KPMG

Ivory Coast Economic Snapshot H2, 2017

Trade & Investment SWOT

Strengths	Weaknesses
Ivory Coast offers a number of tax incentives to new foreign investors, like corporate tax exemption for the first 3 years' trading.	The judiciary is not impartial, with judges being appointed for political reasons.
Credit is relatively easy to access for individuals thanks to the proliferation of mobile banking, which has extended credit facilities to rural dwellers and allows them to make large non-cash purchases.	Although foreign and domestic firms are treated equally by law, in practice, domestic firms are often deemed to receive preferential treatment from the government.
The country welcomes foreign investors in almost every sector of the economy.	Intellectual property rights infringements go largely unpunished.
The country has a strong export platform and a growing demand for imports.	Corruption is pervasive throughout the government and the judiciary.
Opportunities	**Threats**
Strong economic growth is predicted over the coming years, which will increase the size of the domestic market.	The country's fragile political stability which took a significant knock with the various mutinies by armed forces in January, February and May 2017 poses significant security threats for business operation.
The recovery of the banking sector and growing purchasing power will translate into increased participation in the banking and financial industries.	Having a currency pegged to the euro could potentially pose a risk to investors because when the euro appreciates, the West African franc will as well, reducing the competitiveness of Ivorian exports.
Trade barriers such as tariffs are being progressively lowered, paving the way towards a freer trade environment.	A dependence on cocoa exports exposes the country to declining state revenues in the face of lower international commodity prices.
Government reforms to reduce red tape will improve the business environment.	Preferential treatment towards local firms could deter foreign participation in the economy.

Source: Business Monitor International (BMI), KPMG research

Economic structure - The primary sector is responsible for producing some of the country's most important export goods. Cocoa, fruit and nuts represent more than half of export earnings and are planted on both small-scale and commercial farms. Around a fifth of the country's land area is under crop cultivation, with smaller crops including cotton and rice. The secondary sector includes a small oil producing sector as well as a more sizeable manufacturing industry. Factory production is however limited to the refining and processing of agricultural produce and the majority of the country's demand for manufactured goods are satisfied by imports. The tertiary sector includes large retail (10% formal penetration rate) and financial industries. Membership of the West African monetary bloc ensure strong regulation of local banks though these entities are now lagging behind providers of mobile financial services in terms of the number of active accounts.

Recent economic developments – Consumer price inflation declined from 1.3% y-o-y in September to 1.1% y-o-y in October, with food price inflation falling to 1.6% y-o-y in October. However, an increase in oil prices will place upward pressure on inflation at the start of 2018. The International Monetary Fund (IMF) forecasts slower economic growth of 7.6% and 7.3% in 2017 and 2018, respectively, due to lower cocoa prices. The current account deficit widened in 2017 due to bumper crops in the world's largest cocoa producers resulting in a sharp drop in the commodity's global prices. (In response, Ivory Coast slashed the price it guarantees for cocoa farmers by 36% during March 2017, and experienced a default on 80 000 tonnes worth of expected deliveries.) The fiscal deficit will widen in 2017-2018 due to lower revenues from cocoa and significant infrastructure expenditure. An increase in military salaries will further increase expenditure. Soldiers demanding bonuses and wage rises in January 2017 and subsequent high-profile mutinies have done little to dent foreign investors' faith that President Alassane Ouattara will retain control and push ahead with reforms.

Mega trends

Population	2017	Total: 23.82 million; female: 11.72 million; male: 12.1 million; age 0-14: 42.15% of total; age 15+: 57.85% of total; age 65+: 3.05% of total
Population growth rate	2015	2.51%
Life expectancy at birth	2015	Total: 53.08 years; female: 54.6 years; male: 51.63 years
HIV/AIDS	2016	Total number of people living with HIV: 0.46 million; total adult prevalence: 2.7%; HIV AIDS orphans (age 0-17): 0.23 million
Adult literacy rate	2015	Total population: 43.27%; female: 32.73%; male: 53.28%
Urbanisation	2016	Urban population: 54.87% of total; annual urban population growth: 3.77%; rural population: 45.13% of total
Population below $1.90/day poverty line	2008	29.02%
Unemployment rate	2017	Total: 9.3%; female: 11%; male: 8.3%; youth (15 - 24): 13.8%
Employment	2017	Agriculture: 56% of total; industry: 5.7% of total; services: 38.4% of total
Labour participation rate	2017	Total (ages 15+): 67.03% of total population
Business languages	n/a	French, 60 native dialects of which Dioula is the most widely spoken
Telephone & internet users	2014; 2016	Fixed telephone subscriptions: 0.29 million (2016); wired internet subscriptions: 0.06 million (2014); cell phone subscriptions: 27.45 million (2016)
Quality of infrastructure (1 = underdeveloped, 7 = developed)	2016	4.24

Sources: UNESCO Institute for Statistics, World Telecommunication/ICT indicator database, World Bank, UNAIDS, International Labour Organisation, Analyse Africa

Business Environment									
Human Development Index (HDI) 2015		Index of Economic Freedom 2017		Global Competitiveness Index (GCI) 2017-18		Doing Business 2018		Corruption Perceptions Index 2016	
171st	out of 188 countries	75th	out of 180 countries	n/a	out of 137 countries	139th	out of 190 countries	108th	out of 176 countries

Source: World Bank, The Heritage Foundation, World Economic Forum (WEF), Transparency International

Economic policy – The National Development Plan (NDP) 2016-2020 is designed to transform the Ivory Coast into a middle-income economy by 2020. Donors pledged in April 2016 to provide $15.4 billion in funding for the scheme. The coherent strategy for planning development relies on a vision of capitalism but "with a human face", according to Prime Minister Daniel Kablan Duncan. In order to achieve this middle income status, the NDP seeks to develop a strong industrial base and reduce poverty. The overall strategy of the plan is based on lessons learned in the NDP 2012-2015 and is organised around five pillars. These include 1) enhancing the quality of governance and institutions; 2) accelerating the development of human capital and social welfare; 3) accelerating the structural transformation of the economy through industrialisation; 4) developing infrastructure across the economy while protecting the environment; and 5) strengthening regional integration and international cooperation.

Sovereign Risk Ratings		
S&P Global Ratings	Fitch Ratings	Moody's Investors Service
---	B+/Stable	Ba3/Stable

Source: Trading Economics

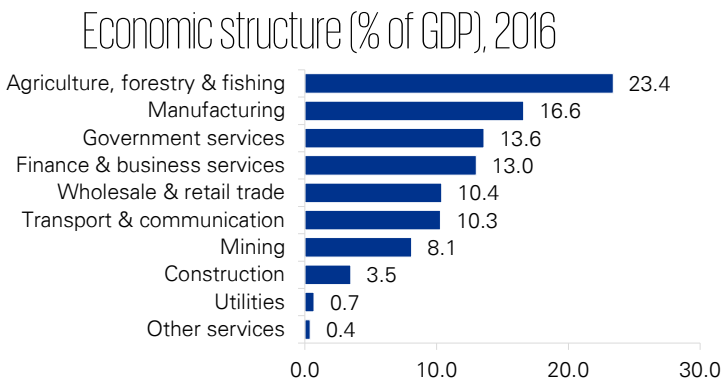
Fitch Ratings affirmed the Ivory Coast's long-term foreign currency Issuer Default Ratings (IDR) at "B+" with a stable outlook in August 2017. Ratings detractors include weak (albeit improving) public finance management, low governance and development indicators, a high dependence on agricultural commodities and persistent risks to political stability. Factors that are currently supportive of creditworthiness include low inflation, strong macroeconomic performance, moderate debt ratios and a structural trade surplus. Fitch lists recurrent sporadic acts of violence as a point of concern following "two episodes of mutinies by former rebels and military claiming the payment of allegedly promised bonuses." It also warned that a deterioration in political stability or "aggravation of security incidents" could lead to "material fiscal slippages" or jeopardise the sovereign's ability to honour its debt commitments. This is an important factor for Ivory Coast considering the two defaults in international debt payments seen in 2000 and 2011.

Moody's Investors Services commented in October 2017 that Ivory Coast's "Ba3" long-term foreign currency rating with its stable outlook "is primarily supported by the economy's growing diversification and high growth prospects, which are underpinned by structural reforms and public investment in infrastructure." Its major credit constraint is institutional quality: similar to many of its peers in Sub-Saharan Africa (SSA), Ivory Coast scores quite low on the Worldwide Governance Indicators. Moody's admits, however, these "have and should continue to improve steadily following the implementation of major institutional reforms." The agency indicated that ratings could improve if further material improvements in governance and competitiveness is observed. Regarding the latter, structural reforms need to continue in support of public and private investment. Downwards pressure on ratings could materialise from any reversal of these structural reforms. Medium-term economic growth would also come under pressure from the re-emergence of significant political and social tensions.

Finance & Banking				
Central bank	Number of commercial banks	Bank branches per 100 000 adults	ATMs per 100 000 adults	Deposit accounts per 1 000 adults
La Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO)	18	4.83	6.86	199.75
Stock market	**Listed companies**	**Market capitalisation***	**Largest sectors**	**Weekly trading value***
(regional) Bourse Régionale des Valeurs Mobilières (BRVM)	60	$10 billion	Communication	$1 million
Capital market	**Level of development**	**Maturity range**	**Municipal bonds**	**Corporate bonds**
Yes	Underdeveloped	7 days to 7 years	No	Limited

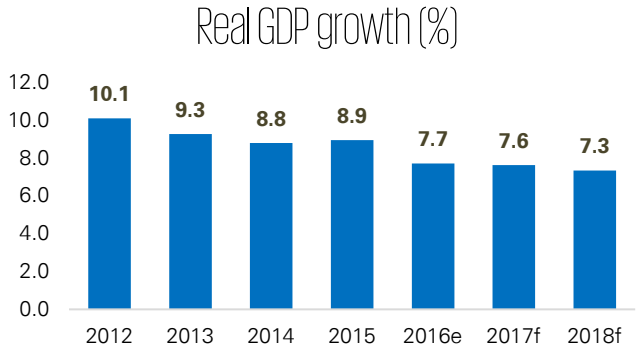
Sources: World Bank, African Alliance, Analyse Africa, KPMG research
**Week ending 27 October 2017*

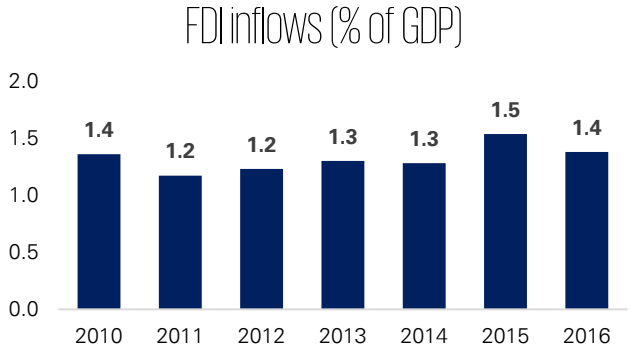
Macroeconomic overview



Source: African Economic Outlook (AEO)

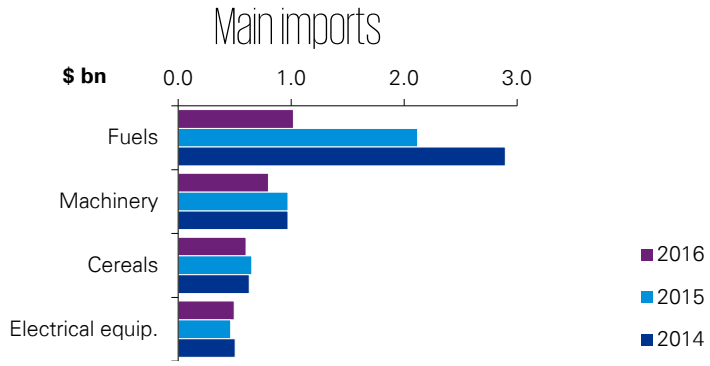
Economic growth - The Ivory Coast will continue to see strong economic growth in the coming quarters, driven by private consumption, the construction, transport and mining sectors. However, a wave of defaults by the country's cocoa exporters, as well as higher-than-expected production has pushed prices down on the key commodity. As a result, the IMF forecasts slower annual growth of 7.6% and 7.3% in 2017 and 2018, respectively. Ivory Coast's favourable business environment is encouraging, with opportunities emerging in the mining sector. In the coming years, fixed capital formation will be an increasingly important component of the economy and the main driver of growth.

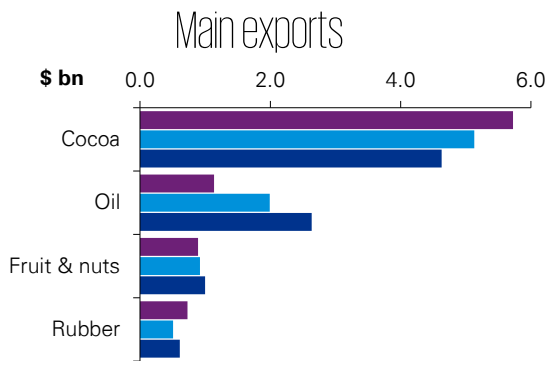




Sources: IMF, United Nations Conference on Trade and Development (UNCTAD)

Foreign investment – Ivory Coast's boasts high levels of openness to international trade and liberal foreign investment regime, low tax burdens, and membership of the Union Economique et Monetaire Ouest Africain (UEMOA) - which provides benefits in terms of foreign currency transactions and access to a regional bourse. The Ivorian government's pro-business stance since 2011 has also seen significant reductions in bureaucratic red tape for business operation as well as legal dispute resolution. Admittedly, many problems still exist for businesses, largely in the form of the many contextual barriers to foreign direct investment (FDI) - such as the country's fragile political stability and underdeveloped land ownership systems. Soldiers demanding bonuses and wage rises in January 2017 and subsequent high-profile mutinies have done little to dent foreign investors' faith that President Alassane Ouattara will retain control and push ahead with reforms. In fact, Ivory Coast saw undeterred investment in 2017, especially in the transport and infrastructure sectors. This includes three hydroelectric dams and enhancements to the port of Abidjan.

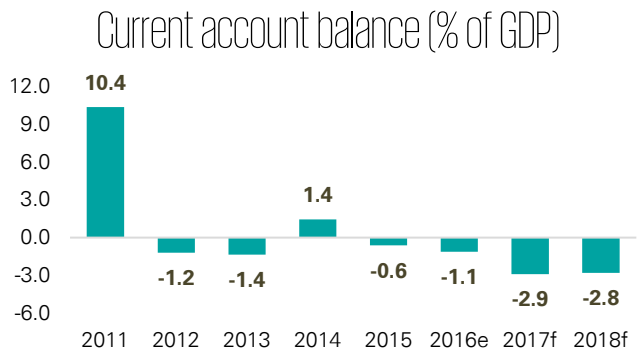


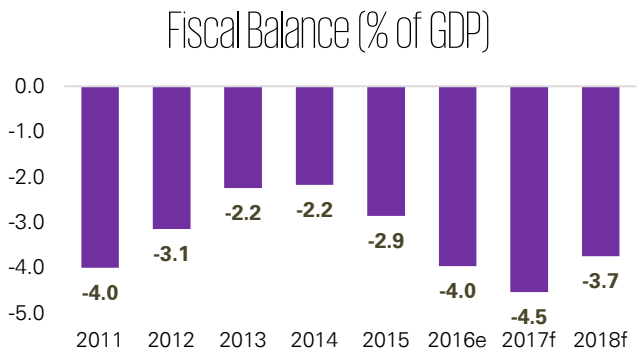


Main Imports: % share of total	2014	2015	2016	Main Exports: % share of total	2014	2015	2016
Fuels	25.9%	22.2%	12.8%	Cocoa	35.6%	43.3%	55.3%
Machinery	8.7%	10.2%	10.0%	Oil	20.3%	16.8%	11.0%
Cereals	5.6%	6.9%	7.5%	Fruit & nuts	7.7%	7.8%	8.6%
Electrical equipment	4.5%	4.9%	6.2%	Rubber	4.7%	4.3%	7.0%

Source: Trade Map

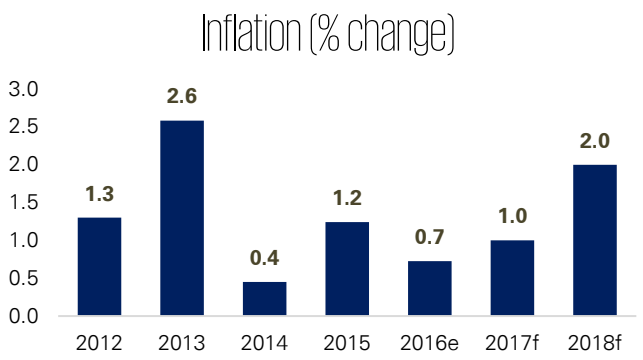
External trade – A lack of domestic manufacturing capacity sees Ivory Coast being increasingly reliant on imports of capital and consumer goods. The current account deficit widened in 2017 due to bumper crops in the world's largest cocoa producers resulting in a sharp drop in the commodity's global prices. (In response, Ivory Coast slashed the price it guarantees for cocoa farmers by 36% during March 2017, and experienced a default on 80 000 tonnes worth of expected deliveries.) The current account shortfall is expected to remain wider in 2018, though robust inward FDI and concessional foreign loans should allow these deficits to be sustainable. Import cover - the number of months of imports covered by a country's foreign reserves - is projected by BMI to equal 5.2 months in 2018, compared to a global benchmark of at least three months.

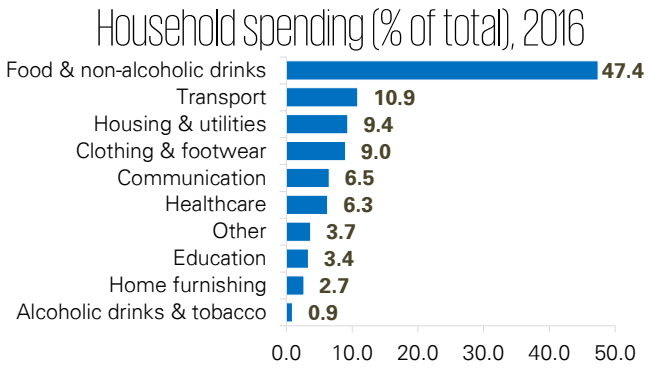




Source: IMF

Fiscal policy – The fiscal deficit will widen even further in 2017-2018 due to lower revenues from cocoa and significant infrastructure expenditure. An increase in military salaries will further increase expenditure. This will require increased government borrowing, which will increase nominal debt levels over the next two years. Ivory Coast recently secured an $803 million loan from the African Development Bank (AfDB) for a large road infrastructure project. This loan, as with most others, are on a concessional basis, ensuring that the likelihood of another credit risk event is limited. The country has enjoyed low debt servicing costs, and a high rate of real growth in gross domestic product (GDP) over the coming years will further contribute to a stable debt outlook. The IMF projects the fiscal deficit to reach 3.7% of GDP in 2018.





Source: IMF, BMI, country statistics agencies

Monetary policy - Membership of UEMOA is one of the main reasons for the low inflation experienced in Ivory Coast, compared to most of Sub-Saharan Africa. Consumer price inflation declined from 1.3% y-o-y in September to 1.1% y-o-y in October, with food price inflation falling from 3.4% y-o-y in September to 1.6% y-o-y in October. However, an increase in oil prices will place upward pressure on consumer prices at the start of 2018. However, the West African franc's peg to the euro will keep Ivorian consumer price growth low compared with that in countries with free-floating currencies. The outlook for consumer spending in Ivory Coast is favourable, with expectations of continued low and stable inflationary conditions.

Contact details

KPMG Ivory Coast	KPMG South Africa Economics
Jean-Luc Ruelle, CEO +225 202 257 53 jruelle@kpmgci.com	**Lullu Krugel, Director** +27 (0) 82 712 4049 lullu.krugel@kpmg.co.za