MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Côte d'Ivoire's Ba3 rating; changes outlook to positive from stable

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New York, June 27, 2022 -- Moody's Investors Service ("Moody's") has today affirmed Côte d'Ivoire's Ba3 local and foreign currency long-term issuer ratings and foreign currency senior unsecured ratings and changed the outlook to positive from stable. The sovereign's short-term issuer ratings were also affirmed at Not Prime (NP).

The positive outlook reflects broad-based signs of improvements in Côte d'Ivoire's credit profile. Economic strength is increasing, supported by growing diversification and competitiveness. Moreover, Cote d'Ivoire's governance strength is also rising, with a lengthening track record of improving public finance management. If maintained, these improvements would contribute to a significant reduction in the debt burden and a strengthening of the overall credit profile which may lead to an upgrade.

The affirmation of the ratings at Ba3 balances the economy's robust growth prospects and macro financial stability derived from participation in the West African Economic and Monetary Union (WAEMU) with still relatively weak (albeit improving) institutional strength, low per-capita income, as well as susceptibility to event risk including some political risk.

Côte d'Ivoire's local and foreign currency country ceilings remain unchanged at Baa2 and Baa3, respectively. The local currency country ceiling is four notches above the sovereign rating to take into account the moderate footprint of the government in the economy, as well as the mitigating impact on external imbalances of Cote d'Ivoire's membership of the WAEMU. The country is the largest economy of the Union and the largest contributor to the pool of foreign exchange reserves. The foreign currency country ceiling maintains a one-notch gap to the local currency country ceiling to reflect Moody's assessment of limited, albeit non-zero, transfer and convertibility risks due to the French Treasury guarantee of the peg between the CFA franc and the euro.

RATINGS RATIONALE

RATIONALE FOR CHANGING THE OUTLOOK TO POSITIVE FROM STABLE

INCREASING ECONOMIC SHOCK ABSORPTION IS SUPPORTED BY RISING DIVERSIFICATION AND ROBUST GROWTH PROSPECTS

The first driver of the positive outlook relates to the increasing resilience of the economy supported by sustained strong growth prospects and improving diversification and competitiveness. Côte d'Ivoire's GDP has been growing at a fast rate of 7.4% on average since 2012 to reach close to $70 billion in 2021. This trend looks set to continue and Moody's forecasts 7% annual real GDP growth over the next three years until 2025, which may further strengthen economic shock absorption capacity.

The growth trajectory is supported by the implementation of the National Development Plan (NDP) 2021-2025, which will gather pace in 2022 following the recent organization of its main funding conference. The latter saw bilateral partners and multilateral institutions pledging $26 billion, which is $9 billion more than expected by the authorities. Given the track record of the administration in successfully implementing the two previous NDPs, Moody's expects that most of the targets will be achieved including increasing the investment rate above 25% of GDP and FDI above 2% of GDP, maintaining a moderate debt risk, broadening the tax base by 1 percentage point of GDP and maintaining government capital spending around 6.6% of GDP over the period.

Côte d'Ivoire's economic resiliency was again tested during the pandemic shock. The economy grew by 2% in 2020 in real terms while most of its Ba-rated peers recorded an economic contraction. Côte d'Ivoire also posted a strong economic recovery with its real GDP growth reaching 7% in 2021. The economy is likely to continue its diversification process, supported by increased private sector investment, especially in the energy and manufacturing sectors boosting economic productivity and competitiveness. Moreover, significant developments expected in mining and hydrocarbon production in the coming years will also continue to support the economic diversification.

IMPROVED MANAGEMENT OF PUBLIC FINANCES WILL BE FURTHER SUPPORTED BY THE ONGOING STRENGTHENING OF THE COUNTRY'S INSTITUTIONAL FRAMEWORK

The second driver supporting the positive outlook is the continuing improvement in public finance management as well as in the structure of general government debt in terms of extending its maturity and significantly reducing exchange rate risk. In particular, the country's track record of strong fiscal management, through public finance reforms has allowed for a significant increase in government capital spending through enhanced resource mobilisation and improvements in budget execution. Moreover, Cote d'Ivoire's institutional framework has been steadily strengthening over the years as illustrated by the significant improvement in its Worldwide Governance Indicators since 2012, albeit from very low levels at that time. A continuation of this trend improvement would further buttress resiliency.

General government debt is set to stabilize and start declining from 2024 given the government's track record in fiscal consolidation, which is likely to resume following the pandemic-related expenditure support and fiscal deterioration associated with support to the population hit by energy and food price hikes. The budget deficit averaged 2.4% of GDP during the period 2012-2019, while government capital spending averaged almost 5% of GDP over the same period. However, the shocks of the pandemic and now, higher energy and food prices have led to higher deficits at 5.4% of GDP on average between 2020 and 2022. This deterioration is likely to be reversed. In particular, tax collection, which remains one of the key credit constraints, has continued to improve reaching 13% of GDP at the end of 2021 against 12.3% in the budget, reflecting some of the government's initiatives which include sustained digitalization efforts among other structural measures concerning revenue collection. Moody's expects that the government would reduce its capital spending at the expense of the implementation of the NDP if required to achieve its fiscal targets, similar to the policy response previously observed. The government aims to return the budget deficit to within the 3% of GDP WAEMU deficit threshold by 2025. Moody's baseline forecast implies that this objective is likely to be reached, allowing the debt burden to decline.

Taking into account the likely path for the deficit and nominal GDP growth, Moody's expects government debt to GDP to reach 53.5% of GDP in 2023, from 52.3% at end of 2021 (up from 47.6% in 2020).

Sustained further improvements in economic and institutions and governance strength would contribute to a more significant reduction in the debt burden and a strengthening of the overall credit profile.

RATIONALE FOR AFFIRMING OF THE Ba3 RATING

The affirmation of Côte d'Ivoire's ratings at Ba3 is primarily supported by the economy's resilience, growing diversification and healthy growth prospects, which are underpinned by structural reforms and public investment in infrastructure. Additional credit support comes from the country's participation in the West African Economic and Monetary Union (WAEMU) and a stable financial sector.

Credit constraints include low-income per capita, which was $5,347 on a PPP-basis in 2021, alongside regional disparities and high youth unemployment rates which both exacerbate social risks. Weak although improving institutions and governance strength remains a long-term credit constraint. Côte d'Ivoire's is also susceptible to event risk, driven mainly by its government liquidity risk, banking sector risks and by political risks given the present, albeit declining, political tensions within the country.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

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

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

Exposure to social risks is highly negative (S-4 issuer profile score), mainly related to poverty, health and safety, low education outcomes, and relatively poor access to basic services. Safety issues have significantly improved since the 2010-11 violent civil conflict, and the successive electoral cycles have allowed for the polarized political scene to ease gradually. Additionally, growing income inequality could threaten political stability in the future. Notwithstanding its high levels of growth over the last decade, low wealth levels, and high, albeit improving, levels of poverty remain.

Côte d'Ivoire's weak institutions and governance profile constrain its rating, as captured by a moderately negative G issuer profile score (G-3). The country's overall institutional framework was severely damaged by the civil conflict in 2010-11. Nonetheless, over the past decade, the country's institutional framework has seen a positive trend, as witnessed in the improving Worldwide Governance Indicators, reaching on average the 25th percentile in 2019 from below the 10th percentile in 2011.

GDP per capita (PPP basis, US$): 5,781 (2021) (also known as Per Capita Income)

Real GDP growth (% change): 7% (2021) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 4.2% (2021)

Gen. Gov. Financial Balance/GDP: -5% (2021) (also known as Fiscal Balance)

Current Account Balance/GDP: -2.3% (2021) (also known as External Balance)

External debt/GDP: 32.8% (2021)

Economic resiliency: ba2

Default history: At least one default event (on bonds and/or loans) has been recorded since 1983.

On 22 June 2022, a rating committee was called to discuss the rating of Cote d'Ivoire, Government of. The main points raised during the discussion were: The issuer's economic fundamentals, including its economic strength, have not materially changed. The issuer's institutions and governance strength, have materially increased. The issuer's fiscal or financial strength, including its debt profile, has materially increased. The issuer's susceptibility to event risks has not materially changed.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Moody's would likely upgrade Cote d'Ivoire's ratings if upward pressure continued to develop, especially if fiscal and debt metrics improved faster than currently expected, which may reflect further improvements in the economy's shock absorption capacity and/or the country' institutional strength and governance. Moreover, a durable reduction in political risk if the demands of the various parts of the population were addressed without material fiscal costs, would also put upward pressure on the ratings.

Conversely, Moody's would likely change the outlook back to stable if the government were unable to keep the fiscal deficit at a moderate level pointing to weakening fiscal strength. The re-emergence of significant political and social tensions that would hinder the country's medium-term growth prospects would also put downward pressure on the ratings; so would rising macroeconomic imbalances that jeopardized medium- to long-term growth prospects.

The principal methodology used in these ratings was Sovereign Ratings Methodology published in November 2019 and available at https://ratings.moodys.com/api/rmc-documents/63168 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this credit rating action, if applicable.

The local market analyst for this rating is Aurelien Mali, +971 (423) 795-37.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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At least one ESG consideration was material to the credit rating action(s) announced and described above.

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Elisa Parisi-Capone
Vice President - Senior Analyst
Sovereign Risk Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Marie Diron
MD - Sovereign Risk
Sovereign Risk Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service, Inc.

250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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