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July 19, 2021

**Statement by Mr. Azal and Mr. Pucnik on Côte d'Ivoire  
(Preliminary)  
Executive Board Meeting  
July 21, 2021**

We thank staff for their comprehensive set of reports, and Messrs. Andrianarivelo and Alle for their helpful Buff statement. Despite efforts to diversify the economy, Côte d'Ivoire's still-high dependence on the exportation of agricultural commodities and natural resources makes it sensitive to commodity price volatility and weather conditions. The economy's resilience and the authorities' swift policy reactions to the pandemic- crisis resulted in smaller-but-still-positive growth in 2020. However, persisting political tensions and security risks, uncertainty surrounding the course of the health crisis, youth unemployment, growing income inequality, and other structural challenges impede further growth. **We share the thrust of the staff's appraisal and policy recommendations, and would like to make the following comments for emphasis.**

**Continued adherence to fiscal prudence and revenue mobilization will reverse the deterioration in public finances.** The authorities' fiscal consolidation plans are based on tax policy reforms aiming to increase fiscal revenues which will invigorate the resilience to future shocks. In this context, we commend the authorities for rationalizing tax expenditures, broadening the tax base, and improving the coverage of the informal sector. Although an effective tax system is a critical building block for increased revenue, we take note of the institutional capacity challenges in this regard, the impact of commodity price volatility on tax revenues, and social opposition to some tax-related reforms. In view of the aim to further enhance revenue and fiscal flexibility, we encourage the authorities to diversify the economy and shift towards higher value-added exports. The implementation of National Development Plan (NDP) for 2021-25 is a step in the right direction. We note that achieving the WAEMU deficit target of 3 percent of GDP has been prolonged to 2023, also on account of potential bank recapitalization needs.

**We welcome Côte d'Ivoire's return to international capital markets in November 2020,** increasing the opportunities to utilize market-based sources of capital. The growth slowdown and widening fiscal deficit increased the debt to close to 50 percent of GDP in 2020. Given

that the large share of debt is denominated in foreign currency, in order to hedge the currency risk, the authorities may focus more on external financing in euro, to which the West African CFA franc is pegged. We positively note that state-owned enterprise (SOE) debt is low and contingent liability risks are small. However, fiscal support for the SOEs should gradually be phased out once the recovery is well entrenched.

**A possible increase in the non-performing loan (NPL) level and subsequent write-offs can deplete capital buffers and require additional bank capitalization needs.** At 8.5 percent, the relatively high NPL level can increase in the event of continued strong credit growth to the private sector amid a prolonged crisis, and particularly after the expiration of the loan repayment moratorium. We encourage the authorities to consider implementing macroprudential measures to prevent a further emergence of system-wide NPL issues. *Can staff elaborate on the recovery plans being put in place for problem loans, as well as the deviations of problem loans from NPLs? Are problem loans accounted for in the NPL level?* Given that the average capital adequacy ratio was 11.5 percent at end-June 2020, above regulatory requirements, we wonder what it would have been without the three undercapitalized banks. *Staff's comments are welcome.*

**Structural reforms are pivotal to ensure the sustainable operation of SOEs.** Although the 2021-25 NDP will address necessary reforms to improve revenue mobilization, additional structural reforms are needed to reduce inefficiencies in SOE governance, boost their competitiveness, and resume privatization efforts. The swift implementation of a 2020-2030 national AML/CFT strategy, alongside the IMF-led assessment, will reduce corruption possibilities and further improve the business environment.