Statement by Mr. Daouda Sembene Executive Director for Côte d'Ivoire and Mr. Marcellin Koffi Alle, Senior Advisor to the Executive Director

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1. The Ivorian authorities appreciate Fund's valuable engagement with Côte d'Ivoire over the past years. They welcome the constructive dialogue maintained with staff as well as the broad convergence of views on key policy issues. We broadly share the thrust of the staff report as it fairly reflects program discussions. The program supported by the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) has continued to be implemented satisfactorily despite a number of significant shocks, notably the sharp fall in international cocoa prices since the last quarter of 2016 and domestic tensions in early 2017.

2. Côte d'Ivoire has maintained its momentum of solid economic growth on the back of strong investment and a steady pace of reform implementation in key areas, including public finance and debt management, the financial sector, and the business environment. Investor confidence has continued to remain high, as evidenced by the early positive reactions of the capital markets to this week's Eurobond issuance. This positive development demonstrates the country's continued strong fundamentals and successful reform efforts in the face of a challenging external and domestic environment. Going forward, the authorities are committed to continuing their adjustment efforts, with a view to meeting the medium-term goals of fiscal sustainability, macroeconomic stability and inclusive growth. Against the backdrop of the abovementioned shocks, the requested augmentation of access of 25 percent of quota under the program will help meet financing needs along with the Eurobond receipts and assistance from bilateral and multilateral partners.

Recent Developments, Program Performance and Outlook

3. Program performance was strong. All end-December 2016 and continuous performance criteria and structural benchmarks were met. Three indicative targets (ITs) were missed, generally owing to the revenue shortfalls stemming from lower international cocoa prices. At end-March 2017, all ITs were observed.

4. The authorities' policy responses to the cocoa price shock and domestic tensions have helped maintain the trend of strong macroeconomic performance in 2016. Real GDP growth is estimated to have solidly stood at about 8 percent with strong investment and private consumption being its main drivers. At the same time, inflation remained subdued.

5. Notwithstanding the significant decline in cocoa prices, the Ivorian authorities are more optimistic about the economic outlook than staff. Moreover, they expect that the resilient private sector demand and dynamic extractive industries and services should translate into an 8½ percent growth in 2017, compared to staff's projected rate of 7 percent.

Going forward, it is expected that the more peaceful social environment should help improve further the outlook, as the authorities have reached agreements with soldiers on payment of bonuses and other measures and settled most of the demands made by civil servants' unions.

Policies and Reforms for 2017–19

Adjusting fiscal policy to shocks

6. Fiscal policy has borne most of the adjustment efforts consented by the authorities following recent adverse domestic and external developments. While maintaining their commitment to meet the WAEMU fiscal deficit target of 3 percent of GDP by 2019, the authorities agreed with staff on the need to achieve a slightly higher deficit than previously programmed, in 2017. Still, this entails difficult adjustment measures, including cuts in current expenditure and domestic capital outlays; reactivation of the fuel price adjustment mechanism; and significant reduction of the guaranteed cocoa price for farmers.

7. The Ivorian authorities took a series of measures aimed at improving the fiscal stance over the medium term. The bulk of these new measures which are expected to boost revenue by about 0.4 percent of GDP in 2018 and by another 0.5 percent of GDP in 2019 include phasing out VAT exemptions, rationalizing investment tax incentives and loopholes, raising excise rates on beverages and further improving tax administration. Expenditure side measures are also planned, such as additional steps to contain the wage bill and other current expenditure, while reprioritizing capital outlays.

8. Over the medium-term, fiscal policy should be further enhanced with the authorities' reforms aimed at improving PFM. Steps are being taken to fully implement WAEMU's PFM directives by 2019. In this connection, a new medium-term expenditure framework outline for five pilot ministries was recently submitted to the Parliament as part of the 2017 budget. The authorities have also made strides in transitioning to the Treasury Single Account (TSA) with the aim of making it operational by end-2018. To this end, a project team is pursuing the inventory of government accounts in commercial banks. Computerized systems are being improved with a view to better tracking payments and complying with normal expenditure authorization procedures. PFM will also be strengthened through the measures underway to increase surveillance of potential fiscal risks stemming from public enterprises and PPPs. The coverage of the SOEs' debt database is being broadened to improve monitoring and signed PPPs are being reviewed with Fund TA to minimize fiscal risks.

Maintaining debt sustainability

9. The authorities take note of staff assessment that the country's risk of external debt distress remains moderate. Going forward, we would like to reaffirm our authorities' commitment to continue to strengthen debt management for maintaining debt sustainability. That said, and as during previous DSA exercises, the authorities continue to stress that the

baseline macroeconomic assumptions used in the DSA update are too conservative, particularly with regard to the economic growth projections. The authorities call for a more realistic view on growth assumptions as projected in the 2016–20 National Development Plan (NDP) and backed by the strong GDP growth rates recorded over the past years.

Strengthening the financial sector

10. Cognizant of the critical role of the financial system for supporting growth, the authorities are moving ahead with the reform of the sector. The recapitalization plan for *CNCE*, the public savings bank, has been submitted to the regional Banking Commission. The liquidity position of the *BNI* has been enhanced following recent actions and the privatization of government's stakes in two smaller public banks is underway. The banking system remains sound and has supported the economy in recent years. Most banks have already complied with the BCEAO's new minimum bank capital requirement of FCFA 10 billion ahead of the mid-2017 deadline. The authorities continue to implement their financial development strategy in coordination with the BCEAO, notably with a view to improving further financial inclusion.

Advancing structural reforms

11. Further advancing structural reforms ranks high on the authorities' agenda, and will be critical to maintaining the country's strong growth momentum and achieving the objectives set under the 2016–20 NDP. In this regard, they are committed to improving further the **business climate**. A vast initiative underway to introduce electronic operations is meant to simplify administrative procedures, including in tax, land registry, and construction permits. A study that explores avenues for streamlining the investment code should be completed by end-September. Past reforms such as the inception of a one-stop shop will be complemented with additional measures to ease business creation. The authorities are also determined to improve governance and fight corruption, including through a better control of public procurements and anticorruption campaigns.

12. The authorities' reform agenda will also continue to encompass the **electricity** and **public enterprise** sectors. The authorities will pursue their efforts of bringing financial viability in the electricity sector, including through clearing the central administration's arrears to the sector and price adjustment, both for domestic consumption and exports. Similar efforts are underway to bring financial viability to major public enterprises, notably the national oil refinery, *SIR*, the national oil holding company, *PETROCI*, and Abidjan transportation company, *SOTRA*.

Conclusion

13. Amid a challenging domestic and external environment, Côte d'Ivoire has continued to implement steadfastly its economic and financial reform program and has sustained its track record of strong growth and program performance. Despite the negative impact of unfavorable terms of trade on economic performance, the authorities are confident that the policy measures envisaged in their Fund-supported program will help to weather the impact of the shocks, improve the fiscal and economic outlook.

14. In view of the strong reform agenda and the authorities' strong commitment to the objectives of the program, we would appreciate the Board's support for the completion of the first review under the ECF and the EFF arrangements and for the authorities' request for modification of performance criteria and augmentation of access.