FitchRatings

RATING ACTION COMMENTARY

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

Thu 21 Apr, 2022 - 9:18 AM ET

Fitch Ratings - Hong Kong - 21 Apr 2022: Fitch Ratings has affirmed Cote d'Ivoire 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 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 remain on a strong growth path, low development indicators and high commodity dependence.

Rising Tax Collection: The budget deficit in 2021 (5.0% of GDP) was narrower than forecast by the authorities due to better-than-expected GDP growth and improvements in tax collection, in large part brought about by a strengthening of tax administration. Tax revenue jumped to 13% of GDP from 12.3% in 2019. In our view, this is a structural improvement in Cote d'Ivoire's ability to raise revenue, although collection remains at a low level. The authorities target tax revenue of 14.6% by 2025.

Budgetary Cost of High Commodity Prices: Fitch projects Brent crude oil at USD100 a barrel (bbl) in 2022. Cote d'Ivoire subsidises oil prices with an adjustable tax at the pump (moving in the opposite direction to oil prices). We expect this to be fully utilised at this oil price level and yield no revenue, leading to a loss of revenue of about 0.7% of GDP compared to the budget. Part of it will be compensated by the structural rise in tax collection realised in 2021 and we project the deficit to shrink slightly to 4.8% of GDP in 2022.

Unless social pressure rises significantly, Fitch does not expect the government to introduce large additional subsidies and continue to use administrative price control measures, but risks of additional spending commitments remain. As oil prices ease in 2023 to a forecast USD80/bbl, the deficit will drop to 3.8% of GDP and we view Cote d'Ivoire's commitment to reach the 3% target by 2024 as credible with a mix of modest improvements in revenue collection and expenditure control.

Debt to Peak in 2022: Fitch projects general government debt to reach 52% of GDP in 2022 before starting to slowly decline as a result of smaller budget deficits and strong growth. Cote d'Ivoire will continue to aim to issue Eurobonds regularly, but may face unattractive costs on international markets and continue to rely on the regional market instead. A significantly tighter regional monetary policy could lead to a rise in regional yields, but this is not our base case. Cote d'Ivoire's debt profile presents limited risks, with 84% of debt in the West African franc or euros, 39% owed to domestic or regional lenders and 28% owed to official creditors.

Strong Growth Underpins Credit Profile: We project Cote d'Ivoire's economy to continue to grow rapidly, with increases of 6.8% in 2022 and 6.5% in 2023, down from 7.4% in 2021. Investment and private consumption will continue to record robust growth, although high commodity prices could dampen dynamism. Spending on the preparations for the Africa Cup of Nations football tournament in 2023 and infrastructure projects will continue provide an impulsion to the economy along with mining, agriculture and services.

The government expects private-sector industrial investment to play a growing part in the economy, but the size of the sector remains limited. The cocoa sector will continue to provide income to a large share of the population. Production is set to remain flat and prices are stable in 1Q22.

Inflation Rising: Consumer prices rose by 4.2% in 2021 with a strong impact from food prices, which have risen on the back of unfavourable weather conditions and disruptions to the animal trade in the north of the country. Fitch expect those factors to persist through 2022 and, in conjunction with higher oil and food prices, drive inflation to about 5%, before easing in 2023 and beyond as commodity prices moderate.

The regional central bank views inflation as driven by one-off exogenous factors that are not entrenched and do not require a strong monetary response in the context of the economic recovery. However, rising rates in the eurozone and possible second-round effects could support the case for raising interest rates in 2H22. Foreign-exchange reserves are estimated at 5.8 months of imports, providing some flexibility for monetary policy, although higher oil prices is likely to lead to a drop in reserve coverage.

Limited Political and Security Risks: The national dialogue between the leaders of the main political parties continues and included the structure of the independent electoral commission, which could further ease the risks of election tensions. The government is addressing rising security risks in the north with additional spending on infrastructure and military equipment and personnel. In our view, the lack of a domestic base for terrorist groups (who cross from neighbouring Mali and Burkina Faso to carry out attacks) and the effectiveness of Cote d'Ivoire security forces point to limited risks in the medium term.

Rising Oil Production from 2023: Eni SpA (A-/Stable) has started developing the Baleine oil field, which would add about 9,000/barrels a day (bpd) in 2023 and between 75,000 and 100,000/bpd by 2026 to Cote d'Ivoire's oil production. Assuming extraction costs of USD30/bbl and Brent at USD53/bbl in 2026, an additional 75,000/bpd could bring in 0.5% of GDP in budget revenue and 1.5% in export income, having a modest impact on Cote d'Ivoire's credit profile.

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 31nd 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:

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

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

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

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; and

-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 Sovereign Rating Model (SRM) assigns Cote d'Ivoire a score equivalent to a rating of 'B-' on the Long-Term Foreign-Currency IDR scale.

Fitch's sovereign rating committee adjusted the output from the SRM to arrive at the final Long-Term Foreign-Currency IDR by applying its qualitative overlay (QO), relative to SRM data and output, as follows:

- Structural features: +2 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 about two 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 there was a one-notch uplift, 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 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.

Fitch's SRM is its 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 Long-Term Foreign-Currency 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 WBGIs 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 WBGI, 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 WBGIs 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 WBGI, 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 WGBIs is relevant to the rating and a rating driver. As Cote d'Ivoire has a percentile rank below 50 for the respective WGBI, 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, 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(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			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

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APPLICABLE CRITERIA

Country Ceilings Criteria (pub. 01 Jul 2020)

Sovereign Rating Criteria (pub. 11 Apr 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, v1.7.2 (1)

Debt Dynamics Model, v1.3.1 (1)

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

Sovereign Rating Model, v3.13.1 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Cote d'Ivoire	EU Endorsed, UK Endorsed

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Sovereigns Africa Cote D'Ivoire