

SUR/09/105

November 18, 2009

**The Acting Chair's Summing Up
Côte d'Ivoire—2009 Article IV Consultation, First Review Under the Three-Year
Arrangement Under the Poverty Reduction and Growth Facility, Request for Waiver of
Nonobservance of Performance Criteria, and Financing Assurances Review
Executive Board Meeting 09/114
November 18, 2009**

Executive Directors agreed with the thrust of the staff appraisal. They commended Côte d'Ivoire's progress in strengthening macroeconomic management and improving the fiscal position and public financial management. Higher growth and lower inflation, helped by favorable terms of trade and political normalization, have helped arrest the severe deterioration in social indicators resulting from Côte d'Ivoire's sociopolitical crisis. Near-term economic prospects appear favorable, although many challenges still lie ahead, and continued donor assistance will be needed to support the authorities' reform efforts.

Directors welcomed the achievement of a primary budget surplus. However, continued current spending pressures arise from the electricity subsidy, large contingent wage commitments, and discretionary spending. Directors underscored that fiscal consolidation remains critical to expand the fiscal space gained from the reforms and political normalization. They welcomed the authorities' commitment to begin winding down crisis-exit spending and the emphasis on pro-poor and investment outlays in the draft 2010 budget.

Directors welcomed the significant progress made in clearing external arrears and normalizing relations with external creditors, including with the Paris Club and the preliminary restructuring agreement with Brady bond holders on comparable terms. They encouraged the authorities to pursue their discussions with a view to reach a similar agreement with other creditors. Directors looked forward to adequate internal coordination to prevent a recurrence of arrears to multilateral creditors, and supported the authorities' request for technical assistance on public debt management.

Directors supported the authorities' efforts to strengthen tax and customs administration, reduce domestic arrears, and improve fiscal transparency, including in large public works. They called for strong implementation of the plans to improve public resource management and to continue reorienting spending to areas critical to reducing poverty and improving infrastructure. They also looked forward to the establishment of a National Procurement Regulation Authority, reforms in the pension funds and the civil service, a strategy for a sustainable wage bill, and the restructuring of the electricity sector.

Directors noted the staff's assessment that Côte d'Ivoire's real effective exchange rate appears to be in line with fundamentals. Nonetheless, the export base is narrow and the business climate needs to be improved. Directors therefore encouraged the authorities to vigorously pursue structural reforms and integrate Côte d'Ivoire more closely with its neighbors to bolster efficiency and create new export opportunities. Priorities include further reducing the taxation of cocoa income, reforming the cocoa sector institutions, improving transparency in the energy sector, and judicial reforms. Directors looked forward to the adoption of the National Plan for Good Governance and Fight Against Corruption.

Directors urged the authorities to address financial sector vulnerabilities identified by the 2009 FSAP. In particular, they underscored the need to improve the solvency and asset quality of some local banks, reduce connected lending and loan concentration, and rehabilitate microfinance institutions. They encouraged the authorities to resolve problem banks without recourse to public funds and to support the Banking Commission in ensuring bank compliance with prudential norms. Directors welcomed the authorities' plans to establish a National Financial Sector Reform Committee and to formulate a Financial Sector Development Strategy, which will clarify the government's role in the financial system.

It is expected that the next Article IV consultation with Côte d'Ivoire will be held in accordance with the Executive Board decision on the consultation cycle for members with Fund arrangements.