Fitch Affirms Cote d’Ivoire at ‘BB-’; Outlook Stable

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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 Strengths and Weaknesses: The 'BB-' rating balances Cote d'Ivoire's strong growth prospects against low development indicators and high commodity dependence. It also reflects the record of fiscal management, which supports Fitch's view that the authorities will implement the necessary reforms and adjustments to gradually reverse the recent deterioration in the budget balance.

IMF Programme Anchors Consolidation Plan: Cote d’Ivoire’s new IMF programme is anchored on a commitment to reduce the budget deficit. Under the USD3.5 billion 40-month programme, agreed in May, the authorities plan to reduce the deficit to 3% of GDP (the WAEMU target) by 2025, from 6.8% in 2022. The programme entails consolidation of 1.5% of GDP in 2023, when about 1.2% of GDP should be saved by unwinding one-off 2022 measures, including reinstating the oil price adjustment mechanism. The programme focuses on revenue mobilisation, with an objective of 0.5% of GDP additional revenue per year. In addition, a gradual reduction of subsidies and capex rationalisation after the African Nations Cup (CAN) football tournament are planned.

Deficit Reduction with Execution Risks: Fitch forecasts a narrowing of the budget deficit to 5.4% of GDP in 2023, 4.6% in 2024 and 3.5% in 2025, slightly above the government’s target. Government revenues are low, at 15.3% of GDP in 2022 (‘BB’ median of 28.7%) and we believe there is space to improve tax administration, rationalise the tax exemption system, and increase the narrow VAT base and low excise and property taxes. There are execution risks stemming from expenditure pressures to deliver the National Development Plan (PND) by 2025 in a context of increasing social and security spending and higher interest costs, but we expect the authorities will have flexibility to adjust capex, if needed, after the CAN infrastructure is delivered. This is supported by Cote d’Ivoire’s record of adherence to IMF programmes.

Debt Metrics Deterioration: Government debt has increased in recent years, due to large fiscal deficits over 2020-2022. We expect debt to increase to 58% of GDP in 2023, from 56.7% in 2022. This is higher than the forecast 54.1% ‘BB’ median for 2023, and well above the 2019 level of 38%. Government debt to revenue was 371% in 2022, substantially above the ‘BB’ median of 206%. We expect debt to peak at 58.4% of GDP in 2024, and to then ease to 57.7% in 2025, supported by consolidation and strong growth. The authorities have increasingly relied on borrowing at a higher cost from the regional market, and we expect interest to reach 14.9% of revenues in 2023 from 12.8% in 2021. The ratio will then trend down to about 14% by 2025, supported by revenue measures, and efforts to reduce funding costs.

Affordable Financing Secured: In addition to the IMF disbursements of about USD1 billion (1.3% GDP), Cote d'Ivoire mobilised another EUR500 million in bilateral and multilateral financing for 2023 and a EUR400 million partial AfDB guarantee to back an ESG-labelled financing. We believe a similar financing can be found for 2024, securing low-cost external financing sources until market conditions improve. This, combined with the predominantly (98%) fixed-rate stock of debt, somewhat shields debt trajectory from the risk of further increase in interest rates.

Sustained High Growth: We expect real GDP growth will remain high in 2023 at 6.4%, well above the forecast 2023 'BB' median of 2.7%, but down from 6.7% in 2022. Lower cocoa production will be balanced by the growth in electricity output and buoyancy in the construction sector, boosted by infrastructure related to the CAN and PND. We expect growth will remain around 6.5% to 2025 as the impact of budget consolidation and the planned stabilisation of cocoa production should be offset by easing inflation, the gradual ramp up in oil production at the Baleine field and progress in the local processing of cocoa and cashew.

Balance of Payment Pressures: We forecast the current account deficit (CAD) to narrow to 5.8% of GDP in 2023 from 6.9% in 2022, supported by lower oil and food prices, and higher cocoa prices compensating lower volumes. We expect the CAD to then decrease to 5.3% of GDP in 2024 and 4.7% in 2025, still significantly above the 2017-2021 average of 3.1%, due to the import intensity of projects of the PND and the oil and mining sectors. Pressures on the balance of payment will be compounded by government external debt maturities of USD1.7 billion in 2023 and USD2.1 billion in 2024, from USD1.2 billion in 2022.

Reserves of the regional central bank (BCEAO) decreased significantly to 4.4 months of imports (goods and services) at the end of 2022 from 6 months in 2021. We believe they have bottomed-out, as international prices of food and oil eased, several countries in the union now have IMF programmes, and major infrastructure are reaching completion. This supports Fitch's assessment that the level of reserves still provides a sufficient cushion to ensure the peg with the euro, reinforced by BCEAO's tight reserve management.

Political Violence Remains a Tail Risk: The 2025 elections will be the first presidential election since 2011 with all the leaders from the civil conflict present in Cote d'Ivoire, including former president Laurent Gbagbo. We believe tensions could build around the elections but we do not expect national scale conflict to be repeated. Security risk in the North has intensified, but the effectiveness of Cote d'Ivoire's security forces and investment in social infrastructure, as well as the lack of a domestic base for jihadist groups, limits the contagion risk, 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. 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 '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 2022-2007 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, for example, driven by the 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;

-Structural Features: Sustained improvement in governance indicators bringing them closer to the 'BB' median, for example, as a result of greater political stability; and

-Public Finances: Government debt to GDP embarking in a firm downward path over the medium term, as a result of progress on revenue enhancing reforms and 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 (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: +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.

Macroeconomic performance: +1 notch, to reflect high medium-term growth potential, and macroeconomic stability derived from economic management that is credible and consistent and stronger than suggested by the structural indicators included in the SRM.

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.

COUNTRY CEILING

The Country Ceiling for Cote d'Ivoire is 'BB', 1 notch above the LT FC 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 0 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's membership of WAEMU, which benefits from a convertibility guarantee from the French government.

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.

Sources of Information

The principal sources of information used in the analysis are described in the Applicable Criteria.

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 year, 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	RATING			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
	Country Ceiling	BB	Affirmed	BB

ENTITY	RATING			PRIOR
senior unsecured	LT	BB-	Affirmed	BB-

View Additional Rating Details

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Applicable Criteria
Country Ceiling Criteria (pub.24-Jul-2023)
Sovereign Rating Criteria (pub.06-Apr-2023)(includes rating assumption sensitivity)

Applicable Models
Country Ceiling Model, v2.0.0 (1 (https://www.fitchratings.com/site/re/10239730))
Debt Dynamics Model, v1.3.2 (1 (https://www.fitchratings.com/site/re/10229532))
Macro-Prudential Indicator Model, v1.5.0 (1 (https://www.fitchratings.com/site/re/10229532))
Sovereign Rating Model, v3.14.0 (1 (https://www.fitchratings.com/site/re/10229532))

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