RESEARCH REPORT

MACROECONOMY

DECEMBER 2019

Côte d'Ivoire: Finance Act Draft 2020

The challenge of preserving achievements

Attijari Global Research

GDP GROWTH		FISCAL DEFICIT		GENERAL BUDGET (XOF)		INVESTMENT EXPENSES (XOF)	
	- 0.2 pt		0 pt		+9.9%		+8.9%
FAD 2020	7.3%	FAD 2020	3.0%	FAD 2020	8 061 Bn	FAD 2020	2 282 Bn
2019F	7.5%	2019F	3.0%	FA 2019	7 334 Bn	FA 2019	2 095 Bn

EXECUTIVE SUMMARY

Côte d'Ivoire displays particularly attractive macroeconomic indicators. Growth has been evolving at a very high pace, exceeding 7.0% since 2012, with an average inflation rate below 1.0%. The fiscal deficit is in line with the community threshold of 3.0% while the current account deficit is at an acceptable level of 4.7%. That said, the country faces other challenges which would have an impact on this growth sustainability over the medium-long term.

This Finance Act comes in a context that coincides with a presidential election process scheduled for next October. FY 2020 also marks the end of the National Development Plan (NDP) 2016-2020. All this means that this is a delicate transition period discouraging rupture decisions, and encouraging taking part of the continuity process.

However, 2020 FAD presents a solid fiscal construction and consistent fiscal measures. FY 2020 should maintain strong growth of 7.3% and a stable fiscal deficit of 3.0%.

Enjoy your reading.

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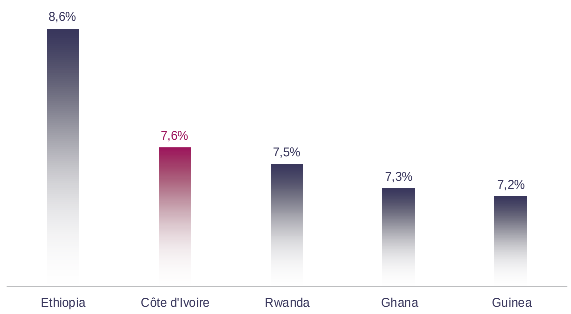
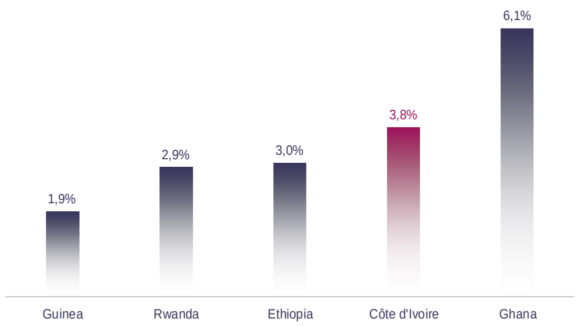
TOP 5 OF MOST PERFORMING AFRICAN COUNTRIES

AVERAGE GDP GROWTH 2017-2019F



AVERAGE FISCAL DEFICIT 2017-2019F (% OF GDP)



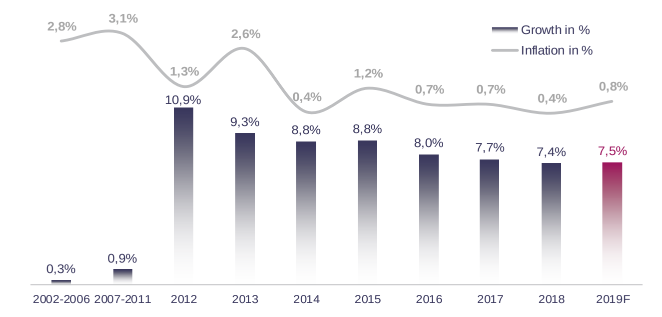
Sources: Ministry of Finance, CBWAS, IMF, AGR Computations

SECOND MOST PERFORMING AFRICAN COUNTRY

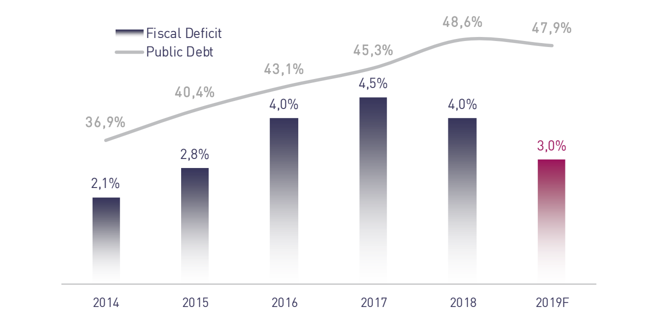
Ivorian growth expansion confirmed again in 2019

Expected at 7.5% in 2019F, economic growth in Côte d'Ivoire sustains the strong momentum observed since 2012, marking the end of the severe post-electoral crisis 2002-2011. This dynamic can be explained by the good performance of the secondary and tertiary sectors which take into account a catch-up effect in terms of basic infrastructure and improvement of services provided to the population.
Furthermore, this strong growth was accompanied by a low inflation. Prices rose moderately thanks in particular to the peg of the FCFA to the Euro limiting any effect of imported inflation, the increase in the domestic supply of foodstuffs and the implementation of Government strategy against high cost of living.

ECONOMIC GROWTH AND INFLATION



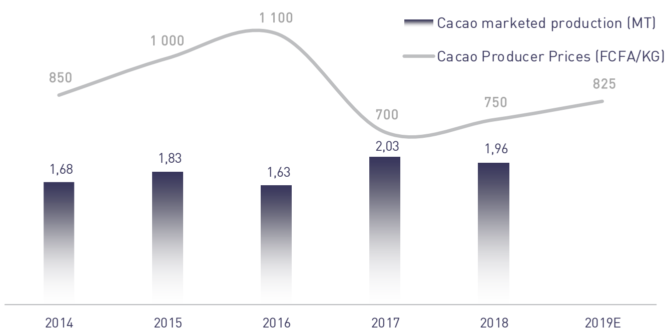
FISCAL DEFICIT VS. DEBT (% OF GDP)



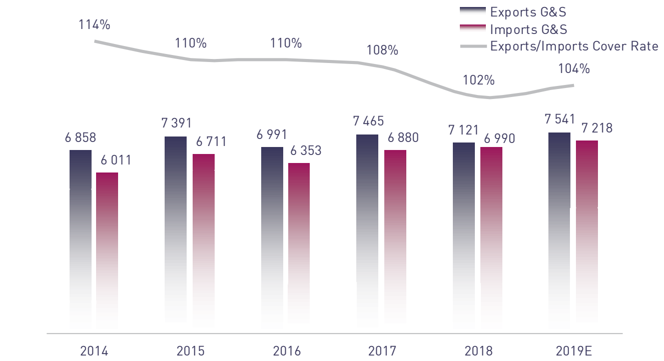
Alignment of the fiscal deficit with WAEMU community standards

After a floating period of fiscal deficit, Côte d'Ivoire is finally expected to converge to the WAEMU regional threshold settled at 3.0% of GDP in 2019F. This fiscal consolidation is the result of a policy aligning expenses with revenues growth, supported by a significant increase in external resources in the form of projects and program grants. Thus, the public debt would remain at 47.9%* of GDP in 2019F, showing a limited increase of 11.0 pts of GDP over the last five years.

CACAO PRICE AND PRODUCTION VOLUME



EXTERNAL TRADE (FCFA BN)



Exports driven by oil and cotton, cocoa in decline

Cocoa price followed an upward trend since 2017. However, this price increase has proved insufficient to offset the downward trend in the volumes produced. Cocoa, which represents 40.0% of the country's exports value, penalizes their upgrade, which ultimately finds its origin in the satisfactory behavior of the other components, notably oil and cotton.

*WAEMU community standard provides for a maximum debt of 70% of GDP.

Sources: Ministry of Finance, MPMBPE, CBWAS, IMF, AGR Computations

MAIN CHALLENGE OF CÔTE D'IVOIRE: BUILD ON THE ACHIEVEMENTS

Côte d'Ivoire displays particularly attractive macroeconomic indicators. As a reminder, growth has been evolving at a very sustained pace exceeding 7.0% since 2012 with an average inflation rate of less than 1.0%. The fiscal deficit is in line with the community level of 3.0% while the current account deficit is at an acceptable level of 4.7%. That said, this country faces other challenges which would have an impact on the growth sustainability over the medium-long term.

Economic diversification

Despite diversification efforts, agricultural and mining products account for 87.0% of flows going abroad, while manufactured products represent only 13.0%. This structure exposes the economy to exogenous shocks such as climatic uncertainty or variations in cocoa international price. As a reminder, the price dropped from almost $ 3,000 per tone in H2-2016, to less than $ 2,000 in H1-2017. As of December 16th 2019, its level is $ 2,572.

Supporting economic growth

The strong economic growth in Côte d'Ivoire is expected to be accompanied by such rapid development of infrastructure and basic services. Otherwise, the country risks falling victim to its success. We note in particular the development of both inter-city and intra-urban transport. According to the World Bank, an improvement in urban mobility in Abidjan of around 20.0% would lead to a gain in GDP growth of almost 1.0% per year.
Similarly, in terms of electricity production, and despite the investments made to increase installed capacity, the country has a coverage rate of around 73.0%.

The fight against poverty

Strong economic growth should more benefit to the poorest. The latest census figure of the poverty rate through the GINI * index, which was 41.5% in 2015, calls for a joint effort around this segment of the population with the aim of ensuring social stability and sustainable growth.

Reducing regional disparities

With 4.7 million inhabitants, Abidjan hosts 21.0% of the Ivorian population. Above all, this economic capital produces 60.0% of Côte d'Ivoire's GDP. This polarization of economic activity around Abidjan puts pressure on a city which records a strong industrialization and an important urbanization and delays the opening up of the interior of the country.

Consolidation of fiscal balance

In order to maintain a balanced budget and bring the public deficit down to the 3.0% community threshold, Côte d'Ivoire has further focused its efforts on rationalizing budgetary expenses, particularly that linked to investment. This approach, which has proven to be effective, could not be viable over the medium-long term. Cost savings are drying up and investment cuts can be unproductive to keep up with the needs of strong growth as described above. Thus, the enlargement of the tax base is a real challenge for Côte d'Ivoire, which has potential for improvement with a tax burden ** of 16.0% below the community standard established at 20.0%.

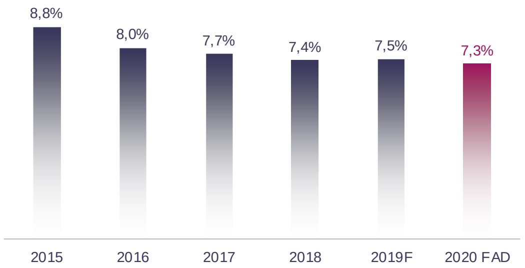
* The GINI index measures the level of wealth inequality of a population. It varies from 0 (perfect equality) to 1 (perfect inequality). Côte d'Ivoire is in 107th place among the 161 countries classified by the World Bank.

** Tax revenues / GDP

Sources: Ministry of Finance, WAEMU Commission, AGR Computations

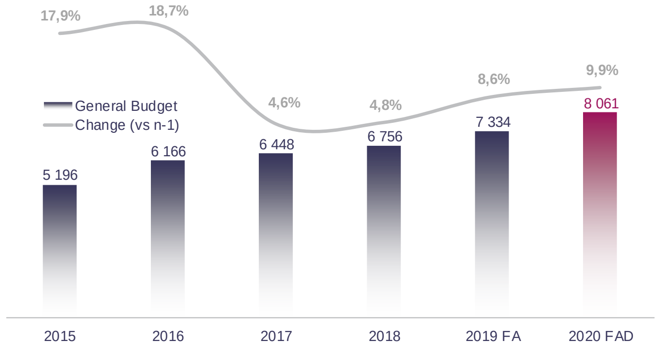
2020 FINANCE ACT: MAIN ASSUMPTIONS

GDP GROWTH



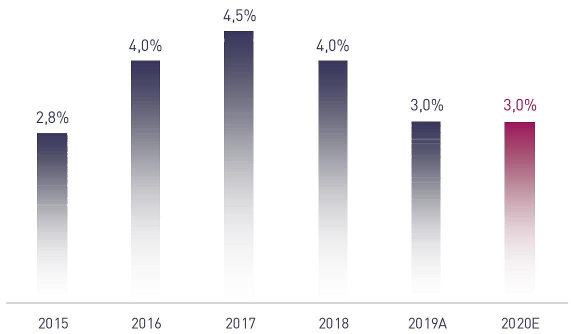
Persistence of Ivorian GDP growth at a level exceeding 7.0% in 2020E, almost twice the estimated growth rate of Sub-Saharan Africa (3.5%).

GENERAL BUDGET (FCFA BN)



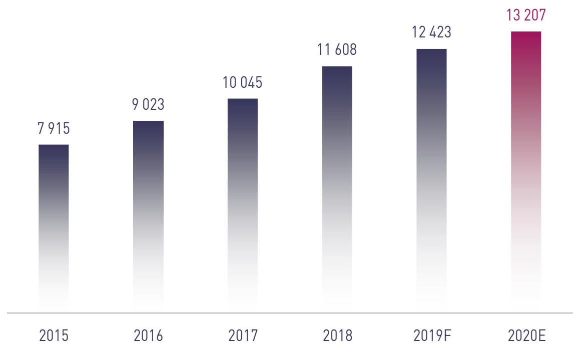
The budget rise is mainly due to the increase in public debt service, while ordinary expenses rose by only 6.5%.

FISCAL DEFICIT (% OF GDP)



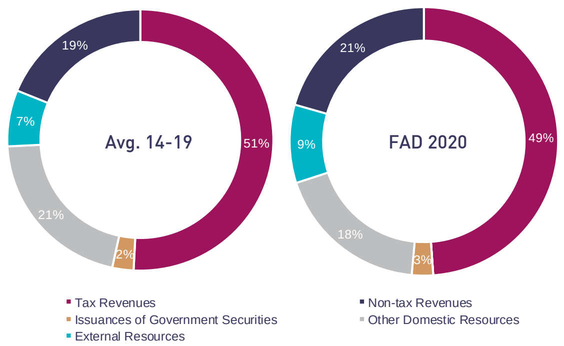
The fiscal deficit should stabilize at 3.0% of GDP thanks in particular to efforts to control operating costs and the pursuit of an investment policy based mainly on project grants.

PUBLIC DEBT (FCFA BN)



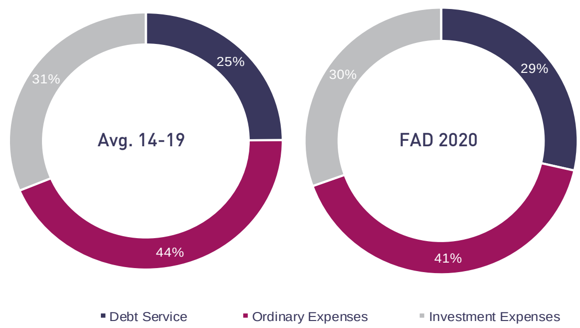
Continued rise in the outstanding public debt, nevertheless at a slower pace. Debt service should increase, for its part, by 17.3% to FCFA 2,137 Bn , with a strong weight of its domestic component.

BREAKDOWN OF PUBLIC REVENUES (%)



Tax revenues evolve at an average rate of 8.0% along with GDP growth. A situation which shows improvement linked to the widening of the tax base.

BREAKDOWN OF PUBLIC EXPENSES (%)



The increase in outstanding debt mechanically raised the weight of debt service by 4 points to 29.0% of the Government budget.

Sources: Ministry of Finance, CBWAS, ADB, IMF, AGR Computations

ACTUAL ACHIEVEMENTS

This Finance Act comes in a context that coincides with a presidential election process scheduled for next October. FY 2020 also marks the end of the National Development Plan (NDP) 2016-2020. All this means that this is a delicate transition period discouraging rupture decisions, and encouraging taking part of the continuity process.

Economic diversification

This FAD presents new measures aimed at strengthening the process of industrialization and economic transformation. Thus, through tax incentives, this draft supports the transformation of agricultural products, encourages domestic pharmaceutical production, and promotes R&D activities.

The fight against poverty

The 2020 FAD takes into account this social imperative and raises the budget allocated to pro-poor spending by 10.0% to FCFA 2,755 Bn i.e. 9.7% of GDP. Education and health represent the bulk of it, with respective shares of 49.0% and 16.0%.

Reducing regional disparities

Investment in interior areas, whatever would be the nature of the activity, is encouraged by a new tax exemption for a 5-year period. A commendable measure, which calls for support from the Government, notably through infrastructure investment.

Consolidation of fiscal balance

Broadening the tax base is at the heart of economic concerns. The present law provides for this purpose a series of measures:

⇒ "Amnesty" for companies willing to register for the first time with the Tax Administration;

⇒ The adoption of electronic data flow for better tax processing efficiency;

⇒ The dematerialization of certain taxes authorizing telepayment, and thus freeing up the administration resources for control;

⇒ Raising tax penalties to deter fraudsters.

Compliance with international standards

Like all EU trading partners, Côte d'Ivoire should comply with international standards of tax transparency at the risk of being classified as a non-collaborating country in this field.

Source: Ministry of Finance, AGR Collections

2020 FINANCE ACT DRAFT: BUDGET CONTROL AS TOP PRIORITY

Main measures of 2020 FAD

Application fields	Adjustment	Target
Agribusiness companies	- Exemption from the tax on banking operations relating to equipment loans - 5-year exemption from business tax and property tax	- Incentives for processing exported products in accordance with the National Development Plan 2016-2020
Pharmaceutical industry	- Exemption from customs duties and VAT on all means of production in Côte d'Ivoire	- Improvement of sanitary access by reducing the costs of local production
Companies operating in the field of R&D and technological development (at least 15.0% of operating expenses)	- Tax credit of 20.0% of the invested amounts - 5-year exemption from the Patent and the property tax on property used for the activity - Tax deductibility of donations to research organizations, companies and inventors - Exemption from the tax on banking operations relating to loans and on IT relating to interest claims for 3 years	- Encourage entities and individuals to invest in the R&D field
Companies enrolling fixed-term contracts	- Extension of the Corporate Tax credit instituted in terms of apprenticeship for recruitments within the framework of a fixed-term contract (12-24 months) up to FCFA 500,000 per person per year	- Employment support
Companies investing inside the country (Min of FCFA1 Bn)	- 5-year exemption from taxes on industrial and commercial profits and contribution from the Patents (measure valid until the end of 2023)	- Reduction of geographic disparities by encouraging real estate, industrial or service projects outside the metropolis of Abidjan
Companies operating in the grey economy	- Exemption from the tax reminder following registration with the Tax Administration before April 30th, 2020	-Encourage the integration into the economy
Loss-making companies	- Abolition of the flat tax for companies which make little or no profit	- Response to private sector complaints which considers this tax non-productive
Companies subject to the special equipment tax	- Renewal of the said tax so that it becomes permanent	- Preservation of a balanced budget - Support investment in equipment

Source: MPMBPE

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