FitchRatings

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

Fitch Ratings - London - 02 Aug 2024: 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 Strength and Weaknesses: The 'BB-' rating balances Cote d'Ivoire's strong growth prospects, a record of sound fiscal management supporting Fitch's' view that the authorities will implement the necessary reforms to continue reversing the recent deterioration in budget balance and debt metrics, against low development indicators, high commodity dependence, government's low level of revenue mobilisation and weak external liquidity.

Budget Consolidation on Track: Cote d'Ivoire's fiscal deficit narrowed to 5.2% of GDP in 2023, from 6.8% in 2022, and Fitch expects a further narrowing to 4.5% in 2024 and 3.5% in 2025. The 2023 performance was primarily driven by the unwinding of exceptional measures from 2020-2022 and to a lesser extent an increase in tax mobilisation. The government's tax/GDP ratio rose by 0.8pp to 13.6% of GDP in 2023.

Fitch expects the declining deficit over 2024-2025 to be supported by higher government revenue from additional tax mobilisation and rising cocoa-related receipts, and a decrease in crisis-related expense. Measures to raise tax revenue will focus on closing the significant gap in Cote d'Ivoire's tax mobilisation relative to peers (CIT, VAT, excises) and expanding the coverage of property taxation. We assume historically high cocoa prices will boost the registration and export fees paid to the government through 2025.

High Financing Costs Covered: Cote d'Ivoire's gross financing needs will total 10.4% of GDP in 2024 and 9.2% in 2025. These include external amortisation of USD2.1 billion (2.5% of GDP) in 2024 and USD2.4 billion (2.6% of GDP) in 2025. We expect the government to meet its financing needs through IMF disbursements of close to USD1.0 billion a year, bilateral and multilateral creditors (combining an average USD400 million a year), and proceeds from the USD2.6 billion Eurobond issuances from January 2024. The rest will be mostly met through domestic issuances in the regional bond market.

High Debt: Cote d'Ivoire's government debt increased to 58.1% of GDP in 2023 from 56.6% in 2022, and we expect it to peak at 58.3% in 2024, before declining to 55.8% in 2026 due to the narrowing fiscal deficit and high nominal GDP growth. This will remain above the peer median of 55.4% of GDP forecast for the same period. The country's government debt/revenue ratio was 357.5% in 2023, well above the median figure of 189%, reflecting the government's low tax mobilisation, which remains a rating weakness.

Strong Growth Ahead: Real GDP growth accelerated to 6.5% in 2023, from 6.2% in 2022, partly supported by construction of infrastructure for the African Cup of Nations football tournament and the beginning of oil production at the Baleine field.

We expect economic growth to remain robust at an average 6.5% over 2024-2025, spurred by a significant increase in crude oil production from the Baleine field, rising mining output (in particular gold), strong private investment in the extractive sector, and our assumption of still strong public investment. Cote d'Ivoire's real GDP growth will remain well above the average of 3.4% we expect for the 'BB' median over the same period.

Exports to Drive Narrowing CAD: Cote d'Ivoire's current account deficit (CAD) widened to 8.1% of GDP in 2023 from 7.7% in 2022, reflecting the scaling up of foreign investment in oil extraction activities and higher government external debt servicing. We forecast the CAD to narrow to 6.2% of GDP in 2024 and 2.5% in 2025, driven by an increase in the trade of goods' surplus.

This will reflect higher export receipts from much higher cocoa prices, rising exports of crude oil and decline in the import costs of food and fuels. We expect the increase in the surplus of goods to offset the widening services' deficit relating to investment activity in the oil sector.

Reserves Remain Weakness: Regional pooled reserves of the West African Monetary Union (WAEMU) deteriorated to a coverage of 3.5 months of imports (USD15 billion) at end-2023, from a coverage of 4.4 months (USD19.2 billion) at end-2022, reflecting the significant external shock from the war in Ukraine. Pooled reserves improved to USD16.5 billion in April 2024 and we expect import coverage to improve in 2024 and 2025, reflecting narrower CADs, increase in hydrocarbons' exports and improving external financing prospects across member states.

Cote d'Ivoire's level of imputed reserves fell to USD8.2 billion in 2023 from USD8.8 billion at end-2022. We expect imputed reserves to increase to USD8.5 billion in 2024 and USD10.2 billion in 2025, driven by the narrowing CAD and the strong FDI inflows to finance investment in the extractive sector. The country's liquidity ratio will remain weak relative to peers, although we expect reserves' coverage of current external payments to converge towards the median over the forecast horizon.

Political and Security Risk, Impact Contained: Fitch does not expect significant disruptions to political and social stability from the 2025 presidential election but risks remain. Cote d'Ivoire's marked improvement in the World Bank political risk indicators in recent years was reflected in the stability of the September 2023 local elections. However, the stronger political opposition to the ruling party expected in 2025 could cause localised violence, especially if there are tight results.

Regional insecurity remains a material risk to Cote d'Ivoire's economic, social and political stability. In our view, the lack of a domestic base for militant groups, the increased effectiveness of Cote d'Ivoire's security forces and investment in social infrastructure limit the contagion risk for the country.

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. Theses scores reflect the high weight that the World Bank Governance Indicators (WBGI) have in our proprietary Sovereign Rating Model (SRM).

Cote d'Ivoire has an overall WBGI ranking at the 37th 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 sustained increase in government debt/GDP, driven for example by a failure to implement fiscal consolidation measures or a material slowdown in GDP growth.

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

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, or sustained improvement in governance indicators, bringing them closer to the 'BB' median, for example due to greater political stability.

-External Finances: A sustained and marked improvement in the country's level of international reserves.

-Public Finances: Government debt/GDP embarking on a firm downward path over the medium term due to progress on revenue-enhancing reforms and a 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 (LTFC) IDR scale.

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

- Structural: +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.

- Macro: +1 notch, to reflect high medium-term growth potential and preserved macroeconomic stability reflecting comparatively strong macroeconomic management.

Fitch's SRM is the agency's proprietary multiple regression rating model, which 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.

Country Ceiling

The Country Ceiling for Cote d'Ivoire is 'BB', one notch above the LTFC IDR. This reflects moderate constraints and incentives, relative to the IDR, against capital or exchange controls being imposed that would prevent or significantly impede the private sector from converting local currency into foreign currency and transferring the proceeds to non-resident creditors to service debt payments.

Fitch's Country Ceiling Model produced a starting-point uplift of zero notch above the IDR. Fitch's rating committee applied a +1-notch qualitative adjustment to this, under the Long-Term Institutional Characteristics pillar, reflecting Cote d'Ivoire WAEMU membership, benefiting from a convertibility guarantee from the French government.

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 WBGI 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 WBGI 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 WBGI 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 defaulted twice on market debt in recent year, in 2000 and 2011 amid political instability. The last default was cured in 2012. This has a negative impact on the credit profile.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Cote d'Ivoire	LT IDR	BB-	Affirmed		BB-
	ST IDR	B	Affirmed		B
	LC LT IDR	BB-	Affirmed		BB-
	LC ST IDR	B	Affirmed		B

ENTITY/DEBT	RATING			RECOVERY	PRIOR
	Country Ceiling	BB	Affirmed		BB
• senior unsecured	LT	BB-	Affirmed		BB-

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

Country Ceiling Criteria (pub.24 Jul 2023)

Sovereign Rating Criteria (pub.06 Apr 2023) (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, v2.0.2 (1)

Debt Dynamics Model, v1.3.2 (1)

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

Sovereign Rating Model, v3.14.1 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

Cote d'Ivoire	UK Issued, EU Endorsed

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