MOODY'S

Rating Action: **Moody's upgrades Côte d'Ivoire to Ba2, changes the outlook to stable**

01 Mar 2024

New York, March 01, 2024 -- Moody's Investors Service ("Moody's") has today upgraded the Government of Côte d'Ivoire's local and foreign currency long-term issuer ratings and foreign currency senior unsecured ratings to Ba2 from Ba3. The outlook has been changed to stable from positive. The sovereign's local and foreign currency short-term issuer ratings were affirmed at Not Prime (NP).

The upgrade reflects Côte d'Ivoire's increased economic resiliency supported by growing economic diversification, rising income levels from a low level and robust economic prospects, all driven by rising private sector investments and a track record of steady improvements in governance. Additionally, ongoing fiscal consolidation efforts under the current IMF program and efficient management of the government debt profile, will result in durable improvements in government fiscal metrics and reduced liquidity risks.

The stable outlook reflects balanced risks over the medium term. Moody's expects that Côte d'Ivoire's economic performance will be broadly resilient to shocks emanating from the political crisis in West Africa while domestic political will likely continue to wane. Despite the rapid growth of its economy, the risks of emergence of large imbalances remain low in part thanks to the macro financial stability derived from participation in the West African Economic and Monetary Union (WAEMU) and the large IMF programme. The commitment to fiscal consolidation means the gradual decline of the debt burden towards 50% of GDP by 2030, and associated improvement in government fiscal metrics, are unlikely to be derailed.

Concurrently, Côte d'Ivoire's local and foreign currency country ceilings have been raised to Baa1 and Baa2 from Baa2 and Baa3, respectively. The local currency country ceiling remains 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 risks of Côte 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 THE UPGRADE TO Ba2 FROM Ba3

COHESIVE AND ROBUST ECONOMIC GROWTH TO CONTINUE, STRENGTHENING ECONOMIC RESILIENCE AND INCOME LEVELS IN THE MEDIUM TERM

The first driver of the upgrade to Ba2 is the increasing resilience and diversification of Côte d'Ivoire's economy, which is underpinned by robust growth prospects and rising competitiveness. The country's real GDP has been on a rapid upward trajectory, growing at an average rate of 7.1% between 2012 and 2023, and reaching an estimated $79 billion in 2023. Moody's expects this trend to persist, with an anticipated average real GDP growth of 7% until 2026, a forecast supported by the implementation of the National Development Plan (NDP) 2021-2025. Parallel to this, the nation's income levels have been rising quickly from low levels, bolstering its capacity to manage economic or fiscal shocks. Moody's expects GDP per capita to exceed $10,000 (PPP basis) by 2030 against $6,485 at the end of 2022.

Increased private sector investment, especially in energy and manufacturing, supports the economy's growth prospects, competitiveness, and diversification. Notably, over the last decade, private investment growth has average 8.6%. The economy's growth and diversification are set to further benefit from the expansion of hydrocarbon production, driven by increased output from the Baleine offshore oilfields.

Complementing these elements, Côte d'Ivoire's institutional strength and governance have continuously improved since 2011, as reflected in worldwide governance indicators, thereby reinforcing the nation's overall economic performance and ability to manage shocks effectively.

FISCAL STRENGTH METRICS LIKELY TO CONTINUE TO GRADUALLY IMPROVE IN THE MEDIUM TERM

The second driver of the upgrade is the government's fiscal consolidation efforts, evidenced by the reduction in the fiscal deficit from 6.8% of GDP in 2022 to 5.3% in 2023 and expected to continue improving. This is primarily accounted for by an increase in total tax revenue and the implementation of fiscal reforms. The implementation of new tax measures last year, as part of the new IMF programme, bolsters the likelihood that the government will be successful in its efforts to enhance revenue mobilization. Moody's expects this strategy to result in an increase in overall tax revenue by at least 0.5% of GDP each year for the next two years. Government revenue, excluding grants, is projected to rise from 14.8% of GDP in 2022 to 17.0% in 2025.

Given these factors, Moody's expects the fiscal deficit to continue its contraction, decreasing to 4% of GDP in 2024 and aligning with the WAEMU threshold of 3% by 2025. General government debt declined slightly to 56.4% in 2023 from 56.8% of GDP in 2022 and Moody's expects it to fall further towards 50% of GDP by 2030. Fiscal consolidation is also gradually mitigating liquidity risk through reduced funding requirements; this risk is further alleviated by the authorities' proactive management of the debt maturity profile. This proactive strategy is exemplified by the recent eurobond issuance, a portion of which was designated for the settlement of existing external liabilities and commercial loans, thus further improving the debt maturity profile.

DOMESTIC POLITICAL RISK LIKELY TO CONTINUE TO EASE DESPITE EXISTING CREDIT CONSTRAINTS

Moody's expects domestic political tensions to continue to ease in the coming years. This trend is further evidenced by the peaceful regional and local governments elections that took place in September 2023 in which all political parties participated. This is important given the country's relatively weak institutional and governance framework which remains a long-term constraint of Côte d'Ivoire's credit profile despite its steady improvements over the years. High poverty levels and growing income inequality could threaten political stability in the future, regardless of the country's high rates of growth. While the authorities continue to prioritise efforts to make economic growth more inclusive and access to basic services has improved, exposure to social risks remains elevated. Côte d'Ivoire remains also moderately exposed to environmental risks through droughts, deforestation, and land degradation given the importance of the agricultural sector which provides income for two-thirds of the population and accounts for the largest share of export revenue.

RATIONALE FOR CHANGING THE OUTLOOK TO STABLE FROM POSITIVE

At the higher rating level of Ba2, Côte d'Ivoire's stable outlook balances upside and downside risks. These include potential credit risks stemming from rising political tensions in West Africa as well as the possible re-emergence of domestic political tensions ahead of the next presidential election in 2025, against upside risks from the country's strong economic performance and rapidly increasing income levels. In particular at the regional level, a further deepening of the political and economic rift between the newly formed Alliance of Sahel States (AES) - which includes Burkina Faso, Mali and Niger - and other West African economies could ultimately also affect the functioning of the WAEMU over the medium term. Membership to the WAEMU supports Côte d'Ivoire credit profile. For example, the risk of large imbalances emerging due to the country's rapid economic growth remain low in part thanks to the macro financial stability derived from participation in the WAEMU.

Risks weighing on fiscal strength remain present from social to security and defense spending pressure on government expenditures. For example, poverty levels remain high at around 35% at the end of 2022 and reducing poverty remains one of the government's top priorities. However, the government's commitment to fiscal consolidation embedded in the current IMF programme objectives appear credible given the authorities' existing track record and the quality of tax policy measures taken so far.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

Côte d'Ivoire's ESG Credit Impact Score CIS-4 indicates that ESG considerations have a discernible impact on the current rating, which is lower than it would have been if ESG risks were not present. This score reflects a high exposure to social risk, a moderate exposure to environmental risk, and moderate governance that, along with low-income levels, hinder the country's resilience to social and environmental risks.

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

Côte d'Ivoire's S-4 issuer profile score reflects the country's high exposure to social risks 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 G-3 issuer profile score reflects the country's moderate governance. The country's overall institutional framework was severely damaged by the civil conflict in 2010-11. Nonetheless, over the past decade, it has improved, as witnessed in improving Worldwide Governance Indicators, reaching on average the 30th percentile in 2022 from below the 10th percentile in 2011.

GDP per capita (PPP basis, US$): 6,486 (2022) (also known as Per Capita Income)

Real GDP growth (% change): 6.7% (2022) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 5% (2022)

Gen. Gov. Financial Balance/GDP: -6.8% (2022) (also known as Fiscal Balance)

Current Account Balance/GDP: -6.9% (2022) (also known as External Balance)

External debt/GDP: 38.6% (2022)

Economic resiliency: ba1

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

On 27 February 2024, a rating committee was called to discuss the rating of the 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 not materially changed. The issuer's governance and/or management, have not materially changed. The issuer's fiscal or financial strength, including its debt profile, has materially increased. The systemic risk in which the issuer operates has not materially changed. The issuer's susceptibility to event risks has not materially changed.

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

Upward pressure on the rating could develop as a result of (1) a strong continuation of robust and balanced growth that leads to higher income levels and better credit fundamentals beyond Moody's expectations underpinning the Ba2 rating positioning, especially fiscal metrics; (2) further material improvements in governance and competitiveness; (3) a durable further reduction in political risk if the demands of the various parts of the population are addressed without material fiscal costs.

Downward pressure would stem from (1) an inability to keep the fiscal deficit at a moderate level translating into weakened fiscal strength; (2) the re-emergence of significant political and social tensions that would hinder the country's medium-term growth prospects; or (3) rising macroeconomic imbalances that would jeopardize the sustainability of growth.

The principal methodology used in these ratings was Sovereigns published in November 2022 and available at https://ratings.moodys.com/rmc-documents/395819. 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.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on https://ratings.moodys.com.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1355824.

The Global Scale Credit Rating(s) discussed in this Credit Rating Announcement was(were) issued by one of Moody' affiliates outside the EU and UK and is(are) endorsed for use in the EU and UK in accordance with the EU and UK CRA Regulation.

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