Cote d'Ivoire Economic Update



IVORIAN ECONOMIC PERFORMANCE SINCE THE END OF THE POST-ELECTION CRISIS


WORLD BANK GROUP

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Ivorian Economic performance since the End of the Post-Election Crisis

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Abbreviations and Acronyms

AFDCI	Alliance des Forces Démocratiques de Cote d'Ivoire
BOP	Balance of Payments
C2D	Contrat de Désendettement et de Développement/ Debt for Development Swap (France)
CFA	Communauté Financière Africaine
CIV	Cote d'Ivoire
DCPE	Direction de la Conjoncture et de la Prévision Économique
DGD	Direction Générale des Douanes
DGE	Direction Générale de l'Économie
DGI	Direction Générale des Impôts
ECB	European Central Bank
ECOWAS	Economic Community of West African States
EU	European Union
Euribor	Euro- Interbank Offered (interest) Rate
FPI	Front Populaire Ivoirien
GDP	Gross Domestic Product
IMF	International Monetary Fund
INS	Institut National de Statistiques
Libor	U.S. dollar- London Interbank Offered (interest) Rate
MTDS	Medium Term Debt Strategy
OPA	Organisations Professionnelles Agricoles
OPEC	Organization of the Petroleum Exporting Countries
PDCI	Parti Démocratique de Cote d'Ivoire
RDR	Rassemblement des Républicains
RHDP	Rassemblement des Houphouëtistes pour la Démocratie et la Paix

Foreword

First in a series, which aims to analyze the recent economic and financial situation in Cote d'Ivoire, this report analyzes the main macroeconomic developments and structural policies of the country from 2013 until mid-2014. It also reflects on the underlying factors of the strong economic recovery in Côte d'Ivoire since the end of the post-election crisis, to assess the likelihood of sustained economic growth and significant poverty reduction in the country. Finally, the report analyzes the effects of declining oil prices and the appreciation of the dollar against the euro and the CFA franc on the Ivorian economy.

This edition does not examine the impact of strong economic growth on the Ivoirian population's well-being indicators such as, poverty, employment and inequality. Within the scope of this report, the objective is to understand the factors contributing to the strong economic recovery in Côte d'Ivoire.

This Economic Update is targeted toward a larger audience, in order to stimulate constructive debate on public policy in the country and between the country and its development partners.

Acknowledgements

This report was prepared under the leadership of Mr. Ousmane Diagana (World Bank Group Country Director for Benin, Burkina Faso, Côte d'Ivoire, Guinea and Togo). The authors of this report are Abdoul Mijiyawa and Eliot Mick Riordan. Important contributions have been made by Gerard Kambou, Yong-Il Choi, Jean Noel Gogoua and Joanna Van Asselt. The quality of the report was overseen by Volker Treichel.

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The partnership with Ivorian institutions, particularly the Ministry of Economy and Finance and the National Institute of Statistics was important for writing the report. On February 16th, 2015, a workshop for the dissemination of the report was organized at Hotel Ivoire in Abidjan. Mr. Ousmane Diagana, Mrs Niale Kaba, Deputy Minister of Economy to the Prime Minister, chiefs of staff, government officials, private sector representatives, political leaders, diplomats, the resident representative of the International Monetary Fund, representatives of international, regional and sub-regional organizations, representatives of civil society, representatives of universities and research centers, and the media, participated in the workshop. Comments and suggestions received during the workshop have helped to improve the quality and coverage of the report.

Executive Summary

Cote d'Ivoire's (CIV) 8.7 percent growth for 2013 was robust and broad-based, continuing the strong tenor of recovery since the politico-military crisis of 2010-11. Recent indicators suggest that GDP maintained momentum near 8 percent during the first half of 2014. On the supply side, all major sectors contributed positively to GDP gains, with services remaining the quickest advancing-and the largest contributor overall. And there was an especially sharp increase in the contribution of agriculture to economic activity. From the demand perspective, a notable pickup in public investment associated with large infrastructure rehabilitation programs was an important driving force for growth, complemented by a strong response of private sector capital outlays.

Domestic investment—including public spending on reconstruction of infrastructure as well as private investment--have played critical roles in supporting recovery from episodes of crisis. The dominance of domestic factors underpinning the current post-conflict recovery in CIV contrasts with the experience of many countries in similar circumstances, where a more robust resumption of export growth and return of foreign investment tended to serve as driving forces for economic rebound. Underlying strength in private sector capital spending in the current CIV recovery is of particular note, underscoring the importance of improvement in confidence of domestic private investors following the stabilization of the political situation, the spill-over effects of public investment, and the importance of business-friendly changes in regulations and institutions in the country (see Section II).

The recent plummet in international oil prices-and to a lesser degree in the prices for CIV's key commodity exports--and the rapid slide of the euro against the dollar carry implications for trade, incomes and GDP growth in CIV, though these are currently assessed to be only moderate. The net impact of oil market developments on CIV is likely to be small. For a country near balance historically in net oil exports, the falloff in world prices will tend to 'wash out'. Potential gains in domestic demand tied to easing inflation are a positive for growth, but may be partially offset by a tightening of the fiscal stance due to lower oil-related revenues. Declines in CIV's export commodity prices since mid-2014 have been much less severe than the 50 percent falloff in oil, implying a terms of trade gain and improvement in the current account position. And GDP dynamics in CIV could benefit moderately (1.1 percent stronger average GDP growth over 2014-16) upon a depreciation of the euro (to which the CFA franc is tied) against the dollar. Competitiveness would improve, boosting exports and placing some downward pressure on imports, with notable positive spillover effects to domestic spending (see Section III).

Inflation in CIV dropped well below the WAEMU average by mid-2014, supported by a decline in food prices, while credit growth picked up—reflecting in part increased private sector spending. Fiscal developments remained favorable, with the primary balance moving into slight surplus in the first half of 2014. And reflecting improvement in economic fundamentals as well as progress in reforms, CIV tapped the international market for a debut Eurobond of $750 million in July 2014, over-subscribed by some six times, and at a low yield of 5.63 percent. This watershed event may set the stage for continuing access to global capital markets, helping to finance the country's ambitious public investment program.

On the political scene, popular attention is shifting from the security front-to the 2015 election cycle, with some tension emerging early in the process. Establishment of a new Independent Electoral Commission had fueled dispute, with disagreement on the structure of the Commission (distribution of positions between government and opposition). Although parties reached initial agreement on admitting the FPI (main opposition party), following the re-election of the Electoral Commission incumbent chairman as head of the body in September 2014, the FPI and its allies withdrew from the Commission. The Government has restructured the Electoral Commission to address opposition's protests, which has contributed to the return of the opposition parties to the Commission. This is a positive development, helping to set the stage for a hoped-for smooth election process.

Growth projections assume continued normalization of the socio-political situation, as well as sustained progress in reforms to improve the business environment and governance. A stable macroeconomic environment is anticipated to underpin growth, with low inflation- averaging 2.5 percent for the medium term- due to easing costs of food and petrol, offering support for strong trends in consumer spending. Investment is viewed as the key force for expansion, with gains in public investment (for new and ongoing projects), and a strengthening of private investment to support production in the manufacturing and construction sectors. Under these circumstances, GDP is anticipated to average gains of 8 percent through 2015.

Though risks are better balanced than in earlier economic recoveries, a turn to the softer side in global economic conditions (especially in Europe) and much weaker prices for CIV's exports, unfavorable weather and potential continued spread of Ebola are some important contingencies for the economy.

A special section which aims to identify the factors propelling the current strong economic recovery in the country—contrasted with others associated with episodes of politico-military conflict since 2000—comes to several conclusions, important among which are:

- "peace dividends", or catch-up growth effects, are not automatic, but examining turnaround in contributions to growth across many sectors during 2012-13 suggests that such dividend has occurred for CIV;
- contrary to the experience of most post-conflict countries, CIV growth recovery has been driven more by domestic than by external factors—with investment leading the way;
- it is likely that (international- economic and domestic political- conditions remaining conducive) growth recovery in CIV will continue for several years, albeit at a more attenuated pace—as war vulnerable sectors recapture pre-conflict levels of GDP, and recent policy changes bear fruit in stimulating private investment and exports.

I. Recent Political-Economy Developments and Outlook

1. Recent Political Developments

Cote d'Ivoire's (CIV) post-election security and political situations continue to improve following a resumption of dialogue with opposition forces and progress on national reconciliation. A framework for dialogue between Government and opposition forces has been established, and successive meetings have led to the release of prisoners from the post-election crisis and an unfreezing of bank accounts of supporters of the former President. Recognizing progress made in implementing the Kimberley Process Certification Scheme (KPCS) and better governance of the sector[1], the U.N. Security Council agreed to terminate sanctions imposed in 2005 on diamond imports from CIV. And to support continuing progress toward restoration of social cohesion, the Security Council also lifted its embargo on small arms and ammunition imports, allowing the country to equip the police for improved security purposes.

Popular attention is shifting from the security front-to the 2015 election cycle, with tensions emerging early in the process.[2] The transfer of Charles Blé Goudé, a youth leader close to the ex-president, to the International Criminal Court in The Hague in early 2014, fueled dissension between the Government and the FPI main opposition party. Establishment of a new Independent Electoral Commission also fueled tensions, with mounting disagreements on the structure of the Commission (distribution of positions between government and opposition), which the opposition considered a violation of the

[1] The Kimberley Process was initiated in 2000 as a means to discuss and implement methods for halting the trade in 'conflict diamonds'. The Certification Scheme imposes requirements on Kimberley members to certify diamond shipments, and prevent conflict diamonds from entering into legitimate trade.

[2] Individuals' security conditions are still showing certain fragilities, as most recently evidenced by strikes among several professional organizations, and the kidnappings and murders of children. The Government has taken necessary actions and is working on improving the situation.

principal of independence- while harming its credibility. Although parties reached initial agreement on admitting the FPI, following re-election of the Electoral Commission incumbent chairman as head of the 17-member body in September, the FPI and its allies withdrew from the Commission.

The Government proposed a restructuring of the Electoral Commission's Central Office to address protests by several opposition parties. Following restructuring in October 2014, a position of fourth Vice President, and two deputy secretaries were created. The Government's proposal was adopted by the Parliament, and Government anticipated that with the change, opposition representatives would return to the Electoral Commission, which should contribute to less fractious elections in 2015. Indeed, in mid-November, the Minister of Interior and Security received a delegation of the AFDCI (a coalition of twelve opposition parties, including the FPI), to discuss the possibility of Adf-CI representatives rejoining the Commission; thereafter, the opposition agreed to a return, helping to ease uncertainty from its earlier levels.

Recently, former President Henri Konan Bedié called for support for the single candidacy of the head of state, Alassane Ouattara on behalf of the Rassemblement des Houphouëtistes pour la Démocratie et la Paix (RHDP) for the 2015 presidential election.[3] Bédié's call in favor of the incumbent president could contribute to a smoother election process for 2015; though some PDCI leaders appear not fully prepared to adhere to this call. Indeed, despite Bédié's call, recently, some PDCI leaders declared their intentions to run in the upcoming presidential election. Overall, it appears that popular concern has shifted from a general sense of uncertainty toward the organization of smooth elections accepted by all Ivorian political parties.

[3] The RHDP is a coalition created in 2005, led by PDCI (Parti Démocratique de Cote d'Ivoire) of Henri Konan Bédié and RDR (Rassemblement des Républicains) of Alassane Ouattara.

2. Recent Economic Developments

Economic recovery in CIV in the wake of the 2010 post-electoral conflict has been robust. Following a falloff in real GDP of some 4.4 percent during the peak of conflict in 2011, a cease to disruption of government functioning, coinciding with signs of economic recovery at the global level, underpinned a near 11 percentage-point surge in growth during 2012. And momentum has continued favorably through mid-2014 within a range of 8 percent (latest observations), grounded broadly in the firm tenor of domestic demand-both consumption, and particularly investment--with a strong response from the private sector (table 1) .[4]

Table 1 : Cote d'Ivoire: Economic Indicators, 2012-2015
Annual percent changes unless otherwise indicated

	2012	2013	2014-H1 /1	2015 Proj
Real GDP				
GDP at constant prices	10.7	8.7	8.0	8.0
Total consumption	14.9	5.7	8.5	7.5
Fiscal indicators (% of GDP)				
Total revenue and grants	18.9	19.8	19.6	19.6
Total expenditure	22.1	22.1	21.8	23.0
Overall balance (incl grants)	-3.1	-2.3	-2.3	-3.4
Primary basic balance	-1.2	-0.1	0.1	-0.2
Money and Prices				
Money & quasi-money (M2)	4.4	11.6	17.1	17.8
Consumer price index	1.3	2.6	0.2	2.6
External accounts (% GDP)				
Current account (x offl trnsf)	-1.8	-5.0	-5.0	-3.8
Exports of goods	44.7	41.3	41.6	39.9
Imports of goods	33.4	34.0	31.6	29.0
Terms of trade (%ch)	-4.1	-2.7	6.4	7.8
Public Debt (%GDP)				
Gross public debt	44.5	43.6	40.1	39.6
External public debt	27.8	25.8	26.8	27.8
External public debt (x C2D)	17.2	16.4	19.1	21.8

Sources: Ivoirian authorities, IMF and World Bank staff estimates. (December 2014)
Note /1: Percentage change (or level) at annual rate from first-half 2013 (or estimate)

[4] Domestic private investment has more-than doubled in the current recovery contrasted with the period of previous peace, supported by public investment spillovers, as well as by reductions in the cost of doing business in CIV largely occasioned by policy reforms.

Supported by a decline in food prices, inflation in CIV had dropped well below the WAEMU average by mid-2014, while money and credit growth picked up—reflecting in part increased private investment spending. Fiscal developments, under the IMF's Extended Credit facility (ECF), have remained favorable, with variability on the revenue side offset through corrections in spending, and with the primary balance moving into a slight surplus during the first half of 2014.

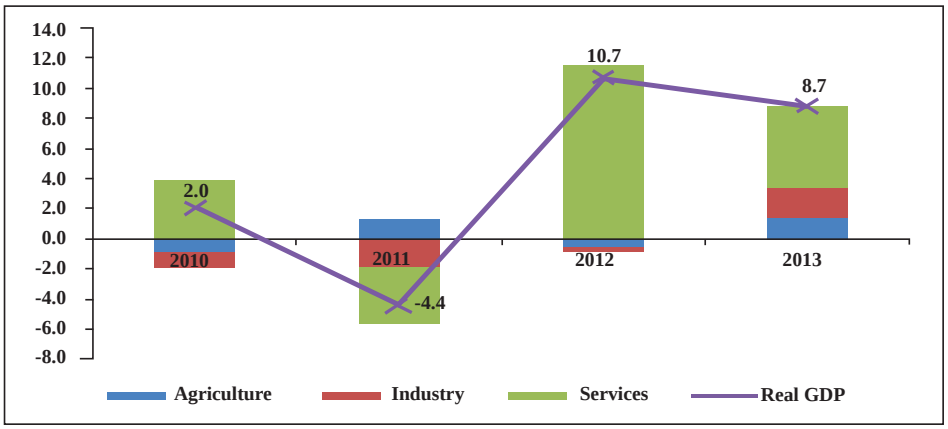
On the external front, terms of trade have been moving in favor of CIV during 2014. In the earlier part of the year, prices for key export commodities firmed (notably cocoa), while crude oil prices maintained a fairly steady profile, helping to boost CIV's surplus in goods trade moderately. But an abrupt change occurred during the second half of the year (and into early 2015), reflecting a mix of steep decline in world crude oil prices (some 50% since June 2014) with more moderate falloff for CIV's major commodity export prices (10% for cocoa and 5% for coffee (robusta)). These commodity market developments together with the more-than 10 percent fall of the euro (to which the CFAF is tied) against the dollar, have likely served to provide a boost for growth in the country—albeit moderate overall—and to complement the strong momentum underlying domestic demand (see Section III).

Financing of the current account deficit has been supported by strong FDI inflows and project loans. And in a major financial development, reflecting improvements in economic fundamentals, as well as progress in reforms, CIV garnered positive assessments from main credit rating agencies, and in July 2014 tapped the international market for a debut Eurobond of $750 million, over-subscribed some six times, and finishing at a low yield of 5.625 percent. Additional bond issuance in 2015, as well as an undertaking of non-concessional loans, is viewed as a means to finance the government's ambitious public investment agenda going forward.

2.1 Economic Growth

CIV's 8.7 percent GDP growth rate in 2013 was quite robust and broad-based, though below the 10.7 percent surge registered in 2012. Both supply and demand factors played a role in sustaining momentum into 2013; while recent indicators suggest that GDP has maintained growth near 8 percent during the first half of 2014. On the supply side, all main economic sectors contributed positively to GDP growth, with services remaining the fastest growing sector and the largest contributor to overall output gains. During the year, there was an especially sharp increase in the contribution of agriculture to economic growth (figure 1).

Figure 1 : Sectoral contributions to CIV GDP Growth, 2010-13



Source: Ministry of Finance and staff calculations.

Agriculture advanced by 6.9 percent in 2013 following a 2.7 percent contraction in 2012, supported by a good harvest and aided by new incentives. Recent crop information highlights continuing gains into 2014--with production of main products well exceeding expectations. The rebound in agriculture during 2013 was driven by strong increases in food-crop production(rice, plantain, cassava and corn) and better-than-expected output of export crops (cocoa, cashew and rubber). A sharp rebound in cocoa (11.5 percent output gain), rubber (13.9 percent) and cashew (8.4 percent) underpinned an upturn in commodities value added. Cocoa production benefited from the introduction of a new variety, "Mercedes", with higher yields, as well as a 9 percent increase in price from CFA672 per kilogram in 2012 to CFA733 in 2013. Several agricultural products established double-digit output gains during the first half of 2014, importantly including cashew and cotton (table 2).

The industrial sector registered strong 8.8 percent growth in 2013, following a 1.4 percent contraction in the year preceding. Industrial production increased by a more moderate 4.7 percent over the year through mid-2014. Growth in 2013 was supported by strong advances in chemical products, footwear and textile manufacturing, and basic metals. The construction and public works sub-sectors value added surged by 27.9 percent driven by ongoing major public infrastructure development and rehabilitation projects. And with new investment in the extension of mining fields, value added in mining advanced by 6.9 percent. Growth to mid-2014 continued to be driven by construction and public works (16.6 percent), as well as manufacturing (9.6 percent) and electricity and gas (5.2 percent)[5]. In contrast,output in the extractive industries declined in a substantial fashion (27.4 percent) tied to depletion of oil deposits and refinery maintenance.

Table 2 : CIV's Main Agricultural Products first-half 2014 (in tonnes)

	6 months 2013	6 months 2014	Change (%)	Annual forecasts
Cocoa	597,802	630,370	5.4	-9.4
Coffee	101,807	103,698	1.9	39.8
Cashew	345,441.1	442,804.9	28.2	4.6
Pineapple	38,763.9	46,566.2	20.1	5.0
Banana	192,022.1	226,772.9	18.1	3.0
Rubber	139,418.1	147,950.1	6.1	5.0
Sugar	124,781.3	133,110.6	6.7	0.5
Palm oil*	107,756.7	114,373.1	6.1	5.0
Cotton	268,055.2	315,460.9	17.7	11.8

Source: DGE, OPA, Ministry of Agriculture; *Q1 data.

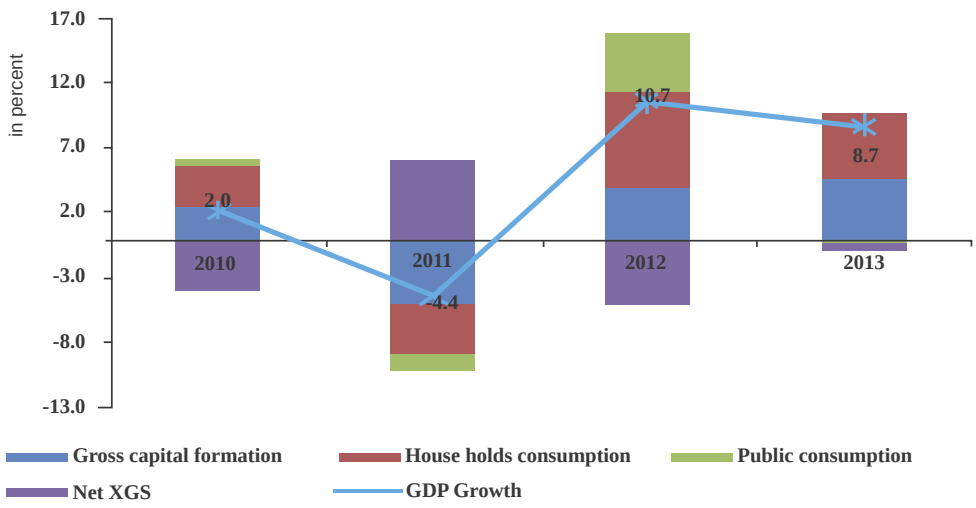
[5] Direction de la Conjuncture et de la Prévision Economique (2014) « Note de Conjuncture Juin 2014 ».

The services sector represents the largest segment of the economy, and provided the biggest contribution to overall growth in 2013; sectoral data show continued momentum during 2014. Value added slowed to 10.1 percent gains in 2013 from a vibrant 20.1 percent during 2012, due to a falloff in public administration-related services. Transport and communications activities were on the rise at 6.9 and 7.8 percent, respectively in 2013 as these sectors benefited from the rebound in agriculture. At the same time, increased household incomes supported higher growth in wholesale and retail trade, which peaked at a 9.7 percent pace in the year. During 2014, air transport has burgeoned, illustrated by a 27 percent jump in the number of business travelers to CIV (to 554,832 passengers). Land transport also advanced, evidenced by increases in gasoil consumption (3.9 percent).

of GDP in 2013, up from 12.1 percent in 2012, driven by gains in public investment for infrastructure rehabilitation, and a rise in private investment for expansion of capacity in the mining and oil sectors. Indeed, the vibrant tone of public capital spending is unique to this episode of recovery from conflict in Cote d'Ivoire. Total consumption increased by 5.7 percent in real terms during 2013, compared to a 14.9 percent surge in 2012, with the easing pace of consumption growth in 2013 tied to declines in public current consumption outlays (2.1 percent); in contrast, household consumption increased 7.4 percent in 2013, contributing strongly to overall growth. And nominal retail sales advanced at a strong 10.9 percent pace during the first half of 2014.

The increase in private consumption was

Figure 2 : Growth by real expenditure categories, 2010-13



Source: Ministry of Finance and staff calculations.

Overall growth from a demand perspective was driven by strong momentum in domestic absorption, powered by a notable pickup in public investment associated with large infrastructure rehabilitation programs. At the same time, the drag on growth from net exports moderated in the year (figure 2). Recent indicators point to continued strong gains in retail spending in 2014. Gross investment peaked at 14.6 percent

supported by job creation in both the formal private and the public sectors; and a 17.4 percent increase in real cocoa-coffee farmers' incomes also abetted household demand. With the normalization of the political situation and an economic rebound taking shape over the last two years, new hiring has resumed in both the private (4.8 percent employment gain) and public sector (4.5 percent), resulting in an overall increase of formal employment by 5 percent in 2013.

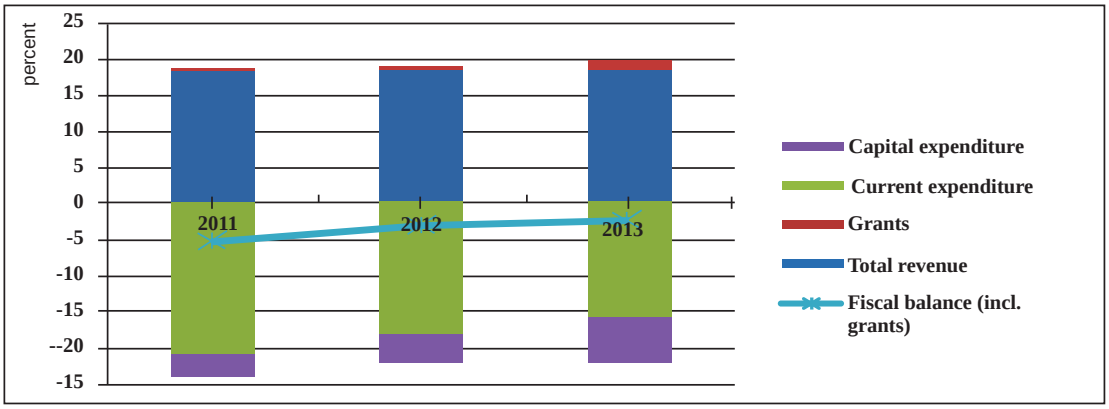
2.2 Fiscal Developments

CIV's fiscal situation improved further during 2013 on a pickup in revenues. And the overall deficit is anticipated to remain broadly unchanged in 2014, though a modest revenue shortfall from plan is expected to be offset by like reductions in expenditure. The fiscal deficit (including grants) narrowed to 2.3 percent of GDP in 2013 from 3.1 percent in 2012, on the back of a fairly small increase in revenues with constant expenditure. The deficit was financed through issuance of Treasury bonds on the WAEMU regional markets (about 73 percent of deficit financing), with budget support constituting the remainder.

Total expenditure remained unchanged at 22.1 percent of GDP in 2013, though the composition of spending shifted, with a strong increase in capital expenditure and decline in current spending. Capital spending increased to 6.1 percent of GDP over 2013 (up from 4.5 percent in 2012), driven by public works and other infrastructure rehabilitation. However capital expenditure remains below planned levels (7.2 percent of GDP), highlighting evidence of lags and some weakness in the implementation of the public investment program. Spending also eased to 21.8 percent of GDP in the first half of 2014.

CIV's public debt position continued to improve in 2013, while the country's risk of debt distress

Figure 3 : Breakout of Fiscal Variables in percent of GDP, 2011-13



Source: IMF data.

Total revenues increased by a marginal 0.1 point of GDP in 2013 (18.5 percent of GDP), compared to 2012 on improved tax- and non-tax revenue returns. Better collection results for income and wage taxes, import and export taxes and corporate taxes, combined with a reduction-in and a tighter monitoring- of VAT exemptions, supported a marginal increase in tax revenues. And better-than-expected social security taxes on wages also resulted in a small increase in nontax revenues. Grants were larger than expected at 1.3 percent of GDP, with higher project finance grants and budget support (figure 3). Revenues eased downward modestly during the first half of 2014.

remained moderate. External public debt decreased to 25.8 percent of GDP at end-2013 from 27.8 percent in 2012, with continued regular debt service payments. And excluding official French claims under the C2D debt-for-development swaps, CIV's external public debt represented 16.4 percent of GDP in 2013 against 17.2 percent in 2012. On the domestic side, the authorities launched the clearance of domestic arrears, after two audits of arrears stocks for the period 2000-2010. As a result, gross domestic debt fell to 13.6 percent of GDP in 2013 from 16.9 percent in 2012. The debut Eurobond issuance of $750 million is a watershed event for the country's

external finance, with plans for further tapping of the bond market being balanced against the longer-term sustainability of CIV's overall public debt.

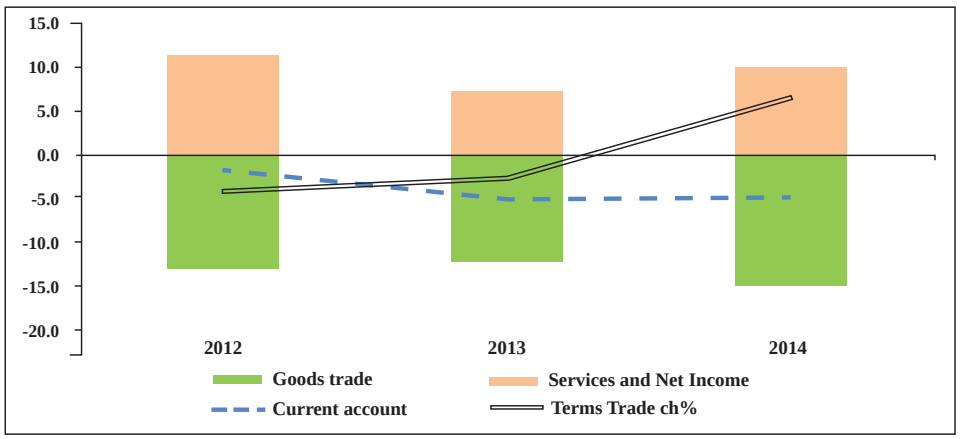
2.3 Balance of payments

CIV's current account was in deficit for both 2012 and 2013, deteriorating to 5 percent of GDP (excluding grants) in the latter year from 1.8 percent in 2012. The large increase in the deficit during 2013 appears to be a temporary phenomenon, however, as it was driven in the main by a surge in imports of capital and intermediate goods stemming from the jump in public infrastructure investment. The deficit is estimated to have remained unchanged in terms of GDP share during 2014 with improvement in the trade balance (and gains in terms of trade) outweighed by net outflows on services and income (figure 4).

in CIV's surplus was due to both volume and price effects. A fall in export prices (4.8 percent) was steeper than that for import prices (2.1 percent), such that CIV's terms of trade deteriorated by 2.7 percent.[6] In similar fashion-- though the volume of both exports and imports increased, the rise in export volume was less dynamic (6.7 percent) than that of imports (13.2 percent) in 2013. The surplus on trade is anticipated to improve to some 10 percent of GDP in 2014, driven by strong gains in agricultural shipments as well as a falloff in import demand from the lofty pace of the previous year.

CIV continues to attract Foreign Direct Investment (FDI), which helped to finance the current account deficit in 2013. While in 2012 FDI inflows represented just 1.1 percent of GDP, by 2013 FDI flows received by CIV represented the equivalent of 2.6 percent. The increase in FDI inflows is driven by new investment in mining and oil activities, as well as increases in domestic

Figure 4 :CIV's Goods- and Services/Income balances (%GDP) and terms of trade (ch%)



Source: Ivoirian authorities and IMF staff estimates

CIV's trade balance maintained substantial surplus over 2012-13, but eased as a share of GDP into the latter year. The trade position is improving over the course of 2014. In 2012 the trade surplus amounted to 11.3 percent of GDP, diminishing to 7.3 percent in 2013. The reduction

demand tied to strong growth experienced over the last two years. CIV's overall balance of payments was in surplus of 0.4 percent of GDP during 2013, in the wake of a 2.6 percent deficit in 2012. The surplus on BOP was generated in the financial account, which showed surplus of 5.2 percent of GDP in 2013.

[6] Direction de la Conjoncture et de la Prévision Économique, « Note de conjoncture de décembre 2013 ».

CIV exports primary products, mainly, cocoa, cashews, crude oil and gold. The country also exports manufactured products, mainly refined oil products and products derived from first stages of cocoa processing. In 2013, cocoa, and crude oil and refined oil products, represented 30.1 and 29.3 of CIV's total exports of goods. CIV's imports comprise primary and intermediate goods, including crude oil and equipment--mainly machinery and transportation equipment. In 2013, crude oil represented 27.5 percent of CIV's total imports of goods.

CIV's exports are mainly destined for the European Union (EU) and ECOWAS markets, while its imports mainly originate in the former two markets and Asia (figures 5 and 6). In 2013, CIV's exports to the EU and ECOWAS represented 32.5 percent and 30.5 percent of the country's total export of goods, respectively. Of interest, and contrary to some African countries at the moment, CIV's exports to China are very low (1.1 percent of total exports). In 2013, CIV sourced some 25 percent of its good imports from the ECOWAS countries, including 22.7 percent from Nigeria. CIV also imported 22.9 percent of its total imports from the EU, including 10.8 percent from France. While CIV exports only 8.1 percent of its goods to Asia, it imports 23.3 percent of goods from Asia, of which China accounts of 11.3 percent.

2.4 Money and Prices

Broad money increased by 11.6 percent during 2013, with a slight rise in net foreign assets (0.17 percent), an increase of net credit to the government (15.1 percent) and a continuing increase in credit to the economy (22.6 percent). The increase in domestic credit to the economy was driven by short term credits to households and businesses (22.9 percent), as well as medium and long term credits to businesses (+27.2 percent). These developments appear to be signs of improved conditions in the private sector, with positive spillovers into 2014 performance, as M2 advanced some 17 percent during the first half of the year.

Figure 5 : Geographical Distribution of CIV's Goods Exports: 2013

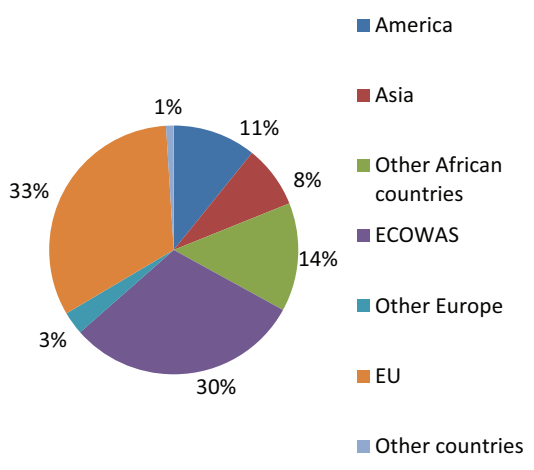
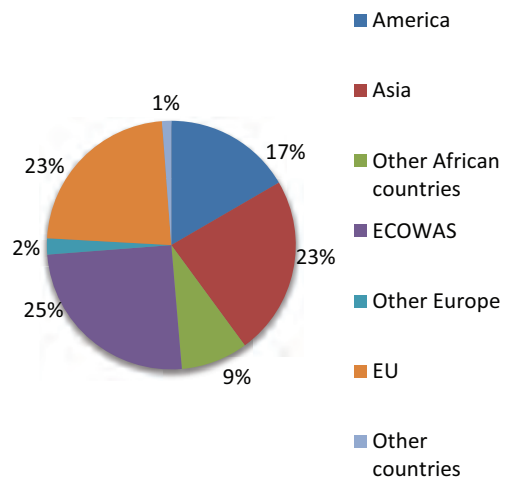


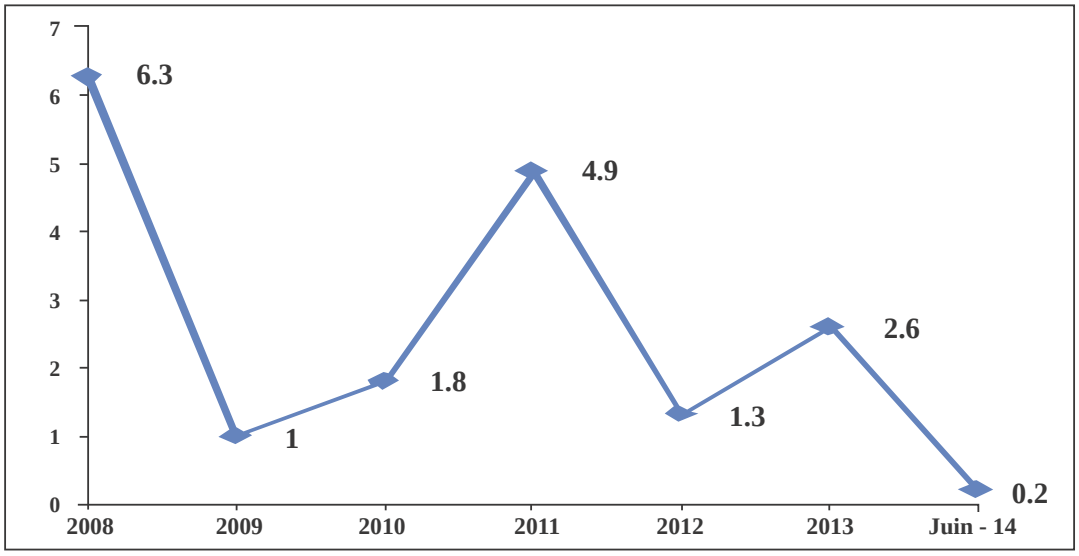
Figure 6 : Geographical Distribution of CIV's Goods Imports: 2013



Source: Calculations based on data from Direction générale de l'économie and Direction générale des douanes.

Headline inflation diminished to well below the 3 percent WAEMU target. Annual inflation declined from 4.9 percent in 2011 to 2.6 percent during 2013 and to a modest 0.2 percent by mid-2014 (y/y) (figure 7). The moderate upturn in inflation during 2013 was due to acceleration in both domestic- (2.3 percent) and imported inflation (4.3 percent), with the latter tied to food prices increase (fruits and vegetables, dairy). While domestic price pressures were driven by increased costs of education, particularly by one-off higher education fees (83 percent rise). In contrast, consumer prices for health and communications declined by 1.7 percent and 0.5 percent, respectively in 2013.

Figure 7 : Consumer Price Index (ch% annual average; 2014: June y/y)



Source: Ministry of finance and staff calculations.

3. Structural Reforms

In recent years the government has adopted a number of structural reforms to help improve the macroeconomic environment and set the stage for growth. These include broader reforms that aim to improve the business environment; sectoral reforms, and programs to improve public governance.

3.1 Business environment

• **Improving the business climate is an important focus of the government's agenda--a committee led by the Prime Minister was formed to improve CIV's "Doing Business" scores.** For a second consecutive year, CIV was ranked among the top 10 reforming countries in the world according to the 2015 "Doing Business Report" of the World Bank. In the report, CIV was ranked 147th on overall ease of doing business, while it ranked 158h out of 189 countries in the 2014 edition.

• **The Government executed a decree to create the Abidjan Commercial Court in July 2012 in order to improve efficiencies for the CIV business community.** The performance of the Court will improve thanks to a recent World Bank donation of software which will enable electronic management of commercial acts and procedures.

• **CIV recently approved new investment- and mining codes,** both are business-oriented and grant important incentives to private investors. In similar fashion, the country has adopted an electricity code, incorporating an appropriate framework for the management of physical and financial flows of the electricity sector.

3.2 Sectoral reforms

• **In agriculture, efficiency is being pursued under the National Agricultural Investment Program.** The plan aims to allow the country to achieve food security and develop value chains in agriculture through increasing private sector participation and setting-up effective professional agricultural organizations.

• **Several measures were approved to promote cashew processing in the context of the World Bank's recent Second Poverty Reduction Support Credit:** (i) a fund to support technical assistance was established; (ii) a tender to recruit service providers for technical assistance was launched, and (iii) a cashew nut processor association was inaugurated.

• **In cotton, farmers are benefiting from a new management system based on objectives, implementation of improved agricultural techniques, provision of agricultural inputs and materials, and services extension.** In the banana sub-sector, with the support of the European Union, the Government has implemented the "banane dessert" project, with the objective of revitalizing banana output in CIV. This project also aims to support smallholders, allowing them to perform alongside big firms in a win-win partnership. In similar fashion, pineapple production has benefitted from government support through the implementation of pilot projects.

3.3 Financial Markets and Public Financial Management

• **A financial sector development strategy was approved in April 2014.** The strategy is grounded on two pillars: the stability of the financial sector, and the expansion of the sector.[7] It aims to ensure an improved response to the economy's financing needs, especially for housing, SMEs/SMIs and agriculture.

• **A resolution related to restructuring of seven Ivoirian public banks was adopted in May 2014.[8]** Banque Nationale d'Investissement, Caisse Nationale des Caisses d'Épargne, and Banque de l'Habitat de Cote d'Ivoire will remain public entities-and will be merged. The minority government shares in Société Ivoirienne de Banque and in the BIAO will be sold on the market. And Banque pour le Financement de l'Agriculture and Versus Bank will be fully privatized.

• **The Government envisages a broad reform of Public Financial Management (PFM).** Decrees for the inclusion of WAEMU PFM directives in the national PFM legal framework have been approved. And following this step, specific measures are underway to ensure their translation into PFM daily operations. A new PFM reform strategy which covers the components of the budget cycle has been adopted; while government also intends to address weaknesses apparent in public procurement.

• **Debt management is attracting additional attention within Government.** A new medium term debt strategy (MTDS) for 2015 -2019 is planned. The country expects to borrow more, both on concessional and non-concessional terms to satisfy its large investment needs.

• **The High Authority for good governance has been established after some delay.** The High Authority has the potential to be instrumental in addressing governance issues that face the country.

[7] http://www.presidence.ci/presentation-detail/412/communique-du-conseil-des-ministres-du-mercredi-16-04-2014
[8] http://economie.jeuneafrique.com/regions/afrique-subsaharienne/21996-le-gouvernement-ivoirien-adopte-le-plan-de-restructuration-du-secteur-bancaire-public.html

4. Economic Outlook

On balance, actual economic outturns for the first half of 2014 are broadly in-line with earlier projections. And revised forecasts continue to show favorable economic trends into the medium term. The IMF forecasts GDP growth of 8 percent for 2014 and 2015, and 7–8 percent for the medium term, driven by continued strong domestic demand in CIV, and to a lesser extent improved export performance (table 1, earlier). In contrast, the Ivoirian authorities are more optimistic, expecting growth to be 9 percent in 2014, and to register slightly more-than 10 percent per annum over the medium term--in large measure powered by public capital spending and increasingly by private investment outlays.

Growth projections are grounded in assumptions of sustained momentum in structural reforms to improve the business environment and governance—and hence support private investment; and continued normalization of the socio-political situation. A stable macroeconomic environment is anticipated to support growth, featuring low inflation, projected at 0.6 percent for 2014 and averaging 2.5 percent for the medium term. Investment is viewed as the driving force for expansion, featuring both continued gains in public investment (for new and ongoing projects), and private capital outlays supporting a renewal and strengthening of production in the manufacturing and construction sectors.

For public capital spending, several large-scale investment projects are anticipated to be launched over the medium term: strengthening capacity of thermal power plants (Ciprel IV, Azito, Abatta); construction of a hydropower dam in Soubré (expected in 2017); upgrading ports and airport terminals (cargo of the Felix Houphouet Boigny airport); rehabilitation of airports in the interior of the country (Yamoussokro, San-Pedro, Bouaké, Korhogo); continued mining exploration (oil, gold, iron and manganese); development of petroleum and gas fields (Gazelle, Espoir) as well as gold extraction (in the departments of Hiré and Bouaflé).

Fiscal deficits are anticipated to widen moderately over 2015-2016 on the strength of increased public sector outlays, while the external balance ranges into deficit of 4-5 percent of GDP, financed by FDI and further on-take of non-concessional external funds. The draft 2015 budget on the spending side includes a rise in the wage bill, further increases in public investment in infrastructure, and a modest subsidy to the Health Insurance System which will start operations from January 2015--contributing to an overall deficit of 3.4-3.5 percent of GDP.

The return of the African Development Bank to Abidjan, which is expected to be complete and effective by January 2015, will also support economic growth in CIV, directly through increased consumption, and indirectly by potentially shoring up private sector confidence in the country.

Overall, growth prospects for the short- and medium terms are favorable, and risks to growth appear to be more balanced. But domestic political tensions related to the October 2015 Presidential election remain of some concern. Despite Bédié's call for support for the single candidacy of President Ouattara on behalf of the RHDP, recently, some PDCI leaders declared their intentions to also run in the upcoming presidential election. But the return of the opposition to the Electoral Commission has tended to reduce the overall level of uncertainty.

The recent dramatic decline in world oil price- and less severe fall in the country's key commodity export prices, together with the weakening of the euro against the dollar is—on balance--expected to provide a moderate degree of support for CIV's GDP in the near term. Net effects of the recent halving of oil prices on the CIV economy are likely to be small, largely because the country remains near balance as a net exporter/importer of oil. The "income effect" (or change in current account balance) is not large, offering only a modest boost to domestic demand. In contrast, CIV's terms of trade will be supported as the decline in prices for cocoa (10 percent since August 2014) and for coffee (5 percent since April) are much more restrained than for oil prices. This leads to positive income effects, stimulating stronger domestic spending. Finally, the CFA franc (CFAF), tied to the euro, declined in step with the European unit against the dollar into early 2015 (almost a 15 percent drop since recent peaks in March 2014). As competitiveness of CIV exports improves, GDP receives an initial boost, which carries positive spillovers for consumer outlays and investment--a net benefit for growth dynamics.

A turn to the weaker side in global economic conditions, and unfavorable weather-a potential continued spread of Ebola-as well as deterioration of the political situation in West Africa are some important external risks for the economy. A much sharper decline in the price of CIV's main exports, and deterioration of the economic situation in Europe would negatively impact Ivoirian exporters. CIV has been spared the Ebola outbreak thus far, and the Government has taken measures to limit contagion risks from neighboring countries, but further efforts may be called for. Moreover, as in Cote d'Ivoire, 2015 will be an election year in many Western African countries (Benin, Guinea, Togo and Burkina Faso), and political tensions could rise. In addition, the security and economic development of West African countries could be threatened by the development of terrorist acts in the sub-region. It is important that CIV, the ECOWAS countries and the international community coordinate their efforts to avert that possibility.

II. Explaining CIV's Strong Economic Performance since 2012[9]

5. Factors underlying CIV's robust economic recovery

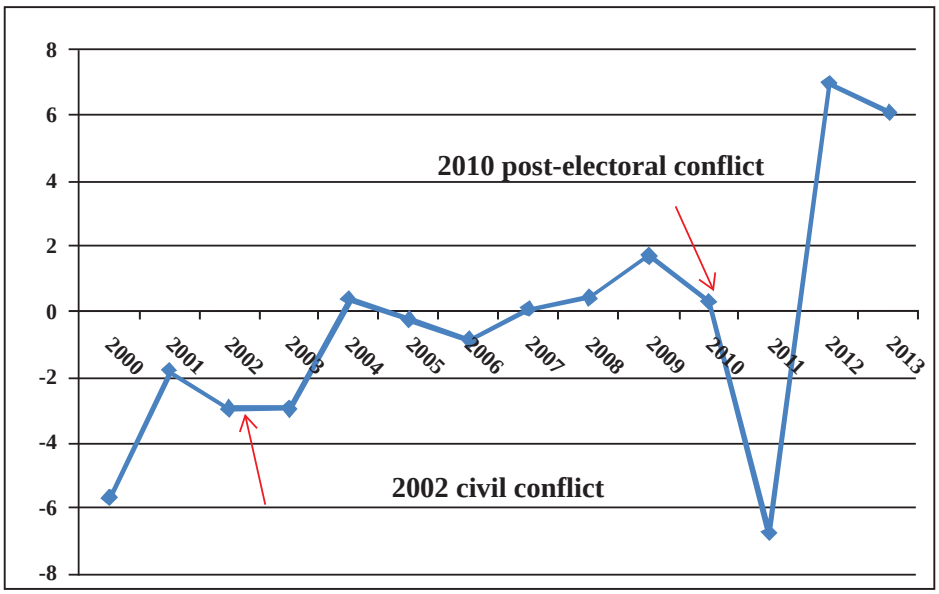
In contrast with many post-conflict economies, the recent recovery in CIV has been led by domestic demand-rather than by exports and renewed inflows of FDI. The robust advance in investment has been the most important factor driving the recovery—importantly, private investment has more-than doubled contrasted with the period of previous peace, supported by improved confidence of domestic private investors following the stabilization of the socio-political situation, spillovers from public investment, as well as an improved business environment occasioned by policy reforms in CIV. Infrastructure spending by the Government grounded in support for energy (electricity) and transport services has enjoyed a substantial rise from the previous period of relative stability in 2008-09. And such investment is viewed to carry strong positive effects for overall growth: such benefits are undoubtedly accruing in the case of CIV.

Similar to the experience of many conflict-affected countries, CIV's economic output has been punctuated by periods of decline and stagnation during intervals of politico-military strife—or indeed civil war—in this case over the last twelve years. These episodes had generally been followed by periods of economic recovery, though mainly of brief duration, as tensions underlying civil strife eased for a time and allowed government and the private sector a respite, enabling modest GDP gains. But given the significant volatility of growth, real GDP per capita in CIV over 2000-2013 declined by an average 0.4 percent per year (figure 8), contrasted with gains of 2.4 percent for ECOWAS in aggregate and 2.3 percent for Sub-Saharan Africa (excluding South Africa). An economy that once had been the powerhouse for growth in West Africa during the 1970s and 1980s, grounded in the strength of agriculture and exports, lost substantial ground to neighboring countries and to the broader region over the 2000s.

For CIV the 2000s were distinguished by two major episodes of disruption to peace. In the wake of coups d'etat in 1999, the 2002 civil conflict resulted in a country divided in two, with the North controlled by rebels and the South by the Government. Though resolved in 2007, with the signing of the "Accords de Ouagadougou" between former President Laurent Gbagbo and Guillaume Soro, the former rebellion leader, this conflict yielded a long period of decline or stagnation in output over 2002-2007 as well as a suspension of the country's relations with the international community. The second period of political instability followed upon the elections of 2010, with the announcement that Alassane Ouattara was the victor in the second round of Presidential elections, unseating the incumbent Laurent Gbagbo. The crisis came to an end in spring 2011 with the arrest of M. Gbagbo, and installation of M. Ouattara as President of the country. The 2010-11 post-electoral episode took a sharper immediate toll on economic activity in CIV than did the conflict of 2002-07, but clear signs of a rebound in GDP growth became apparent in short order. Recent economic developments through 2014 suggest that the momentum of growth continues to be vibrant.

[9] This section provides a summary of a (2014, draft) World Bank Publication: "Source of Economic Growth in Cote d'Ivoire: A Diagnostic of Growth Opportunities and Challenges ".

Figure 8 : Growth of real GDP per-capita in CIV, 2000-2013



Source: World Bank, World Development Indicators.

This section of the Economic Update sets out to identify what have been the key drivers of economic recovery in CIV after several years of instability, -and against this background to assess the likelihood of more sustained growth and poverty reduction for the coming years.[10] Given the fluid nature of political and military tensions in CIV over the 2000s, the sole episode of earlier economic recovery for the country identified is that which occurred over 2008-09, in the wake of continuing instability during the first half of the decade (figure 8). Analysis of the factors for recovery include identification and differentiation--through the economic literature on post-conflict economies--of 'war-vulnerable' from 'war-invulnerable' sectors and their roles in shaping economic activity during and after conflict; a breakout of contributions to overall growth at the sectoral level (e.g. agriculture, industry and services), and examination of selected demand elements (e.g. exports and investment) in supporting growth in the post crisis environment. The potential linkage of the strong conditions characterizing the current rebound to recently enacted policies—and the mechanisms through which these effects may be occurring--are also highlighted.

5.1 Economic recovery in post-conflict environments

Evidence suggests that a "peace dividend"—or the emergence of catch-up growth effects--often accompanies the cessation of political or military strife for a developing country; but such boost to activity is not automatic, with the extent of loss in human capital and of non-renewable resources representing a constraint. Studies of economic developments in post-conflict countries have identified a number of factors which may lead to growth recovery, as economic opportunities increase with the cessation of hostilities. Higher returns to investment vis-à-vis the steady

[10] Unlike the first section of the report, which analyzes the macroeconomic situation until mid-2014, in the second section, 2013 is the last year of analysis, because all necessary and detailed data for the investigation of factors contributing to the economic recovery in CIV are not yet available for 2014 and 2015.

state--given potential destruction of physical capital during war--is an element at play. Reduction in uncertainty can also improve returns to investment, and help to foster productivity (David et. al., 2011). Moreover, the potential for countries to earn more from their commodity exports can emerge, as cessation of conflict presents an opportunity to expand mineral exploration and related activities, while improved bargaining power of government to get better returns for extracted resources may also contribute to this development. Importantly, political opportunities that are favorable for economic activity can materialize in an environment more conducive to growth-enhancing reforms (Collier, 2009).

manufacturing, construction, trade, transport and other services grouped in this category. It is posited that the share of war vulnerable sectors in GDP will decrease during war time and increase during peace. In turn, war invulnerable sectors are less sensitive to conflict conditions, tied to the specific assets or capital required for their development. Subsistence agriculture requires more arable land and less capital investment for development, and hence food crops are classified under this sector; their share in GDP is anticipated to increase during war and to decline during peace. Unclassified sectors are activities that can be cited either as war vulnerable-or invulnerable activities. The cocoa sector in CIV may be considered unclassified—a sector which may experience either increase or decrease in share of GDP during conflict. After reaching the production stage, cocoa requires less investment, suggesting that war would not stop the development of cocoa production, making it a war-invulnerable sector. However, because of war, the provision of extension services to cocoa and pesticides may dissipate, while harvesting may become challenging. This suggests that cocoa production could also be considered as a war-vulnerable activity.

Table 3 : Impact of war on GDP composition in Cote d'Ivoire over the period 2000-13

	2000-01	2002-07	2008-09	2010-11	2012-13
	Share of nominal GDP (%)				
War vulnerable sectors	**54.4**	**49.7**	**48.8**	**45.9**	**48.4**
Manufacturing	20.4	18.8	18.2	15.7	16.7
Construction	2.3	2.3	1.7	1.6	2.3
Transport, trade and other services[1]	31.7	28.7	28.9	28.6	29.4
War invulnerable sectors	**14.8**	**15.3**	**14.1**	**13.5**	**13.0**
Food crops and livestock					
Unclassified sectors[2]	**30.8**	**35.0**	**37.1**	**40.6**	**38.6**
Total	**100**	**100**	**100**	**100**	**100**

Source: Calculations based on data collected from INS, DCPE/DGE.
Period sub-intervals: 2000-01: pre-crisis; 2002-07: first politico-military crisis; 2008-09:pre-second politico-military crisis; 2010-11: second politico-military crisis, and 2012-13: growth recovery period.
Note: 1/ Other services comprise bank and financial services as well as public administration-oriented services.
2/ Unclassified sectors comprise activities such as extractive industries, export crops, energy and all other activities not classified either as war vulnerable or as war invulnerable.

Political conflict tends not only to affect economic growth, but to bring about change to the structure of an economy-- and there are signs that the composition of output in CIV has been shaped by alternating episodes of war and peace. In a post conflict environment, following Collier (2009), three types of sectors can be distinguished: war vulnerable-, war invulnerable- and unclassified sectors. War vulnerable sectors are intensive in transactions and assets—with

The analysis of sectors more-affected by conflict and those less-so suggests that political crises have carried an impact on CIV's GDP composition and economic growth outturns. Specifically, data highlight that the share of war vulnerable activities in GDP has decreased during war time and increased during peace (table 3). The data also demonstrate that all war vulnerable activities have not yet reached their pre-crisis shares of GDP (2000-01), with manufacturing showing the weakest overall recovery. Sectors defined as less vulnerable to war conditions have performed as this rubric would suggest as well, with the notable exception of 2010-11 in the aftermath of the global financial crisis. And the lack of full catch-up to pre-conflict shares of GDP for the war vulnerable sectors is encouraging for growth in CIV looking forward, with the momentum of growth in sectors accounting for fully one-half of economic activity still having a course to run before returning to previous peaks.

Political conflicts also diminish the efficiency and productivity of the economy, not only through lower investment, but also through the choice of investments which would tend to focus more on short-term ones and not necessarily the most productive during war times. In the case of CIV, data show that in fact, war has had a negative impact on the productivity of production factors. Indeed, as shown in table 4, although the slowdown in CIV's total factor productivity started in the 1980s, the phenomenon accelerated during the 2000s, where the contribution of total factor productivity to economic growth was lowest (-1.2 percent over the period 2000-2010). However, since 2011, following the rise of investment, there is a substantial increase in total factor productivity (+0.4 percent over the period 2011-2013), which bodes well for the Ivorian economy should that trend continue.

Table 4 : Decomposition of GDP growth in Côte d'Ivoire (Contribution to annual growth rate, in percentage)

Periode	Real GDP (Average annual growth rate)	Capital	Labor	Education	Total factor productivity
1980-1990	2.8	0.3	2.9	0.2	-0.6
1990-2000	2.1	0.1	2.2	0.3	-0.5
2000-2010	0.7	0.3	1.4	0.2	-1.2
2011-2013	3.6	1.1	1.9	0.2	0.4

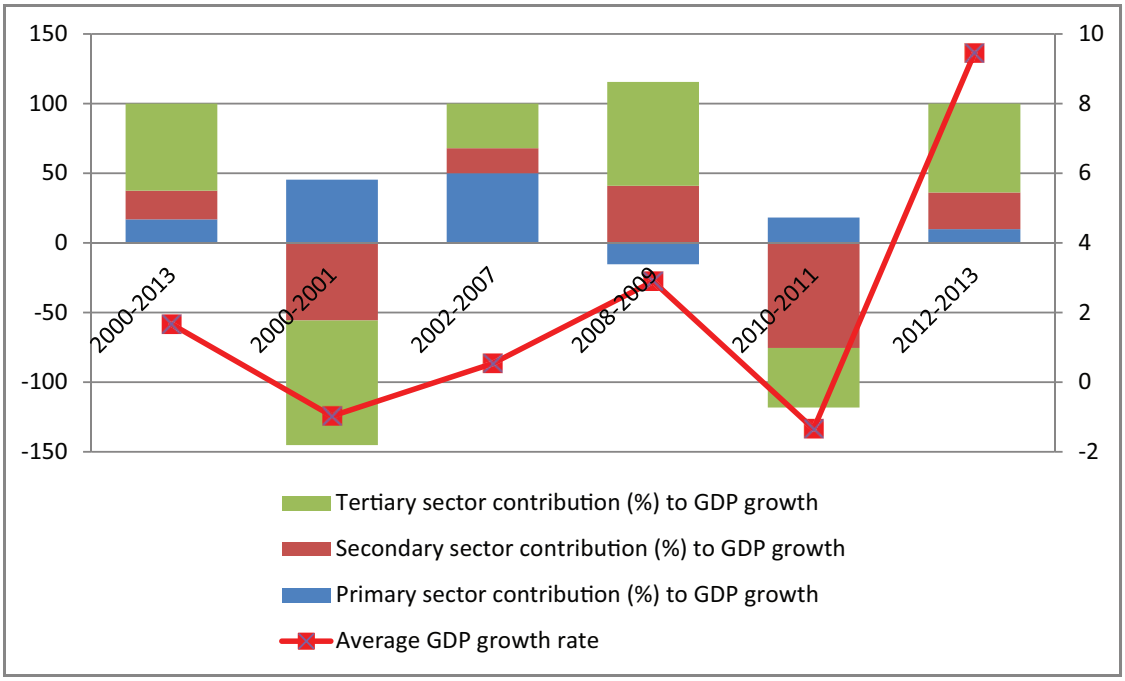
Source: IMF and Penn World Table; and Barro and Lee database for education.
Note: Total factor productivity corresponds to the Solow residual; it represents the share of growth that cannot be explained by factor accumulation, it is therefore a proxy for the efficiency of the use of production factors.

5.2 CIV sectors and policies that have made a difference in periods of recovery

There has been a shift in the roles of agriculture and services as drivers of economic growth in CIV from the 1970s to the 2000s, with the former being eclipsed by services (tertiary sector) as the prime mover for activity. Tertiary sector contributions to overall growth now dominate in the CIV economy, accounting for a full 62.5 percent of real GDP growth over the 2000-13 interval, followed by industry (secondary sector) at 20.6 percent and agriculture (primary sector) with contributions amounting to 16.9 percent. The services sector now accounts for the largest share of GDP (52.7 percent), and has been the sector displaying fastest growth during the 2000s (though a sluggish 1 percent for the period on average, services boomed during the current recovery phase, advancing 11 percent per year over 2012-13).

Data reveal that- when the overall economy is contracting (as during 2000-01 and 2010-11), or stagnant (2002-07) the contribution of the primary sector is positive or strongest; and when economic growth is rapid, the services sector leads the way (figure 9 and table 3). The primary sector appears to be serving as a 'safety net' for the economy during periods of overall contraction, this having been the case particularly during the post-electoral conflict of 2010-11, when sharp decline characterized industry and services. This dynamic may be tied to the resilience of food crop output to the harsher environment of politico-military conflict, as noted in the section preceding, potentially linked to donor support for food crop production during periods of crisis, a pickup in demand in neighboring countries for these products, and improved incentives for production, given difficulties (increased taxation and deterioration of transport services) in the export crop sector occasioned by domestic conflict.

Figure 9 : Sectoral contributions to CIV real GDP growth over intervals, 2000-13



Source: Calculations based on data collected from INS and DCPE/DGE.
Note: Sectoral contributions to GDP growth (share in %) left axis; average GDP growth rate, right axis.

Within the primary sector, food crops have been the largest contributor to growth in the 2000s, a change contrasted with the 1970s and 1980s when export crops were the leader in agriculture and for overall economic growth in CIV. This can be understood in part based on a World Bank analysis which found that a number of export crops such as coffee and pineapple may be on declining paths, while banana and sugar appear to be stagnating in CIV[11]. This suggests that the potential for several export crops to contribute to growth in CIV has been limited. The fact that food crops comprise the largest driver for growth in the primary sector contains a positive as well as a somewhat worrisome message. Stronger food crop output offers opportunities for diversification of the primary sector; and carries the potential to reduce poverty, directly-and quickly, as smallholders account for the majority of the population involved in food crop activities. But declining or weaker contributions of export crops to growth generally imply a reduction in foreign earnings that CIV needs to finance its development.

Recovery from global recession, however, has underpinned world prices of cocoa, coffee and other CIV agricultural exports to high-or record-levels; while reforms on the domestic front in the wake of the 2010-11 crisis have improved incentives for export crop production, leading to strong performance of value added and exports in the 2012-13 recovery. All major crops exported by CIV reached record high prices in recent years; demand for chocolate increased, while high prices and increased production in the rubber and cashew sub-sectors have also contributed to increased value added. The upturn in output of export crops is also linked to policy changes in CIV which have led to an increase in the cocoa farm-gate price, allowing farmers to earn more revenue from sale of their crops. And increased foreign direct investment in the sub-sector may be playing a role--for example the firm- Barry Callebaut (a leading global supplier of cocoa products)- has invested to increase productivity and to facilitate the availability of inputs for cocoa producers in the country.

On continued expansion of public-administration related services, the tertiary sector in CIV has taken the role of prime driving force for economic activity over the course of almost the last 15 years. Growth in overall services value added was volatile over the 2000s, as conflict carried direct adverse effects notably to transport and trade activities. However gains in public-administration services, albeit grounded in increasing public payrolls contrasted with improved efficiency, provided support for the sector (table 5). On an upbeat note, onset of peace and return of high-level civil servants to CIV is likely to have contributed to the exceptionally strong performance of administrative services over 2012-13: overall staffing has been better managed (with recruitment frozen- save for health and education) and assignment of civil servants across the country improved, enabling efficiency gains and enhanced output growth.

Revitalization or incipient growth in services to enterprises, as well as in transport, trade, telecommunications and finance is evident in the current recovery—developments encouraging for near-term economic prospects. Business services have grown quickly, with opportunity for further expansion grounded to a substantial degree in policy changes geared toward improving the overall climate for doing business in CIV[12]. Transport and trade services have revived following several years of contraction—and grew smartly during 2012-13, largely due to the onset of peace, reduction in 'rackets' and stronger demand with rising incomes. Though CIV was among the first countries in West Africa to lay out reforms in telecommunications, it was not until

[11] "Cote d'Ivoire: the Growth Agenda: Building on Natural Resources and Exports", Report Number 62572-CI. 2012. World Bank. Washington DC.

[12] As noted in section 3, CIV ranked among the top 10 reforming countries in the world according to the 2014 and 2015 editions of the "Doing Business Report" of the World Bank.

the present decade that regulatory and economic conditions stimulated investment and set the stage for sustained growth in the sector, powered by advances in mobile telephony, 'mobile money' and other IT services. In 2012, a new law regulating telecommunications replaced the 1995 telecoms code, introducing new measures that have helped to deal with modern sectoral issues. For the financial sector, however, evidence suggests that there is some distance to go before the country fully recovers from the crisis period of 2010-11, with non-performing loans and weak capitalization standing as encumbrances to expansion.

Table 5 : Growth of real value-added in CIV services sectors over 2000-13

	2000-13	2000-01	2002-07	2008-09	2010-11	2012-13
Average tertiary sector growth	**2.0**	**-1.6**	**0.4**	**4.1**	**-0.8**	**11.1**
Growth rates of tertiary sub-sectors (%)						
Transport	-1.5	-4.5	-1.8	-0.7	-0.5	0.8
Telecommunications	0.5	0.7	-0.3	1.1	1.3	1.2
Trade services	-0.1	-2.6	-0.2	1.0	-0.2	2.0
Banking and insurance	0.5	1.1	0.4	0.5	-0.5	1.2
Services to enterprises	1.0	0.8	1.0	1.2	0.6	1.2
Other services	1.5	2.9	1.3	1.0	-1.6	4.7

Source: Calculations based on data collected from INS and DCPE/DGE.
Note: 'Services to enterprises' comprise legal and accounting activities, management consulting, auditing, architecture, security, advertising etc.; 'other services' comprise public administration-oriented services.

Output in manufacturing, extractive industries and construction (the secondary sector) has also been quite volatile over the longer term due to the exposure and sensitivity of activity to conflict; but extractive- and agro-businesses in particular are now benefitting from the onset of peace and an improved policy environment. Production from CIVs gold mines-, agricultural processing industries[13] and other manufacturing experienced significant variability tied to episodes of political disarray—highlighted by average contraction of the broader secondary sector of more-than 4 percent per year over 2010-11. With stabilization of domestic conditions in the last years, leading as well to a re-opening of the ECOWAS market to CIV agro-processors—implementation of new mining codes, and passage of reforms for the energy sector (electricity generation- marketing and pricing)—secondary sector output boomed (more-than 10% annual gains in 2012-13), with all segments enjoying a substantial boost to value added.

Opportunities and challenges face policymakers in their efforts to sustain momentum in the industrial sector. Among favorable developments, analysis suggests the return of dynamism to agro-industries, petroleum (refining) and other manufacturing activities, which if sustained by continued domestic reforms and a supportive international environment, could provide a foundation for further industrial development. In contrast, the recent boom in secondary growth has been underpinned to a strong degree by a surge in construction, largely driven by public infrastructure rehabilitation efforts, which may suggest a "natural limit" to gains in this sector. And, though recently in recovery, lingering difficulties in the energy- and extractive industries

[13] Agro-business in CIV is grounded in various stages of processing of domestic cocoa, coffee, palm oil, cashew and sugar cane production. As a capital-intensive sector, it is characterized by a substantial and long-term presence of multinational firms and attendant foreign direct investment inflows, and hence is highly exposed to the incidence of domestic instability.

could serve, in the absence of additional policy improvement, as a drag on overall growth for CIV into the medium term.

5.3 Key elements underlying the current growth recovery: are they sustainable ?

The economic literature suggests that exports and investment are key among demand segments of GDP that help account for recovery in the wake of conflict; in particular, government outlays on reconstruction of infrastructure, and the return of public capital spending in general can exert a powerful multiplier effect and help to underpin an acceleration in GDP growth. Conditions in the international environment, including demand inexport markets, and supply and other factors affecting commodity prices, can work to abet-or to hinder- recovery of exports in a post conflict environment. But resuscitation in production of exportable commodities and goods combined with improved functioning of trade logistics during peace are expected to underpin a measureable recovery in export shipments. Public infrastructure investment carries a particularly strong impact on economic growth (Calderon and Severen, 2004). And recovery in private investment during peace, realized both as inflows of foreign direct investment and domestic fixed capital spending, may be anticipated to complement increased public spending, assuming a conducive regulatory environment, and provide additional support for recovery.

Analysis of developments in CIV suggests that domestic investment—including public spending on reconstruction of infrastructure as well as private investment--and to a lesser extent-exports- have played critical roles in supporting recovery from episodes of crisis. The dominance of domestic factors underpinning post-conflict recovery in CIV contrasts with the experience of many countries in similar circumstances, where a more robust resumption of export growth and return of foreign investment tended to serve as driving forces for economic rebound.[14] As highlighted in this section, underlying strength in private sector capital spending in the current CIV recovery is of particular note, underscoring the likely importance of business-friendly changes in regulations and institutions[15].

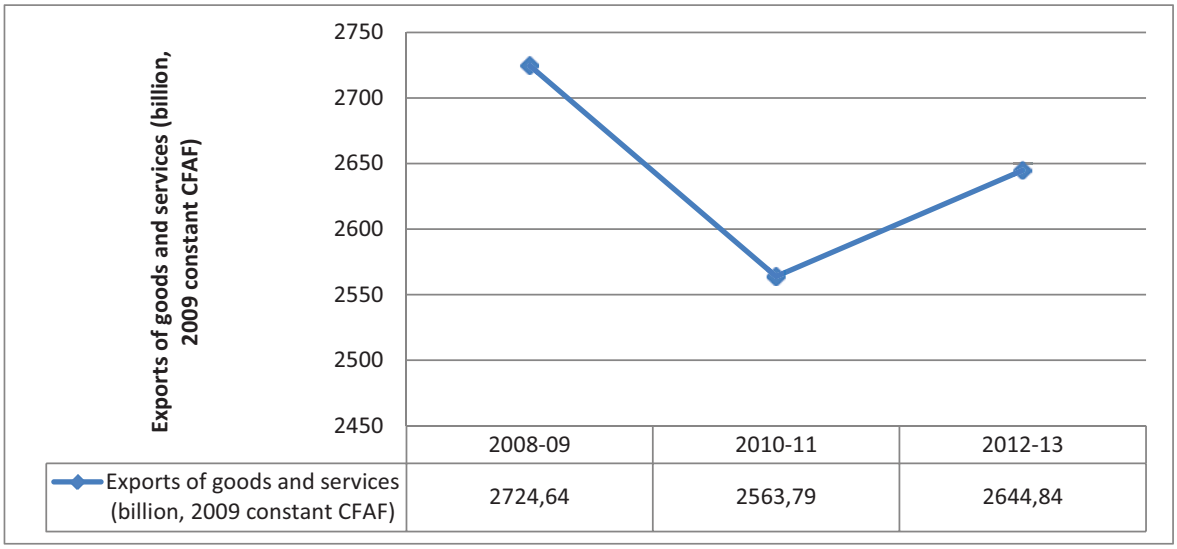
Exports of goods and services have increased in the current recovery, but momentum is not particularly strong, and prospects for a sustained revival in the near term are uncertain. Figure 10 shows that real exports have increased from the second crisis in CIV to the period of

[14] This is based on the review of empirical work that finds that, on average the boom in exports and investment are important factors to the economic recovery in post-conflict environments (see David el al., 2011). Ideally, case studies would allow comparing the experience of economic recovery in CIV with the experience of specific countries in post-conflict situation. Such case studies are at the moment quite rare.

[15] The method of analysis for contributions to growth recovery in CIV is comprised of an examination of developments in four demand factors over intervals of conflict and relative stability in the country: (i) real exports of goods and services, and three components of investment- (ii) foreign direct investment, (iii) public infrastructure spending and- (iv) domestic private fixed investment. Analysis of the dynamics of the factors is carried out by comparing the average real value of each during 2012-13 (current growth recovery) with values in 2008-09--a relatively peaceful period in CIV, relevant for understanding changes in performance. An additional comparison is made with developments during 2010-11 (second politico-military crisis) in order to better distinguish between catch-up effects and potential shifts in underlying growth paths.

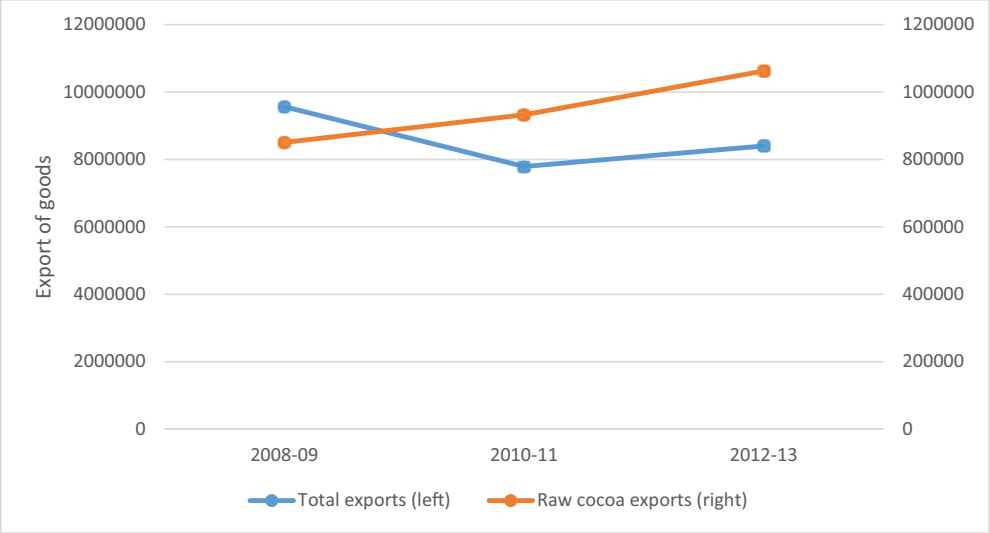
current recovery, but in fairly insubstantial quantities: exports stood 3.2 percent higher in 2012-13 than during 2010-11, but some 2.9 percent below the previous recovery of 2008-09. The low progress in the value of exports during the recent period of economic recovery may be related to the reduction in major Ivorian export products prices. According to the data from the World Bank's Global Economic Prospects, after having reached a peak in 2011, most of the exports products of CIV registered declining prices in the 2012-13 period. This is the case with rubber whose price decreased by 20.3 percent between 2012 and 2013, coffee (robusta) whose price fell by 8.4 percent, palm oil whose price was down by 14.3 percent; only the price of cocoa increased by 2 percent during the same period. Falling in prices had negative impacts on the production of commodities, further reducing the contribution of exports to economic recovery. Indeed, as reflected in figure 11, although the volume of goods exports increased during the period of economic recovery compared to the period of the second political and military crisis, volumes remain below levels of the 2008-09 period. However, it must be stated that the volume of cocoa exports significantly increased. The good performance of the cocoa sub-sector is related to the farm-gate price increase to encourage the production of cocoa. Thus, the increase in farm-gate prices appears to have started to show positive effects. Moreover, the establishment of a 'Single Window' for Foreign Trade (Guichet Unique du Commerce Extérieur-GUCE) will further boost Ivorian exports. However, in the short term, it is possible that trade in CIV will continue to be hampered by problems in inland logistics, port facilities and border controls, as well as continued sluggish growth in Euro Area import demand due to tepid economic recovery in this market.

Figure 10 : Exports of goods and services: real values over intervals, 2008-2013



Source: Calculations based on IMF macroeconomic framework for CIV.

Figure 11 : Volume of goods exports of CIV: different intervals, from 2008 to 2013.



Source: Calculations based on data from the DGD/ DCPE.

Additional impetus for recovery from the external side, notably foreign direct investment (FDI) has also been slow to gain momentum, although the 'pipeline' of potential FDI continues to expand for both resource-based and agribusiness oriented investors. A recovery in investment inflows has started, but adoption of a 'wait and see' attitude on the part of investors has yielded only modest gains to date: a 3 percent increase from the recent crisis period, representing a marked underperformance contrasted with levels prevailing in the time of previous peace (2008-09). As is the case for exports, recent policy initiatives to facilitate FDI, including more business friendly mining and investment codes, the positive rating of CIV by Fitch and Moody's credit rating agencies and, the successful issuance in the euro-bond market, as well as increasing returns in the extractive- and agro-business industries, should support more favorable prospects for the medium term.

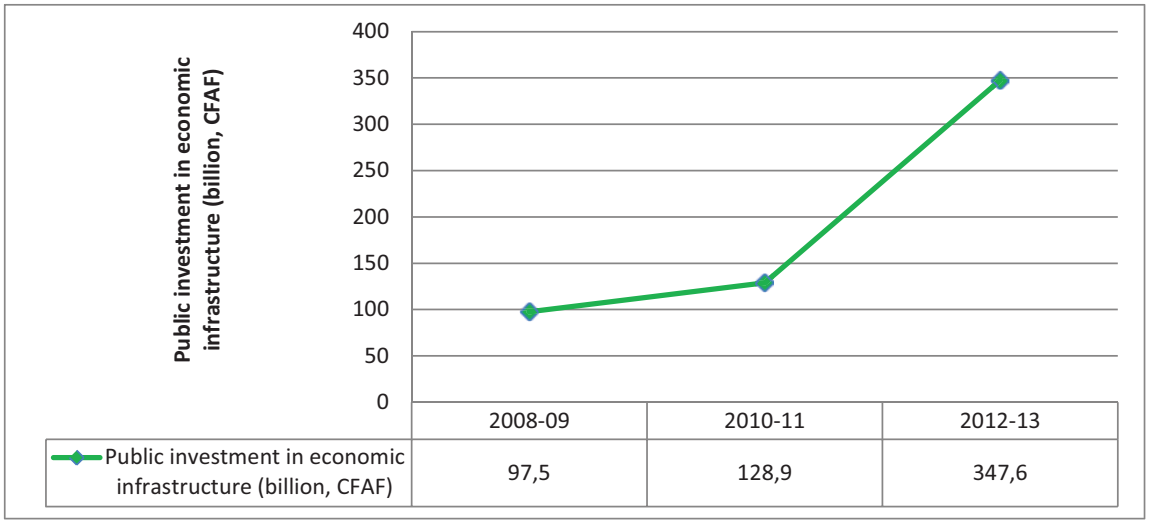
The robust advance in domestic investment has been the most important factor driving post-conflict recovery in CIV—led by determined efforts to rehabilitate infrastructure through public outlays financed from domestic sources either budgetary or through issuance of Treasury securities. CIV's investment rate (i.e., the share of gross capital formation in GDP) has grown significantly since 2012 and increased from 12.1 percent to 14.6 percent in 2013 with public and private investment rates of 7.5 percent and 7.1 percent, respectively. Public investment in infrastructure, grounded in support for energy (electricity) and transport services through the *"Programme Présidentiel d'Urgence"* (or PPU)[16] surged nearly three-fold (170 percent increase) from 2010-11 to 2012-13, a substantial rise from the previous period of relative stability during 2008-09 (figure 12). Furthermore, the efficiency of public investment has been improved, through better public procurement management: the number of days for processing public procurements was reduced from 322 to about 100 days over the last years. And as earlier noted, public infrastructure investment is viewed to carry substantial positive spillovers for overall growth,

[16] The PPU program, initiated in 2011, aims to restore targeted public services to promote rapid return to normalcy for the majority of CIVs population, through investment in water, health, education, electricity, sanitation and transport. Major ongoing projects include: construction of a third bridge on the Abidjan lagoon, and extension of highways connecting Abidjan to the capital Yamoussokro, as well as to coastal Grand Bassam; construction activities for the Soubre hydroelectric dam commenced in 2013, as did building of a thermal power plant in Azito.

notably in facilitating private sector activity, and such benefits are undoubtedly accruing in the case of CIV.

of the recovery underway. This development, highlighted in figure 13, likely reflects increasing confidence- with the restoration of political stability- in improved prospects for growth and

Figure 12 : Public infrastructure spending: real values over intervals, 2008-2013

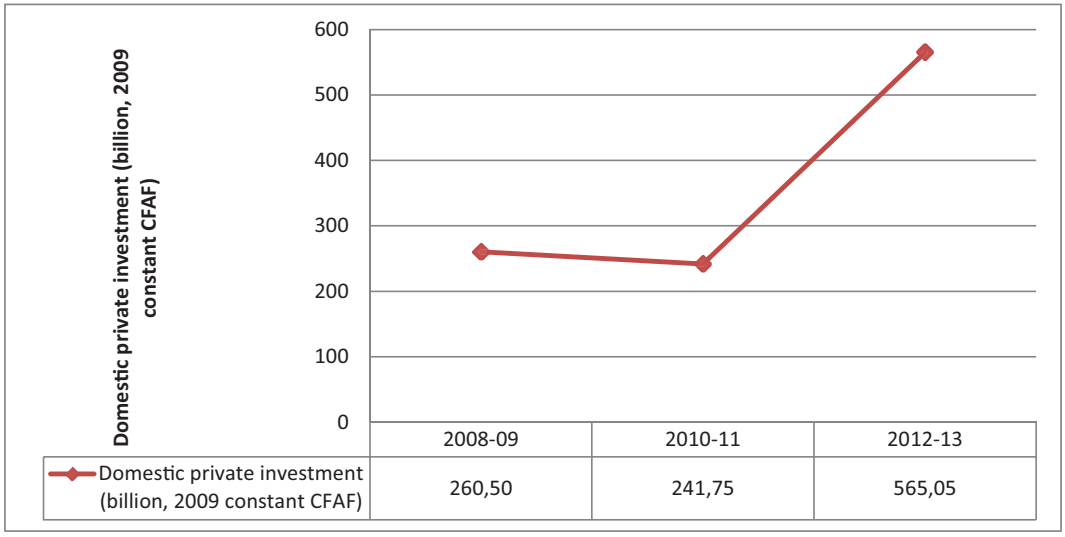


Source: Calculations based on SIGFIP data, CIV Ministry of Budget.

Domestic private investment has more-than doubled in the current recovery contrasted with the period of previous peace, supported by the improvement in confidence of domestic private entrepreneurs, following the normalization of the socio-political situation, public investment spillovers, as well as improvements in the business environment resulting from policy reforms in the country. The gain in private investment spending is a new and important part development on the part of private sector entities. And the outlook for continued reforms that serve to improve the efficiency of business in CIV appears favorable, based on the track record established by the current government[17]. Against this background, and with expectations of a medium-term revival in FDI inflows, private business will clearly come to provide a stronger driving force for growth than was the case in earlier episodes of recovery.

[17] CIV has made particular strides in improving conditions for (1) business start-up and related costs; (2) dealing with construction permits; (3) registering property and (4) enforcing contracts. Moreover, the cost of acquiring electricity (as a percentage of income per capita) decreased by some 8 percent in 2013, while the effective business tax rate (as a percentage of profit) declined from 44 to 39 points. Such efforts were maintained in the 2015 Doing Business, where CIV is also making progress in the following areas: (1) access to credit, (2) protection of minority investors, and (3) cross-border trade. Moreover, since 2010, CIV demonstrated steady growth and registered the most dynamic growth in sub-Saharan Africa in terms of the CPIA index performance. CPIA is an index developed by the World Bank to assess the quality of economic policy and institutional framework of the member countries.

Figure 13 : Domestic private investment: real values over intervals, 2008-2013



Source: Calculations based on IMF macroeconomic framework for CIV.

5.4 Some conclusions and policy implication

Among conclusions that may be drawn from the preceding analysis :

• sporadic politico-military instability has plagued the economy of CIV for most of the 2000s, with only intermittent breakouts of relative domestic peace—an unfavorable environment for economic growth;

• "peace dividends", or catch-up growth effects, are not automatic, but examining turnaround in contributions to growth across many sectors during 2012-13 suggests that such dividend has occurred for CIV—indeed, all sectors and sub-sectors have contributed positively to the recent growth recovery, which has been a broad-based process;

• contrary to the experience of most post-conflict countries, CIV growth recovery has been driven more by domestic than by external factors—critically as a strong response of the private sector has taken hold, with capital spending by business leading the advance, complementing substantial increases in public outlays on infrastructure development;

• across domestic sectors, the recent growth recovery has been driven more by services; this is a change from developments during the 1970s and 1980s, when growth was powered by agriculture, especially by export crops;

• the share of war-vulnerable activities (manufacturing, construction, transport, trade and other services) decreased as a share of GDP during conflict, and increased during interludes of peace—and these sectors have not yet recovered pre-war shares of GDP—suggesting potential space for further growth;

• it is likely that (international conditions remaining conducive) growth recovery in CIV will continue for several years, albeit at a more attenuated pace—as war vulnerable sectors recapture pre-conflict levels of GDP, and recent policy changes bear fruit in stimulating private investment and exports.

Implications for policies that could support the momentum of recovery and underpin improved growth performance for the medium term :

• A recovery characterized by positive contributions from all domestic sectors, as well as from private investment, holds potential to support sustained growth in the next years:

o Private sector involvement in the economy could be enhanced by continued improvement in business environment, as well as through sectoral

reforms to support telecoms, transport, financial services and manufacturing—sectors currently performing below potential. Private sector development would also require improving access to finance for SMEs, their managerial and technical capabilities as well as access to public and private markets through subcontracting.

o Côte d'Ivoire has made significant progress in improving the business environment as evidenced by the country's Doing Business rankings. This progress should contribute more to the development of the private sector in the coming years. However, it is important to continue to improve governance for a more dynamic and prosperous private sector. To do so, fighting against corruption, and implementation of institutional reforms to improve competitive functioning of markets should be pursued.

o In agriculture, food crops offer some promise for diversification of production, and an important opportunity for a quick and direct impact on the poor as a large number of smallholders are involved in this sector--therefore a need to find a balance in development of both food- and export crops. To this end, value chains in agribusiness, and infrastructure to facilitate access to markets and institutional reforms to facilitate the commercialization of food products should be further developed.

• However, a recovery that is driven largely by domestic factors may be limited in time due to the fact that it is linked to infrastructure spending, and also because of the restricted size of domestic market; this suggests that CIV could also seek to promote complementary external contributions to growth (exports and FDI) by:

o working to cement the consolidation of peace and reconciliation—a confidence building measure for foreign investors, helping to attract FDI;

o improving international competitiveness through implementing plans for revitalization of transport, logistics and related infrastructure; phyto-sanitary issues for agriculture, and further development of private production and exports;

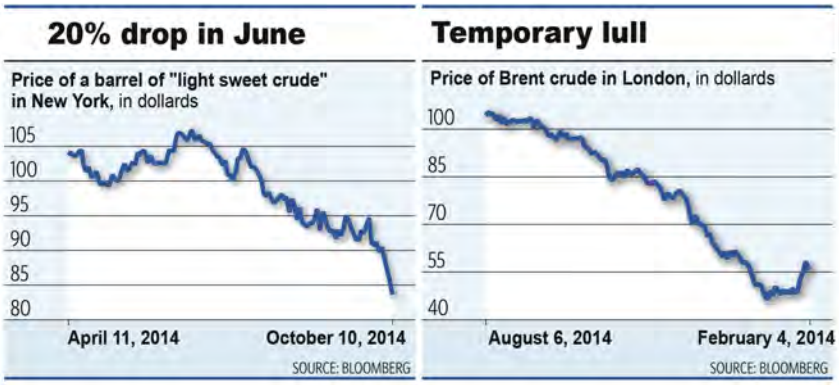
o strengthening human capital to reduce the existing gap between the workforce skills and the needs of the economy, and introducing greater flexibility in wages in the non-food manufacturing industries where the country could improve its competitiveness, and

o implementing and closely monitoring recently approved mining and investment codes.

• financing of infrastructure investment has traditionally come from domestic sources--either budgetary or through issuance of Treasury securities on the domestic (regional) market; authorities may wish (and have done so) to diversify the loan portfolio for investment by looking to international sources—including a broadening of creditors to include bilaterals (offering semi-concessional lending terms), PPPs, as well as international bond issuance. Debt sustainability (and improvements to debt management capacities) will require additional focus with the on-take of such funding. Similarly, it is important to continue to improve the rate of implementation of public investment and mobilization of public revenue, which will lower recourse to financial markets for the financing of infrastructure, thus reducing the risk of unsustainable debt.

III. Potential effects of changes in oil and non-oil commodity prices, and depreciation of the euro on the CIV economy

6.Recent developments in commodity and currency markets: a moderate overall boost for CIV growth.



Dramatic change in the trajectory of world commodity prices since mid-2014 will carry a mix of effects to the economy of CIV, on balance having provided a moderate degree of support for GDP gains during the second half of 2014- with stimulus likely continuing for coming months. International oil prices plummeted by about one-half between mid-2014 and the early weeks of 2015, bringing to a close a four year period of relative price stability. Upward surprises in global oil supply and downward surprises in demand, the unwinding of some political risks, changing OPEC policy objectives and a firming U.S. dollar have all contributed to this development. Analysis at the World Bank suggests that the rapid decline in oil prices could produce net positive effects for global growth and inflation (a boost of some 0.5 percentage points for the former and a decline of 0.5 or more for the latter) over the coming year on a 30 percent decline in oil price, with substantial real income shifts from oil-exporting to oil-importing countries[18].

Effects on individual countries will vary greatly, depending on a number of factors. Among these are (i) their net position in oil trade; (ii) the importance of oil in the consumer basket; (iii) the extent to which domestic prices are affected by subsidy policies (these last two items will affect the extent to which domestic inflation and real incomes are affected) and (iv) the shares of oil-related revenues and spending in the fiscal position.

The net effect of oil market developments on the CIV economy is likely to be small. Simulations suggest that the impact on real GDP will be modest mainly because while oil-related products represent as much as 30 percent of exports, they are also some 28 percent of imports and overall, the country has alternated between being a net exporter of oil and a net importer. As a result, the direct "income effect", i.e. change in the current account balance position, is estimated to be a small proportion of GDP, carrying little added impetus for gains in domestic demand[19].

[18] "Global Economic Prospects: "Having Fiscal Space and Using It". January 2015. World Bank; and simulations of an oil price shock undertaken by World Bank staff using a trade-linked global economic model.

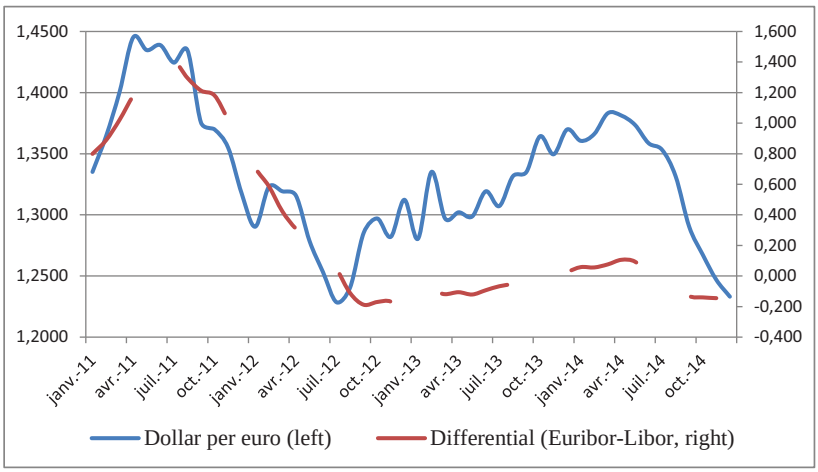
[19] In technical terms, model simulations suggest a slight positive effect on external accounts (0.38 point improvement of the current account balance with respect to GDP under the oil shock), as in the oil shock scenario the relative price of cocoa (for which CIV is the world's largest exporter) firms versus the baseline.

Activity, however, should be stimulated to a degree as lower oil prices lead to an easing of inflation- as much as 1.5 percentage points in the short term- helping to support an improvement in the pace of consumer spending- and to a lesser degree in investment. Finally, model simulations suggest that a moderate tightening of the fiscal position due to a loss of oil-related revenues will offset some of the incipient gains in demand, to yield only a small boost to overall activity.

At the same time, prices for CIV's key commodity exports have also softened, but to a much smaller degree than the falloff in oil prices- suggesting an implicit upturn in the country's terms of trade. Cocoa constitutes the largest share of CIV's goods exports (about 30 percent) and the country is the world's largest exporter of the commodity. Coffee, rubber and palm oil constitute other import exports. Contrasted with oil's 50 percent plunge since mid-2014, the decline in cocoa has amounted to 10 percent since August of last year; that for coffee 5.5 percent since April-, with rubber and palm oil experiencing sharper 25 percent declines. The overall effect of these developments is to improve the current account balance of CIV (a positive 'income effect' for residents), which if continued, can lead to stronger spending by consumers and business.

In currency markets, the euro depreciated by 10 percent versus the U.S. dollar over the course of 2014, against the background of relative stagnation of economic activity in the Euro Area and easing monetary policy there, contrasted with a clear revival of real GDP growth in the United States and prospects for a gradual tightening of financial conditions. This trend may be sustained over coming months as developments in economic activity (notably employment and inflation) and in monetary policy continue to diverge- resulting in a widening of interest rate differentials favoring the U.S. currency (figure 14)[20]. The United States has moved toward halting asset accumulation by the Federal Reserve and hinted at eventual increases in policy interest rates, while continued sluggish growth and easing inflation in the Euro Area have led the ECB to lower policy rates and consider additional expansion of liquidity.

Figure 14 : Figure 14 : US dollar per euro (left) and interest rate differential (right), 2011-2014



Source: International Monetary Fund.

[20] The differential between six-month Euribor and USD-Libor moved by about 25 basis points in favor of the dollar from April through December 2014 reflecting actual and expected changes in relative monetary stances; over the same period the dollar gained a sharp 10.8% versus euro to average $1.2331 in December readings.

The CFA franc (CFAF), tied to the euro, has declined in step against the dollar during 2014. Important questions arise as to what effects this depreciation-and prospective further weakening of the CFAF in the short run-could carry to the economy of CIV. Among issues to examine are implications for trade flows, and the overall effects on the balance of payments for the country; spillovers from a changing net export position to real GDP growth-and hence to domestic demand and the inflationary consequences of depreciation. In broader terms:

• a fall in the CFAF/USD exchange rate would suggest a gain in competitiveness for CIV exports- not only to the U.S. market, which accounts directly for 11 percent of outbound goods shipments- but also to other trade partners, and an attendant pickup in CIV export values and volumes; in similar fashion, dollar-denominated imports into the CIV market would be anticipated to come under some downward pressure, as import prices increase in-line with adjustments in the exchange rate.

In order to better understand the effects of the depreciation of the euro (CFAF) on the economy of CIV, simulation of a 10 percent decline of the euro vis-à-vis the dollar was undertaken in the context of a global trade-linked model, maintained by the World Bank[21]. On balance, the results of this exercise suggest that GDP dynamics in CIV have likely benefitted moderately (0.5 percent stronger growth in 2014)- and would continue to do so-(with real output boosted by more-than 1 percent during 2015-16) from the decline of the euro-dollar exchange rate, based on the following observations (table 6):

• competitiveness of CIV exports is enhanced by the assumed depreciation of the nominal exchange rate; the decline in the CFAF/dollar rate translates into a fall in CIV's real effective exchange rate- a good measure of the global attractiveness of CIVs exports-of some 2.7 percentage points from baseline over the simulation period[22];

Table 6 : Model simulation: 10% depreciation of euro vs dollar

Differences from baseline, percent-or percentage change[1]

	2014	2015	2016
Nominal exchange rate (%)[2]			
Euro per dollar	10.0	10.0	10.0
CFAF per dollar	10.0	10.0	10.0
Real Effective Exchange Rate (%)			
Euro	-4.6	-4.4	-4.3
CFA	-2.8	-2.7	-2.7
Real GDP (change in %)	0.5	1.2	1.6
Exports	0.7	1.4	1.9
Imports	0.4	0.3	0.1
Current account (% GDP)	0.2	0.5	0.8

Source: World Bank, Development Prospects Group.
Notes: 1/ Exchange rate and current account are differences from baseline levels in percent.
GDP and trade are differences in growth rates from baseline.
2/ Depreciation represented as increase in domestic price of the U.S. dollar.

[21] The euro-depreciation simulation is carried out over a 3-year forecast horizon (2014-2016), using the 'iSIM' World Model System developed at the World Bank (DEC Prospects Group). The model, which is used to generate projections found in *Global Economic* Prospects reports of the World Bank, is grounded on the demand side of economies, and links some 140 countries through connections in goods trade and country-specific export- and import prices, tied in turn to exchange rate projections. For this simulation, the dollar-per-euro exchange rate has been lowered by 10% in 2014 and sustained at this level for the following two years (against an unchanged baseline forecast for exchange rates), and the effects on trade and GDP dynamics as found for Cote d'Ivoire are examined.

[22] The real effective exchange rate (REER) takes into account the nominal exchange rate of a country's key trade partners, as well as price developments in the home-as well as partner markets- to arrive at a measure of real competitiveness. A 2.7 percent improvement in CIVs REER (contrasted with a greater 4.5 percent gain for the Euro Area) is tied to the large share of CIV trade that is carried out with the CFA (WAMEU) and Euro Zones, such that nominal exchange rates versus partners are changed fairly little, as well as stronger inflation pass-through of currency depreciation for CIV vis-à-vis Europe.

• in turn, exports experience a gradual build-up in momentum contrasted with baseline, amounting to almost a 2 point boost to volume growth by 2016; though CIV exports are largely priced in dollars (cocoa, cashews, coffee, rubber etc.), CFAF exporters will gain from currency depreciation- all else equal- as receipts in local currency will be higher; moreover, on the supply side, a gradual movement of resources toward the tradable goods sector is likely to be induced by higher returns to exporting; imports are viewed to rise only moderately from baseline gains as higher import prices serve as a restraint on demand; and given developments in trade flows, the current account balance improves as a proportion to GDP by 0.8 percentage points by 2016;

• fairly strong gains for net exports provide an initial fillip to GDP in CIV, complemented by positive spillover effects to domestic demand, consumer outlays (posting a 0.5 point improvement), as well as investment spending (up by nearly 2 points), which serve to underpin GDP growth at a pace which averages 1.1 percentage points stronger than baseline; though the simulation results portray a beneficial overall net effect of currency depreciation for CIV growth dynamics, an important downside risk is the higher inflation brought about by depreciation-the extent to which wage costs (not captured by the economic model) can serve as a conduit for the spread of imported inflation, and the limited set of instruments available to policymakers to dampen upward price trends.

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