely covered by tax revenues. As a result, the fiscal deficit, which remains relatively limited (2.5% of GDP on average between 2012 and 2014), only serves to finance capital expenditure.

Between 2009 and 2013, these capital expenditures rose from 2.9% to 6.1% of GDP and are estimated at 7.2% of GDP in 2014. This upward trend should continue as the impact of the government's National Development Plans grows. Investment in infrastructure has helped to support the economic recovery and increase its productivity and attractiveness to investors.

EXHIBIT 9

Composition of government expenditures



Sources: Finance Ministry

Public-sector salaries are still the largest portion of current expenditures. Between 2000 and 2013, the public payroll increased by 120%. Improvements to public-sector compensation were high on the authorities' agenda because statutory adjustments required every two years to reflect rising prices have not been applied since 1988. The authorities intend to implement catch-up rises in 2014 and 2015 (the latter is an election year), which will lead to salary increases of up to 60% in some cases. Salaries – as a percentage of tax revenue (i.e., excluding non-tax revenue and aid) – should peak at 45.6% of expenditures in 2015, up from 42.2% in 2013. By way of comparison, the ratio for Ghana (B2 negative) is 55% and that for Senegal (B1 stable) is 53%. The 2016-2020 objective is to return to the community target of 35% of tax revenue.

The authorities have also increased the retirement age from 60 to 65 and the pension contribution rate from 18% to 25%. It is important to note that this last measure strengthened those pension funds that were already in balance.

Concerning subsidies, the authorities have eliminated all subsidies for petrol prices at the pump, and which are now adjusted automatically to market prices. Electricity is subsidized indirectly by the government, which undertakes to supply the necessary gas to private producers when the sector was privatized. The government collects no compensation on gas provided as it was previously burned by the petroleum companies. When there is not enough gas, it is replaced with a costly substitute – heavy vacuum oil, HVO – at the government's expense.

The total cost of these electricity subsidies amounted to approximately 1% of GDP in 2013, and the expansion of gas production should help keep this amount close to zero in the next years. The total for other subsidies and transfers, including transfers to national public institutions[5] (NPI), transfers to different government corporations in the public sector, and subsides for education and health, account for another 1% to 2% of GDP. The total amount of subsidies and transfers (including to the municipalities) represented 3% of GDP or 9.4% of total expenditures in 2013.

[5] There are 91 national public institutions (NPIs). They should receive CFA 72 billion subsidies in 2014. They operate with CFA 180 billion if only their allocated revenues are added. A reform is in progress to reduce their number by at least 15 NPIs.

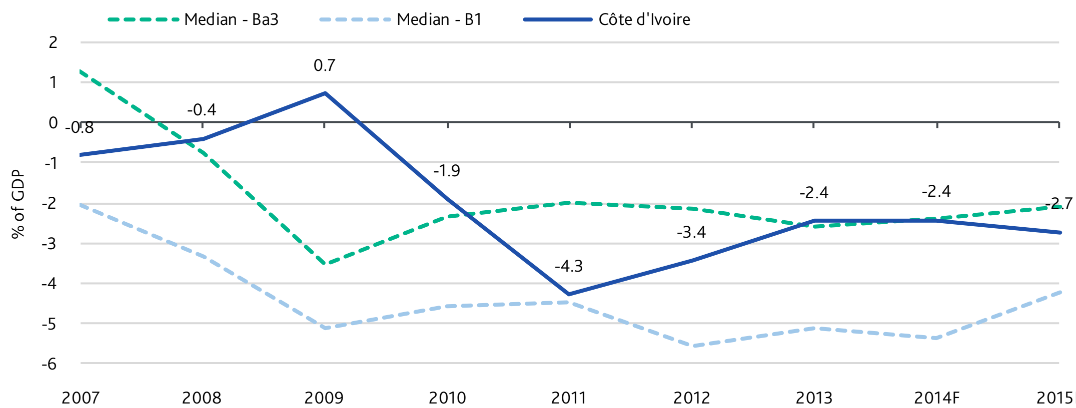
Budget deficit remains under control despite expenditure growth

Despite rise in public investments, deficits have remained under control as illustrated by exhibit 10. To avoid any budget slippage, a computer system called SIGFIP (Système Intégré de Gestion des Finances Publiques) can issue a supplier a commitment order, which then reserves an appropriation in the budget of the ordering ministry.

Pro-poor expenditures are bound to increase rapidly. Côte d'Ivoire is making substantial investments in social services, signifying an improvement in the quality of public spending. For example, 12,000 classrooms and 3,000 high schools have been built in three years. The youth enrolment rate now exceeds 80%. Moreover, the government is emphasizing the development of public-private partnerships with more than 42 projects already available. The construction of the toll road linking Abidjan to Yamoussoukro is an example of a PPP. Exhibit 10 illustrates the stability of the deficit over the past 10 years.

EXHIBIT 10

Cote d'Ivoire's fiscal deficit relative to peers



Sources: Ministère des Finances, Moody's

The 2011 default on the 2032 Eurobond

After reaching the decision point of the HIPC initiative in March 2009, Côte d'Ivoire in April 2010 issued a $2.3 billion euro-bond maturing in 2032, repayable over a 23-year period, including a six-year grace period. This bond replaced the Brady bonds issued after the London Club restructuring in March 1998. After honouring the first coupon in June 2010, the authorities were unable to pay the coupons for December 2010, June 2011 and December 2011. The total involved $98.4 million.

Payments resumed in June 2012[6]. In November 2012, with an agreement was reached with lenders for Côte d'Ivoire to clear its arrears. The lenders agreed to cancel late penalties on arrears.

Shortly afterwards, the authorities reopened the 2032 Eurobond issue and issued $187 million, bringing the total to $2.5 billion. The balance for the arrears was extended after the Paris Club's parallel private-debt renegotiations.

The electoral crisis that began in December 2010 resulted in the deterioration in diplomatic relations with President Gbagbo's government, which was considered illegitimate by most of the international community.

6 See Moody's comment called: "Côte d'Ivoire's Efforts to Redress Missed Payments Support Sovereign Creditworthiness" published in October 2012

This break in relations extended to the country's main lenders and to other WAEMU members. Before the civil war, the economy was pressured by economic sanctions directed against the Gbagbo administration, which was still on control of the southern part of the country and Abidjan.

The BCEAO also withdrew recognition and refused access to the WAEMU currency pool in Dakar. It recognised access only for elected President Ouattara and his new administration installed at the Hôtel du Golf. President Gbagbo's supporters then moved quickly to seize the cash reserves held by the central bank in Abidjan.

The Ouattara administration was never able to take possession of the premises of BCEAO's local subsidiary in Abidjan, which held the systems to order payments and details of the recipients of these payments. This is why Cote d'Ivoire was unable to honour the coupon payments on its 2032 Eurobond.

Ouattara's triumph in March 2011 was followed the restoration of relations between Abidjan and the BCEAO and the gradual normalization of repayments on government debt. In the case of Côte d'Ivoire, default was unrelated to any unwillingness or any inability by its legitimate government to repay its debt because reserves were available at the central bank. Instead, payment was impeded by the new administration's inability to take control of the central bank, a subsidiary of the BCEAO.

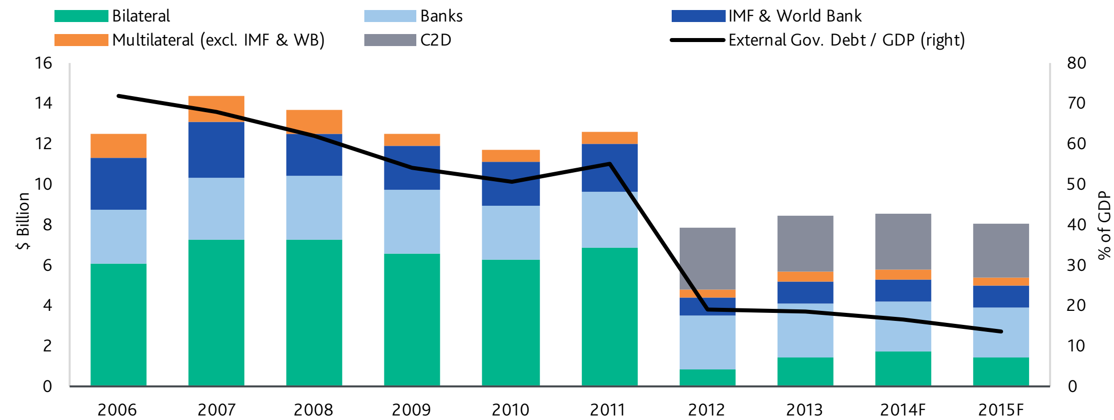
The default was directly due to the political situation and the international community's rejection of the legitimacy of the Gbagbo government. Given the stabilisation of Côte d'Ivoire's political situation since 2011 and the encouraging outlook for reconciliation beyond 2015, we consider that the risk of a second default, similar to that of 2011, as low. Moreover, to mitigate the risk that a new political crisis, even fleeting, would trigger a default by a member country of the CFA Zone, WAEMU, concerned about its reputation, created a Financial Stability Fund (FSF) in May 2012 (Decision CN/UMOA/007/05/2012).Endowed with CFA 383 billion ($795 million), this emergency fund is intended to cover the debt service of states in exceptional circumstances, as determined by its members. The beneficiary member state is then bound to repay the funds applied within five years. Once it is fully funded, the FSF will be able to prevent a default on government bonds in circumstances similar to 2011, because it will take over debt servicing costs. A confrontation between one government and other WAEMU members will pose a risk to a member state's signature only if the crisis becomes prolonged.

Debt forgiveness under the HIPC initiative has considerably improved public-debt ratios

Côte d'Ivoire has benefitted from the debt relief provided under the Heavily Indebted Poor Countries (HIPC) initiative. After the country reached its completion point in June 2012, the key lenders of the Paris Club – which includes the leading industrialized countries – granted Côte d'Ivoire relief on its external debt. The total considered for relief was $12.6 billion at the end of 2008, including slightly over $6.9 billion owed to the Paris Club. Nearly $3.1 billion was cancelled immediately under the HIPC initiative, and $1.3 billion cancelled under the Multilateral Debt Relief Initiative (MDRI).

The Côte d'Ivoire government's external debt equaled only 21.7% of GDP at the end of 2012 (or approximately CFA 2,400 billion), compared to 55.1% of GDP (approximately CFA 6300 billion) in 2011. Exhibit 11 illustrates the country's external debt trends over the past 10 years.

EXHIBIT 11
Composition of external debt, by creditor



Sources: Finance Ministry
We consider the C2D assistance granted by France as aid spread over time and not as a debt.

Like all the other countries that benefited from debt cancellation by the Paris Club, Côte d'Ivoire undertook not to grant a more favorable agreement to any other creditor, whether a bank, a supplier, or a bondholder, etc. Since the treatment of the old arrears within the context of the Paris Club (November 2012), Côte d'Ivoire has not shown new arrears on its external debt, unlike other countries which have also benefitted from the HIPC initiative, such as the Republic of Congo (Ba3). On the other hand, arrears on the public domestic debt exist, left over from problems over the recognition of supplier debt in the past few years. At the end of 2013, these arrears totaled CFA 350 billion ($730 million) CFA 153 billion of which were recognized following an audit covering the 2000-2010 period. Only CFA 47 billion remained to be cleared before the end of the year.

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. C2D is a debt relief initiative granted by France under the HIPC initiative. C2D is implemented by the Agence Française de Développement and is effective from the completion point of the HIPC initiative and adds to the debt cancellations granted under the Paris Club.

In this situation, the debtor country continues to honour servicing of the debt cancelled, but as soon as repayment is recognized, France pays back a subsidy for an equivalent amount into a special account with the BCEAO (operating on the shared signature of the Côte d'Ivoire government and the Director of the AFD in Côte d'Ivoire) to fund poverty-reduction programs selected with the beneficiary country.

While C2D is only recognized by the parties once the money is transferred by the French Treasury, it is nonetheless a debt forgiveness mechanism. We consider the C2D assistance granted by France as aid spread over time and not as a debt. In 2012, France granted Côte d'Ivoire debt reduction of Euros 3.76 billion (approximately 20% of GDP), including €913 million in commercial debt forgiveness and €2.89 billion as C2D. The first tranche of C2D between July 2012 and December 2015 pertains to Euros 630 million. The Côte d'Ivoire government today has more flexibility to decide for which projects C2D will apply in budget discussions. With two tranches of €112.5 million disbursed per year, C2D is a fully bilateral agreement, for which the amounts and maturities can evolve over time by mutual agreement. At its current pace, it will take 10 years to complete the program.

The average interest rate on public debt is 3%. Over 2014-2017, gross financing needs are estimated on average at 8.4% of GDP. These needs are expected to be financed through external loans up to 60% on average, primarily through semi-concessional financing up to 42%, concessional financing up to 32% and issuances on the international market up to 26%. The remaining 40% are expected be financed through internal resources, 20% of which are expected to be financed through short-term instruments, 60% through medium term instruments, and the remaining 20% through long-term instruments.

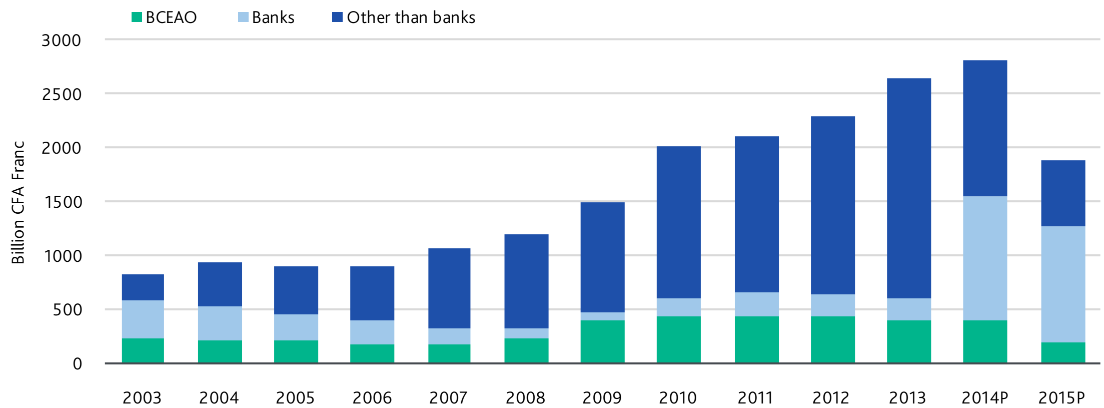
Cote d'Ivoire's level of public debt burden is lower than that of its peers

The debt burden is therefore moderate, because without C2D, Côte d'Ivoire's public debt was 34.4% of GDP in 2013. Of the total, 49.6% was domestic debt and 50.4% was external debt. Its structure is favorable as 88.5% of the debt has a maturity longer than one year and approximately two thirds are in foreign currency.

The country's external debt is 69% held by bilateral and multilateral lenders, with long maturities and low interest rates. The rest is held by international banks. The domestic debt is mainly held by non-banking organizations. About 75% of short-term domestic debt (42% of domestic debt) will be reimbursed in 2015, with a target maturity of 3 years on domestic debt.

EXHIBIT 12

Composition of domestic debt, by creditor



Sources: Finance Ministry

However, the banking sector's share is increasing, while the authorities forecast that more than half the country's domestic debt will be held by banks by 2015. At the end of 2014, 58% of the domestic debt will be in the form of traded debt, which illustrates the development of the public-debt market. The government's borrowing rate is 5.1% for one year and 5.6% for two years. The domestic banks are ready to absorb a greater share of public debt instruments on their balance sheets (see section factor on banking system), even though the regional market is increasingly limited for Côte d'Ivoire's borrowing needs.

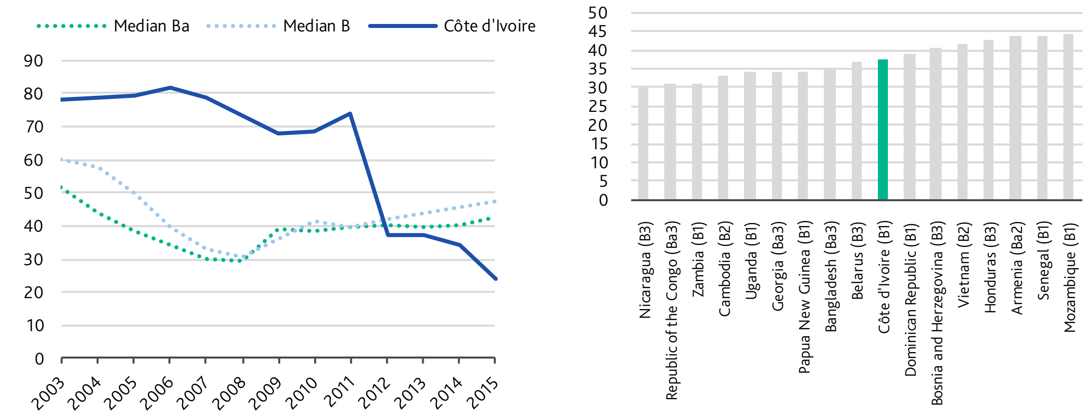
The public sector has 83 companies in its portfolio, including 32 government corporations. In 2012, it posted a positive net result of CFA 220 billion. A total of 15 companies have been identified for privatization, but the amounts raised will be modest as state ownership in the economy is already low.

The aggregate for public-sector debt excluding the central government is low, approaching CFA 700 billion, or a little under $1.5 billion (5% of 2013 GDP). The debt guaranteed by the government at the end of 2013 was CFA francs 1.8 billion. The risk of a crystallisation of contingent liabilities therefore remains low.

Whether in terms of trending ratios, such as debt-to-GDP or government debt-to-revenue, Côte-d'Ivoire outperforms its peers, as illustrated by Exhibits 13 and 14, with debt dynamics that will accentuate this improvement relative to other countries. This is also clearly confirmed by its debt affordability ratios (see Exhibit 15).

EXHIBIT 13

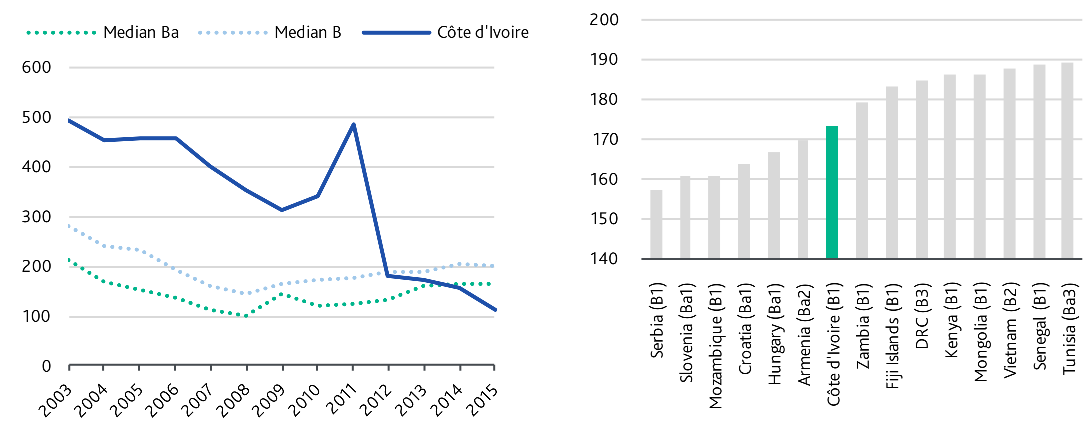
General Government Debt / GDP, 2013 (%)



Sources: Finance Ministry, Moody's

EXHIBIT 14

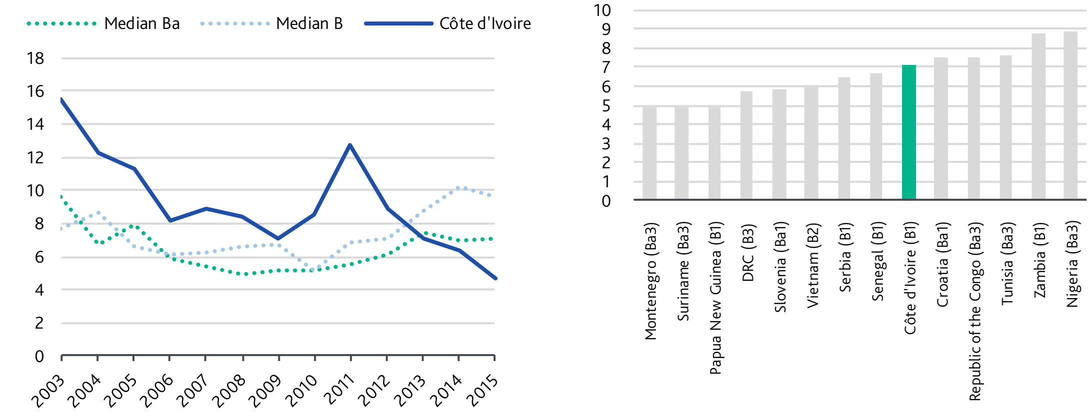
General Government Debt / Revenue, 2013 (%)



Sources: Finance Ministry, Moody's

EXHIBIT 15

Gen. Gov. Interest Payments / Gen. Gov. Revenue, 2013 (%)



Sources: Finance Ministry, Moody's

Susceptibility to Event Risk: Moderate

Factor 4

Scale	VL-	VL	VL+	L-	L	L+	M-	M	M+	H-	H	H+	VH-	VH	VH+	
+								■								-

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 preliminary rating range as given by combining the first three factors.

Political Risk: Moderate

A drawn-out political crisis

The civil war following the election of President Alassane Ouattara in 2010 was responsible for the death of an estimated 3,000 people and was highly disruptive for the entire country. The conflict reflected deep political divisions within the country that date back to the early nineties when multiparty politics were introduced at the end of President Houphouet-Boigny's reign and when the country had been celebrated as a model for economic development in sub-Saharan Africa.

Events escalated with the 1999 coup of General Guei and the rejection by the Supreme Court of 14 of the 19 candidatures put forward in presidential elections in 2010. The electoral commission eventually announced the victory of Laurent Gbagbo after General Guei was ousted in the wake of mass social demonstrations. In September 2002, a movement formed by rebel soldiers gradually occupied the north of the country (about 60% of the territory) who eventually called themselves Mouvement des Forces Nouvelles. Although a peacekeeping force of French troops prevented clashes from escalating, the country was split in two. Peace talks started after a cease-fire was declared in October 2002 and resulted in the signing of the Linas-Marcoussis Agreement in France in 2003. A national unity government was formed amidst serious and recurring political tensions. In 2004, the UN Security Council authorized the deployment of the United Nations Operation in Côte d'Ivoire (UNOCI) with

10,000 UN peacekeepers, including 4,600 French soldiers. The Council continued to extend President Laurent Gbagbo's mandate regularly until the presidential elections of October 2010.

The protracted political crisis has also brought about increases in inequality, particularly between the north and south of the country. As a consequence, youth poverty and unemployment will be major challenges in the future.

Regained political stability, along with substantive efforts towards political and national reconciliation

The Ivorian political situation has since stabilized, spurred on by the new government and the support of the international community. That being said, the extradition of former president Laurent Gbagbo and his domestically imprisoned supporters to the Hague , as well as a number of government initiatives (e.g., census, the appointment of officials) have periodically rekindled tensions. Since President Ouattara came to power and Laurent Gbagbo was transferred to the International Criminal Court (ICC), the opposition has remained disorganized and the main opposition party, Front Populaire Ivoirien (FPI), decided to boycott municipal elections in 2013 and legislative elections in 2012. The decision of the ICC to charge president Gbagbo for crimes against humanity in June 2014 rules out his return for at least five years, when he would be 74 years old. This decision has far-reaching consequences for the FPI and is likely to encourage the party to compete in future elections, though some radicals will likely continue to boycott elections.

Efforts by the authorities to encourage the participation of opposition parties include the establishment of an Independent Electoral Commission (IEC) in charge of organizing the 2015 elections. The authorities have also unfrozen a number of bank accounts and released hundreds of political detainees as a gesture of confidence in restored stability. The electoral list is also in the process of being reviewed through a census, which is significant because there are only 5.8 million registered voters despite a population estimated at 24 million. By way of comparison, Ghana has almost three times the number of registered voters with roughly the same population size. The government also outlined a framework under the auspices of the Permanent framework for dialog (CPD) geared towards encouraging cooperation amongst opposition parties, and outlines regulations surrounding party financing and the attributes of an opposition leader.

Many strides have been made towards national reconciliation. In particular, the Commission for Dialogue, Truth, and Reconciliation (Commission Dialogue, Vérité et Réconciliation or CDVR) chaired by Mr. Charles Konan Banny[7] was created to shed light on past events. The Commission is to submit a report to the President of the Republic in September and a compensation fund for the victims should be created as a result. The civil war led to the displacement of over 700,000 refugees within the country and more than 300,000 refugees in wider sub-Saharan region. Almost all have returned, while 60,000 remain abroad, particularly in Liberia (40,000). The authorities are working in concert with the UN High Commissioner for Refugees (UNHCR) and the Liberian authorities in order to facilitate their return. Despite a few destabilization attempts against the new administration in 2011 and in 2012, which resulted in arrests and a few skirmishes on the border with Liberia, the Ivorian government has significantly strengthened its base and control throughout the territory[8].

---

7 Former Prime Minister (December 2005-March 2007) and former Governor of the WAEMU (December 1994-December 2005).

8 The Ivorian HSI (Human Security Index), which was at 3.8 at the end of the crisis, is currently estimated to be 1.2. For comparison purposes, the UN HSI stands at 2.

We believe the 2015 election is unlikely to trigger instability, as the alliance between the "Rassemblement des Républicains" and "Parti Démocratique de Côte d'Ivoire" looks solid and the current administration has achieved solid economic growth. The main threats to political stability mainly relate to the succession of current President Alassane Ouattara. Indeed, regional and ethnic tensions are likely to be revived should there be a succession struggle or should the current administration be perceived as discriminatory towards some segments of the population. This issue is bound to really arise as we approach 2020 especially if the administration is re-elected in 2015 which is the current most likely scenario.

Political stability is also strengthened by the good relationship that the government has with the international community and France, which maintains a military presence in the country and has, on several occasions, acted as a mediator in major political conflicts. France's military action in Mali has also ensured that it does not become a fireplace of instability in Côte d'Ivoire's neighborhood. We also note that stability is further supported by Côte d'Ivoire's regional leadership, which explains why as soon as President Ouattara took office, he was elected Chair of the Economic Community of West African States[9] (ECOWAS) for a year and then re-elected by his peers.

Government liquidity risks: Low

The government's exposure to liquidity risks is low with borrowing needs below 9% of GDP. In addition to the fact that it will shortly gain access to several sources of funding in both regional and global markets, the Ivorian government continues to receive strong support from bilateral and multilateral donors. Moreover, regulatory changes introduced by the BCEAO to the transformation rate (to 50% from 70%) and reform of the sovereign bond repurchase market have enabled the highly liquid banking sector to support the government securities market. The latter has grown to more than CFA3,000 billion in 2011, from CFA42 billion in 2001. At present, the local market, particularly banks which can more easily refinance securities with the BCEAO, demonstrate a strong appetite for public debt instruments. Importantly, the debt-reduction and development contracts (C2D) may provide additional leeway whenever required.

Banking system risks are also limited

The Ivorian banking system is relatively small, with assets reaching $11.2 billion at the end of 2013. Banks (24) account for 80% of the financial services market, with the remainder comprised of insurance companies, pension funds and micro-finance institutions. Most (18) banks are foreign-owned, whilst the three major banks are subsidiaries of foreign banking groups. Banking branches are mainly located in Abidjan, where more than 40% of the country's economic activity is concentrated. As a result, the penetration rate of banking services is weak at 8.13% in 2013 (11.4% including the micro-finance sector). Market shares are very unevenly distributed as foreign bank subsidiaries dominate the sector, accounting for about 60% of assets. However, they generally have the most robust balance sheets and comply with all prudential requirements.

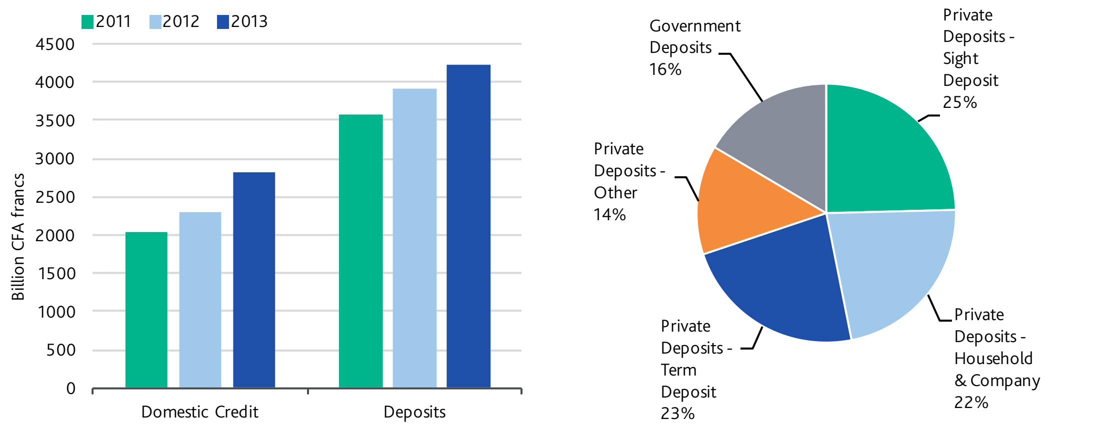
Strong growth in domestic lending from banks (20% annually) over the past couple of years essentially reflects the economy's catch-up effect and confidence in the private sector. Net banking assets rose by 11.2% and 14.0% in 2012 and 2013, respectively. Deposits grew less rapidly than credit to the economy (+9.6% and +8.1% in 2013, respectively), but the ratio of banking intermediation (Domestic claims as a percentage of customer deposits) stood at 67% in 2013. While almost 10 percentage points higher than in 2011, this is lower than levels recorded in Nigeria (71%), Ghana

[9] The ECOWAS comprises fifteen West African countries, notably the eight member countries of WAEMU plus Nigeria.

(73%) and Senegal (97%). 85% of bank deposits are made up of private deposits, which demonstrates the crucial role played by the private sector in the functioning of the banking system (see Exhibit 16).

EXHIBIT 16

Domestic credit is increasing rapidly, but remains substantially lower than deposits



Sources: Central Bank of West African States

Contingent risks to public finances posed by the banking system are limited despite the adverse effects of the political and security crisis in 2011. A number of smaller banks (who are also the weakest) still fail to comply with some prudential ratios as they struggle with the legacy of the widespread deterioration in portfolio quality recorded in 2011 (during the clashes in 2011, the BCEAO forced Ivorian banks to suspend operations for about three months while the clearing system was shut down). However, the banking system has proven resilient, with no bank failing despite the turmoil.

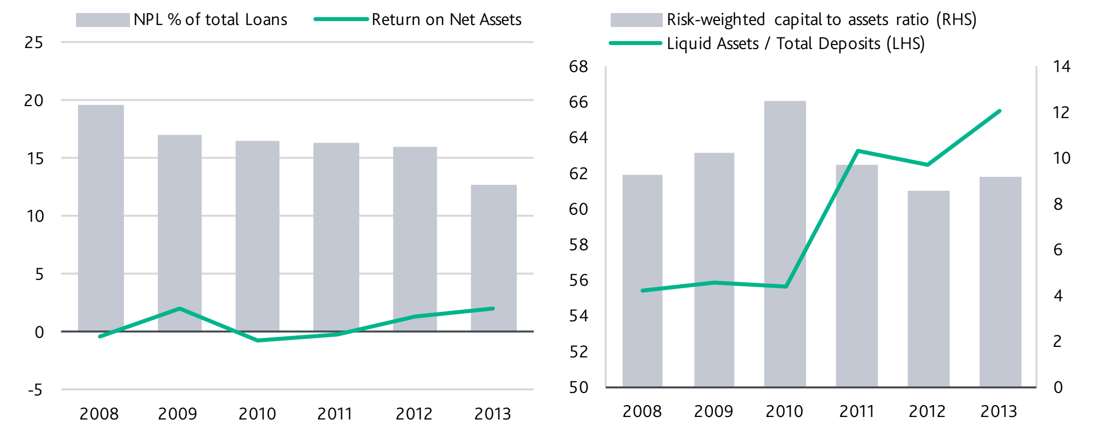
However, the quality of bank portfolios remains weak, especially amongst state-owned banks. In 2013, outstanding non-performing loans accounted for 12.7% of gross lending (16.3% in 2011). Outstanding NPLs mainly arise from SMEs which have incurred domestic arrears accumulated by the government over the same period. However, most have been cleared, and the set-up of an office dedicated to SMEs, as well as the reform of the land property and judicial systems should encourage banks to redevelop their lending operations to SMEs.

At present, Ivorian banks' prudential ratios equal the average prudential ratios of other sub-Saharan African countries, as reported by the IMF in its latest Article IV review, with a capital ratio of 9.2% and a ratio of liquid assets of 65.5% (see Exhibit 17).

Seven banks have required and received state financial support, including five government-owned institutions (CFA70 billion in 2013 budget or 0.7% of GDP). One private bank was restructured and sold to another private banking group, whilst the other will be shortly. As for the five state-owned banks, which account for nearly 10% of the country's banking assets, the government plans to establish a public banking hub to support the government's sectoral policies.

EXHIBIT 17

Prudential ratios have significantly improved since 2011



Sources: IMF, Central Bank of West African States

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

Côte d'Ivoire's external vulnerability is very low. A balance of payments crisis is extremely unlikely due to its membership in WAEMU[10], in which the CFA franc's convertibility is guaranteed by the French Treasury based on fixed exchange rate with the euro. In addition, Côte d'Ivoire has almost always recorded a trade surplus and a current account with, on average, a slight surplus over the long term (+1.6% of GDP between 1999 and 2013). Moreover, its external debt stands at a relatively low 21.8 % of GDP (2013) and debt-service costs have also been reduced following debt cancellation in 2012.

Local banks display positive external positions, with net assets totaling $2.2 billion. However, this surplus position is partly the result of a number of banks failing to comply with the BCEAO rule requiring them to repatriate at least 80% of export proceeds; bank repatriations totaled a mere CFA277 billion ($560 million), or 14.6% in 2013. The BCEAO plans to tighten this scheme and could impose fines to encourage compliance, which should rapidly generate a significant structural increase in Ivorian foreign-currency reserves and benefit the wider balance of payments (which has actually been in surplus since 2011). A three-fold increase in the repatriation rate to 50% in 2013 would imply a more than $1 billion (or 25%) rise in foreign-exchange reserves compared to end-of-year levels. As a result of all of these factors, the External Vulnerability Indicator (i.e., external short-term debt plus maturing long-term external debt divided by foreign-exchange reserves) is also very low, projected to reach only 9.3% by the year 2015.

The risk of a CFA franc devaluation remains very low

The main financial risk for Côte d'Ivoire would be a devaluation of the CFA franc, which would instantly increase debt relative to public revenue, given that about two-thirds of public debt is denominated in foreign currency. A devaluation would also significantly increase the cost of servicing this debt during the entire term of the loan. We cannot rule out this risk given the ongoing large aggregated current account deficit in the WAEMU zone, albeit it is offset by capital transactions.

In 1994, there was a 50% devaluation of the CFA franc relative to the French franc. However at present, we view this risk of such a depreciation being repeated as remote. The last devaluation was spurred on by a fall in the BCEAO reserve ratio (bank notes issued and deposits with the central bank)

[10] The UEMOA includes eight countries: Benin, Burkina Faso, the Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo.

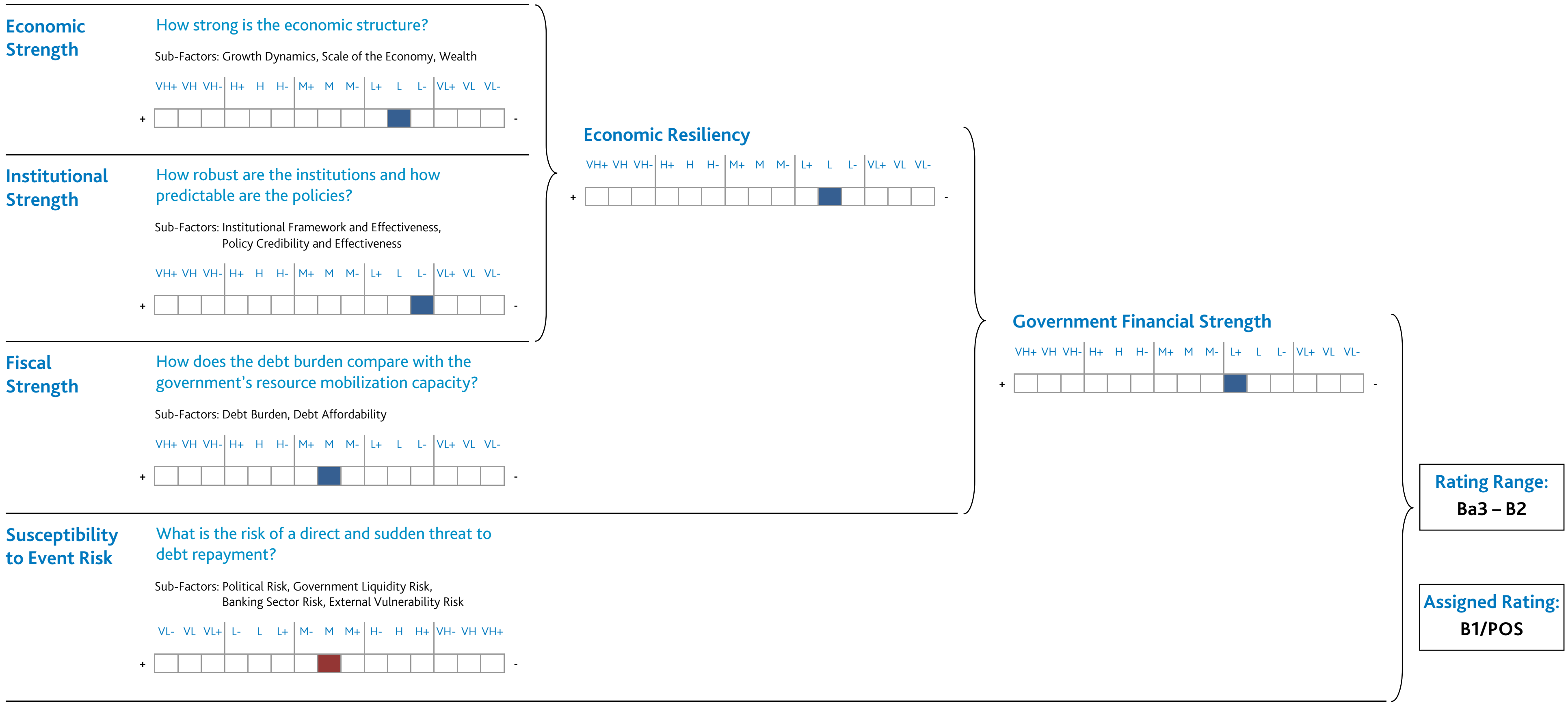
to below 17% in 1993; whenever reserves fall below 20% of the monetary base, the BCEAO is mandated to take measures to contract the monetary base. This scheme is similar to those operated in currency board arrangements. When reserves reach zero, the central bank then implements new measures. This occurred once in 1991, though the French treasury was able to keep the exchange rate intact during this period. Although it failed to generate the desired level of growth, the 1994 devaluation brought the coverage ratio up to 84%. It has exceeded 100% since 1999 and stood at 105% at the end of 2012.

Over the past decade, this 69-year monetary arrangement has been tested by a series of crises in the two monetary sub-regions of the CFA zone and has remained intact in all instances. In addition, we note that devaluation would need to be agreed by all the countries in the CFA zone (western and central Africa) and by the French Treasury. As a result, it would be extremely unlikely to take place without a prolonged public debate. In light of the announced structural increase in foreign-currency reserves in both monetary zones of West Africa and Central Africa, agreement to devalue the currency is very remote.

Rating Range

Combining the scores for individual factors provides an indicative rating range. 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 rating range. 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 indicative rating range. For more information please see our Sovereign Bond Rating Methodology.

Sovereign Rating Metrics: Côte d'Ivoire



Comparatives

This section compares credit relevant information regarding Côte d'Ivoire with other sovereigns rated by Moody's Investors Service. It focuses on a comparison with sovereigns within the same rating range and shows the relevant credit metrics and factor scores. Compared to peers, Côte d'Ivoire scores particularly well in terms of growth prospects and debt metrics. Its size, per capita income and competitiveness index are similar to those of Uganda, which scores Low (+) for Economic Strength. Suriname has a higher per capita GDP, which explains its higher score, while Montenegro and Senegal have lower growth prospects. Factor 2 balances Côte d'Ivoire's very low governance metrics compared to peers with an exceptionally strong inflation track record, only equaled by Senegal and Montenegro, which rank higher than Côte d'Ivoire for Institutional Strength owing to their stronger governance metrics. Côte d'Ivoire's debt burden is higher than the B1 Median, which would warrant a Medium (+) score for Fiscal Strength. However, its debt affordability ratio (Interest Payments / Revenue) is weaker than most peers, except Uganda, which is one notch lower for this factor score. Côte d'Ivoire's fiscal balance is the strongest among the key peers below, with only a small deficit recorded in 2013. Côte d'Ivoire's Susceptibility to event Risk score is determined by domestic political risks. Its external metrics are strong relative to peers, with smaller current account deficits and a smaller External Vulnerability Indicator.

EXHIBIT 18

Côte d'Ivoire Key Peers

	Year	Côte d'Ivoire	Suriname	Montenegro	Senegal	Uganda	Cambodia	B1 Median	Sub-Saharan Africa Median
Rating/Outlook		B1/POS	Ba3/STA	Ba3/STA	B1/STA	B1/STA	B2/STA	B1	Ba3
Rating Range		Ba3 – B2	Ba1 - Ba3	Baa3 - Ba2	Ba2 - B1	Ba3 - B2	B2 - Caa1	B1 - B3	Ba2 - B1
Factor 1		L	M-	L-	L	L+	L-	L+	M-
Nominal GDP (US$ bn)	2013	32.2	5.2	4.4	15.5	23.1	15.5	26.0	26.0
GDP per Capita (PPP, US$)	2013	1,818	13,116	11,913	1,958	1,484	2,576	5,485	3,146
Avg. Real GDP (% change)	2009-2018	6.7	4.4	1.7	3.5	6.0	6.3	4.8	5.1
Volatility in Real GDP growth (ppts)	2004-2013	4.1	1.2	4.9	1.3	2.4	3.6	2.3	2.3
Global Competitiveness Index, percentile [1]	2013	3.5	13.9	42.6	9.5	3.4	27.8	16.9	15.2
Factor 2		L-	L+	M+	L+	VL+	VL-	L-	L
Government Effectiveness, percentile [1]	2012	2.3	44.8	48.8	22.8	17.3	7.8	20.4	20.4
Rule of Law, percentile [1]	2012	5.5	47.2	49.6	37.7	37.0	7.8	28.7	34.6
Control of Corruption, percentile [1]	2012	11.0	36.2	48.0	39.3	9.4	6.2	25.2	29.5
Avg. Inflation (% change)	2009-2018	2.0	4.8	1.8	1.4	8.3	3.1	5.6	6.8
Volatility in Inflation (ppts)	2004-2013	2.8	5.5	2.2	2.2	5.0	6.9	3.7	3.4
Factor 3		M+	M+	H	M-	M-	M-	M-	M
Gen. Gov. Debt/GDP	2013	34.4	29.1	58.0	43.8	33.9	33.3	52.4	31.1
Gen. Gov. Debt/Revenues	2013	173.0	123.7	136.1	188.7	232.2	192.4	186.1	160.6
Gen. Gov. Interest Payments/Revenue	2013	7.1	4.9	4.9	6.7	10.2	2.4	11.9	7.5
Gen. Gov. Interest Payments/GDP	2013	1.5	1.2	2.1	1.5	1.5	0.4	2.6	1.5
Gen. Gov. Financial Balance/GDP	2013	-2.3	-5.5	-2.6	-5.6	-3.7	-3.0	-5.3	-3.5
Factor 4		M	M+	H-	L+	M+	M-	M	M
Current Account Balance/GDP	2013	-1.9	-3.8	-14.6	-9.3	-7.9	-8.5	-9.4	-6.1
Gen. Gov. External Debt/Gen. Gov. Debt	2013	49.6	48.5	74.0	70.8	54.6	98.5	44.1	40.8
External Vulnerability Indicator	2015F	9.2	8.0	148.2	11.0	69.2	11.9	84.5	25.6

Notes:

[1] Moody's calculations. Percentiles based on our rated universe.

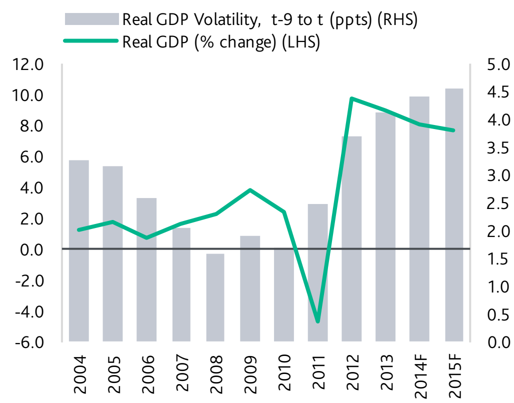
Source: Moody's

Appendices

Chart Pack

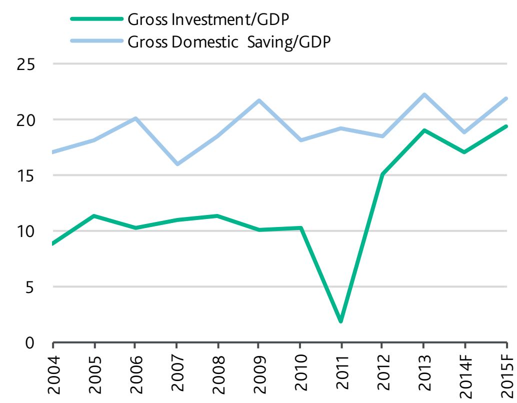
Côte d'Ivoire

EXHIBIT 19
Economic Growth



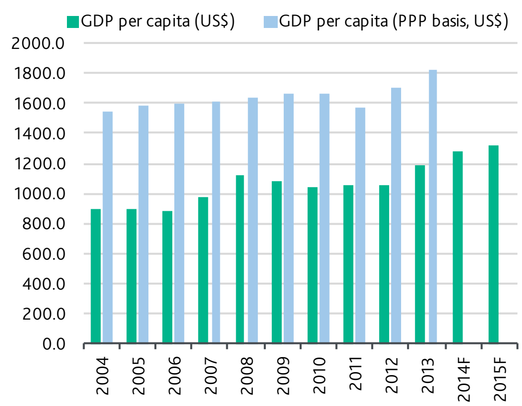
Source: Côte d'Ivoire authorities, Moody's

EXHIBIT 20
Investment and Saving



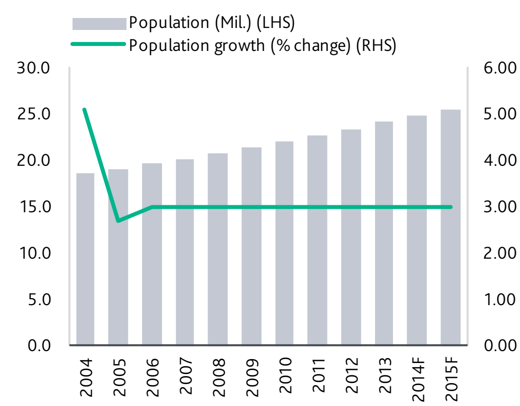
Source: Côte d'Ivoire authorities, Moody's

EXHIBIT 21
National Income



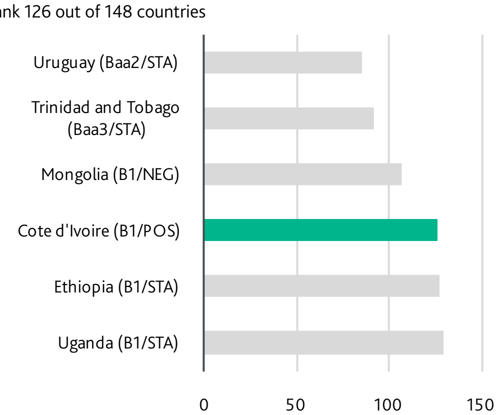
Source: Côte d'Ivoire authorities, Moody's

EXHIBIT 22
Population



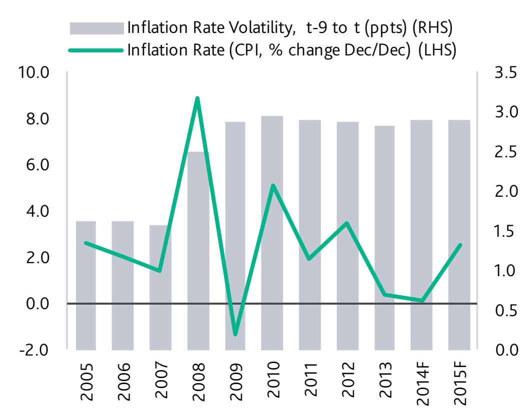
Source: Côte d'Ivoire authorities, Moody's

EXHIBIT 23
Global Competitiveness Index
Rank 126 out of 148 countries



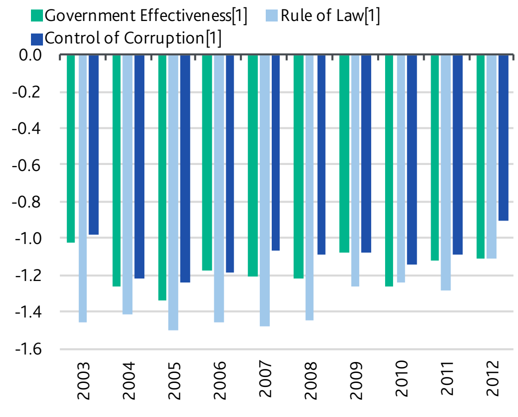
Source: World Economic Forum

EXHIBIT 24
Inflation and Inflation Volatility



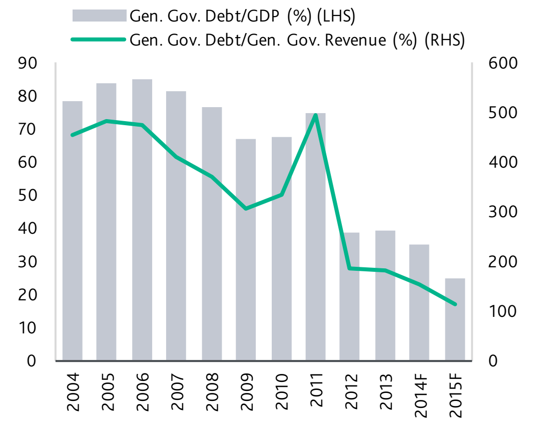
Source: Côte d'Ivoire authorities, Moody's

EXHIBIT 25
Institutional Framework and Effectiveness



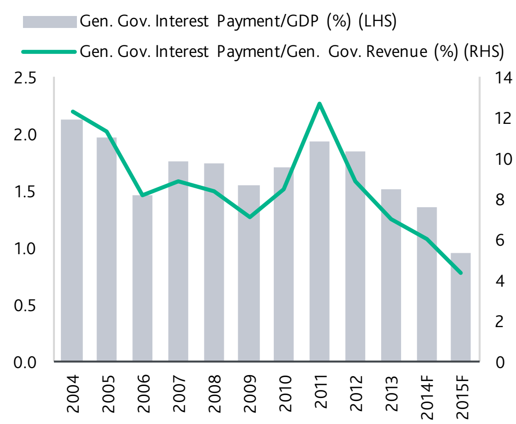
Notes: [1] Composite index with values from about -2.50 to 2.50: higher values correspond to better governance.
Source: World Bank Governance Indicators

EXHIBIT 26
Debt Burden



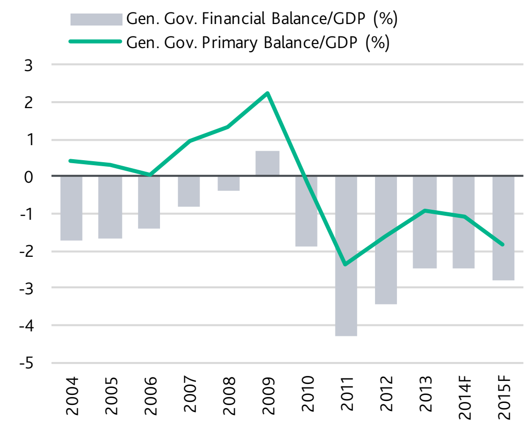
Source: Côte d'Ivoire authorities, Moody's

EXHIBIT 27
Debt Affordability



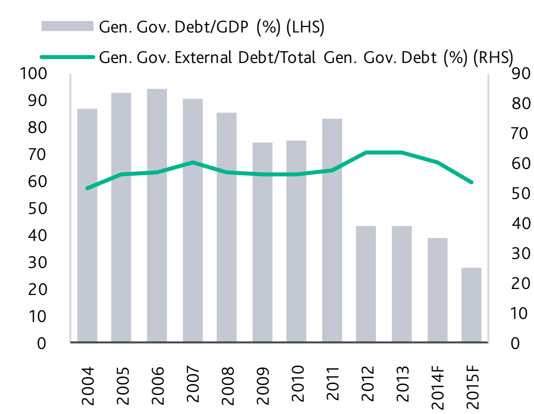
Source: Côte d'Ivoire authorities, Moody's

EXHIBIT 28
Financial Balance



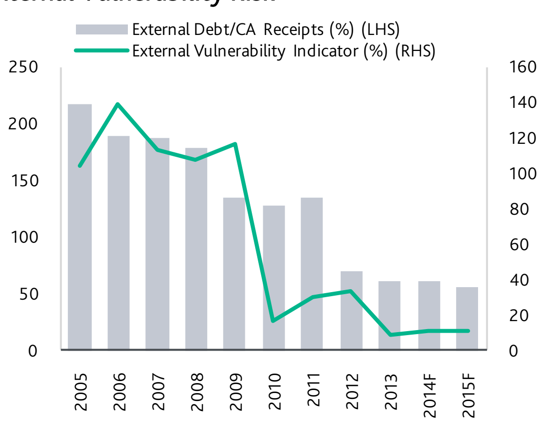
Source: Côte d'Ivoire authorities, Moody's

EXHIBIT 29
Government Liquidity Risk



Source: Côte d'Ivoire authorities, Moody's

EXHIBIT 30
External Vulnerability Risk



Source: Côte d'Ivoire authorities, Moody's

Rating History

Côte d'Ivoire

	Government Bonds			Foreign Currency Ceilings				
	Foreign Currency	Local Currency	Outlook	Bonds & Notes		Bank Deposit		Date
				Long-term	Short-term	Long-term	Short-term	
Rating Assigned	B1	B1	POS	Baa3	P-3	Baa3	P-3	July 2014

Annual Statistics

Côte d'Ivoire

	2006	2007	2008	2009	2010	2011	2012	2013	2014F	2015F
Economic Structure and Performance										
Nominal GDP (US$ Bil.)	18.7	21.9	23.0	25.2	25.1	24.3	27.5	32.2	34.6	37.1
Population (Mil.)	19.6	20.2	20.8	21.4	22.0	22.7	23.4	24.1	24.8	25.5
GDP per capita (US$)	954.9	1085.5	1108.5	1177.3	1139.8	1072.3	1178.8	1336.5	1395.2	1453.6
GDP per capita (PPP basis, US$)	1592.8	1612.6	1633.4	1658.0	1669.1	1574.2	1706.8	1818.1	--	--
Nominal GDP (% change, local currency)	3.3	4.7	11.3	5.7	7.5	0.1	11.0	11.7	11.5	11.5
Real GDP (% change)	0.7	1.6	2.3	3.8	2.4	-4.7	9.8	9.1	10.0	9.5
Inflation (CPI, % change Dec/Dec)	2.0	1.4	8.9	-1.3	5.1	1.9	3.4	0.4	0.1	2.5
Gross Investment/GDP	7.6	9.9	12.1	8.7	13.4	4.1	14.9	18.7	19.9	20.2
Gross Domestic Saving/GDP	17.3	14.9	19.0	19.6	20.7	21.0	21.1	23.3	26.5	28.8
Nominal Exports of G & S (% change, US$ basis)	9.3	3.1	18.8	8.2	2.1	8.4	-8.4	4.5	13.6	4.0
Nominal Imports of G & S (% change, US$ basis)	1.1	13.0	13.3	-0.4	11.2	-14.4	17.5	7.4	15.8	2.1
Openness of the Economy[1]	95.1	89.4	87.3	90.8	94.0	87.6	87.1	79.9	80.7	77.5
Government Effectiveness[2]	-1.2	-1.2	-1.2	-1.1	-1.3	-1.1	-1.1	--	--	--
Government Finance										
Gen. Gov. Revenue/GDP	17.4	19.2	19.9	20.7	18.5	14.0	19.1	19.9	20.4	19.5
Gen. Gov. Expenditures/GDP	18.7	20.0	20.3	20.0	20.3	17.9	22.3	22.1	22.7	22.0
Gen. Gov. Financial Balance/GDP	-1.4	-0.8	-0.4	0.7	-1.8	-3.9	-3.2	-2.3	-2.2	-2.5
Gen. Gov. Primary Balance/GDP	0.1	0.9	1.3	2.1	-0.2	-2.2	-1.5	-0.9	-1.0	-1.5
Gen. Gov. Debt (US$ Bil.)	14.8	16.7	16.2	16.2	15.8	16.5	9.4	11.1	10.6	8.7
Gen. Gov. Debt/GDP	79.2	76.5	70.5	64.2	63.0	67.9	34.2	34.4	30.7	23.5
Gen. Gov. Debt/Gen. Gov. Revenue	456.2	398.6	353.9	310.9	340.4	485.4	178.5	173.0	149.9	120.3
Gen. Gov. Int. Pymt/Gen. Gov. Revenue	8.2	8.9	8.4	7.1	8.5	12.7	8.9	7.1	6.1	4.9
Gen. Gov. FC & FC-indexed Debt/GG Debt	82.1	83.1	81.4	72.5	69.0	71.4	74.0	66.1	61.4	68.4
External Payments and Debt										
Nominal Exchange Rate (local currency per US$, Dec)	498.1	445.6	471.3	455.3	490.9	507.0	497.2	475.6	493.2	512.5
Real Eff. Exchange Rate (% change)	-0.9	1.9	4.7	-0.2	-5.7	2.0	-4.1	4.5	--	--
Current Account Balance (US$ Bil.)	0.5	-0.1	0.5	1.6	0.5	2.7	-0.4	-0.6	-1.0	-0.8
Current Account Balance/GDP	2.6	-0.6	2.0	6.4	1.9	10.9	-1.5	-1.9	-2.8	-2.2
External Debt (US$ Bil.)	15.6	17.6	17.0	14.5	13.2	14.1	6.0	7.0	8.4	10.8
Public External Debt/Total External Debt	83.0	81.5	80.4	88.7	89.0	87.4	80.6	78.0	58.2	41.3
Short-term External Debt/Total External Debt	7.9	10.4	10.4	0.7	2.7	6.3	1.8	1.8	1.8	1.8
External Debt/GDP	83.6	80.5	73.9	57.6	52.4	58.1	21.7	21.8	24.3	29.2
External Debt/CA Receipts[3]	152.9	159.1	146.4	104.8	95.7	103.1	41.9	43.0	48.5	60.3
Interest Paid on External Debt (US$ Bil.)	0.2	0.2	0.3	0.1	0.1	0.2	0.1	0.1	0.1	0.1
Amortization Paid on External Debt (US$ Bil.)	0.5	0.6	0.7	0.5	0.3	0.5	0.2	0.2	0.2	0.3
Net Foreign Direct Investment/GDP	1.8	2.1	1.8	1.6	1.3	1.0	1.7	2.7	2.7	2.7
Net International Investment Position/GDP	--	--	--	--	--	--	--	--	--	--
Official Forex Reserves (US$ Bil.)	1.8	2.5	2.3	2.8	3.2	3.9	3.5	3.8	4.5	5.0
Net Foreign Assets of Domestic Banks (US$ Bil.)	0.1	0.1	0.2	0.1	0.1	0.3	0.5	0.5	--	--

Côte d'Ivoire

	2006	2007	2008	2009	2010	2011	2012	2013	2014F	2015F
Monetary, External Vulnerability and Liquidity Indicators										
M2 (% change Dec/Dec)	10.3	23.6	5.7	17.2	18.2	10.7	6.9	11.4	--	--
Monetary Policy Rate (% per annum, Dec 31)	4.3	4.3	4.8	4.3	4.3	4.3	4.0	4.0	--	--
Domestic Credit (% change Dec/Dec)	4.3	19.9	7.2	19.1	13.2	1.4	19.6	20.2	--	--
Domestic Credit/GDP	17.6	20.1	19.4	21.9	23.0	23.3	25.1	27.0	--	--
M2/Official Forex Reserves (X)	244.4	235.1	297.4	262.1	261.8	250.0	274.2	289.9	--	--
Total External Debt/Official Forex Reserves	870.1	699.8	755.9	511.2	410.7	363.0	170.3	183.9	186.6	216.8
Debt Service Ratio[4]	7.4	7.3	8.3	4.3	3.2	5.1	1.8	1.5	1.9	2.1
External Vulnerability Indicator[5]	108.1	101.2	100.2	98.6	15.6	26.2	26.7	7.4	9.7	9.2
Liquidity Ratio[6]	52.4	25.6	25.4	34.7	27.2	41.7	37.4	-9.7	--	--
Total Liabilities due BIS Banks/Total Assets Held in BIS Banks	190.6	170.2	154.6	83.6	55.9	84.1	95.3	92.9	--	--
"Dollarization" Ratio[7]	10.3	23.6	5.7	17.2	18.2	10.7	6.9	11.4	--	--
"Dollarization" Vulnerability Indicator[8]	4.3	4.3	4.8	4.3	4.3	4.3	4.0	4.0	--	--

Notes:

[1] Sum of Exports and Imports of Goods and Services/GDP

[2] Composite index with values from about -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions

[3] Current Account Receipts

[4] (Interest + Current-Year Repayment of Principal)/Current Account Receipts

[5] (Short-Term External Debt + Currently Maturing Long-Term External Debt + Total Nonresident Deposits Over One Year)/Official Foreign Exchange Reserves

[6] Liabilities to BIS Banks Falling Due Within One Year/Total Assets Held in BIS Banks

[7] Total Foreign Currency Deposits in the Domestic Banking System/Total Deposits in the Domestic Banking System

[8] Total Foreign Currency Deposits in the Domestic Banking System/(Official Foreign Exchange Reserves + Foreign Assets of Domestic Banks)

Source: Côte d'Ivoire authorities, Moody's

Moody's Related Research

Rating Methodologies:

» Sovereign Bond Ratings, September 2013 (157547)

» Sovereign Default and Recovery Rates, April 2014 (166650)

Moody's Website Links:

» Sovereign Risk Group Webpage

» Sovereign Ratings List

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Rate this Research »

» contacts continued from page 1

Analyst Contacts:

NEW YORK +1.212.553.1653

Elisa Parisi-Capone +1.212.553.4133
Assistant Vice President - Analyst
elisa.parisi-capone@moodys.com

LONDON +44.20.7772.5454

Matt Robinson +44.20.7772.5635
Vice President - Senior Credit Officer
matt.robinson@moodys.com

Yves Lemay +44.20.7772.5512
Managing Director - Banking & Sovereign
yves.lemay@moodys.com

Report Number: 172386

Authors
Aurelien Mali
Mathias Angonin

Editor
Matthew Bridle

Production Specialist
Kerstin Thoma

Translation
Stéphanie Deléage-Franchet

MOODY'S
INVESTORS SERVICE