FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Cote d'Ivoire at 'B+'; Outlook Positive

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Fitch Ratings - Hong Kong - 17 Dec 2020: Fitch Ratings has affirmed Cote d'Ivoire's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'B+' with a Positive Outlook.

A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS

Cote d'Ivoire's 'B+' rating balances strong economic growth prospects and relatively low fiscal and external deficits and debt ratios against enduring political risks, low development indicators and comparatively high commodity dependence.

The Positive Outlook reflects our expectation that the authorities' continued adherence to fiscal prudence and reforms will gradually reverse the temporary deterioration in public finances from the coronavirus pandemic shock and stabilise government debt at well below the forecast 'B' and 'BB' medians. It also reflects our expectation that domestic political tensions will gradually ease and the Ivoirian economy will resume a strong growth path as the impact of the pandemic fades, while comparatively strong macroeconomic management will continue to prevent any significant imbalances.

Political tensions persist following the October presidential election, although a fully-fledged crisis and significant disruptions to the economy have been averted. Main opposition parties boycotted and attempted to block the holding of the election over disagreements with the government regarding the management of the electoral process and the constitutionality of president Alassane Ouattara's candidacy to a third term. The opposition has abandoned its plan to create a national transition council as an alternative government following the election, but continues to call for a new vote. It is yet to recognise the victory of President Ouattara, which has been validated by the Constitutional Council and recognised by the international community.

We expect ongoing discussions between government and opposition to gradually ease tensions in light of recent mutual concessions made by both sides in recent weeks. However, threats to stability persist as heightened polarisation could amplify ongoing security risks amid entrenched regional fault lines. The upcoming parliamentary elections, which are expected in 1H21 and the opposition's demands for electoral reform, the release of its arrested members and the unhindered return of some its leaders from overseas could constitute new flashpoints with the government. Cote d'Ivoire lacks any track record of peaceful transition in power since independence.

Our forecast for the general government (GG) deficit trajectory is consistent with the authorities' goal of narrowing the budget gap to 3% of GDP in 2023, gradually reversing the deterioration from the pandemic shock, in line with their track record of fiscal prudence since 2012. We project the GG deficit to widen to 5.9% of GDP in 2020 from 2.3% in 2019, still below the forecast 'B' median of 7.7%, and narrow to 4.8% of GDP in 2021 and 3.9% in 2022 as pandemic-related spending is gradually phased out, remaining smaller than the forecast 'B' medians of 7% and 4.8%, respectively.

Political dissension and the uncertainty surrounding the course of the health crisis pose downside risks to the outlook for public finances. Disagreements with chocolate multinationals over the implementation of the Living Income Differential revenue supplement for cocoa farmers, which was jointly agreed with Ghana, could also raise needs for a government subsidy of the guaranteed cocoa farm-gate price.

The government's fiscal consolidation plans are premised upon tax policy and administrative reforms measures to enhance its fiscal revenue, which compares unfavourably with rating peers, alongside continued spending restraint. It plans to gradually phase out tax credits, improve coverage of the informal sector, reform the land register and raise excise taxes. However, tax revenues have repeatedly fallen short of targets in recent years due to capacity challenges and commodity price shocks, while some fiscal reforms face social opposition. We expect the authorities to adjust capital spending to revenue collection to achieve their deficit targets.

Gradual progress on fiscal consolidation and growth revival will result in GG debt stabilising at around 46% of GDP in the medium term on our projections, well below the forecast 'B' and 'BB' medians. We forecast GG debt will rise to 43.2% of GDP in 2020 (forecast 'B' median: 64%) from 38.8% in 2019. Refinancing risks are moderate and the government's debt management policy has lengthened and smoothened the debt maturity profile. Foreign-currency debt accounted for 63% of total GG debt at end-2019 (current 'B'-median: 61%).

Cote d'Ivoire benefits from strong official creditor support underpinned by the government's satisfactory performance under its successive IMF arrangements. We expect a successor arrangement to Cote d'Ivoire's expiring 2016-2020 IMF programme to come through in late 2021 and project bilateral and multilateral loans to cover around half of the gross fiscal funding requirements in 2020-2022.

The government's participation in the G20's Debt Service Suspension Initiative (DSSI) in 2020 has resulted in only minor support of around 0.3% of GDP and does not reflect any liquidity challenges, in our view. The authorities expect additional support of similar magnitude in 2021 should they decide to participate in the extended initiative. They remain firmly committed to exclude any private creditor participation from any debt relief initiative.

Contingent liability risks are small. State-owned entreprise (SOE) debt is low, at 3.2% of GDP at end-2019 excluding on-lent liabilities, half of which is owned by the national electricity company CI-Energies. Government guarantees of SOE debt amounted to 2.3% of GDP mostly benefiting CI-Energies and the national refinery SIR. The pandemic shock could raise needs for budget support to some affected SOEs such as Air Cote d'Ivoire. Budget subsidies to SOEs were around 0.2% of GDP per year in 2018 and 2019.

The hit to the Ivoirian economy from the pandemic shock has been much milder than for comparable economies, reflecting Cote d'Ivoire's low reliance on tourism and remittances, its relatively low openness to trade and the resilience of the prices of cocoa, its main tradeable commodity, which accounts for 40% of exports.

The acute deterioration in the global environment and supply-side disruptions from the pandemic affecting a broad range of sectors will still cause a sharp slowdown in GDP growth to 1.5% in 2020 from 6.2% in 2019, but much higher than the forecast 'B' and 'BB' medians of a 4.8% and 4.5% GDP contraction. A forecast 8% fall in cocoa crop production reflecting the sector's natural cycle and environment protection measures will also weigh on growth.

The outlook for Cote d'Ivoire's economic activity remains robust and we expect GDP growth to average 6.3% in 2021-2022, outpacing the forecast 'B' and BB' medians of 3.2% and 4.8%, respectively. The recovery will be driven by the resumption of infrastructure projects, an expansion in light manufacturing and services and strong crop production. The government is currently preparing a new national development plan (2021-2025 PND) which aims at improving the diversification of the economy, boosting domestic value-added content in commodity exports and addressing structural bottlenecks from infrastructures gaps and weaknesses in human capital.

Key external finance metrics compare favourably with rating peers. The current account deficit (CAD) will widen to 3% of GDP in 2020 (forecast 'B' median 5.5%) as the contraction in exports offsets the relief from the slump in oil prices and the slowdown in import intensive investment. We forecast the CAD to remain stable and smaller than forecast 'B' medians in 2021 and 2022 as both exports and imports recover in lockstep.

External liquidity needs are moderate and we forecast government borrowing from official creditors and FDI to cover most of gross external funding requirements, which we estimate at 5% of GDP per year in 2020-2022. Net external debt was around 17% of GDP in 2019 and will remain stable at well below the forecast 'B' and 'BB' medians in the medium term. The regional reserves of the West African Economic and Monetary Union amounted to USD19.8 billion at end-August, equivalent to 6.2 months of the region's 2019 imports.

ESG - Governance: Cote d'Ivoire has an ESG Relevance Score (RS) of '5' for both Political Stability and Rights and for the Rule of Law, Institutional and Regulatory Quality and Control of Corruption, as is the case for all sovereigns. Theses scores reflect the high weight that the World Bank Governance Indicators (WBGI) have in our proprietary Sovereign Rating Model. Cote d'Ivoire has an overall WBGI ranking at the 32nd percentile while the current 'B' median is at the 37th percentile, mostly reflecting a low score on the 'Political Stability' pillar of the WBGI due to an absence of track record of peaceful political transitions in power and a history of civil unrest around presidential elections.

RATING SENSITIVITIES

The main factors that could, individually or collectively, lead to positive rating action/upgrade are:

- Structural Features: Further evidence of durable reduction in political and security risks;

-Macroeconomic performance: Greater confidence in a recovery from the pandemic shock and return to strong trend growth without the emergence of any major economic imbalances;

-Public Finances: Continued adherence to fiscal prudence and progress on fiscal revenue-enhancing reforms leading to a reduction in budget deficits sufficient to stabilise government debt over the medium term.

The main factors that could, individually or collectively, lead to negative rating action/downgrade:

- Structural Features: Deterioration in political stability or aggravation of security incidents;

- Public Finances: A rising government debt trajectory for example driven by the fiscal stance;

- Macroeconomic performance: A material slowdown in trend GDP growth or failure of the Ivoirian economy to resume a strong growth path following the pandemic shock.

SOVEREIGN RATING MODEL (SRM) AND QUALITATIVE OVERLAY (QO)

Fitch's proprietary SRM assigns Cote d'Ivoire a score equivalent to a rating of 'B-' on the Long-Term Foreign-Currency (LT FC) IDR scale.

Fitch's sovereign rating committee adjusted the output from the SRM to arrive at the final LT FC IDR by applying its QO, relative to SRM data and output, as follows:

- Macroeconomic performance: +1 notch, to reflect high medium-term growth potential and preserved macroeconomic stability reflecting comparatively strong macroeconomic management and commitment to prudent fiscal policies.

-Structural features: +1 notch to adjusts for the negative effect on the SRM of Cote d'Ivoire's take-up of the G20's Debt Service Suspension Initiative of around -2 notches partly offset by lingering political and security risks. Cote d' Ivoire's participation in the DSSI has prompted a reset of the "years since default or restructuring event" variable (which can pertain both to official and commercial debt). In this case, we judged that the deterioration in the model as a result of the reset does not signal a weakening of the sovereign's capacity and willingness to meet its obligations to private-sector creditors. Persistent political risks partly stem from continued disagreements between government and opposition over the October presidential elections amid entrenched regional fault lines and a track record of civil unrest around presidential elections.

Fitch's SRM is the agency's proprietary multiple regression rating model that employs 18 variables based on three-year centred averages, including one year of forecasts, to produce a score equivalent to a LT FC IDR. Fitch's QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [https://www.fitchratings.com/site/re/10111579].

KEY ASSUMPTIONS

Our forecasts for macroeconomic aggregates and fiscal metrics assume a broadly stable cocoa production of around 2 million tonnes per year and stable international cocoa prices around their current levels. We expect other commodity prices and global economic trends to develop as outlined in Fitch's most recent Global Economic Outlook published on 7 December 2020. We assume an effective vaccine/treatment will be available from 1Q21 but that roll-out will only accelerate from 2Q21 in the major economies and not reach the majority of those populations until 2H21.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Cote d'Ivoire has an ESG Relevance Score of '5' for Political Stability and Rights as World Bank Governance Indicators have the highest weight in Fitch's SRM. Political and security risks persist amid entrenched regional divisions and a history of recent civil conflict; this is highly relevant to the rating and a key rating driver with a high weight.

Cote d'Ivoire has an ESG Relevance Score of '5' for Rule of Law, Institutional Quality and Control of Corruption as World Bank Governance Indicators have the highest weight in Fitch's SRM and is therefore highly relevant to the rating and a key rating driver with a high weight.

Cote d'Ivoire has an ESG Relevance Score of '4' for Human rights and Political Freedoms as the Voice and Accountability pillar of the World Bank Governance Indicators is relevant to the rating and a rating driver.

Cote d'Ivoire has an ESG Relevance Score of '4' on Creditors Rights. Cote d'Ivoire has defaulted twice on market debt in recent years, in 2000 and 2011, in the context of episodes of political instability. The last default episode was cured in 2012.

Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Cote d'Ivoire	LT IDR	B+ Rating Outlook Positive	Affirmed	B+ Rating Outlook Positive

ENTITY/DEBT	RATING			PRIOR
•	ST IDR	B	Affirmed	B
•	LC LT IDR	B+ Rating Outlook Positive	Affirmed	B+ Rating Outlook Positive
•	LC ST IDR	B	Affirmed	B
•	Country Ceiling	BB-	Affirmed	BB-

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Mahmoud Harb
Director
Primary Rating Analyst
+852 2263 9917
Fitch (Hong Kong) Limited
19/F Man Yee Building 60-68 Des Voeux Road Central Hong Kong

Adrienne Benassy
Associate Director
Secondary Rating Analyst
+852 2263 9620

Ed Parker
Managing Director
Committee Chairperson
+44 20 3530 1176

MEDIA CONTACTS

Peter Fitzpatrick
London
+44 20 3530 1103
peter.fitzpatrick@thefitchgroup.com

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

Country Ceilings Criteria (pub. 01 Jul 2020)

Sovereign Rating Criteria (pub. 26 Oct 2020) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Country Ceiling Model, v1.7.1 (1)

Debt Dynamics Model, v1.2.1 (1)

Macro-Prudential Indicator Model, v1.5.0 (1)

Sovereign Rating Model, v3.12.1 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Cote d'Ivoire	EU Endorsed

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Sovereigns Africa Cote D'Ivoire
