FitchRatings

RATING ACTION COMMENTARY

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

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Fitch Ratings - Hong Kong - 03 Jun 2020: Fitch Ratings has affirmed Cote d'Ivoire's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'B+'. The Outlook is Positive.

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

KEY RATING DRIVERS

The Positive Outlook reflects our expectation of continued commitment to fiscal prudence and reforms by the Ivoirian authorities. This will set Cote d'Ivoire's general government (GG) debt on track to stabilise well below the current 'B' and 'BB' medians over the medium term, despite a temporary hit to public finances and economic growth from the coronavirus pandemic-related shock. It also reflects the strong outlook for Cote d'Ivoire's economy, in line with its continued growth outperformance against rating peers since 2012, while comparatively moderate external and fiscal deficits and low inflation will limit risks for macroeconomic stability. These rating strengths are balanced against ongoing political risks, high dependence on agricultural commodities and comparatively low development indicators.

The deterioration in the external environment and national prevention measures to stem the spread of the pandemic will impact economic activity in a broad range of domestic sectors. The contraction in external demand will weigh on exports, while domestic investment will be affected by disruptions to ongoing large-scale infrastructure projects and a slump in FDI inflows. Increased budget spending of around 1.5% of GDP in 2020 under the government's economic relief plan will partially cushion the impact of the coronavirus outbreak on domestic demand.

The contagion of the global shock to the domestic economy will be milder than in similar-sized countries and we expect Cote d'Ivoire's consistent growth outperformance against rating peers since 2012 to continue over the rating horizon. Our forecast takes into consideration the Ivoirian economy's comparatively low reliance on tourism and remittance inflows, which tend to be important channels of propagation of the global shock. It also reflects the resilience of the international prices of cocoa, Cote d'Ivoire's main tradeable commodity which accounts for around 40% of exports, to the global shock, limiting its impact on exports, public finances and disposable income.

We forecast GDP growth to decelerate to 2% in 2020, its lowest level in nine years, from 6.9% in 2019, and to recover to 8.5% in 2021, meaning growth will average 5.3% in 2020-2021 under our baseline, outpacing the forecast 'B' and 'BB' medians of an average of 1.5% and 1.1%, respectively. The 2021 recovery assumes an easing of disruptions from the health crisis and will be driven by resumption of infrastructure projects under the government's ongoing national development plan, continued expansion in services and light manufacturing, strong crop production and increased cocoa farmers' incomes. Our estimates for Cote d'Ivoire's key credit metrics are premised on revised national account statistics following an update of the GDP base year, which led to an upward adjustment of 38% to the 2015 GDP level

The pandemic shock could aggravate social tensions and pose challenges for policymaking ahead of the crucial presidential election in 4Q20. The incumbent president, Alassane Ouattara, has announced he will step down at the end of the current term and Cote d'Ivoire has not witnessed a peaceful transition in power since independence. Regional fault lines are deeply entrenched in the political landscape and heightened polarisation could amplify underlying security risks, which are illustrated by sporadic acts of violence in recent years, including mutinies by former rebels in 2017. Disagreements between the government and main opposition parties over the management of the elections as well as ongoing legal cases against former officials could trigger severe political tensions.

We assume a non-disruptive electoral process but downside risks around our baseline are significant. Our assumption reflects a more stable security situation than in the early 2000s, as well as the progress achieved on institutional reforms in recent years. These reforms include a revision of the constitution in 2016, the revamp and broadening of representation at the Independent Electoral Commission in recent months and the ongoing restructuring of the security forces. President Ouattara's decision not to seek a new term has averted a political confrontation over the interpretation of the constitutional two-term limit. A minor constitutional reform and electoral code revision approved earlier in 2020 did not lead to significant flare-up in tensions between government and opposition.

The hit to tax revenues alongside spending pressures from the pandemic shock will lead the GG deficit to widen to 5.5% of GDP in 2020 (forecast 'B' median: 6.3%) from 2.3% in 2019. The growth rebound and phasing out of pandemic-related spending will drive a narrowing of the GG deficit to 3.3% of GDP in 2021 (forecast 'B' median: 4.9%) under our baseline.

Comparatively low fiscal revenues of 15% of GDP over the last three years (current 'B'-median: 22.8%) constrain fiscal space amid continued spending pressures from social demands and infrastructure gaps. The government intends to pursue further revenue-enhancing tax policy and administrative reforms. However, tax revenues have consistently 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 actual revenue collections to keep the deficit contained and assume continued adherence to fiscal prudence under the upcoming administration.

The sharp growth slowdown and widening GG deficit will drive a rise in GG debt to 43.5% of GDP in 2020 from 38.6% in 2019, on our forecasts. We project GG debt to stabilise around 42% of GDP in the medium term, well below the forecast 'B' and 'BB' medians of around 60%. Foreign-currency (FC) debt accounted for 58% of GG debt at end-2019, lower than the current 'B' median of 64%. The government aims to pursue its strategy to contain risks from FC exposure through hedging operations and by privileging external financing in euro to which the West African CFA-franc (XOF) is pegged.

Refinancing risks are moderate and we project bilateral and multilateral lending to cover around half of the sovereign's gross funding in 2020-2021. Cote d'Ivoire's 2016-2019 arrangement with the IMF has been extended to the end of 2020 and the government has accessed additional emergency loans under the Fund's Rapid Credit Facility and Rapid Financing Instrument in April. We expect the authorities to seek a successor arrangement, which would underpin continued strong support from other official creditors and provide an anchor to its policy agenda.

Cote d'Ivoire's performance under its successive IMF programmes since 2012 has been satisfactory, reflecting its commitment to reforms. The sovereign is eligible to participate in the G20 Debt Service Suspension Initiative but this would provide only minor support. Principal maturities coming due on external bilateral debt between May and December amount to 0.1% of GDP, in addition to 0.1% of GDP in interest payments over the full year, excluding Contrat de Desendettement et de Developpement (C2D) and Programme de Conversion de Dette en Projets de Developpement (PCD) arrangements with France and Spain.

The government's proactive debt management policy has smoothed the debt maturity profile and Cote d'Ivoire does not face significant principal repayment on external market debt before 2024. Monetary policy measures in response to the pandemic shock will support demand for local-currency market debt but the shallowness of the regional XOF debt market still constrains the sovereign's financing flexibility.

State-owned enterprise (SOE) debt is relatively low, at around 3% of GDP at-end June 2019, but the pandemic shock could trigger government financial assistance to some public entities such as Air Cote d'Ivoire. A possible deterioration in bank asset quality from a weaker operating environment could raise the need for government support to the banking sector, notably to some undercapitalised small public banks. These risks are mitigated by the small size of the banking sector (with total assets of 35% of GDP) and the high share of foreign bank ownership.

We project Cote d'Ivoire's current account deficit (CAD) will widen to 3.9% of GDP in 2020 (forecast 'B' median: 5.2%) from 2.7% in 2019 due to the contraction in exports, and narrow to 3.2% in 2021 (forecast 'B' median: 4.5%). The slump in oil prices will limit the deterioration in the CAD as Cote d'Ivoire is a net hydrocarbon importer. FDI and government borrowing from official creditors will cover more than half of gross external funding needs of around 5% of GDP per year in 2020-2021.

Cote d'Ivoire's net external debt of 16% of GDP will rise only slightly to 19% at end-2021 and remain well below forecast 'B' and 'BB' medians of 32% and 26%, respectively. WAEMU's regional reserves amounted to USD17.1 billion at end-March, equivalent to 5.3 months of the region's 2019 imports. We do not expect the global pandemic-related shock to trigger significant pressures on the XOF peg in the medium term.

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 33rd percentile, in line with the current 'B' median, but ranks well below the current 'B' median on the 'Political Stability' pillar of the WBGI reflecting an absence of track record of peaceful political transitions in power and a history of civil unrest around presidential elections.

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 rated peers, as follows:

- Macroeconomic performance: +1 notch, to reflect high medium-term growth potential, preserved macroeconomic stability reflecting comparatively strong macroeconomic management and sustained reform impetus.

-Structural features: -1 notch, to reflect lingering political and security risks, risks around the upcoming 2020 presidential elections and Cote d'Ivoire's lack of track record of a peaceful transition in power since the early 1990s.

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.

RATING SENSITIVITIES

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

- Evidence of durable reduction in political and security risks, for example stemming from a relatively smooth electoral process and peaceful political transition;

- Continued adherence to fiscal prudence and further progress on fiscal reforms leading to a reduction in budget deficits sufficient to stabilize government debt over the medium term.

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

-Deterioration in political stability or aggravation of security incidents;

- A rising debt trajectory for example driven by the fiscal stance or a materialisation of large contingent liabilities on the sovereign's balance sheet;

- A material slowdown of trend GDP growth or evidence of more severe impact of the coronavirus pandemic-related shock on the Ivoirian economy than our current forecasts.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Public Finance 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 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 27 May 2020.

We assume that the fixed parity of the XOF with the euro will remain unchanged and the monetary arrangement with France will continue to support external liquidity. We deem the recently announced reform of the XOF to be largely symbolic and we do not expect it to affect key features of the monetary arrangement.

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 World Bank Governance Indicators have the highest weight in Fitch's

SRM and is therefore relevant to the rating and a rating driver with a high weight.

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		
Cote d'Ivoire	LT IDR	B+	Affirmed
•	ST IDR	B	Affirmed
•	LC LT IDR	B+	Affirmed
•	LC ST IDR	B	Affirmed
•	Country Ceiling	BB-	Affirmed
• senior unsecured	LT	B+	Affirmed

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Country Ceilings Criteria (pub. 05 Jul 2019)

Sovereign Rating Criteria (pub. 28 Apr 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, v1.2.0 (1)

Macro-Prudential Indicator Model, v1.4.0 (1)

Sovereign Rating Model, v3.12.0 (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