RESILIENCE BEING PUT TO THE TEST

The Ivorian economy seems to have weathered well the various external shocks since 2020. Growth has remained robust and inflation relatively under control. However, the measures put in place by the authorities to protect the population and the continuation of major public infrastructure projects have significantly widened the budget deficit, while financing conditions have deteriorated. In order to reduce pressure on public finances and external accounts, the authorities have called on the IMF. They have embarked on a fiscal consolidation programme that could prove difficult to complete.

Côte d'Ivoire is doing more than weathering the storm. In 2020, it was one of the few African economies to avoid recession. Since 2021, it has continued to significantly outperform its regional peers. After a strong upturn in economic activity to 7.4% in 2021, real GDP growth remained high at 6.7% in 2022, compared to less than 4% for the subcontinent. However, unlike the pre-Covid period, this momentum was accompanied by a significant increase in public and external imbalances, which could weaken economic activity in the future. Especially since Côte d'Ivoire also has to cope with the deterioration in external and domestic financing conditions. This situation does not raise any major concerns for the time being. Public debt and external debt remain relatively moderate, and the IMF has just granted an envelope of USD 3.5 billion over forty months to support implementation of structural reforms by the government. However, the scale of the new IMF programme raises questions. The programme amount is more than five times higher than the previous programme, completed at the end of 2020, highlighting the fragility of the current situation.

FORECASTS

	2020	2021	2022	2023e	2024e
Real GDP growth (%)	1.3	7.4	6.7	6.2	6.0
Inflation (CPI, year average, %)	2.4	4.2	5.2	3.7	2.0
Gen. Gov. balance / GDP (%)	-5.4	-4.9	-6.8	-5.2	-3.5
Central. Gov. debt / GDP (%)	46.3	50.9	56.7	58.1	58.5
Current account balance / GDP (%)	-3.1	-4.0	-6.5	-5.5	-4.7
External debt / GDP (%)	29.7	30.9	34.5	35.6	35.8
Forex reserves (USD bn)	9.4	10.7	8.9	10.0	10.7
Forex reserves, in months of imports	8.5	8.0	5.5	5.6	6.4

TABLE 1

e: ESTIMATES & FORECASTS
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

EXTERNAL ACCOUNTS: A TIPPING POINT

The deterioration of external accounts is one of the most visible consequences of the impact associated with the war in Ukraine. Traditionally posting a surplus, the Ivorian trade balance moved into the red in 2022, despite good performances of exports (+20%). Given the structurally high needs for imports of services, the current account deficit reached 6.5% of GDP in 2022 compared to 4% in 2021 and just 2.3% in 2019. For the first time since the early 2000s, the Ivorian economy posted a current account deficit above the average of oil-importing countries in Sub-Saharan Africa (Figure 1).

However, the rebalancing of external accounts could be slow. The surge in food and energy imports accounts for only part of the 44% increase in imports in 2022. Imports of capital goods (18 to 20% of total imports) also continued to post strong growth (+40% in 2022). However, the momentum should not reverse while massive public investment in infrastructure continues and development of the Baleine oil and gas field has not been completed (2027).

With an average current account deficit of 5% of GDP in 2023-24, Côte d'Ivoire will therefore remain vulnerable to the ups and downs of the international economic situation. And it is not certain that the country will be able to once again borrow on the international financial markets. In 2022, the authorities decided to abandon their plan of Eurobond issuance due to deteriorated financing conditions. The current context is barely more favourable. Alternatives do exist (green bonds), but Côte d'Ivoire will mainly rely on massive support from bilateral and multilateral creditors. In 2023, more than half of the current account deficit is expected to be covered by official net financing flows, to which will be added foreign direct investment inflows (1.5 to 2% of GDP). This should ease the pressure on foreign exchange reserves, which fell by 17% in 2022.

CURRENT ACCOUNT BALANCE

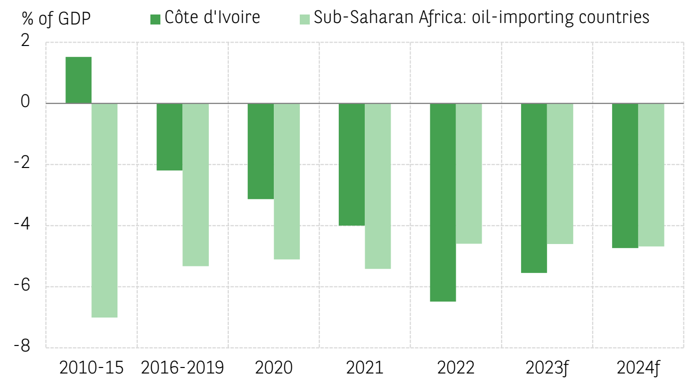

CHART 1

SOURCE: IMF, BNP PARIBAS

As Côte d'Ivoire is the main contributor to the foreign assets of the regional central bank, the BCEAO, the rapid erosion of its external liquidity weakens the solidity of the peg. The regional foreign exchange reserves coverage ratio therefore decreased from 5.6 months of imports at the end of 2021 to 4.5 months at the end of 2022, which corresponds to the low tranche of the comfort threshold for this monetary zone according to the IMF. However, thanks to strong support from official donors to most Member States and the gradual dissipation of the terms-of-trade shock, this ratio is expected to stabilise in the next 2 or 3 years.

PUBLIC FINANCES: TRICKY CONSOLIDATION AHEAD

Support from official creditors will also be key for public finances, but this will require a consolidation effort that could be difficult to apply.

In fact, the budget deficit reached 6.8% of GDP in 2022, 2 points higher than in 2021 and more than triple its 2019 level (Figure 2). Compared to its African peers, Côte d'Ivoire is therefore posting one of the most significant downturns in public finances since the pandemic. The country has also seen one of the most marked increases in debt: from 38% of GDP in 2019, government debt rose to 56.7% of GDP in 2022. This has led to an increase in interest payments, which now absorb 15% of revenue compared with less than 11% in 2019. However, debt remains well below the regional norm of 70%. In addition, its profile is favourable. More than 90% of debt is fixed-rate and average maturity remains long (7.5 years). Despite the high proportion of external debt (61%), foreign exchange risk is also contained since only 15% of debt is denominated in a currency other than the CFA franc or the euro. Furthermore, the next peak in Eurobond amortization is not expected before 2028.

Debt sustainability is therefore not threatened, but its rise must be halted. Positives: financing strategy now favours concessional or semi-concessional resources. In fact, despite the appetite of local and regional investors for Ivorian debt, conditions have deteriorated, due in particular to the tightening of BCEAO monetary policy (four key rate hikes since June 2022 to 3% for a cumulative total of 100 bp). Continuing to make extensive use of financing on the domestic and regional markets, as seen in 2022, would therefore risk of further increasing the burden of debt interest. Also, the government has committed to gradually reducing the budget deficit to 3% of GDP by 2025, which would allow debt to be contained below 60% of GDP.

The government's credibility in terms of fiscal policy is quite strong. Over the period 2012-2019, the authorities managed to contain the budget deficit at 2.4% of GDP while more than doubling the public investment total, helped by well-controlled current expenditure. In particular, the public service wage bill was reduced from 42% of tax resources in 2012 to 35% in 2022. Nevertheless, the coming adjustment could be more complex. Although the gradual abolition of measures put in place to deal with the inflationary shock (mainly energy subsidies) could save around 1% of GDP, most of the public finance restructuring programme is based on the rise in budgetary revenues by 2025 by 2.2 percentage points of GDP, of which 1.1% by 2023. This is a huge challenge. The tax base of the Ivorian economy is actually one of the narrowest in the region (less than 13% of GDP) and its level has only increased slightly since 2012 (+1.2% of GDP). In addition, 40% of revenue comes from tax on foreign trade. Revenue is therefore also vulnerable to fluctuations in commodity prices.

ECONOMIC GROWTH: STRONG PROSPECTS BUT UNDER CONSTRAINTS

The capacity of the Ivorian economy to maintain such a strong growth trajectory for the long term was already being queried before the succession of shocks that have occurred since 2020. And this question is even more relevant today.

Support from the public authorities has been a key factor in the good growth figures seen in recent years, and more specifically in 2022. Côte d'Ivoire was relatively protected from the shock to global commodity prices thanks to the measures put in place by the authorities. As a result, inflation reached 5.2% last year compared with 7.4% on average within UEMOA and 13.1% for African oil-importing countries. Domestic consumption therefore remained robust, up 4.5%, in line with the momentum seen in 2020 and 2021. Above all, investment posted an increase of almost 20%, more than half of which came from the continuation of large public infrastructure projects. Standing at 9.7% in 2022, the public investment rate has never been higher. After three years of growth of more than 20% on average, its contribution to gross fixed capital formation also reached historic highs: 37% in 2022 compared to 33% in 2020 and 24% in 2015-2019.

CÔTE D'IVOIRE : FISCAL AND DEBT INDICATORS

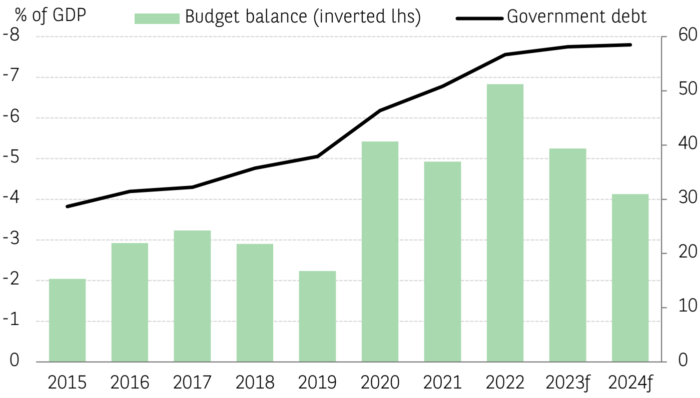

CHART 2 SOURCE: IMF, BNP PARIBAS

A rebalancing of the drivers of investment growth is expected this year. According to the latest government projections, investment should remain robust (+11.8% on average in 2023-2025) but with a 70% contribution from the private sector. Nevertheless, this assumption could prove optimistic despite the many assets of the Ivorian economy (mining, oil, and primary product processing sectors). The government is in fact expecting average growth of 13% in private investment, i.e., more than double the growth prevailing in the period 2015-19. In addition, the need to consolidate public finances questions the authorities' ability to maintain its effort in high levels of public investment (it is supposed to continue to grow to 9.9% of GDP in 2025).

Against this backdrop, the government expects economic activity to accelerate to 7.2% this year, while we expect growth to slow to 6.2%, in line with IMF forecasts. There is a risk of underperformance of tax revenues, which should lead to difficult budgetary trade-off for the Ivorian authorities.

Stéphane Alby
stéphane.alby@bnpparibas.com