FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Cote d'Ivoire at 'BB-'; Outlook Stable

Fri 24 Feb, 2023 - 5:01 PM ET

Fitch Ratings - London - 24 Feb 2023: Fitch Ratings has affirmed Cote d'Ivoire's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'BB-' with a Stable Outlook.

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

KEY RATING DRIVERS

Fundamental Rating Strengths and Weaknesses: The 'BB-' rating balances Cote d'Ivoire's strong growth prospects against low development indicators and high commodity dependence. It also reflects the record of fiscal management, which supports Fitch's view that the authorities will implement the necessary adjustments to gradually reverse the recent deterioration in the budget balance.

Subsidies Widen Budget Deficit: We estimate the budget deficit was 6.2% of GDP in 2022, well above the pre-pandemic 2019 deficit of 2.3% and our previous 2022 forecast of 4.8%. This is due to measures to contain inflation and their impact on the economy. Measures to stabilise fuel prices amounted to 1.1% of GDP through the combination of tax exemptions (0.9% of GDP) and a transfer to the refinery sector (0.2% of GDP). Other subsidies and transfers to the transport and electricity sectors, millers and bakeries, cost close to another 0.5% of GDP. The 2022 ad-hoc tax exemption measures lowered tax revenues to 12.0% of GDP in 2022 from 12.5% in 2021.

Low Tax Base, Spending Pressures: We forecast the deficit will narrow to 5.0% of GDP in 2023 and 4.2% of GDP in 2024. This will partly reflect the phasing out of some measures introduced in 2022, supported by lower commodity prices. Revenues are also likely to rise on the back of government efforts to improve tax administration. This will still be a low level of revenue mobilisation by regional standards and a key weakness for the rating, especially as gains will be partly consumed by rising interest on debt. In our view, structural tax reforms beyond those initially planned in the National Development Plan (PND) will be needed to compensate the higher spending pressure.

The government has requested IMF support and an IMF mission is planned for March to discuss a new programme. We expect an IMF programme would focus on revenue mobilisation and rationalisation of tax exemptions, which would widen the tax base and reduce tax volatility.

Capital Expenditure Flexibility: The government now aims to meet the regional budget deficit target of 3% of GDP by 2025 (previously 2024). In our view, the government will continue to implement its social, security and infrastructure programmes, especially ahead of the 2025 elections. An adjustment to public sector wages will also add to permanently higher expenditures. However, we expect the flexibility to postpone or reprioritise some projects should be higher once the African Cup of Nations infrastructure programme is complete and some efficiency gains on capital expenditure could create more fiscal space.

Debt Metrics Deteriorating: Fitch estimates government debt increased to 55.4% of GDP in 2022 from 51.7% in 2021 and 38.8% in 2019 before the pandemic. We expect debt to peak in 2023 at 55.7% of GDP and to start to slowly decline thereafter, supported by fiscal consolidation and strong growth. Cote d'Ivoire's debt profile remains favorable, with 84% denominated in the CFA franc or euro and 92.3% at fixed rates. Combined with ongoing support from multilateral and bilateral creditors for investment financing, this provides some insulation against higher interest rates and a strong dollar.

The authorities have increasingly relied on borrowing at a higher cost from the regional and domestic markets, which increased the interest to revenue ratio to 15.7% in 2022 from 12.8% in 2021, well above the 'BB' median of 9.2%.

Sustained High Growth: Real GDP growth remained high in 2022 at about 6.5% as per Fitch estimates (6.8% according to the authorities), despite the shock from the war in Ukraine, owing to strong growth from the energy and agri-food industries, and the vibrant construction sector supported by PND-related spending. Government measures to contain inflation, which rose to an average of 5.2% in 2022, also supported growth. We forecast growth will remain around 6.5% (Fitch's estimate of the medium-term trend rate) in 2023 and 2024.

Oil discoveries at the Baleine field, high potential in mining, and progress in the local transformation of cocoa and cashews support the medium-term potential. The economy's dependence on agriculture and government spending makes growth vulnerable to shocks, in particular if government fiscal space reduces further.

External Account Pressures: We estimate that the current account deficit deteriorated significantly in 2022 to 6.3% of GDP from 4.1% in 2021. High prices for imported food and oil have exacerbated the pressures from the high import content of government capital expenditure. Lower prices of food and oil will help narrow the current account deficit to 5.6% in 2023 and 5.3% in 2024. Oil export revenues should begin to contribute significantly to current account receipts in 2026, when production from the Baleine field is due to increase.

Import coverage by the reserves of the regional central bank (BCEAO) decreased to 4.6 months in 2022 from 5.1 in 2021. The current level of coverage still provides a sufficient cushion to underpin the peg with the euro, reinforced by BCEAO's tight reserve management.

Political Risk Remains: The 2025 presidential elections will mark the first elections since 2011 with all the leaders from the civil conflict present in Cote d'Ivoire, including former president Laurent Gbagbo. We believe tensions could build around the elections but we do not expect national scale conflict to be repeated. We do not expect major unrest around the 2023 local elections. The effectiveness of Cote d'Ivoire's security forces and investment in social infrastructure, as well as the lack of a domestic base for militant groups, limits the risk of contagion from rising security risks in the north.

ESG - Governance: Cote d'Ivoire has an ESG Relevance Score 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 31st percentile while the current 'BB' median is at the 45th percentile, with a particularly low score on the 'Political Stability' pillar of the WBGI due to a limited record of peaceful political transitions in power and a history of civil conflict in 2002-2007 and 2010-2011.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

-Public Finances: A further increase in government debt/GDP, for example, driven by a persistently loose fiscal policy, potentially incorporating maintained subsidies and tax exemptions.

-Structural Features: Renewed deterioration in political stability or aggravation of security incidents, for example, a flare-up of political violence.

-Macro: A material slowdown in medium-term GDP growth that keeps GDP per capita well below the 'BB' median.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

-Structural features: Improvement in GDP per capita bringing it closer to the 'BB' median, as a result of continued strong growth likely supported by the private sector.

-Structural Features: Sustained improvement in governance indicators bringing them closer to the 'BB' median, for example, as a result of continued greater political stability.

-Public Finances: Government debt/GDP embarking on a firm downward path over the medium term, as a result of progress on revenue enhancing reforms and tighter fiscal stance.

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 score to arrive at the final LT FC IDR by applying its QO, relative to SRM data and output, as follows:

- Structural features: +1 notch, to adjust for the negative impact on the SRM of Cote d'Ivoire's take-up of the Debt Service Suspension Initiative (DSSI) in 2020, which prompted a reset of the 'years since the default or restructuring event' variable (which can pertain both to official and commercial debt). In this case we judged that the effect on the model output exaggerated the signal of a reduced capacity and willingness to service debt to private-sector creditors. We changed the notch-adjustment to +1 from +2 because of an increase in SRM score in 2022 driven by the fading impact of the take-up of the DSSI on the model variable.

- Macroeconomic performance: +1 notch, to reflect high medium-term growth potential and preserved macroeconomic stability reflecting comparatively strong macroeconomic management. It also reflects our view that historical GDP growth volatility does not reflect the future risk to the economy.

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.

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 and are therefore highly relevant to the rating and a key rating driver with a high weight. As Cote d'Ivoire has a percentile rank below 50 for the respective Governance Indicator, this has a negative impact on the credit profile.

Cote d'Ivoire has an ESG Relevance Score of '5' for Rule of Law, Institutional & Regulatory Quality and Control of Corruption as World Bank Governance Indicators have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and are a key rating driver with a high weight. As Cote d'Ivoire has a percentile rank below 50 for the respective Governance Indicators, this has a negative impact on the credit profile.

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. As Cote d'Ivoire has a percentile rank below 50 for the respective Governance Indicator, this has a negative impact on the credit profile.

Cote d'Ivoire has an ESG Relevance Score of '4' for Creditor Rights as willingness to service and repay debt is relevant to the rating and is a rating driver for Cote d'Ivoire, as for all sovereigns. 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. This has a negative impact on the credit profile.

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, either due to their nature or to the way in which they are being managed by the entity. 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	BB- Rating Outlook Stable	Affirmed	BB- Rating Outlook Stable
	ST IDR	B	Affirmed	B
	LC LT IDR	BB- Rating Outlook Stable	Affirmed	BB- Rating Outlook Stable
	LC ST IDR	B	Affirmed	B
	Country Ceiling	BB	Affirmed	BB
senior unsecured	LT	BB-	Affirmed	BB-

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Laure de Nervo
Associate Director
Primary Rating Analyst

laure.denervo@fitchratings.com
Fitch Ratings Ltd
30 North Colonnade, Canary Wharf London E14 5GN

Cedric Julien Berry
Director
Secondary Rating Analyst
+852 2263 9950
cedric.berry@fitchratings.com

Paul Gamble
Senior Director
Committee Chairperson
+44 20 3530 1623
paul.gamble@fitchratings.com

MEDIA CONTACTS

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

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

Country Ceilings Criteria (pub. 01 Jul 2020)

Sovereign Rating Criteria (pub. 11 Jul 2022) (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, v1.7.3 (1)

Debt Dynamics Model, v1.3.1 (1)

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

Sovereign Rating Model, v3.13.2 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Cote d'Ivoire	UK Issued, EU Endorsed

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