IVORY COAST

WELL POSITIONED TO RECOVER

So far, the economy has posted a fairly good resilience to the pandemic shock. Although economic growth slowed sharply in 2020, it nonetheless remained in positive territory. Above all, the economy is expected to rebound strongly this year, buoyed by domestic demand and easing political tensions after a busy electoral calendar. The country's debt situation is also not as alarming compared to the other African countries. Even so, the sharp deterioration in public finances in 2020 calls for fiscal consolidation, which could prove to be difficult without a sustainable increase in fiscal revenue. This could weigh on the growth prospects of an economy that is increasingly dependent on public investment.

The horizon is getting brighter. President Ouattara was re-elected in November 2020 after a campaign season seeped in violence, in which the opposition refused to participate, contesting the incumbent's legitimacy to run. The busy electoral calendar came to an end with legislative elections in early March. The presidential party RHDP managed to conserve its majority against a reinvigorated opposition. More importantly, the legislative elections were held without major incidents, paving the way for a less tense political environment. Investors were also reassured by the continuity of economic policy, as illustrated by the country's successful return to the international financial markets in November 2020 and again in February 2021. With average growth of 8% since 2012, President Ouattara has a positive economic track record for his first two terms in office. Ivory Coast is also one of the few African countries that managed to avoid recession in 2020, thanks notably to good control over the pandemic, and the deterioration of public and external accounts was less significant than most of its peers. The economy is thus expected to rebound strongly this year. Even so, the situation is not without risks.

FORECASTS

	2019	2020e	2021e	2022e
Real GDP growth (%)	6.2	1.2	5.5	6.5
Inflation (CPI, year average, %)	0.8	2.4	2.5	2.0
Gen. Gov. balance / GDP (%)	-2.3	-5.6	-4.7	-3.5
Central. Gov. debt / GDP (%)	38.8	47.8	48.6	49.2
Current account balance / GDP (%)	-2.7	-3.9	-3.6	-3.2
External debt / GDP (%)	27.6	31.9	32.4	32.1
Forex reserves (USD bn)	7.4	8.9	8.8	8.7
Forex reserves, in months of imports	6.8	8.6	7.6	6.7

e: ESTIMATES & FORECASTS

TABLE 1 SOURCE: BNP PARIBAS GROUP ECONOMIC RESEARCH

PUBLIC FINANCES: GRADUAL CONSOLIDATION

The consolidation of public finances will be one of the main challenges to address. Budget deficit more than doubled to 5.6% of GDP in 2020 (chart 1), mainly due to an increase in expenditure of more than 3 percentage points. Government revenue (excluding grants) fell 5% short of the initial target, but was nonetheless fairly resilient (+4% year-on-year), which spared the government from having to reallocate spending. As a result, public investment rose nearly 30% in 2020, whereas cuts were being considered at the beginning of the health crisis. According to the IMF, Ivory Coast should trim its budget deficit to 4.7% of GDP in 2021 before gradually converging with the economic and monetary union's target of 3% of GDP by 2023. The path to fiscal consolidation would thus help to keep government debt below 50% of GDP without undermining the economic recovery.

Although the situation as a whole still seems manageable, numerous factors weigh on fiscal prospects. Prior to the health crisis, Ivory Coast reported one of the region's worst performances in terms of tax collection at only 12% of GDP, reflecting a relatively complex fiscal system with numerous exemptions. The gradual withdrawal of support measures introduced during pandemic is unlikely to have more than a very mild effect on the fiscal performance: estimated at 1.5% of GDP in 2020, the emergency package will only be reduced by half a point in 2021. To reduce the deficit, the government is also counting on an upturn in fiscal revenues generated by the economic rebound as well as on fiscal reforms. Caution is warranted, however, based on a repeated series of poor performances in the past. Another source of concern is the authorities' ability to contain the growth of expenditures.

DETERIORATION OF PUBLIC FINANCES

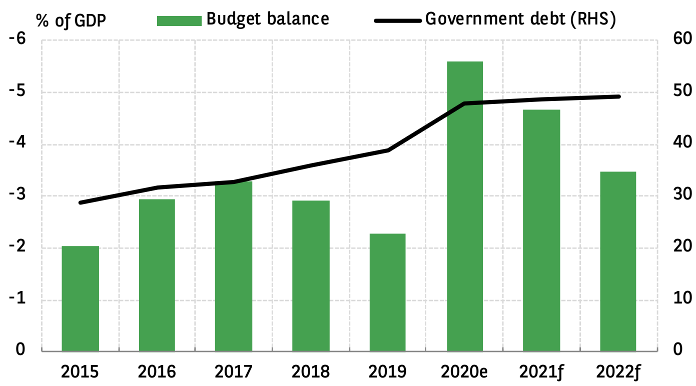

CHART 1 SOURCE: MOF, IMF, BNP PARIBAS

So far, this has been achieved through strict control over current spending, in particular the wage bill of public sector employees, which accounted for 25% of total expenditures in 2020 down from 32.2% in 2014. Yet the fragile social context in the aftermath of the health crisis as well as the busy electoral calendar fuel risk of slippages on this front, which means that public investment may have to play the role of adjustment variable. There is some manoeuvring room, however, since capital expenditure accounts for more than a quarter of the budget. Yet this can only be a temporary solution.

DEBT IS SUSTAINABLE BUT NEEDS TO BE MONITORED CLOSELY

Compared to other African issuers, the Ivory Coast's debt situation looks to be less risky, in terms of the level and structure. But its upward momentum needs to be contained. On the positive side, the next peak of amortization of Eurobonds are not until the end of the decade. Indeed, although Eurobond issuances in recent years have increased the share of external debt held by private creditors (33% of debt outstanding at year-end 2020, up from 24% in 2013), they also have served to extend its maturity. The average maturity of the debt has increased from 5.5 years in 2013 to 8.3 years in 2020. As Ivory Coast taps the market mainly in euros, debt vulnerability to exchange rate is also contained thanks to the peg.

Covering financing needs should not be difficult. The country continues to be supported by donors and has regular access to the local and international financial markets. Moreover, the country's participation in the G20 debt moratorium did not reflect any strong liquidity pressures. The gains were small (0.4% of GDP in 2020) and will remain that way in 2021. Like the other eligible countries, the government did not want to include private creditors in order to preserve its attractiveness and credit quality with the rating agencies. Among other factors, this explains the relatively low level of Ivory Coast's sovereign spreads, which are less than 400 basis points.

However, the rise in public debt (+20 points of GDP since 2014) and a greater recourse to international debt markets have also led to a sharp increase in the debt's interest burden, which now absorbs 13% of government revenues (excluding grants), up from 7% in 2014. This situation risks getting worse unless progress is made towards mobilising domestic resources. Reducing budget deficit will be also necessary.

TOWARDS A REBOUND IN 2021, BUT UNCERTAINTY THEREAFTER

The economy was fairly resilient to the Covid-19 shock in 2020. After a limited contraction to -1.6% y/y in Q2, growth returned into positive territory in Q3 (0.7%) following a significant easing of restrictive measures. Growth continued to gain momentum in Q4 (1.9%). The economy is modestly exposed to the tourism sector, and benefited from favourable terms of trade thanks to the resilience of global cocoa prices and fall in oil imports. As a result, it did not suffer from pressures other than the disruption of foreign trade generated by the pandemic. According to the Central Bank of Western African States (BCEAO), growth is estimated at 1.2% in 2020, which nonetheless marks an abrupt slowdown.

In 2021, growth is forecast at between 5.5% and 6%, bolstered by the intensification of major infrastructure projects and the rebound in domestic demand. The upturn in imported commodity prices, and energy prices in particular, are likely to have only a mild inflation impact thanks to the stabilizing mechanisms of CFA franc. Inflation was only 2.3% in January 2021. Consequently, a premature tightening of monetary policy by the regional central bank (BCEAO) is unlikely. The key policy rate was lowered by 50 basis points to 4% in 2020, which helped support the growth of banks' loans to the private sector (+11% y/y). In the short term, the lift of loan payment deferrals introduced during the crisis is expected to be manageable.

INVESTMENT RATE

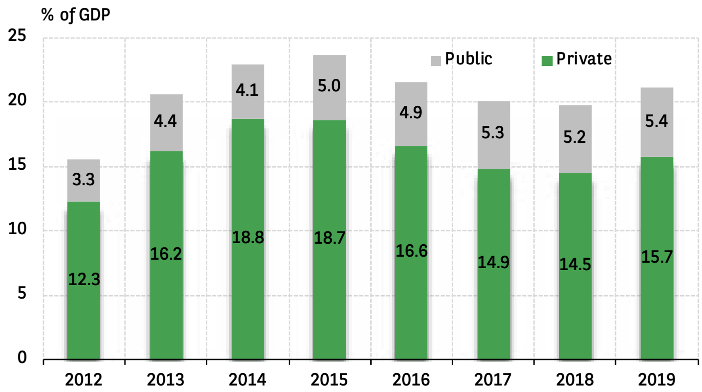

CHART 2 SOURCE: BCEAO, NATIONAL STATISTICAL OFFICE

According to the IMF, this concerned only 5% of bank credit outstanding in mid-2020 at the Western African Economic and Monetary Union's level. It is probable that credit risk, like economic growth, was more resilient in Ivory Coast than in the other economies in the region.

In the short term, of course, the country's economic rebound depends on maintaining the pandemic under control. Granted, Ivory Coast was one of the first African countries to receive vaccines thanks to the Covax initiative. Yet in early March, the vaccination campaign was only just getting underway and will be a very long process.

Beyond that, maintaining a robust growth in coming years will be closely correlated to reforms. Despite undeniable potential, Ivory Coast growth model is still weakened by numerous structural fragilities, starting with its increased dependence on public investment (chart 2). Yet the need to consolidate public finances will make it hard to maintain these dynamics. The decline in the private sector investment rate since 2015 also reflects low structural transformation. Despite a broadening of exports base, it is still concentrated on soft commodities, especially cocoa (more than 40% of exports). The economy is thus vulnerable to exogenous shocks. But growth is not inclusive enough either. All of these challenges are clearly included in the National Development Plan (2021-25).

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