MOODY'S
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ISSUER IN-DEPTH
25 August 2016

Government of Côte d'Ivoire - Ba3 Stable

Annual Credit Analysis

RATINGS

Côte d'Ivoire

	Foreign Currency	Local Currency
Gov. Bond Rating	Ba3	Ba3
Country Ceiling	Baa3	Baa3
Bank Deposit Ceiling	Baa3	Baa3

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Contacts

Aurelien Mali 971-4-237-9537
VP-Sr Credit Officer
aurelien.mali@moodys.com

Jeffrey Christiansen 971-4-237-9574
Associate Analyst
jeffrey.christiansen@moodys.com

Elisa Parisi-Capone 212-553-4133
VP-Senior Analyst
elisa.parisi-capone@moodys.com

OVERVIEW AND OUTLOOK

Côte d'Ivoire's Ba3 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 sustainable 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.

Côte d'Ivoire's major credit constraint is its institutional strength. Like many Sub-Saharan African peers, it still scores low (-) on the Worldwide Governance Indicators. However, these have and should continue to improve steadily following the implementation of major institutional reforms. Côte d'Ivoire is also exposed to a moderate (-) susceptibility to event risk, which is driven primarily by political risks. The re-election of president Ouattara for a second five-year mandate in October 2015 substantially dispells political uncertainty and ensures that efforts towards reconciliation will continue.

The stable outlook on the rating reflects our expectations of balanced upside and downside risks. Côte d'Ivoire's debt burden, institutional strengths, growth rate, and political risks have witnessed a positive trend over the past year.

Upward credit pressure could develop as a result of (1) continued structural reforms that support increases in public and private investment; (2) further material improvements in governance and competitiveness, and (3) a continuation of strong growth that leads to better credit fundamentals, especially concerning debt metrics. Downward pressure would be exerted on the rating in the event of (1) a reversal of 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.

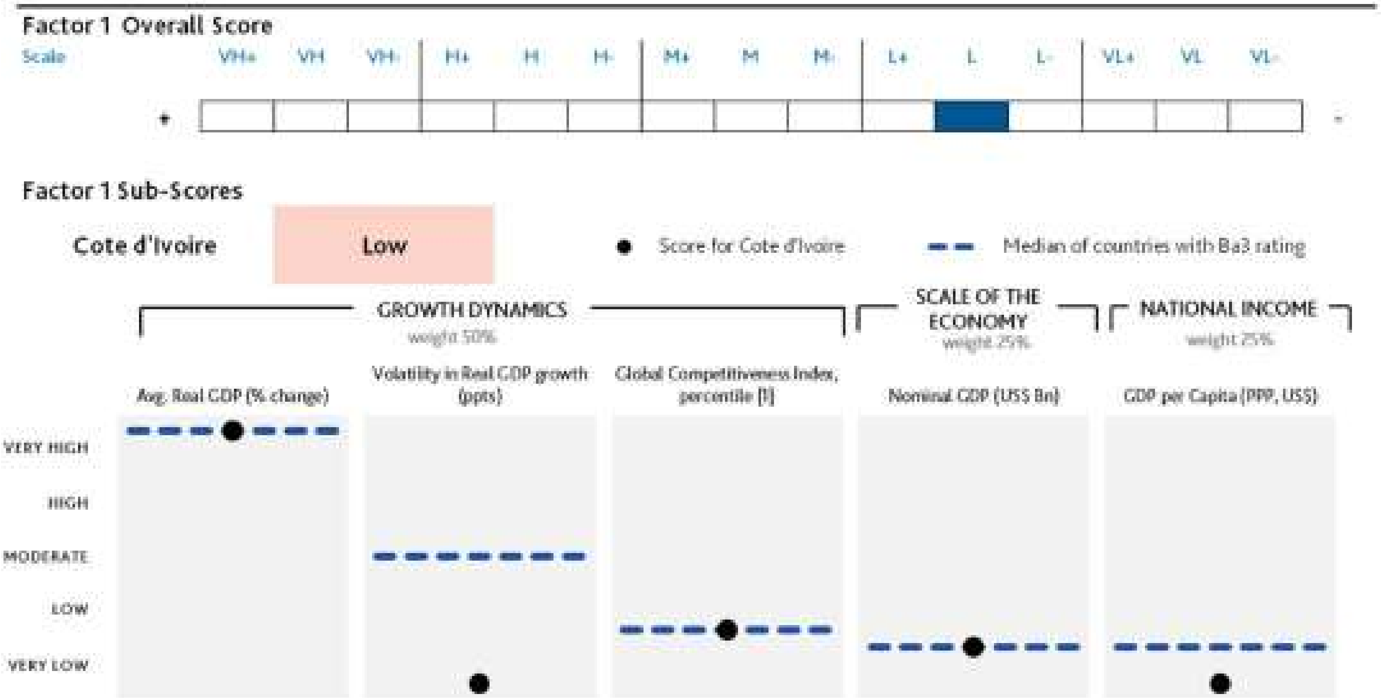
This Credit Analysis elaborates on the Côte d'Ivoire's credit profile in terms of Economic Strength, Institutional Strength, Fiscal Strength and Susceptibility to Event Risk, which are the four main analytic factors in Moody's Sovereign Bond Rating Methodology.

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

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



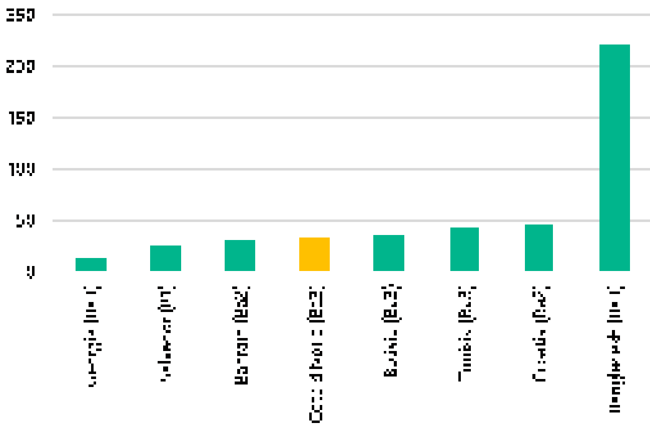
Economic strength evaluates the economic structure, primarily reflected in economic growth, the scale of the economy and wealth, as well as in structural factors that point to a country's long-term economic robustness and shock-absorption capacity. Economic strength is adjusted in case excessive credit 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 Trinidad and Tobago (Baa3 negative), Croatia (Ba2 negative), Georgia (Ba3 stable), Serbia (B1 positive), and Ghana (B3 negative).

A lower-middle income and medium-sized country, with rapidly increasing per capita income

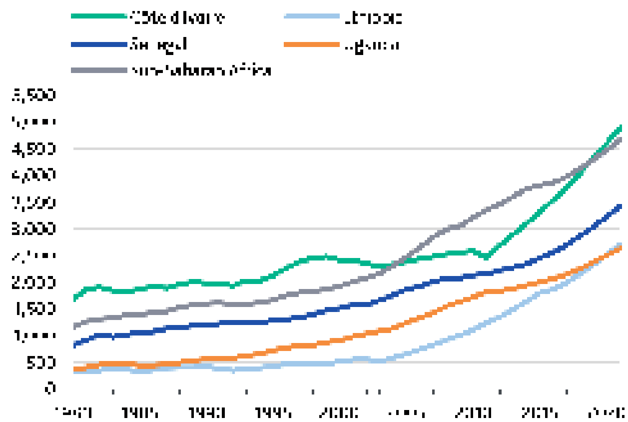
Côte d'Ivoire is a medium-sized country, with an expected GDP of $35.1 billion at the end of 2016 and a fast growing population (2.6% per year) estimated at 24.3 million. Per capita GDP is only $3,542 in terms of purchasing power parity, placing it among the average for Sub-Saharan African countries and ahead of Uganda (B1 negative), Ethiopia (B1 stable), Senegal (B1 positive) as illustrated by Exhibit 2.

Exhibit 1
Nominal GDP, 2015
(billions USD)



Source: Moody's, national authorities

Exhibit 2
Per-capita income
(USD, purchasing power parity)



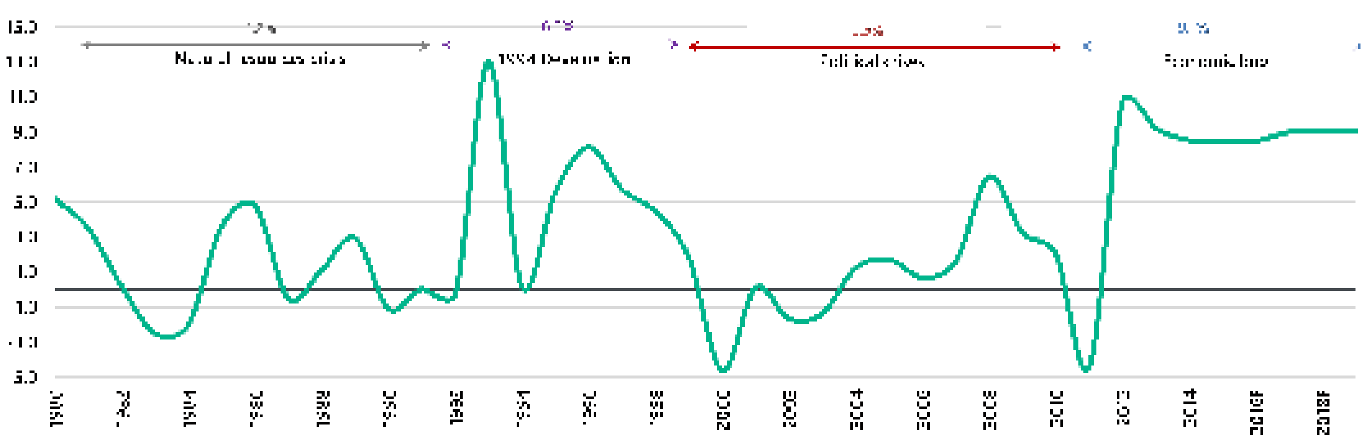
Source: Moody's, IMF

After 12 years of political crisis that severely damaged the economy, growth rebounded since 2011

From the 1999 coup to the second civil war at the beginning of 2011, average real growth rate was a very low 0.3% while the country experienced successive political crises. In fact, between 1980 and 2011, Côte d'Ivoire experienced 30 years of low growth that averaged 1.7% (see Exhibit 4). This led to a very sharp deterioration in social indicators when combined with both the population increases and a lack of investment.

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 four years, particularly in the manufacturing sector, construction and service sectors. After GDP contracted by 4.4% in 2011 – the year of the post electoral conflict – growth averaged 9.2% between 2012-15. We project that Côte d'Ivoire's medium-term growth outlook is approximately 8% (similar to IMF forecasts), significantly higher than the average for Sub-Saharan countries. Growth will be supported by the implementation of the new National Development Plan 2016-20 (NDP). In particular, the authorities would like to echo the "Ivorian economic miracle" during which it recorded robust growth (8% annually) and investment rates (20% of GDP) between 1960 and 1978, driven by the agricultural sector, which provided the country with basic infrastructure.

Exhibit 3
Successive crises have led to two lost decades for Cote d'Ivoire, but growth is recovering strongly
(real GDP growth %)



Source: Moody's, IMF

The NDP 2016-20 is much more complex following the diversification of the economy. In the 1960s, the agricultural sector accounted for 70% of GDP and 90% of government revenue. Today, it represents only 28% of GDP and between 10-15% of government revenue. So the plan aims at a structural transformation of the economy that will follow five axes. (1) Institutions and Governance; (2) Human Capital; (3) Industrialization and Manufacturing; (4) Infrastructure; and (5) Regional Integration. Over this period, this ambitious plan includes CFA 30 trillion of investment (€45 billion) split between public and private sources (see details in the next section on Institutional Strength).

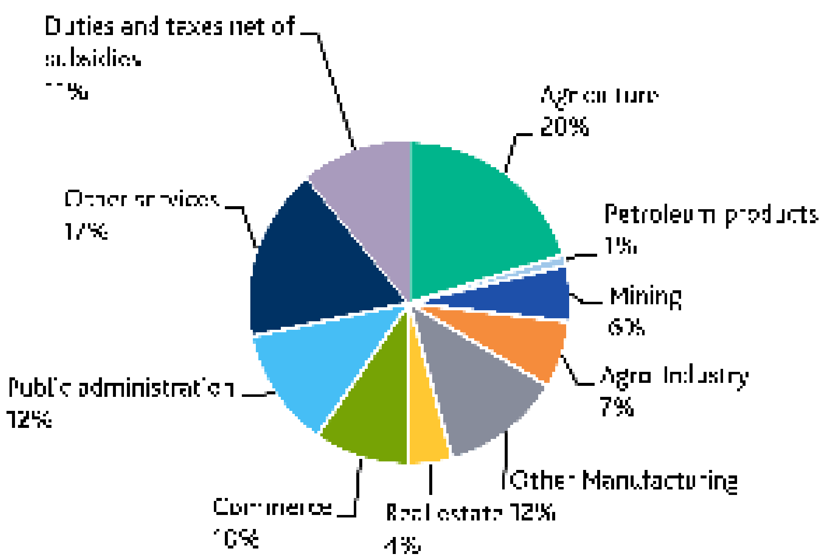
Economy driven by a competitive and export-oriented agricultural sector, which still has very high potential for development

Unlike most other countries in the region where subsistence agriculture dominates, Côte d'Ivoire's sector is relatively mechanized and export oriented, reflecting President Houphouët-Boigny's decision to base the country's development on agriculture post-independence. As illustrated in Exhibit 5, although Côte d'Ivoire's economy is relatively diversified, agriculture remains its largest component. The sector contributes around 15% of GDP and is the largest share of export revenue – 40% of which is related to cocoa. It also provides income for two-thirds of the population.

In particular, Côte d'Ivoire is the leading world producer of cocoa (42% of global production) and cola nuts; the largest global producer and leading global exporter of cashew nuts; the leading African producer of dry rubber, bananas; 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

Côte d'Ivoire's GDP is relatively diversified
(Composition of Nominal GDP, by sector, 2015)



Source: national authorities

In 2016, due to wildfires and a lack of rain, the agricultural sector is expected to contract by 0.6%. This is mainly to due the underperformance in food crop agriculture (such as ignam and cassava). To support the sector, the agriculture budget was increased by 40%, or 5% of spending, and some delayed projects were accelerated.

The coffee and cocoa commodity chain remains the most advanced in terms of value and volume. Despite past crises, the country has remained the largest cocoa exporter as the beans are among the best quality available on the market. Production grew 20% from 2013 to 2015 to reach a peak of 1.8 million tonnes. Due to lower rain, production in 2015-16 is expected to be slightly less than 1.65 million tonnes. The target is still to reach 2 million tonnes in 2020, with 50% to be processed domestically. [1] In 2014-15, cocoa related exports exceeded CFA 3,400 billion (€5.2 billion) in 2015.

Cashew nut production reached 702,000 tonnes in 2015 (2020 objective is 850,000 tonnes). Between 2013 and 2015, exports revenue increased by 68% to CFA 337 billion. Apart from increasing productivity, the objective is also to raise the processing rate to 100% (currently below 10%) because this work is labour-intensive and so can help lower unemployment. Cotton production, which grew rapidly to reach 450,000 tonnes in 2014, is expected to be lower at 300,000 tonnes due to inadequate seeds. Production of rice has been very successful. From a low at 550,000 tonnes in 2011, production reached 1,400,000 tonnes in 2015 with an objective of 2.4 million tonnes in 2018. Cultivation of hevea trees for latex is expanding rapidly, with over 100,000 hectares planted. Despite low international prices, the sector continued to expand as the tree has a 20-year production life. Ambitious targets have also been set for oil palm trees, sugar cane, bananas, pineapples and mangos.

The Agricultural Orientation Law seeks to establish a marketing board to improve competitiveness and guarantee a minimum 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. The implications for poverty reduction are significant as agriculture is diversifying and developing. In the coffee/cocoa sector, the farmers received CFA 1,600 billion in 2014/15, compared with CFA 1,100 billion in the 2012-13 season. The 2014/15 season benefitted from a favourable international price and increasing production.

Côte d'Ivoire still exhibits outstanding agro-industrial potential since 80% of the production is unprocessed. Also, improvements in productivity (yield/ha and infrastructure) could triple agricultural production, on average. Although a large transformation industry already exists in Côte d'Ivoire, the authorities want to achieve a processing rate of at least 50% for agricultural products in 2020, which would increase the domestic value added. 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.

Mining sector shows high growth potential over the medium term despite the current commodity price downturn

Rapid developments in the mining sector are relatively recent for Côte d'Ivoire, though it is likely to record accelerated growth in the next few years following its reorganization. Côte d'Ivoire obtained the status as a Extractive Industries Transparency Initiative (EITI) Compliant Country in 2013, and it introduced a new mining code in 2014. This new code clarifies taxation of mining projects to attract new foreign investors. While the sector accounted for only 1% of GDP in 2001, it already represented approximately 5% of the economy in 2015. Almost all of the sector is concentrated in gold but there are other minerals mainly manganese, bauxite, copper, nickel and diamond.

Gold production continued expand, reaching 23.5 tonnes in 2015 compared with 18.6 tonnes in 2014 and to only 12.4 tonnes in 2011. New mines will go into operation over the next years (170 exploration permits were granted following the new mining code). Production in 2016 is expected to reach 24 tonnes and 36 tonnes in 2018. 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, which spans Burkina Faso and Mali, two large gold producers. By way of comparison, Ghana, the region's leading gold producer with production around 80 tonnes/year, holds about 20% only of this belt. Over time, the mining sector is certain to play a major role in the country's economic development due to its structuring and the ripple effects on other economic sectors.

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 are likely to be delayed by the current downturn on commodity prices. Manganese, which has developed strongly over the past few years, saw a drop in production last year to 260,000 tonnes from 308,000 tonnes in 2014 (still above the 2012 level 120,000 tonnes). Diamond mining remains small scale, but the industrial potential is large.

Hydrocarbon production has strong potential

Despite depressed global energy prices, the Ivorian oil and gas sector (less than 1% of GDP) offers some growth potential. Following the adoption in April 2012 of a new more attractive petroleum code, exploration has been buoyant. PETROCI, the national oil company, works in partnerships with foreign oil operators in most of the fields. A total of 6 blocks are in production and 21 in exploration. Today, proven offshore reserves total approximately 206 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. In 2015, crude production increased by 55% to 29,400 barrels per day (against 28,900 in 2014), while gas production remained stable around 39,000 barrels of oil equivalent.[2] This is mainly due to the completion in 2015 of new investment phases in already exploited blocks (namely Marlin CI-27, Espoir (CI-26), et Baobab CI-40).

It should also be mentioned that a maritime border dispute with Ghana is being judged at the International Tribunal for the Law of the Sea with a likely outcome in 2017. It concerns the sovereignty over the Tweneboa-Enyenra Ntomme (TEN) oil field which is operated by a consortium led by Tullow Oil plc (B2 negative) which is for now Ghana's second-largest oil and gas field. Production has started and should be ramped up to reach 80,000 bpd at the end of 2016. An ultimate ruling in favour of granting partial or full ownership of the disputed area to Côte d'Ivoire would likely require the division of past and future revenues from the field between the two governments. This could result in a much higher level of oil production for Côte d'Ivoire.

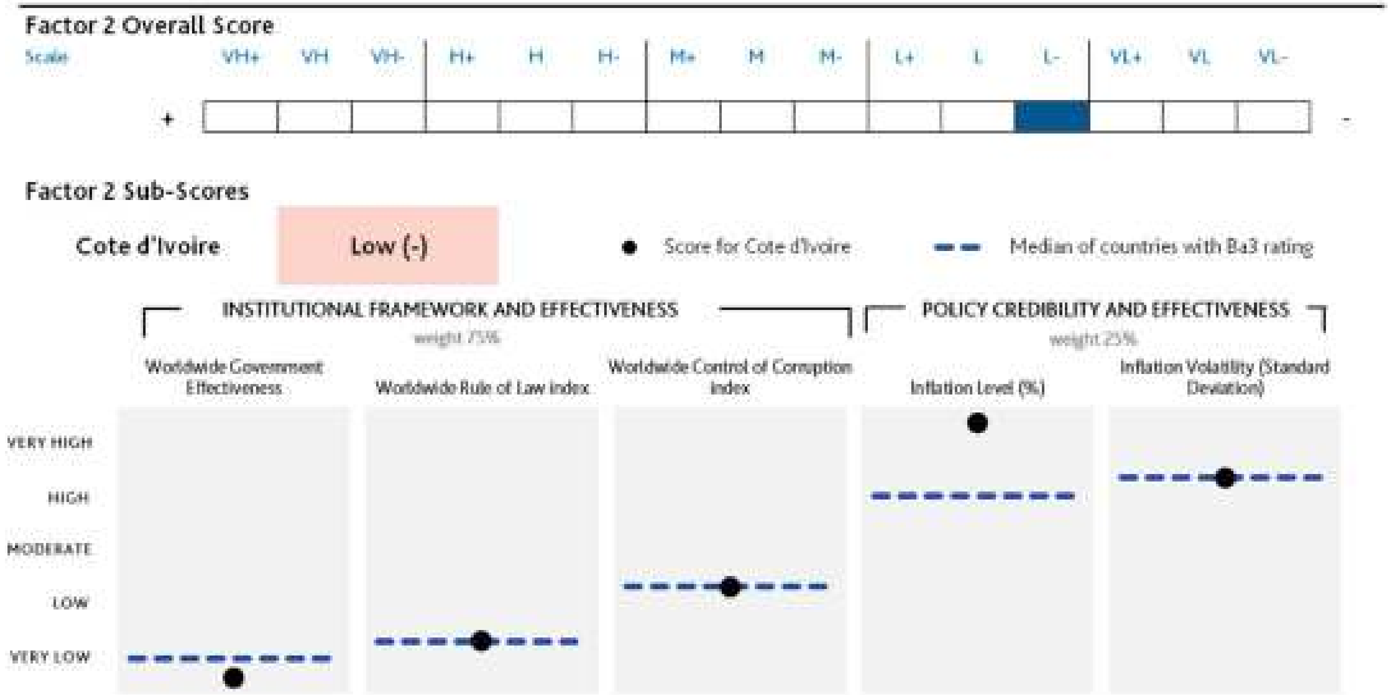
Increased electricity production and basic infrastructure will support growth

Electricity production is particularly advanced and well oriented. Côte d'Ivoire even exports 10% of its production to Burkina Faso and Liberia. Electricity is mainly produced with domestic natural gas. Both private electric utilities and the Compagnie Ivoirienne d'Electricité (CIE) use large amounts of domestic gas (between 40-50%). [3]Prices for Côte d'Ivoire natural gas, which was previously burned, are low, assuring a relatively low electricity price when compared to the sub-region (CFA francs 74 per kW/h compared to more than CFA francs 150 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 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. However, without this subsidy from the state (in the form of free gas and or a substitute heavy vacuum oil, HVO) the sector would be largely in deficit. This explains the recent decision to incrementally increase the final price of electricity to strengthen the sector and allow it to pursue its developments.

Electricity production is expected to continue to increase from 8,200 GWh in 2014 to 11,300 GW/h in 2017. Production capacity is currently mainly split between hydraulic (one third) and thermic (two thirds). Although production capacity is already at 2,000 MW this year, the goal is to reach 4,000 MW in 2020 (with over 20% exported by 2020) to match the increase in demand estimated around 150 MW per year and allow development of agribusiness and mining operations. Taking into account the various projects being completed (most notably the Soubre dam which will add 275 MW in 2017), the 2020 objective will require even more investment in to electricity production. Moreover, while the network is being upgraded (more than 40,000 km of low and medium-voltage lines and 4,650 km of high voltage lines), the network losses are still estimated to be around 23%.

Energy, water, road networks and ports are being rehabilitated and developed, so that the agriculture, agro-industry and mining sectors develop further. This explains why 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.

Institutional Strength: Low (-)



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 Azerbaijan (Ba1 negative), Guatemala (Ba1 stable), Gabon (B1 negative), Ethiopia (B1 stable), Egypt (B3 stable), and Greece (Caa3 stable). Côte d'Ivoire's Institutional Strength is supported by its membership of WAEMU, reform momentum, and peer comparison analysis.

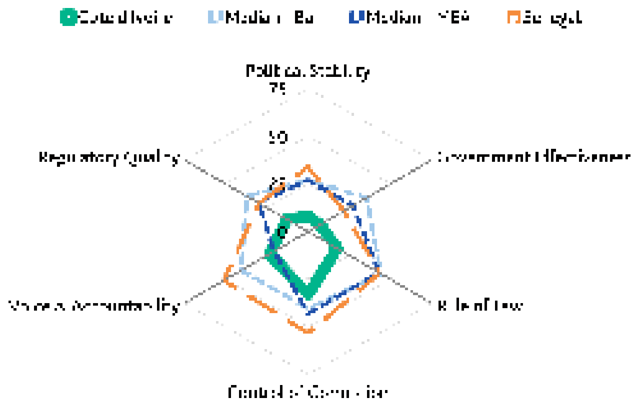
Ongoing reforms are markedly improving governance following over 15 years of political instability

The authorities have made a major push to reform the country's institutions since the return to political stability in 2011. Even though all governance indicators are on a positive trend from 2011 onwards (see Exhibit 5), we think that current indicators lag and understate the actual progress made by the government in institutional reform. To illustrate this point, while the country's score for political stability fell in 2014, political stability in the country has, if anything, strengthened since the election of president Ouattara in 2015. Moreover, Côte d'Ivoire has ranked several times among the ten best reformers in the Doing Business Report by the World Bank Group. Its rank has improved by 35 places, from 177 to 142, over 2013-16. This rapid progress also reinforces the resolve of the reform-minded staff within the administration.

Côte d'Ivoire also receives support from the international community, in particular from the IMF. The latter provided an Extended Credit Facility (ECF) from 2011-15, geared towards strengthening public policy-making institutions through specific performance criteria. A new partnership with the IMF in the form of a program with disbursement is being negotiated for validation at the end of 2016. The new program will be comprehensive and will extend from 2017-20 to match the National Development Plan. Relations with internationals institutions in general remain excellent.

Exhibit 5

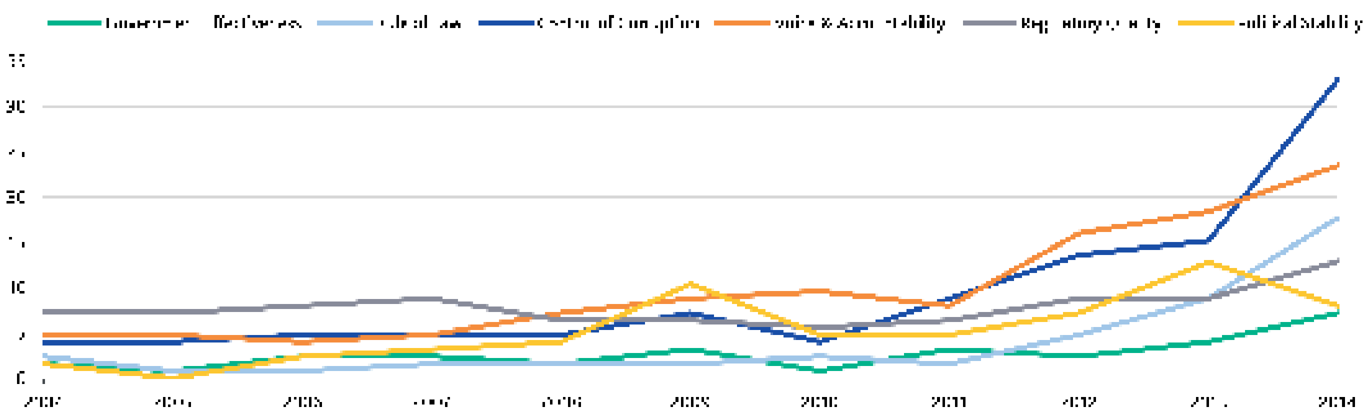
2014 Worldwide Governance Indicators are still lower than countries scored "Low" for Institutional Strength
(% rank, Moody's rated sovereigns)



Source: Worldwide Governance Indicators

Exhibit 6

Evolution of governance indicators, showing a strong institutional "takeoff" since 2011
(% rank, Moody's rated sovereigns)



Source: Worldwide Governance Indicators

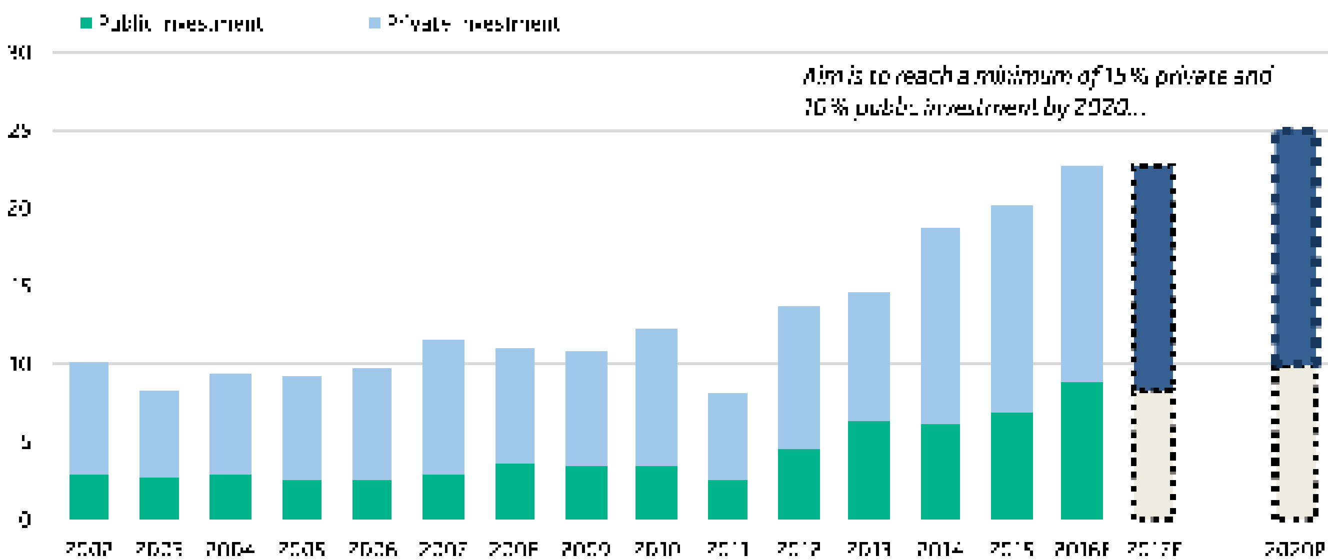
The 2016-20 National Development Plan aims to accelerate the structural changes that began under the previous plan to achieve emerging status by 2020

The second NDP aims to achieve an increase in foreign direct investment and to foster high growth by creating one of the most competitive business environments in Africa through structural reform. 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. In 2015, the CEPICI facilitated CFA 620 billion of foreign and domestic investment, which is 45% higher than in 2014. These investments were mainly in construction (26%), agribusiness (16%), and IT (15%). Although the 2020 goal to reach emerging status seems ambitious, it has clearly focused officials on improving the business climate and generating results.

Like the previous plan, this new NDP received strong backing from the international community. A consultative group in Paris pledged CFA 7,700 billion ($13.3 billion), of which CFA 6,350 was new funding from bilateral and multilateral institutions. In theory, out of the CFA 30,000 billion ($51.7 billion) needed for the plan, 40% 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. The state will contribute CFA 6,859 billion starting this year with CFA 1,644 billion. Public domestic savings that can be mobilized is estimated at CFA 5,215 billion. Consequently, the funding needed was estimated at CFA 4,425 billion ($7.6 billion) over 2017-20. The amount pledged in Paris by public institutions far exceeds the estimated funding needed. It remains a question whether the private sector will be able to invest CFA 18,700 billion ($32.2 billion). We believe it will most likely be able to, considering how in the previous NDP, the private sector funded their entire split. In the new plan, as each project is specified with corresponding public investment shares, private sector investment will be facilitated.

Thus far, the results of the previous plan have been encouraging. Growth in private investment has outpaced a strong rise in public investment over the past four years (see Exhibit 7). Public investment geared towards heavy infrastructure such as roads, or social infrastructure such as school construction, rose from 2.4% of GDP in 2011 to an expected 7.6% in 2016, while private investment increased from 5.6% to an expected 11% over the same period. While the average investment rate registered by Sub-Saharan African economies is 19.7% of GDP in 2015, according to the World Economic Outlook, Côte d'Ivoire's strongly improving trend of investment has brought its overall investment ratio to 18.7%, bringing it closer to the SSA average. The government's goal is to reach a minimum of 25% investment to GDP by 2020, of which private investment will represent a minimum of 15%. In a similar vein, foreign direct investment has more than tripled to nearly 3% of GDP in 2015.

Exhibit 7
Private investment has more than doubled recently
(% GDP)



Sources: National authorities

In addition, significant progress on social indicators is being achieved. The poverty headcount ratio (share of population living below $1.25 PPP / day) has fallen from nearly 50% after the 2011 civil war to 35% in 2015, according to the United Nations Development Programme. Poverty is still high and reducing it remains one of the top priorities of the government. Spending on the poor (including foreign financing) increased from CFA 845 billion (7% of GDP) in 2011 to CFA 1,770 billion (9.4% of GDP) in 2016.

The supply of electricity to cities and villages has significantly increased from 33% of households connected to the power grid in 2010 to 50% today. Access to water has also improved. The complete coverage of Abidjan was completed last year; previously, the city reported a deficit of 200,000 m3 per day. The distribution network in Abidjan still requires further investment. With the support of bilateral and multilateral partners, access to water will reach 82% at the national level at the end of 2017, split between urban (93%) and rural (69%). Concerning the roads, between 2011 and 2014, the government successfully laid 1,930 km of paved road (roughly one third of the total), and 7,500 km of dirt road (10% of the total). However, the authorities are aware that only a consolidation of roads after the upgrade will prevent another rapid deterioration in the road network. Public sector investment is essential for unlocking agricultural output and securing more private investment. In the NDP 2016-20, CFA 3,557 billion is earmarked for road development, including the rehabilitation of 5,000 km of dirt roads and 4,500 km of paved roads and the construction of 1,300 km of paved road and 140 bridges.

Structural reforms are being 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. 24% of the population is made up of non-nationals according to the 2014 census). As a result, the private sector is traditionally the major driver of economic growth. The country is one of the few where a local sponsor is not needed for foreign investors. In fact, government intervention in the economy slowed sharply after the crisis in the early eighties, when commodity prices (including agricultural) collapsed, and the economy currently has one of the lowest rates of state ownership of countries in Sub-Saharan Africa.

This liberalism is best exemplified by the electricity sector, which was privatized in the 1990s. As a result, Côte d'Ivoire is one of the few countries to boast a small 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 continue to grow, as further investment through public-private partnerships (PPPs) is encouraged. The IT sector, led by the telecom industry, is mainly in private hands. 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. The goal is to reach a 40% contribution to GDP by 2020 from 18% in 2013. 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. By 2015, the contribution of manufacturing to GDP stood at close to 25%. Industrialization is likely to come mainly from agribusiness and light manufacturing. To illustrate the result of these policies, last year metallurgy increased by 46%, refining by 15%, and textiles by 12%, among others.

Strategy for the Cocoa sector

While Côte d'Ivoire wants to maintain its leadership as the leading producer of cocoa beans, the government is aiming to increase the value added of the sector's exports. To dimension the potential gain, the current price of cocoa beans account for around 10% of the price of a chocolate bar. The government will provide financial incentives for industrials and exporters to move up the value chain. The import tax on raw beans is 14.6% – it will fall with each additional transformation of the raw product (pasta, semi-finished products (like butter), and finished products). There will be no tax for exports of ready-to-eat chocolate. In 2015, for the first time, Côte d'Ivoire exported 10,000 tonnes of ready-to-eat chocolate.

With the strong increase in foreign investment in Côte d'Ivoire, the authorities decided to create a High Authority for Good Governance to prevent corruption. Created in April 2015, this institution is directly under the president to guarantee its independence and autonomy. In each province, it will have select judges and police officers to carry out its decisions. Although it is too early to assess its effectiveness, its establishment points to the government's resolve to reduce corruption.

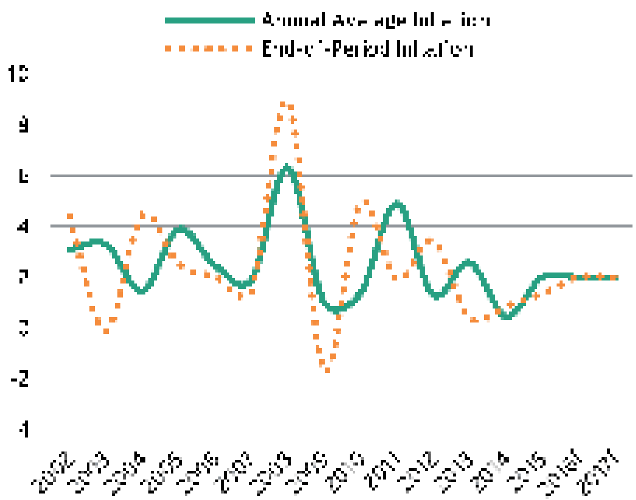
Budget and public finance reforms have been paramount in supporting the government's strategy

In order to boost the level of investment in the economy – especially by the private sector – the authorities needed to increase capital spending to revive basic infrastructure (electricity, energy, roads, water and sanitation). As spending increased, it became increasingly necessary to secure further public resources. There have been two main axes to increase the efficiency of public finance management: first, to rationalize resource mobilizing; second, to better regulate the execution of the budget. As an example of the former, the government was able to raise the recovery rate of checks paid at customs offices from 71% to 100%. To achieve this, checks are now scanned and sent to the tax office for immediate monitoring. If the check is not backed by sufficient funds, the exporter (which is now identified by a unique ID number for tax purposes) will have its license to export suspended if the funds are not provided within ten days. This system has been in place for most of 2015. Another example is the fact that the government was able to reduce the delay to reimburse VAT owed to economic actors from 13.2 months to less than 48 hours. Modifying the law on VAT so that 10% of VAT receipts were put aside as a buffer for reimbursement. These two examples underscore the improved coordination across departments involved in public finance management, ultimately resulting in more predictable revenue collection (and less corruption) and better budget execution. The authorities are promoting the use of IT to streamline public service delivery in all departments.

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

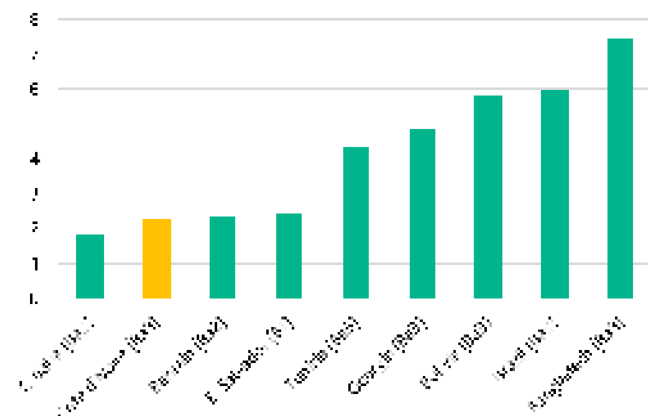
The WAEMU comprises eight countries and 115 million people sharing a common currency, the CFA franc (see Annex for further information on the CFA zone framework). As a result, it provides a rigid framework for monetary and foreign-exchange policies enforced by the Central Bank of West African States (BCEAO). The latter pursues an inflation target, which has enabled its member countries to maintain outstanding price stability over time (see Exhibit 8). In fact, among its peers, Côte d'Ivoire and Senegal (B1 positive) have the lowest level of inflation.

Exhibit 8
Moderate inflation, given WAEMU membership



Source: IMF, national authorities, Moody's Investors Service

Exhibit 9
Average annual inflation rate(2006-2017F)

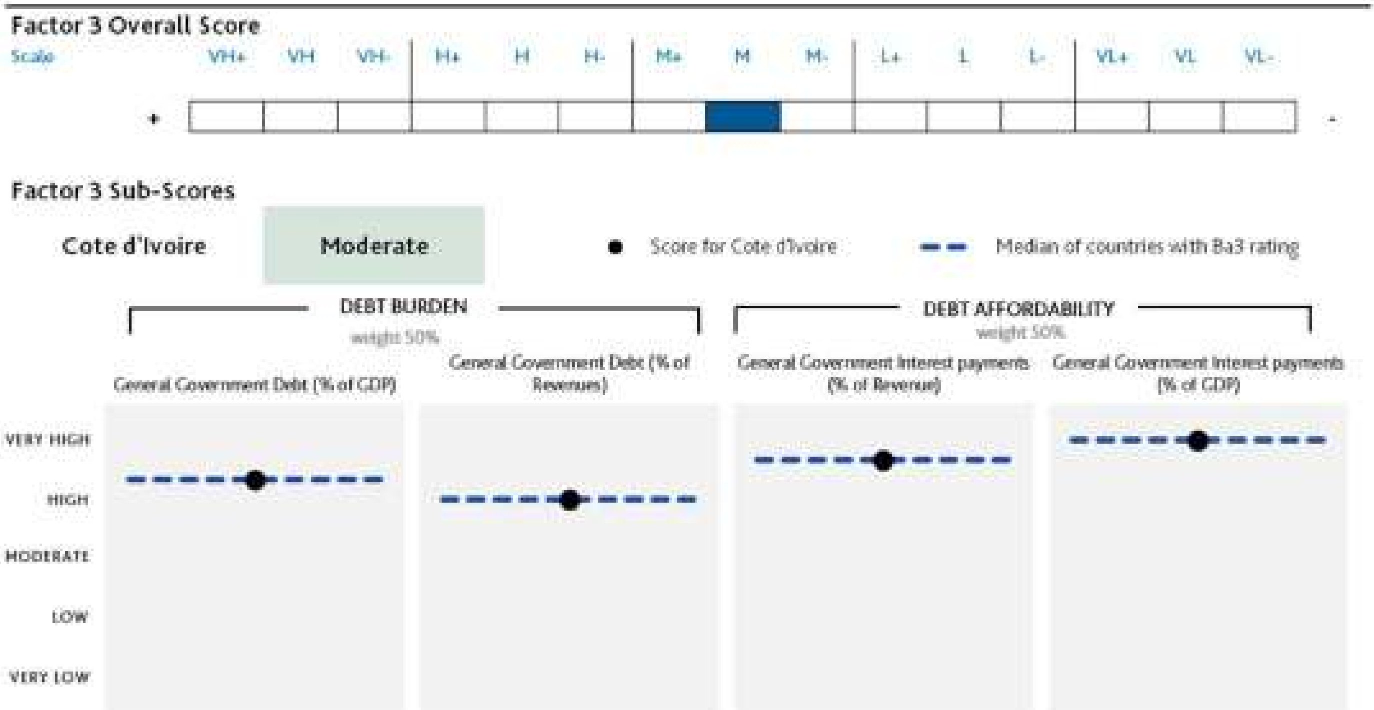


Source: IMF, national authorities, Moody's Investors Service

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.

Fiscal Strength: Moderate



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.

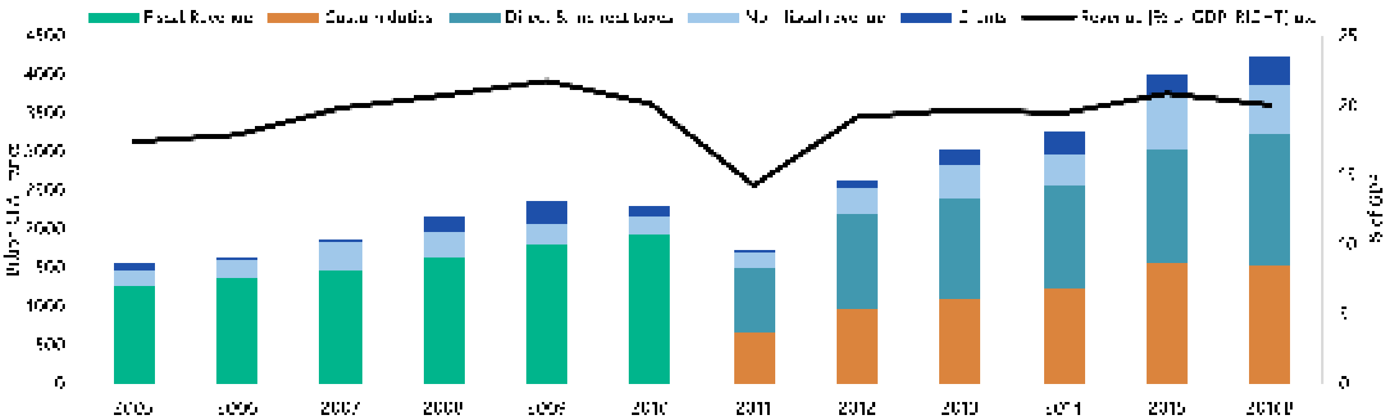
Moody's scores Côte d'Ivoire's government financial strength as “Moderate”, the same as other similarly rated sovereigns as Indonesia (Baa3 stable), Morocco (Ba1 stable), Georgia, Fiji (B1 positive), Republic of the Congo (B3 RUR-).

Budget revenues are relatively strong but have the potential to grow further

Government revenues have fluctuated around 20% of GDP, despite double-digit nominal growth over the past four years. Like most countries at this stage of development, tax revenue is mainly dependent on large corporates, which contribute 80% of revenue. These are defined as companies with revenues exceeding CFA 1 billion ($1.7 million). Such revenue are relatively diversified, reflecting the diversity of the economy, and relatively resilient. Revenues declined by only approximately 25% in 2011 when the short civil war flared up.

As illustrated in Exhibit 10, fiscal revenues have been relatively dynamic, with customs and duties revenue representing nearly half of overall fiscal revenues from 2012 onward. In particular, taxes on the export of coffee and cocoa have been declining as a share of total revenue, accounting for 12% at the end of 2015 (versus 17.4% in 2011). This illustrates the growing diversification of the economy and the declining dependence of the budget on agricultural products. The prices of these commodities are generally hedged through forward sales contracts one year in advance, thereby limiting the impact of any significant price volatility. That being said, a drop in the price of cocoa will severely affect the revenue of millions of farmers and their families, who currently get 60% of the cocoa sale price. In such a scenario, the second-round effect on the economy would be material. Separately, oil and gas revenues have almost halved in 2015 to account for 4% of tax revenues, following the drop in oil prices.

Exhibit 10
Composition of government revenue



Sources: Finance Ministry, Moody's Investors Service

The government's objective is to free up more resources so that it can finance its ambitious National Development Plan 2016-20. Though successful during the NDP 2012-15, the government is likely to have to raise tax collection even further throughout the 2016-20 period.

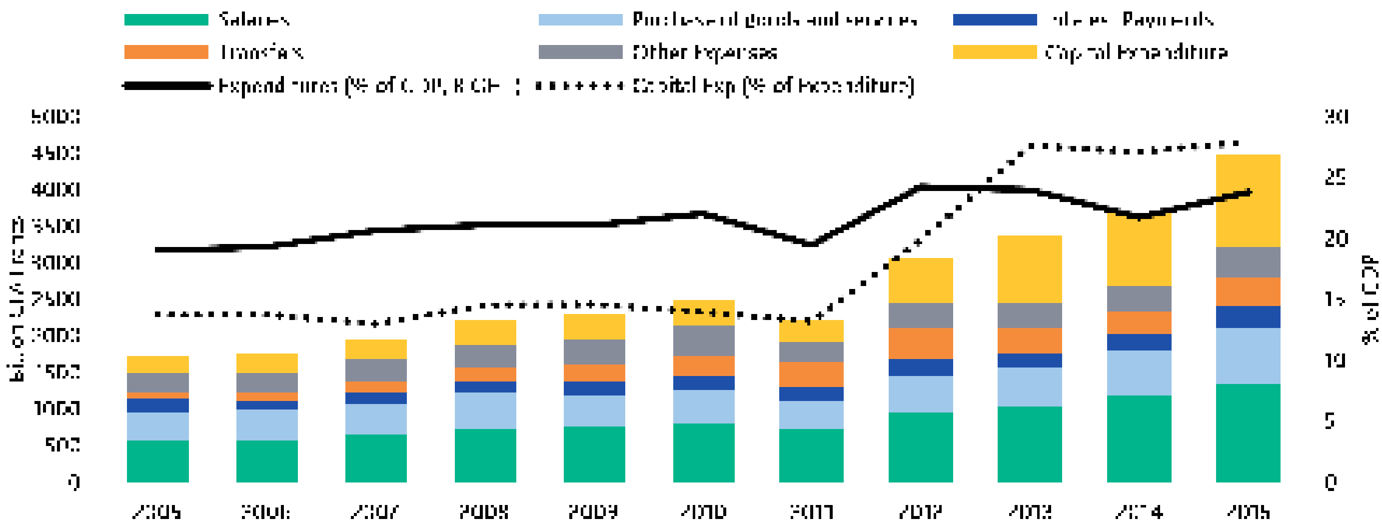
The government's strategy also targets an increase in the tax base to allow a reduction in the tax level to make the country more attractive for investors. The latter already benefit from a host of fiscal incentives estimated to cost 1.8% of GDP worth of revenue. One way of increasing revenue is to reduce the informal economy, estimated at 40% of GDP, and one of several reforms in this area is a simplified set of procedures and reduced costs and delays in the establishment of a business. Another way is to improve tax collection capacity and efficiency. In order to better identify companies capable of paying taxes, the government created a second tax identification and collection centre for mid-sized companies with revenues between CFA 400 million and CFA 3 billion. With each center covering 400-600 companies, better monitoring is expected; two new centres will be created by the end of 2016 and the coverage threshold will be lowered to CFA 300 million. Improvement in VAT collection and reimbursement is also part of this effort, yielding an increase of 0.3% of GDP since 2014. Furthermore, 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.

It should be stressed that over the last five years, the economy has benefitted from favourable agricultural commodity prices[4] and strong agricultural outputs, as political stability allowed the economy to catch up. A less favourable environment over the next five years would put even more pressure on the authorities for further reform. Consequently, to achieve the revenue growth needed to fund its 2016-20 NDP, the government committed to increase fiscal revenue by at least 0.2% a year, representing an increase of 0.6-0.8% by 2020. This is likely to be achieved by broadening the tax base, the preferred way of the government. Over the medium term, the government might change some of the tax structure, if needed.

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

Firstly, it is important to note that, with the exception of 2011, current expenditures are completely covered by tax revenues. As a result, the fiscal deficit, which remains relatively limited (-2.7% of GDP on average between 2012 and 2015), only serves to finance capital spending. The latter averaged 3% of GDP between 2005-11, or 14% of total expenditure. The current administration has managed to increase public investment to a projected 7.6% of GDP in 2016, or 31% of projected spending. This upward trend (see the dotted line in Exhibit 11) is likely to continue, as the impact of the government's NDP 2016-20 materializes.

Exhibit 11
Composition of government expenditures



Sources: Finance Ministry, Moody's Investors Service

Public-sector salaries are still the largest portion of current expenditures. Between 2000 and 2013, the public payroll increased by 120%. The authorities have been implementing catch-up increases for delayed statutory salary hikes in 2014 and 2015. Salaries, as a percentage of tax revenue (i.e., excluding non-tax revenue and aid), reached 45% in 2015, up from 42% in 2012. The objective is to return to the WAEMU community target of 35% of tax revenue by 2020. Consistent with this goal, the authorities plan on replacing only one out of two retirees, in order to advance other objective, such as “School for All”, which requires hiring many teachers. 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.

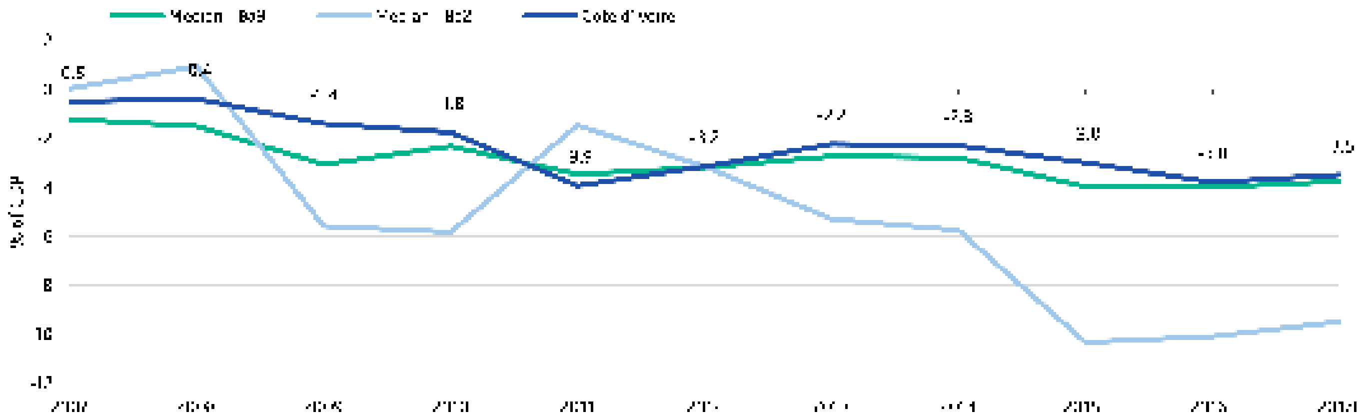
Concerning subsidies, electricity is subsidized indirectly by the government, which supplied the necessary gas to private producers when the sector was privatized. The government collects no compensation on gas provided as it was previously burned by the petroleum companies. However, when there is not enough gas, it is replaced with a costly substitute – heavy vacuum oil, HVO – at the government’s expense. The expansion of gas production should bring this amount down in the coming years. Total electricity subsidies are expected to cost only CFA 20 billion in 2016 compared with CFA 78 billion in 2015.

The total for subsidies and transfers, including electricity subsidies, transfers to national public institutions[5] (NPI), transfers to different government corporations in the public sector, and subsides for education and health, account for CFA 410 billion in 2015 or 9.2% of total expenditures. It is expected to decrease to CFA 371 billion (or 7.1% of GDP) in 2016.

Budget deficit remains under control despite expenditure growth

The deficit for 2015, despite being an election year, reached only 3% of GDP. In 2016, the budgeted deficit was 3.4%. It is likely to reach 3.8% following exceptional spending in security and defence after the terrorist attack in Grand-Bassam. In our view, the authorities are committed to a relatively low deficit, despite the cost involved in their investment plan. The objective is to bring the deficit back within the WAEMU limit of -3% by 2019. Any anticipated fiscal slippage could potentially be avoided by delaying a few projects.

Exhibit 12
Côte d'Ivoire's fiscal deficit relative to peers



Sources: Finance Ministry, Moody's Investors Service

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

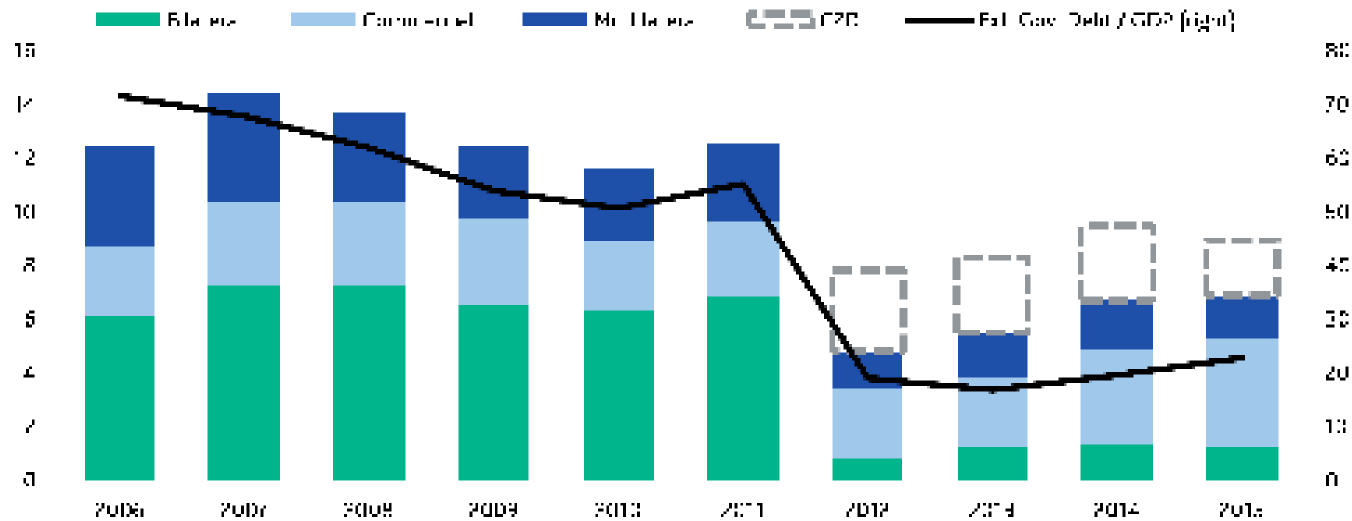
Côte d'Ivoire benefitted from the debt relief provided under the Heavily Indebted Poor Countries (HIPC) initiative. After the country reached its completion point in June 2012, the key lenders of the Paris Club – which includes the leading industrialized countries – granted Côte d'Ivoire relief on its 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 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 58.1% of GDP (approximately CFA 6,300 billion) in 2011. External debt (non-resident plus foreign currency debt) reached 23% in 2015. Exhibit 13 illustrates the country's external debt trends over the past 10 years.

Concerning Côte d'Ivoire's default in 2011, and the restructuring of the 2013 Eurobond, a detailed analysis can be found in Annex 2 at the end of this report.

Exhibit 13

Composition of external debt, by creditor
(billion $US LHS, % GDP RHS)



We consider the C2D assistance granted by France as aid spread over time and not as a debt.
Sources: Finance Ministry, Moody's Investors Service

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. Similarly, arrears on the public domestic debt were fully repaid. From a stock of CFA 350 billion ($730 million) at the end of 2013, CFA 153 billion were recognized following an audit covering the 2000-2010 period.

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 (this is why it is represented with dotted lines in Exhibit 10). 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 Agence Francaise de Développement (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 €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 €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. A second tranche worth €1.12 billion of debt forgiveness covering 2015-20 has been again granted to the country under the C2D programme.[6]

The average cost of Côte d'Ivoire's public debt is 4.3% at end-2015. Over 2015-16, gross financing needs are estimated below 8% of GDP. We do not expect the country to issue every year on the international market. Its debt strategy for the next few years allows for 44% of external borrowing, of which only 45% will be non-concessional. The bulk of the borrowing (56%) will be on the regional market in CFA franc. While only 6% of the domestic borrowing will consist of short-term debt instruments, such as T-bills, 30% will be medium-term instruments and close to 60% will be long-term instruments.

Côte d'Ivoire's public debt burden, though rising, remains in-line with peers

The debt burden is moderate, with public debt reaching 41.8% of GDP at end-2015, excluding C2D. Of the total, 55% was external debt and 46% was foreign currency-denominated debt. The average maturity of the overall debt at the end of 2015 was 7.2 years: 8.6 years for external debt and 5.3 years for domestic debt. There is virtually no short-term debt (0.3% in local currency).

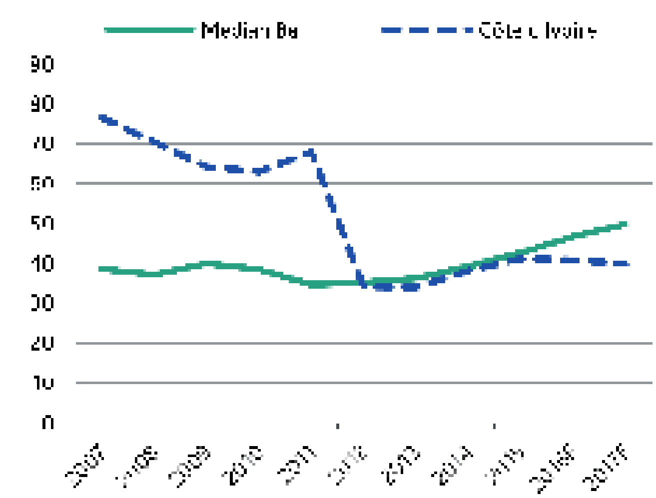
The country's external debt is 41% held by bilateral and multilateral lenders, with long maturities and low interest rates. The rest is held by international banks and Eurobond investors. Its domestic debt is mainly held by banks. Indeed, the banking sector's share has increased, in-line with the authorities forecast that more than half the country's domestic debt will be held by banks by 2016. The regional CFA market is deepening – see section on government liquidity.

The public sector has 81 companies in its portfolio, including 43 public enterprises (majority held by government). 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 stock of debt public-sector companies is relatively low, roughly CFA 674 billion at the end of 2015 (3.6% of GDP). The public company debt guaranteed by the government decreased by 25% to CFA 101 billion (0.5% of GDP). The risk of a crystallisation of contingent liabilities therefore remains low. The Société Ivoirienne de Raffinage (SIR) is likely to be restructured so that it can modernise it production apparatus. The likely cost could reach CFA300 billion 1.5% of GDP shared between the shareholders of the company. The government might finance its share by adding a small tax on fuel.

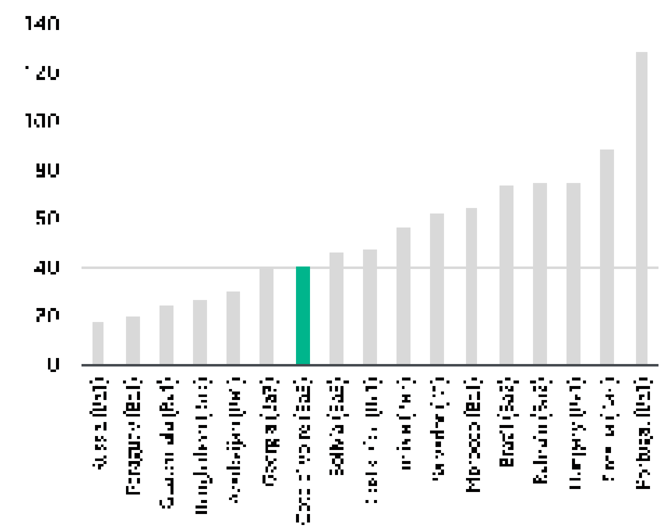
Côte d'Ivoire either outperforms or is in-line with rated peers, with respect to various debt and interest burden ratios, as illustrated by Exhibits 11-13. We expect government debt will rise to some extent from 42% of GDP today, mainly due to extraordinary spending on military and defense following the attacks in Grand-Bassam, before falling below 40% in 2019.

Exhibit 14
General government debt
(% GDP)



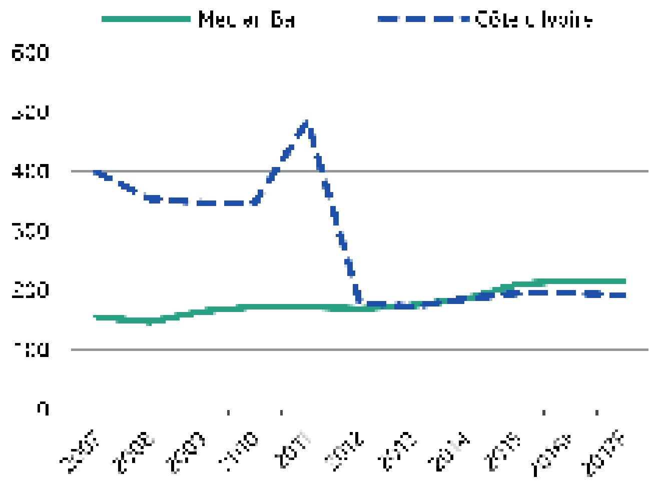
Source: Moody's, IMF, national authorities

Exhibit 15
General government debt (2016F) compared with peers
(% GDP)



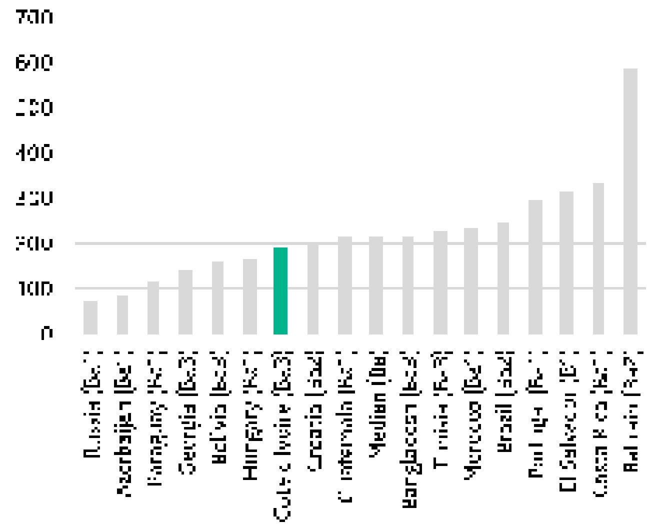
Source: Moody's, IMF, national authorities

Exhibit 16
General government debt / revenue
(%)



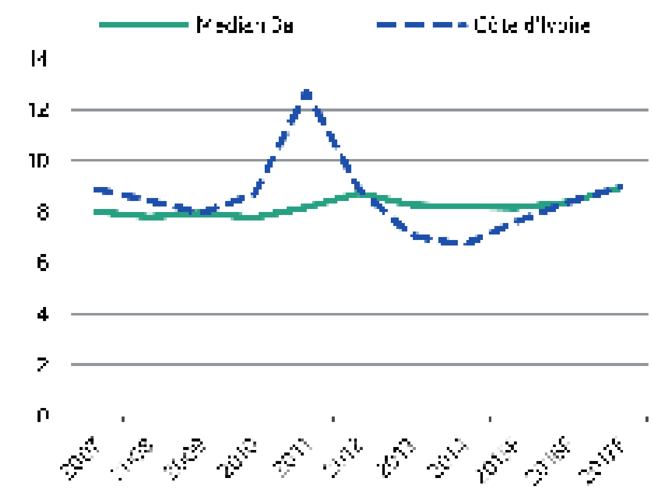
Source: Moody's, IMF, national authorities

Exhibit 17
General government debt / revenue 2016F versus peers
(%)



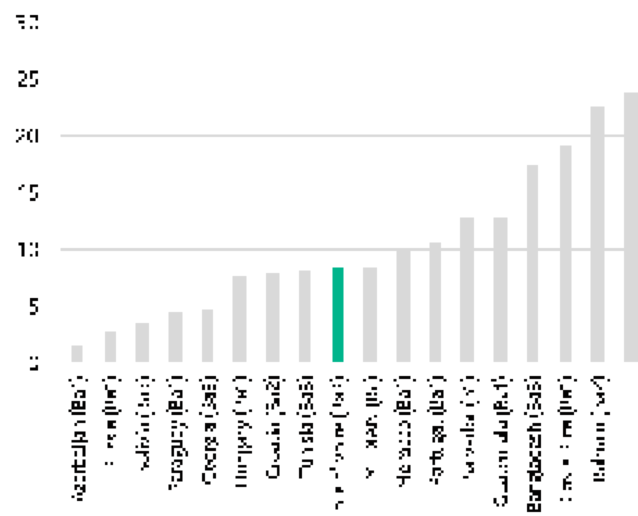
Source: Moody's, IMF, national authorities

Exhibit 18
General government interest payments / revenue
(%)



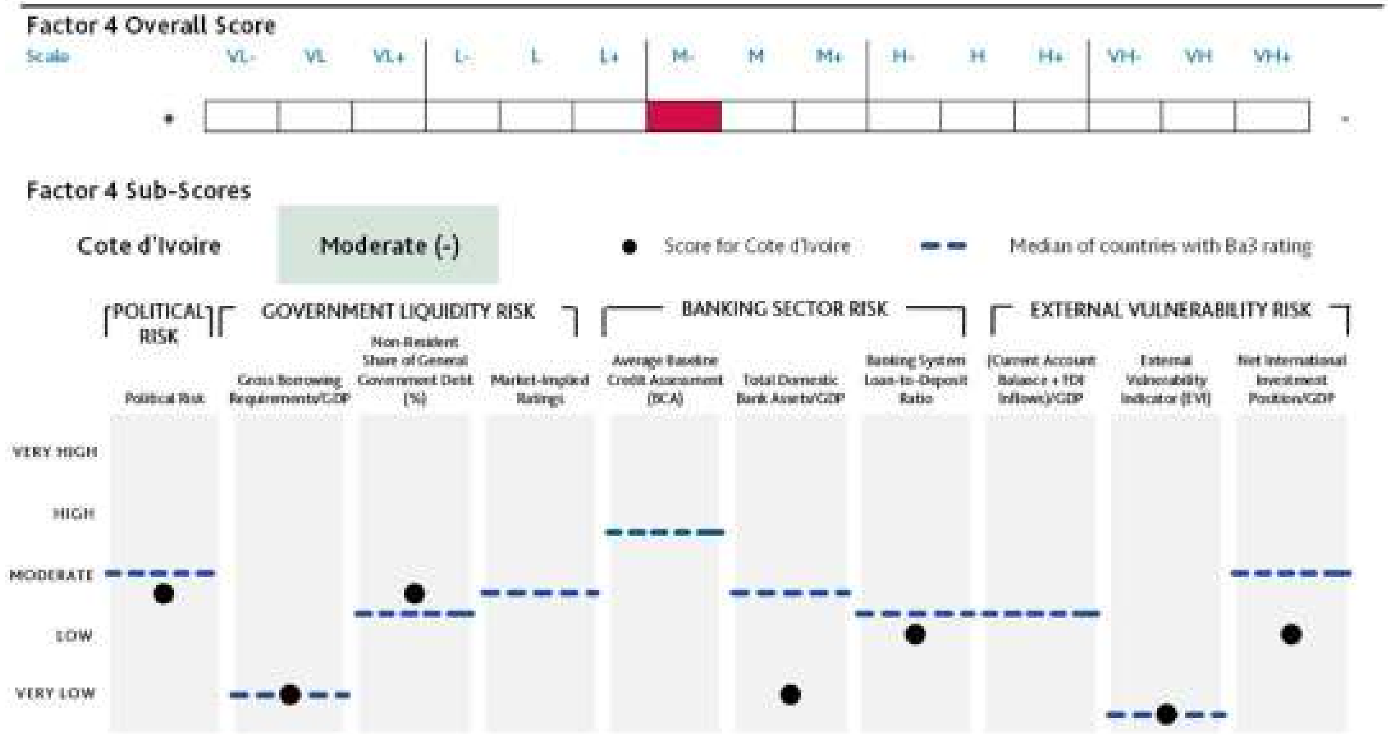
Source: Moody's, IMF, national authorities

Exhibit 19
General government interest payments / revenue 2016F versus peers
(%)



Source: Moody's, IMF, national authorities

Susceptibility to Event Risk: Moderate



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 (-)

Moody's scores government political risk as Moderate (-), the same as Latvia (A3 stable), Estonia (A1 stable), South Africa (Baa2 negative), Guatemala, Fiji, and Cambodia (B2 stable).

The orderly re-election of president Ouattara further consolidates political stability

In October 2015, president Ouattara was re-elected for a second five-year mandate in a landslide with 83.6% of the vote. His re-election dispells political uncertainty over the next five years. This event was the main reason for Moody's to lower its assessment of the country's political risk by one notch from moderate to moderate (-). Looking at what has been achieved since the short 2011 civil war (see annex 3 for more details), the new stability is essential to protect. This is why the President gave clear indications that efforts towards reconciliation will continue during his second mandate, further reducing political risk. While challenges to political stability could rise ahead of the next round of elections in 2020, we believe that those risks are likely to be contained. Sources of such risk could include the division and weakness of the political opposition, uncertainty over the development of a new generation of political leaders, and economic growth that is not more inclusive in the future.

The main threats to political stability mainly relate to the succession of current President Alassane Ouattara. 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 arise as we approach 2020. This is why the president would like, as part of his legacy, to modify the constitution through a referendum in the coming months to authorize the creation of a senate and a position of vice president who will be elected on the same ticket as the president and legitimately take over power in case of incapacity of the president. The aim is to ensure the country's institutions could withstand key-man risk in the presidency. If the population votes in favour of these measures, questions still arise on the legitimacy of the president appointing a unelected vice president before 2020 elections. However, the president's party (le Rassemblement des Républicains and its coalition partner le Parti Démocratique de Côte d'Ivoire) command a large majority in the country and are also likely to win the forthcoming legislative election at the end of 2016. The opposition remains fragmented with more than 20 parties. The Front Populaire Ivoirien (FRI, the party of the former president Gbagbo) should remain the largest opposition party and could win between 10-25% of seats in the assembly.

Political stability has also strengthened by the good relationship that the government has with the international community and France in particular, which maintains a military presence in the country and has, on several occasions, acted as a mediator in major political conflicts. A new Defense Treaty "Partenariat" was ratified by both countries, and includes a French military base that will host more than 1,000 combat troops overtime and an academy for the whole sub region. The French military action in the Sahel region fosters cooperation between the countries and ensures that instability in the region is reduced. The terrorist attack in Grand-Bassan has not had a material impact on country stability. Stability is further supported by Côte d'Ivoire's regional leadership. During his first mandate, president Ouattara was twice elected Chair of the Economic Community of West African States (ECOWAS).[7] At the beginning of Ouattara's second mandate, the country holds the presidency of the WAEMU region.

Government liquidity risks: Very Low

The government's exposure to liquidity risks is low with borrowing needs below 7% of GDP. First, the Ivorian government continues to receive strong support from bilateral and multilateral donors. It also diversified its sources of funding as it gained access to global markets by issuing two Eurobonds since 2014. Following the July 2014 issuance of a $750 million, 10-year sovereign bond, the government issued a $1 billion, 12-year Eurobond in February 2015. Reflecting its longer maturity and also adverse market movements, the 12-year bond's coupon came out a bit higher at 6.625%, compared with the 5.375% of the 10-year issue, although it attracted nearly $4 billion in bids. Those bonds have performed well on the secondary markets with yields lower than other Sub-Saharan issuers, bar South Africa. The authorities are also working with the Islamic Corporation for Development of the Private Sector (Aa3 stable) to develop Islamic finance. They have issued CFA 300 billion ($520 million) worth of sukuks[8] in two different issuances of CFA 150 billion, each with a profit rate of 5.75%. As African capital markets deepen, including the CFA zone, Islamic finance is increasingly appealing for African sovereigns. This is a way for to diversify its creditor base and provide affordable funding for the country's robust and development plans.

Moreover, the regional market remains available as an alternative. The 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. At present, the local market, particularly banks which can more easily refinance securities with the BCEAO, demonstrate a strong appetite for public debt instruments. Côte d'Ivoire has been the largest issuer in WAEMU for years being the largest economy of the Union. To illustrate this, and underscore how Côte d'Ivoire is defining the yield curve for the region, the country issued in March 2016 a 10-year bond of CFA 159 billion with a coupon of 5.9%. This was followed a few months later by a CFA 130 billion (nearly €220 million), 12-year bond with a coupon of 5.99%.

Banking system risks are also limited

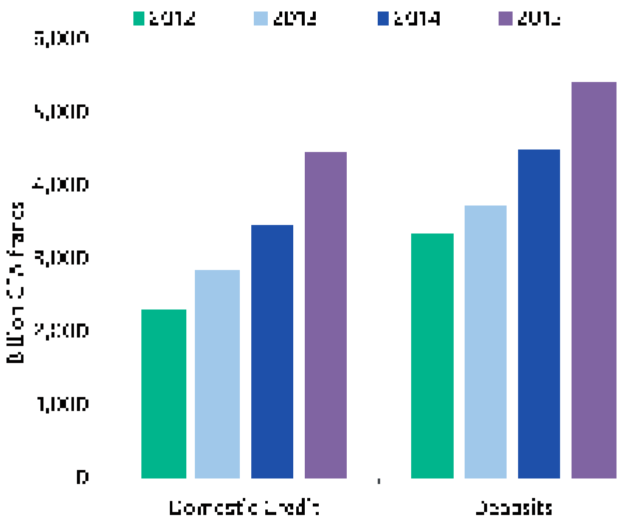
The Ivorian banking system is small, with assets reaching $13.7 billion at the end of 2015. 26 Banks account for 80% of the financial services market, with the remainder insurance companies. Micro-finance institutions are small and recovering. Most banks are foreign-owned (20), whilst the three major 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 – albeit increasing – is weak at 16.3% at the end of 2014 (22.5% 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 (25% annually) over the last two years essentially reflects in part the correlation between credit to the private sector and public investment in the economy. The economy has also caught up and confidence indicators have risen. Growth in net domestic assets has been steady, averaging 18.5% over 2012-16F. Deposits have been growing by an average of 18% over the last three years. The banking system is relatively liquid, with a loan-to-deposit ratio of 82% at the end of

2015. Roughly 92% of deposits are private sector deposits, which demonstrates the crucial role played by the private sector in the functioning of the banking system (see Exhibit 21).

Exhibit 20

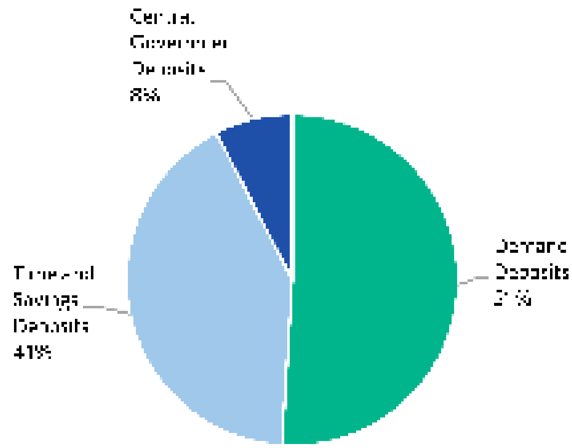
Domestic credit is increasing rapidly, but remains substantially lower than deposits



Source: IMF, Central Bank of West African States

Exhibit 21

Breakdown of deposits with commercial banks

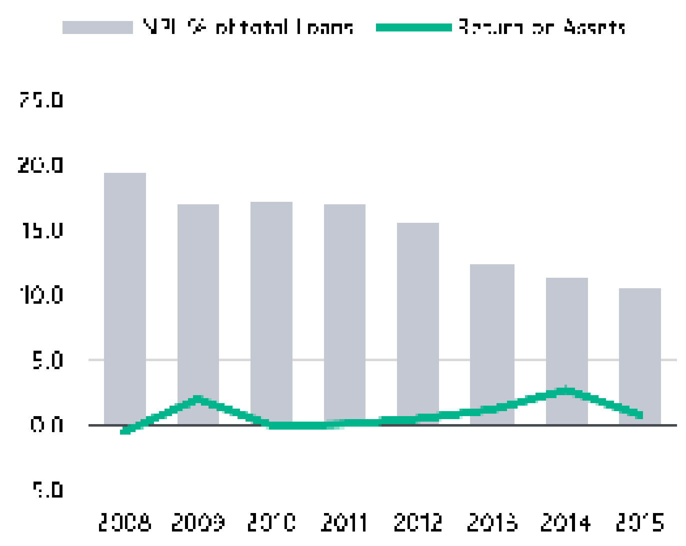


Source: IMF, Central Bank of West African States

Contingent risks to public finances posed by the banking system are limited. The banking system has proven resilient, with no bank failing despite the adverse effects of the political and security crisis in 2011. Despite some improvement, the overall quality of bank portfolios remains weak, especially among state-owned banks. In 2015, outstanding non-performing loans (NPLs) accounted for 10.6% of gross lending (16.9% in 2011) of which 67% was provisioned. A credit bureau is set to be launched in August 2016, which will help the banks to assess the credit risks of their clients. Concerning capitalization, capital adequacy has been declining to reach 8.3% at end-2015, just above the 8% threshold of the WAEMU framework. However, this ratio should rise in the future, as the delay to comply with the new regulation from Basel II to Basel III is January 1, 2018. At present, Ivorian banks' prudential ratios are in line with the average prudential ratios of other sub-Saharan African countries (see Exhibit 22-23).

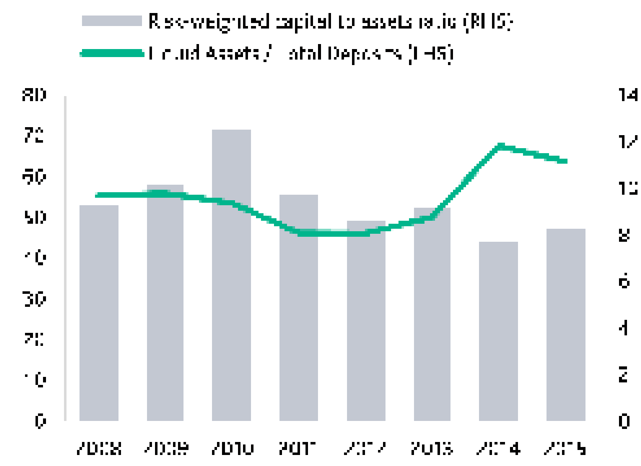
Concerning the five banks with a majority stake held by the government and which accounted for less than 10% of the country's banking assets, a restructuring is taking place. The bank for the financing of agriculture (banque pour le financement de l'agriculture) had its licensed revoked in September 2014 and is being liquidated. The authorities, via the committee for privatization, disengaged from Versus Bank and the Banque of Habitat de Côte d'Ivoire (BHCI). The Caisse National des Caisses d'Epargne de Côte d'Ivoire has received a capital injection from a Moroccan bank, diluting the government stake. Finally, the only state-owned bank remaining is the Banque National d'Investissement, which the government plans to restructure to support the government's sectoral policies and ease funding for small and medium enterprises.

Exhibit 22
NPLs have gone down and RoA has gone up, since 2010



Source: IMF, Central Bank of West African States

Exhibit 23
Prudential ratios have significantly improved since 2011



Source: 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, 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 (+1.2% of GDP between 1999 and 2015). The country's export market is well diversified with no destination accounting for more than 10% of the exports. Moreover, its external debt stands at a relatively low 29.1% of GDP (2015) and debt-service costs have also been reduced following debt cancellation in 2012.

Local banks display positive external positions, with positive net assets position of $0.4 billion. Banks are required to repatriate at least 80% of export proceeds to the CFA zone, but failed to do so for a long time. Repatriation rates have significantly risen under the pressure of the BCEAO and have almost doubled from 17.2% in 2013 to 31.6% in the first half of 2015. The BCEAO plans to continue to tighten this scheme and could impose fines to encourage compliance, which should continue to 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). 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 3% by the year 2017.

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 half of public debt is denominated in foreign currency. A devaluation would also significantly increase the cost of servicing this debt. A balance of payments crisis for the CFA zone is highly unlikely, since current account deficits have generally been covered by capital inflows. WAEMU is benefitting from the drop in energy prices, and the projections are still pointing towards an increased in official reserves for the zone over the medium term.

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) 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 even exceeded 100% between 1999 and 2012 and stood at 84.3% at the end of 2014.

Over the past decade, this 67-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 each case. 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.

Annex 1: 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.

Annex 2: 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 missed the coupon payments for December 2010, June 2011 and December 2011. The total involved $98.4 million.

» Payments resumed in June 2012. In November 2012, 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 many in the international community.

» 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 Côte 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). Once operational with an endowment of 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.

Annex 3: The 2011 short civil war

» The civil war that erupted 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. It led to the displacement of over 700,000 refugees within the country and more than 250,000 refugees in wider Sub-Saharan region. Almost all have returned, while 38,000 remain abroad, mainly in Liberia. The authorities are working in concert with the UN High Commissioner for Refugees (UNHCR) and the Liberian authorities in order to facilitate their return which was delayed because of the Ebola's outbreak. 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. This was the result of a drawn-out political crisis.

» 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.

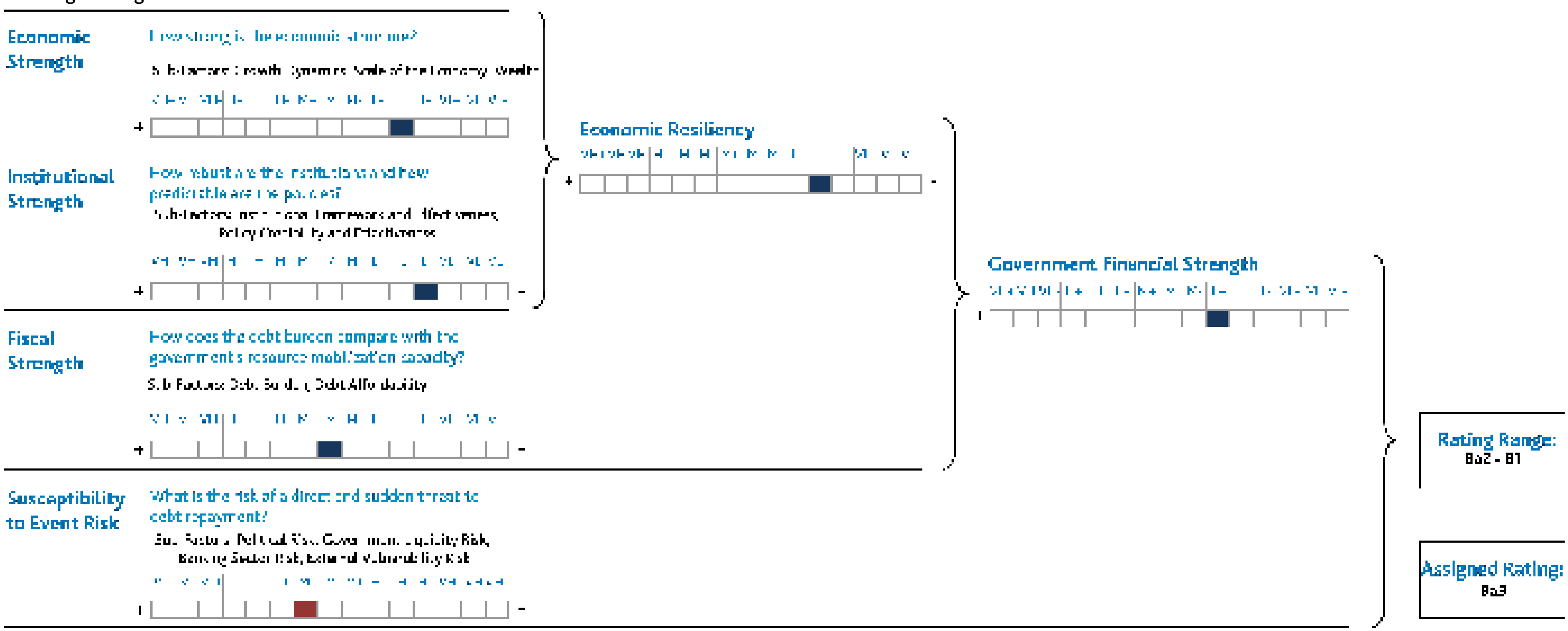
» Many strides have been made towards national reconciliation. In particular, the Commission for Dialogue, Truth, and Reconciliation (Commission Dialogue, Vérité et Réconciliation or CDVR) chaired by Mr. Charles Konan Banny[9] was created to shed light on past events. The Commission submitted its report to the President of the Republic in September 2014 and a compensation fund for the victims was created with to start CFA 10 billion earmarked in 2015. The Commission Nationale pour la Reconciliation et l'Indemnisation des Victimes (CONARIV) has now succeeded to the CDVR. An estimated 500,000 victims will potentially be compensated, though it will take years to process.

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.

Exhibit 24

Sovereign Rating Metrics: Côte d'Ivoire



Source: Moody's

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.

In terms of Economic Strength, Côte d'Ivoire ranks one notch lower than the Ba3 median of Moody's rated sovereigns. While its average real GDP growth generally ranks above rated peers, its per-capita wealth is lower. In terms of institutional strength, the country ranks below the Ba3 median, though there is good reason to believe that its metrics in this area understate the results the country has been able to achieve fairly rapidly to-date. Among its institutional strength features is its membership in the CFA zone, which confers significant balance-of-payments stability, unlike most other Sub-Saharan African countries. As for its Fiscal Strength, Côte d'Ivoire compares in-line with rated peers. Its overall debt burden – both debt stock and interest payments relative to its economy and revenue – are in-line with Ba3 peers. 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 25

Côte d'Ivoire Key Peers

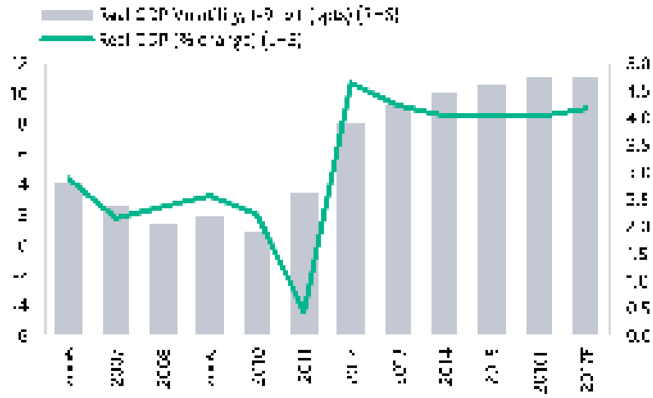
	Year	Cote d'Ivoire	Senegal	Angola	Gabon	Vietnam	[illegible]	Ba3 Median	Sub-Saharan Africa Median
Rating/Outlook		Ba3/STA	B1/POS	B1/NEG	B1/NEG	B1/STA	B1/STA	Ba3	[illegible]
Rating Range		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Factor 1		L	L+	M+	M	M+	L	L+	L+
Nominal GDP (US$ bn)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
GDP per capita (PPP US$)	[illegible]	3,516	2,431	7,344	18,680	6,024	8,468	7,384	3,208
Avg. Real GDP (% change)	2011-2020	[illegible]	5.5	[illegible]	[illegible]	5.9	5.0	[illegible]	[illegible]
Volatility in Real GDP growth (ppts)	[illegible]	[illegible]	1.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Global Competitiveness Index, percentile [1]	2015	23.0	9.7		15.0	49.5	29.2	20.8	10.5
Factor 2		[illegible]	M-	VL	[illegible]	L	M-	L+	[illegible]
Government Effectiveness, percentile [1]	[illegible]	[illegible]	21.7	2.8	[illegible]	37.0	31.0	24.8	15.0
Rule of Law, percentile [1]	[illegible]	[illegible]	[illegible]	1.5	21.0	[illegible]	[illegible]	20.5	25.5
Control of Corruption, percentile [1]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Avg. Inflation (% change)	2011-2020	2.2	[illegible]	[illegible]	2.2	5.5	[illegible]	5.2	[illegible]
Volatility of Inflation (ppts)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Factor 3		[illegible]	[illegible]	M-	L+	M-	M-	[illegible]	M-
Gen. Gov. Debt/GDP	[illegible]	11.2	[illegible]	[illegible]	41.3	[illegible]	[illegible]	41.5	11.2
Gen. Gov. Debt/Revenues	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Gen. Gov. Interest Payments/Revenue	[illegible]	7.6	7.5	[illegible]	[illegible]	[illegible]	[illegible]	7.9	7.6
Gen. Gov. Interest Payments/GDP	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Gen. Gov. Financial Balance/GDP	[illegible]	-3.0	-4.8	[illegible]	[illegible]	[illegible]	-4.6	-4.0	-3.7
Factor 4		M-	L+	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Current Account Balance/GDP	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Gen. Gov. External Debt/Gen. Gov. Debt	[illegible]	55.0	70.3	52.7	81.4		75.0	53.6	70.2
External Vulnerability Indicator	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Notes: 1. Mood's calculations. Percentiles based on our rated universe.
Source: Moody's, national authorities, IM

Chart Pack

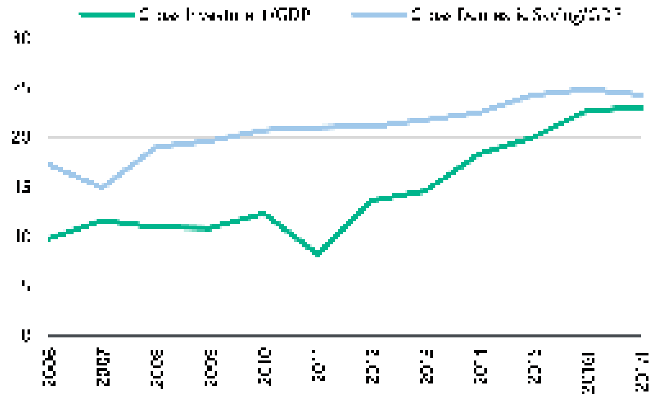
Côte d'Ivoire

Exhibit 26
Economic Growth



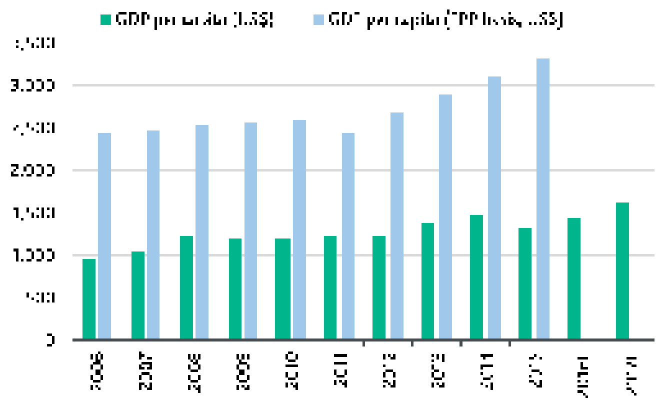
Source: Moody's Investors Service, national authorities, IMF

Exhibit 27
Investment and Saving



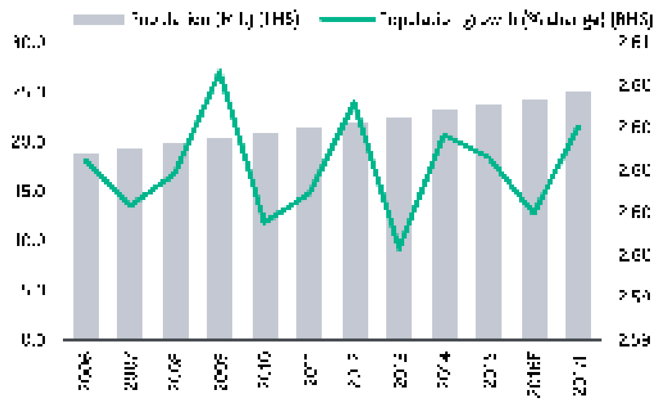
Source: Moody's Investors Service, national authorities, IMF

Exhibit 28
National Income



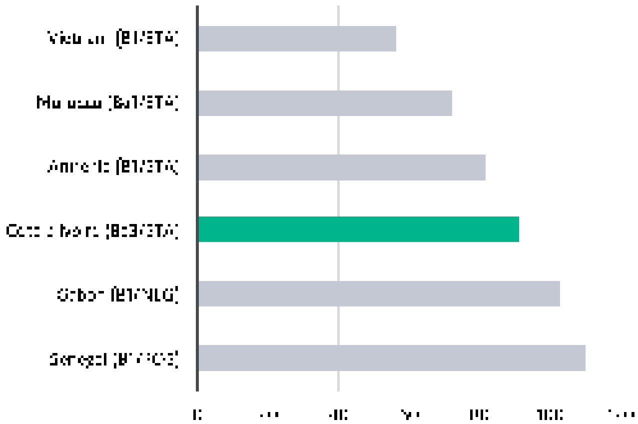
Source: Moody's Investors Service, national authorities, IMF

Exhibit 29
Population



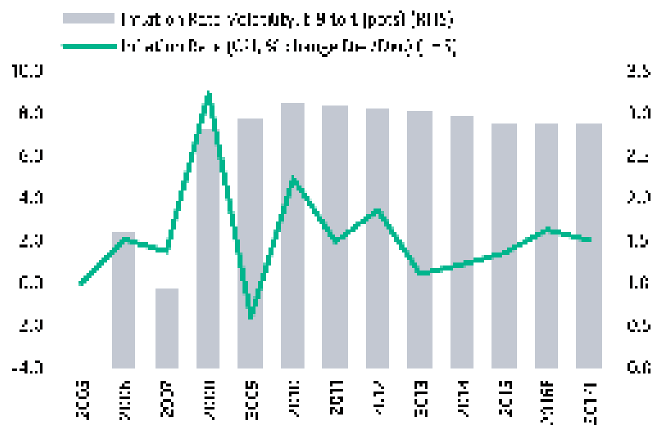
Source: Moody's Investors Service, national authorities, IMF

Exhibit 30
Global Competitiveness Index
Rank 91 out of 140 countries



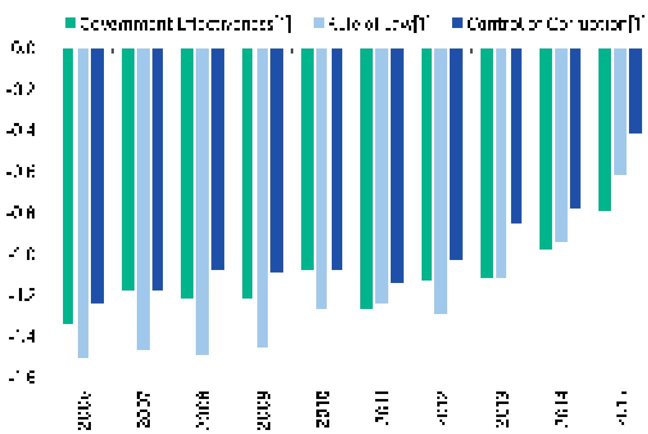
Source: World Economic Forum

Exhibit 31
Inflation and Inflation Volatility



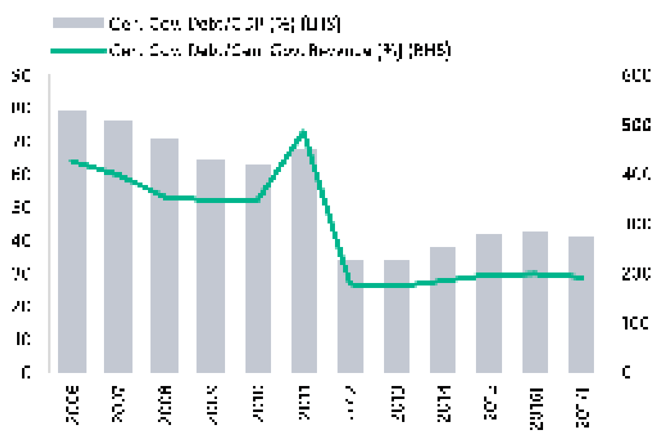
Source: Moody's Investors Service, national authorities, IMF

Exhibit 32
Institutional Framework and Effectiveness



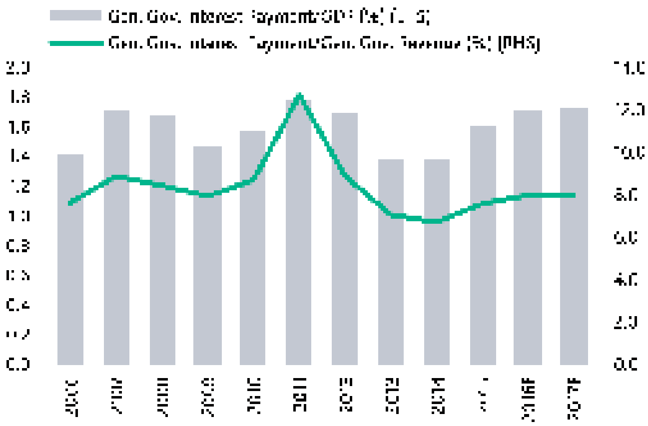
[1] Composite index with values from about -2.50 to 2.50: higher values correspond to better governance.
Source: World Bank Governance Indicators

Exhibit 33
Debt Burden



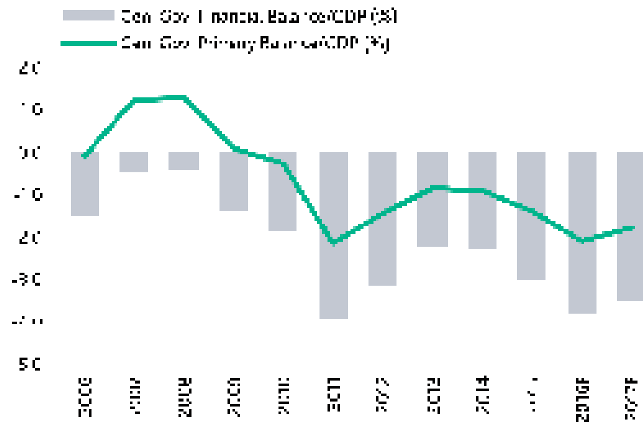
Source: Moody's Investors Service, national authorities, IMF

Exhibit 34
Debt Affordability



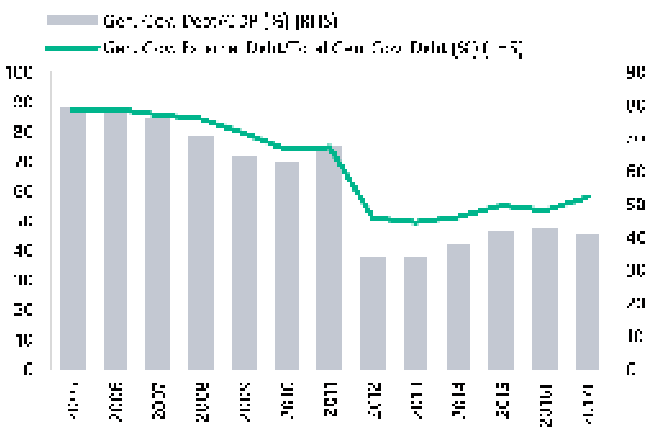
Source: Moody's Investors Service, national authorities, IMF

Exhibit 35
Financial Balance



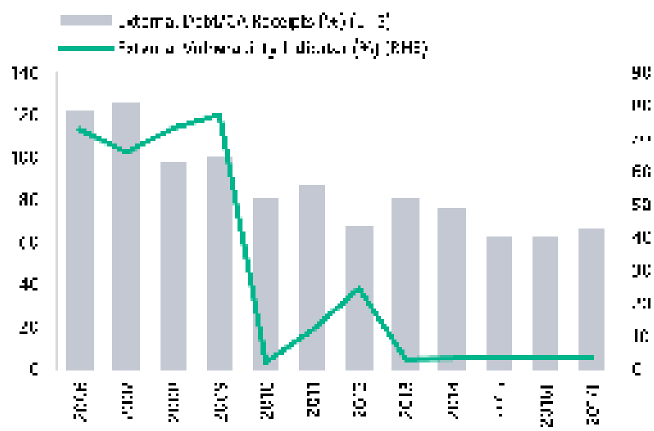
Source: Moody's Investors Service, national authorities, IMF

Exhibit 36
Government Liquidity Risk



Source: Moody's Investors Service, national authorities, IMF

Exhibit 37
External Vulnerability Risk



EVI = (Short-Term External Debt + Currently Maturing Long-Term External Debt + Total Nonresident Deposits Over One Year)/ Official Foreign Exchange Reserves
Source: Moody's Investors Service, national authorities, IMF

Rating History

Exhibit 38
Côte d'Ivoire

	Government Bonds			Foreign Currency Ceilings				
	[illegible]	[illegible]	Outlook	[illegible]		[illegible]		[illegible]
				Long-term	Short-term	[illegible]	Short-term	
[illegible]	[illegible]	[illegible]	Stable	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	Positive	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Source: Moody's Investors Service

Annual Statistics

Exhibit 39

Côte d'Ivoire

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
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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.

Source: Moody's Investors Service, national authorities, IMF

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Endnotes

1 Côte d'Ivoire has been making progress in transforming coca beans and is now the leader in grounding cocoa beans overtaking the Netherlands in 2014.

2 This means about 20 years of proven reserves at the current pace of production.

3 For example, 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 has been increasing to reach 556 MW and 450 MW, respectively. 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.

4 Between May 2012 and July 2015, the price of coco beans increased by close to 57% from $2,113 a tonne to $3,326 a tonne.

5 There are 91 national public institutions (NPIs). They should receive CFA 73 billion subsidies in 2016. A reform is in progress to reduce their number by at least 15.

6 See Moody's issuer comments called: "Côte D'Ivoire Receives Further Debt Relief from France, a Credit Positive" published in December 2014.

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

8 See Moody's issuer comment "Islamic Finance – Further DIversification of Creditor Base Via Second Sukuk Is Credit Positive," August 2016.

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

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REPORT NUMBER 1035446

Contacts

Matt Robinson 44-20-7772-5635
Vice President - Senior Credit Officer/Manager
matt.robinson@moodys.com

Yves Lemay 44-20-7772-5512
MD-EMEA Sovereign
yves.lemay@moodys.com

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