FitchRatings

RATING ACTION COMMENTARY

Fitch Upgrades Cote d'Ivoire to 'BB-'; Outlook Stable

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Feedback

Fitch Ratings - Hong Kong - 19 Jul 2021: Fitch Ratings has upgraded Cote d'Ivoire's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'BB-' from 'B+'. The Outlook is Stable.

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

KEY RATING DRIVERS

The upgrade reflects our view that the peaceful March 2021 parliamentary elections show the sustained reduction of political risk. It also reflects Fitch's expectation that the authorities' continued adherence to fiscal prudence and reforms will gradually reverse the temporary deterioration of the budget balance and stabilise government debt at below the forecast 'BB' median. The rating also factors in that the Ivoirian economy will resume a strong growth path as the impact of the pandemic fades, low development indicators and comparatively high commodity dependence.

Political risk is continuing its long-term decline and in our view, the risk of an escalation of political divisions into armed conflict has materially receded over the past decade. We believe that risks stemming from political divisions and enmities are now sufficiently captured in our rating model, underpinning our removal of the prior one-notch downward rating adjustment for political stability. Cote d'Ivoire engaged in two civil wars between 2002 and 2011.

Recent developments include the peaceful conclusion of the parliamentary elections in March 2021, which saw President Ouattara's party retain a majority in parliament with the participation and recognition of all parties. Opposition parties have relinquished their plan to create a national transition council as an alternative government following the October 2020 presidential election, which they had boycotted. Former President Laurent Gbagbo returned to Cote d'Ivoire in June 2021 and announced his intention to join the ongoing dialogue for national reconciliation, opening the way for a further normalisation of the political climate.

We project the general government (GG) deficit to progressively narrow to 3% of GDP by 2024, in line with the government's record of fiscal prudence and West African Economic and Monetary Union (WAEMU) convergence criteria. The fiscal deficit widened to 5.6% of GDP in 2020 and we project it to remain high at 5.4% in 2021, compared with an average 2.9% over 2017-19. This reflects a mix of delays in disbursing part of the funding committed through temporary support funds in 2020 and additional commitments.

The government estimates that the difficulties in the electricity sector that disrupted electricity supply for several months will have a budget impact of about 0.4% of GDP in 2021. In addition, the government is implementing a more durable increase in security spending in order to face growing security threats at the border with Burkina Faso and Mali, which will continue to weigh on fiscal outturns, with the deficit expected at 4.3% of GDP in 2022 and 3.5% in 2023.

The government's fiscal consolidation plans are focused on tax policy and administrative reform measures to widen the tax base from just 12.3% of GDP in 2020, alongside continued current spending restraint. It plans to gradually eliminate tax exemptions, improve coverage of the informal sector and raise excise taxes including on the cocoa sector. However, government targets have proved ambitious in the past, due to capacity challenges and adverse commodity price moves, and some reforms are unpopular. We expect the authorities to adjust capital spending to revenue collection to achieve their deficit targets as they have done in the past.

We expect the combination of gradual fiscal consolidation and renewed strong GDP growth to lead to a peak in GG debt at about 50% of GDP from 2023. This compares favourably with the forecast 'BB' median of 57%.

The authorities plan to cover close to 50% of funding needs from foreign currency sources over the coming years and plan to continue to tap the Eurobond market regularly. Refinancing risks are moderate, with an average time to maturity of over 10 years for external debt and regular liability management operations to smooth the repayment profile and lock in lower interest rates. Foreign currency debt accounts for 65% of the total stock, but the risk is mitigated as over half of it is in euros, to which the CFA franc is pegged. The local currency market has limited capacity to provide substantial additional funding, reducing financing flexibility.

The government continues to participate in the G20's Debt Service Suspension Initiative (DSSI) in 2021 and expects savings of around 0.6% of GDP. Participation does not reflect any liquidity challenges, in our view, and the government remains firmly committed to exclude any private creditor participation from any debt relief initiative.

The deterioration in the global environment and supply-side disruptions from the pandemic caused a sharp slowdown in GDP growth to 2.0% in 2020, but Cote d'Ivoire performed much better than the 'BB' median of a 4.4% contraction. It reflects 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.

We forecast GDP growth to average 6.2% in 2021-2022, well above the 'BB' median of 4.2%, driven by domestic demand. Large infrastructure spending under the 2021-2025 National Development Plan will support investment and construction activity. Over the longer term, we project growth potential will remain robust, but the sustainability of growth momentum will rely upon a pick-up in productivity and greater diversification. The five-year plan aims to spur private sector investment and increase domestic value-added by addressing structural obstacles, including infrastructure bottlenecks, a small banking sector limiting private sector financing options and weak education outcomes. A new wave of Covid-19 infections would pose downside risks to growth and public and external finances.

We project the current account deficit (CAD) to remain close to 3.5% of GDP over the medium term, fully financed by modest FDI and external government funding. Cote d'Ivoire's net external debtor position of 21% of GDP in 2020 is in line with the 'BB' peer median of 22%. The WAEMU's regional reserves of the were USD24 billion at end-April, equivalent to 6.5 months of the region's 2020 imports and risks to the currency peg are well contained. Recent changes to the peg arrangement with France are mostly symbolic and do not weaken the guarantee, in our view.

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 46th percentile, with a particularly low score on the 'Political Stability' pillar of the WBGI due to an absence of a 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:

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

- Public Finances: A rising government debt trajectory, for example driven by a weakening of the commitment to fiscal prudence;

-Macroeconomic performance: A material slowdown in medium-term GDP growth preventing a catch-up of GDP per capita with the 'BB' median.

FACTORS THAT COULD, INDIVIDUALLY OR COLLECTIVELY, LEAD TO POSITIVE RATING ACTION/UPGRADE:

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

-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: Continued adherence to fiscal prudence and progress on fiscal revenue enhancing reforms leading to a reduction in budget deficits sufficient to put government debt on a firm downward path over the medium term.

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:

- Structural features: +2 notches to adjust 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. 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. Previously the notch-adjustment was +1, also incorporating long-lingering concerns about political stability from the earlier civil conflicts but recent political developments, including smooth parliamentary elections, suggest that this risk is now sufficiently captured by our rating model.

- 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. It also reflects our view that historical GDP growth volatility does not reflect the risk to the economy going forward.

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.

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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 the most recent Global Economic Outlook published on 15 June 2021. We assume that the vaccination roll-out in Cote d'Ivoire will be hampered by supply constraints until at least 1H22.

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.

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RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Cote d'Ivoire	LT IDR	BB- Rating Outlook Stable	Upgrade	B+ Rating Outlook Positive
•	ST IDR	B	Affirmed	B
•	LC LT IDR	BB- Rating Outlook Stable	Upgrade	B+ Rating Outlook Positive
•	LC ST IDR	B	Affirmed	B

ENTITY/DEBT	RATING			PRIOR
	Country	BB	Upgrade	BB

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Country Ceilings Criteria (pub. 01 Jul 2020)

Sovereign Rating Criteria (pub. 26 Apr 2021) (including rating assumption sensitivity)

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APPLICABLE MODELS

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

Country Ceiling Model, v1.7.2 (1)

Debt Dynamics Model, v1.2.1 (1)

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

Sovereign Rating Model, v3.12.2 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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ENDORSEMENT STATUS

Cote d'Ivoire	EU Endorsed, UK Endorsed

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