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Côte d'Ivoire: 2007 Article IV Consultation and Request for Emergency Post-Conflict Assistance—Staff Report; Staff Statement; Staff Supplement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for Côte d'Ivoire

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2007 Article IV consultation with Côte d'Ivoire and request for emergency post-conflict assistance, the following documents have been released and are included in this package:

- The staff report for the combined 2007 consultation and Request for Emergency Post Conflict Assistance, prepared by a staff team of the IMF, following discussions that ended on May 15, 2007, with the officials of Côte d'Ivoire on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 19, 2007. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A supplement on the joint IMF/World Bank debt sustainability analysis.

- A staff statement of August 3, 2007 updating information on recent economic developments.

- A Public Information Notice (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its August 3, 2007, discussion of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.

- Statement by the Executive Director for Côte d'Ivoire.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Côte d'Ivoire*
Memorandum of Economic and Financial Policies by the authorities of Côte d'Ivoire*
Technical Memorandum of Understanding*
*Also be included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

CÔTE D'IVOIRE

Staff Report for the 2007 Article IV Consultation and Request for Emergency Post-Conflict Assistance

Prepared by the African Department
(In consultation with other departments)

Approved by Thomas Krueger and Michael Hadjimichael

July 19, 2007

- Discussions for the 2007 Article IV Consultation and Emergency Post-Conflict Assistance (EPCA) were held in Abidjan April 30–May 15, 2007. The team consisted of Messrs. Kouwenaar (head), Egoume (resident representative), Fabig, Le Hen, and Bornhorst (all AFR), Dicks-Mireaux (PDR), and Ms. Nkhata (MCM). Mr. Alle, senior advisor to the Executive Director for Côte d'Ivoire, participated in the policy discussions. The mission met with the Minister of Economy and Finance and other senior officials, and was received by President Gbagbo and Prime Minister Soro. It met with representatives of the private sector, civil society, and the donor community.

- At the 2003 Article IV Consultation, completed on March 31, 2004, Directors stressed that (i) actions to improve the political and security situation should be accompanied by a coherent economic policy framework to promote private sector confidence; and (ii) public finances, transparency and governance in public enterprise operations and the cocoa sector needed to be strengthened. The subsequent Article IV consultation was postponed several times because of the security situation and division of the country.

- Côte d'Ivoire is a member of the West African Economic and Monetary Union (WAEMU) whose currency, the CFA franc, is pegged to the euro. It has accepted the obligations under Article VIII, Sections 2, 3, and 4 of the IMF's Articles of Agreement. Data provision is broadly adequate for surveillance, but data quality and timeliness have declined since the conflict started.

- Côte d'Ivoire's outstanding use of Fund resources at end-May 2007 was SDR 91.41million (28.11 percent of quota). Côte d'Ivoire is current in its payments to the Fund. A PRGF-supported program was interrupted in late 2002 and expired in March 2005. Côte d'Ivoire is in nonaccrual status vis-à-vis the World Bank and African Development Bank (AfDB). Relations with the Fund, World Bank Group, and AfDB, and statistical issues are presented in an informational annex to this report.

Contents Page

Appendixes

ACRONYMS

AfDB	African Development Bank
AFRITAC-West	Africa Technical Assistance Center – West (Bamako)
AGOA	African Growth and Opportunity Act
AU	African Union
BCEAO	Central Bank of West African States
BNI	National Investment Bank
CET	Common External Tariff
CGRAE	Civil Service Pension Fund
CNCE	Postal Savings Fund
CNW	Center-North-West (of Côte d'Ivoire)
DDR	Disarmament, Demobilization, and Reintegration
DSA	Debt Sustainability Analysis
ECOWAS	Economic Community of West African States
EITI	Extractive Industries Transparency Initiative
EPA	Economic Partnership Agreement
EPCA	Emergency Post-Conflict Assistance
ERER	Equilibrium Real Exchange Rate
EU	European Union
FN	Forces Nouvelles
FSAP	Financial Sector Assessment Program
HIPC	Heavily Indebted Poor Country
LIC	Low Income Country
LOI	Letter of Intent
MDG	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MEFP	Memorandum of Economic and Financial Policies
NEER	Nominal Effective Exchange Rate
NPV	Net Present Value
PCAP	Post-Conflict Assistance Project
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
REER	Real Effective Exchange Rate
SIGFiP	Integrated Public Finance Management System
SME	Small and Medium–sized Enterprises
SSA	Sub-Saharan Africa
TMU	Technical Memorandum of Understanding
UNSC	United Nations Security Council
VAT	Value-Added Tax
WAEMU	West African Economic and Monetary Union

EXECUTIVE SUMMARY

In emerging from political instability, conflict, and economic stagnation since 1999, Côte d'Ivoire will need strong domestic consensus and the continued support of the international community to reunify the country and start its recovery, which are also crucial for stronger growth in the subregion. The authorities see an IMF-supported program as key for returning to growth of at least 5 percent, reducing poverty, and progressing toward the MDGs. EPCA would be a step toward a PRGF arrangement and HIPC/MDRI relief.

The Article IV discussions with the authorities showed a broad consensus on key challenges and policy requirements. Discussions centered on removing constraints to post-conflict recovery, enhancing transparency in public resource management, strengthening the financial sector, and addressing longer-term obstacles to growth.

The **EPCA-supported program for 2007** focuses on short-term measures to address these challenges:

- **Restoring security, social services, and basic infrastructure in the whole country**. Tight financing constraints require reinforcing revenue administration and reorienting spending away from nonessential spending toward social/reunification spending. The program for 2007 targets a primary basic fiscal surplus of 1 percent of GDP.

- **Promoting efficient use of public resources**. Early efforts would focus on enhancing transparency in public resource mobilization (energy and cocoa/coffee sectors), strictly enforcing budget procedures, and ensuring transparency in budget execution.

In the medium and longer term

- Modest fiscal primary basic surpluses would help progress toward compliance with WAEMU convergence criteria and debt sustainability. The LIC-DSA shows debt distress, and to reduce debt vulnerabilities sizable debt relief (within the framework of HIPC/MDRI) and prudent debt management would be needed.

- Revitalizing structural reforms, notably in the energy and export agricultural sectors, would be crucial for attracting investment, diversifying the economy, and raising productivity. Steps to enhance soundness, banking supervision, and the judiciary environment are needed to enhance the financial sector's role in supporting growth. Impediments to the business climate need to be addressed to improve competitiveness.

Implementation of macroeconomic policies along these lines should contribute to domestic stability and the external stability of the WAEMU. Central in this regard are the policies in 2007 that aim to achieve sustainable fiscal and external positions.

A resurgence of political tensions, delays in disarmament, demobilization, and reintegration (DDR), and weakening security represent risks to program implementation. The authorities' firm commitment to the program, as demonstrated by strong prior actions, and continued international support for the peace process should help keep these risks in check.

I. INTRODUCTION

1. **Côte d'Ivoire is emerging from a political crisis that began in 1999 and erupted in civil conflict in September 2002 (Table 1).** The conflict divided the country into the center, north, and west (CNW), occupied by the rebel forces (*Forces Nouvelles* (FN)), and the south, controlled by the government. With the deployment of French troops, the conflict abated, and in January 2003, a government of national transition was formed under the Linas-Marcoussis Accord. However, progress in restoring peace and political stability, after faltering under successive transition governments, stalled in late 2006.

2. **In early 2007, to restart the peace process, President Gbagbo and FN leader Soro began a direct dialogue, facilitated by Burkina Faso President Compaoré.** The talks culminated in the Ouagadougou Accord of March 7, 2007, which has received the support of the international community. The Accord sets out a roadmap for DDR, the dismantling of militias, reunification of the country, and preparations for elections by February 2008. A new transition government, with FN leader Soro as prime minister, was formed in early April; an integrated command center for the army and rebel forces was set up; and prefects for all districts and judges for the nationality identification hearings were appointed. This would permit the start of the cantonment of armed forces, the dismantling of militias, and the identification of the population in late July.[1]

3. **Implementing the roadmap in time for the presidential elections, as targeted, will be challenging.** Progress will require firm political consensus among the major stakeholders and strong international support. A high-level consultation committee, which includes the president, prime minister, leaders of the major political parties, and President Compaoré, is expected to reinforce the political consensus underpinning the roadmap; progress is also monitored by another high-level committee, which includes representatives of the international community.

II. LEGACY OF THE CONFLICT, CHALLENGES AHEAD

A. Impact of the Conflict

4. **The conflict and political instability have taken a heavy toll on growth, poverty, and economic policies.** In 2000–06, average economic growth turned negative; it was well below the rates in the rest of WAEMU and sub-Saharan Africa (SSA). Public and private investment dropped below earlier and comparator levels, as concerns about the political and security situation grew and external finance dwindled. Private sector activity was scaling

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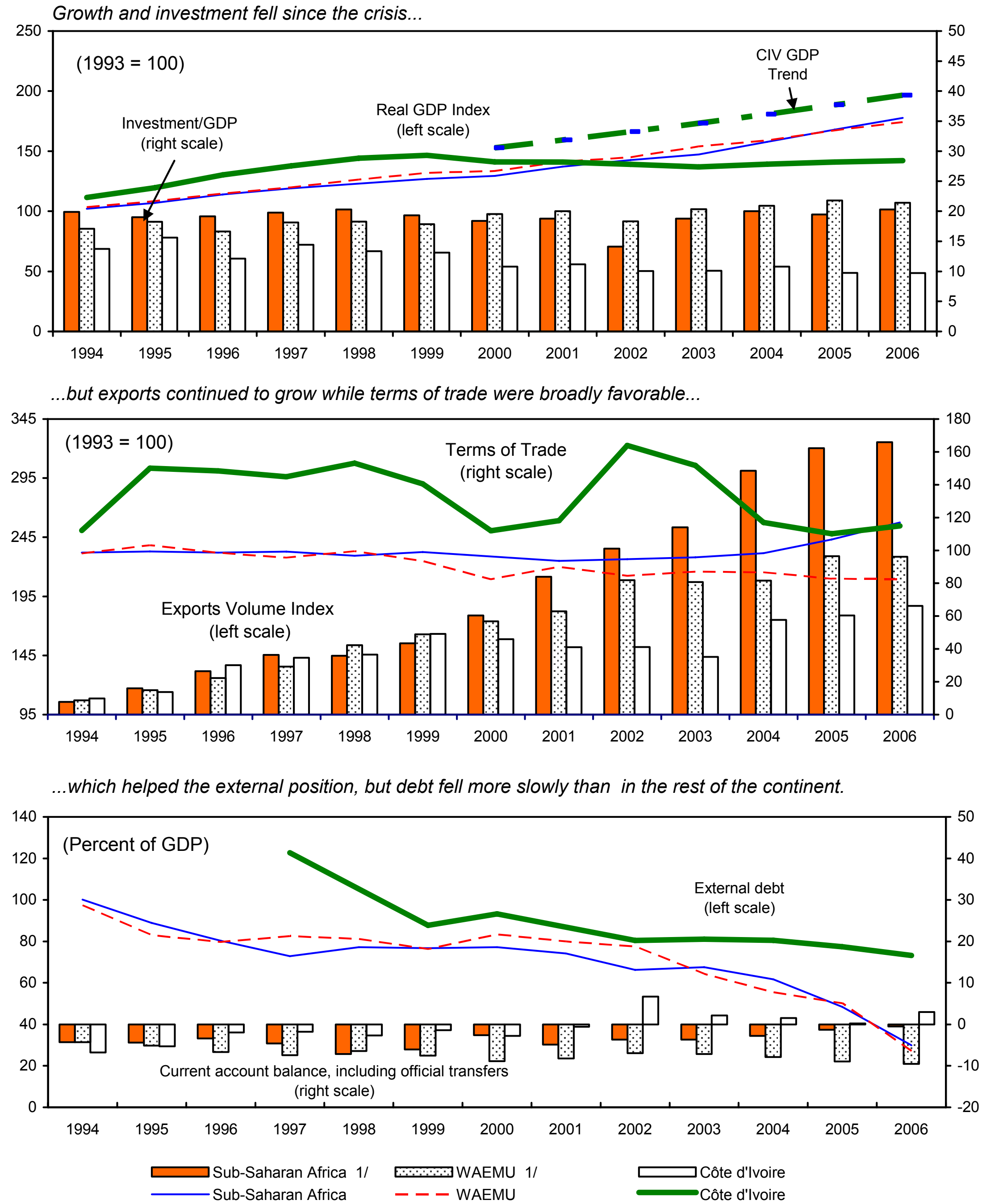
[1] Most of the country is under UN Security Phase III, though certain areas, mostly in the west, are under Phase IV.

Côte d'Ivoire: Macroeconomic Developments, 1994-2006



Sources: IMF, Regional Outlook.
1/ Sub-Saharan Africa, excluding South Africa and Nigeria; WAEMU, excluding Côte d'Ivoire.

back, especially in industry, and by 2006 real GDP was some 35 percent below its pre-crisis trend level. The partition of the country disrupted trade within the country and diminished Côte d'Ivoire's role as a regional hub. Export volume growth fell between 1994–99 and 2000–06. The external current account held up, thanks to an increase in oil exports since 2002 and overall favorable terms of trade. While private and official inflows declined sharply, sizable external arrears were accumulated, and international reserves remained adequate.

Text Table 1: Côte d'Ivoire, WAEMU, and SSA Economic Performance Indicators, 1994-2006

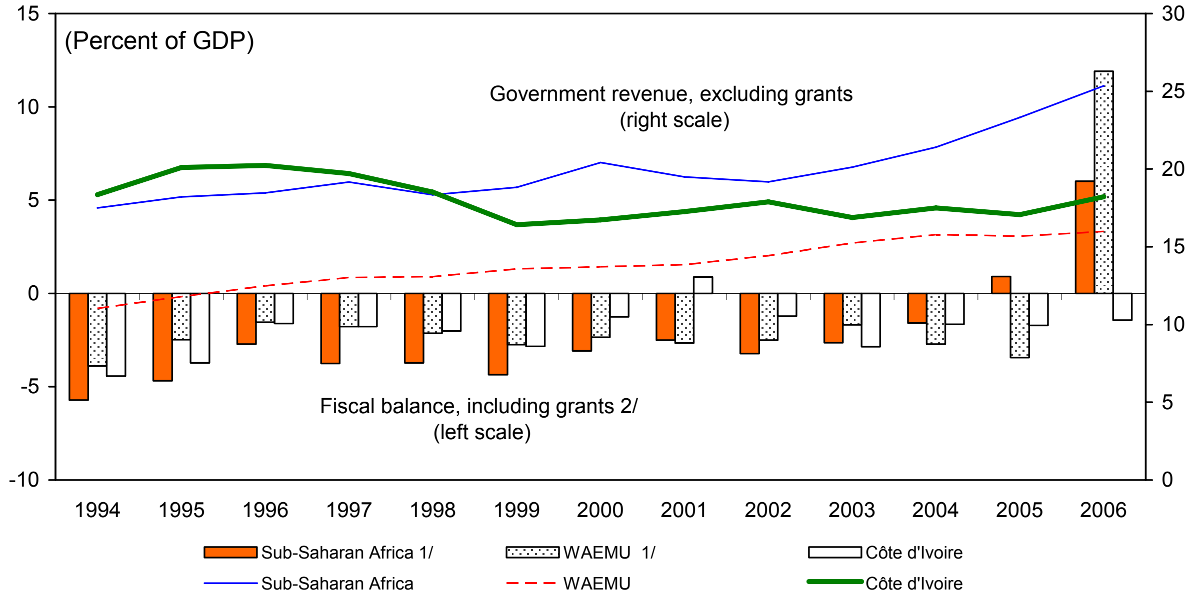
	1994-99			2000-06		
	Côte d'Ivoire	WAEMU 2/ 3/	SSA 2/ 4/	Côte d'Ivoire	WAEMU 2/ 3/	SSA 2/ 4/
Real GDP growth (percent change)	6.6	4.7	4.1	-0.4	4.1	4.9
CPI inflation (annual average percentage change)	6.2	9.1	48.9	3.0	2.2	19.7
Export volume (percent change)	8.7	8.5	7.7	2.3	5.1	11.3
Investment (% of GDP)	13.7	17.7	19.6	10.3	20.3	18.5
Fiscal balance (including grants, % of GDP)	-2.7	-2.4	-4.2	-1.3	-0.5	-0.9
Government revenue (excl. grants, % of GDP)	19.5	16.6	21.6	18.0	17.3	24.1
Current account balance, incl. official transfers (% of GDP)	-3.3	-6.2	-5.0	1.5	-8.2	-2.8
Private credit (% of GDP) 1/	16.5	8.6	...	14.7	15.5	14.7

Sources: IMF, *African Regional Economic Outlook* and *World Economic Outlook*.
1/ 2001-06 for credit/GDP in SSA and 1995-99 for credit/GDP in Côte d'Ivoire.
2/ Weighted GDP at PPP prices.
3/ WAEMU excluding Côte d'Ivoire.
4/ SSA, excluding South Africa and Nigeria.

5. **Côte d'Ivoire accounts for almost 40 percent of GDP in the WAEMU and is an important driver of growth in other WAEMU countries.** While economic performance in other WAEMU countries has held up since 2000, developments in Côte d'Ivoire have undercut investor confidence and hurt regional trade and output.

6. **Fiscal performance and transparency have suffered, owing to falling revenue and crisis-related expenditure pressures as well as internal divisions and a lack of accountability.** As growth slowed and the tax base eroded, total revenue fell; tax revenue, meanwhile, dropped below the WAEMU convergence criterion (Box 1). Pressures for defense, discretionary presidential, and other sovereignty spending rose. While overall fiscal deficits narrowed (reflecting some spending discipline), because of limited donor financing, domestic and external arrears increased. The composition of spending deteriorated as health and education spending fell as a share of GDP. Budget management weakened: expenditure was partly executed outside budget procedures and some oil revenue stayed off-budget.

Tax revenue increased less than in the rest of the region.



Source: IMF, Regional Outlook.
1/ Sub-Saharan Africa, excluding South Africa and Nigeria; WAEMU, excluding Côte d'Ivoire.
2/ The fiscal balance includes MDRI relief in 2006.

Box 1. WAEMU Convergence Criteria

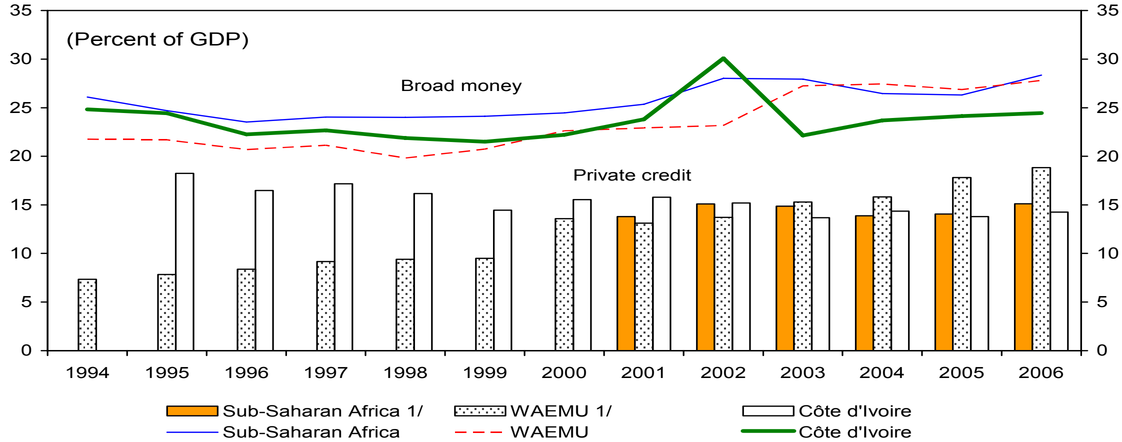
Côte d'Ivoire joined the WAEMU Pact on Convergence, Stability, Growth, and Solidarity in 1999.[1] The Pact calls for the observance of quantitative criteria to improve the efficiency of regional monetary policy, reduce domestic and external vulnerabilities, and enable each member to reach a stable growth path. With almost 40 percent of the WAEMU's GDP, Côte d'Ivoire is of key importance to the region's stability and development. In 2005 and 2006, Côte d'Ivoire met two of the nine criteria.

	Côte d'Ivoire					WAEMU 3/		Countries Meeting the Criterion	
	1999	2004	2005	2006	2007	2005	2006	2005	2006
First-order criteria									
Basic fiscal balance/GDP (≥ 0 percent) 2/	-1.7	-1.3	-1.6	-1.3	-0.1	-1.9	-1.6	1 out of 8	1 out of 8
Average consumer price inflation (≤ 3 percent)	0.7	1.5	3.9	2.5	2.0	5.3	2.8	2 out of 8	7 out of 8
Total debt/GDP (≤ 70 percent)	88.8	93.6	88.9	84.6	81.1	60.9	55.1	5 out of 8	5 out of 8
Change in domestic arrears, billions of CFAF (≤ 0)	135.4	51.9	-35.4	3.2	-51.4	1.0	0.0	4 out of 8	8 out of 8
Change in external arrears, billions of CFAF (≤ 0)	32.4	504.6	409.2	345.3	44.2	1.9	0.9	5 out of 8	7 out of 8
Second-order criteria									
Wages and salaries/fiscal revenue (≤ 35 percent)	37.0	44.0	45.0	42.1	41.5	35.5	34.8	3 out of 8	4 out of 8
Capital expenditure domestically financed/fiscal revenue (≥ 20 percent)	17.6	9.8	10.7	15.1	12.6	29.8	27.9	5 out of 8	6 out of 8
External current account balance, excluding grants/GDP (≥ -5 percent)	-2.0	1.7	0.4	3.2	0.6	-10.2	-9.4	1 out of 8	1 out of 8
Tax revenue/GDP (≥ 17 percent)	14.9	15.2	14.5	15.3	15.5	14.9	15.1	1 out of 8	1 out of 8

Sources: Ivoirien authorities, WAEMU, and IMF staff estimates and projections.

1/ WAEMU countries are Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo.
2/ Total revenue (excluding grants) minus total expenditure, excluding foreign-financed capital spending.
3/ Excluding Côte d'Ivoire, GDP at PPP-weighted average.

Financial intermediation fell behind.



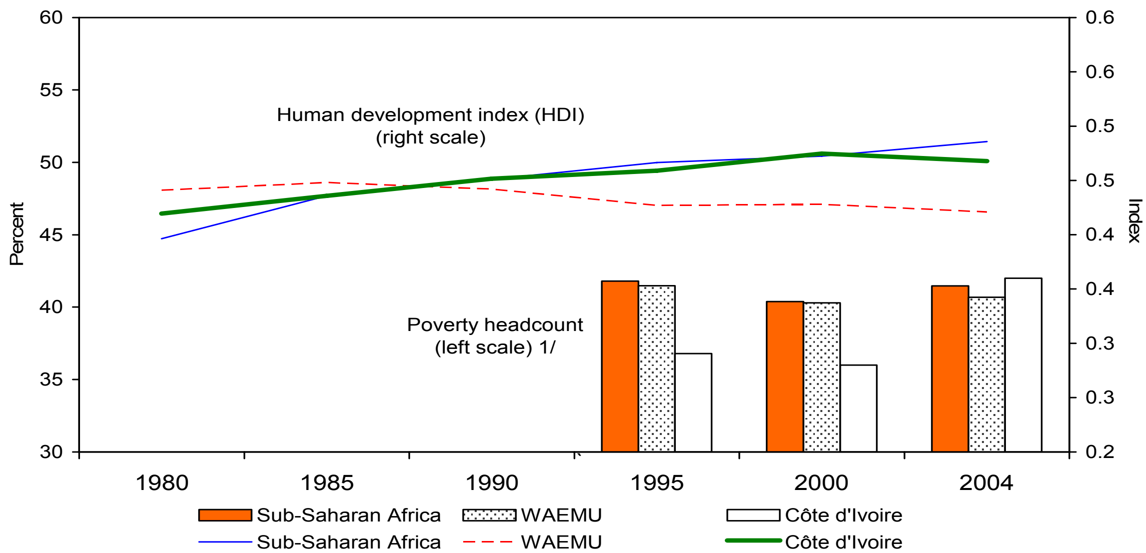
Source: IMF, Regional Outlook.
1/ Sub-Saharan Africa, excluding South Africa and Nigeria; WAEMU, excluding Côte d'Ivoire.

7. **In the cocoa/coffee and cotton sectors, output declined, structural reforms stalled, and financial conditions deteriorated.** The cocoa/coffee sector is a major source of exports and income; together with the cotton sector, it supports some 9 million people, half the population. Coffee and cotton outputs declined sharply and cocoa activity stagnated owing to crisis-related disruptions, stalled reforms, and low investment. Financial management and transparency have been weak: quasi-fiscal levies on cocoa and coffee have not been used to benefit producers as intended, and, as world prices declined, financial conditions weakened and producer incentives shrunk.

8. **The development of the financial sector has been adversely affected by the crisis**. Since 2002 all bank branches have been closed in the CNW. The quality of bank loan portfolios also declined, in part, because government domestic arrears to the private sector surged. The crisis has also exacerbated longer-standing weaknesses, particularly in small- and medium-sized banks, where compliance with prudential ratios has declined. The share of Ivoirien banks in total WAEMU bank assets has declined from 40 percent in 2000 to around 30 percent in 2005, and private credit-to-GDP ratios in Côte d'Ivoire fell below levels in other WAEMU and SSA countries. Intermediation was also affected by the deterioration of an already weak judicial system.

9. **Poverty, social conditions, and governance worsened (Figures 1 and 2).** The poverty rate is estimated to have increased from 35 percent in 2000 to 43 percent in 2006, and Côte d'Ivoire's ranking on the UN Human Development Index has declined since the late 1990s. The government's ability to deliver public services, notably health and education, was disrupted, especially in the CNW. Most indicators of governance worsened.

Human Development Index stagnated and poverty rose.

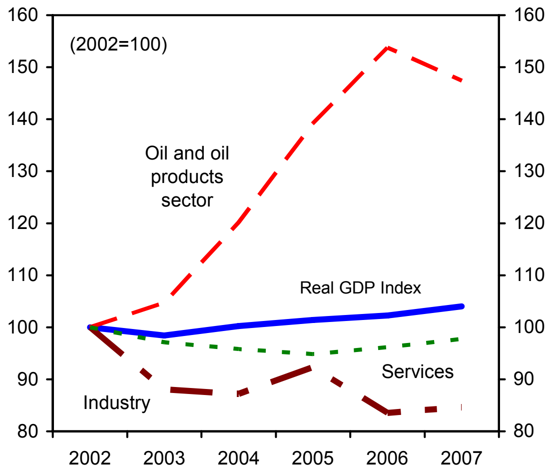


Sources: World Bank, *World Development Report*; and UNDP, *Human Development Report*.
1/ Defined as percent of population living below the poverty line of US$1 a day.

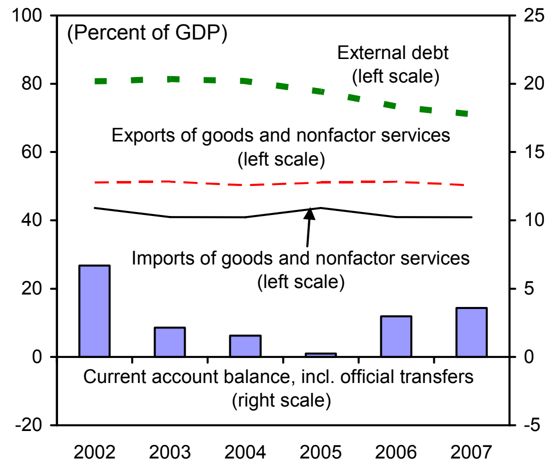
B. Recent Economic Developments

10. **Since 2003 the economy has grown modestly, despite stagnant investment.** Rising outputs of oil/gas, petroleum products, and telecommunication services have been the main source of growth. Informal sector activity partly offset a sharp decline in industry. The external current account has remained in surplus, as a pick-up in imports was offset by strong oil exports. In 2006 growth weakened as activity in the secondary sector, notably in hydroelectricity and agro-industries, fell further. The external current account surplus widened as imports slowed and the terms of trade (owing to higher oil prices) improved.

Real GDP Growth



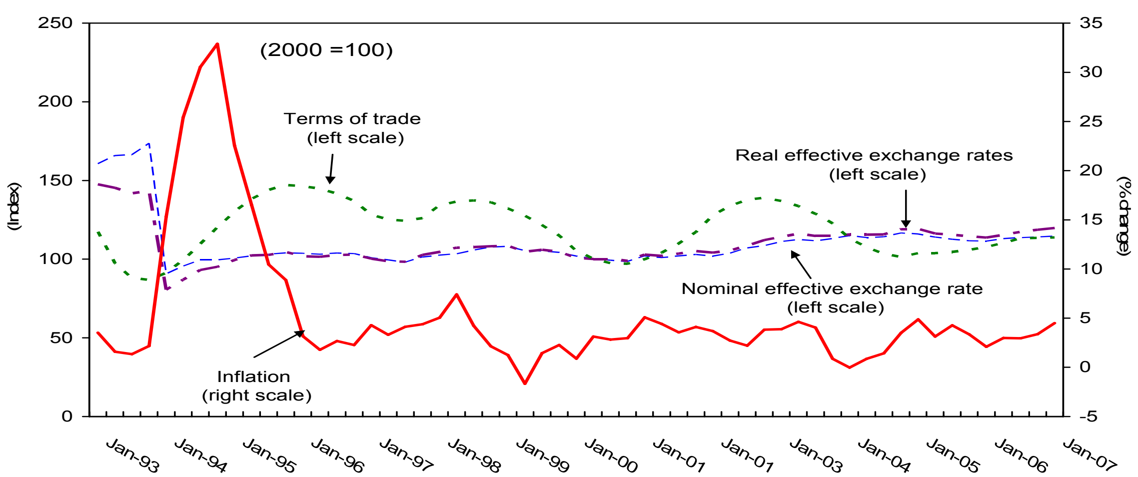
External Current Account



Sources: Ivoirien authorities; and IMF staff estimates and projections.

11. **Inflation has remained subdued.** Average consumer price inflation was around 2½ percent in 2004–06. The real effective exchange rate has trended slightly upward in recent years, in line with the euro's appreciation vis-à-vis the dollar and Côte d'Ivoire's inflation being similar to those of trading partners; this trend accelerated in early 2007.

Côte d'Ivoire: Effective Exchange Rates, Terms of Trade, and Inflation, January 1993-March 2007

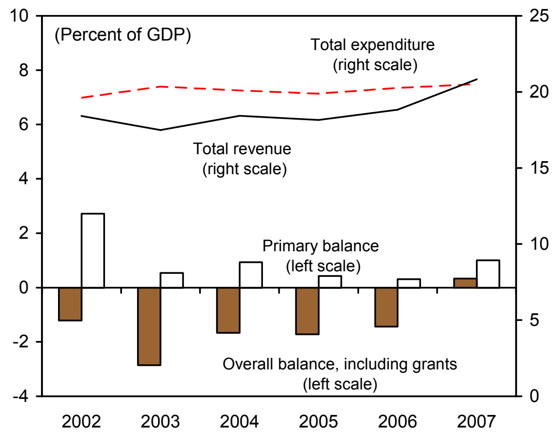


Sources: IMF, Information Notice System (INS), and World Economic Outlook.

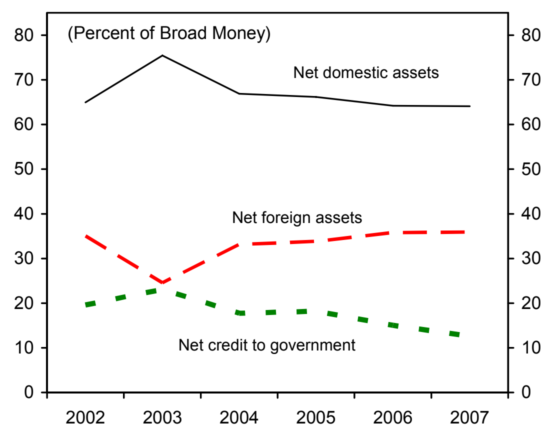
12. **In 2004–06 budget management kept the overall deficit in check, though the fiscal situation was difficult and Côte d'Ivoire did not comply with most fiscal WAEMU convergence criteria (Box 1**). The primary basic balance stayed in surplus; but by 2006, it had slipped to 0.3 percent of GDP, 1 percent of GDP below the budget objective (Tables 4a–b). In both 2005 and 2006, this weakening reflected revenue shortfalls relative to budget targets, in particular for oil/gas, and overruns in nonwage recurrent expenditure, especially in discretionary presidential spending. In 2006, unanticipated outlays to address the dumping of

toxic waste in Abidjan and gas subsidies to the electricity sector also contributed to the overrun in primary basic spending. At the same time, health and education spending fell short of budget targets. These developments, coupled with the dearth of external financing, led external arrears to increase to 21 percent of GDP by end-2006. Domestic arrears were reduced somewhat, to 5 percent of GDP at end-2006.

Central Government Fiscal Balance



Monetary Aggregates



Sources: Ivoirien authorities; and IMF staff estimates and projections.

13. **The government implemented some measures to strengthen public finance management and tax administration, but made little progress in improving budget execution and transparency.** In 2005–06, absent an approved budget until midyear, spending was managed through treasury advances rather than normal budget procedures. As a result, accountability was weak and the composition of spending did not conform to the budget. To meet temporary cash needs, the authorities resorted to advanced collection of cocoa export taxes against large discounts. With the recent growth of the informal sector, tax evasion and fraud have increased. To reduce fraud and corruption, the government introduced a new standardized VAT form and computerized its customs clearance system. Measures to improve the management of spending included the extension of the Integrated Public Finance Management System (SIGFiP) to districts, and the implementation of a new Public Procurement Code.

14. **In early 2007, without an approved budget, the government managed its expenditures through treasury advances in line with available financing.** In the first quarter, the primary basic surplus reached 0.6 percent of GDP. Overall revenue performance was relatively good, and expenditures were broadly executed along the lines of the 2006 budget.

15. **Regional policies continued to determine monetary developments.**[2] Since 2003, net credit to the government declined, but commercial banks increased their lending to the government. Private sector credit growth was low given the political uncertainties and lack of investment opportunities (Tables 6a-b). In August 2006, the BCEAO increased its discount rate in response to inflation and higher euro interest rates, but because of overall excess liquidity, bank interest rates were largely unaffected. Since 2006, excess liquidity declined (as it did in other WAEMU members), and in February 2007 the BCEAO started weekly reverse-repo auctions, in which mainly smaller, less liquid banks from Côte d'Ivoire and elsewhere participate.

16. **The banking sector has shown some resilience during the crisis; soundness varies greatly across institutions, but systemic risks are contained (Table 12)**.[3] Banking activities in the CNW ceased after the crisis began; institutions with heavy exposure to small and medium-sized enterprises (SMEs) and weak sectors, such as transport, were the hardest hit. Credit risk increased, but after peaking at 26 percent in 2004 the share of nonperforming loans fell to 20 percent in 2006. Larger, mostly foreign-owned banks refocused their operations on large enterprises to strengthen their balance sheets. However, compliance with prudential norms worsened, and 8 out of 18 banks, representing one-fifth of total deposits, do not respect the capital adequacy ratio. In 2006, five banks recorded losses and six banks were under close surveillance by the Banking Commission. Since March 2007, banks have begun to reengage in the CNW.

17. **Structural reforms in the cocoa/coffee and energy sectors have been limited absent a firm domestic consensus during the crisis (MEFP, ¶15).** A large share of the quasi-fiscal levies on cocoa and coffee exports in 2001–05 as well as spending by the sector's agencies cannot be traced. In 2006 the authorities took initial steps to improve transparency in the collection and use of funds and financial management. Quasi-fiscal levies were reduced slightly for the 2006/07 season to improve producer prices; part of the levies were channeled to a rural investment fund that, together with two other investment funds, is supervised by a committee co-chaired by the ministers of finance and agriculture. In the energy sector, to enhance its transparency, efficiency, and revenue potential, the government in 2006 announced its participation in the Extractive Industries Transparency Initiative (EITI), initiated comprehensive audits of the sector, and reduced the protective margin of the profitable domestic refinery. The electricity sector continued to face serious financial strains owing to the nonpayment of bills in the CNW and the accumulation of cross-arrears with the government. The government provided support with gas subsidies (equivalent to 0.8 percent

[2] See "West African Economic and Monetary Union—Staff Report on Common Policies of Member Countries," (forthcoming).

[3] See Selected Issues Paper, "Financial Sector Developments and Challenges."

of GDP) to the sector in 2006; in March 2007 it reached agreement with the national electricity company to eliminate existing cross-arrears and on measures to prevent any new accumulation.

III. Policy Discussions

A. Challenges: Economic Recovery and Sustained Growth

18. **Policy discussions focused on the legacy of the conflict and the related challenges.** The authorities broadly concurred with the staff's assessment of past economic performance and policies. Looking ahead, authorities and staff agreed on the need to:

- ***Remove constraints to economic and social recovery.*** Restoring security, redeploying the administration, and restoring social services, especially in health and education, throughout the country are essential. The budget would need to accommodate the costs of these programs, including through realistic costing, donor support, and domestic resources.

- ***Enhance transparency in public sector resource management and related reforms.*** Improving transparency and efficiency in the energy and cocoa/coffee sectors and in budget execution is important for allocating public resources more efficiently and for strengthening growth and export prospects. Better monitoring and reporting of resource flows would boost the quality of pro-poor spending and build donor support.

- ***Strengthen the role of the financial sector.*** The restoration of banking operations throughout the country, improved compliance with prudential regulations, and a stronger judicial system are necessary.

The authorities recognized that progress in meeting these challenges needed to be supported by prudent financial policies aimed at securing fiscal and debt sustainability. They emphasized the importance of a concerted effort to improve governance, transparency, and the business climate, and noted the opportunities and challenges of further trade liberalization for growth. The authorities agreed with the staff that domestic policies—if pursued along the lines discussed in this report—would contribute to preserving external stability of the WAEMU currency area.

B. Medium-Term Outlook and Debt Sustainability Analysis

19. **A successful political transition, improved security, and the relaunching of structural reforms underpin an improved medium-term outlook (Table 10).** Following a year of transition, growth is expected to accelerate with an initial period of catch-up followed by a gradual investment-driven strengthening to reach over 6 percent in 2012, in line with the immediate pre-crisis trend and Côte d'Ivoire's 1960–80 growth (Box 2). For post-conflict countries, the speed and length of the recovery to pre-crisis output levels and growth rates

vary widely, depending on the initial trough, the destruction or depreciation of capital stocks, the degree of insecurity, and foreign aid flows. In Côte d'Ivoire the loss of capital has been relatively small and a large part of the reduction in output is explained by a lack of demand. Therefore, the recovery could potentially be fast. On the external side, the projected increase in investment imports and the profile of oil production are expected to lead to a gradual deterioration in the external current account (including official transfers) to a deficit of 2½ percent of GDP by 2012, from a 2½ percent surplus in 2007.

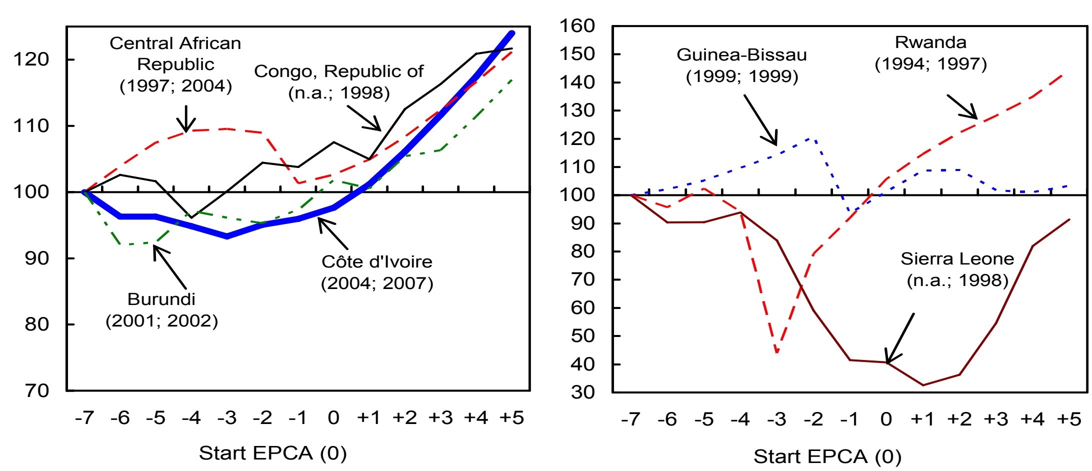
Text Table 2. Côte d'Ivoire: Summary of Key Economic Indicators
(Percent)

	2004	2005	2006 Est.	2007 Proj.	2008-11 Avg. Proj.
Real GDP growth	1.8	1.2	0.9	1.7	4.3
Real per capita GDP growth	0.3	-0.7	-0.6	0.2	2.8
CPI inflation (annual average)	1.5	3.9	2.5	2.0	2.8
Overall budget balance (excluding grants) in percent of GDP	-2.6	-2.8	-2.4	-1.0	-1.9
Primary basic balance in percent of GDP 1/	0.9	0.4	0.3	1.0	1.2
Stock of external and domestic debt in percent of GDP	93.9	89.1	84.8	81.2	...
Of which: in arrears	21.3	23.2	25.4	24.1	...
External current account (incl. official transfers) in percent of GDP	1.6	0.2	3.0	2.3	0.8

Sources: Ivoirien authorities, and IMF staff estimates and projections.

1/ Total revenue (excluding grants) less total expenditure net of interest and foreign-financed capital expenditure.

Real GDP Levels for Post Conflict (EPCA) Countries 1/



Sources: Country authorities; and IMF staff estimates.
1/ In parentheses: year of end of conflict; year of start of EPCA.

Box 2: Côte d'Ivoire: Sources of Growth

Pre-crisis Growth

Growth averaged 5 percent in 1994–99. Following the CFA franc devaluation in 1994, growth surged and was buttressed by trade and other economic liberalization and structural reforms. Increased investment levels, averaging 14 percent of GDP, supported growth. While export agriculture and construction grew strongly, industry and services contributed most to growth.

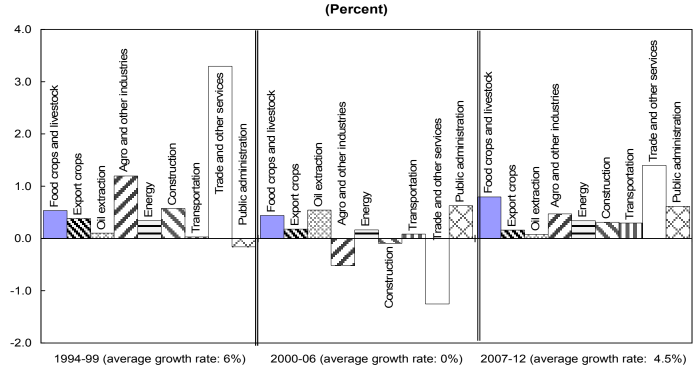
Crisis Growth

GDP dropped 7 percent in 2000-03. The industrial, construction, and trade sectors suffered most from the decline in demand, worsening security conditions, a drop in investment, and closure or departure of SMEs; cumulative output losses were on the order of 20–30 percent. Non-export agriculture (15 percent of GDP) maintained its growth at 2–3 percent per year and softened the impact of the crisis.

GDP recovered 4 percent in 2004-06. A sharp increase in oil and petroleum product production led the recovery. A few sectors, with a low share of GDP, saw growth of over 10 percent a year (e.g., telecom, cashews). Investment declined further to an average of 8 percent of GDP, barely enough to maintain the economy's capacity, and productivity likely declined.

Per capita income fell 15 percent during the crisis. At end-2006, output was some 35 percent below the immediate pre-crisis trend level.

Sectoral Contribution to Real GDP Growth, 1994-2012
(Percent)



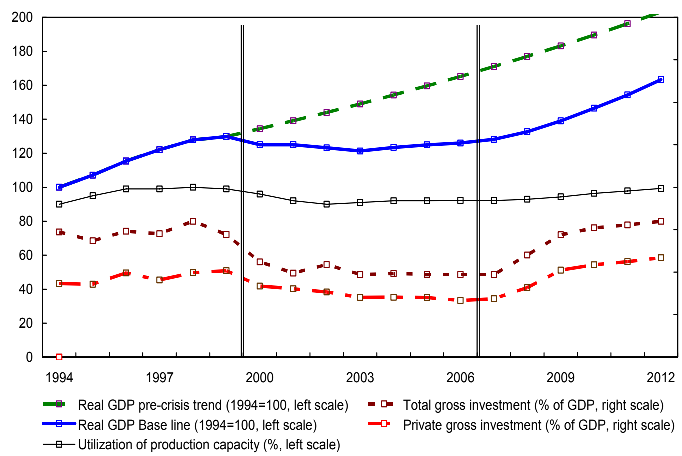
Sources: Ivoirien authorities; and IMF estimates and projections.

Outlook for Post-Crisis Recovery

The outlook is for growth of 1.7 percent in 2007 and 4.5 percent a year in 2008-12. The speed of recovery is determined by several key factors:

- Reunification, improving security, and gradual return of confidence would permit full utilization of existing capacity, especially in industry and services. The current output gap is estimated at some 10 percent; closing this gap by 2012 would contribute 1½ percentage points a year to output growth.
- A gradual increase in investment to 16 percent of GDP by 2012. Rehabilitation of public infrastructure (especially roads to the north) would help domestic and external trade and relaunch nontraditional exports and agricultural processing industries.
- Restoration of capacity of the electricity sector by resolving gas supply and financial problems.
- Oil/gas production is projected to contribute less to growth as output would peak in 2009–10 and fall thereafter.

Growth and Investment, 1994-2012

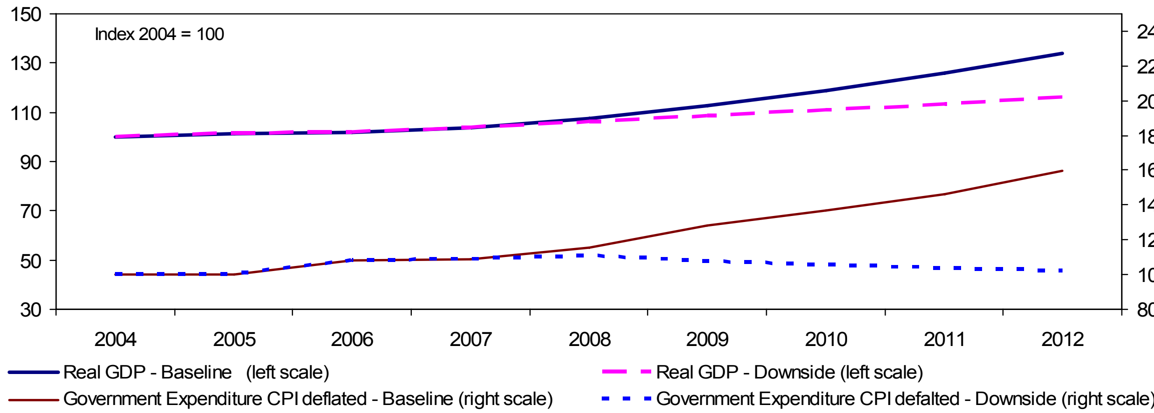


Sources: Ivoirien authorities; and IMF staff estimates and projections.

Meeting the poverty MDG will require annual growth rates of 6-7 percent. This would require higher investment (above 16 percent of GDP) and productivity gains through structural reforms. In the *primary sector*, cocoa output has the potential to improve (better producer incentives through reorganization of the sector and reduction of quasi-fiscal levies). Cotton has high growth potential as it returns to its pre-crisis levels and benefits from further improvement in productivity (modernization, selection of seeds). In the *secondary sector*, stronger growth depends foremost on improvements in the business environment. In the *tertiary sector*, a substantial increase in social services (education, health) should help improve human capital. Transportation and trade could also grow faster when the regional trade liberalization (WAEMU and ECOWAS) becomes fully effective.

20. **Under a downside scenario—of prolonged political uncertainty and security concerns, little or no donor support, and stagnating structural reforms—economic growth would remain low (2 percent a year).** Without improvements in the business climate and the revenue base, private and public investment would fall relative to GDP. Lower growth and investment would compress imports, but with little pick-up in the export sectors, the current account surplus would decline steadily.

Côte d'Ivoire: Medium-Term Growth Scenario



Sources: Ivoirien authorities; and IMF staff estimates and projections.

21. **Restoring debt sustainability requires prudent fiscal policies but also debt relief and concessional donor support**. The staff's projections over the medium term include increasing non-oil revenue (offsetting declining oil revenue) and expenditure outgrowing revenue on account of rising investment and pro-poor current spending. The primary basic surplus would decline somewhat but still average 1 percent of GDP in 2007-12, contributing to improved adherence to WAEMU convergence criteria and better debt ratios. The long-term projections for the LIC-DSA[4] assume constant total revenue in percent of GDP, but continued increases in public spending, eventually leading to small primary deficits. The ratios of NPV of public external debt to GDP, exports, and revenue indicate that Côte d'Ivoire would remain in debt distress during 2007–13 based on the country-specific thresholds. Under the standard stress tests, in particular at lower export growth and nominal exchange rate depreciation, the period of distress would double. The LIC-DSA results suggest that achieving debt sustainability would require sizable debt relief and a resumption of concessional donor support, in addition to prudent policies.

[4] Supplement 1. The LIC-DSA baseline does not assume concessional reschedulings or HIPC/MDRI debt relief.

C. Foreign Exchange System, Competitiveness, and Trade

22. **Côte d'Ivoire is a member of WAEMU and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.**[5] The BCEAO said that it strictly applies the current (unrestrictive) regulations but expressed concerns that commercial banks were not respecting the regulations on repatriation of export earnings. Commercial banks argued that they were conducting foreign exchange transactions through accounts held abroad because access to foreign exchange from the BCEAO was cumbersome. The government is planning a seminar with the BCEAO and banks to resolve this matter shortly.

23. **The authorities generally agreed with the staff that external competitiveness was broadly adequate (Box 3).** The real effective exchange rate (REER) is estimated to be about 20 percent below its pre-1994 devaluation level. Estimates of the equilibrium real exchange rate (ERER) for Côte d'Ivoire suggest that the REER is close to or below the ERER. The increase in oil exports has likely increased the ERER, but further trade liberalization, such as under the envisaged Economic Partnership Agreement (EPA) with the EU, could lower it. The authorities agreed that strengthening competitiveness was key for private sector growth and diversification. To this end, it is important to improve the business climate, notably regarding the cost of licenses and nonwage labor costs which are higher than the average of SSA countries (Table 13). The authorities stressed the need to rehabilitate road, port, and utilities infrastructure, as well as to address the emerging scarcity of skilled labor, caused by the closure of some higher education institutions, frequent strikes in the past decade, and schools in the south being burdened with students from the CNW.

24. **The authorities agreed with staff that the prospective EPA could help stimulate competition and efficiency and create new potential for investment and trade, but expressed concern about transition costs.** In the authorities' view, while the predominantly agricultural non-oil export sector could benefit, segments of the industrial sector would be vulnerable. They were also concerned about tax revenue losses, and noted that it would take time to broaden the domestic tax base. In their view, transition arrangements should address these concerns. The staff cautioned that the potential trade diversion consequences of the EPA should be minimized.

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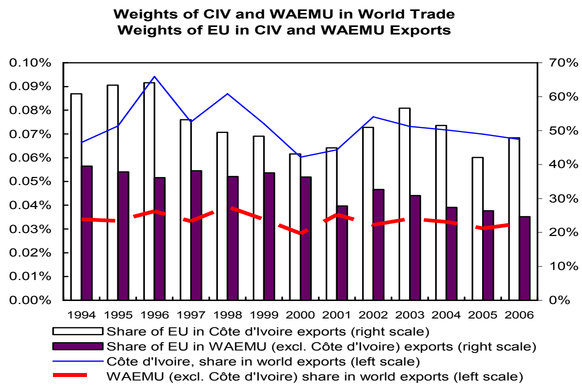
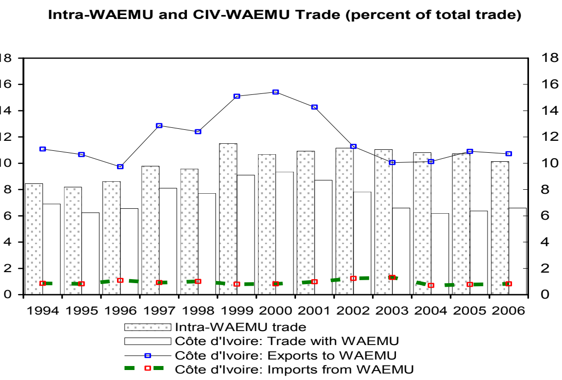
[5] Côte d'Ivoire applies temporary restrictions relating to UN-imposed sanctions, based on WAEMU Regulation 14/2002/CM of September 2002 which provides for the enforcement of decisions by the UNSC Sanctions Committee to freeze funds. The authorities are in the process of notifying the Fund of these restrictions.

Box 3. Côte d'Ivoire: Trade and Competitiveness[1]

Trade pattern (1994–2006): The share of Côte d'Ivoire (CIV) in world exports has been broadly stable over the past decade (0.07 percent). In recent years, the decline in agricultural exports has been offset by an increase in oil exports. CIV represents two-thirds of WAEMU exports. The share of the EU in CIV's trade remains high (and higher than in the rest of WAEMU) but is falling, more sharply for exports than for imports. The share of WAEMU in CIV's trade has remained low (about 8 percent, on average) and is largely driven by CIV exports to the region.



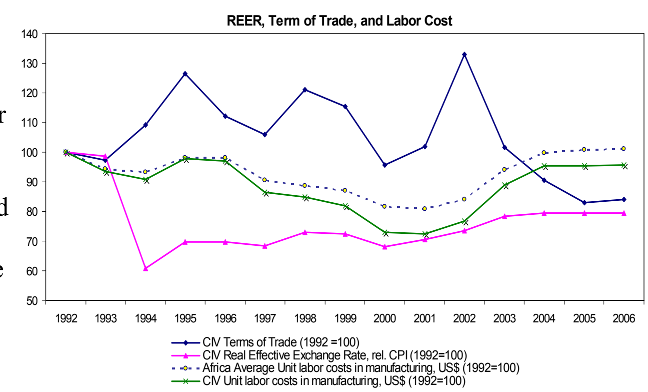


Sources: IMF, statistical database and IMF staff estimates.

Common External Tariff (CET) of WAEMU: The CET, in place since January 1, 2000, is based on the transit system and not on free movement of goods. Obstacles to internal trade remain: non-tariff barriers, unauthorized levies, complex administrative procedures, and differences in interpretation of community regulations. CIV has arrears in its obligations to compensate other members for import tax losses due to the CET.

Trade policy issues: ECOWAS heads of states approved a CET (aligned on the CET of WAEMU) in January 2006, to be effective from January 1, 2008. An EPA between ECOWAS and the EU on progressive elimination of mutual trade restrictions is targeted to be in place by end-2007. The present trade regime (Generalized System of Preferences - GSP) between EU and ACP operates on the basis of a WTO waiver, which expires at end-2007.

External Competitiveness: CIV's REER has been appreciating but remains about 20 percent below its pre-1994 devaluation level. Estimates of the ERER for CIV suggest that the current level of the REER is broadly in line with long-term fundamentals. Exports are benefiting from rising oil production, which should raise exports some 10 percent above their trend level in 2006–10. The increase in oil output should raise the ERER, while the forthcoming EPA should lower it.



Sources: IMF, World Economic Outlook; and Fund staff estimates.

Impact of trade liberalization: As most of Côte d'Ivoire exports already enter the EU duty-free, the impact of EPA on exports should be small. Nevertheless, a favorable effect is expected on processed exports, such as cocoa products, which currently face high tariffs, while an unfavorable effect could come from new competitors entering the EU duty-free under EPA agreements for other regions. Imports from EU (40 percent of CIV's imports) taxed at 10 percent, on average, are expected to increase, as they gain duty-free access to CIV. This would lead to trade creation and trade diversion. Assuming that tariffs would possibly remain on 20-30 percent of imports from the EU, the static import tax revenue loss could be about 1 percent of GDP.

[1]See Selected Issues Paper, "External Trade and Competitiveness."

D. Macroeconomic Outlook and Policies for 2007

25. **To support post-conflict recovery and reconstruction efforts through an economic program, the authorities have requested a purchase under EPCA.** They regard EPCA as a bridge toward a PRGF arrangement and a World Bank EERC in 2008 (MEFP, ¶28). They also see it as a step toward normalization of relations with external creditors and a decision point under the enhanced HIPC Initiative in 2008. The program envisages the clearance of arrears to the World Bank (largely in 2007) and the AfDB (in early 2008). Côte d'Ivoire meets the eligibility criteria for EPCA. The country has an urgent balance of payments need, as evidenced by its large external arrears. Although the rebel occupation of the CNW has disrupted public service delivery, the country has enough capacity to plan and implement policies. The Ouagadougou Accord provides for sufficiently stable security conditions and the government has started to function throughout the country. Fund assistance would be part of a concerted international effort.

26. **The proposed access under EPCA—12.5 percent of quota (SDR 40.65 million)—is in line with similar post-conflict cases.** The EPCA supports the authorities' program for 2007. The authorities have requested subsidization of the interest rate. They intend to request a second purchase in the next six months; approval would be contingent on continued eligibility for EPCA, a satisfactory track record under the first EPCA, and agreement on a program and budget for 2008.

27. **The program focuses on building the foundation for sustained recovery and poverty reduction in an environment of still improving security, regaining political stability, and country reunification** (MEFP, ¶17). The authorities recognized that early progress in implementing the Ouagadougou Accord and demonstrating improvements in governance, particularly in public finances and the energy and cocoa/coffee sectors, were important first steps in gaining donor and private sector support. They stressed that the program focuses on the immediate needs for a successful exit from the crisis, while restarting structural reforms, but that the timing of deeper reforms needed to take into account the transitional context and await a firmer political consensus.

Macroeconomic Outlook for 2007

28. **A modest recovery is expected, as the economy benefits from the envisioned political normalization.** Real GDP growth should reach 1.7 percent in 2007, as industry, construction, and trade start to recover, supported by the ongoing rehabilitation of public infrastructure and redeployment of government services in the CNW. Public and private investments would likely remain sluggish in 2007 pending the renewal of donor support and full return of business confidence. Capacity problems in the electricity sector pose a risk to economic prospects. The external current account surplus is projected to drop as exports of oil temporarily decrease and imports pick up in line with increased economic activity.

Removing constraints to economic and social recovery—creating fiscal space

29. **The 2007 budget aims at addressing immediate post-conflict needs while setting the stage for medium-term fiscal and debt sustainability (MEFP, ¶18-19).** The 2007 budget, passed at end-May, aims to increase the primary basic surplus (a measure of mobilization of domestic resources to service debt) to 1 percent of GDP (from 0.3 percent in 2006). With donor financing for non-crisis-related spending still modest before the elections, this surplus, together with resources raised on the WAEMU market, would help reduce domestic arrears (by ½ percent of GDP) to be followed by further settlements in 2008-09 (MEFP, ¶32). The surplus would also finance, in part, the clearance of arrears to the World Bank (totaling 2.5 percent of GDP as of end-June 2007) and the resumption of debt service payments to the AfDB. The planned fiscal adjustment, combined with repayment of domestic arrears, is expected to have little or no contractionary effect.

30. **Revenue is planned to rise by ½ percent of GDP through more efficient taxation of petroleum products, improvements in tax administration, and extension of tax collection to the whole country** (MEFP, ¶20, 30, 35 and Box 1). The reduction in the protective margin of the national oil refinery and the change in the tax base using import parity prices are expected to increase revenue by ⅓ percent of GDP. Measures to combat fraud in taxes and customs include enforcing businesses' compliance with the new standard VAT form, and improving border controls. Furthermore, the government intends to review tax exemptions introduced to soothe the adverse impact of the crisis on businesses.

31. **The 2007 budget seeks to cut nonessential spending, contains a modest peace dividend, and provides for greater social and crisis-related spending (MEFP, ¶21-24).** Primary basic expenditure would decrease by 0.3 percent of GDP, while the share of social and reunification spending would increase. Discretionary presidential and security-related spending would decline in line with DDR and normalized security conditions. The wage bill, reflecting the continued wage freeze and normal retirements, would be held constant in terms of GDP (at 6.4 percent); this would allow for significant recruitment in health and education, especially in the CNW, and for the integration of ex-combatants in the army. Investment spending on the ongoing transfer of the political capital to the country's interior will be reduced in 2007, and the authorities are reassessing the costs and phasing of this program in light of resource availability and other priorities.

Text Table 3. Côte d'Ivoire: Summary of Central Government Financial Operations 2005-07
(Percent of GDP)

	2005	2006 Est.	2007 Proj.
Total revenue 1/	17.1	18.2	18.6
Of which : oil and gas production revenue	0.9	1.5	1.4
Primary basic expenditure 2/	16.6	17.9	17.6
Of which : wages and salaries	6.5	6.4	6.4
other current expenditure	7.4	8.4	8.2
crisis-related expenditure	0.9	0.7	1.4
domestically financed capital spending	1.6	2.3	2.0
Primary basic balance 3/	0.4	0.3	1.0
Change in domestic arrears (- net cash payments)	-0.4	0.0	-0.5
Net domestic financing 4/	0.1	0.0	-1.0
Net external financing 5/	-0.2	-0.1	-2.8
World Bank			-2.7
current debt service paid			-0.3
arrears clearance (principal and interest)			-2.5
AfDB			-0.3
current debt service paid			-0.3
arrears clearance (principal and interest)			0.0
Other			0.3
Crisis-related program loans and grants and other grants, and net flows 6/	0.0	-0.2	1.2
Foreign financed reconstruction spending yet to be funded	0.0	0.0	0.0
Financing gap (+ deficit / - surplus)	0.0	0.0	2.1

Sources: Ivoirien authorities; and IMF staff estimates and projections.

1/ Excluding toxic-waste-related revenue.
2/ Total expenditure net of scheduled interest, foreign-financed capital expenditure and toxic-waste-related spending.
3/ Total revenue (excluding grants) less primary basic expenditure.
4/ Net domestic bank and non-bank financing less domestic interest due.
5/ Gross external financing minus project/program loans and external debt service due plus net change in external arrears.
6/ Including net compensation proceeds for toxic waste damage.

32. **The crisis-related spending programs are critical for successful reunification and political stability (MEFP, ¶23).** To ensure that they are adequately financed, the budget seeks to avoid excessive expenses in these programs and allocates an increase of 0.8 percent of GDP to these programs. A large part of this increase is funded by donors (Tables 4a–b), including pledges expected to be made at a conference in mid-July.

33. **Domestic and external sources would fill the program's financing need (Table 7 and MEFP ¶44-45).** In light of the sizable resources needed for the clearance of arrears (US$480 million at mid-2007) and resumption of debt service payments to the World Bank and AfDB, the mobilization of World Bank resources for arrears clearance and budget support are critical to closing the gap. The Bank's Post-Conflict Assistance Project (PCAP) pre-arrears clearance grant of US$120 million is expected to be considered by the Bank's Board in mid-July 2007; it would support reinsertion of ex-combatants, community rehabilitation, and identification of the population. In line with the arrears clearance framework, broadly endorsed by IDA at end-June, the authorities would contribute one-half of the amount needed to clear their arrears to the Bank; the remainder would be provided

from Bank resources. As regards AfDB, debt service payments would commence in August 2007, as part of an agreement on eventual arrears clearance in early 2008. Part of the financing need will be met by issuing government paper on the WAEMU market and rolling over existing debt to domestic banks. The remaining gap will be filled by additional donor support and further borrowing from WAEMU/domestic sources. The net total of such borrowing should stay within ½ percent of GDP in 2007.

Text Table 4. Côte d'Ivoire: Coverage of Financing Gap, 2007

	Billions of CFAF	Millions of US$	Percent of GDP
Financing gap before WAEMU and domestic financing effort	355	726	3.7
Of which : Amortization of WAEMU and domestic debt	98	201	1.0
New WAEMU/domestic financing effort	75	154	0.8
Financing gap after WAEMU and domestic financing effort	280	573	2.9
Identified Sources of Financing	85	174	0.9
World Bank pre-arrears clearance grant	17	35	0.2
Donor financing of crisis-related expenditures, excl. reconstruction	68	139	0.7
EU	31	62	0.3
Other (mainly bilateral)	37	77	0.4
Financing Gap	195	399	2.1
Possible Financing			
IMF EPCA [1/]	30	62	0.3
IDA arrears clearance grant (scenario 50 percent of end-June 2007 arrears)	117	240	1.2
Funding to be sought (other donors, WAEMU/domestic market)	48	98	0.5

Sources: Ivoirien authorities; and IMF staff estimates and projections.

[1/] Assuming one purchase of 12.5 percent of quota in 2007 upon approval of EPCA.

Enhancing transparency in public sector resource management and related reforms

34. **The authorities stressed the priority they give to enhancing public resource management and encouraging private sector growth (MEFP, ¶27-28).** The 2007 program focuses on structural measures, elaborated in consultation with World Bank staff, with direct effects on transparency in public finances and the energy and cocoa/coffee sectors and on financial soundness. These early measures would provide a platform for deeper reforms in the context of the planned Bank EERC.

35. **Mostly upfront measures aim to improve expenditure management and transparency (MEFP, Box 1 and ¶32).** Key measures include the full reinstatement and application of normal budget execution and preparation procedures; a significant reduction in the use of treasury advances; and regular publication of budget execution reports.

36. **The authorities aim to reduce the deficits of the civil service pension fund (CGRAE) and Postal Savings Fund (CNCE), which are part of government fiscal operations (MEFP ¶33).** The deficit of the CGRAE, which reached ½ percent of GDP in 2006, is projected to rise further. With a view to defining measures that help restore financial viability, the authorities intend to update the 2000 actuarial study by the ILO. The CNCE, despite receiving large budget subsidies (¼ percent of GDP in 2006), has registered significant losses in recent years. Its restructuring plan aims to improve profitability and reduce reliance on government subsidies.

37. **The authorities are committed to enhancing transparency and efficiency in the energy sector, fully realizing its revenue potential, and spurring private investment (MEFP, Box 2 and ¶34–36).** To sustain the sector's significant contribution to growth and tax revenue, the authorities aim to introduce reforms that help address technical difficulties in oil/gas production, increase domestic refining capacity, bring electricity tariffs (unchanged since 2001) in line with fuel costs, and improve electricity bill collection. Based on the forthcoming audits, the authorities intend to formulate a strategy and action plan for the hydrocarbon sector, in collaboration with World Bank staff, to be implemented from September 2007.[6]

38. **The authorities intend to revisit their strategy for the cocoa/coffee sector and have started promoting the transparent use of quasi-fiscal levies (MEFP, Box 3 and ¶37-38).** Côte d'Ivoire is the world's largest cocoa producer—cocoa accounts for one quarter of its exports; yet inadequate producer incentives and poor management in the sector's agencies have limited its contribution to rural growth. The authorities noted that they had already reduced levies in recent years, increased the allocation of levies to rural investment, and

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[6] See Selected Issues Paper on the energy sector.

strengthened government oversight. Bank and Fund staffs have recommended deeper reductions in the levies to benefit farmers. However, the authorities are unconvinced that these would translate into higher producer prices and saw a continued role for the levies to finance rural infrastructure. With a view to improving the sector's incentives and management, the authorities agreed to prepare a comprehensive reform strategy that would address the level of (quasi-) taxation and the sector's legal and institutional framework.

39. **The authorities are committed to reverse the recent decline in output and financial performance of the cotton sector (MEFP, ¶40).** Output has fallen by one-half since 2002 and payment arrears have mounted. The authorities emphasized the importance of this sector, which supports some 2 million people, mainly in the north. To help improve the financial situation of operators and producers, the government is completing the clearance, with EU support, of its arrears on subsidies to the sector. It intends to adopt a restructuring plan which would improve the sector's extension services and marketing structure.

Strengthening the role of the financial sector

40. **The authorities agreed with staff's assessment of banking and microfinance sector vulnerabilities, and on the need to strengthen the capital base of troubled banks.** The authorities agreed that banks' weak compliance with prudential norms needed to be urgently addressed. They noted that it was the prerogative of the WAMU Banking Commission to initiate remedial actions, but reiterated their commitment to support the Commission's efforts to ensure compliance (MEFP, ¶26). Staff encouraged the authorities to fully do their part, notably in the appointment of temporary administrators and withdrawing licenses. While the authorities recognized that weaknesses in the judicial system impede loan recovery and contract enforcement, they indicated that the weaknesses needed to be addressed under a medium-term program with donor support.[7]

41. **The authorities agreed that the large state-owned National Investment Bank (BNI) still depends heavily on public sector deposits and credits (MEFP, ¶26).** Staff highlighted the continued breach of several key prudential norms and the importance of opening up the capital to private participation. The authorities underlined recent progress in BNI's restructuring and its important role in financing economic activities that could not be financed otherwise. With a view to improving BNI's financial viability and reorienting its activities from the public to the private sector, the authorities plan an external audit of the BNI and a strategic study of its role in financing the economy.

[7] These issues will be covered by an FSAP for the WAEMU region in late 2007.

Social sector issues and PRSP

42. **The government attaches priority to reversing the deterioration in education and health services (MEFP, ¶41-42).** The focus is on the rehabilitation of schools, health clinics, and hospitals and the redeployment and additional recruitment of teachers and doctors for the affected areas. The government is preparing medium-term plans for the health and education sectors, to be implemented with donor support. As regards the preparation of a PRSP (MEFP, ¶43), the authorities have begun to take stock of progress achieved vis-à-vis the objectives of the 2002 I-PRSP and plan a poverty survey. They expect to finalize the PRSP by mid-2008.

Capacity building, technical assistance, and statistical issues

43. **While broadly adequate, Côte d'Ivoire's capacity for surveillance, program monitoring, and statistics collection needs strengthening in several areas (MEFP, ¶46).** Since early 2007, at the request of the authorities, technical assistance missions from AFRITAC-West have resumed covering tax administration, public expenditure management, debt management, and microfinance. The authorities are seeking further assistance in these areas, as well as for a review of tax exemptions, anti-money laundering, and national accounts. The government is also reinvigorating several interministerial committees for program implementation and data reporting.

Program monitoring and risks

44. **The authorities' MEFP contains structural and quarterly quantitative indicators through December 2007** (Appendix I, Attachment I, Tables 1-2). Definitions and adjusters of financial indicators and requirements for data transmission to staff are described in the TMU. Prior actions are listed in Table 2 of the MEFP.

45. **The staff assesses as adequate Côte d'Ivoire's capacity to repay the Fund**. The government has remained current on its Fund obligations. Côte d'Ivoire's membership in the BCEAO has ensured—and should continue to do so—payment to the Fund, notwithstanding significant arrears to other creditors.

46. **There are important political and economic risks to program implementation**. Despite progress in building consensus, political tensions could lead to delays in implementing the authorities' roadmap to peace and elections—with possible consequences for the security situation, defense spending, and the timing of elections. Such delays could jeopardize the attainment of program objectives, dampen donor support, and provoke a resurgence of political instability.

IV. Staff Appraisal

47. **Côte d'Ivoire is emerging from a period of political instability and crisis that took an economic and social toll.** Per capita real income fell by one-sixth, social services deteriorated, and social indicators worsened. The impact was felt throughout the subregion.

48. **The political and security situation has improved since the March 2007 Ouagadougou Accord, but daunting challenges remain.** To push forward on the road to sustained peace, elections, and economic and social recovery, stronger domestic consensus building and the continued support of the international community are crucial. In this context, an EPCA-supported program could help secure progress in these areas and facilitate securing higher growth and poverty reduction.

49. **To achieve rapid economic recovery, the authorities would need to rigorously implement measures to improve public resource management.**

- Short-term measures should focus on restoring security, reunifying the country, and rehabilitating social services and basic infrastructure. With tight financial constraints, this requires creating fiscal space by reinforcing revenue administration, improving revenue collection (especially from the energy sector), and reducing nonessential spending.

- Early steps to improve transparency in revenue mobilization and budget execution are needed to improve resource use and reinforce domestic political consensus. Strict enforcement of existing budget procedures, regular publication of budget execution, and reporting on physical and financial flows in the energy and cocoa/coffee sectors would support such efforts.

50. **Longer-term challenges include strengthening financial sector soundness, revitalizing reforms in the energy and cocoa/coffee sectors, and improving competitiveness.**

- **Financial sector**. To enhance the sector's role in growth, financial supervision and the judiciary environment for loan recovery need to be strengthened. Better compliance with prudential norms and the audit of the state-owned National Investment Bank are welcome steps, as is the planned regional FSAP.

- **Energy sector**. Reforms to improve the transparency and efficiency of the oil/gas, refinery, and electricity sectors would support growth and boost government revenue. The ongoing audits of the sector are a good step; their recommendations, when issued, must be implemented as early as possible. Pricing energy products in line with world prices should induce more efficient use of these resources and avoid implicit subsidies. The envisaged steps to implement the EITI process are welcome.

- **Cocoa/coffee/cotton sectors.** Reform of the institutional structure is urgently needed to realize these sectors' potential in promoting growth, employment, and poverty reduction. The envisaged formulation and implementation of a comprehensive strategy are important steps. Close monitoring of the use of existing quasi-fiscal levies—and reducing them further—are crucial for improving the conditions of farmers.

- **Competitiveness**. Sustained growth will require improvements in competitiveness and further diversification of the economy. While there are no signs that Côte d'Ivoire's real exchange rate is above its equilibrium level, stronger growth in nontraditional tradables will be needed to offset the projected decline in oil exports and rapid growth in demand for imports. Reducing the costs of doing business is a priority.

51. **Implementation of the envisaged macroeconomic policies should contribute to domestic stability and the external stability of the WAEMU.** Central in this regard are the policies in 2007 that aim to restore sustainable fiscal and external positions. In time, these policies should also help compliance with the WAEMU convergence criteria.

52. **In addition to prudent fiscal policies and public debt management, sizable debt relief would be needed to restore debt sustainability.** The LIC-DSA shows debt distress, and key NPV of debt ratios are well above the country-specific thresholds.

53. **The focus of the authorities' program for 2007—on short-term measures to promote economic recovery, rebuild government services, and ensure transparency in public resource management—is appropriate.** The 2007 budget allows for more spending on social services, basic infrastructure, and crisis-related programs, while reducing defense and discretionary presidential spending. To capture the peace dividend, all spending should be strictly monitored. The start of reforms in the energy and cocoa/coffee sectors is welcome.

54. **The government's adoption of a timetable for the preparation of the PRSP is welcome**. It is important for the authorities to involve a wide range of stakeholders, while using surveys and diagnostic studies to assess rehabilitation needs across the country.

55. **The authorities' capacity for program monitoring and data provision to the Fund is broadly adequate.** However, committees involved in program implementation and data monitoring need strengthening, especially in budget execution and cocoa/coffee and energy sector monitoring. The quality and timeliness of data provision need improvement, especially in the areas of national accounts, labor data, and balance of payments.

56. **While recognizing the risks facing the program, staff recommends approval of the authorities' request for an EPCA purchase**. The risks include resurgence of political tensions, delays in DDR, and weakening security, which could postpone the elections and

slow program implementation. In weighing those risks, staff has considered the authorities' firm commitment to the program, as evidenced by strong prior actions, and the international community's continued support of the peace process.

57. **It is proposed that the next Article IV consultation discussions be held on the standard 12-month cycle.**

Table 1: Côte d'Ivoire: Key Political Developments, 1999–April 2007

December 1999	Following years of political strife, struggles over land between ethnic groups and Ivoiriens and non-Ivoiriens, and regional and ethnic inequalities, a coup d'état by General Gueï ousts Bédié, elected president in 1995.
October 2000	Amidst political instability and violence, Gbagbo elected president; new government; adoption of new constitution.
November 2001	National Reconciliation Forum brings political parties together.
March 2002	Approval of a three-year PRGF.
September 2002	Start of civil war, disruption of PRGF; country divided in two, Forces *Nouvelles (FN)* hold northern half, 4,000 French troops (LICORNE) deployed on the ground; some 1.2 million displaced persons.
January 2003	Linas-Marcoussis Peace Accord, government of national reconciliation.
July 2003	Accra Accord to relaunch political process.
August–Sept. 2003	Alleged *coup d'état* is followed by FN suspending participation in government.
January 2004	Government of national reconciliation reconstituted.
February 2004	UN decision to send 7,000 peacekeeping forces (UNOCI), joining 4,000 French troops (now UNICORNE) already on the ground; uniform command.
July 2004	Accra Accord reaffirms Linas-Marcoussis Accord and sets new deadlines.
November 2004	Ivoirien army (FANCI) attacks *Forces Nouvelles* and kills nine French soldiers.
April 2005	African Union (AU)-mandated mediation by President Mbeki puts political process back on track; eligibility for president of major candidates for October 2005 elections.
August 2005	Outbreak of violence in the western city of Duékoué; some hundred dead.
October 2005	UN Security Council (UNSC) endorses AU decision to postpone presidential elections for a year to October 2006; maintains Gbagbo as president; appoints new prime minister with full executive powers; appoints International Working Group to monitor peace process.
December 2005	Mr. Banny, governor of BCEAO, is appointed prime minister and forms new government including *FN* leader Soro as minister of state for reconstruction.
January 2006	Violent demonstrations erupt against UN in Abidjan and other cities; UNSC imposes sanctions on individuals who threaten peace process.
May 2006	UN Security Council approves 1,500 additional UN peacekeepers.
June 2, 2006	DDR program, identification of population, preparations for elections, and redeployment of public administration throughout the country are launched.
September 2006	After toxic waste scandal government steps down but is reinstated shortly after.
November 2006	UNSC adopts Resolution No. 1721, extending transition until presidential elections by one year until October 2006. President Gbagbo and Prime Minister Banny stay on.
March/April 2007	"Ouagadougou" Accord on accelerating the implementation of the roadmap signed between President Gbagbo and *FN* leader Soro. New transition government formed with Soro as prime minister. Presidential elections envisaged for February 2008.

Table 2. Côte d'Ivoire: Selected Economic and Financial Indicators, 2004-07

	2004	2005	2006 Est.	2007 Proj.
	(Annual percentage changes, unless otherwise indicated)			
National income				
GDP at constant prices	1.8	1.2	0.9	1.7
GDP deflator	0.6	4.2	5.6	1.7
Consumer price index (annual average)	1.5	3.9	2.5	2.0
Consumer price index (end of period)	4.4	2.5	2.0	2.9
External sector (on the basis of CFA francs)				
Exports, f.o.b., at current prices	8.4	11.3	8.0	-2.4
Imports, f.o.b., at current prices	21.9	22.9	-1.7	0.9
Export volume	21.7	4.2	4.7	-0.2
Import volume	21.6	3.0	0.7	1.8
Terms of trade (deterioration –)	-11.1	-10.5	5.7	-1.3
Nominal effective exchange rate	2.4	-1.1	-0.8	
Real effective exchange rate (depreciation –) 1/	1.3	0.0	-1.1	
	(Changes in percent of beginning-of-period broad money)			
Money and credit				
Money and quasi-money (M2)	9.5	7.4	10.3	4.8
Net foreign assets	11.7	3.2	5.7	1.8
Net domestic assets	-2.2	4.2	4.6	3.0
Of which: government	-3.6	1.8	-1.6	-1.9
private sector	4.6	0.8	4.8	6.6
Velocity of money	4.2	4.1	4.0	4.0
	(Percent of GDP, unless otherwise indicated)			
Central government operations				
Total revenue and grants	18.4	18.2	18.8	20.8
Total revenue	17.5	17.1	18.2	19.5
Total expenditure	20.1	19.9	20.6	20.5
Overall balance, incl. grants, payment order basis	-1.7	-1.7	-1.8	0.3
Primary basic balance 2/	0.9	0.4	0.3	1.0
Gross investment	10.8	9.7	9.7	9.7
Central government	2.8	2.7	3.0	2.9
Nongovernment sector	8.0	7.0	6.7	6.9
Gross domestic saving	20.0	17.2	20.1	17.8
Central government	2.2	1.9	2.4	3.2
Nongovernment sector	17.8	15.3	17.7	14.7
Gross national saving	12.4	10.0	12.7	12.0
Central government	1.3	1.2	1.5	3.3
Nongovernment sector	11.1	8.7	11.2	8.7
External sector				
Current account balance (including official transfers)	1.6	0.2	3.0	2.3
Current account balance (excluding official transfers)	1.7	0.4	3.2	0.6
Overall balance	-3.6	-4.0	-2.2	-1.8
External public debt	80.8	77.6	73.3	71.0
Public external debt-service due (CFAF billions)	546.3	472.3	419.4	377.4
Percent of exports of goods and services	13.8	10.7	8.9	8.2
Percent of government revenue	38.2	32.1	25.1	20.3
Memorandum items:				
Public debt in arrears (percent of GDP)	21.3	23.2	25.4	24.1
Domestic	7.3	5.2	4.9	3.8
External	14.0	18.1	20.5	20.3
Nominal GDP (CFAF billions)	8,178.5	8,621.2	9,177	9,496
Nominal exchange rate (CFAF/US$, period average)	527.6	526.6	522.4	488.5
Nominal GDP at market prices (US$ billions)	15.5	16.4	17.6	19.4
Population (million)	17.9	18.2	18.5	18.8
Population growth (percent)	1.5	1.8	1.5	1.5
Nominal GDP per capita (CFAF thousands)	457.6	473.7	496.8	506.5
Nominal GDP per capita (US$)	867	900	951	1037
Real GDP per capita growth (percent)	0.3	-0.7	-0.6	0.2

Sources: Ivoirien authorities; and IMF staff estimates and projections.

1/ Based on end-of-period changes in relative consumer prices and the nominal effective exchange rate.

2/ Defined as total revenue minus total expenditure, excluding all interest and foreign-financed investment expenditure.

Table 3. Côte d'Ivoire: National Accounts and Savings-Investment Balance, 2005-09

	2004 weight	2005	2006	2007	2008	2009
		Est	Est	Projections		
		(Annual percentage change at constant price)				
Primary Sector	0.29	2.9	3.3	1.4	5.1	6.4
Agriculture (including livestock and fishing)	0.18	1.9	2.6	2.6	2.7	4.3
Export agriculture	0.09	-0.2	-0.7	3.2	4.8	5.3
Oil/gas	0.01	51.4	36.8	-18.0	35.5	29.3
Secondary Sector	0.20	6.6	-6.5	1.3	3.2	4.4
Food and drinks	0.03	4.6	-16.4	3.0	3.4	3.6
Energy (incl. oil product)	0.05	8.5	2.9	1.1	3.6	4.8
Petroleum products	0.02	11.1	6.2	4.1	4.5	4.5
Energy	0.02	6.0	-0.4	-2.0	2.5	5.1
Construction	0.02	23.1	-3.0	3.4	4.5	7.2
Other industries	0.10	3.1	-9.0	0.4	2.5	3.5
Tertiary Sector	0.40	-0.2	2.3	2.3	3.2	4.9
Transportation, telecomunications	0.03	4.5	4.8	5.7	5.0	6.8
of which: Telecomunications	*0.01*	*10.1*	*12.5*	*12.0*	*13.5*	*11.5*
Services	0.12	-2.5	-1.8	-1.3	0.5	4.5
Trade	0.11	-1.1	3.6	3.2	4.0	5.0
Public services	0.14	1.4	4.1	3.4	4.0	4.4
Indirect Taxes	0.12	-7.5	3.2	1.5	1.0	2.0
Real GDP	1.00	1.2	0.9	1.7	3.5	4.9
		(Share of nominal GDP)				
Exports of goods and (nonfactor) services		51.1	51.3	48.4	46.4	44.7
Exports of goods		45.7	46.4	43.7	41.9	40.1
of which: oil and petroleum products		*12.0*	*15.0*	*13.2*	*14.5*	*15.7*
Exports of services		5.4	4.9	4.6	4.6	4.5
Imports of goods and (nonfactor) services		43.6	41.0	40.2	39.7	38.9
Imports of goods		31.1	28.7	28.0	27.6	26.8
of which: oil		*9.7*	*9.2*	*9.3*	*9.6*	*9.3*
Imports of services		12.6	12.3	12.3	12.1	12.1
Resource balance (excl. grants)		7.5	10.3	8.1	6.7	5.7
Oil Balance (exports of oil (products) - imports of crude)		*2.3*	*5.8*	*3.9*	*4.9*	*6.4*
Total consumption		82.8	79.9	82.2	81.1	79.2
Central government		8.3	8.2	8.4	8.3	8.3
Private sector		74.5	71.7	73.8	72.8	70.9
Gross domestic investment		9.7	9.7	9.7	12.2	15.0
Fixed capital formation		9.7	9.7	9.7	12.2	15.0
Central government		2.7	3.0	2.9	4.0	4.7
Nongovernment		7.0	6.7	6.9	8.2	10.4
Gross domestic Saving		17.2	20.1	17.8	18.9	20.8
Central government		1.9	2.4	3.2	4.1	4.5
Nongovernment		15.3	17.7	14.7	14.8	16.3

Sources: Ivoirien authorities; and IMF staff estimates and projections.

Table 4a. Côte d'Ivoire: Central Government Financial Operations, 2004–07 [1/]
(Billions of CFA francs, unless otherwise indicated)

	2004	2005	2006		2007	
			Budg. [2/]	Est.	Q1 (Est.)	Prog.
Total revenue and grants	1,507.5	1,566.0	1,867.6	1,727.5	481.8	1,978.1
Total revenue	1,431.6	1,471.4	1,708.5	1,672.1	470.5	1,847.7
Tax revenue	1,240.4	1,251.1	1,395.3	1,399.8	330.3	1,469.5
Direct taxes	288.6	360.3	434.1	441.1	66.5	422.1
Of which: profit tax on oil	4.0	27.9	83.9	68.9	4.3	68.0
Indirect taxes	951.8	890.8	961.3	958.7	263.8	1,047.4
Nontax revenue	191.2	220.3	313.2	272.3	140.2	378.2
Social security contributions	113.5	116.8	128.6	122.1	31.3	135.3
Oil and gas revenue	37.7	47.9	83.9	68.6	4.3	68.0
Other	40.0	55.6	100.7	81.6	104.6	174.9
Of which: PETROCI dividends	2.0	7.0	15.0	2.0	0.0	10.0
Of which: toxic waste damage					79.3	79.3
Grants	75.9	94.6	159.1	55.5	11.3	130.3
Projects	75.9	94.6	61.6	55.5	11.3	45.4
Programs (incl. crisis-related)	0.0	0.0	97.5	0.0	0.0	85.0
Other *(filière cacao)*	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure	1,643.6	1,714.0	1,815.5	1,889.7	386.9	1,947.0
Current expenditure	1,404.8	1,458.4	1,544.7	1,588.2	355.7	1,660.8
Wages and salaries	545.8	563.4	586.3	589.0	150.8	610.0
Social security benefits	135.6	149.2	164.9	167.6	44.9	186.1
Subsidies and other current transfers	84.7	93.5	96.0	178.0	7.0	149.3
Other current expenditure	363.0	398.3	387.7	423.5	104.0	439.9
Of which: toxic waste damage				15.7	49.3	49.3
Crisis-related expenditure	94.2	76.4	158.9	68.1	13.4	136.7
Interest due	181.4	177.5	150.9	162.1	35.6	138.8
Domestic interest	29.5	26.0	26.9	29.5	1.6	22.9
Foreign interest	151.9	151.5	124.0	132.6	34.0	115.9
Capital expenditure	228.2	235.3	250.8	279.4	26.9	271.2
Domestically financed	121.8	133.7	172.1	211.3	24.5	185.4
Foreign-financed	106.4	101.6	78.7	68.1	2.4	85.8
Net lending	10.6	20.3	20.0	22.1	4.3	15.0
Primary basic balance [3/]	75.8	36.5	122.6	28.2	54.9	95.3
Overall balance, including grants [1/]	-136.1	-148.0	52.1	-162.2	95.0	31.1
Overall balance, excluding grants [1/]	-212.0	-242.6	-107.0	-217.6	83.6	-99.2
Change in domestic arrears (excl. on debt service)	51.9	-35.4	-37.6	3.2	-74.9	-51.4
Net change in external arrears (interests)	147.6	161.0	64.7	129.0	34.0	49.9
Payment of arrears	-1.0	0.0	-34.5	0.0	0.0	-51.3
Accumulation of new arrears	148.6	161.0	99.2	129.0	34.0	101.3
Overall balance (cash basis)	63.4	-22.4	79.1	-30.0	54.1	29.6
Financing	-63.4	22.4	-79.1	30.0	-54.1	-29.6
Domestic financing	-122.2	38.6	-37.9	26.9	-95.3	-67.9
Bank financing (net)	-61.1	33.5	-16.1	-32.7	-90.8	-72.6
Net use of Fund resources	-66.3	-47.7	-30.8	-30.8	-6.9	-31.0
Central bank credit (net)	15.8	52.3	-20.2	-35.4	-30.8	-18.6
Other domestic bank financing (net)	-10.6	28.9	34.9	33.5	-53.1	-23.0
Of which: T-bills, bonds, *crédit rélais* (net)	0.0	24.6	59.4	37.8	11.5	-21.1
Nonbank financing (net)	-61.1	5.1	-21.8	59.7	-4.5	4.7
External financing	58.8	-16.2	-103.9	3.0	19.9	-156.5
Consolidation (bonds)	-12.4	-15.6	-5.1	-10.1	0.0	0.0
Project loans	39.0	7.0	17.1	12.2	-8.9	40.4
Program loans	2.1	0.0	0.0	0.0	0.0	0.0
Bonds	0.0	14.9	36.7	22.6	31.2	42.8
Treasury bills	1.2	2.5	-2.5	0.7	0.0	-3.2
Amortization due	-328.1	-273.2	-253.2	-257.6	-45.8	-230.5
Net change in external arrears (principal) [4/]	357.0	248.2	103.1	235.3	43.4	-6.0
Payment of arrears	-1.9	-0.1	-95.5	-15.9	0.0	-182.8
Accumulation of new arrears	358.9	248.3	198.6	251.1	43.4	176.7
Financing gap (+ deficit / – surplus)	0.0	0.0	62.6	0.0	21.4	194.8
of which: reflecting World Bank arrears clearance and current debt service					0.0	261.0
Possible sources of financing						
IMF EPCA [5/]					0.0	30.0
IDA arrears clearance grant (scenario 50 percent of end-June 2007 arrears)					0.0	117.1
Funding to be sought from other donors and WAEMU/domestic market					0.0	47.7
Memorandum items:						
Nominal GDP	8,178.5	8,621.2	9075.4	9,177.5	...	9,496.4
Domestic debt (including financial debt)	1,076.2	991.2	796.6	1,052.1	...	963.9
Of which: in arrears	598.6	445.4	415.4	448.6	...	364.4
External debt	6,605.9	6,694.3	6,705.4	6,729.2	...	6,746.8
Of which: in arrears 6/	1,147.3	1,556.5	1,724.7	1,879.7	...	1,923.6
Social spending	435.8	439.6	477.3	459.7	104.1	491.4
Education	360.6	369.6	397.3	382.7	83.0	399.3
Health	75.2	70.0	80.0	77.0	21.1	92.1
Defense spending	132.5	131.8	...	139.8	...	139.2

Sources: Ivoirien authorities; and IMF staff estimates and projections.

[1/] Payment order basis.
[2/] 2006 budget as agreed between the authorities and Fund staff in May 2006.
[3/] Total revenue (excl. grants) minus expenditure net of scheduled interest and foreign-financed capital expenditure, excluding net compensation proceeds from toxic waste damage.
[4/] External arrears on interests were recorded below the line prior to 2004.
[5/] Assuming one purchase of 12.5 percent of quota in 2007 upon approval of EPCA.
[6/] Changes in stocks in addition to flows also reflect valuation changes.

Table 4b. Côte d'Ivoire: Central Government Financial Operations, 2004-07 1/
(Percent of GDP, unless otherwise indicated)

	2004	2005	2006		2007	
			Budg. 2/	Est.	Q1 (Est.)	Proj.
Total revenue and grants	18.4	18.2	20.6	18.8	5.1	20.8
Total revenue	17.5	17.1	18.8	18.2	5.0	19.5
Of which : non-oil revenue	17.0	16.1	16.8	16.7	4.9	17.9
Tax revenue	15.2	14.5	15.4	15.3	3.5	15.5
Direct taxes	3.5	4.2	4.8	4.8	0.7	4.4
Of which : profit tax on oil	0.0	0.3	0.9	0.8	0.0	0.7
Indirect taxes	11.6	10.3	10.6	10.4	2.8	11.0
Nontax revenue	2.3	2.6	3.5	3.0	1.5	4.0
Social security contributions	1.4	1.4	1.4	1.3	0.3	1.4
Oil and gas revenue	0.5	0.6	0.9	0.7	0.0	0.7
Other	0.5	0.6	1.1	0.9	1.1	1.8
Of which : PETROCI dividends	0.0	0.1	0.2	0.0	0.0	0.1
Of which: toxic waste damage					0.8	0.8
Grants	0.9	1.1	1.8	0.6	0.1	1.4
Projects	0.9	1.1	0.7	0.6	0.1	0.5
Programs (incl. crisis-related)	0.0	0.0	1.1	0.0	0.0	0.9
Other (*filière cacao*)	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure	20.1	19.9	20.0	20.6	4.1	20.5
Current expenditure	17.2	16.9	17.0	17.3	3.7	17.5
Wages and salaries	6.7	6.5	6.5	6.4	1.6	6.4
Social security benefits	1.7	1.7	1.8	1.8	0.5	2.0
Subsidies and other current transfers	1.0	1.1	1.1	1.9	0.1	1.6
Other current expenditure	4.4	4.6	4.3	4.6	1.1	4.6
Of which: toxic waste damage				0.2	0.5	0.5
Crisis-related expenditure	1.2	0.9	1.8	0.7	0.1	1.4
Interest due	2.2	2.1	1.7	1.8	0.4	1.5
Domestic interest	0.4	0.3	0.3	0.3	0.0	0.2
Foreign interest	1.9	1.8	1.4	1.4	0.4	1.2
Capital expenditure	2.8	2.7	2.8	3.0	0.3	2.9
Domestically-financed	1.5	1.6	1.9	2.3	0.3	2.0
Foreign-financed	1.3	1.2	0.9	0.7	0.0	0.9
Net lending	0.1	0.2	0.2	0.2	0.0	0.2
Primary basic balance 3/	0.9	0.4	1.4	0.3	0.6	1.0
Overall balance, including grants 1/	-1.7	-1.7	0.6	-1.8	1.0	0.3
Overall balance, excluding grants 1/	-2.6	-2.8	-1.2	-2.4	0.9	-1.0
Change in domestic arrears (excl. on debt service)	0.6	-0.4	-0.4	0.0	-0.8	-0.5
Net change in external arrears (interest) 4/	1.8	1.9	0.7	1.4	0.4	0.5
Overall balance (cash basis)	0.8	-0.3	0.9	-0.3	0.6	0.3
Financing	-0.8	0.3	-0.9	0.3	-0.6	-0.3
Domestic financing	-1.5	0.4	-0.4	0.3	-1.0	-0.7
Bank financing (net)	-0.7	0.4	-0.2	-0.4	-1.0	-0.8
Net use of Fund resources	-0.8	-0.6	-0.3	-0.3	-0.1	-0.3
Central bank credit (net)	0.2	0.6	-0.2	-0.4	-0.3	-0.2
Other domestic bank financing (net)	-0.1	0.3	0.4	0.4	-0.6	-0.2
Of which : T-bills, bonds, *crédit rélais* (net)	0.0	0.3	0.7	0.4	0.1	-0.2
Nonbank financing (net)	-0.7	0.1	-0.2	0.7	0.0	0.0
External financing	0.7	-0.2	-1.1	0.0	0.2	-1.6
Consolidation (bonds)	-0.2	-0.2	-0.1	-0.1	0.0	0.0
Project loans	0.5	0.1	0.2	0.1	-0.1	0.4
Program loans	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	0.0	0.2	0.4	0.2	0.3	0.5
Treasury bills	0.0	0.0	0.0	0.0	0.0	0.0
Amortization due	-4.0	-3.2	-2.8	-2.8	-0.5	-2.4
Net change in external arrears (amortization) 4/	4.4	2.9	1.1	2.6	0.5	-0.1
Financing gap (+ deficit / – surplus)	0.0	0.0	0.7	0.0	0.2	2.1
Of which: World Bank arrears clearance and current debt service					0.0	2.7
Possible sources of financing						
IMF EPCA 5/					0.0	0.3
IDA arrears clearance grant (scenario 50 percent of end-June 2007 arrears)					0.0	1.2
Funding to be sought from other donors and WAEMU/domestic market					0.0	0.5
Memorandum items:						
Domestic debt	13.2	11.5	8.8	11.5	...	10.1
Of which: in arrears	7.3	5.2	4.6	4.9	...	3.8
External debt	80.8	77.6	73.9	73.3	...	71.0
Of which: in arrears 6/	14.0	18.1	19.0	20.5	...	20.3
Social spending	5.3	5.1	5.3	5.0	1.1	5.2
Education	4.4	4.3	4.4	4.2	0.9	4.2
Health	0.9	0.8	0.9	0.8	0.2	1.0
Defense spending	1.6	1.5	...	1.5	...	1.5

Sources: Ivoirien authorities; and IMF staff estimates and projections.

1/ Payment order basis.
2/ 2006 budget as agreed between the authorities and Fund staff in May 2006.
3/ Total revenue (excl. grants) minus expenditure net of scheduled interest and foreign-financed capital expenditure, excluding net compensation proceeds from toxic waste damage.
4/ External arrears on interests were recorded below the line prior to 2004.
5/ Assuming one purchase of 12.5 percent of quota in 2007 upon approval of EPCA.
6/ Changes in stocks in addition to flows also reflect valuation changes.

Table 5. Côte d'Ivoire: Balance of Payments, 2002-07
(Billions of CFA francs, unless otherwise indicated)

	2002	2003	2004	2005	2006 Est	2007 Proj.
Trade balance	1,929.0	1,476.2	1,360.1	1,260.1	1,619.9	1,496.4
Exports, f.o.b.	3,561.3	3,264.2	3,539.9	3,939.6	4,254.5	4,153.9
Of which: cocoa	1,606.7	1,372.3	1,146.8	1,087.4	1,063.1	1,086.1
Of which: crude oil and refined oil products	405.8	408.4	660.6	1,035.6	1,374.5	1,256.5
Imports, f.o.b.	-1,632.3	-1,788.0	-2,179.8	-2,679.5	-2,634.7	-2,657.5
Of which: crude oil	-291.0	-311.1	-546.6	-836.6	-841.0	-886.2
Services (net)	-1,071.7	-1,022.2	-986.9	-995.4	-1,086.5	-1,178.8
Receipts	542.3	494.6	531.4	569.0	557.2	542.7
Factor income	98.3	99.1	100.2	102.2	103.5	103.8
Other services	444.0	395.5	431.2	466.8	453.7	438.9
Payments	-1,614.0	-1,516.8	-1,518.3	-1,564.4	-1,643.7	-1,721.6
Factor income	-572.3	-517.4	-479.5	-481.8	-519.3	-557.7
Of which : central government interest due	-221.7	-205.3	-151.9	-151.5	-132.6	-115.9
Of which: oil sector	…	-27.0	-32.0	-73.7	-126.2	-91.8
Other services	-1,041.7	-999.4	-1,038.8	-1,082.6	-1,124.4	-1,163.9
Transfers (net)	-322.0	-282.8	-245.9	-243.9	-259.3	-100.4
Private	-335.0	-303.9	-236.7	-232.4	-239.2	-264.0
Official [1/]	13.0	21.1	-9.2	-11.5	-20.1	163.6
Current account including grants	535.3	171.2	127.3	20.8	274.1	217.2
Current account excluding grants	522.3	150.1	136.5	32.3	294.2	53.6
Capital account	-1,414.4	-1,138.4	-500.8	-455.4	-479.6	-384.6
Official medium- and long-term loans (net)	-268.2	-328.1	-287.0	-266.2	-245.4	-190.1
Project loans	54.5	38.0	39.0	7.0	12.2	40.4
Other bilateral and multilateral loans	201.3	1.3	2.1	0.0	0.0	0.0
Central government amortization due	-524.0	-367.4	-328.1	-273.2	-257.6	-230.5
Foreign Direct Investments	148.2	96.1	149.5	164.5	164.7	173.4
Other private capital	-1,294.4	-906.4	-363.3	-353.7	-398.9	-367.9
Of which : oil sector	…	-35.2	-44.1	-99.9	-201.8	-141.3
Of which: government securities sold to regional banks	0.0	28.0	1.2	17.4	23.3	39.6
Errors and omissions	-91.1	6.5	76.0	87.6	0.0	0.0
Overall balance	-970.1	-960.7	-297.5	-347.0	-205.5	-167.4
Financing	970.1	960.7	297.5	347.0	205.5	-27.4
Official net reserves (increase -)	-406.4	369.4	-209.1	0.0	-158.2	-71.3
Operations account	-409.9	427.3	-142.8	47.6	-127.4	-40.3
IMF (net)	3.5	-57.9	-66.3	-47.7	-30.8	-31.0
Of Which: Repayments	3.5	-57.9	-66.3	-47.7	-30.8	-31.0
Commercial banks (net)	-158.4	40.5	2.0	-62.2	40.4	0.0
Debt relief obtained	755.4	90.8	0.0	0.0	0.0	0.0
Net change in external arrears (principal and interest)	779.5	460.0	504.6	409.2	323.3	43.9
Financing gap	0.0	0.0	0.0	0.0	0.0	194.8
Memorandum items:						
Overall balance (percent of GDP)	-12.1	-12.0	-3.6	-4.0	-2.2	-1.8
Current account incl. official transfers (percent of GDP)	6.7	2.1	1.6	0.2	3.0	2.3
Trade balance (percent of GDP)	24.1	18.5	16.6	14.6	17.7	15.8
Cocoa exports (thousand tons)	1,254	1,203	1,337	1,306	1,226	1,293
Cocoa export price, f.o.b (CFAF/kg)	1,222	1,063	802	785	804	790
Gross official reserves						
(months of imports of goods and services)	5.0	2.9	3.1	2.5	2.9	3.0
Outstanding arrears (year-end)	281	643	1,147	1,556	1,880	1,924
Public external debt service/exports g&s (percent)	19.9	17.2	13.8	10.7	8.9	8.2
Nominal exchange rate (CFAF/US$; average)	694.6	580.1	527.6	526.6	522.4	488.5

Sources: Ivoirien authorities; and IMF staff estimates and projections.

[1/] This figure may differ from reported fiscal transfers owing to the imputed value of technical assistance and government transfers to other countries.

Table 6a. Côte d'Ivoire: Monetary Survey, 2002-07

	2002	2003	2004	2005	2006 Est.	2007 Proj.
	(Billions of CFA francs)					
Net foreign assets	844.6	434.7	641.8	704.0	821.8	863.1
Central bank [1/]	778.1	408.7	617.8	617.8	776.0	817.2
Banks	66.5	26.0	24.0	86.2	45.8	45.8
Net domestic assets	1564.1	1333.8	1295.5	1376.9	1473.0	1541.1
Net credit to the government [2/ 3/]	472.4	408.2	343.7	379.3	345.3	302.8
Central Bank	453.4	334.7	284.7	286.7	214.7	195.2
Banks	14.3	67.4	53.4	84.4	117.8	94.9
of which: customs bills	-16.3	-14.2	-9.8	-13.6	-13.3	-13.3
Postal savings (CNCE)	4.7	6.1	5.6	8.2	12.8	12.8
Credit to the economy	1216.5	1093.1	1173.9	1189.4	1290.1	1441.1
Crop credits	112.9	62.3	70.7	69.8	65.7	67.1
Other credit (including customs bills)	1103.6	1030.8	1103.2	1119.5	1224.4	1374.0
Other items (net) (assets = +)	-124.4	-167.5	-222.1	-191.7	-162.4	-202.8
Broad money	2408.7	1768.5	1937.3	2081.0	2294.8	2404.2
Currency in circulation [1/]	1146.7	568.6	671.5	754.1	815.2	854.0
Deposits	1229.8	1186.7	1255.9	1312.0	1454.4	1525.3
Other deposits	27.5	7.1	4.3	6.7	12.4	12.0
Postal savings (CNCE)	4.7	6.1	5.6	8.2	12.8	12.8
Memorandum item:						
Velocity of circulation	3.3	4.5	4.2	4.1	4.0	4.0
	(Changes in percent of beginning-of-period broad money)					
Net foreign assets	30.7	-17.0	11.7	3.2	5.7	1.8
Net domestic assets	0.1	-9.6	-2.2	4.2	4.6	3.0
Net credit to the government [2/ 3/]	1.1	-2.7	-3.6	1.8	-1.6	-1.9
Central bank	0.2	-4.9	-2.8	0.1	-3.5	-0.9
Banks	0.9	2.2	-0.8	1.6	1.6	-1.0
Credit to the economy	-0.2	-5.1	4.6	0.8	4.8	6.6
Broad money	30.8	-26.6	9.5	7.4	10.3	4.8
	(Changes in levels from previous end-of-year)					
Net foreign assets	564.8	-409.9	207.1	62.2	117.8	41.3
Net domestic assets	2.5	-230.3	-38.3	81.4	96.0	68.1
Net credit to the government [2/ 3/]	21.0	-64.2	-64.5	35.6	-34.0	-42.5
Central bank	3.2	-118.7	-50.0	2.0	-72.0	-19.5
Banks	17.0	53.1	-14.0	31.0	33.5	-23.0
of which: Customs bills	1.2	2.1	4.4	-3.8	0.2	0.0
Postal savings (CNCE)	0.8	1.4	-0.5	2.6	4.6	0.0
Credit to the economy	-2.9	-123.4	80.8	15.5	100.7	151.0
Broad money	567.3	-640.2	168.8	143.7	213.8	109.4

Sources: Central Bank of West African States (BCEAO); and IMF staff estimates and projections.

[1/] In August 2005, BCEAO substantially lowered calculations of bank notes in circulation, affecting the money supply and NFA of the central bank, beginning December 2003.

[2/] Excludes sales to nonresidents of consolidated BCEAO claims on the government.

[3/] Including net use of Fund resources.

Table 6b. Côte d'Ivoire: Summary Accounts of the Central Bank and Commercial Banks, 2002-07
(Billions of CFA francs)

	2002	2003	2004	2005	2006 Est.	2007 Proj.
Central Bank						
Net foreign assets [1/]	778.1	408.7	617.8	617.8	776.0	817.2
Gross foreign assets	1,148.6	677.2	809.1	768.6	888.8	926.2
Credit: p*osition compte exterieur*	1,146.3	676.1	807.7	758.5	893.5	929.9
IMF	1.2	0.6	0.6	9.6	-5.6	-5.6
Others	1.0	0.5	0.8	0.5	0.8	2.0
Liabilities	370.5	268.5	191.3	150.8	112.8	109.0
Debit: *position compte exterieur*	0.0	0.0	0.0	0.0	0.0	0.0
IMF	333.3	233.3	159.8	110.3	74.7	73.8
SDR allocation	34.9	30.9	30.2	30.1	28.3	28.0
Others	2.2	4.3	1.3	10.4	9.7	7.3
Net domestic assets	519.3	343.8	290.0	305.4	226.3	193.6
Net credit to government	453.4	334.7	284.7	286.7	214.7	195.2
Claims on the government (excluding IMF)	207.0	199.9	193.9	195.0	172.9	154.3
Counterpart to net Fund resources	290.6	232.7	166.4	118.7	87.9	86.9
Government deposits (including cash)	44.2	97.9	75.6	27.0	46.1	46.1
Claims on deposit money banks	14.7	0.5	0.0	9.4	1.3	1.3
Claims on other financial institutions	7.9	5.2	0.0	0.0	0.0	0.0
Other items net	43.3	3.4	5.3	9.3	10.3	-2.8
Monetary base	1,297.4	752.5	907.8	923.2	1,002.3	1,010.9
Currency in circulation	1,146.7	568.6	671.5	754.1	815.2	854.0
Bank deposits	123.2	176.8	232.0	162.5	174.7	144.8
Other deposits	27.5	7.1	4.3	6.7	12.4	12.0
Commercial Banks						
Net foreign assets	66.5	26.0	24.0	86.2	45.8	45.8
Banks and correspondants	113.4	73.2	67.2	102.0	50.1	50.1
Others	-46.9	-47.2	-43.2	-15.8	-4.3	-4.3
Net domestic assets	1,163.3	1,160.7	1,231.9	1,225.8	1,408.6	1,479.5
Net position from the BCEAO	91.7	171.9	221.1	142.3	173.8	143.5
Reserves	106.4	172.4	221.1	151.4	174.2	144.8
Of which: currency held	40.0	51.3	53.2	43.1	54.4	54.4
Liabilities to the BCEAO	14.7	0.5	0.0	9.1	0.4	1.3
Net credit to government	30.2	81.6	63.2	97.9	131.2	108.2
Claims on the government	292.8	300.1	277.5	283.3	309.1	274.1
Deposits of the government [2/]	262.6	218.5	214.3	185.4	178.0	165.9
Credit to the private sector	1,192.3	1,073.7	1,164.1	1,175.8	1,276.7	1,427.8
Crop credit	112.9	62.3	70.7	69.8	65.7	67.1
Ordinary credit	1,079.4	1,011.4	1,093.4	1,106.0	1,211.0	1,360.6
short-term	774.9	738.1	810.3	821.2	883.2	1,027.2
medium-term	209.2	191.7	197.0	214.7	257.8	262.3
long-term	95.3	81.6	86.1	70.1	70.0	71.2
Other items, net	-150.9	-166.5	-216.5	-190.2	-173.2	-200.0
Private sector deposits	1,229.8	1,186.7	1,255.9	1,312.0	1,454.4	1,525.3
Memorandum item						
Excess reserves [3/]	74.1	136.2	136.6	98.2	79.4	…

Sources: BCEAO and IMF staff estimates and projections.

1/ In August 2005, BCEAO substantially lowered calculations of bank notes in circulation, affecting the money supply and NFA of the central bank, beginning December 2003.

2/ Including customs bills, excluding CNCE deposits.

3/ Deposits of the banking sector at the BCEAO in excess of required reserves, end of year values. Excess reserves peaked in September 2005 at CFAF 197 billion.

Table 7. Côte d'Ivoire: External Financing Requirements, 2004-07
(Billions of CFA francs)

	2004	2005	2006 Est.	2007 Proj.
External financing requirements	-31.9	4.5	7.9	-398.8
Current account deficit (excluding official transfers)	136.5	32.3	294.2	53.6
Amortization	-328.1	-273.2	-257.6	-230.5
Of which: government	-328.1	-273.2	-257.6	-230.5
Fund repurchases and repayments	-66.3	-47.7	-30.8	-31.0
Private capital, net (including commercial banks, errors&omissions)	-135.8	-163.8	-193.8	-194.5
Net change in external arrears (interest and principal) (+=accumulation)	504.6	409.2	323.3	43.9
Of which: World Bank arrears repayment				-234.1
Change in net external reserves without IMF (- = increase)	-142.8	47.6	-127.4	-40.3
Available financing	31.9	-4.5	-7.9	204.0
Project financing	39.0	7.0	12.2	40.4
Program financing	2.1	0.0	0.0	0.0
Fund disbursements [1/]	0.0	0.0	0.0	0.0
Official transfers	-9.2	-11.5	-20.1	163.6
Crisis-related financing	...	...	0.0	75.0
Of which: *for* DDR	...	...	0.0	23.0
Of which: *for* elections/identification	...	...	0.0	38.0
Of which: *from* World Bank	...	...	0.0	17.1
Project grants and other transfers (net)	...	...	-20.1	88.6
Debt relief obtained	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	-194.8
Potential IMF EPCA Disbursements	...	...	...	30.0
Potential IDA arrears clearance grant (scenario 50 percent of end-June 2007 arrears)	...	...	...	117.1
Funding to be sought from other donors and WAEMU/domestic market	...	...	...	47.7

Sources: Ivoirien authorities; IMF staff estimates and projections.

[1] Potential EPCA resources are not included.

Table 8. Côte d'Ivoire: External Debt Outstanding, 2002-07
Table 8. External Debt Outstanding, 2002-07

	2002		2003		2004		2005		2006		2007	
	Debt Outstanding	*Of which:* Arrears	Debt Outstanding	*Of which:* Arrears	Debt Outstanding	*Of which:* Arrears	Debt Outstanding	*Of which:* Arrears	Debt Outstanding	*Of which:* Arrears	Debt Outstanding Proj.	*Of which:* Arrears Proj.
	(Billions of CFA francs, end-of-period)											
Total debt outstanding, including arrears	6,461.0	281.1	6,495.7	642.8	6,605.9	1,147.3	6,694.3	1,556.5	6,729.2	1,879.7	6,746.8	1,923.6
Multilateral (excl. BCEAO)	2,163.9	2.2	2,075.7	79.8	2,009.0	189.3	2,006.2	335.8	1,974.2	443.9	1,674.8	265.8
IMF	290.6	0.0	232.7	0.0	166.5	0.0	118.8	0.0	88.0	0.0	57.0	0.0
World Bank	1,338.7	0.0	1,287.2	0.0	1,284.1	54.3	1,304.1	130.0	1,314.4	205.1	1,065.3	0.0
AfDB Group	443.1	0.0	465.2	68.1	476.0	122.2	499.9	183.3	497.6	216.4	485.2	239.8
Other multilateral	91.5	2.2	90.5	11.7	82.5	12.9	83.4	22.5	74.2	22.4	67.3	26.0
BCEAO	54.8	0.0	54.8	0.0	54.8	9.9	54.8	15.9	37.7	0.0	32.9	0.0
Official bilateral	2,891.6	164.7	2,989.7	428.0	3,088.8	720.0	3,192.2	974.6	3,270.4	1,186.5	3,334.8	1,372.5
Paris Club	2,866.9	164.7	2,966.2	428.0	3,066.2	719.9	3,169.9	974.6	3,249.0	1,186.4	3,315.7	1,372.4
Pre-cutoff date	157.8	0.0	199.7	5.2	51.1	11.2	46.6	10.5	53.9	22.3	54.5	26.4
Rescheduled	1,506.9	0.0	1,524.4	108.2	1,742.3	270.2	1,804.6	385.4	1,845.7	484.9	1,893.4	563.4
Post-cutoff date	1,202.2	164.7	1,242.0	314.6	1,272.9	438.6	1,318.7	578.7	1,349.4	679.2	1,367.8	782.5
Non-Paris Club	24.7	0.0	23.6	0.0	22.6	0.1	22.3	0.0	21.4	0.1	19.1	0.1
Commercial debt	1,350.7	114.2	1,375.5	134.9	1,453.4	228.0	1,441.1	230.2	1,446.9	249.4	1,469.1	285.3
London Club	1,334.2	102.9	1,358.5	122.1	1,435.0	212.7	1,421.4	212.8	1,427.6	232.0	1,449.6	267.4
Other commercial	16.5	11.3	16.9	12.8	18.4	15.3	19.7	17.4	19.4	17.4	19.5	17.9
New debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	235.2	0.0
	(Percent of GDP)											
Total debt outstanding, incl. arrears	80.7	3.5	81.4	8.1	80.8	14.0	77.6	18.1	73.3	20.5	71.0	20.3
Multilateral	27.0	0.0	26.0	1.0	24.6	2.3	23.3	3.9	21.5	4.8	17.6	2.8
IMF	3.6	0.0	2.9	0.0	2.0	0.0	1.4	0.0	1.0	0.0	0.6	0.0
World Bank	16.7	0.0	16.1	0.0	15.7	0.7	15.1	1.5	14.3	2.2	11.2	0.0
AfDB Group	5.5	0.0	5.8	0.9	5.8	1.5	5.8	2.1	5.4	2.4	5.1	2.5
Other multilateral	1.1	0.0	1.1	0.1	1.0	0.2	1.0	0.3	0.8	0.2	0.7	0.3
BCEAO	0.7	0.0	0.7	0.0	0.7	0.1	0.6	0.2	0.4	0.0	0.3	0.0
Official bilateral	36.1	2.1	37.4	5.4	37.8	8.8	37.0	11.3	35.6	12.9	35.1	14.5
Paris Club	35.8	2.1	37.2	5.4	37.5	8.8	36.8	11.3	35.4	12.9	34.9	14.5
Pre-cutoff date	2.0	0.0	2.5	0.1	0.6	0.1	0.5	0.1	0.6	0.2	0.6	0.3
Rescheduled	18.8	0.0	19.1	1.4	21.3	3.3	20.9	4.5	20.1	5.3	19.9	5.9
Post-cutoff date	15.0	2.1	15.6	3.9	15.6	5.4	15.3	6.7	14.7	7.4	14.4	8.2
Non Paris Club	0.3	0.0	0.3	0.0	0.3	0.0	0.3	0.0	0.2	0.0	0.2	0.0
Commercial debt	16.9	1.4	17.2	1.7	17.8	2.8	16.7	2.7	15.8	2.7	15.5	3.0
London Club	16.7	1.3	17.0	1.5	17.5	2.6	16.5	2.5	15.6	2.5	15.3	2.8
Other commercial	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
New debt												
Memorandum item:												
Nominal GDP (CFAF billions)	8,006	8,006	7,984	7,984	8,178	8,178	8,621	8,621	9,177	9,177	9,496	9,496

Sources: Ivoirien authorities; and IMF staff estimates and projections.

Table 9. External Debt Service, 2002-07
(Billions of CFA francs, unless otherwise indicated)

	End-2002			2003			2004			2005			2006			2007		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal Proj.	Interest Proj.	Total Proj.
Debt service (scheduled)	557.8	221.7	779.5	425.3	191.6	617.0	384.5	151.9	536.4	314.8	151.5	466.4	287.1	131.0	418.1	256.7	112.8	369.6
Multilateral (excl. BCEAO)	162.4	65.1	227.5	169.1	52.1	221.2	176.3	44.7	221.0	149.2	40.9	190.2	140.0	23.6	163.6	121.3	23.3	144.7
IMF	51.0	1.1	52.1	57.9	1.4	59.3	66.3	1.0	67.3	47.7	0.7	48.4	30.8	0.5	31.3	31.0	0.4	31.4
World Bank	51.3	32.9	84.2	51.5	25.8	77.2	57.5	20.0	77.4	55.7	17.7	73.4	64.7	10.0	74.7	44.0	11.9	55.9
AfDB Group	47.5	27.7	75.2	47.3	22.4	69.7	43.3	21.4	64.7	37.2	20.5	57.7	35.4	11.1	46.5	35.8	8.2	44.0
Other multilateral	12.6	3.4	16.0	12.4	2.6	15.0	9.3	2.3	11.5	8.7	2.0	10.7	9.2	2.0	11.1	10.5	2.9	13.4
Official bilateral	380.4	128.0	508.4	241.0	114.7	355.7	193.0	83.7	276.8	151.2	87.4	238.6	133.6	84.3	218.0	121.6	67.3	188.9
Paris Club	379.5	127.6	507.1	239.8	114.6	354.5	191.9	83.5	275.4	151.0	87.3	238.3	132.6	84.1	216.7	119.4	66.6	186.0
Pre-cutoff date	161.9	71.7	233.6	71.4	42.0	113.4	52.7	22.0	74.8	3.8	0.5	4.4	4.4	1.3	5.8	3.6	0.6	4.2
Rescheduled	0.0	0.0	0.0	73.2	17.5	90.8	48.0	35.3	83.2	52.9	50.9	103.8	58.4	48.6	106.9	30.8	47.6	78.5
Post-cutoff date	217.6	55.9	273.5	95.2	55.1	150.3	91.2	26.2	117.4	94.3	35.8	130.1	69.8	34.2	104.0	85.0	18.4	103.4
Non Paris Club	0.9	0.4	1.3	1.2	0.1	1.2	1.1	0.2	1.3	0.2	0.2	0.4	1.0	0.2	1.2	2.3	0.7	2.9
Commercial debt	15.0	28.6	43.6	15.3	24.8	40.1	15.2	23.5	38.7	14.4	23.1	37.6	13.4	23.1	36.5	13.8	22.2	36.0
London Club	12.9	28.0	40.9	14.2	24.3	38.6	14.1	23.2	37.3	13.7	22.8	36.5	13.0	22.9	35.9	13.4	22.0	35.5
Other commercial	2.0	0.6	2.7	1.0	0.5	1.5	1.0	0.3	1.4	0.8	0.3	1.1	0.4	0.2	0.6	0.3	0.2	0.5
Memorandum items:																		
Debt service (percent of GDP)	7.0	2.8	9.7	5.3	2.4	7.7	4.7	1.9	6.6	3.7	1.8	5.4	3.1	1.4	4.6	2.7	1.2	3.9
Nominal GDP	8,006	8,006	8,006	7,984	7,984	7,984	8,178	8,178	8,178	8,621	8,621	8,621	9,177	9,177	9,177	9,496	9,496	9,496

Sources: Ivoirien authorities; and IMF staff estimates and projections.

Table 10. Côte d'Ivoire: Medium-Term Scenario 2007-12

	Average 1999-2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
							Projections			
Baseline scenario [1/]										
					(Annual percentage changes)					
Real sector										
Real GDP growth	-1.0	1.8	1.2	0.9	1.7	3.5	4.9	5.6	5.8	6.5
Real GDP per capita growth	-3.0	0.3	-0.7	-0.6	0.2	2.0	3.4	4.1	4.3	5.0
Consumer price index (annual average)	2.8	1.5	3.9	2.5	2.0	3.0	3.0	3.0	3.0	3.0
					(Percent of GDP)					
Gross investment	11.3	10.8	9.7	9.7	9.7	12.2	15.0	16.2	17.2	18.3
Central government	3.0	2.8	2.7	3.0	2.9	4.0	4.7	5.3	5.8	6.4
Nongovernment sector	8.3	8.0	7.0	6.7	6.9	8.2	10.4	11.0	11.4	11.9
Gross domestic saving	21.4	20.0	17.2	20.1	17.8	18.9	20.8	20.8	20.4	20.4
Central government	4.8	2.2	1.9	2.4	3.2	4.1	4.5	4.5	4.4	4.3
Nongovernment sector	16.5	17.8	15.3	17.7	14.7	14.8	16.3	16.3	16.1	16.2
Gross national saving	11.8	12.4	10.0	12.7	12.0	13.3	15.4	15.7	15.5	15.9
Central government	2.0	1.3	1.2	1.5	3.3	4.2	3.5	3.6	3.6	3.7
Nongovernment sector	9.7	11.1	8.7	11.2	8.7	9.1	11.9	12.1	12.0	12.2
Fiscal sector										
Total revenue and grants	17.6	18.4	18.2	18.8	20.8	21.0	21.0	20.8	20.7	20.6
Total revenue	17.0	17.5	17.1	18.2	19.5	19.6	19.7	19.6	19.5	19.5
Total expenditure	19.0	20.1	19.9	20.6	20.5	20.8	22.1	22.4	22.8	23.4
Primary basic balance [2/]	2.7	0.9	0.4	0.3	1.0	1.3	1.4	1.1	1.0	0.8
Overall balance, including grants, payment order basis	-1.5	-1.7	-1.7	-1.8	0.3	0.2	-1.1	-1.6	-2.2	-2.8
					(Annual percentage changes on the basis of CFA francs)					
External sector										
Exports, f.o.b., at current prices	5.3	8.4	11.3	8.0	-2.4	3.0	3.1	2.2	3.4	5.5
Imports, f.o.b., at current prices	2.0	21.9	22.9	-1.7	0.9	6.2	4.4	4.3	6.6	8.4
Export volume	-0.1	21.7	4.2	4.7	-0.2	1.7	4.0	4.1	4.9	6.8
Import volume	-5.8	21.6	3.0	0.7	1.8	6.0	6.9	7.1	7.6	8.7
					(Percent of GDP, unless otherwise indicated)					
Current account balance (including official transfers)	0.8	1.6	0.2	3.0	2.3	1.1	0.4	-0.6	-1.7	-2.4
Current account balance (excluding official transfers)	1.7	1.7	0.4	3.2	0.6	0.0	-0.7	-1.5	-2.6	-3.4
Gross official reserves (in months of imports of g&s)	3.0	3.1	2.5	2.9	3.0	2.9	2.9	2.9	2.7	2.6
External public debt		80.8	77.6	73.3	71.0	66.3	63.1	60.2	57.9	55.8
Memorandum item:										
Nominal GDP (CFAF billions)	7,774	8,178	8,621	9,177	9,496	10,215	10,980	11,893	12,877	14,083
Low Case Scenario										
Real sector										
Real GDP growth	-1.0	1.8	1.2	0.9	1.7	2.1	2.1	2.2	2.3	2.3
Gross investment	11.3	10.8	9.7	9.7	9.7	8.7	8.6	8.5	8.0	7.9
Central government	3.0	2.8	2.7	3.0	2.9	2.5	2.4	2.3	2.2	2.2
Nongovernment sector	8.3	8.0	7.0	6.7	6.9	6.2	6.2	6.2	5.7	5.7
Fiscal sector										
Total revenue	17.0	17.5	17.1	18.2	19.5	19.1	18.4	17.8	17.3	16.8
Total expenditure	19.0	20.1	19.9	20.6	20.5	20.5	19.7	19.1	18.5	17.9
Primary basic balance [2/]	2.7	0.9	0.4	0.3	1.0	0.4	0.2	0.1	0.1	0.0
External sector										
Current account balance (including official transfers)	0.8	1.6	0.2	3.0	2.3	1.0	0.9	0.8	0.5	0.4
Current account balance (excluding official transfers)	1.7	1.7	0.4	3.2	0.6	0.3	0.3	0.4	0.2	0.2
External public debt		80.8	77.6	73.3	71.0	68.7	67.2	64.9	62.8	60.7
Assumptions										
Real world GDP growth (WEO) (percent)	3.7	5.3	4.9	5.4	4.9	4.9	4.8	4.9	4.8	4.8
Crude oil spot price (WEO) (US$/barrel)	24.9	37.8	53.4	64.3	63.8	68.8	68.5	66.8	66.0	65.5
Crude oil production (millions of barrels)	4.2	7.8	14.5	22.2	17.4	23.6	30.5	30.7	30.0	29.3
Cocoa beans world market price (WEO) (US$/kg)	1.3	1.55	1.54	1.59	1.60	1.59	1.57	1.56	1.55	1.54
Cocoa production in thousands of tons	1,257.9	1,377.7	1,396.4	1,315.0	1,334.7	1,374.8	1,429.8	1,486.9	1,546.4	1,608.3
Secondary and tertiary sector output index [3/]	92.4	88.4	88.8	88.7	90.3	92.9	96.9	102.5	108.7	116.3
Nominal exchange rate (CFAF/US$, period average)	669.0	527.6	526.6	522.4	488.5	482.2	479.8	476.6	472.2	467.6

Sources: Ivoirien authorities; and IMF staff estimates and projections.
Note: Both scenarios assume no HIPC / MDRI programs.

[1/] Based on continued progress towards peace and national reconciliation.
[2/] Defined as total revenue minus total expenditure, excluding all interest and foreign-financed investment expenditure.
[3/] In real terms and in percent of 1999 level.

Table 11. Côte d'Ivoire: Indicators of Fund Credit, 2003-10

	2003	2004	2005	2006	2007	2008	2009	2010
				Projections				
Outstanding use of Fund credit 1/								
Millions of SDRs	286.0	200.5	138.8	99.7	109.8	81.6	69.9	53.1
Billions of CFAF	232.4	156.7	108.0	76.7	81.1	60.0	51.3	38.8
Percent of government revenue	17.2	10.9	7.3	4.6	4.4	3.0	2.4	1.7
Percent of exports, f.o.b.	7.1	4.4	2.7	1.8	2.0	1.4	1.2	0.9
Percent of external public debt	3.6	2.4	1.6	1.1				
Percent of GDP	2.9	1.9	1.3	0.8	0.9	0.6	0.5	0.3
Percent of quota	88.0	61.7	42.7	30.7	33.8	25.1	21.5	16.3
Repurchases, repayments, charges and interest due								
Millions of SDRs	76.7	86.8	62.6	39.7	32.7	30.7	14.1	19.2
Billions of CFAF	62.3	67.8	48.7	30.5	24.2	22.5	10.4	14.0
Percent of government revenue	4.6	4.7	3.3	1.8	1.3	1.1	0.5	0.6
Percent of exports, f.o.b	1.9	1.9	1.2	0.7	0.6	0.5	0.2	0.3
Percent of external public debt	1.0	1.0	0.7	0.5				
Percent of GDP	0.8	0.8	0.6	0.3	0.3	0.2	0.1	0.1
Percent of quota	23.6	26.7	19.2	12.2	10.0	9.4	4.3	5.9
Net use of Fund credit (millions of SDRs)	-75.0	-85.5	-61.7	-39.1	10.0	-28.1	-11.7	-16.8
Disbursements	0.0	0.0	0.0	0.0	40.7	0.0	0.0	0.0
Repayments and Repurchases	75.0	85.5	61.7	39.1	30.6	28.1	11.7	16.8
Memorandum items (billions of CFAF)								
Nominal GDP	7984.3	8178.5	8621.2	9177.5	9496.4	10214.6	10980.4	11892.5
Exports, f.o.b.	3264.2	3539.9	3939.6	4254.5	4153.9	4277.0	4408.4	4507.1
Government revenue	1347.4	1431.6	1471.4	1672.1	1847.7	2004.1	2162.7	2329.6
External public debt	6495.7	6605.9	6694.3	6729.2				
CFAF/SDR (period average)	812.62	781.45	778.11	768.67	739.15	734.57	733.27	731.05

Sources: IMF, Finance Department; IMF staff estimates and projections.

1/ Including the prospective disbursement under EPCA of SDR 40,650,000

Table 12. Côte d'Ivoire: Financial Soundness Indicators for the Banking Sector, 2001-06

	2001	2002	2003	2004	2005	2006 1/
	(Percent, end of period)					
Capital Adequacy						
Risk-weighted capital to assets ratio	7.9	…	16.3	12.2	…	…
Capital (net worth) to assets 2/	7.2	8.3	9.7	9.4	8.8	8.9
Asset quality						
Total loans/total assets	67.5	67.0	65.4	68.0	66.2	…
Nonperforming loans (NPLs)						
NPLs/total loans	19.3	21.3	25.1	26.2	21.0	20.0
NPLs net of provisions/total loans	5.8	6.7	8.7	10.4	4.4	3.3
Provisioning rate	70.1	68.5	65.4	60.5	79.0	83.7
Management						
Personnel costs/revenue	33.2	32.6	34.2	31.6	30.0	…
Noninterest expenses/revenue	65.1	63.7	66.0	65.1	62.8	…
Earnings and profitability						
Net income (CFAF billion)	-5.4	8.9	6.7	13.1	26.0	…
Return on equity	...	...	3.0	5.5	10.6	…
Interest rate spread (percentage points)	6.7	7.6	7.9	7.8	7.7	…
Liquidity						
Liquid assets/total assets	35.8	42.9	43.5	44.9	43.2	44.7
Liquid assets/short term liabilities	62.1	71.8	80.6	87.5	84.8	85.4
Loans/deposits	106.6	91.4	87.3	90.8	88.7	88.2
Memorandum items						
Côte d'Ivoire						
Number of financial institutions (incl. nonbanks)	...	...	20	18	19	20
Share in total WAEMU assets	...	...	32.0	31.3	29.5	…
WAEMU						
Number of financial institutions (incl. nonbanks)	...	86	87	93	114	116
Risk-weighted capital to assets ratio	...	11.7	10.6	11.4	11.8	…
NPLs/total loans	...	20.0	19.7	20.7	19.8	…
Provisioning rate	...	65.9	67.7	61.1	66.8	…

Sources: BCEAO, Banking Commission, APBEF-CI, and IMF staff calculations.

1/ Provisional.

2/ Combined *Fonds propres nets* divided by combined assets of the banking sector.

Table 13. Governance Indicators in Côte d'Ivoire vs. WAEMU and Sub-Saharan Countries [1/]

	Côte d'Ivoire		WAEMU		SSA	
	2004	2006	2004	2006	2004	2006
Corruption Perception Index (CPI) [2/]	2.0	2.1	1.4	2.9	2.9	2.8

	Côte d'Ivoire	WAEMU	SSA
	2005	2005	2005
Country Policy and Institutional Assessment (CPIA) [3/]			
Economic Management	2.0	3.5	3.3
Structural Policies	3.2	3.5	3.2
Policies for Social Inclusion/Equity	2.3	3.1	3.1
Public Sector Management and Institutions	2.5	3.2	3.0

	Côte d'Ivoire		WAEMU		SSA	
	2005	2006	2005	2006	2005	2006
Cost of Doing Business Rank [4/]	156	141	160	155	132	131
Selected Indicators						
Starting a business (% of income per capita)	134.9	134.1	229.1	219.9	211.4	162.9
Enforcing contract (cost in % of debt)	29.5	29.5	41	41	42	42.2
Registering property (% of property value)	14.3	14.3	14.6	15.0	12.4	11.6
Getting credit (% of adults)	3	3.1	2.4	3.7	0.8	1.5
Employing workers (firing cost in weeks of wages)	49	49	34	42	69	71
Time in dealing with license	569	569	229	219	235	235
Closing a business: recovery rate [5/]	14.9	33.8	8.5	21.0	14.9	17.7
Nonwage labor cost	18.4	18.4	23.1	23.1	12.9	12.7
Cost per container across boarders [6/]	1,087	1,088	1,513	1,531	1,754	1,754

Sources: World Bank, Doing Business, Country Policy and Institutional Assessment (CPIA); and the Berlin-Based organization Transparency International, Corruption Perception Index (CPI).

1/ These indicators are to a large extent based on subjective perception and judgment.

2/ The CPI gathers data from sources that span the last two years. All sources measure the perception of corruption (frequence and/or size of bribes in the public and political sectors). To determine the mean value for a country, standardization is carried out via a matching percentile technique. This allows all reported scores to remain within 0 and 10 (10 is the best).

3/ The CPIA measures the extent to which a country's policy and institutional framework supports sustainable growth and poverty reduction, and consequently the effective use of development assistance. The exercise yields scores for all of the 16 criteria that compose the CPIA. Bank staff assesses the country's actual performance on each of the criteria, and assigns a rating. These scores are averaged, first to yield the cluster score, and then to determine a composite country rating as the average of the four clusters. The rating level is between 1 and 6 (the best).

4/ The Cost of Doing Business index ranks economies from 1 to 175, with first place being the best. The index is calculated for each country as the simple average of country rankings on each of the topics covered. The ranking of each topic is the average of the percentile rankings on its component indicators.

5/ The recovery rate calculates how many cents on the dollar claimants (creditors, tax authorities, and employees) recover from an insolvent firm.

6/ Average cost in U.S. dollars per container to export and to import.

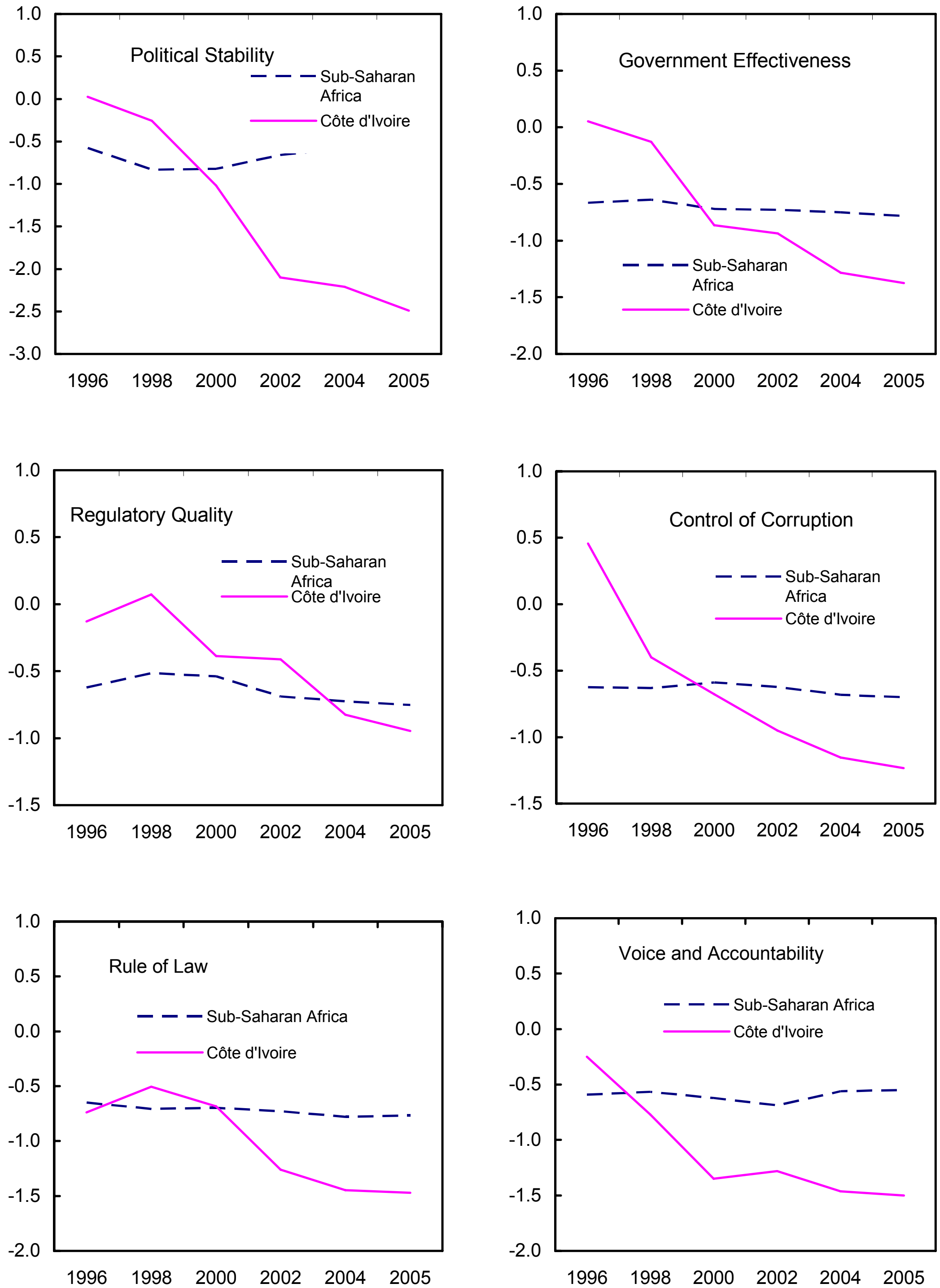
Table 14. Côte d'Ivoire: Selected Demographic and Social Indicators, 2004

	Sub-Saharan Africa [1/]	Côte d'Ivoire			
		1994-2000	1998	2002	2004
	(Units indicated)				
Population					
Total (millions)	689.6	15.6	16.0	17.3	17.9
Annual growth rate (percent)	2.2	2.7	2.6	1.7	1.7
Urban population (percent of total)	36.4	42.5	42.5 [2/]	44.5	44.6
GDP per capita, PPP (current international $)	1,946	1,526	1,606	1,546	1,551
Poverty (percent of population below poverty line of US$ 1 per day)	40.2	35.2	33.6	38.4	41.5
Life expectancy (years)	46.1	47.6	47.6 [2/]	46.0	45.9
Total fertility rate (births per woman)	5.3 [3/]	5.6	5.6 [2/]	5.1	5.1
Labor force					
Total, ages 15-64 (thousands)	298,857	5,704	5,852	6,421	6,669
(Percent of total population)	43.3	36.6	36.6	37.0	37.3
Shares of public expenditure (percent of GDP)					
Education	4.5 [4/]	...	3.9 [5/]	4.4	4.4
Health	2,4 [6/]	...	0.8 [5/]	0.9	0.9
	(Percent of school-age population)				
Education					
Primary school enrollment ratio (gross)	...	58.1	60.4	69.7	56.0
Ratio Youth Literacy (female rate as % of male rate) (ages 15-24)	86.0	72.3	72.5	75.2	74.0
	(In units indicated)				
Primary school pupil-to-teacher ratio	47.4	43.8	...	43.9	42.4
Adult illiteracy rate					
Percentage of population age 15 and above	40.2	...	44.5	50.3	51.3
Female	53.2	...	35.7	38.4	38.6
Health					
Infant, 1 year, mortality rate (per 1,000 live births)	103.0	89.0	112.0	102.0	117.0
Under age 5 mortality rate (per 1000)	174.0	167.8	181.0	181.0 [5/]	194.0
Access to improved water source					
Percentage of population	56.2	42.2	43.6	49.4	84.0
Urban	80.3	41.7	55.7	61.0	97.0
Rural	42.5	37.7	38.1	43.8	74.0
Nutrition					
Food production per capita (1999-2001=100)	106.7	91.8	93.8	98.9	101.2
Child malnutrition (percentage of children under age 5)	…	23.8	21.2	21.7	17.2 [7/]

Sources: Ivoirien authorities, *Rapport national sur les objectifs de millénaire pour le développement*; and World Bank, World Development Indicators, 2006, UNDP, *Human Development Report*, 2006 (IMF, Economic Data Sharing System (EDSS)).

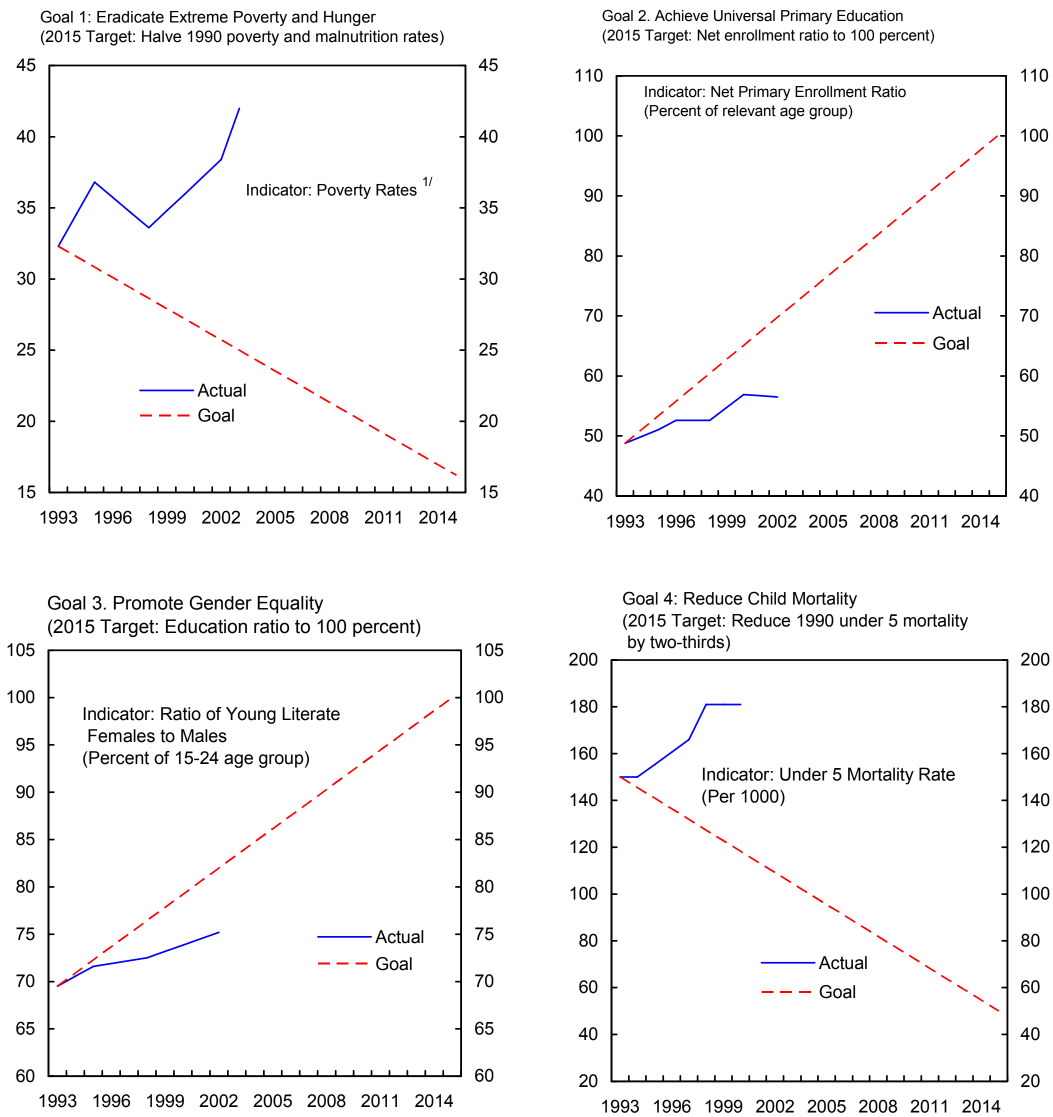
[1/] Latest single year, unless otherwise stated.
[2/] 1997.
[3/] 2000-05 average.
[4/] 2003-04 average.
[5/] 2000.
[6/] 2002-04 average.
[7/] 1995-2004 average.

Figure 1. Côte d'Ivoire: Governance Indicators, 1996-2005
(Point estimates = -2.5 to +2.5)



Source: Daniel Kaufmann, Aart Kraay, and Massimo Mastruzzi, *Governance Matters V: Governance Indicators for 1996-2005,* available via the Internet: http://www.worldbank.org/wbi/governance.

Figure 2a. Côte d'Ivoire: Progress Toward the Millennium Development Goals, 1993-2002.

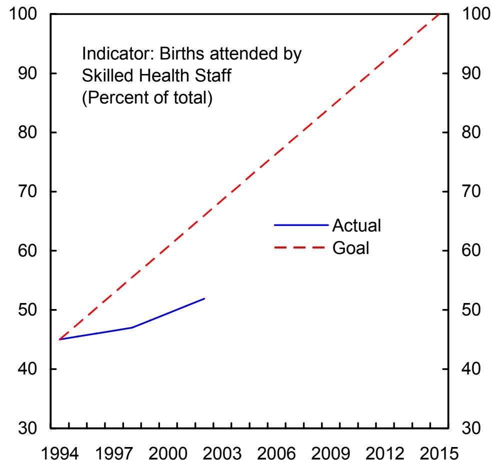


Source: Ivoirien authorities.

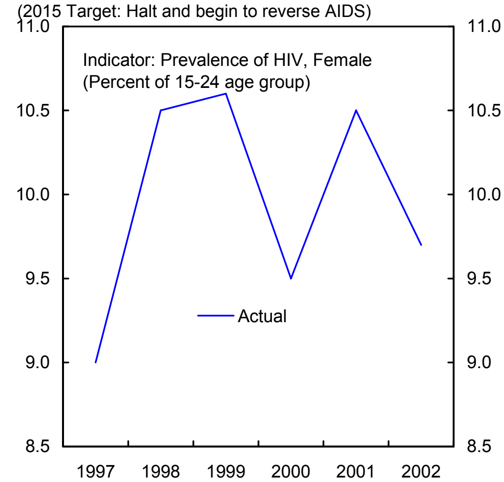
1/ Percentage of population living under the national poverty line, defined as US$1 per day.

Figure 2b. Côte d'Ivoire: Progress Toward Millennium Development Goals, 1993-2002 (concluded)

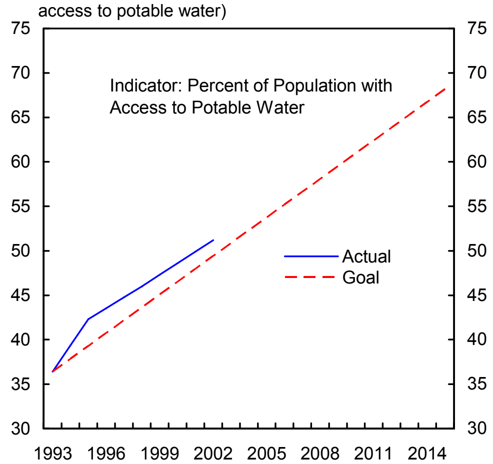
Goal 5: Improved Maternal Health (2015 Target: Reduce 1990 maternal mortality by two-thirds)



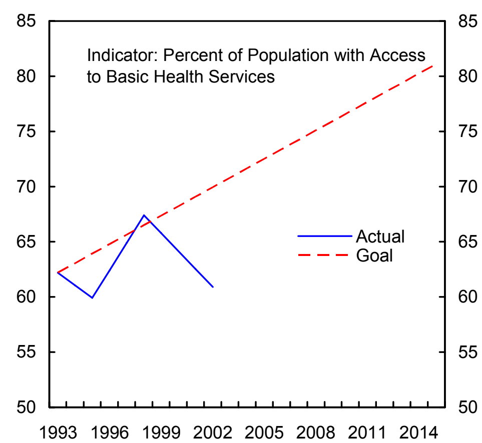
Goal 6: Combat HIV/AIDS, Malaria and Other Diseases [2/]
(2015 Target: Halt and begin to reverse AIDS)



Goal 7: Ensure Environmental Sustainability
(2015 Target: Halve percentage of population without access to potable water)



Goal 8, Ensure Environmental Sustainability
(2015 Target: Halve percentage of population without access to basic health services)



Source: Ivoirien authorities.

[2/] No target formulated for this indicator; no data available for 1993 to 1996.

Appendix I

Abidjan, July 12, 2007

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Rato,

1. Since 1999, Côte d'Ivoire has suffered from political instability, a factor that has contributed to a slowdown in the economy and a sharp deterioration in social conditions. The country's partition into a northern and southern zone following the crisis of September 2002 led to further deterioration in the economic and social situation. Since 2005, there has been some progress toward peace, reunification, and national reconciliation thanks to the efforts of successive governments. In March 2007, the Ouagadougou Accord between the President of the Republic and the Secretary-General of the *Forces Nouvelles*, with the support of all the major political parties, opened the way to a sustainable solution to the crisis and open, democratic, and transparent presidential elections in early 2008. The Accord was welcomed by the populations living in Côte d'Ivoire, the international community, including the Economic Community of West African States, the African Union, and the United Nations Security Council.

2. Pursuant to the Accord, the new transition government, which took office in April 2007, is focusing its efforts on implementing as rapidly as possible the unification and restructuring of the two armies, the disarmament, demobilization, and reintegration (DDR) program, dismantling the militias, redeploying government services throughout our national territory, identifying the population, and preparing for the elections. The government has already created the Integrated Command Center for the two armies and the mixed brigades, and has eliminated the "confidence zone." These brigades have begun to operate in this zone to ensure security. We have also adopted a new amnesty law for war crimes and crimes against the State, and have begun to implement the measures to reunify the country. By end-July 2007, we hope to have achieved significant progress in regrouping and disarming ex-combatants and in dismantling the militias. We also intend to reinstall the prefectural administration and to make the decentralized subnational governments (town halls and general councils) fully operational in all 22 *départements* in the central, northern, and western zones of our territory, as well as to resume the process of identifying the population, in particular through identification hearings by end-July 2007.

3. Progress made with these steps should permit Côte d'Ivoire's external partners to gradually reengage. To this end, we have adopted a plan for the gradual clearance, beginning in mid-July 2007, of arrears to the World Bank, as well as a plan for clearing arrears to the African Development Bank, as agreed with these two institutions. We have also introduced a mechanism for setting aside the funds necessary to cover debt service requirements vis-à-vis these institutions for the remainder of 2007.

4. With the support of the international community, the transition government intends to build on the gains made to date to implement policies aimed at national reconciliation, sustained recovery of economic growth, improved social conditions, and poverty reduction. Our Memorandum of Economic and Financial Policies (MEFP), attached hereto, describes the government's economic and financial program for 2007. The government recognizes the crucial importance of progressively improving transparency in the public policy management and the need to combat fraud and corruption. To this end, we have begun to implement specific measures for the management of public and quasi-public resources, in particular in the oil/gas sector and the coffee/cocoa sector. Equally, an important aspect of economic policy in 2007 will be the building of the capacity of public institutions and of administration in the whole country, and penalizing proven cases of mismanagement.

5. Fiscal policy for 2007 reflects that this year is one of transition and reunification. Expenditure relating to our exit from crisis and to the electoral process will be given priority; they will thus absorb a sizable share of our budgetary resources. However, our objective is to reap the dividends of peace as soon as possible and for the benefit of the population. To this end, we are extending resource mobilization to the entire reunified national territory. We also will reduce nonessential expenditures (including front-line bonuses), including those with no direct social and economic impact, and reorient resources toward social outlays and the rehabilitation of basic infrastructure. We will also re-evaluate the scope and phasing of certain major construction projects in light of available financing and the needs of our country's population. We are also planning to return to normal budget execution procedures and to regularly disseminate budget execution statements within the government and to the general public. For programs associated with our exit from crisis, we intend—in consultation with our external partners—to formulate realistic budgets and to organize, before end-July 2007, a donor conference aimed at obtaining their support for covering the residual financial requirements of these programs.

6. The government believes that the policies defined in the MEFP are appropriate for achieving our economic objectives. It will take any further measures that may prove necessary to implement the program. In support of its program, the government requests Emergency Post-Conflict Assistance (EPCA) from the IMF in the amount of SDR 40.65

million, or the equivalent of 12.5 percent of our quota. We strongly hope that Côte d'Ivoire will receive an interest rate subsidy. We intend to request additional assistance under the EPCA of the IMF within the next six months.

7. This request and the associated program would also be a bridge to a new program, for which we will request the IMF's support under its Poverty Reduction and Growth Facility (PRGF). Such a program should make it possible for Côte d'Ivoire to regain access to the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. The government plans to prepare its Poverty Reduction Strategy Paper (PRSP) as quickly as possible.

8. The government will consult with the IMF on the implementation of the economic policy program set forth in the MEFP. It will provide the IMF with all the information required for monitoring program implementation, in accordance with the IMF's policy on such consultations.

9. The Ivoirien authorities wish to make this letter, the attached MEFP, the attached Technical Memorandum of Understanding, as well as the IMF staff report on the EPCA request available to the public. We hereby authorize their publication and their posting on the IMF website following approval by the IMF Executive Board.

Sincerely yours,

/s/	/s/
Charles Koffi Diby Minister of Economy and Finance	Guillaume Kigbafori Soro Prime Minister

Attachments: - Memorandum of Economic and Financial Policies (MEFP)
- Technical Memorandum of Understanding (TMU)

Appendix I. Attachment I. Memorandum of Economic and Financial Policies for 2007

I. Introduction

1. Since 1999, Côte d'Ivoire has been in a protracted political crisis that led to an armed conflict in 2002 and the division of the country into a northern and southern part. The socioeconomic impact has been considerable: per capita real GDP declined significantly; basic social services deteriorated, particularly in the northern part of the country; and the number of displaced persons reached about 1 million. Over the last three years, the security situation has gradually improved, and growth has recovered moderately thanks to the resilience of the economy. However, increased government spending and the prolonged suspension of external assistance resulted in a deterioration of the budget situation and a sizable accumulation of external and domestic arrears.

2. In recent years, with the support and mediation of the international community, Côte d'Ivoire made some progress toward restoring peace, though the political environment and security situation have been fragile. In early 2007, to relaunch Côte d'Ivoire on the path to peace, President Gbagbo and the Secretary General of the *Forces Nouvelles,* Guillaume Soro, engaged in a direct dialogue that resulted in the signature of the Ouagadougou Accord in early March 2007. The Accord has received the support of the major political parties and the international community, including the Economic Community of West African States, the African Union, and the United Nations Security Council; and it opens the way for rapid reunification and national reconciliation and elections by early 2008. It will be the cornerstone for peace and security, economic recovery, and the improvement of social conditions.

3. The new transition government took office in April 2007, and in May established a roadmap and implementation matrix for the Accord. The roadmap calls for the relaunching and acceleration of the disarmament, demobilization, and reintegration (DDR) program; the dismantling of militias; the unification and restructuring of the armies; the identification of the population; the organization of elections; and the redeployment of government services throughout the entire country. In mid-May 2007, these programs and processes—in particular the regrouping of ex-combatants, the dismantling of militia, and the redeployment of administrative and social services—got under way. We expect by end-July 2007 to have completed the reinstallation of the prefectural administration and to have made the decentralized subnational governments (town halls and general councils) fully operational in all 22 départements in the central, northern, and western (CNW) zones. By the same date, we will have begun the regrouping of ex-combatants in the 17 sites (with a view to their integration into the army or their demobilization), the dismantling of militias, and the resumption of identification hearings (*audiences foraines*).

4. The government is determined to ensure that the peace process moves ahead steadily in the coming weeks, so that Côte d'Ivoire may rapidly benefit from the financial engagement of the Bretton Woods Institutions and our other partners. To that end, in agreement with the two institutions concerned, we have adopted a plan for the gradual settlement of arrears to the World Bank to begin in July 2007, and a plan to clear arrears to the African Development Bank (AfDB) by April 2008, in the framework of its Post-Conflict Facility.

5. This Memorandum of Economic and Financial Policies (MEFP) sets out the specific objectives and policies that the authorities intend to implement in the context of their program in 2007. The authorities are seeking the support of the international community and of the IMF in the form of Emergency Post-Conflict Assistance (EPCA).

II. Recent Economic Developments

6. The economy has rebounded from the conflict and has shown continued resilience to the crisis, with three successive years of positive growth. In 2006, economic growth reached about 1 percent, supported by strong oil production (crude and refined products) and a pick-up in telecommunications and trade. This helped offset the decline in several industries, notably food processing. Consumer price inflation remained low, at 2.5 percent in annual average terms. Real and nominal effective exchange rates were broadly stable in 2006, reflecting inflation in line with Côte d'Ivoire's trading partners and the stability of the euro vis-à-vis the U.S. dollar.

7. In 2006, the fiscal situation was weaker than expected and the primary basic fiscal surplus reached 0.3 percent of GDP (compared with 0.4 percent of GDP in 2005 and 1.4 percent of GDP targeted for 2006). Revenues were somewhat lower than expected, largely reflecting lower than projected oil and gas production because of technical difficulties. Expenditure was higher than anticipated in the 2006 Budget owing to overruns on nonwage current expenditure (excluding spending related to exiting from the crisis), in particular unforeseen higher sovereignty spending, expenses necessitated by a toxic waste spill, and gas subsidies to the electricity sector, which faces serious technical and financial difficulties. These overruns were attenuated by lower-than-expected spending relating to exiting from the crisis, as progress on the DDR, redeployment, and identification programs was slower than envisaged. Education and health expenditure fell to 26.9 percent of total primary expenditure, compared to 28.6 percent in 2005.

8. Given the expenditure and cash flow pressures, the overall fiscal deficit was largely financed by an accumulation of external arrears (which rose by 3 percentage points to 21 percent of GDP at end-2006) as well as borrowing on the West African Economic and Monetary Union (WAEMU) and international financial markets. The government managed to keep the stock of domestic arrears constant, and in early 2007, started to

regularize the end-2005 stock through securitization (in an amount equivalent to 0.3 percent of 2007 GDP).

9. Progress was made in fiscal and accounting reforms, in several areas in 2006. In mid-2006, the government adopted streamlined procedures for the execution and control of expenditure related to exiting from the crisis and financed by its own resources. However, because of the late adoption of the 2006 Budget Law and unforeseen demands, the budget was to a large extent executed through Treasury advances. The deconcentration of fiscal management was further extended by linking 8 more *départements* to the integrated expenditure management system (SYGFiP), bringing the total to 37 by the start of 2007. Implementation of the new Public Procurement Code adopted in 2005 began in 2006. The accounting management system was improved with ASTER software, and efforts were initiated to improve the training of accountants with the creation of a training and capacity building center in 2006.

10. On the revenue side, in late June 2005 the government introduced a standardized invoice (*facture normalisée*) with features to combat VAT fraud and cover the informal sector, but effective implementation was delayed to the second half of 2006 because of resistance by operators. Since late 2006, the tax and customs directorates have been applying a simplified system for reimbursing VAT credits within 60 days. Customs implemented the measures in its action plan, notably the streamlining of its computerized customs clearance system, which helped reduce the potential for fraud and corruption. Furthermore, the rate of the profit tax (BIC) was lowered from 35 percent to 27 percent for large enterprises, and to 25 percent for small and medium-sized enterprises.

11. During the first quarter of 2007, pending approval of the 2007 Budget, spending took place through advances in line with priorities and available resources. Revenue performance has been in line with projections except for lower oil/gas revenue related to technical difficulties in the Baobab field, which should be resolved later in the year. As a result, the primary basic surplus reached 0.6 percent of GDP. In early 2007, the government received a compensation payment of CFAF 95 billion from the foreign company responsible for the toxic waste spill. After deduction of the costs of remedial measures already committed by the government, the remaining amount of CFAF 66.8 billion has been placed in a special government account with the BCEAO to be used for assistance to victims and preventive measures in 2007-08.

12. The external current account balance (including official transfers) moved from near zero in 2005 to a surplus of 3 percent of GDP in 2006. This largely reflected an increase of almost 50 percent in the export volumes of crude oil and petroleum products and somewhat higher world oil prices. A decline in cocoa export volumes was offset by more favorable cocoa prices. The capital account continued to show a large deficit, owing to the almost complete lack of external financing. Consequently, the overall balance of payments

deficit reached 2.5 percent of GDP and was financed by the accumulation of external arrears.

13. Broad money increased by 10 percent in 2006, largely in line with an increase in the net foreign assets of the banking system and the moderate increase in domestic credit.

14. The banking system has improved its performance since 2004, but also faces crisis-related and structural weaknesses. Since the start of the crisis in September 2002, all 19 bank branches in the central, northern, and western zones were closed. However, since March 2007 the banks have begun to resume operations in these areas and are gradually increasing their activities. The ratio of nonperforming loans to total credit, which had increased sharply between 2001 and 2004 to over 26 percent by end-2004, improved to 20 percent at end-2006. However, eight of the 18 banks are not in compliance with the capital adequacy ratio, six banks are not observing the minimum liquidity ratio, and six banks were placed under close surveillance by the WAMU Banking Commission. The restructuring of the National Investment Bank (BNI) has progressed: in line with the BNI's objective of redirecting its activities toward the private sector, the share of claims on government in the BNI's portfolio fell to 60 percent at end-2006 (compared with 64 percent at end-2005 and 83 percent at end-2001). The share of public sector deposits remained at its 2005 level of 60 percent in 2006 (compared with 81 percent in 2002). While some of its prudential ratios improved, the BNI is still not in compliance with the liquidity ratio and the ratio for lending to shareholders. The microfinance sector increased its share in total financial activity (from 2.5 percent of deposits in 2002 to 4.9 percent in 2006), but its performance suffered from the crisis, resulting in three consecutive years of losses, and capital is negative for the sector as a whole.

15. Progress with structural reforms in the coffee/cocoa and energy sectors was limited owing to the crisis. The quasi-fiscal levies on cocoa were reduced by CFAF 3 per kilogram (one-third of the envisaged reduction) during the 2006/07 season to increase producer prices. To improve transparency in the collection and the efficient use of these levies, the government took steps, in early 2006, to strengthen the monitoring of the investment funds (FDPCC—Investment and Prudential Reserve). It earmarked CFAF 12.5 per kilogram of the quasi-fiscal levies for a rural investment fund held in a special account at the BCEAO. The Committee responsible for reviewing and monitoring programs and projects in the coffee/cocoa sector (the "Coffee/Cocoa Committee"), created in February 2006, oversees these investment funds. All programs and projects selected in this context have been subject to final approval by the Minister of Agriculture and the Minister of Economy and Finance.

16. The energy sector has grown substantially in recent years with the entry into operation of new oil/gas fields, better use of refining capacity, and the high demand for electricity. However, the government is aware that the transparency and efficiency of the energy sector need to be improved and its economic and revenue potential fully realized.

To this end, the government announced its participation in the Extractive Industries Transparency Initiative (EITI) in May 2006 and is taking steps to begin effective participation in 2007. In recent months, the delayed financial, technical, and operational audits for oil and gas extraction, refining and distribution, and for the electricity sector, were started with World Bank support, and are expected to be completed by August 2007. In mid-2006, the protective margin of the refinery, *Société Ivoirienne de Raffinage* (SIR), was reduced from 13 percent to 8 percent of the import parity price, in line with the government's commitment. The electricity sector continues to experience serious financial and technical difficulties, including the nonpayment of electricity bills in the north since 2002 and the accumulation of cross-arrears. To help address these difficulties, the government provided a gas subsidy to the electricity sector in 2006. In March 2007, the government signed a protocol with the *Compagnie Ivoirienne de l'Électricité* (CIE) to settle all outstanding cross-arrears and avoid accumulating any new arrears.

III. 2007 Program

Overall objectives

17. The main objectives of the government's post-conflict program for 2007 build on the progress made thus far, as well as on the determination of all parties to ensure security, promote national reconciliation, reunify the country, relaunch the economy, and reduce poverty. Progress with the reunification and national reconciliation process, the restoration of public infrastructure, and the resurgence of confidence on the part of the private sector should make it possible to achieve growth of 1½ percent, despite a decline in oil production attributable to the temporary technical difficulties experienced in an important oil field. The principal objectives for 2007 are the reduction of macroeconomic and financial imbalances, the resumption of structural reforms, and the creation of an economic environment conducive to private sector activity. To that end, the government recognizes the crucial importance of good governance in the management of public resources and combating fraud and corruption.

Fiscal policy

18. Fiscal policy in 2007 is aimed at beginning to restore fiscal and debt sustainability while addressing Côte d'Ivoire's post-conflict needs. In the short term, expenditures related to exiting the crisis (DDR, redeployment, identification, and elections) will continue to absorb a considerable share of budgetary expenditures. The share of budget expenditure devoted to the social sector, reunification, and the rehabilitation of the economic infrastructure will be gradually increased. At the same time, fiscal policy will allow for progress toward closer adherence to the convergence criteria of the West African Economic and Monetary Union (WAEMU).

19. The 2007 Budget Law promulgated in end-May 2007 targets a primary basic surplus of 1.0 percent of GDP (compared with 0.3 percent in 2006) and an overall deficit (excluding grants, on a payment order basis) of 1 percent of GDP. Given the sizeable expenditure needs owing to the post-conflict situation, the government is seeking the re-engagement of the international community to help Côte d'Ivoire in its reconstruction efforts. To that end, resources equivalent to about 3 percent of GDP will be needed for clearing arrears with the World Bank and starting normalizing financial relations with the AfDB.

20. The fiscal program calls for a revenue increase of 0.5 percent of GDP (excluding the net revenue from toxic waste damage compensation). To achieve this, the government will rapidly extend tax collection to the whole of the country, further strengthen tax administration, and broaden the tax base, in particular through generalized use of the "standardized invoice." It will also increase revenue from petroleum product taxation through a combination of (see ¶35): (i) a further reduction in the protective margin for the refinery (SIR) and an increase in the taxable base beginning in mid-June 2007; and (ii) better control of taxation of domestic consumption. Finally, it will step up its efforts to obtain budgetary revenue from oil/gas through improved monitoring of the financial flows in the sector, and in particular through efforts to optimize the revenue from the national company (PETROCI).

21. Primary basic expenditure (excluding interest on debt and foreign-financed investment, as well as expenditure relating to the toxic waste spill) will be contained at 17.6 percent of GDP (compared with 17.9 percent in 2006). This reflects the combined impact of lower nonessential current expenditure and the reorientation of resources toward social sector and reunification spending. In particular, sovereignty expenditure, front-line bonuses (*primes de front*), and other military expenditure will be reduced in line with progress with the DDR program and the normalization of the security situation. As regards personnel expenditure, the government will keep the wage bill at the equivalent of 6.4 percent of GDP. This will allow for the integration of ex-combatants into the unified army as well as net recruitment of 6,000 civil servants. New hiring will give priority to the immediate needs in the education and health sectors arising from the redeployment of services throughout the entire country. In order to address the serious shortage of primary and secondary school teachers, the government intends to raise the teacher retirement age to 60 years and eliminate the rule of retirement after 30 years of service by end-September 2007.

22. In respect to other current spending, the government intends to contain gas subsidies for the electricity sector at CFAF 30 billion and take measures to improve the financial situation of the sector. Spending on utilities (water, electricity, telephone) by the central government will be contained through strict application of budget ceilings and continued efforts to enhance the government entities' awareness of the need to economize.

The budget contains a "contingency" line of CFAF 15 billion for unforeseen needs related to the reunification. The fiscal program for 2007 seeks to safeguard social spending (education, health and other spending as defined in the TMU) and to increase it in the event of higher-than-anticipated oil revenues or external budgetary support. Such spending will increase to 27.9 percent of total primary expenditure, compared with 26.9 percent in 2006.

23. Implementation of the government's roadmap will require expenditures related to exiting the crisis, excluding front-line bonuses, of about 1.2 percent of GDP (compared with 0.3 percent in 2006). These expenditures will cover in particular: (i) the DDR and community rehabilitation program, with support from the World Bank and other external partners; (ii) the redeployment of some 12,000 more civil servants, in addition to the 12,500 civil servants already deployed since 2004, with support from the EU and the World Bank; and (iii) the identification of the population and organization of the elections. The government intends to hold a donor conference before end-July to complete the financing of these programs, although considerable amounts of domestic resources have been allocated to them under the 2007 Budget and financial support from donors has been lined up.

24. Domestically financed investment expenditure will be contained at its 2006 level of almost 2 percent of GDP. Bearing in mind the financial constraints during the transition period, the investment program is focused on the rehabilitation of the infrastructures needed for basic administrative and social services, postponing and/or reducing the scope of projects that have no direct social or economic impact. In this connection, expenditure for the transfer of the political capital to Yamoussoukro, which is essential for reunification and for the development of the country's interior, is contained at CFAF 17.3 billion in 2007, compared with CFAF 27 billion in 2006. By end-2007 the government will reassess the costs and phasing of the multiyear program for the transfer of the capital in light of the availability of funding and the priority needs of the country. To mobilize additional resources for addressing the major reconstruction needs of Côte d'Ivoire, the government intends to organize, with support from the World Bank and the UNDP, an additional donor conference during the fourth quarter of 2007.

Monetary policy and the financial sector

25. Monetary policy is executed by the BCEAO. Broad money is expected to grow by about 5 percent in 2007, or somewhat above the rate of growth of nominal GDP. Taking into account the planned issuance of securities to meet the government's financing needs, net credit to the government from the banking system should decrease by 2 percent of broad money at end-2006. On this basis, credit to the private sector and net foreign assets should increase by 6 percent and 2 percent of end-2006 broad money, respectively.

26. The government will continue to support the efforts of the WAMU Banking Commission to ensure that Ivoirien banks comply with prudential ratios and apply the Commission's recommendations, in particular as regards the capital adequacy ratio. In particular, the government will call upon the eight undercapitalized banks to produce plans for building up capital by end-2007. In the case of the BNI, the government is cognizant of the importance of implementing the recommendations made by the Banking Commission and of the still very high share of the public sector in the bank's deposits and claims. By mid-2008 it will prepare an external financial and operational audit of the BNI, as well as a strategic study of the role of the BNI in financing the economy.

Governance, transparency, and structural reforms

27. The government reiterates its determination to put good governance in the management of public resources at the center of its economic program. It is committed to combating corruption and fraud at all levels, strengthening the rule of law, and restoring an economic and regulatory environment that is conducive to economic activity.

28. In 2007, the government will place emphasis on moving ahead with key structural measures that have a direct impact on the economic environment and fiscal transparency. These measures should lay the foundations for deeper and more far-reaching structural reforms in the longer term as part of a program that could be supported by the IMF's Poverty Reduction and Growth Facility (PRGF) and an Emergency Economic Recovery Credit (EERC) from the World Bank in 2008. The government will place particular emphasis on: (i) capacity-building and enhanced accountability of public administration and managers; (ii) tightening controls; and (iii) better communication (including publication) of the results of public policy. The government has taken or is committed to taking measures in the areas of public finances, the energy sector, and the coffee/cocoa and cotton sectors.

Fiscal reforms (Box 1)

29. The extensive reforms completed in recent years have made it possible to modernize and computerize tax administration and budget execution. The integrated fiscal management system (SIGFiP) covers all participants in the public expenditure process, and the deconcentration of the system will be pursued in the 56 localities serving as administrative centers of regions or *départements*. The government intends to strengthen these management tools further in order to enhance revenue collection and transparency of budget execution.

30. **Revenue.** Owing to the crisis since 2002, the government has used legal provisions and successive agreements to grant a number of tax exemptions in favor of adversely affected enterprises. Most of these measures will remain in effect through 2007. However, the government intends to evaluate all exemptions (with IMF technical assistance) by end-

December 2007. The government also intends to further strengthen tax administration, including implementation of its action plans to combat tax fraud. In particular, the Directorate-General of Taxes will continue to implement the measures recently introduced, including the full implementation of the "standardized invoice." At the Directorate-General of Customs, measures are now being implemented to gradually secure the borders, enhance cooperation with the customs administrations of Ghana, Mali, and Burkina Faso, and strengthen inspections. From May 2007, the government has discontinued the advance payments of the single export duty (DUS) on cocoa and coffee.

31. There are also plans to further strengthen the control and monitoring of the revenue agencies and public enterprises managing significant public resources. The work program for 2007-08 calls for an increase in the number of audit missions conducted by the *Inspection générale des finances* (IGF) as well as a number of independent audits of the major public enterprises. To that end, the staffing and technical capacities of the IGF and the Participations and Privatization Directorate (DPP) will be strengthened for conducting such missions. Finally, the government will undertake an independent audit of domestic petroleum product consumption and the related tax revenues before end-September 2007.

32. **Expenditure.** The fiscal management and accounting systems (SIGFiP and ASTER) will be fully exploited to control and monitor budget execution and to issue budget execution statements at least quarterly. The existing budget execution procedures will be strictly adhered to, and recourse to Treasury advances reduced. These systems will be further harmonized so as to allow budget execution reporting through the payments stage from 2008 onward. Furthermore the authorities intend to submit the draft final budget accounts (*lois de règlement*) for fiscal years 2003, 2004, 2005, and 2006 to the *Chambre des comptes* by end-2007. The government further intends to make a particular effort to reduce the stock of domestic arrears (including VAT arrears) by at least CFAF 50 billion (0.5 percent of GDP) in 2007, which should help the recovery of the private sector. In addition, the government is committed to adopting, before end-2007, a plan for clearing the remaining verified stock of arrears over the 2007-09 period, including through further securitization, while taking into account the social impact. At the same time, expenditure financed by an expected post-conflict grant from the World Bank will pass through a fiduciary trust management agency (*Agence de Gestion Fiduciaire*—AGF), for which the terms of reference have been agreed with World Bank staff.

33. The government intends to contain the growth of the structural deficit of the government employee pension fund (*Caisse Générale de Retraite des Agents de l'Etat*—CGRAE), which is projected to increase to CFAF 54 billion in 2007 (from CFAF 47 billion in 2006). The government also intends to update the actuarial study prepared by the International Labor Office (ILO) in 2000, and to issue a call for bids by end-June 2007. The study in question will be used as a basis for actions relating to the retirement system and age and to the pension calculation base. The application for a bank license for the

postal savings fund (*Caisse Nationale des Caisses d'Epargne*—CNCE) is under review by the Banking Commission. Based on the audit already performed and the CNCE's five-year operating and restructuring plan, it should gradually be able to improve the profitability of its portfolio. This will enable the government gradually to reduce the cash subsidies on which the CNCE is heavily dependent; in 2007, the subsidy will be reduced to CFAF 15 billion, from CFAF 22 billion in 2006.

Energy sector (Box 2)

34. For some years the government has been considering ways to improve the transparency and efficiency of the energy sector with a view to fully realizing the economic and revenue potential of Côte d'Ivoire's energy resources. In this context, the government recently has made fully operational the "Oil Committee" to monitor energy product production as well as the revenues generated and their allocation. This committee, which reports to the Minister of Mines and Energy and the Minister of Economy and Finance, is responsible for monitoring: (i) the management of oil and gas flows to optimize production and assets, as well as the government's share of revenues; and (ii) the production and marketing of petroleum products. The committee will prepare quarterly reports on the physical, financial, and tax flows in the sector as a whole for the ministers concerned and for information to the Council of Ministers. These reports will be forwarded to World Bank and IMF staffs.

35. The government intends to assess the performance of the energy sector and, to this end, has taken steps to overcome earlier delays in the sectoral audits financed by the World Bank. These audits will provide the basis for developing a strategy and action plan to strengthen the efficiency and management of the sector and improve the transparency of physical and financial flows. The government will also take appropriate measures to improve transparency and government revenues. These include (a) the implementation of the necessary steps to conform with the EITI validation framework, including the appointment of a senior official responsible for leading EITI implementation and the preparation and publication of a work plan, with the goal of preparing an EITI compliant report of revenues from extractive industries in June 2008; (b) the completion by mid-August 2007 of the audits of the three energy subsectors; (c) increasing the tax component in the structure of petroleum prices and reducing the protection for the domestic refinery from 8 percent to 6 percent of import parity prices (IPP) (mid-June 2007) ; (d) revision of the calculation basis for the taxation of petroleum products (based on import parity prices (IPP)), incorporating protection for the domestic refinery of 6 percent of the IPP and a safety margin for absorbing minor fluctuations in the IPP (October 31, 2007); (e) full application of the automatic pricing mechanism for petroleum products (based on the IPP) (December 31, 2007); and (f) systematic production of consistent tables on physical, financial and tax flows.

36. The government intends to take the following measures in 2007 to improve the viability of the electricity sector: (i) regular payments to cover government consumption throughout the country; (ii) the control of consumption and reduction of waste on the part of government; (iii) reduction in the technical, nontechnical, and financial losses of the electricity company (*Compagnie Ivoirienne d'Électricité*—CIE); and (iv) an increase in domestic tariffs, by an average of 10 percent, from end-August 2007.

Coffee/cocoa sector (Box 3)

37. Since 2001, the government has undertaken a series of reforms and studies of the coffee/cocoa sector, aimed at improving (i) producer prices and productivity, in the face of world market challenges; (ii) marketing arrangements; and (iii) the monitoring of the sector by government and public and private agencies. The results of these reforms have, however, been disappointing: the quasi-fiscal levies on the sector have not benefited producers, as intended, nor have they significantly helped improve the competitiveness of the sector as a whole.

38. The government has therefore decided to revisit the functioning of existing agencies, including their roles in the collection of quasi-fiscal levies. It intends to prepare, before end-March 2008, a new comprehensive strategy for the sector, with the help of external partners and based on existing studies and audits. Pending the preparation of such a strategy, the government has already taken, or plans to take, a number of measures that will have an immediate favorable impact on transparency and good governance in the sector, particularly in the management of quasi-fiscal levies. The bulk of these levies will continue to be supervised by the "Coffee/Cocoa Committee." This committee will continue to examine the collection and use of levies for the FDPCC-Investment Fund and the Prudential Reserve (CFAF 10.55 per kilogram and CFAF 5 per kilogram, respectively) and to approve programs and projects proposed by the sector's agencies for joint approval by the Minister of Economy and Finance and the Minister of Agriculture. Moreover, the role of the Committee has been expanded to include supervision of the use of quasi-fiscal levies to the Rural Investment Fund (CFAF 12.5 per kg)—held in a special account at the BCEAO—and for the cocoa bags (*sacherie*). The Committee will provide quarterly reports to the ministers concerned and for information to the Council of Ministers. Furthermore, the government intends to reduce the quasi-fiscal levies by CFAF 2.65 per kilogram for the 2007/8 crop season in order to benefit producers. With regard to the quasi-fiscal levies collected in the sector during 2000-05, the government intends by mid-2008 to conduct a retrospective analysis of the amounts collected and the usage thereof by the ARCC and the BCC, and by the FRC and the FDPCC (including investments). The results of the analysis will be taken into account in formulating the overall strategy for the sector.

Trade and other reforms

39. The government is committed to ensuring that Côte d'Ivoire reaps the benefits of globalization and trade integration. The forthcoming widening of the WAEMU common external tariff (CET) to the ECOWAS and the Economic Partnership Agreement with the EU, planned for end-2007, should help stimulate competition, productivity, and investment. In addition, these agreements will have an impact on tax revenue, poverty, and foreign trade. To better understand this impact and address its implications, the government intends to seek technical assistance from the World Bank and IMF.

40. The government recognizes the need for a strategy to strengthen the efficiency of the cotton sector, which is the main source of income of about 280,000 farms representing over 2 million people. The decline in world prices and the disruption caused by the crisis have led to a sharp decline in output and in the financial viability of the sector. To help cushion the pressure on producer incomes, in the 2001/02-2004/05 crop years the government provided a producer subsidy that was to be prepaid by the ginners and reimbursed to them by the government. However, the government accumulated large arrears to the ginners, which in turn led to arrears in ginners' payments to producers. To resolve this situation, beginning in 2006, the government has been clearing all these arrears (about CFAF 14 billion) and intends to complete this operation in 2007 with support from the European Union. In addition, as the subsidy was stopped for the 2005/06 season, by end-July 2007 the government intends to adopt an action plan for the recovery of the sector. By end-2007, it intends to seek additional support for this reform from the European Union and the World Bank.

Social sector and PRSP process

41. Social conditions and poverty have worsened in recent years; Côte d'Ivoire's ranking on the United Nations Human Development Index dropped to 163 out of 177 countries in 2004. The incidence of poverty is estimated to have increased from 33.6 percent in 1998 to 38.4 percent in 2002. Estimates made by the World Bank indicate that the poverty rate was 42.6 percent in 2006. The health and education services have deteriorated significantly, in particular, in the central, northern and western (CNW) zones of the country. The government is determined to reverse this trend by redeploying public services throughout the country and by the progressive rehabilitation of education, health, and village water supply infrastructures.

42. For the health and education sectors, the government intends to address the most pressing needs first, while preparing a longer-term strategy for improving social services. In the health sector, a recent mission to assess requirements in the CNW zones identified and quantified urgent needs, which we have begun to remedy. In particular, 1,300 new doctors and other senior health officials are now being deployed and new nurses are being trained in response to these urgent needs. For the medium term, we have prepared a

National Health Development Plan which we plan to submit to donors at end-2007. In the medium term the government intends significantly to increase the health sector's share in total primary expenditure above its current level of 5.4 percent of GDP. In the education sector, based on a recent diagnosis of needs in the CNW zones, the government is implementing measures to ensure that the 2007/08 academic year begins normally for the majority of children. This requires the redeployment of some 9,100 teachers and the minimum rehabilitation of schools over the next three months. For the medium term, the government is updating the "Ivoirien School Restoration Plan 2006-08," and will present it to donors by end-2007.

43. The government intends to prepare its Poverty Reduction Strategy Paper (PRSP), which should be completed by no later than the third quarter of 2008. The preparation of the PRSP—which aims at achieving the Millennium Development Goals (MDGs)—will be under the supervision of the reactivated PRSP supervisory committee ("PRSP Committee") and will be based on the National Development Strategy and regional and national consultations. The preparation process will include: (a) an assessment of progress made between 2003 and 2006 under the March 2002 Interim-PRSP; (b) a survey of poverty and vulnerable groups; (c) a diagnostic study of poverty and the sources of growth; and (d) the preparation of a medium-term expenditure framework and results-monitoring systems. In the event that the government requests a program supported by the Poverty Reduction and Growth Facility (PRGF) before the PRSP has been finalized, the request will include a PRSP implementation status report.

Program financing and external debt

44. Despite efforts to increase the primary basic surplus, a financing gap of around CFAF 200 billion (2 percent of GDP) remains in 2007. This gap reflects, among other things, the resumption of external debt service payments to multilateral institutions, and arrears clearance and debt service payments to the World Bank (equivalent to CFAF 261 billion). In agreement with these institutions, the government has adopted plans to progressively clear its arrears to the World Bank and the AfDB. This is intended to open the way to a resumption of financial assistance from the two institutions. With respect to the World Bank, the government will pay current debt service due from July 2007, and contribute at least one-third of the amount needed to clear total outstanding arrears in line with the agreement with the World Bank expected to be finalized by mid-July 2007. For this purpose, the government has, by end-June 2007, set aside funds for clearance of these arrears and for current debt service in a special account at the BCEAO in the amount of CFAF 20 billion. By end-September 2007, it will set aside an additional CFAF 33 billion in this account, with the total corresponding to one-half of the minimum payments anticipated. The remaining arrears would be cleared by an exceptional operation by the World Bank's International Development Association (IDA), for post-conflict countries. The approval of this assistance is expected early in the second half of 2007. The total amount of arrears payments by the government in 2007 would be subject to revision in

light of the World Bank's contribution to arrears clearance. A corresponding adjustment will be applied to the domestic financing of the program in 2007.

45. For the AfDB, the government plans to begin payment, no later than September 2007, of a portion of its current debt service payments due since May 2007, and, in April 2008, to settle one-third of arrears outstanding at end-April 2007, with the remainder to be paid through contributions from donors and the AfDB Facility for post-conflict countries. More generally, the government will develop a strategy for settling its arrears to all of its external creditors, with implementation in 2008. To cover any residual financing gap in 2007, after taking into account financial assistance from external partners (including the IMF under its EPCA policy and the World Bank post-conflict assistance grant), the government intends to issue government securities on the WAEMU financial market and use other forms of domestic financing.

Capacity-building, technical assistance, and statistical issues

46. Owing to the crisis, Côte d'Ivoire will need to strengthen its administrative capacities in a number of areas. In this context, we will seek assistance from the IMF in 2007 for: (i) strengthening tax administration and reviewing tax exemptions; (ii) improving debt management; (iii) anti-money laundering and combating the financing of terrorism; and (iv) strengthening the national accounts system. With support from the World Bank and other donors, the authorities intend to develop a comprehensive plan to strengthen public financial management.

IV. PROGRAM MONITORING

47. Performance under the 2007 program will be monitored through prior actions, quarterly quantitative indicators, and structural indicators (Tables 1 and 2). The definition of these indicators, the adjusters for any excess budgetary support and oil revenues, and the data reporting requirements are defined in the Technical Memorandum of Understanding (TMU).

48. To ensure the effective and timely implementation of our economic program, the government has established or recently strengthened several interministerial committees. Implementation of the program for 2007 is under the overall supervision of the "Technical Steering Committee for the Post-Conflict Program," which will also coordinate the work of the specialized interministerial committees in close consultation with the Office of the Prime Minister: the "Oil Committee," "Coffee/Cocoa Committee," "PRSP Committee," "Interministerial Primary Commodities Committee," and "TOFE Committee." The existing interministerial committee ("Steering Committee for Economic and Structural Reforms) and its executive secretariat, under the auspices of the Prime Minister's office, will be reactivated in anticipation of the future program supported by the Poverty Reduction and Growth Facility (PRGF).

49. Throughout the program, the government undertakes to refrain from external borrowing on non-concessional terms other than specified in the TMU (Table 1). It further undertakes not to introduce or intensify restrictions on payments and transfers for current international transactions, introduce multiple currency practices, conclude any bilateral payments agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement, or impose or intensify any import restrictions for balance of payments purposes. Moreover, the authorities, in consultation with IMF staff, undertake to adopt any new financial or structural measures that may be necessary for the success of the program.

/s/

Charles Koffi Diby

Minister of Economy and Finance

Box 1. Côte d'Ivoire: Structural Fiscal Measures[1]

Measure	Timing
Budget	
• Establish the timetable for preparation of the 2008 budget and send the budget guideline letter to the ministries	Mid-August 2007
• Regularize in SIGFiP the advances made before the 2007 budget was put in place. Produce an overall expenditure execution statement as of June 30, 2007	September 30, 2007
• Increase the retirement age from 55 to 60 and eliminate the rule of mandatory retirement after 30 years of service for teachers in primary and secondary schools	September 2007
Tax measures	
• With IMF technical assistance, examine exemptions from customs duties, the VAT, and income taxes, with a view to streamlining them	December 31, 2007
• Rigorously implement action plans in the areas of tax and customs administration with a view to combating evasion, corruption, and fraud (report at end-2007)	2007
• Conduct an audit of the distribution system for consumption of petroleum products to distributors in Vridi and Yamoussoukro and adopt the recommendations for improving tax collection	October 2007
Public expenditure management	
• Conduct half-yearly independent audits of expenditures under the national DDR and community rehabilitation programs, CNPRA, identification, and elections	First audit by December 31, 2007 (for first half of 2007)
Domestic arrears	
• Draw up an inventory of the residual stock of domestic arrears at end-2006 (suppliers, subsidies, and transfers) and adopt a plan for clearing them (including by securitization) over the 2007-09 period, taking the social impact into account	September 30, 2007
• Implement the plan for clearing CFAF 50 billion in arrears from the end-2006 level (see Table 1), including a net reduction of CFAF 10 billion in the arrears to SODECI	End-2007

[1]These are measures beyond the requirements of the EPCA-supported program.

Box 2. Côte d'Ivoire: Structural Measures in the Energy Sector[2]

Measure	**Timing**
• Complete the financial, technical, and operational audits of the subsectors (see below): (i) extraction/production sharing contracts (PETROCI); (ii) refining, storage, and onward delivery (SIR); and (iii) electricity (CIE, SOGEPE, PETROCI), including financial relations the Government and oil/gas producers, PETROCI, SIR, CIE, IPP, and SOGEPE	Mid-August 2007
• Based on the financial, technical, and operational audits of the subsectors (see above), prepare an action plan for improving sector management in consultation with World Bank staff	September 30, 2007
• Prepare each month (with a 45-day lag) a set of consistent monitoring tables on the physical, financial, and tax flows for the subsectors: (i) extraction and sharing of oil/gas; (ii) production, exports, and (release for) consumption of petroleum products; (iii) production, costs, and financial flows in the electricity sector. Communicate this information to IMF and World Bank staffs	From June 15, 2007 (information through end-April 2007)
• Continue the steps already taken to conform with the *validation framework* of the Extractive Industries Transparency Initiative (EITI) with a view to publishing an EITI report on revenue and payments of taxes and royalties covering the 2006-07 period	September 30, 2007
• Revise and apply the calculation base for petroleum product taxation based on Import Price Parities (IPPs), with a revised TSPP incorporating SIR protection at 6 percent of the IPP as well as a variable "safety margin" of CFAF 10 per liter (proceeds of which are to be paid to the government at the end of the fiscal year)	October 31, 2007
• Accumulate no further arrears for the consumption of electricity (by the central government) and gas (by the CIE)	Compliance beginning July 31, 2007
• Limit the gas subsidy granted by the government to CFAF 30 billion in 2007. Improve the financial viability of the subsector by measures to reduce technical and nontechnical losses and increase tariffs on average by 10 percent from August 31, 2007.	August 31, 2007

[2] These are measures beyond the requirements of the EPCA-supported program.

Box 3. Côte d'Ivoire: Structural Measures in the Coffee/Cocoa Sector[3]	
Measure	**Timing**
• On the basis of existing financial and institutional studies and audits, conduct a review of the reforms currently underway, and formulate—with World Bank assistance—and adopt an overall strategy for the sector, to be implemented beginning September 2008	March 31, 2008
• By end-June 2007, adopt the terms of reference for formulation of the strategy—with financial support from the World Bank—for launching a tender for bids by end-July 2007	July 31, 2007
• Each half-year (with a one-month lag) provide the Prime Minister, the Minister of Agriculture, the Minister of Economy and Finance, and IMF and World Bank staffs with information on (i) the collection of quasi-fiscal levies; and (ii) half-yearly budget execution statements for the operations of the ARCC, FRC, BCC, and FDPCC	From July 31, 2007 (for the first half of 2007)
• Provide the Council of Ministers and IMF and World Bank staffs, and make available to the public, the budgets of the ARCC, FRC, BCC, and FDPCC for 2007, as well as extracts from their certified and closed accounts for 2006	July 31, 2007
• For the 2007/08 coffee/cocoa crop season, decrease the total quasi-fiscal levies for cocoa by CFAF 2.65 per kilogram	By August 31, 2007
• Broaden the terms of reference of the "Coffee/Cocoa Sector Project and Program Review and Monitoring Committee" to include monitoring the Rural Investment Fund, levies for the bags, and any new quasi-fiscal funds. This committee will ensure that all financial operations financed by these funds are executed in accordance with the procedures stipulated by the Public Procurement Code and will exercise "technical and financial oversight."	From June 30, 2007
• On the basis of the existing studies on the cotton sector, adoption by the government of a sectoral policy and action plan for the recovery of the sector with support from external partners (EU and World Bank)	July 31, 2007

[3]These are measures beyond the requirements of the EPCA-supported program.

Table 1. Côte d'Ivoire: Quantitative Indicators, EPCA Program, 2007, billions of CFA francs 1/

	2006	2007			
	Dec. Est.	March Est.	June Prog.	Sept. Prog.	Dec. Prog.
Quantitative indicators					
Floor on primary basic fiscal balance 2/	28.2	54.9	82.5	48.0	95.3
Floor on social expenditure (education and health) 3/	459.7	104.1	233.2	362.3	491.4
Floor on cash repayment (-) of government domestic payment arrears	404.5 4/	-74.9	-66.6	-58.3	-50.0
Ceiling on new nonconcessional external borrowing 5/	...	…	0.0	0.0	0.0
Memorandum items:					
Ceiling on stock of external arrears 6/	1879.7	1957.2	2054.9	1982.7	1923.6
Multilateral	443.9	463.3	501.3	384.7	265.8
Bilateral and commercial	1435.9	1493.9	1553.6	1598.0	1657.8
Total government revenue	1672.1	470.5	913.0	1339.9	1847.7
Government wage bill	589.0	150.8	303.9	456.9	610.0
Net banking sector claims on government (BCEAO definition, including CECP) 7/	-34.0	-94.5	-81.1	-49.6	-42.7
Crisis-related expenditure (excluding frontline bonuses)	25.2	4.4	21.4	69.0	116.5
Of which: foreign-financed	0.0	0.0	4.7	39.8	75.0
Of which: domestically financed	25.2	4.4	16.8	29.1	41.5
Budgetary support (grants and loans)	0.0	0.0	0.0	0.0	0.0
Oil/gas production revenues, including PETROCI, excluding from refined products	139.5	8.6	52.7	104.8	146.0
Of which: PETROCI	2.0	0.0	0.0	10.0	10.0
Primary basic expenditure, excluding wages and externally financed crisis-related expenditure	1054.9	185.6	442.7	715.9	988.1

1/ Cumulative change from January 1, 2007, unless otherwise indicated. See Technical Memorandum of Understanding (TMU) for detailed definitions of adjusters.

2/ Difference between government revenue (excluding grants) and total expenditure and net lending, excluding interest payments, foreign-financed capital expenditure and net compensation proceeds from toxic waste damage.

3/ Includes expenditure on health and education, as defined in the classification of the Integrated Financial Management System (SIGFiP); see TMU Table 1.

4/ Stock of payment arrears at December 31, 2006, payment arrears as defined in the TMU.

5/ This ceiling excludes new borrowing for projects financed by regional development banks (such as BOAD) and agreed on with IMF staff. Issuance of government securities on the WAEMU financial market is excluded from the new borrowing covered by the ceiling. The ceiling applies to both the debt and the liabilities contracted or guaranteed for which no amount has been collected, in accordance with point No. 9 of the Fund's Guidelines on Performance Criteria with Respect to Foreign Debt.

6/ Including BCEAO. External payments arrears are defined as the sum of external payments due but unpaid on outstanding external debt that has been contracted or guaranteed by the government.

7/ Net banking system claims on the government represent the difference between government debt and its claims on the central bank and commercial banks as defined in the TMU.

Table 2. Côte d'Ivoire: Prior Actions and Structural Indicators
Under the EPCA-Supported Program

Measure	Timing	Status
Prior actions		
• Adopt and promulgate the 2007 budget in conformity with program objectives	End-May 2007	Done
• Report each month to IMF staff, within 45 days following month's end, the table of government financial operations, the satellite tables, and the budget execution statement broken down by classifications, in accordance with the TMU	By June 15, 2007 (for the month of April)	Pending
• Each quarter (with a 45-day lag) provide an analytical report to the Council of Ministers on the physical, financial, and tax flows for the subsectors: (i) extraction and sharing of oil/gas; (ii) production, exports, and (release for) consumption of petroleum products; (iii) production, costs, and financial flows in the electricity sector, validated by the "Oil Committee" and approved by the Minister of Economy and Finance and the Minister of Mines and Energy	From June 15, 2007 (for 2006 and the first quarter of 2007)	Pending
• Increase the tax component of the structure of petroleum product prices by bringing the taxable base closer to Import Parity Prices (IPPs) and reducing the protection of the Ivoirien Refinery Company (SIR) from 8 percent to 6 percent of the IPP	June 15, 2007	Done
• Each quarter (with a 45-day lag) provide the Council of Ministers and IMF and World Bank staffs with a report on the collection and use of the quasi-fiscal levies and the balances of the bank accounts for the FDPCC-Investment and the FRC-Prudential Reserve, as well as for the Rural Investment Fund. This report will be approved by the "Coffee/Cocoa Sector Project and Program Examination and Monitoring Committee"	From June 15, 2007 (for 2006 and the first quarter of 2007)	Done
Structural indicators		
• Eliminate the practice of advance, discounted payment of the Single Export Duty (DUS) on coffee/cocoa (***continuous***)	Effective May 1, 2007	
• Limit the uses of advances procedures (advances, payment orders, and other exceptional procedures) reducing their amount to less than CFAF 160 billion of all 2007 budget allocations (excluding foreign-financed expenditure, wages, and debt service), minus expenditure executed until adoption of the 2007 budget (***continuous***)	Beginning with adoption of 2007 budget	
• Report to the Council of Ministers and release to the public, in the month following the end of each quarter, a report on budget execution (revenue and expenditure) showing expenditure classified by type, function, and administration/type (allocation, commitment, and payment order). As from April 2008, these reports will incorporate information on payments (see TMU)	Beginning August 31, 2007 (for the cumulative statement at the end of the second quarter)	
• Implement the mechanism for automatically setting petroleum product prices	December 31, 2007	

Appendix I. Attachment II. Technical Memorandum of Understanding (TMU)

1. This technical memorandum of understanding describes the set of prior actions and quantitative and structural indicators agreed between the government of Côte d'Ivoire and the staff of the IMF to monitor the program supported by Emergency Post-Conflict Assistance (EPCA). It also specifies the periodicity and deadlines for transmission of data to the staff of the IMF for program monitoring purposes. Unless otherwise specified below, the government is defined as the central government of Côte d'Ivoire, including the National Social Security Fund (*Caisse Nationale de Prévoyance Sociale*, CNPS) and the Civil Service Pension Fund (*Caisse Générale de Retraite des Agents de l'Etat*, CGRAE), and Treasury operations for public companies in liquidation, and does not include any local government, the central bank (BCEAO), or any government-owned entity with separate legal personality.

I. Quantitative Indicators

2. In the program-monitoring context, quarterly quantitative indicators are set for June 30, September 30, and December 31, 2007. They include (a) a floor on the primary basic fiscal balance; (b) a ceiling on total outstanding external payments arrears; (c) a floor on social expenditure (education and health); (d) a ceiling on the stock of the government's domestic payments arrears, as defined for program purposes; and (e) a zero ceiling on new nonconcessional external borrowing (notwithstanding ¶14 below). The quantitative indicators are calculated on the basis of the cumulative change from January 1, 2007 (for cases involving end-2006 stocks) and are set out in Table 1 of the Memorandum of Economic and Financial Policies (MEFP).

A. Basic Primary Fiscal Balance

3. **The primary basic fiscal balance** is the difference between the government's revenue (excluding grants) and total expenditure plus net lending, excluding interest payments and externally financed capital expenditure. It includes expenditure related to exiting the crisis, defined as domestically and donor-financed government outlays on the disarmament, demobilization, and reintegration (DDR) and community rehabilitation program; the redeployment of government; the identification process; and the elections. The revenue (CFAF 79.3 billion in 2007) and expenditure (CFAF 49.3 billion in 2007) associated with the toxic waste problem are excluded. This balance also includes expenditure recorded on the "contingency expenditure" line, reserved for reunification expenses (in particular for redeployment).

4. The quarterly floor on the primary basic fiscal balance will be adjusted downward by the amount of **donor-financed spending relating to exiting the crisis** that exceeds the program projections (MEFP, Table 1).

5. The quarterly floor on the primary basic balance will be adjusted downward by the amount of external budgetary support received in excess of the programmed amount to offset any revenue shortfall or any excess domestically financed social, reunification-related, or crisis-exit spending,[8] up to a cumulative maximum of CFAF 50 billion. The remainder of the excess budgetary support (not spent) will be used to reduce the government's domestic debt, including payments arrears (see ¶12).

6. Part or all of the excess revenues from petroleum/gas extraction (including dividends paid by PETROCI to the government) above the programmed amount will be used to offset the revenue shortfall or allocated to social or reunification spending up to a maximum cumulative amount of CFAF 50 billion. The floor on the primary basic fiscal balance will be adjusted upward by the remaining excess not used for social or reunification expenditure. The remainder of the excess oil revenues will be used to reduce the government's domestic debt, including payment arrears (see ¶12).

7. The oil revenues forecast for 2007 is based on: an average price (including discount) of US$57.4 per barrel; a volume of 17.4 million barrels; and an average exchange rate of CFAF 488.5 = US$1.

B. Government Revenue

8. Total government revenue is defined as tax revenue collected by the Tax Administration (*Direction générale des impôts*, DGI), the Treasury (*Trésor*), and the Customs Administration (*Direction générale des douanes*, DGD); revenue collected by the CNPS and the CGRAE; and other nontax revenue as defined in the fiscal reporting table (*Tableau des opérations financières de l'Etat*, TOFE).

C. Government Wage Bill

9. The government wage bill is defined as all expenditures (on a commitment basis) on pay, bonuses, and allowances paid to government employees, military personnel, and other law and order personnel, and includes expenditures on special contracts and other temporary or permanent government jobs.

D. External Payment Arrears

10. External payment arrears are defined as the sum of external payments due but unpaid on outstanding external debt that has been contracted or guaranteed by the government, excluding those due payments subject to rescheduling or restructuring. The accumulation of

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[8] As defined in Table 1 to the TMU, based on the budget classification used in the public finance management system (SIGFiP).

external payment arrears is the difference between (a) the gross amount of maturities due on external debt service (principal and interest), and (b) the amount actually paid during the period under consideration.

11. Under the agreement with the World Bank, it is planned to clear the external arrears of Côte d'Ivoire with the World Bank in the second half of 2007 and first quarter of 2008. At the same time, it is planned that Côte d'Ivoire will maintain its debt service obligations vis-à-vis the World Bank up to date beginning in July 2007. The basic assumption adopted is that half of the arrears will be cleared using the domestic resources of Côte d'Ivoire, with the balance being paid by a contribution from the World Bank. An amount of CFAF 53 billion will be put in an escrow account at the BCEAO according to the following timetable: CFAF 20 billion at end-June 2007 and CFAF 33 billion at end-September. This amount corresponds to half the payments planned for clearing arrears and current debt service by the government in 2007. In the event that the IDA allocation for clearing arrears differs from that in the basic assumption, the contribution of Côte d'Ivoire will be revised. If the clearance of arrears to be carried out by Côte d'Ivoire is greater/less than the basic assumption, the amount of net domestic financing will be increased/reduced by a corresponding amount.

E. Domestic Payment Arrears

12. Domestic payment arrears represent government overdue obligations and are defined as committed (*engagées et liquidées*) and validated (*visées par le contrôleur financier*) expenditures but not paid. They include bills due and not paid to public and private enterprises, but exclude domestic debt service (principal and interest). CFAF 50 billion is deducted from the stock of domestic payment arrears defined above to take into account the time frame for payment stipulated by the administrative regulations in force (90 days). Changes in the government's domestic payment arrears during a period correspond to the difference between new overdue obligations of the government and the payments made on old overdue obligations. By way of illustration, domestic payments arrears totaled CFAF 354.5 billion at end-December 2006 and comprised:

Treasury's unpaid payment orders	**404.5**
Treasury debt (PGT, TPA, TGE, ACDP)	358.3
Arrears on EPN subsidies (excluding CNPS, CGRAE)	28.6
Arrears to General Councils and Municipalities	17.7
Adjustment for orders validated by Financial Comptroller (*PEC comptable*)	0
Arrears to CI-Telecom, CIE, SODECI on current consumption	0
Total central government	404.5
Less "normal" floating debt	50.0
Total arrears	354.5

13. Within the framework of the program, the government will undertake a net reduction of CFAF 50 billion in the stock of domestic payment arrears (MEFP, Table 1). The government also undertakes, in coordination with the private sector, to: (i) prepare an inventory of the end-2006 stock of residual domestic arrears to suppliers; and (ii) adopt a plan to clear these arrears. Any excess budgetary support above the programmed amount not used to finance a downward adjustment in the government's primary basic fiscal balance as specified in ¶5 above will be used to reduce the domestic debt, including payment arrears. Any excess oil/gas revenues above the programmed amount not used as specified in ¶6 will also be used to reduce the government's domestic debt, including payment arrears.

F. New Nonconcessional External Borrowing

14. The term "debt" has the meaning set forth in point No. 9 of the Fund's Guidelines on Performance Criteria with Respect to Foreign Debt.[9] The quantitative indicators on contracting or guaranteeing nonconcessional external debt with an original maturity of one year or more apply not only to debt as defined above, but also to commitments contracted or guaranteed for which value has not been received. These quantitative indicators do not apply to rescheduling arrangements, BOAD loans up to the equivalent of US$30 million, drawings on the Fund, normal import-related commercial credits, or borrowing on the WAEMU financial market.

15. A loan is concessional if its grant element is at least 35 percent, the net present value (NPV) of the loan being calculated using a discount rate based on the average of the OECD's Commercial Interest Reference Rates (CIRRs) over the last ten years for loans with a maturity of at least 15 years; for loans with a maturity of less than 15 years, the NPV is based on the average CIRRs of the preceding six-month period (February 15 to August 14 or August 15 to February 14). To both the ten-year and six-month averages, the same margins for differing repayment periods would be added (0.75 percentage point for repayment periods of less than 15 years, 1 percentage point for 15 to 19 years, 1.15 percentage points for 20 to 29 years, and 1.25 percentage points for 30 years or more).

16. Within the framework of the program, the government undertakes not to contract or guarantee nonconcessional external loans under the conditions defined in ¶14-15, with the exception of loans constituting rescheduling of maturities.

II. Memorandum Item: Net Bank Credit to Government

17. Net bank credit to government is defined as the difference between government debts and government claims vis-à-vis the central bank and commercial banks. The coverage of net

[9] See "Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements," Executive Board Decision No. 6230-(79/140), as amended by Executive Board Decisions No. 11096-(95/100) and No. 12274-(00/85).

bank credit to government is that used by the Central Bank of West African States (BCEAO), and is the same as that shown in the net government position (NGP). Except as otherwise stated, government is defined as the central government of Côte d'Ivoire and does not include local governments, the central bank, or any other public body with separate legal personality. By way of illustration, this stock totaled CFAF 345.3 billion at December 31, 2006, broken down as follows:

	CFAF billions
Net banking system claims on the government	**345.3**
Claims of BCEAO	172.9
Of which: Statutory advances	172.9
Plus counterpart to uses of Fund resources	87.9
Plus claims of commercial banks	309.1
Plus private sector deposits with the postal checking and savings bank (CNCE)	12.8
Less deposits at the BCEAO	41.1
Less cash holdings of the Treasury (*encaisses du Trésor*)	5.0
Less deposits at the commercial banks	178.0
Less guaranteed bonds (*obligations cautionnées*)	13.3

III. Structural Indicators and Prior Actions

18. The program consists of three segments for purposes of the structural indicators and prior actions set out in Table 2 of the MEFP: (a) public expenditure management; (b) transparency and governance in the energy/petroleum sector; and (c) transparency and governance in the cocoa sector.

IV. Program Monitoring and Data Reporting

19. Monitoring of the quantitative and structural indicators will be the subject of a monthly evaluation report, prepared by the authorities within one month of the end of each month, which will assist with assessing performance in terms of the program's quantitative and structural objectives.

20. The authorities will report to Fund staff immediately if they sign or guarantee any new foreign borrowing contracts, as well as the terms of such contracts.

21. Based on existing data already reported to the IMF staff, the authorities will, in cooperation with Fund staff, prepare a set of consistent tables on the budget and the energy sector and coffee/cocoa sector and send them monthly or quarterly to the IMF starting on June 15, 2007:

a. Budget (see MEFP, Box 1):

- a quarterly report (within one month following the end of each quarter) providing a statement of budget execution (revenue and expenditure), with expenditure classified by type, function, and administration/type, at the various stages of the expenditure process (allocation, commitment, payment order, and settlement).

b. Energy sector (see MEFP, Box 2):

- monthly tables showing oil and gas production by field, sharing conditions, valuations prior to and after the swap, the swap rate, tax and nontax revenues for the government, and revenues for P

- monthly tables showing: (i) purchases of crude oil by the refining sector, by supplier, including Ivoirien suppliers; (ii) production, consumption, and imports of petroleum products, including butane; and (iii) calculation of prices of petroleum products, including domestic and imported butane;

- monthly tables showing: (i) purchases of gas by the electricity sector, by supplier; (ii) production of electricity in Côte d'Ivoire; and (iii) applicable prices, electricity sector revenues, unpaid invoices, and cross arrears.

c. Coffee/cocoa sector (see MEFP, Box 3):

- quarterly information (within 45 days) on the collection and use of quasi-fiscal levies and the bank account balances for FDPCC-Investment and FRC-Prudential Reserve, as well as for the Rural Investment Fund.

- half-yearly information on (i) the collection of quasi-fiscal levies; and (ii) half-yearly budget execution statements on the operations of the ARCC, FRC, BCC, and FDPCC.

22. The BCEAO will each month report the provisional data on the net government position to Fund staff within 30 days of the end of the period under review and will provide the final data within 45 days of the end of the period in question. The information provided will include the complete, itemized listing of public sector liabilities and assets vis-à-vis: (i) the BCEAO; (ii) the banking sector; and (iii) the BNI. This shall include:

- statements of the “escrow accounts” to be used for paying debt service/arrears to the World Bank;

- the balance of revenue relating to toxic waste;

- detailed information on all accounts relating to the issuance and payment of interest and principal on the domestic debt;

- the statements of the Rural Investment Funds; and

- the balance of revenue from the cocoa bags (*sacherie*).

23. The government will report the information specified in Table 2a on a monthly basis, within 45 days of the end of the month, unless otherwise indicated. The government will report the information specified in Table 2b quarterly, within one month of the end of the quarter.

24. More generally, the government will report to the Fund staff any information needed for effective program monitoring.

Table 1. Côte d'Ivoire: Social and Reunification Expenditure, 2005-07

Budget code (SIGFiP)		Amounts (billions of CFA francs)		
		2005	2006	2007 (proj.)
22	Education expenditure	369.6	382.8	399.3
	Current	352.1	360.9	377.7
	Personnel	261.3	265.0	
	Central administration	8.8	9.3	
	Educational facilities (excl. personnel)	81.9	86.6	
	Subsidies to private schools	29.6	29.4	
	School kits	2.3	2..2	
	Scholarships	15.6	15.6	
	Transfers to EPNs	16.0	23.0	
	Public schools	18.5	16.3	
	Investment	17.6	21.8	21.6
	Administration	0.0	0.0	
	Construction and equipment	17.6	21.8	
	Of which: Externally financed	1.3	0.1	
24	Health expenditure	70.0	77.1	92.1
	Current	61.4	66.3	74.8
	Personnel	34.8	36.6	
	Central administration	5.8	6.1	
	Health facilities (excl. personnel)	20.7	23.6	
	Primary and secondary levels	4.4	4.5	
	Tertiary level	7.5	9.0	
	Quaternary level	8.6	10.0	
	Other	0.3	0.2	
	Investment	8.7	10.8	17.3
	Administration	0.9	0.7	
	Construction and equipment	7.8	10.1	
	Of which: Externally financed	0.0	0.0	
12-377420201	Reunification expenditure[1]	0.0	0.0	0.0

[1] Reunification-related social spending programs in the sectoral ministries. Excludes expenditure relating to exiting the crisis.

Table 2a. Côte d'Ivoire: Data Provision for Program Monitoring Purposes (monthly)

Priority I: Essential data 1/	Frequency	Format 2/	Dept.	Indicators 3/
I. BUDGET				
TOFE and *tableaux de bord*	M	FI	DGE/DGB	X
Tax revenue estimate				
Nontax revenue summary				
CNPS: contributions, benefits				
CGRAE: contributions, benefits				
Personnel expenditure				
Grants and transfers, and targeted social expenditure				
Other operating expenditure				
Capital expenditure by type of financing				
Expenditure related to the crisis, elections, CNPRA, etc.				
Statement of budget execution by nature, function, administration/nature (showing each stage of expenditure process)				
Treasury operations – CECP				
Committed expenditures w/o payment order (DENO)				
Most recent versions of quantitative tables for energy sector, per para. 21 of TMU				X
Financial statement of the electricity sector CIE (claims and cash flow); stock of unpaid invoices (gas, electricity, VAT)	M	FI	SOGEPE, DGE	
Cash-flow monitoring	M	FI	DTCP	X
Cash-flow plan				
Treasury advances and their settlement				
Table to track Treasury balances outstanding				
Other detailed tables on balances outstanding (PGT, TPA, TGE, ACDP, etc.)				
II. DEBT/FINANCING				
II.A. External debt	M	FX	DTCP	X
Stock of external debt and arrears (by creditor)				
Detailed statement of public debt (by creditor) (stock, service due, service paid on arrears/maturities, arrears)				
Bridge table from "Stock of external debt and arrears" to TOFE				
Statement of drawings on loans and grants (by creditor)				
External debt agreements signed during current year				
II.b. Domestic debt	M	FX	DTCP	X
Stock of domestic debt and arrears (by creditor)				
Table for monitoring domestic debt				
Comprehensive statement of domestic debt				
Detailed statement of domestic debt under agreements				
Bridge table from the "Comprehensive statement"/"Monitoring table" (budget framework) to TOFE				
New debt issues / new securities (by type, original creditor)				
III. Monetary/financial sector	M	FI	BCEAO	X
Monetary statistics ("statismon"of the BCEAO, commercial banks, NGP)				
Summary tables on financial viability indicators				
IV. Real sector	M	FI	DGE	
Consumer, producer price indices				
V. Coffee/cocoa sector			DGE	
Levies on coffee/cocoa	M	FX		
Single Export Duty (DUS) (advance payments)				
Para-fiscal levies (by structure and by fund: ARCC, BCC, FRC, FDPCC)				
Uses of levies (by fund: FDPCC-Investment; FRC-Reserve Fund, Rural Investment Fund)				
Bank account balances (by fund)				
Half-yearly closing of accounts (by structure)				
VI. Balance of payments	M	FI	BCEAO	
Foreign trade by product (E, M: value, price, volume)				

1/ Prepared and forwarded monthly (M) within 45 days of the end of the month. Electronic transmission to IMF HQ and IMF Office in Abidjan.
2/ FI: file, electronic transmission to IMF HQ and IMF Office in Abidjan. FX: hard copy, transmission to IMF Office in Abidjan (for faxing to IMF staff).
3/ Data on quarterly quantitative indicators specified in MEFP, Table 1.

Table 2b. Côte d'Ivoire: Data Provision for Program Monitoring (quarterly)

Priority II: important data 1/	**Frequency**	**Format 2/**	**Dept.**
I. BUDGET			
Changes in staff levels for wage bill; breakdown of staff by category, ministries	Q	FX	DGB
Breakdown of contract expenses			
Budget execution statement (SIGFiP) (breakdown by heading)			
Summary report on Customs/DGI revenues			
Oil production revenues (BIC, royalties, dividends); PETROCI revenues	Q	FI	DGH
2005-06, updated forecasts for 2007-09			
II. DEBT/FINANCING			
Financing	Q	FI	DGE/DGB
New financing: projects, budgetary support, programs (DDR, CNPRA, elections, etc.)			
(DDR, CNPRA, elections, etc.) (by creditor, received/committed, and to be sought)			
Forecast and actual external debt service for current year (monthly).			DGB/DTCP
Quarterly forecasts for future years (quarterly, at start of year)			
III. Energy sector	Q	FI	
Projection of oil/gas production and estimated values 2007-09 (by field, swap, sharing: government, PETROCI, companies)			Monitoring Cttee
Projection of refining capacity 2007-09			
Energy balance sheets: crude oil (production, imports, exports); refined products (production, (re)exports, released to domestic market, other consumption)			Monitoring Cttee
Forecast and actual electricity sector production, consumption, exports, revenues, expenditures, and taxes (VAT)			
IV. Real sector	Q	FX	DGE/INS
Production of main agricultural products			
Production, export, export prices, producer prices, estimate, projection (coffee/cocoa)			
Revised and actual macroeconomic framework, projections			
Economic indicators (by industry, sector); INS, BCEAO surveys			
V. Balance of payments	Q	FI	BCEAO
Actual and projected 2007-09			

1/ Preparation and monthly (M) or quarterly (Q) transmission within one month of the end of the quarter.
Electronic transmission to IMF HQ and IMF Office in Abidjan.
2/ FI: file, electronic transmission to IMF HQ and IMF Office in Abidjan. FX: hard copy, transmission to IMF Office in Abidjan (for faxing to IMF staff).

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

CÔTE D'IVOIRE

Joint IMF/World Bank Debt Sustainability Analysis 2007

Prepared by the staffs of the International Monetary Fund and
the International Development Association

Approved by Thomas Krueger and Michael Hadjimichael (IMF)
and Vikram Nehru and Sudhir Shetty (IDA)

July 19, 2007

The external Low-Income Country Debt Sustainability Analysis (DSA) shows that Côte d'Ivoire is in debt distress with large external arrears. The public sector DSA suggests that Côte d'Ivoire's public debt is currently unsustainable. Key debt indicators are projected to fall below the country-specific indicative thresholds only after 2013.[1]

I. BACKGROUND

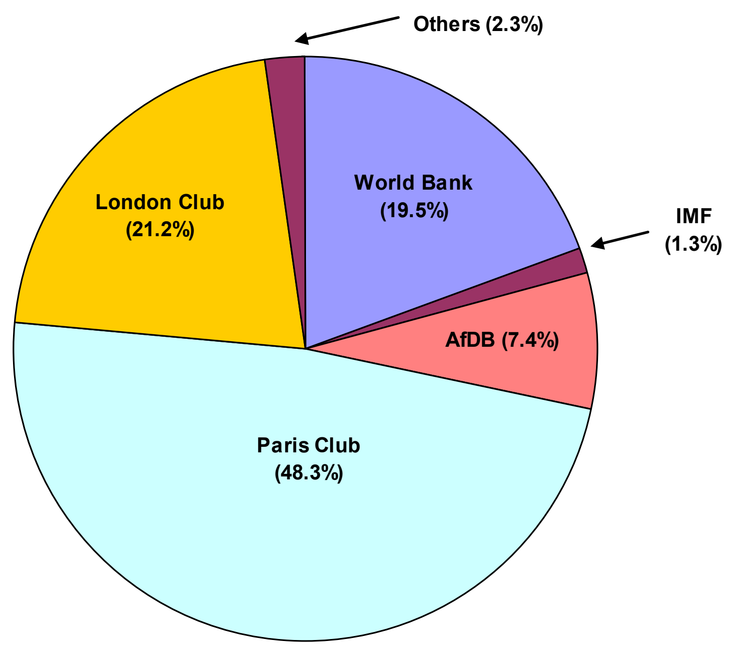
1. **Côte d'Ivoire's public debt, including arrears, at the end of 2006 is estimated at US$14.9 billion–84.8 percent of GDP.** *External public* debt accounted for US$12.9 billion, or 73.3 percent of GDP, of which US$6.2 billion was owed to Paris Club creditors, US$2.7 billion to London Club creditors, US$2.5 billion to the World Bank, US$1.0 billion to the AfDB Group, and US$0.2 billion to the IMF. Côte d'Ivoire's external public debt was stable at around 80 percent of GDP in 2002-04, and with very limited new borrowing and some repayments mainly to the Fund, declined somewhat thereafter (Figure 1). *Domestic* public debt (including arrears to suppliers) amounted to 11.5 percent of GDP at the end of 2006. *Private external* debt is estimated to have been US$5.5 billion (31.1 percent of GDP) at that time. The staff's estimate is based on information on interest payments and therefore subject to considerable uncertainty. Thus, *total (public and private) external* debt stood at US$18.3 billion, or 104.4 percent of GDP at end-2006.

[1] This is the first debt sustainability analysis prepared for Côte d'Ivoire using the debt sustainability framework for low-income countries developed jointly by the IMF and the World Bank. The DSA, produced jointly by Fund and Bank staffs (see "Staff Guidance Note on the Application of the Joint Fund-Bank Debt Sustainability Framework for Low-Income Countries (LICs)," April 17, 2007) is based on external and public debt data from the Ivoirien authorities, and on IMF and World Bank staff estimates. The IMF staff report on the 2007 Article IV Consultation (see this Country Report) provides additional information.

2. **Côte d'Ivoire is in debt distress.** Since late 2002, large external arrears have been accumulating, rising from US$0.4 billion, or 3.5 percent of GDP, in 2002 to US$3.6 billion, 20.5 percent of GDP at end-2006. At that point, arrears to Paris Club creditors were 12.9 percent of GDP, to London Club creditors 2.5 percent, to the AfDB Group 2.4 percent, and to the World Bank 2.2 percent of GDP. Arrears account for a fourth of total external public debt. Côte d'Ivoire has no arrears to the IMF. Key debt indicators and debt distress thresholds are summarized in Table 1.

Figure 1: External Public Debt at the end of 2006

(Shares of total external public debt in US dollars)



Source: Ivoirien authorities, and IMF and World Bank staff estimates.

Table 1. Côte d'Ivoire: Selected External Public Debt Indicators

	Indicative Threshold [1]	2006 (Est.)	2027 (Proj.)
NPV of debt to GDP	30	64.0	33.0
NPV of debt to exports	100	124.7	107.1
NPV of debt to revenue (excl. grants)	200	351.1	169.8
Debt service to exports	15	9.0	9.8
Debt service to revenue (excl. grants)	25	25.4	15.5

Sources: Ivoirien authorities and IMF staff estimates.

[1] Indicative policy-dependent threshold for a weak policy performer.

3. **Côte d'Ivoire has not yet benefited from debt relief under the enhanced HIPC Initiative and MDRI.** Because it belongs to the group of countries grandfathered for HIPC eligibility, it could be eligible for HIPC and MDRI debt relief.[2,3] With domestic revenues exceeding 15 percent of GDP, and exports exceeding 30 percent of GDP, Côte d'Ivoire could qualify under the "fiscal window", and a net present value (NPV) of debt-to-revenue target of 250 percent would apply.[4]

4. **The last Paris Club rescheduling for Côte d'Ivoire took place in April 2002.** At the time, Paris Club creditors granted the country rescheduling on Lyon terms covering almost US$2 billion in arrears and current maturities through end-2004. The creditors agreed to top up the reduction rate to Cologne terms as soon as Côte d'Ivoire reached the decision point under the enhanced HIPC Initiative. Because of the outbreak of armed conflict in September 2002, the debt relief envisaged under the agreement was only partly achieved.

[2] Under the original HIPC Initiative, Côte d'Ivoire had reached the decision point in 1998, but not the completion point. In March 2002, the IMF and IDA Boards discussed the preliminary decision point document under the enhanced HIPC Initiative, posted on the IMF Website on March 12, 2002, but the decision point, foreseen for late 2002, was not considered because of the crisis and interruption of the PRGF-supported program.

[3] See "Heavily Indebted Poor Countries (HIPC) Initiative – Issues Related to the Sunset Clause," posted on the IMF Website August 16, 2006.

[4] The HIPC methodology to calculate the NPV of debt-to-revenue ratio differs from the calculation in this analysis. No direct conclusions can thus be drawn from this analysis to the HIPC debt reduction factor.

II. Underlying DSA Assumptions

5. **The medium-term macroeconomic assumptions underlying the baseline scenario are based on durable resolution of the socio-political conflict and a steady recovery after years of civil conflict (Box 1).** Real GDP growth would gradually pick up from its stagnation during the 2000-06 crisis and settle at around 5 percent, comparable both to the 1994-99 pre-crisis average and the 1960-80 average. The primary balance is assumed to steadily decline from a surplus (1 percent of GDP on average during 2007-12) to a deficit of 2 percent of GDP during 2013-27 because of increasing public expenditures for social and investment needs. It is assumed that initial external assistance resumes in 2007 and expands after clearance of World Bank arrears in the second half of 2007 in the context of an economic program supported by IMF Emergency Post Conflict Assistance.[5] AfDB arrears would be cleared under its Post-Conflict Facility in 2008. For this LIC-DSA, it is assumed that all other arrears, including to Paris Club and commercial creditors, would be rescheduled on non-concessional terms (zero average grant element).[6] Any arrears clearance would require a comprehensive economic reform program that would, inter alia, address the country's presently limited capacity to repay its creditors. The DSA does not take into account contingent liabilities due to data limitations. With a CPIA average rating of 2.56 for 2004-2006, the indicative debt burden thresholds for "weak policy" apply to Côte d'Ivoire.

6. **The previous external DSA for Côte d'Ivoire assumed lower GDP growth, but much more favorable current account balances.** Real GDP growth was projected to average 4.0 percent for the first five recovery years and 4.5 percent for the rest of the period; the new estimates are 4.3 and 5.2 percent. The upward revision of the growth scenario largely reflects the improved political outlook, substantially increased oil and gas production, and expected structural reforms in the cocoa, coffee, cotton, energy and financial sectors. The old DSA projected export growth in US dollar terms at 7.1 percent throughout the projection period, compared to 4.7 percent for 2007-12 and 6.7 percent for 2013-2027 in the new DSA. The old DSA assumed non-interest current account surpluses whereas this DSA projects an average deficit of 2½ percent of GDP for 2013-2027. This DSA also assumes a lower grant element for new borrowing. The higher oil production in this DSA also adds some 1 percent of GDP to government revenue compared to the old DSA. Despite somewhat stronger growth in GDP, with heavier debt accumulation the debt dynamics of the current DSA lead to debt indicators that are above those of the previous DSA.

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[5] Under an understanding between the World Bank and the Ivoirien authorities, the government of Côte d'Ivoire has agreed to complete its arrears clearance to the World Bank by the first quarter of 2008. The authorities' economic program, to be supported by IMF EPCA, foresees achieving that already in 2007.

[6] For the share of this debt that is not multilateral or official bilateral, but on commercial terms, a grace period of 5 years and a maturity of 10 years is assumed.

Box 1. Macroeconomic Assumptions for the Baseline Scenario

Real GDP growth: After 1.7 percent real GDP growth in 2007, a sustained recovery is projected to start in 2008 with growth of 3.5 percent, progressively accelerating to peak at 6.5 percent in 2012. The average growth rate in 2013- 2027 is 5 percent, close to the pre-crisis average of 5 percent as well as the growth achieved during 1960–80. In this scenario, the growth during the recovery phase through 2012 would come from renewed confidence and enhanced security; a return to full capacity utilization in transport and industry; and new investments, especially in communication and energy. Longer-term growth would be sustained by investment, helped by structural reforms in the energy, cocoa, coffee and cotton sectors.

Inflation: Inflation is projected at about 3 percent for the entire projection period.

Real exchange rate and terms of trade: The real effective exchange rate is projected to stay broadly constant throughout the projection period. The terms of trade are projected to worsen in 2007, to improve through 2010, and to remain broadly constant thereafter.

Current account balance: The current account balance (including official transfers) is projected to decline steadily from a surplus of 2 percent of GDP in 2007 to a deficit of 3 percent in 2013 and to stay at about this level until 2027. This would reflect strong import growth (especially for investment), outpacing exports. As oil exports start declining after 2010, nonoil exports (in US dollar terms) are assumed to pick up gradually during 2007-12 and grow steadily at 7 percent a year thereafter, compared with 8 percent during 1994-2006.

Government balance: The primary balance (total revenue and grants less non-interest expenditure) is projected to stay in surplus (averaging 1 percent of GDP) in 2007-12 and to turn to a deficit (averaging 2 percent of GDP) in 2013-27. The declining trend reflects, in terms of GDP, constant overall revenue, but rising non-oil revenue and gradually increasing public expenditures, in line with increasing borrowing capacity.

External assistance, scaling up and concessionality: The baseline scenario assumes that grants (mainly for projects) will remain close to their current level of just over 1 percent of GDP. Project loans are assumed to grow gradually from ½ percent of GDP in 2007 to 2 percent from 2012. The residual external financing need, which fluctuates as a function of fiscal operations, is assumed to be covered mainly by multilateral creditors (average grant element 47 percent) and the remainder by bilaterals (average grant element 35 percent), and commercial creditors (nonconcessional). During the projection period, financing would gradually shift to less concessional sources, leading to a gradual decline in the average grant element.

Domestic borrowing is assumed to be supporting the government's spending needs, with domestic public debt (excluding arrears) gradually declining from 6½ percent of GDP in 2007 to 4 percent in 2027. Arrears to domestic suppliers are projected to decline from 4 percent of GDP in 2006 to zero percent from 2015.

Real interest rates: The average real interest rate on domestic debt is estimated at 0.4 percent in 2007, rising to about 3 percent in 2015 and staying there until 2027.

III. External DSA

A. Baseline

7. **In the baseline scenario, all NPV indicators are above the country-specific indicative thresholds for "weak policies" in 2007 and decline gradually over time.** The NPV of public and publicly guaranteed (PPG) debt-to-GDP ratio starts out at 59 percent in 2007, about double the country-specific indicative threshold and declines gradually to 33 percent in 2027. Given Côte d'Ivoire's solid export base, the NPV of PPG debt-to-exports ratio, is only slightly above the threshold in 2007, but remains above it through 2027. The NPV of PPG debt-to-revenue ratio, at over 300 percent in 2007, drops below the 200 percent threshold in 2015 (Tables 2 and 3, and Figure 2). For all ratios the downward trend is due to relatively prudent new external borrowing on concessional terms.

8. **In the baseline scenario, the debt service indicators are never significantly above the thresholds.** Figure 2 shows a characteristic hump-shape for the debt service-to-exports and the debt service-to-revenue ratios because the grace period assumed for the commercial debt share contracted under the arrears clearance operation in 2008 would end in 2013 and the 10-year maturity would be reached in 2018. For the same reason, the upward trend in the rate of (net) debt accumulation is dampened between 2013 and 2017.[7]

B. Alternative Scenarios and Stress Tests

9. **The alternative scenarios and stress tests bear particular weight in assessing risks to Côte d'Ivoire's debt situation** given the fragility of the peace process. The standard alternative scenarios and stress tests in both the external and public DSA templates capture well the key vulnerabilities, but some modifications were necessary to account for the civil conflict.

10. **For all NPV indicators, the historical scenario leads to much less favorable debt dynamics than the baseline.** The historical scenario (A1 in Table 3) has been modified by taking the 1997-2001 averages (rather than the standard 1997-2006 averages) for all relevant variables in order to exclude the past five years of civil strife. With this modification, it assumes, *inter alia*, constant real GDP growth of 1.5 percent and a constant noninterest current account surplus of 2.4 percent of GDP from 2008 on. For all NPV indicators the historical scenario reverses the downward trend of the baseline, with all indicators above the respective thresholds.

11. **Both debt service indicators are higher in the historical scenario than in the baseline.** In the historical scenario, the indicators exceed country-specific thresholds

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[7] See ¶5 and footnote 6.

from 2013 for the debt service-to-exports ratio and 2009 for the debt service-to-revenue ratio, reflecting a much higher debt stock in this scenario.

12. **Assuming new public sector loans at less favorable terms worsens the debt scenario considerably, emphasizing the critical need for a prudent borrowing strategy.** With an interest rate 2 percentage points higher than in the baseline (A2 in Table 3), the ratios of the NPV of debt to GDP, exports and revenue would be about 50 percent above their baseline levels toward the end of the projection period.

13. **The stress tests do not reverse the baseline trends but increase all debt indicators significantly**. The most extreme shocks for the NPV of debt-to-GDP, the NPV of debt-to-revenue and the debt service-to-revenue ratios consist of a combination of shocks (test B5 in Table 3). For the NPV of debt- and debt service-to-exports ratios, the most extreme shock is export value growth one standard deviation lower than the historical average in 2008 and 2009 (test B2 in Table 3). For all indicators, the curves in Figure 2 shift up relative to the baseline almost in parallel, with the NPV indicators converging only slowly back to the baseline, while the debt service indicators do not converge.

IV. Public DSA

A. Baseline

14. **The indicators for the NPV of total public debt are high but decline gradually in the baseline scenario.** The NPV of debt-to-GDP and NPV of debt-to-revenue ratios drop faster at the beginning of the projection period than toward the end, reflecting primary surpluses in the early years. But also in the later years, the primary deficits remain below the debt-stabilizing primary deficit, thus gradually reducing debt (Tables 4 and 5, Figure 3).

15. **The debt service-to-revenue ratio trends downward only slowly.** Starting out at 27 percent in 2007, it reaches 19 percent in 2027. In between, Figure 3 displays the same hump-shaped profile discussed for the external DSA (see ¶8).

B. Alternative Scenarios and Stress Tests

16. **An alternative "no policy reform" scenario reflects a continued forced restraint on spending as during the crisis and leads to a gradual repayment of public debt.** The "no policy reform" scenario (A2 in Table 5) has been modified compared to the template in that the primary balance is unchanged from 2006 rather than from 2007 because the primary balance in 2007 already reflects an ambitious reform effort under the envisaged IMF EPCA-supported program. Thus, the "no policy reform" scenario assumes a constant zero primary balance, which characterized the crisis years with almost no new net financing. Also, this scenario assumes real GDP growth to remain at its 2006 level of 0.9 percent so as to match a crisis primary balance with a crisis growth rate. In this scenario, all indicators are initially

above the baseline, but fall below it after 2016, with the NPV indicators reaching zero before 2027.

17. **In the scenario with permanently lower GDP growth, the debt ratios remain broadly unchanged and thus are increasingly above the baseline.** Scenario A3 in Table 5 implies that the 2008-2027 average real GDP growth rate drops to 4.5 percent from 5 percent in the baseline . The elimination of the baseline's downward trend in debt ratios because of lower GDP growth underscores the importance of structural reforms leading to the return of private sector confidence and an improved business climate that are needed for a robust economic recovery.

18. **The most extreme stress tests reverse the trends observed in the baseline scenario; the majority of the remaining stress tests slow down the improvement in debt indicators.** The most extreme stress test for all indicators consists of real GDP growth at the historical average minus one standard deviation in 2008-09, replacing the baseline growth rates of 3.5 in 2008 and 4.9 percent in 2009 by -1.9 percent each. Such a shock would send the NPV of debt-to-GDP ratio upward; it would reach 95 percent in 2027, compared to 37 percent in the baseline scenario. A similar picture emerges for the NPV of debt-to-revenue and debt service-to-revenue ratios. These results underscore the sensitivity of the debt dynamics to the growth assumptions.

V. Debt Distress qualification and Conclusions

19. **In the staffs' view, Côte d'Ivoire is in debt distress**. As in the previous DSA, the external NPV of debt ratios, although declining, are well above country-specific indicative thresholds for most of 2007-2015. The public DSA does not change this assessment. The alternative scenarios and bound tests indicate that the debt indicators are sensitive to shocks that significantly prolong the period during which key ratios are above the thresholds. In particular, the debt dynamics are vulnerable to lower real GDP growth and lower export growth. These vulnerabilities underscore the importance of a stable socioeconomic environment and sound policies to permit a sustained improvement in economic performance.

20. **The staffs have discussed this DSA with the authorities.** The authorities generally agreed with the staffs' assessment and expressed their ambition to access the enhanced HIPC Initiative. Côte d'Ivoire's debt management capacity and debt statistics are broadly adequate for effective debt sustainability analysis.

Table 2. Côte d'Ivoire: External Debt Sustainability Framework, Baseline Scenario, 2004-2027 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2004	2005	2006			2007	2008	2009	2010	2011	2012	2007-12 Average	2017	2027	2013-27 Average
External debt (nominal) 1/	**122.3**	**118.1**	**104.4**			**97.6**	**89.2**	**81.5**	**75.5**	**70.6**	**66.0**		**53.3**	**42.6**	
o/w public and publicly guaranteed (PPG)	80.8	77.6	73.3			71.0	66.3	63.1	60.2	57.9	55.8		50.1	42.6	
Change in external debt	-9.2	-4.3	-13.7			-6.8	-8.3	-7.7	-6.0	-4.9	-4.6		-1.9	-0.8	
Identified net debt-creating flows	-18.1	-8.7	-12.8			-5.7	-6.3	-6.5	-5.8	-4.6	-4.1		-1.0	0.0	
Non-interest current account deficit	**-5.5**	**-4.0**	**-6.0**	**-5.0**	**3.6**	**-4.8**	**-3.3**	**-3.3**	**-2.1**	**-0.7**	**0.3**		**2.2**	**2.4**	2.3
Deficit in balance of goods and services	-9.2	-7.5	-10.3			-8.1	-6.7	-5.7	-4.6	-3.2	-2.1		-0.3	0.8	
Exports	48.6	51.1	51.3			48.4	46.4	44.7	42.4	40.6	39.3		34.6	30.9	
Imports	39.4	43.6	41.0			40.2	39.7	38.9	37.8	37.4	37.2		34.3	31.7	
Net current transfers (negative = inflow)	3.0	2.8	2.8	3.2	0.4	1.1	1.1	1.0	0.9	0.8	0.6		0.4	0.4	0.4
o/w official	0.1	0.1	0.2			-1.7	-1.1	-1.0	-1.0	-0.9	-1.0		-0.9	-0.9	
Other current account flows (negative = net inflow)	0.7	0.6	1.5			2.3	2.4	1.4	1.6	1.7	1.9		2.1	1.2	
Net FDI (negative = inflow)	**-1.8**	**-1.9**	**-1.8**	**-2.3**	**0.7**	**-1.8**	**-2.0**	**-2.1**	**-2.2**	**-2.3**	**-2.4**		**-1.8**	**-1.1**	-1.6
Endogenous debt dynamics 2/	**-10.8**	**-2.7**	**-5.1**			**0.9**	**-1.0**	**-1.1**	**-1.5**	**-1.6**	**-2.1**		**-1.4**	**-1.2**	
Contribution from nominal interest rate	3.9	3.8	3.0			2.5	2.2	3.0	2.7	2.4	2.1		1.1	0.8	
Contribution from real GDP growth	-2.1	-1.4	-0.9			-1.6	-3.2	-4.1	-4.2	-4.0	-4.2		-2.5	-2.1	
Contribution from price and exchange rate changes	-12.7	-5.1	-7.1			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**8.9**	**4.4**	**-0.9**			**-1.1**	**-2.0**	**-1.2**	**-0.2**	**-0.3**	**-0.4**		**-0.8**	**-0.8**	
o/w exceptional financing	-6.2	-4.7	-3.5			-0.5	18.8	0.0	0.0	0.0	0.0		0.0	0.0	
NPV of external debt 4/	...	...	95.0			85.4	78.2	70.3	64.0	58.8	53.9		39.3	33.0	
In percent of exports	...	...	185.2			176.6	168.4	157.2	151.1	144.7	137.1		113.4	107.0	
NPV of PPG external debt	**...**	**...**	**64.0**			**58.9**	**55.3**	**51.9**	**48.8**	**46.1**	**43.7**		**36.0**	**33.0**	
In percent of exports	**...**	**...**	**124.7**			**121.7**	**119.0**	**116.1**	**115.0**	**113.5**	**111.2**		**104.1**	**107.1**	
In percent of government revenues	**...**	**...**	**351.1**			**302.6**	**281.8**	**263.4**	**248.9**	**236.1**	**224.6**		**185.1**	**169.8**	
Debt service-to-exports ratio (in percent)	**25.5**	**22.4**	**18.1**			**22.3**	**17.1**	**24.3**	**18.0**	**16.7**	**16.0**		**17.1**	**11.7**	
PPG debt service-to-exports ratio (in percent)	**13.8**	**10.7**	**8.9**			**8.2**	**7.7**	**9.6**	**8.8**	**8.7**	**8.2**		**13.6**	**9.8**	
PPG debt service-to-revenue ratio (in percent)	**38.2**	**32.1**	**25.1**			**20.3**	**18.2**	**21.7**	**19.1**	**18.0**	**16.5**		**24.1**	**15.5**	
Total gross financing need (billions of U.S. dollars)	2.2	2.2	1.6			1.9	1.6	2.2	1.7	1.8	2.0		3.2	5.0	
Non-interest current account deficit that stabilizes debt ratio	3.7	0.2	7.7			2.0	5.1	4.4	3.9	4.2	4.9		4.1	3.2	
Key macroeconomic assumptions															
Real GDP growth (in percent)	1.8	1.2	0.9	0.9	2.8	1.7	3.5	4.9	5.6	5.8	6.5	4.7	4.9	5.1	5.1
GDP deflator in US dollar terms (change in percent)	10.6	4.4	6.4	3.3	10.1	8.8	5.3	3.0	3.3	3.3	3.6	4.5	3.2	3.1	3.2
Effective interest rate (percent) 5/	3.4	3.3	2.7	2.9	0.8	2.7	2.4	3.6	3.6	3.4	3.3	3.2	2.1	2.1	2.2
Growth of exports of G&S (US dollar terms, in percent)	19.3	11.2	7.7	6.8	12.6	4.3	4.7	3.9	3.4	4.8	6.9	4.7	4.3	8.1	6.7
Growth of imports of G&S (US dollar terms, in percent)	27.0	17.1	0.7	7.8	12.8	8.7	7.7	5.8	5.9	8.1	9.8	7.7	5.7	7.3	7.3
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	47.4	0.1	35.8	34.7	35.6	34.5	31.3	28.2	22.1	27.2
Aid flows (in billions of US dollars) 7/	0.2	0.2	0.1			0.3	0.4	0.5	0.6	0.7	1.0		1.4	3.2	
o/w Grants	0.1	0.2	0.1			0.3	0.3	0.3	0.3	0.3	0.4		0.5	1.2	
o/w Concessional loans	0.1	0.0	0.0			0.1	0.1	0.2	0.3	0.4	0.6		0.9	2.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			2.5	1.4	2.6	2.6	2.7	2.8		3.1	2.3	2.7
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			66.1	5.9	52.1	50.2	49.1	47.5		39.0	36.9	40.2
Memorandum items:															
Nominal GDP (billions of US dollars)	15.5	16.4	17.6			19.4	21.2	22.9	25.0	27.3	30.1		44.9	100.9	
(NPVt-NPVt-1)/GDPt-1 (in percent)						1.2	1.4	0.8	1.3	1.6	2.2	1.4	1.9	2.6	2.3

Source: Staff simulations.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that NPV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the NPV of new debt).

Table 3. Côte d'Ivoire: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2007-27
(In percent)

	Projections							
	2007	2008	2009	2010	2011	2012	2017	2027
NPV of debt-to-GDP ratio								
Baseline	59	55	52	49	46	44	36	33
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-27 1/	59	62	65	69	71	74	79	117
A2. New public sector loans on less favorable terms in 2008-27 2/	59	60	57	54	52	50	49	51
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	59	58	58	54	51	49	40	37
B2. Export value growth at historical average minus one standard deviation in 2008-09 3/	59	62	69	65	62	59	46	35
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09	59	68	76	72	68	64	53	49
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 4/	59	57	55	52	49	47	38	33
B5. Combination of B1-B4 using one-half standard deviation shocks	59	73	93	88	84	79	62	49
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	59	77	73	68	64	61	50	46
NPV of debt-to-exports ratio								
Baseline	122	119	116	115	113	111	104	107
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-26 1/	122	134	146	162	176	189	230	379
A2. New public sector loans on less favorable terms in 2007-26 2/	122	128	127	128	128	128	140	166
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	122	119	116	115	113	111	104	107
B2. Export value growth at historical average minus one standard deviation in 2008-09 3/	122	163	230	229	227	222	196	167
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09	122	119	116	115	113	111	104	107
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 4/	122	123	124	123	121	119	110	108
B5. Combination of B1-B4 using one-half standard deviation shocks	122	149	190	189	187	183	163	144
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	122	119	116	115	113	111	104	107
NPV of debt-to-revenue ratio								
Baseline	303	282	263	249	236	225	185	170
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-26 1/	303	316	332	351	366	382	408	602
A2. New public sector loans on less favorable terms in 2007-26 2/	303	304	289	277	267	259	249	263
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	303	295	293	277	263	250	206	189
B2. Export value growth at historical average minus one standard deviation in 2008-09 3/	303	315	351	333	317	301	234	178
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09	303	346	388	366	347	330	272	250
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 4/	303	291	281	266	253	240	195	171
B5. Combination of B1-B4 using one-half standard deviation shocks	303	371	474	450	428	407	319	250
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	303	394	368	348	330	314	259	237

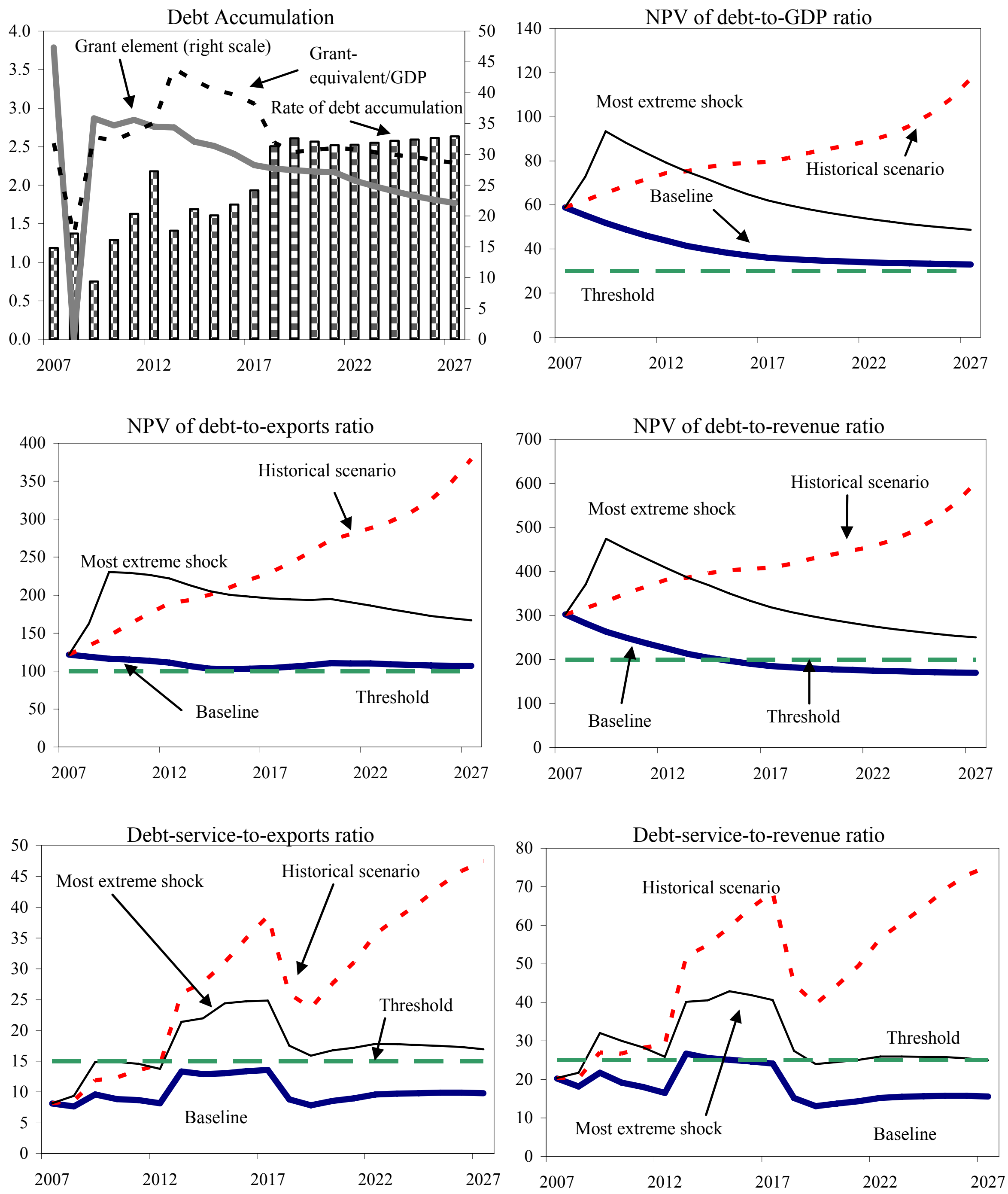
Table 3. Côte d'Ivoire: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2007-27 (continued)
(In percent)

	Projections							
	2007	2008	2009	2010	2011	2012	2017	2027
Debt service-to-exports ratio								
Baseline	8	8	10	9	9	8	14	10
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-27 1/	8	9	12	12	14	14	39	48
A2. New public sector loans on less favorable terms in 2008-27 2/	8	8	10	10	10	9	14	14
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	8	8	10	9	9	8	14	10
B2. Export value growth at historical average minus one standard deviation in 2008-09 3/	8	9	15	15	15	14	25	17
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09	8	8	10	9	9	8	14	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 4/	8	8	10	9	9	8	14	10
B5. Combination of B1-B4 using one-half standard deviation shocks	8	9	13	13	12	12	21	14
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	8	8	10	9	9	8	14	10
Debt service-to-revenue ratio								
Baseline	20	18	22	19	18	17	24	16
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-27 1/	20	20	27	27	28	29	69	75
A2. New public sector loans on less favorable terms in 2008-27 2/	20	18	24	21	20	19	25	23
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	20	19	24	21	20	18	27	17
B2. Export value growth at historical average minus one standard deviation in 2008-09 3/	20	18	23	22	20	19	30	18
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09	20	22	32	28	27	24	36	23
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 4/	20	18	22	20	19	17	25	16
B5. Combination of B1-B4 using one-half standard deviation shocks	20	22	32	30	28	26	41	25
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	20	25	30	27	25	23	34	22
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	25	25	25	25	25	25	25	25

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Figure 2. Côte d'Ivoire: Indicators of Public and Publicly Guaranteed External Debt
Under Alternative Scenarios, 2007-2027



Source: Staff projections and simulations.

Table 4. Côte d'Ivoire: Public Sector Debt Sustainability Framework, Baseline Scenario, 2004-2027
(In percent of GDP, unless otherwise indicated)

	Actual					Estimate					Projections				
	2004	2005	2006	Historical Average 5/	Standard Deviation 5/	2007	2008	2009	2010	2011	2012	2007-12 Average	2017	2027	2013-27 Average
Public sector debt 1/	92.0	89.1	84.8			81.2	75.3	71.0	67.0	63.8	60.9		53.7	46.2	
o/w foreign-currency denominated	80.8	77.6	73.3			71.0	66.3	63.1	60.2	57.9	55.8		50.1	42.6	
Change in public sector debt	...	-2.9	-4.4			-3.6	-5.9	-4.3	-4.0	-3.2	-3.0		-1.0	-0.5	
Identified debt-creating flows	...	7.2	-11.3			-5.0	-6.3	-4.5	-4.3	-3.5	-3.2		-0.8	1.0	
Primary deficit	-0.6	-0.3	0.0	-1.5	1.4	-1.8	-1.6	-1.3	-0.5	0.2	0.9	-0.7	2.3	3.5	2.6
Revenue and grants	18.4	18.2	18.8			20.8	21.0	21.0	20.8	20.7	20.6		20.6	20.6	
of which : grants	0.9	1.1	0.6			1.4	1.3	1.3	1.2	1.2	1.2		1.2	1.2	
Primary (noninterest) expenditure	17.9	17.8	18.8			19.0	19.4	19.7	20.3	20.8	21.6		22.9	24.2	
Automatic debt dynamics	...	7.6	-11.3			-3.2	-4.7	-3.2	-3.7	-3.7	-4.2		-3.1	-2.6	
Contribution from interest rate/growth differential	...	-1.8	-1.7			-1.4	-3.0	-2.6	-2.9	-2.9	-3.3		-2.5	-2.1	
of which : contribution from average real interest rate	...	-0.7	-1.0			0.0	-0.3	1.0	0.8	0.8	0.6		0.0	0.1	
of which : contribution from real GDP growth	...	-1.1	-0.8			-1.4	-2.8	-3.5	-3.7	-3.7	-3.9		-2.5	-2.3	
Contribution from real exchange rate depreciation	-5.0	9.4	-9.5			-1.8	-1.7	-0.7	-0.9	-0.8	-0.9		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	...	-10.1	6.9			1.4	0.3	0.2	0.3	0.3	0.3		-0.2	-1.4	
NPV of public sector debt	11.2	11.5	75.4			69.0	64.2	59.7	55.6	52.0	48.8		39.6	36.6	
o/w foreign-currency denominated	0.0	0.0	64.0			58.9	55.3	51.9	48.8	46.1	43.7		36.0	33.0	
o/w external	...	...	64.0			58.9	55.3	51.9	48.8	46.1	43.7		36.0	33.0	
NPV of contingent liabilities (not included in public sector debt)	...	...	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Gross financing need 2/	-0.8	0.3	4.8			4.1	11.4	5.2	5.3	5.6	5.9		7.9	6.3	
NPV of public sector debt-to-revenue and grants ratio (in percent)	61.0	63.3	400.7			331.4	306.5	284.9	267.2	251.7	236.4		192.0	177.5	
NPV of public sector debt-to-revenue ratio (in percent)	64.3	67.4	414.0			354.8	327.4	303.3	283.8	266.5	250.6		203.6	188.3	
o/w external 3/	...	...	351.1			302.6	281.8	263.4	248.9	236.1	224.6		185.1	169.8	
Debt service-to-revenue and grants ratio (in percent) 4/	12.0	11.3	33.4			26.8	24.6	27.5	24.6	23.2	21.2		27.5	19.4	
Debt service-to-revenue ratio (in percent) 4/	12.7	12.1	34.5			28.7	26.3	29.3	26.1	24.5	22.5		29.2	20.6	
Primary deficit that stabilizes the debt-to-GDP ratio	...	2.5	4.4			1.8	4.4	3.0	3.4	3.4	3.9		3.3	4.0	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	1.8	1.2	0.9	0.9	2.8	1.7	3.5	4.9	5.6	5.8	6.5	4.7	4.9	5.1	5.1
Average nominal interest rate on forex debt (in percent)	2.3	2.3	2.0	2.4	0.5	1.7	1.6	3.3	3.3	3.1	3.0	2.7	1.9	2.1	2.1
Average nominal interest rate on domestic debt (in percent)	-0.5	2.8	3.0	1.2	1.9	2.2	3.4	3.6	3.8	4.1	4.3	3.6	6.0	6.0	5.8
Average real interest rate (in percent)	...	-0.8	-1.1	...	...	0.0	-0.3	1.4	1.3	1.2	1.1	0.8	0.1	0.3	0.2
Real discount rate on foreign-currency debt (in percent)	2.1	1.9	2.0	2.8	0.7	3.2	3.0	3.0	3.0	3.0	3.0	3.0	2.9	2.9	2.9
Average real interest rate on domestic currency debt (in percent)	-1.1	-1.3	-2.4	-1.6	0.6	0.4	-0.5	1.1	1.2	1.7	1.6	0.9	2.7	2.8	2.6
Real exchange rate depreciation (in percent, + indicates depreciation)	-6.3	11.8	-12.5	-0.7	13.0	-2.6	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	0.6	4.2	5.6	3.1	2.2	1.7	3.9	2.5	2.6	2.4	2.6	2.6	3.2	3.1	3.2
Growth of real primary spending (deflated by GDP deflator, in percent)	4.3	0.9	6.5	2.1	9.4	2.9	5.5	6.5	8.6	8.7	10.4	7.1	5.9	5.6	5.9
Grant element of new external borrowing (in percent)	...	...	43.2	43.2	...	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2	...

Sources: Country authorities; and Fund staff estimates and projections.

1/ Gross debt of central government, excluding local or regional governments, government agencies and public enterprises.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 5. Côte d'Ivoire: Sensitivity Analyses for Key Indicators of Public Debt 2007-2027
(In percent)

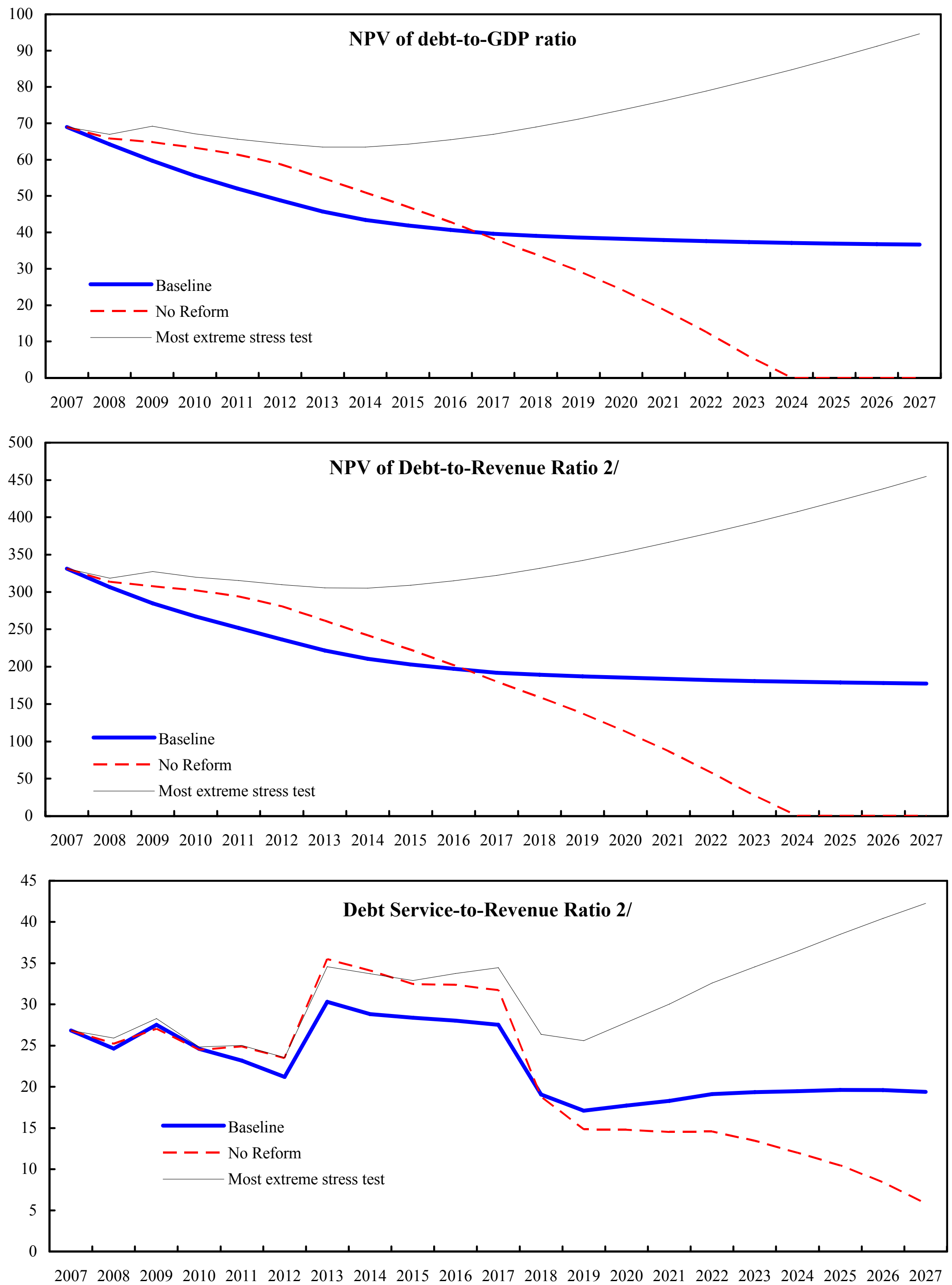
	Projections							
	2007	2008	2009	2010	2011	2012	2017	2027
NPV of Debt-to-GDP Ratio								
Baseline	69	64	60	56	52	49	40	37
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	69	64	61	57	53	48	16	0
A2. Primary balance and real GDP growth is unchanged from 2006	69	66	65	63	61	59	38	0
A3. Permanently lower GDP growth 1/	69	63	58	54	51	48	44	69
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	69	67	69	67	66	64	67	95
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	69	64	60	56	52	48	37	36
B3. Combination of B1-B2 using one half standard deviation shocks	69	66	64	59	55	50	36	30
B4. One-time 30 percent real depreciation in 2008	69	86	80	74	68	63	47	44
B5. 10 percent of GDP increase in other debt-creating flows in 2008	69	75	70	65	61	57	45	44
NPV of Debt-to-Revenue Ratio 2/								
Baseline	331	306	285	267	252	236	192	178
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	331	304	288	273	254	231	74	0
A2. Primary balance and real GDP growth is unchanged from 2006	331	314	308	302	294	281	180	0
A3. Permanently lower GDP growth 1/	331	299	278	261	247	234	213	333
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	331	319	327	320	315	310	322	455
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	331	305	288	267	249	232	178	172
B3. Combination of B1-B2 using one half standard deviation shocks	331	313	305	283	263	242	175	147
B4. One-time 30 percent real depreciation in 2008	331	409	379	353	330	305	229	214
B5. 10 percent of GDP increase in other debt-creating flows in 2008	331	357	333	312	293	274	219	212
Debt Service-to-Revenue Ratio 2/								
Baseline	27	25	28	25	23	21	28	19
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	27	25	26	23	23	21	24	0
A2. Primary balance and real GDP growth is unchanged from 2006	27	25	27	24	25	23	32	6
A3. Permanently lower GDP growth 1/	27	25	25	21	21	19	26	31
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	27	26	28	25	25	24	34	42
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	27	25	25	22	21	19	24	19
B3. Combination of B1-B2 using one half standard deviation shocks	27	26	27	23	22	20	25	17
B4. One-time 30 percent real depreciation in 2008	27	26	29	25	24	22	26	23
B5. 10 percent of GDP increase in other debt-creating flows in 2008	27	25	28	26	24	22	28	23

Sources: Country authorities; and Fund staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).

2/ Revenues are defined inclusive of grants.

Figure 3. Côte d'Ivoire: Indicators of Public Debt Under Alternative Scenarios, 2007-2027 1/



Source: Staff projections and simulations.
1/ Most extreme stress test is test that yields highest ratio in 2017.
2/ Revenue including grants.

INTERNATIONAL MONETARY FUND

CÔTE D'IVOIRE

Staff Report for the 2007 Article Consultation and Request for Emergency Post-Conflict Assistance—Informational Annex

Prepared by the African Department
(In collaboration with other departments)

Approved by Thomas Krueger and Michael Hadjimichael

July 19, 2007

Contents Page

Appendix I. Côte d'Ivoire: Relations with the Fund

(As of May 31, 2007)

I. Membership Status: Joined March 11, 1963; Article VIII

II. General Resources Account:	SDR million	Percent Quota
Quota	325.20	100.0
Fund holdings of currency	324.52	99.79
Reserve position in Fund	0.69	0.21
Holdings Exchange Rate		

III. SDR Department:	SDR million	Percent Allocation
Net cumulative allocation	37.83	100.00
Holdings	0.05	0.12

IV. Outstanding Purchases and Loans	SDR million	Percent Quota
PRGF Arrangements	91.41	28.11

V. Latest Financial Arrangements

Type	Date of Arrangement	Expiration date	Amount approved (SDR million)	Amount drawn (SDR million)
PRGF	3/29/2002	3/28/2005	292.68	58.54
PRGF	3/17/1998	3/16/2001	285.84	123.86
PRGF	3/11/1994	6/13/1997	333.48	333.48

VI. Projected Payments to Fund (SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2007	2008	2009	2010	2011
Principal	22.29	28.14	11.71	11.71	11.71
Charges/Interest	1.24	1.88	1.79	1.73	1.67
Total	23.53	30.03	13.49	13.44	13.38

VII. Implementation of HIPC Initiative

	Original Framework
I. Commitment of HIPC assistance	
Decision point date	Mar. 1998
Assistance committed by all creditors (US$ million)[1]	345.00
Of which: IMF assistance (US$ million)	22.50
SDR equivalent in millions)	16.70
Completion point date	--
II. Disbursement of IMF assistance (SDR million)	
Assistance disbursed to the member	--
Interim assistance	--
Completion point balance	--
Additional disbursement of interest income[2]	--
Total disbursements	--

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

IX. Safeguards Assessments

The Central Bank of West African States (BCEAO) is the common central bank of the countries of the West African Economic and Monetary Union (WAEMU) which includes Côte d'Ivoire. The most recent safeguards assessment of the BCEAO was completed on November 4, 2005. The assessment found that progress has been made in strengthening the BCEAO's safeguards framework bank since the 2002 safeguards assessment.

The BCEAO now publishes a full set of audited financial statements and improvements have been made to move financial reporting closer to International Financial Reporting Standards (IFRS). Furthermore, an internal audit charter has been put in place, and mechanisms for improving risk management and risk prevention have been established and follow-up on internal and external audit recommendations has been strengthened.

[1] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

[2] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

The new assessment identified a number of areas where further steps would help solidify the progress made. The main recommendations relate to improvements in the external audit process (including the adoption of a formal rotation policy), further enhancement of the transparency of the financial statements by fully adopting IFRS, and further strengthening of the effectiveness of the internal audit function. The status report of the implementation of recommendations, received from the bank in March 2007, indicates that some progress was achieved.

X. Exchange Arrangements:

Côte d'Ivoire is a member of the West African Economic and Monetary Union (WAEMU). The exchange system, common to all members of the union, is free of restrictions on payments and transfers for current international transactions. The union's common currency, the CFA franc, is pegged to the Euro at the rate of EUR 1 = CFAF 655.957.

XI. Article IV Consultation:

Côte d'Ivoire is on the standard 12-month Article IV consultation cycle. The 2003 Article IV consultation was completed by the Executive Board on March 31, 2004.

XII. Technical Assistance:

Fiscal Affairs Department	Tax administration (March 2000)
Fiscal Affairs Department	Public Expenditure Management (December 2001)
AFRITAC-West, Diagnostic Missions	Public Debt Management (January 2007)
	Public Expenditure Management (February and May 2007)
	Public Finance Statistics (February 2007)
	Microfinance (May 2007)

XIII. Resident Representative:

A Fund resident representative has been reposted in Abidjan since January 2007, after an interruption of one and a half years.

Appendix II. Côte d'Ivoire: Relations with the World Bank Group[3]

(As of June 21, 2007)

1. Prior to the September 2002 crisis, the Bank Group's Country Assistance Strategy sought to assist Côte d'Ivoire in reducing poverty through (i) sound macroeconomic management, including prudent debt management; (ii) increased private sector development and investment under an efficient and transparent regulatory framework; (iii) more efficient expenditure targeting in health, education, and basic infrastructure through innovative delivery approaches; (iv) strengthened institutional and human capacity; (v) emphasis on environmental sustainability; and (vi) improved governance, notably in the area of public expenditure management.

2. After an interruption caused by the country being in nonaccrual status the Bank resumed its lending operations in Côte d'Ivoire following the clearance of arrears in January 2002. An Economic Recovery Credit equivalent to US$200 million (over an 18-month period) was approved on June 11, 2002 and the first tranche of US$100 million was disbursed. The credit aimed at: (i) creating the conditions for renewed broad-based growth driven by rural recovery and resumed confidence in the private sector; (ii) improving public services delivery with participation of local communities; and (iii) improving efficiency and accountability in public resource management. Implementation of structural reforms underpinning the ERC, however, was delayed by the intervening conflict. Moreover, because of the lack of an adequate macroeconomic framework (the related IMF PRGF credit was also stopped) and stalling progress on structural reforms, the ERC was closed on December 31, 2003 (as originally envisaged), and the remaining two tranches were canceled. Côte d'Ivoire fell again into nonaccrual status on November 2, 2004, with arrears to the Bank estimated at end-June 2007 to total about US$480 million. World Bank arrears must be cleared prior to any disbursements from existing projects or the provision of new financing from the Bank, other than an exceptional *pre-arrears clearance* grant in support of the post-conflict transition.

3. Meanwhile, notwithstanding the suspension of disbursements and delays in presenting new projects to the Bank's Board due to the arrears, the Bank has been providing limited financial support and addressing pressing needs via six Post-Conflict Fund grants totaling about US$2 million. They include: (i) support to establishing a "National Program for DDR" amounting to $100,000 (only half of which was spent because the then CNDDR did not request the second tranche); (ii) "Communication to Strengthen Social Cohesion" (US$270,000) executed by the NGO Search for Common Ground; (iii) "Community Reintegration Pilot Project 1" (US$ 538,690) implemented by CARE International; (iv) "Community Reintegration Pilot Project 2" (US$737,500) in partnership with CARE International; (v) "Reintegration of children associated with the armed groups and forces" (US$298,000) implemented by UNICEF; and (vi) a "Rapid Social Assessment" amounting to US$160,000. Two additional LICUS grants were recently approved as part of a US$6 million LICUS package. The first one, which the Bank executed, is for an amount of $1.9 million to

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[3] This Appendix has been prepared by the World Bank. Questions may be addressed to: Mr. Zeljko Bogetic, Lead Economist (202-473-2143).

provide assistance in post-conflict planning and improving governance, including audits in the energy sector. The second, for US$2.25 million, to be executed by the Prime Minister's Office, is for support of the national identification process. The third and last part of the package will be to finance pilot initiatives in employment creation for youth at risk (US$2.25 million).

4. During the discussions at the World Bank-IMF Spring Meetings in April 2007, the World Bank and Ivoirien authorities discussed the issues concerning the implementation of the Ouagadougou Accord, the Disarmament, Demobilization, and Reintegration (DDR) process and the Bank's re-engagement in Côte d'Ivoire. An agreement was reached for the government of Côte d'Ivoire to begin paying current debt service to the Bank in July, 2007 while the Bank agreed to aim to approve a pre-arrears clearance grant in support of post-conflict transition (Post-Conflict Assistance Project—PCAP), pending full clearance of Bank arrears over the next 8-9 months. The government of Côte d'Ivoire also committed to elaborate a plan for the full clearance of arrears acceptable to the Bank. The objective of the plan is to effect the complete payment of Bank arrears by February 2008. The plan will entail a contribution from the government of at least one-third of total accumulated arrears at the time of the beginning of the arrears clearance operation (end-June 2007). Within this framework, the Bank has accelerated the preparation of the PCAP grant of US$120 million—in support of the Ouagadougou Accord—and scheduled it for Board presentation on July 17, 2007. In addition, the Bank would request approval from the Board of Directors of an exceptional IDA allocation to facilitate the financing of the remainder of the arrears not financed from Côte d'Ivoire's own resources.

5. The World Bank arrears clearance will take place within a credible macroeconomic fiscal framework supported by and closely coordinated with an IMF program. During a joint Bank-IMF mission in May 2007, the Bank has left with the government an Aide-Mémoire as a record of discussions and agreements and a basis for further dialogue and reforms in key economic sectors (including cocoa/coffee, energy and financial sectors) that will be the subject of a Public Expenditure Management and Financial Accountability Review (PEMFAR) and a budget support operation, Emergency Economic Recovery Credit (EERC) in the next fiscal year. The Bank's dialogue with the authorities is centered on the following:

- Finalizing of the ongoing three audits in the energy sector, launching of a new PEMFAR, and restarting of the PRSP process,

- In FY08—if arrears are fully cleared—the Bank would reactivate its existing four projects (US$104 million) and finance a new HIV/AIDS US$20-40 million grant and a project for strengthening of institutions and governance.

- As soon as satisfactory progress is made on the DDR program and the related security front (to guarantee safe access to conflict-affected areas), as part of the reconstruction process, the Bank is expected to take the lead in organizing a *Multi-Donor Assessment* close collaboration with the IMF, EU and other development partners (the LICUS-financed activities will inform the MAM). The purpose of the MAM is to identify reconstruction financing needs, new expenditure priorities, and the likely sources of external finance.

- Also, *analytical work* is under way with regard to a poverty diagnostic and rapid social assessment, as well as other work on forestry, governance, infrastructure, and regional power integration; work would resume on public expenditure management following the full re-engagement. The ongoing LICUS package is also focused on analytical work.

- After an adequate macroeconomic framework is established for a reasonable period of time, and basic measures to strengthen governance and transparency in energy, cocoa/coffee, financial, and public expenditure management are taken, a US$120-150 million—*Emergency Economic Recovery credit (EERC)*—could be provided in support of structural reforms, after a track record of policy performance under the IMF's EPCA and full clearance of Bank arrears.

6. The **IFC**'s portfolio has been showing strains from the continued economic crisis as clients struggle in the prolonged uncertainty and economic downturn. The committed portfolio totals US$88.9 million. With the return of stability and an end to the economic crisis, new projects may again be selectively considered.

7. **MIGA**'s outstanding portfolio in Côte d'Ivoire consists of one project, with two contracts of guarantee, in the manufacturing sector, with a total gross and net exposure of US$15.05 million. Currently, MIGA accepts applications for guarantees for projects in Côte d'Ivoire, but has no project in its active pipeline for the country.

Côte d'Ivoire: Debt Service to the World Bank

(In millions of U.S. dollars)

	2004	2005	2006	2007
IBRD	91.5	116.5	103.0	91.1
IDA	25.9	34.2	43.3	59.2
Total	117.4	150.7	146.3	150.3

Source: World Bank Controller's debt-service projections.

IMF-World Bank collaboration in specific areas

8. The World Bank has worked closely with the IMF on the Ivoirien authorities' reform program, and shares the same views on policy issues. There is broad agreement on the core reform program the authorities intend to pursue, namely: (i) streamlining public expenditure management and tax policy; (ii) enhancing governance and transparency in the energy and cocoa/coffee sectors; and (iii) reducing financial sector vulnerabilities. Broad division of labor between the Bank and the Fund is detailed in the Table 1 below.

Table 1: Bank-Fund Collaboration

Area	Lead Institution	Others Involved
1. Fiscal area		
Public expenditure management	IMF/World Bank	
Tax policy	IMF	
Fiscal transparency issues: energy, cocoa/coffee sector	IMF/World Bank	
2. Governance and transparency		
Energy sector	World Bank	IMF
Cocoa/coffee sector	World Bank	EU
3. Financial sector		
FSAP-FSSA	World Bank/IMF	
Restructuring of the Banque Nationale d'Investissement	World Bank	IMF
4. Other		
Monetary policy	IMF	
Social sectors: poverty reduction strategy	World Bank	IMF
Debt	IMF/World Bank	

Appendix III. African Development Bank Group Operations Strategy

1. **Bank Group Portfolio and its Management**. Out of a total of 49 operations,[4] approved since the start of intervention in Côte d'Ivoire for a net commitment of UA[5] 1,030 million (US$1,535 million), the current project portfolio has now only four projects for a net commitment of UA 61.5 million, excluding projects whose balances have been cancelled. The outstanding balance of these projects is only UA 5.5 million, of which a UA 3.7 million grant for National Good Governance and Capacity Building Programme (PNBGRC). The remainder will be cancelled. The aim of the project (PNBGRC) is to contribute to strengthening the rule of law, to sound public resource management, and to poverty reduction. Specifically, its purpose is to: (i) contribute to improving the operation of the legal system; (ii) strengthen structures and institutions involved in the decentralization process; (iii) support the public resources management capacity; and (iv) strengthen the PNBGRC coordinating structure.

2. Regarding portfolio management, the ongoing projects have been seriously affected by the crisis arising from the suspension of disbursements from February 1, 2003. Following discussions with an Ivoirien delegation in Tunis in July 2004 and July 2005, the Bank began canceling the balances of 10 operations in accordance with the relevant Bank procedures. As of end-February 2007, the total amount cancelled was UA 65.7 million. The Bank has not made any further cancellations since there is hope of resumption of financial cooperation with the country. While loan disbursements have been suspended in accordance with the sanctions for accumulation of arrears, the Bank has continued implementing operations financed with grants. These include the Study for formulation of the Irrigation Development Plan, the Road Toll and Weighbridge Study Plan and the Agneby Plan Study, which have been practically completed.

3. **Status of Arrears to the Bank Group and Payment Schedule**. Côte d'Ivoire's arrears owed to the Bank Group stood at UA 335 million (US$463 million) at April 30, 2007, with UA 327 million for ADB and UA 8 million for ADF loans. The private sector arrears amounted to UA 1.52 million as at April 30, 2007. Côte d'Ivoire has no arrears on its subscription to the Bank's capital.

Projected Côte d'Ivoire Reimbursement in UA million

Window	Type	Remainder 2007	2008	2009	2010	TOTAL
ADB	Charges	10,96	17,88	11,54	8,54	48,91
	Principal	22,92	36,80	25,77	19,83	105,32
ADB TOTAL		33,87	54,68	37,31	28,37	154,23
ADF	Charges	1,18	1,52	1,52	1,51	5,73
	Principal	0,49	0,58	0,95	1,38	3,40
ADF TOTAL		1,67	2,10	2,46	2,89	9,13
OVERALL TOTAL		35,54	56,78	39,77	31,26	163,36

[4] Not including four projects initiated by the private sector, for a total of UA 33 million.

[5] UA (UC : Unité de compte): 1 SDR = USD 1.52 at end-June 2007.

4. **Steps by the Bank to facilitate arrears clearance**. Following the clearance of arrears at end March 2002, the Board approved an interim strategy under ADF VII on April 3, 2002. This strategy could not be carried out since arrears began building up again from February 2003, and the Bank suspended all disbursements on loans, and no operations were approved under ADF IX and X. However, the Bank has maintained the dialogue with the government in order to be able to implement its strategy, as soon as it would re-engage in Côte d'Ivoire. During various consultative missions, the Ivoirien authorities reaffirmed their commitment to stabilize arrears and stay current on maturities. However, these commitments have not been carried out.

5. During the May 2006 IMF mission on Emergency Post-Conflict Assistance, in which the Bank participated, the government undertook to (i) demonstrate its willingness to cooperate, by repaying the Bank an amount of CFAF 10.2 billion representing partial payment of interest due in 2006; and (ii) adopt an arrears clearance plan by September 2006, for full implementation by July 2007 at the latest. Neither the interest payments nor the government mission to Tunis envisaged for July 2006 to discuss an arrears clearance plan with the Bank took place.

6. On April 28th, 2007, the Ivoirien authorities and the Bank came to an agreement on the modalities of an arrears clearance scheme. This scheme is included in the Memorandum of Economic and Financial Policies elaborated by the IMF in May 2007. Within the framework of the Post-Conflict Countries Facility (PCCF), it assumes moving the cut-off date from end-December 2003 to end-April 2007 and effective clearance of arrears in April 2008. The servicing of the maturities falling due between May 2007 and April 2008 must start no later than September 2007 and must be paid in full by April 2008. By this date, the Country will also have to pay one-third of the arrears outstanding as of end-April 2007. The remaining two-thirds will be shared between donors and the PCCF.

Strategy and Instruments for Macro-economic Dialogue and Arrears Clearance

7. **Objective and Strategy**. The strategy consists in identifying and implementing a new solution for arrears settlement that will enable the Bank to fully resume cooperation with the country. This strategy involves: (i) continued dialogue toward meeting the criteria for accessing the Post–Conflict Country Facility (PCCF); and (ii) institutional capacity building. With a view to resolving the arrears problem within the framework of the PCCF, the Bank will be taking the following actions: (i) Board submission of a Dialogue Note in October 2007, discussing the socio-economic situation in Côte d'Ivoire, as well as the way forward on clearing arrears outstanding to the Bank Group; (ii) preparation of a Technical Assistance and Capacity Building operation, to use the allowable 50 percent of the ADF X allocation before year end-2007; (iii) Board presentation of the interim Country Strategy Program (CSP); (iv) launching appraisal of new operations, starting with the post-conflict reconstruction program; and (v) a review of the portfolio with a view to resuming disbursements for ongoing operations. In the medium-term, when the arrears problem has been fully resolved, the Bank will submit to the Board a Country Strategy Paper that will serve as framework for its operations.

Appendix IV. Statistical Issues

While broadly adequate, the macroeconomic statistics need strengthening. While the authorities have generally provided the core statistical indicators to the Fund (see attached table), there are weaknesses in the areas of national accounts, balance of payments, and public finance, and the conciliation of fiscal and monetary data. Côte d'Ivoire participates in the General Data Dissemination System (GDDS) since May 2000, however, the metadata posted on the Data Standards Bulletin Board (DSBB) have not been updated since June 2001.

Real sector

The authorities have published comprehensive national accounts data for the period 1987-95, using 1986 as the base year. They have also published a new set of national accounts for the period 1996-2006 using 1996 as base year. GDP data reported for the *IFS* are now current. The authorities have updated the national accounts to bring them in line with the 1993 System of National Accounts and changed the base year to 1996. However, GDP deflators appear to be lacking in quality. Technical assistance (TA) in national accounts has been provided by AFRITAC West. A harmonized consumer price index (CPI) (base 1996) was adopted by all members of the West African Economic and Monetary Union (WAEMU),[6] including Côte d'Ivoire. A revision of the CPI put in place in the beginning of January 1998 is currently being implemented. There are no regular publications on wages and employment.

Public finances

The Ministry of Finance has reported data up to 2006 for publication in the *Government Finance Statistics Yearbook*. The authorities do not provide monthly or quarterly fiscal data for publication in *IFS*. However, the Ministry of Finance has made available to AFR detailed monthly government finance data through March 2007. Documentation on the coverage of general government units and public enterprises is lacking. While the government has committed to addressing this weakness and to making a comprehensive effort to reconcile fiscal and monetary data, there is little progress to date. Deficiencies in the recording of expenditures undermine sound fiscal reporting.

Monetary accounts

Monetary data are prepared by the national agency of the Central Bank of West African States (BCEAO). Some of the problems with the monetary statistics are common to all eight member countries of the WAEMU, while others are specific to the systemic issues in Cote d'Ivoire's bank and non-bank financing of the operations of the central government and the rest of the public sector. There has been improvement in the timeliness of data on monetary institutions and deposit money banks. The authorities now report monetary data to STA on a regular basis, with a reduction in the lag from about six months to three to four months. The BCEAO has also improved the estimates of currency in circulation in each WAEMU

[6]Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo.

member country by addressing the large backlog of unsorted banknotes held by the central bank's national agencies. In 2005, the BCEAO made substantial revisions to the estimates of banknotes in circulation in member states resulting from cross-border banknote movement. These revisions were due to changes in the method to estimate currency in circulation in the WAEMU countries. The revised method, based on updated sorting coefficients (initially established in 1990), has been applied retroactively from December 2003. The BCEAO is using sorting coefficients to evaluate the amounts of currency issued by each country, which in turn, are used to estimate currency in circulation and to adjust the net foreign assets of each member country.

A monetary and financial statistics mission visited the BCEAO headquarters in Dakar in May 2001, and STA participated in a BCEAO-sponsored seminar on monetary statistics in April 2003. In these regional fora, STA reviewed with the BCEAO representatives outstanding methodological issues that concern the member countries of the WAEMU and discussed the BCEAO's plans to adopt the *Monetary and Financial Statistics Manual.*

In August 2006, as part of the authorities' efforts to implement the methodology in the *Monetary and Financial Statistics Manual*, the BCEAO reported to STA monetary data for June 2006 for all member countries using Standardized Report Forms (1SR-central bank, 2SR-other depository corporations, and 5SR-monetary aggregates). These data were reviewed in STA and comments were provided to the authorities. An official response is pending.

Balance of payments

Since December 1998, the responsibility for compiling and disseminating balance of payments statistics is formally assigned to the BCEAO by an area-wide legislation adopted by all WAEMU members. The national agency of the BCEAO in Abidjan is responsible for completing and disseminating the balance of payments statement, while the BCEAO headquarters in Dakar delineate the methodology and calculate the international reserves managed on behalf of the participating countries. Data consistency has significantly improved over the past few years with the full transition to the *Balance of Payments Manual, Fifth edition (BPM5)*, improved sourcing methods, and the training of staff. This has contributed to the reporting of balance of payments data in the framework of the *BPM5* from 1996 onwards. The BCEAO national agency disseminates balance of payments statistics with seven months lag, which is longer than the recommendation of the GDDS. The BCEAO also compiles and disseminates the annual data of the international investment position. Data are reported regularly to STA for inclusion in IFS and the BOPSY.

Regarding trade, the customs computer system allows satisfactory monitoring of trade data. Further improvement of the coverage of services and transfers (especially workers' remittances) is needed.

Concerning the financial accounts, the foreign assets of the private nonbanking sector are inadequately covered. Reporting of private capital flows, in particular foreign direct investment in Côte d'Ivoire, is unsatisfactory. Insufficient information exists on private debt stocks and private debt service flows.

The BCEAO has implemented a compilation system allowing commercial banks to report data on payments involving non-residents. The balance of payments compilers receive payment statements every 10 days. However, the information is not used in the compilation of the annual balance of payments, but is used to support data quality controls and to provide for early information to the BCEAO authorities.

CÔTE D'IVOIRE: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

(As of July 12, 2007)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	Current	Current	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	04/07	06/07	M	M	M
Reserve/Base Money	04/07	06/07	M	M	M
Broad Money	04/07	06/07	M	M	M
Central Bank Balance Sheet	04/07	06/07	M	M	M
Consolidated Balance Sheet of the Banking System	04/07	06/07	M	M	M
Interest Rates[2]	05/07	06/07	I	M	M
Consumer Price Index	04/07	06/07	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	04/07	06/07	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	05/07	06/07	M	M	M
External Current Account Balance	12/06	06/07	A	A	A
Exports and Imports of Goods and Services	02/07	05/07	A	A	A
GDP/GNP	2006	02/07	A	M	M
Gross External Debt	12/06	02/07	M	M	M

1 Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
2 Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
3 Foreign, domestic bank, and domestic nonbank financing.
4 The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
5 Including currency and maturity composition.
6 Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I); and not available (NA).

Statement by the IMF Staff Representative
August 3, 2007

1. This supplement provides an update on developments since the issuance of the Staff Report on July 20, 2007. The thrust of the staff appraisal remains unchanged.

2. **The government remains determined to push forward the peace process despite the end-June attempt at the Prime Minister's life.** On June 29, Prime Minister (PM) Soro escaped unhurt a rocket attack on his plane after landing in Bouaké, the *Forces Nouvelles* headquarters; four people were killed. The attack was unanimously condemned in Côte d'Ivoire and abroad and the government called for a UN-led investigation. The President and the Prime Minister have reaffirmed their commitment to the Ouagadougou Accord, including presidential elections; however, the latter are unlikely to take place before mid-2008, i.e., well after the target date of February 2008.

3. **Implementation of the Ouagadougou Accord has continued albeit with delays.** The ceremony of the "peace flame"—a weapon-burning ceremony that had been postponed because of the assassination attempt against PM Soro—took place in Bouaké on July 30 in the presence of President Gbagbo, PM Soro, and six African heads of state. This milestone should provide renewed momentum to the implementation of crisis-resolution programs. The armed forces and ex-rebel commanders are continuing discussions on the restructuring of the national army and the Integrated Command Center will supervise the disarmament, demobilization, and reintegration (DDR) process. A partial regroupment of armed forces is in effect and 21 regroupment sites are ready. The actual DDR—which will likely involve much fewer ex-rebels than previously thought—is expected to start in early September. The reinstallation of the *préfets* (administrative heads of *départements*) in the ex-rebel zones has been completed and the judges for identification hearings have been appointed; the identification hearings (for ID and electoral cards) are expected to resume in mid-August. The redeployment of the civil service is continuing, in particular with the gradual return of education and health workers.

4. **Growth has been broadly in line with projections in the first five months of 2007.** Preliminary data show a pick-up in activity (relative to 2006) in a range of sectors, notably industry (+2   percent), construction (+16 percent), and trade (+15 percent), while other activity indicators increased by at least 6 percent (import volumes, electricity consumption, and cement use). Relative to 2006, oil production has dropped as expected due to technical reasons, while cocoa marketing fell somewhat. Nevertheless, the trade balance, helped by high oil and cocoa prices, remained in surplus.

5. **Fiscal developments through May 2007 were broadly in line with the program targets.** While the primary basic balance at end-May was consistent with the end-June

indicative target, revenue (notably from oil/gas) was below target because the government provided gas for free to the electricity sector; this was offset by lower spending, notably for investment. The government reduced domestic arrears to suppliers.

6. **The government has reached an agreement on arrears clearance with the World Bank and resumed debt service to World Bank and African Development Bank (AfDB).** In mid-July, the authorities signed a Memorandum of Understanding with the World Bank committing to pay one-half of the end-June outstanding arrears (US$472 million; 2.5 percent of GDP) before end-February 2008, while the other half will be financed from a special IDA allocation. Côte d'Ivoire has already paid most of debt service to World Bank and AfDB falling due in the third quarter of 2007 (Staff Report, ¶33). It has set aside further funds for such debt service and arrears repayment in an escrow account at the BCEAO (MEFP, ¶44).

7. **The financing of crisis-related programs in 2007 has been largely assured.** The World Bank Board approved a pre-arrears clearance grant under the Post-Conflict Assistance Project (PCAP) on July 17. The grant (US$120 million) provides financing for the economic reintegration of ex-combatants and youth-at-risk, related community rehabilitation projects, and identification of the population. At a donor conference in Abidjan on July 18, donors confirmed existing commitments, and the EU, AfDB and bilateral donors made additional pledges estimated at some 0.1 percent of GDP for 2007, with likely further assistance as the crisis-related programs crystallize.

8. **With the recent funding arrangements, Côte d'Ivoire should benefit from a concerted international effort in 2007**. Donor support in 2007 is projected to amount to some of 3.2 percent of GDP (US$600 million), consisting of: expected IDA support for Bank arrears clearance (1.2 percent of GDP), Fund EPCA (0.3 percent), committed donor support for crisis-related programs, including under the Bank's PCAP (0.7 percent), and identified project financing (0.9 percent).

9. **The remaining financing need in 2007 will be covered by domestic sources.** The remaining gap under the financial program (some 0.5 percent of GDP) is being mobilized from WAEMU/domestic sources, including a further issuance of Treasury bills.

10. **The two remaining prior actions have been implemented (MEFP, Table 2).** The authorities have provided staff with data on government financial operations; they have also provided reports to the Council of Ministers on the physical, financial, and tax flows in the energy subsectors.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 07/101
FOR IMMEDIATE RELEASE
August 13, 2007

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2007 Article IV Consultation with Côte d'Ivoire

On August 3, 2007, the Executive Board of the International Monetary Fund (IMF) concluded the 2007 Article IV consultation with Côte d'Ivoire.[1]

Background

Côte d'Ivoire, the largest economy of the West African Economic and Monetary Union (WAEMU), is gradually emerging from political instability and civil conflict that started in 1999. The crisis led to the partition of the country and the disruption of public services, especially in the former rebel-held northern zone. The crisis has taken a heavy toll on growth and social conditions: per capita income fell by one-sixth, poverty rose, and many social indicators worsened. These developments have also hurt regional trade and output.

In 2004-06, growth turned positive to an average rate of 1 percent a year and was helped by favorable agricultural output and a strong rise in oil production. However, industrial output continued to decline, while private and public investment remained one-third below their pre-crisis levels. Inflation has remained low. The outlook for 2007 is for a modest recovery to 1½ percent output growth, depending on progress in political normalization and the restoration of public services throughout the country.

During 2004-06, the overall fiscal deficit remained at about 1½ percent of GDP despite the difficult situation. Non-oil revenue was resilient and oil revenue increased. While spending

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

remained constant as share of GDP, its composition worsened with overruns on defense and discretionary presidential spending at the detriment of social and basic infrastructural spending. With continued low levels of donor financing, external arrears continued to accumulate, to 21 percent of GDP by end-2006.

The external current account (including official transfers) has remained in surplus, helped by resilient cocoa production and favorable prices. The surplus widened to 3 percent of GDP in 2006 as oil exports rose sharply and imports remained sluggish in line with domestic demand. With official financing dwindling and net private capital outflows continuing, external arrears rose further. Gross official reserves remained at over 2½ months of imports.

On the structural side, improvements in transparency and governance were limited during the crisis. Some measures were taken to strengthen public financial management and tax administration, and reforms in the energy and cocoa/coffee sectors were initiated. However, the budget was largely executed through treasury advances and accountability on financial flows in the energy and cocoa/coffee sectors remained weak.

Executive Board Assessment

Directors welcomed the end of Côte d'Ivoire's civil conflict and the start of its national reconciliation, which will be key steps towards restoring a lasting peace and helping Côte d'Ivoire emerge from a prolonged crisis. They noted that the crisis has taken a substantial economic and social toll, with negative repercussions for the whole region. To overcome this legacy and address the daunting challenges facing Côte d'Ivoire, Directors stressed the importance of full implementation of the March 2007 Ouagadougou Accord. Steps to strengthen domestic consensus building as well as the continued support of the international community will both be crucial for achieving lasting peace and economic recovery.

Against this background, Directors called on the Ivoirien authorities to implement policies to promote early recovery in the post-conflict period. In the near term, measures should focus on restoring security, reunifying the country, and rehabilitating social services and basic infrastructure. Given the tight financial constraints, improved public resource management will be key. Directors underscored the need to create fiscal space by improving revenue collection and reducing nonessential spending. Also essential will be early steps to improve transparency in revenue mobilization and budget execution, including strengthened budget control, systematic publication of budget execution statements, and regular reporting on physical and financial flows in the energy, cocoa, and coffee sectors. Looking at the medium term, Directors stressed the importance of reviving structural reforms to enhance private sector development and improve competitiveness.

Directors welcomed the authorities' program for 2007, which is being supported by assistance under the Fund's policy on emergency assistance to post-conflict countries (EPCA). They noted that the authorities' program provides a sound and strong initial framework for establishing macroeconomic stability and catalyzing donor support, while seeking to address the immediate challenges facing Côte d'Ivoire. Directors welcomed the program's focus on measures to promote economic recovery, rebuild government services, and ensure transparency in public resource management. They considered that the 2007 budget rightly envisages increased spending on social services, basic infrastructure, and crisis-related programs, while reducing defense and discretionary presidential spending. Directors underscored that all spending should be strictly monitored. They also called for further efforts to resolve domestic arrears.

Directors considered that strengthening the financial sector will be critical for securing macro-economic stability and higher growth. This will require improvements in financial supervision and in the judiciary environment for loan recovery. Directors stressed the need for better compliance with prudential norms, and welcomed the audit of the state-owned National Investment Bank.

Directors considered that reforms to improve the transparency and efficiency of the oil/gas, refinery, and electricity sectors will support growth and boost government revenue. They looked forward to the implementation of the recommendations of the ongoing audits of these sectors, and welcomed the planned steps to price energy products in line with world prices and to conform to the framework established by the Extractive Industries Transparency Initiative (EITI).

Directors strongly encouraged the authorities to reform the institutional structure of the cocoa, coffee, and cotton sectors, with a view to enhancing their contribution to growth and poverty reduction. They viewed the envisaged elaboration of a comprehensive strategy as an important step, while stressing the need to closely monitor the use of quasi-fiscal levies and to reduce them further.

Directors noted that Côte d'Ivoire's real exchange rate is in line with its equilibrium level. They underscored that sustained growth will require improvements in competitiveness and further diversification of the economy, including stronger growth in nontraditional exports, which will be needed to offset the projected decline in oil exports and rapid growth in the demand for imports. In this context, Directors attached priority to the revitalization of structural reforms aimed at enhancing productivity and reducing the costs of doing business. Directors noted that implementation of the envisaged macroeconomic policies and structural reforms should also contribute to the external stability of the West African Economic and Monetary Union (WAEMU).

Directors observed that the Low-Income Country Debt Sustainability Analysis (LIC-DSA) shows that Côte d'Ivoire is in debt distress. They looked forward to the authorities' establishing the necessary good track record—including under the EPCA—to enable Côte d'Ivoire to be considered for PRGF assistance and debt relief under the HIPC Initiative. Directors also looked forward to the planned preparation of the Poverty Reduction Strategy Paper based on consultations with a wide range of stakeholders.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Côte d'Ivoire: Selected Economic Indicators, 2002–07
Annual percentage changes, unless otherwise indicated

	2002	2003	2004	2005	2006 Est	2007 Proj.
National income						
Real GDP growth	-1.4	-1.6	1.8	1.2	0.9	1.7
Consumer prices (end of period)	4.4	-0.1	4.4	2.5	2.0	2.9
Money and credit						
Broad money	30.8	-26.6	9.5	7.4	10.3	4.8
Net credit to government (percent of beginning of period broad money)	1.1	-2.7	-3.6	1.8	-1.6	-1.9
Central government operations						
Total revenue and grants (percent of GDP)	18.4	17.5	18.4	18.2	18.8	20.8
Total revenue (percent of GDP)	17.9	16.9	17.5	17.1	18.2	19.5
Total expenditure (percent of GDP)	19.6	20.4	20.1	19.9	20.6	20.5
Primary basic balance (percent of GDP)[1]	2.7	0.5	0.9	0.4	0.3	1.0
Overall balance (including grants, payment order, percent of GDP)	-1.2	-2.9	-1.7	-1.7	-1.8	0.3
External sector						
Exports, f.o.b. (millions of SDRs)	3,958	4,017	4,530	5,063	5,535	5,620
Imports, f.o.b. (millions of SDRs)	1,879	2,009	2,288	2,801	3,893	3,564
Export volume growth	0.1	-5.4	21.7	4.2	4.7	-0.2
Import volume growth	-1.9	-13.5	21.6	3.0	0.7	1.8
Current account balance (percent of GDP)						
Including official transfers	6.7	2.1	1.6	0.2	3.0	2.3
Excluding official transfers	3.7	0.7	1.7	0.4	3.2	0.6
Gross official reserves (millions of SDRs)	1,277	833	1,035	988	1,156	1,253
Debt						
External public debt (percent of GDP)	80.7	81.4	80.8	77.6	73.3	71.0
External public debt in arrears (percent of GDP)	3.5	8.1	14.0	18.1	20.5	20.3
Domestic public debt (percent of GDP)	7.7	13.9	13.2	11.5	11.5	10.1
Domestic public debt in arrears (percent of GDP)	3.6	6.2	7.3	5.2	4.9	3.8

Sources: Ivoirien authorities ; and IMF staff estimates and projections.

[1]Total revenue (excluding grants) minus expenditure net of scheduled interest and foreign-financed capital expenditure.

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FOR IMMEDIATE RELEASE
August 3, 2007

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$62.2 Million in Emergency Post-Conflict Assistance for Côte d'Ivoire

The Executive Board of the International Monetary Fund (IMF) today approved an amount equivalent to SDR 40.6 million (about US$62.2 million) in Emergency Post-Conflict Assistance for Côte d'Ivoire. The assistance supports the authorities' program for 2007 and is intended to help Côte d'Ivoire build the foundation for sustained recovery in an environment of improving security, regain political stability, and reunite the country.

Emergency Post-Conflict Assistance (EPCA) is designed to promote a strengthening of administrative and institutional capacity, which will be necessary to sustain economic recovery and a higher level of financial assistance. The IMF's support through EPCA is a key part of a concerted international effort to provide financial assistance to Côte d'Ivoire.

Following the Executive Board's discussion of Côte d'Ivoire, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, stated:

"The Ouagadougou Accord provides a welcome roadmap to overcome the years of conflict that took a substantial economic and social toll in Côte d'Ivoire. Rapid implementation of this roadmap and sound economic policies are now key for securing economic recovery in Côte d'Ivoire, which will have positive effects throughout the region.

"To lay the basis for rapid economic recovery in the post-conflict period, the authorities have adopted an economic program that is being supported by assistance under the Fund's policy on emergency assistance to post-conflict countries (EPCA). This program provides a sound and strong initial framework for establishing macroeconomic stablilty and catalayzing donor support, while seeking to address the immediate challenges facing Côte d'Ivoire. Short-term measures under the program focus on restoring security, reunifying the country, and rehabilitating social services and basic infrastructure. This will require creating sufficient fiscal space by improving revenue collection and reducing spending in nonessential areas.

"The authorities should strictly enforce existing budget procedures and improve transparency in budget execution. The intended regular publication of budget execution statements and reporting on physical and financial flows in the energy, cocoa, and coffee sectors are important steps.

"Structural reforms will be critical for securing higher growth over the medium term. These will include steps to strengthen financial supervision and the judiciary environment for loan recovery. In the energy sector, adjustment of prices in line with world prices should induce more efficient use of these resources. The authorities also need to increase their efforts to reform the cocoa, coffee, and cotton sectors. Productivity-enhancing structural reforms, including sustained reductions in the costs of doing business, will improve competitiveness, sustain growth, and help to diversify the economy.

"The authorities' program for 2007 rightly focuses on measures to promote economic recovery, rebuild government services, and ensure transparency in public resource management. Higher spending on social services, basic infrastructure, and crisis-related programs are envisaged in the 2007 budget as well as a reduction of defense and discretionary presidential spending. Implementation of these policies should also contribute to external stability of the West African Economic and Monetary Union (WAEMU).

"The authorities are encouraged to proceed with the preparation of their Poverty Reduction Strategy Paper (PRSP). Adoption of a PRSP and the establishment of the necessary good track record—including under the EPCA—will enable Côte d'Ivoire to be considered for Poverty Reduction and Growth Facility (PRGF) assistance and debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative", Mr. Portugal said.

Statement by Laurean W. Rutayisire, Executive Director for Côte d'Ivoire
August 3, 2007

On behalf of my Ivorian authorities, I would like to express my appreciation to Management and staff for maintaining a constructive policy dialogue with Côte d'Ivoire over the past years admist the challenging political crisis facing the country. The authorities are in broad agreement with and welcome the staff appraisal of the recent economic developments as well as the policy advice on macroeconomic and structural reforms conducive to sustained growth and poverty reduction.

The March 2007 Ouagadougou Peace Accord resulted in a new government, paving the way to peace and national reconciliation. The Peace Accord is centered on disarmament, reunification of the country, identification of the population, and elections. Furthermore, by establishing the basis for power-sharing at the highest level of the country, the Ouagadougou Peace Accord has provided reassurances to populations all over the country, including the main political parties, and gained support from the international community. Since the new cabinet took office, important steps have been taken to implement the peace road map. Notably, the following achievements have been registered:

- In May 2007, disarmament of the militias in the West was carried out;

- On May 31, the 2007 budget was approved by the Government;

- In June, prefects and judges were installed all over the country. These two categories of public servants not only materialize the presence of the government and the state institutions over the whole country, but they also are the key officials who will conduct the reunification and identification processes prior to the scheduled 2008 elections;

- On July 25, international donors pledged a total of 193 billion CFA francs (about 406 million U.S. dollars) in support of Cote d'Ivoire's peace process during a roundtable organized by the authorities;

- On July 30, an historic ceremony of "the flame of peace" was held in Bouaké to announce officially the end of the civil conflict and the reunification of the country.

These achievements need to be underpinned by stepped-up actions towards rehabilitation of social and economic infrastructure, and economic recovery.

ECONOMIC DEVELOPMENTS, OUTLOOK, AND CHALLENGES AHEAD

The political crisis that started in 1999 and aggravated by the now five-year long conflict has taken a huge toll on economic performance and human development in Côte d'Ivoire. Staff estimates cumulative output losses around 20-30 percent, owing to a declining demand and its subsequent effects on industry, construction and trade, the most affected sectors. Per capita income is estimated to have fallen 15 percent during the crisis. Social conditions have deteriorated, along with thousands of displaced populations compounded by shortfalls in the delivery of public services, notably health and education. Moreover, the conflict in Côte d'Ivoire has had adverse impacts on the economy of neighboring countries and on the whole West African Economic and Monetary Union.

In this situation of severe economic and social hardship, my authorities have done their best to handle the country's basic liabilities as well as unanticipated and manifold crisis-related expenses. Furthermore, especially since discussions began with staff in 2006, the authorities have shown strong commitment to sound macroeconomic management as well as to reforms. As a result of their efforts, the economy showed resilience, and the relatively good fiscal stance kept the country away from collapsing.

Recently, the **economic fundamentals** have begun to regain ground, ensuring overall macroeconomic stability. After registering the most adverse effects with negative growth rates over the 2002-03 period, the economy slightly recovered at rates of 1.5%, 1.8%, and 1% in 2004, 2005, and 2006 respectively. **Inflation** remained subdued albeit upward pressures stemming from food and housing prices. While **poverty and social conditions** have deteriorated following the displacement of populations and the subsequent impact on agricultural production, my authorities have taken various actions to minimize the impact of these negative developments. Many social safety nets (cash transfers, food, first aid equipments) were put in place since the start of the conflict to help rural populations escaping from war zones.

Going forward, my authorities' initial actions will be sustained through the policy measures set forth in their memorandum for the 2007 EPCA-supported program, which aims at national reconciliation, sustained recovery of economic growth, improved social conditions, and poverty reduction. These include broad measures in the fiscal, debt management, monetary, financial and structural reform areas.

FISCAL POLICY AND DEBT MANAGEMENT

The huge pressures exerted by the conflict-related spending on public finances render the overall macroeconomic situation fragile. My authorities are aware of the need to raise **government revenue** further to support the implementation of the peace road map. The reforms in the tax and customs administration over the past years have yielded noticeable performance in revenue collection, unfortunately overshadowed by rising crisis generated public spending. A number of these reforms and management systems introduced within the customs administration have recently been commended by international customs organizations and selected to be extended to other countries in the region.

The specific actions ahead are centered on extending tax collection to the whole country, by broadening the tax base to at least its pre-crisis size. In addition, the introduction of a "standardized invoice" should help cover a large share of informal activities. The authorities have also begun to reinforce their actions against fraud and corruption by giving more equipment to control officers. Especially targeted is the developing fraud on customs duties stemming from weak control over borders due to the conflict.

On the expenditure side, commendable budget management kept overall deficit in check amidst daunting spending pressures tied to the crisis. As for the slippages recorded in 2006, in my authorities' view, these slippages are largely attributed to unanticipated spending occasioned by the fleeing of rural populations to the capital city and related requests for public assistance. In addition, the expenditures related to the dumping of toxic waste in Abidjan in July 2006 contributed to the overrun in the primary basic spending.

For the period ahead, my authorities are determined to maintain continued grip on spending pressures as the country makes further progress towards peace. For instance, the reunification of the army will help reduce front-line bonuses and other current military expenditures. This will leave room for the necessary spending related to the resumption of public service in the CNW zones. Under the 2007 budget, my authorities are committed to achieve a primary basic surplus of 1.0 percent of GDP. Apart from the measures stressed above, additional revenue is expected from petroleum product taxation, and oil/gas products to help meet this target.

As for **debt management**, the authorities made a priority of assisting the private sector, and thus reduced domestic arrears to 5 % of GDP at end-2006, along with a set of measures to strengthen the balance sheets of companies that suffered the most from collateral damages. On the external front, an agreement was reached with multilateral creditors including the World Bank and the African Development Bank on arrears. Following this agreement, the World Bank recently resumed its assistance to Côte d'Ivoire. Still, the country's external debt is unsustainable and remains one of the urgent issues to address in the post-conflict era.

MONETARY POLICY AND FINANCIAL SECTOR ISSUES

The monetary policy under the fixed rate CFA Franc/Euro is conducted by the BCEAO, the central bank serving the 8 countries of the WAEMU. The overall good stance of the union, as well as the relatively favorable health of Ivorian exports has helped preserve the countries' external position, the major threat being the appreciation of the Euro against the dollar.

Regarding the financial sector, the long stalled weaknesses have been worsened by the conflict. Though the number of banks has increased, credit to the private sector, especially to small new investment projects and established SMEs remain far below demand if not inexistent. The credit generally benefits large enterprises and commodity exports activities. My Ivorian authorities are determined to strengthen bank supervision and to carry out needed structural reforms so as to deepen the financial sector.

STRUCTURAL REFORMS AND GOVERNANCE ISSUES

Despite an unfavorable environment, my authorities have made important progress in structural reforms regarding mainly the **cocoa/coffee and oil sectors**. The government has created committees of senior officials to monitor closely the quasi-fiscal levies in the cocoa/coffee sector and financial flows in the oil sector.

The cocoa/coffee committee assesses programs and projects proposed by the sector's agencies, and that are implemented in production zones at the benefit of farmers. This mechanism has helped improve the governance in the sector as well as the services – roads, and other basic needs - to the producers. Yet, more needs to be done and the authorities intent to conduct a thorough assessment of the liberalization aiming at reorganizing the cocoa/coffee sector, when the conflict is over and the social climate more conducive to such reforms.

As for the oil sector, in addition to the oversight of the committee, the World Bank is financing a number of audits that will provide the basis for a government strategy and an action plan to improve the management of the sector. Furthermore, my authorities are taking actions to adhere to the EITI.

Regarding the **financial sector reforms**, the *Banque Nationale d'Investissement* –BNI – has made important steps towards unwinding its ties to the central government. It does not extend direct money to the government anymore, thus improving its ratios.
The process of transforming *Caisse d'Epargne et de Chèques Postaux* into a bank is at its final stage. Upon completion, the public treasury will no longer funnel money into this institution. Moreover, the overall disengagement of the state from the banking sector is proceeding.

On the general issue of **governance**, my authorities acknowledge the huge challenges posed by the conflict and a number of decisions taken out of normal procedures owing to the urgency of situations. However the authorities have insisted before staff that they have faced challenging trade-offs over the past years between financial orthodoxy and preventing the country from falling apart irremediably. Maintaining a relative stability of the country has been at the cost of some isolated weaknesses that should not be taken for structural weaknesses in governance and transparency.

CONCLUSION

My Ivorian authorities are committed to consolidate peace and pave the way for stronger and sustained growth. In that regard, they intend to take actions to diversify the economy away from the export of traditional commodities. A clear option of strengthening the industrial sector will be key to creating more jobs in the modern sector and raise the employment potential of the economy for youths.

Along with this endeavor, addressing the debt issue in a sustainable manner remains a big concern for my authorities. That is why they view the EPCA as a transition towards further steps that are debt relief under the enhanced HIPC initiative and the MDRI. Debt relief will remove heavy bottlenecks and unleash considerable possibilities for Côte d'Ivoire. Before the conflict, the country used to allocate almost half of its annual budget to repay the debt service. Such a trend over decades displaced public investment and undermined the basis for long term growth.

My authorities have achieved commendable results in maintaining an overall macroeconomic stability amidst manifold challenges posed by a complex civil conflict. The Ouagadougou Peace Accord has brought hope of reconciliation and reunification of the country and the peace process is back on track. My Ivorian authorities are committed to implementing all the axes of this accord in order to achieve a full restoration of peace, national reconciliation, and complete economic rehabilitation. The assistance of the international community will be key in accompanying this momentum. In view of the efforts made at both political and economic management fronts, my authorities will appreciate the Board s support for an EPCA program.