S&P Global Ratings

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Research Update:

Cote d'Ivoire Upgraded To 'BB' On Strong Support From WAEMU Membership And Declining Budgetary And External Imbalances

October 18, 2024

Overview

- In our view, steps taken by the Banque Centrale des Etats de l'Afrique de l'Ouest from 2019-2024 shored up member states' economies and capital market access during periods of repeated external shocks, while ensuring price stability and adequate reserve coverage.
- As a consequence, we improved our monetary assessment for all members of the West African Economic and Monetary Union.
- Despite these shocks, Cote d'Ivoire has posted average GDP growth of over 5.6% from 2019-2024, with general government deficits moderating since the 2022 peak of 6.8% of GDP, reflecting progress on revenue mobilization and expenditure constraints under IMF programs.
- We expect the budget deficit to reach 3% of GDP next year and the external deficit to narrow significantly due to higher cocoa prices and rising hydrocarbon and mining exports.
- As a result, we raised our long-term sovereign ratings on Cote d'Ivoire to 'BB' from 'BB-'. The outlook is stable.

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Rating Action

On Oct. 18, 2024, S&P Global Ratings raised its long-term local and foreign currency sovereign credit ratings on Cote d'Ivoire to 'BB' from 'BB-'. At the same time, we affirmed our 'B' short-term local and foreign currency sovereign credit ratings. The outlook is stable.

As a sovereign rating (as defined in EU CRA Regulation 1060/2009 "EU CRA Regulation"), the ratings on Cote d'Ivoire are subject to certain publication restrictions set out in article 8a of the EU CRA Regulation, including publication in accordance with a pre-established calendar (see "Calendar Of 2024 EMEA Sovereign, Regional, And Local Government Rating Publication Dates: Midyear Update" published July 3, 2024, on RatingsDirect). Under the EU CRA Regulation, deviations from the announced calendar are allowed only in limited circumstances and must be accompanied by a detailed explanation of the reasons for the deviation. In this case, the reason for the deviation is our improved assessment of the effectiveness of policy actions taken between 2019 and 2024 by the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO), which we believe have underpinned economic stability, reserve buffers, and market access for all West African Economic and Monetary Union (WAEMU) member states. The next scheduled rating publication on the sovereign rating of Cote d'Ivoire will be on Nov. 15, 2024.

Outlook

The stable outlook balances risks from still-elevated external financing needs, high external leverage, and political uncertainty with the economy's solid growth prospects, strong donor support, and an expected decline in budgetary and external imbalances.

Downside scenario

We could lower the rating on Cote d'Ivoire if external imbalances were to persist, and external leverage related to current account receipts does not decline like we expect.

While not our base-case scenario, downward pressure on the ratings could emerge if a pronounced rise in domestic political tensions hinders policymaking consistently.

Upside scenario

We could raise the ratings on Cote d'Ivoire if the budget position improves more than we expect or the still-large external financing needs were to materially decline.

Rationale

Cote d'Ivoire's real GDP growth is set to average 6.6% over 2024-2027, underpinned by structural reforms, population growth, and rising hydrocarbon production. Growth will also benefit from enhanced transport capacity and economic diversification into services and manufacturing. The rapid increase in oil and gas output, with production in the Baleine field having started August 2023, will support exports, and the rapid narrowing of the country's elevated external deficit. In this context, we believe economic activity will continue to expand faster than in peer economies, although GDP per capita remains low--we expect this to reach about $3,800 in 2027, up from less than $2,800 in 2023.

In the context of Cote d'Ivoire's limited monetary flexibility and modest domestic savings, fiscal policy is particularly important to the sovereign's creditworthiness. We forecast the general government deficit will reach 4.2% of GDP this year and 3% in 2025, down from a peak of 6.8% in 2022. At about 16% of GDP, government revenue collection has underperformed previously and remains low, but is improving. Under Cote d'Ivoire's Extended Fund and Credit Facilities Programs with the IMF, we expect the government to continue to boost tax collection by eliminating exemptions on value-added tax and customs duties, raising property and excise taxes, and enhancing administrative controls. At the same time, authorities are working on containing expenditure. For instance, the government lowered the wage bill to below 35% of revenue last year--from 40% in 2022--by reducing the number of government employees, except in health care and education. We expect this strategy to continue.

Following a rapid increase in recent years, general government debt is expected to inch down through 2027, and the debt profile will remain favorable. We anticipate budget consolidation and strong nominal GDP growth will lead to a small decline of debt to GDP toward 52% in 2027 from 58% in 2023, still well above pre-pandemic levels (37.5% of GDP in 2019). Following the country's Eurobond issuance in January 2024, which helped extend debt maturity and lower costs, Cote d'Ivoire's debt profile has improved further. In addition, we believe the government's strong relations with international donors provide the country with affordable financing and support reform implementation.

The improved initial monetary assessment reflects our view that membership in the WAEMU provides an important policy anchor and a buffer against external shocks. The 2019 WAEMU currency reform maintained two key elements of the monetary arrangement: the fixed exchange rate with the euro, and France's guarantee of convertibility, which has long supported confidence in the West African CFA franc's peg to the euro. This--alongside the BCEAO's monetary tightening--has helped contain rising inflationary pressure and maintain adequate reserve buffers in member countries, even during political crises and commodity price volatility.

Over 2003-2023, WAEMU inflation averaged about 2.2%, compared with almost 10% in the rest of sub-Saharan Africa. In response to inflation peaking at 8.8% in August 2022--and mirroring monetary policy actions from the European Central Bank--the BCEAO initiated a tightening cycle, bringing inflation in the monetary union down to 2.6% in August 2023. As of August 2024, we estimate headline inflation at 4.4%, primarily driven by food prices. However, core inflation remains below 3%.

During the COVID-19 pandemic and the global energy and food price shocks emanating from the war in Ukraine, the BCEAO implemented what we view as effective policy responses to support member states' financial sectors and economies, to address rising inflation and foreign-exchange reserve losses. In addition to interest rate adjustments, it provided sufficient liquidity to banks during the pandemic, for example by switching from auctions with preset amounts at variable rates to a fixed-rate full allotment bank refinancing procedure in March 2020. By mid-2023, to limit the erosion of foreign exchange reserves, the BCEAO rationed bank liquidity by reverting to preset amounts at variable rates for refinancing. However, as liquidity tensions emerged in the banking sector in 2023, the central bank injected substantial liquidity through its marginal lending facility on three occasions to preserve financial sector stability. Overall, we think that without the current monetary arrangement, inflation would have been higher, with countries likely resorting to increasing the money supply in times of crisis, leading to significant and persistent inflation and rising pressure on exchange rates, as seen in other countries in the region.

The reserves of WAEMU's eight member states (Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo) are pooled at the BCEAO, the regional central bank. All members have full access to the pool, which provides a buffer against country-specific balance-of-payment shocks. It is, moreover, our expectation that as hydrocarbon production accelerates in the region, the level of pooled gross international reserves at the BCEAO will increase to about $30 billion, or 10% of GDP, by 2027 from $16 billion (about 8% of GDP) currently, while the central bank's net foreign asset position will remain significantly positive.

Membership in WAEMU allows companies and banks to access the monetary union's broader capital market. As global interest rates moved higher beginning in 2022, WAEMU governments were able to fund themselves amid declining budgetary reserves and a lack of access to the international bond market over 2020-2022. Liquidity tension has since eased, with WAEMU sovereigns (for instance, Benin and Cote d'Ivoire) successfully returning to the international sovereign debt markets.

In our view, the BCEAO has established a track record of operational, management, and legal independence, shielding it from political interference by individual member countries. The BCEAO's monetary policy committee's decisions are made public and based on economic and financial analysis. We also think the institution's governance is characterized by solid control and audit mechanisms. There has been notable progress in improving administrative capacity and the zone's regulatory framework. Most recently, in 2023, a new banking law was adopted and the transition to Basel II/III was completed, except for liquidity requirements and Pillar II capital and liquidity surcharges.

Despite WAEMU's important benefits, membership in the monetary union limits monetary flexibility, and therefore fiscal policy flexibility, for individual members. Furthermore, the regional financial market remains shallow. The sum of depository corporations' claims on the private sector, the stock market capitalization, and nonsovereign local currency bond market is estimated at about 35% of the zone's GDP, which hinders the transmission of monetary policy decisions. We expect the monetary union's capital market to gradually deepen, in tandem with rising wealth and savings.

Key Statistics

Table 1

Cote d'Ivoire--Selected indicators

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Economic indicators (%)										
Nominal GDP (bil. LC)	32,506	35,379	36,278	40,367	43,771	47,791	52,170	57,228	62,166	67,848
Nominal GDP (bil. $)	59	60	63	73	70	79	87	100	110	121
GDP per capita (000s $)	2.3	2.3	2.4	2.7	2.5	2.8	3.0	3.3	3.6	3.8
Real GDP growth	4.8	6.7	0.7	7.2	6.2	6.5	6.5	6.5	6.5	7.0
Real GDP per capita growth	2.2	4.0	(1.8)	4.4	3.5	3.8	3.8	3.8	3.8	4.3
Real investment growth	6.9	6.9	3.8	14.9	13.9	9.3	9.3	9.3	9.8	9.7
Investment/GDP	22.3	22.0	21.7	23.6	26.4	25.8	26.2	26.2	27.5	28.6
Savings/GDP	18.3	19.8	18.6	19.6	18.8	18.8	21.1	23.6	25.0	26.5
Exports/GDP	22.7	22.7	21.0	22.3	24.5	22.9	24.7	26.7	27.0	27.5
Real exports growth	(3.7)	10.3	(4.6)	16.9	4.9	2.5	10.0	8.0	7.0	9.0
Unemployment rate	2.9	2.4	2.6	2.6	2.4	2.4	3.5	3.5	3.5	3.5
External indicators (%)										
Current account balance/GDP	(3.9)	(2.2)	(3.1)	(3.9)	(7.6)	(7.0)	(5.0)	(2.6)	(2.4)	(2.1)
Current account balance/CARs	(16.4)	(9.2)	(14.1)	(16.6)	(29.1)	(28.8)	(19.3)	(9.2)	(8.6)	(7.5)
CARs/GDP	23.9	24.3	22.2	23.8	26.1	24.2	26.0	27.9	28.0	28.4

Table 1

Cote d'Ivoire--Selected indicators (cont.)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Trade balance/GDP	3.8	5.2	4.7	4.2	1.8	1.9	3.6	5.6	5.8	6.2
Net FDI/GDP	0.8	1.2	1.1	1.5	2.3	2.2	2.3	2.3	2.3	2.3
Net portfolio equity inflow/GDP	(0.2)	(0.0)	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Gross external financing needs/CARs plus usable reserves	109.8	105.7	112.7	113.3	117.9	124.7	122.2	110.8	107.7	104.3
Narrow net external debt/CARs	115.5	103.4	128.4	105.6	119.9	132.5	120.7	98.7	89.1	80.1
Narrow net external debt/CAPs	99.3	94.7	112.6	90.6	92.9	102.9	101.2	90.3	82.0	74.5
Net external liabilities/CARs	151.7	141.0	175.5	147.7	163.8	180.6	169.4	145.8	138.8	131.8
Net external liabilities/CAPs	130.4	129.2	153.9	126.7	126.9	140.2	142.0	133.4	127.8	122.6
Short-term external debt by remaining maturity/CARs	42.2	42.4	58.1	58.1	57.9	53.8	46.5	34.4	31.2	28.2
Usable reserves/CAPs (months)	4.6	4.8	5.6	5.6	5.4	4.3	3.6	3.3	3.3	3.4
Usable reserves (mil. $)	6,365	7,398	9,370	10,718	8,862	8,074	8,249	9,248	10,353	11,686
Fiscal indicators (general government; %)										
Balance/GDP	(2.6)	(2.2)	(5.4)	(4.9)	(6.8)	(5.2)	(4.2)	(3.0)	(3.0)	(3.0)
Change in net debt/GDP	4.5	4.9	7.9	8.9	10.4	6.5	3.9	2.5	2.5	3.4
Primary balance/GDP	(1.2)	(0.7)	(3.6)	(2.9)	(4.6)	(2.7)	(1.8)	(0.6)	(0.7)	(0.8)
Revenue/GDP	14.7	14.6	14.6	15.2	14.9	16.3	16.6	16.9	17.1	17.4
Expenditures/GDP	17.2	16.8	20.0	20.1	21.7	21.5	20.8	19.9	20.1	20.4
Interest/revenues	9.1	10.1	12.6	12.8	14.9	15.9	14.6	14.0	13.4	12.6
Debt/GDP	35.3	37.5	46.3	50.2	56.6	58.0	57.0	54.5	52.6	51.6
Debt/revenues	241.0	257.3	317.7	330.1	380.1	356.9	343.5	322.5	307.8	296.8
Net debt/GDP	31.4	33.8	40.9	45.6	52.5	54.6	53.8	51.6	50.0	49.2
Liquid assets/GDP	3.9	3.7	5.5	4.6	4.1	3.5	3.2	2.9	2.7	2.5
Monetary indicators (%)										
CPI growth	0.4	(1.1)	2.4	4.1	5.3	4.4	3.1	2.5	2.0	2.0
GDP deflator growth	1.7	2.0	1.8	3.8	2.1	2.5	2.5	3.0	2.0	2.0
Exchange rate, year-end (LC/$)	572.89	583.90	534.56	579.16	615.00	593.63	583.80	570.68	557.56	564.12
Banks' claims on resident non-gov't sector growth	6.8	7.6	10.8	13.6	8.9	16.3	13.0	13.0	13.0	13.0

Table 1

Cote d'Ivoire--Selected indicators (cont.)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Banks' claims on resident non-gov't sector/GDP	19.2	19.0	20.5	21.0	21.1	22.4	23.2	23.9	24.9	25.8
Foreign currency share of claims by banks on residents	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign currency share of residents' bank deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real effective exchange rate growth	1.1	(4.1)	3.7	2.0	(4.9)	4.4	N/A	N/A	N/A	N/A

Sources:Ministry of Finance, World Bank and IMF (Economic indicators); BCEAO, International Monetary Fund, Bank for International Settlements (External indicators); Ministry of Finance, BCEAO and IMF (Fiscal and debt indicators); BCEAO and International Financial Statistics (Monetary indicators).
Adjustments:To arrive at the net general government (GG) debt, we subtract GG deposits in BCEAO and in financial institutions (liquid financial assets) from the GG debt stock.
Definitions: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid claims on nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. N/A--Not applicable. LC--Local currency. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

Ratings Score Snapshot

Table 2

Cote d'Ivoire--Ratings score snapshot

Key rating factors	Score	Explanation
Institutional assessment	4	Despite existing sociopolitical tensions, the stability and policy predictability of Cote d'Ivoire's institutions have significantly improved since the 2011 political crisis and related default, supporting strong growth and a substantial improvement in the business environment. We expect the government to maintain dialogue with the opposition to further ease tensions.
Economic assessment	4	Based on GDP per capita ($) as per the Selected Indicators in Table 1. Above-average economic growth, measured using real GDP per capita trend growth, which is consistently well above that of other sovereigns in the same GDP per capita category.
External assessment	4	Based on narrow net external debt and gross external financing needs as per Selected Indicators in Table 1.
Fiscal assessment: flexibility and performance	3	Based on the change in net general government debt (% of GDP) as per Selected Indicators in Table 1.
Fiscal assessment: debt burden	5	Based on net general government debt (% of GDP) and general government interest expenditure (% of general government revenue) as per the Selected Indicators in Table 1. More than 40% of gross government debt is denominated in foreign currency. The banking sector's exposure to the government is over 20% of assets.

Table 2

Cote d'Ivoire--Ratings score snapshot (cont.)

Key rating factors	Score	Explanation
Monetary assessment	4	The West African CFA franc (XOF) is pegged to the euro. The central bank - BCEAO - has maintained moderate inflation (especially compared with of Sub-Saharan countries), and financial stability at times of external and internal pressures. The BCEAO operates independently. Market based monetary instruments and ability to act as a lender of last resort. Monetary union membership constrains individual countries' monetary flexibility.
Indicative rating	bb	As per table 1 of "Sovereign Rating Methodology."
Notches of supplemental adjustments and flexibility	0	
Final rating		
Foreign currency	BB	
Notches of uplift	0	We do not believe that default risks apply differently to foreign- and local-currency debt.
Local currency	BB	

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Upgraded; Ratings Affirmed

	To	From
Cote d'Ivoire		
Sovereign Credit Rating	BB/Stable/B	BB-/Positive/B

Upgraded

	To	From
Cote d'Ivoire		
Senior Unsecured	BB	BB-

Ratings Affirmed

Cote d'Ivoire		
Transfer & Convertibility Assessment	BBB-	