



BENIN

July 2019

2019 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BENIN

In the context of the Article IV Consultation and fourth review under the Extended Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 21, 2019, following discussions that ended on May 8, 2019, with the officials of Benin on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on May 31, 2019.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the Internal Development Association.
- A **Statement by the Executive Director** for Benin.

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

Letter of Intent sent to the IMF by the authorities of Benin*
Memorandum of Economic and Financial Policies by the authorities of Benin*
Technical Memorandum of Understanding*
Selected Issues Paper
*Also included in Staff Report

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Price: \$18.00 per printed copy

International Monetary Fund
Washington, D.C.



Press Release No. 19/231
FOR IMMEDIATE RELEASE
June 24, 2019

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Concludes 2019 Article IV Consultation with Benin

On June 21, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation¹ with Benin. At the same time, the Board also completed the 4th Review of Benin's economic performance under a three-year program supported by the IMF's Extended Credit Facility (ECF) arrangement; a press release on this was issued separately.

The short-term outlook of the Beninese economy is favorable. Preliminary estimates suggest that economic activity grew by 6.7 percent in 2018, mainly due to strong port and agriculture activity. Annual consumer price index (CPI) inflation stood at 1 percent. The current account deficit narrowed from 10.0 percent of GDP in 2017 to 8.3 percent of GDP in 2018, primarily because of a significant increase in cotton exports. The fiscal deficit declined to 4.0 percent in 2018 with the scaling down of public investment. Financial vulnerabilities have nonetheless become more apparent, as the banking sector exhibits relatively low profitability and capital adequacy.

Looking ahead, medium-term prospects remain strong. Growth is projected above 6 ½ percent between 2019 and 2024. CPI inflation and fiscal deficit are expected to stay below their regional norms over the forecast horizon. The public debt ratio should start declining from 2019 after five years of increases as a result of continued fiscal consolidation and strong economic growth. The current account should also keep improving, assuming the continued expansion of agricultural production and adherence to deficit targets.

Risks are tilted to the downside. In the short term, risks could arise from political discontent following the April 2019 Parliamentary elections; lower-than-expected growth in Nigeria (which would weaken Benin's exports, fiscal position, and activity); and further deterioration of bank profitability (which may weigh on credit provision). In the medium term, growth

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. Staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

prospects are heavily dependent on the ability to revive private investment and attract foreign investors.

Executive Board Assessment²

Executive Directors agreed with the thrust of the staff appraisal. They commended Benin's macroeconomic performance over recent years, noting that growth was strong without signs of inflationary pressures. Directors concurred that, while the medium-term outlook remains favorable, achieving development objectives will require a deep transformation of the Beninese economy. Directors, therefore, underscored the need to continue to steadfastly implement policies and structural reforms that foster macroeconomic stability, preserve debt sustainability and promote inclusive and private-sector led growth.

Directors welcomed the authorities' commitment to comply with the WAEMU 3 percent of GDP deficit ceiling in 2019. They emphasized the importance of adhering to the medium-term fiscal consolidation plan to ensure debt sustainability and foster external stability at the regional level. Directors also advised the authorities to advance their revenue mobilization efforts, notably in the area of value added tax and excises, in order to create budgetary space for social spending and prevent additional cuts to public investment.

Directors commended the authorities for putting public debt ratio on a downward path. They noted that the recent Eurobond issuance would diversify the financing mix and create opportunities to lengthen debt maturity. Nonetheless, they also observed that greater access to non-concessional external financing may generate medium-term vulnerabilities that will need to be monitored and mitigated carefully. Thus, they encouraged the authorities to keep enhancing their debt management framework.

Directors emphasized the need to accelerate the structural transformation of the economy. Growth should be more stable and inclusive to bring down poverty and generate the tax revenues needed to finance development projects. Greater participation of the private sector is also warranted to sustain growth in the context of the fiscal deficit reduction. As such, Directors stressed the importance of continuing to improve the business environment and infrastructure, while diversifying the economy away from traditional sectors and preventing a premature deindustrialization. Directors supported the authorities' efforts to improve access to education and health. Finally, they recommended to reinforce the anti-corruption framework, and address financial sector vulnerabilities, especially the weak bank profitability.

² At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

Table 1. Benin: Selected Economic and Financial Indicators, 2017–24

	2017	2018		2019		2020	2021	2022	2023	2023	2024
	Act.	EBS/18/364	Est.	EBS/18/364	Prog.			Projections			
National income											
GDP at current prices	5.9	7.4	7.6	8.4	8.3	8.6	8.7	8.7	8.7	8.7	8.7
GDP at constant prices	5.8	6.5	6.7	6.5	6.7	6.7	6.7	6.7	6.7	6.7	6.7
GDP deflator	0.0	0.9	0.9	2.0	1.6	1.9	1.9	1.9	1.9	1.9	1.9
Consumer price index (average)	0.1	1.0	1.0	2.0	1.7	2.0	2.0	2.0	2.0	2.0	2.0
Consumer price index (end of period)	3.0	1.0	0.0	2.0	1.7	2.0	2.0	2.0	2.0	2.0	2.0
Central government finance											
Total revenue	26.6	8.2	8.9	8.9	8.1	10.0	8.7	8.7	8.7	8.7	8.7
Expenditure and net lending	21.3	2.1	-0.9	2.3	6.9	6.0	6.5	7.2	7.7	7.4	7.4
External sector											
Exports of goods and services	23.9	18.4	21.3	18.5	18.3	15.4	13.5	11.5	10.6	10.5	10.5
Imports of goods and services	18.4	10.4	9.8	11.8	11.7	11.5	9.8	10.4	8.3	8.5	8.5
Terms of trade (minus = deterioration)	1.0	0.6	0.9	0.9	0.8	5.0	2.0	0.6	0.9	1.9	1.9
Nominal effective exchange rate (minus = depreciation)	...	...	...	...	...	...	...	...	...	...	...
Real effective exchange rate (minus = depreciation)	...	...	...	...	...	...	...	...	...	...	...
Money and credit											
Net domestic assets	7.3	-10.4	-3.4	-4.1	-10.3	...	...	...	...	...	...
Domestic credit	-2.1	-1.5	9.3	14.1	7.6	...	...	...	...	...	...
Net claims on central government	-3.3	-2.8	-2.7	7.2	0.6	...	...	...	...	...	...
Credit to the nongovernment sector	1.2	1.3	12.0	6.9	7.0	...	...	...	...	...	...
Broad money (M2)	1.0	6.9	5.5	8.4	8.3	...	...	...	...	...	...
National accounts											
Gross investment	28.4	25.5	28.4	26.2	28.4	28.3	28.7	29.0	29.3	29.7	29.7
Government investment	9.1	8.2	7.7	7.2	7.2	6.6	6.5	6.3	6.1	6.0	6.0
Nongovernment investment	19.2	17.2	20.7	19.0	21.2	21.7	22.2	22.7	23.2	23.7	23.7
Gross domestic saving	15.9	14.2	17.8	15.9	18.8	19.3	20.5	21.2	22.1	23.8	23.8
Government saving	2.3	2.6	2.9	3.0	2.7	2.9	3.1	3.2	3.2	3.4	3.4
Non-government saving	13.6	11.6	14.8	12.9	16.1	16.4	17.3	18.0	18.8	20.4	20.4
Gross national saving	18.4	16.6	20.1	17.8	20.6	21.2	22.1	23.0	23.9	24.5	24.5
Consumption	84.1	85.8	82.2	84.1	81.2	80.7	79.5	78.8	77.9	76.2	76.2
Government consumption	11.5	11.3	11.0	10.7	11.0	11.1	10.9	10.8	10.8	10.8	10.8
Non-government consumption	72.6	74.6	71.2	73.4	70.2	69.6	68.7	68.0	67.2	65.5	65.5
Central government finance											
Total revenue (excluding grants)	17.5	17.7	17.8	17.7	17.7	18.0	18.0	18.0	18.0	18.0	18.0
Expenditure and net lending	24.5	23.3	22.5	22.0	22.3	21.7	21.3	21.0	20.8	20.6	20.6
Primary balance ¹	-5.0	-3.4	-2.6	-1.8	-2.1	-1.4	-1.0	-0.7	-0.5	-0.4	-0.4
Basic primary balance ²	-1.5	0.4	0.3	1.9	1.6	1.7	2.1	2.4	2.4	2.5	2.5
Overall fiscal deficit (commitment basis, excl. grants)	-6.9	-5.6	-4.8	-4.2	-4.5	-3.8	-3.3	-3.1	-2.9	-2.6	-2.6
Overall fiscal deficit (commitment basis, incl. grants)	-5.9	-4.7	-4.0	-2.7	-3.0	-2.5	-2.0	-1.7	-1.5	-1.3	-1.3
Central government debt ³	54.3	54.4	56.1	53.8	54.1	52.0	49.8	47.8	46.0	44.2	44.2
of which domestic arrears stock					0.3	0.2	0.1	0.0	0.0	0.0	0.0
External sector											
Balance of goods and services	-12.5	-11.3	-10.6	-10.3	-9.6	-9.0	-8.2	-8.0	-7.4	-6.9	-6.9
Current account balance (incl. grants)	-10.0	-8.9	-8.3	-8.4	-7.8	-7.1	-6.5	-6.2	-5.6	-5.1	-5.1
Current account balance (excl. grants)	-10.3	-9.2	-8.5	-8.8	-8.2	-7.5	-6.9	-6.5	-5.9	-5.4	-5.4
Overall balance of payments	3.2	6.1	3.7	4.3	6.4	4.2	4.4	4.5	4.6	4.8	4.8
Nominal GDP (billions of CFA francs)											
	5,382	5,783	5,792	6,269	6,272	6,812.3	7,402	8,045	8,747	9,509	9,509
Nominal GDP (millions of US\$)											
	9,265	10,456	10,432	11,184	10,934	11,876	12,904	14,025	15,249	16,577	16,577
Total non-financial public sector debt (percent of GDP) ⁴	54.4	54.6	56.8	54.0	54.7	52.5	50.3	48.3	46.4	44.6	44.6
of which government guarantees (percent of GDP)	0.2	0.2	0.6	0.2	0.6	0.5	0.5	0.4	0.4	0.4	0.4
Population (millions)	11.2	11.4	11.5	11.7	11.8	12.1	12.5	12.8	13.2	13.6	13.6
Nominal GDP per capita (U.S. dollars)	829	915	908	954	926	978	1033	1093	1156	1222	1222

Sources: Beninese authorities; IMF staff estimates and projections.

¹ Total revenue (excluding grants) minus current primary expenditure, capital expenditure, and net lending.

² Total revenue (excluding grants) minus current primary expenditure and capital expenditure financed by domestic resources.

³ Includes arrears stock.

⁴ Data include central government debt, government guarantees, and domestic arrears.



INTERNATIONAL MONETARY FUND



Press Release No. 19/230
FOR IMMEDIATE RELEASE
June 21, 2019

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fourth Review Under the Extended Credit Facility Arrangement and Approves US\$22.1 Million Disbursement for Benin

On June 21, 2019, the Executive Board of the International Monetary Fund (IMF) completed the 4th review of the three-year arrangement with Benin under the Extended Credit Facility (ECF).

The Board's decision enables a disbursement of SDR15.917 million (about US\$22.1 million) immediately to Benin, bringing total disbursements under the arrangement to SDR 79.585 million (about US\$110.4 million). In completing the review, the Board also approved Benin's request for modification of the performance criteria on the basic primary balance, net domestic financing, and new external debt contracted or guaranteed by the government.

Benin's three-year arrangement for SDR111.42 million (about US\$154.6 million or 90 percent of the country's quota at the time of approval of the arrangement) was approved on April 7, 2017 (see Press Release No.17/124). It aims at supporting the country's economic and financial reform program and focuses on raising living standards and preserving macroeconomic stability.

Following the Executive Board discussion, First Deputy Managing Director and Acting Chair, Mr. David Lipton, made the following statement:

"Benin's macroeconomic and fiscal performance under the Fund-supported program continues to be strong. All Quantitative Performance Criteria at end-2018 and all Structural Benchmarks were met. The macroeconomic and structural policies outlined by the authorities are adequate to achieve the program's objectives and risks to program implementation are deemed manageable.

"Keeping the fiscal deficit below 3 percent of GDP in 2019 and beyond is key for debt sustainability. The authorities are implementing an ambitious tax package primarily focused on reducing tax expenditures. It is expected to lower the deficit from 4.0 percent of GDP in 2018 to 3.0 percent of GDP in 2019. Revenue mobilization should continue after 2019,

notably by exploiting the full potential of the value added tax and excises. Further revenue efforts will create budgetary space for social spending and prevent additional cuts to public investment. They will also support the regional strategy to foster external stability at the WAEMU level.

“Prudent fiscal policy will help maintain the debt ratio on a firm downward path. Debt, as a share of GDP, is projected to decline in 2019 after five years of continuous increase. The March 2019 Eurobond issuance will not raise debt, since the authorities have decided to scale back domestic borrowing by the same amount. The Eurobond paves the way for greater access to non-concessional external financing in the future; it will help diversify the financing mix and create opportunities to lengthen debt maturity. Nonetheless, it may also generate new vulnerabilities that will need to be monitored and mitigated carefully through an enhanced debt management strategy.

“Continued efforts to improve the business environment, diversify the economy, and invest in human capital will be important to promote strong and inclusive growth.”



BENIN

May 31, 2019

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

KEY ISSUES

Context. The economy continues to grow at a fast pace, driven by port activity and cotton production. The execution of the 2019 budget is on track to bring the fiscal deficit within the WAEMU convergence criterion of 3 percent of GDP this year. Program implementation remains very satisfactory with all end-December 2018 quantitative performance criteria (QPCs) and structural benchmarks (SBs) met.

Program Policies.

- Reduce the fiscal deficit by strengthening domestic revenue mobilization and enhancing spending efficiency, including for public investment.
- Preserve public debt sustainability by pursuing a prudent borrowing policy and reinforcing the debt management capacity.
- Promote strong and inclusive growth by improving the business environment, diversifying the economy, and investing in human capital.
- Foster financial stability by addressing the low aggregate profitability of the banking sector and restructuring the two public banks.
- Strengthen economic governance and anti-corruption frameworks.

Staff View. Staff supports the authorities' request for completion of the fourth review of the ECF-supported program; the modification of the end-June 2019 QPCs on the basic primary balance and net domestic financing; and the modification of the continuous performance criterion (PC) on new external debt contracted or guaranteed by the government. Staff supports the addition of three SBs related to trade facilitation, customs administration, and the implementation of the Treasury Single Account (TSA). Completion of this review will release a disbursement equivalent to SDR 15.917 million. The Memorandum of Economic and Financial Policies (MEFP) sets out appropriate policies to achieve the program's objectives.

Approved By
Dominique Desruelle
(AFR) and Maria
Gonzalez (SPR)

Discussions on the 2019 Article IV Consultation and Fourth Review under the Extended Credit Facility (ECF) Arrangement were held in Cotonou during April 25-May 8. The mission team comprised Messrs. Luc Eyraud (head), Goran Amidzic, Mohamed Camara, Mses. Aissatou Diallo and Alice Mugnier (all AFR), Mr. Mouhamadou Sy (FAD), Mr. Karim Barhoumi (Resident Representative), and Mr. Joseph Houessou (Economist at the Res. Rep. Office). Ms. Esso Boukpepsi (OED) participated in the mission. The mission met with Mr. Abdoulaye Bio Tchané, Minister of State of Planning and Development; Mr. Romuald Wadagni, Minister of Economy and Finance; Mr. Benjamin Hounkpatin, Minister of Health; Mr. Alain Komaclo, BCEAO National Director; and senior economic and financial officials. Mr. Rachidi Kotchoni (World Bank) participated in some of the meetings. Ms. Nadia Margevich provided assistance for the preparation of this report.

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BACKGROUND

1. Benin has very large development needs. At \$829 in 2017, GDP per capita is well below the Sub-Saharan Africa (SSA) weighted average of \$1,574. Benin is in the bottom quartile of the 2017 Human Development Index. Poverty remains elevated at about 40 percent of the population. Large development gaps exist in several key areas, as illustrated by low staffing in the health sector, limited access to sanitation and electricity, and low literacy rate. The recent costing exercise of the Sustainable Development Goals (SDGs) summarizes the scale of the challenge, with additional expenditure needs estimated at around 20 percent of GDP by 2030.¹

2. Achieving development objectives will require a deep transformation of the Beninese economy. Growth should be more stable and inclusive to bring down poverty and generate the tax revenues needed to finance development projects. Economic diversification away from Benin's traditional sectors would enhance the resilience of the economy. Finally, a stronger participation of the private sector, including foreign investors, could generate additional resources for infrastructure in a context of tighter public finances.

3. The authorities are committed to this agenda of economic development but are facing hurdles. Their strategy is embedded in the 2018-25 national development plan, which establishes strategic guidelines to achieve development objectives and support line ministries in formulating their sectoral programs. Within this framework, the 2016-21 Government Action Plan (GAP) identifies the main priorities and projects in infrastructure, agriculture, and tourism. In 2017, Benin became member of the Compact with Africa (CwA), with the aim of boosting the country's attractiveness. However, despite Benin's high growth potential and strong commitment to reform, progress is hampered by structural bottlenecks, such as the small size of the domestic market, high informality, and governance weaknesses.

4. Strong performance under the IMF program will support the authorities' progress towards development goals. All end-June and end-December QPCs have been met since the beginning of the program in 2017.² Implementation of past policy recommendations since the 2017 Article IV report has been broadly satisfactory (Annex I). Results have been especially encouraging in the fiscal area: the fiscal deficit is expected to decline by half in two years (from 5.9 percent of GDP in 2017 to 3.0 percent of GDP in 2019) and the authorities have conducted important reforms to mobilize domestic revenue and improve the efficiency of public investment.

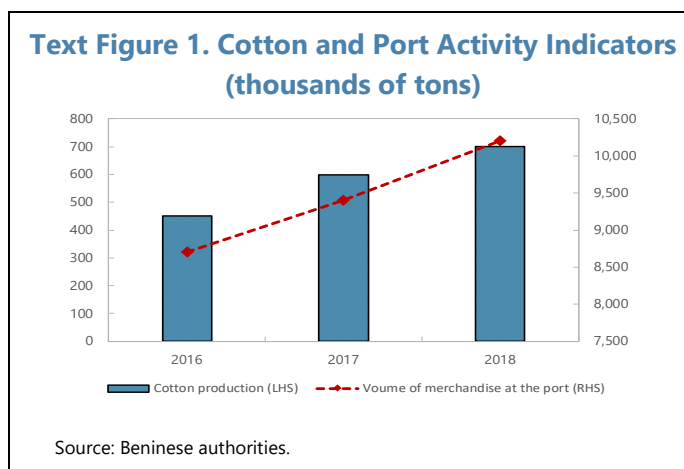
¹ Gaspar, V., D. Amaglobeli, M. Garcia-Escribano, D. Prady, and M. Soto, 2019, "Fiscal Policy and Development: Human, Social, and Physical Investments for the SDGs," IMF Staff Discussion Note SDN/19/03.

² An institutional oversight led to a small accumulation of domestic arrears in the first semester of 2018. Thus, the continuous QPC on non-accumulation of new domestic arrears was not observed over March-June 2018. Since then, the debt management office has set up a new monitoring system.

RECENT DEVELOPMENTS

The macroeconomic and fiscal performance continues to be strong, but signs of vulnerabilities in the financial sector have become more apparent.

5. The growth momentum does not show signs of slowing. 2018 growth is estimated at 6.7 percent (up from 5.8 percent in 2017), mainly driven by strong agriculture and port activity. Cotton production is expected to exceed 700,000 tons in 2018 compared to 598,000 tons in 2017. The volume of merchandise at the Port of Cotonou increased by over 8.5 percent in 2018 (Text Figure 1). Inflation stood at 1 percent last year.



6. The fiscal deficit narrowed significantly in 2018. The 2018 deficit is estimated at 4.0 percent of GDP, significantly lower than anticipated at the time of the third review (4.7 percent). The overperformance is mainly due to the under-execution of the investment budget. Revenues were on target. For the first time since the program inception, domestic tax revenues overperformed, and, combined with another overperformance of nontax revenues, offset a significant shortfall at customs.³ Spending on priority social sectors amounted to CFAF 202.4 billion, significantly above the end-December floor (CFAF 167.0 billion). Finally, data for the first quarter of 2019 suggest that revenue collection and the execution of the budget are on track.

7. Preliminary estimates point to a strong contraction of the current account deficit in 2018. After widening in 2017 due to higher food imports and the public investment scaling up, the current account deficit (including grants) declined from 10.0 percent of GDP in 2017 to 8.3 percent of GDP in 2018. The improvement was mainly driven by a significant increase in exports of cotton, and, to a lesser extent, cashew nuts. Reforms to strengthen the technical capacities of farmers, expand cultivable lands, and distribute higher-quality seeds led to a surge of agricultural production, which had also a dampening effect on food imports.

8. Financial vulnerabilities have become more apparent. The aggregate capital adequacy ratio (CAR) of the banking sector declined sharply in the first half of 2018 (from 11.9 percent at end-2017 to 7.6 percent at end-June 2018), with 5 out of 12 banks falling below the regulatory threshold of 8.6 percent. The low CAR is partly the result of the structurally-low profitability of the banking sector, which recorded aggregated losses for three consecutive years in 2015-17 (Selected Issues Paper IV). However, most of the decline in the first half of 2018 was due to the ongoing

³ Customs revenues were negatively affected by developments in Nigeria (agricultural reform and relaxation of trade barriers) that reduced its imports from Benin.

regulatory Basel II/III reform, which has redefined the scope of bank capital.⁴ Other financial soundness indicators point to a slight decline in the level of non-performing loans (NPLs) (from 19.4 percent of total loans in 2017 to 18.9 in June 2018) and an increase in loan concentration, with credit to the five largest borrowers rising from 91.6 percent of banks' capital at end-2017 to 103.3 percent in June 2018 (Table 10).

OUTLOOK AND RISKS

Benin's economic outlook is favorable, supported by sound macroeconomic and structural policies, but there are downside risks.

9. Medium-term growth prospects are robust. The 2019 real GDP growth forecast is revised up to 6.7 percent to reflect stronger-than-expected agriculture activity. Beyond 2019, growth is projected to remain close to its potential, estimated above 6½ percent (see Box 1). The main drivers of medium-term growth will continue to be strong agriculture and transportation, as well as rising private investment and the lagged effect of the public investment scaling-up.

10. The fiscal deficit and inflation are expected to respect the WAEMU convergence criteria going forward. A stock of arrears of 0.3 percent of GDP inherited from previous governments was uncovered by the January 2019 audit (SB). In line with accounting rules, the 2019 commitment-based fiscal deficit was revised upward from 2.7 to 3.0 percent of GDP. Beyond 2019, the baseline projections assume that the public investment ratio will gradually return to its pre-scaling up level.⁵ This should maintain the deficit below the 3 percent of GDP regional norm. Inflation should also stay below the 3 percent regional limit over the forecast horizon.

11. The public debt ratio is expected to start declining from 2019 after five years of increase. This decline is the result of continued fiscal consolidation and strong economic growth. Two developments have impacted the 2019 debt projection since the last review.⁶ First, the stock of arrears inherited from previous governments has been added to the 2019 debt stock. In the context of the annual budget, arrears will be repaid in cash over a period of three years at a pace of 0.1 percent of GDP per year. Second, in March 2019, the authorities issued a first Eurobond of €500 million (5.2 percent of GDP), while scaling down, by the same amount, their domestic financing plans for the year (see section on debt management below). As a result, total borrowing for 2019 is unchanged relative to the last review but the share of external debt relative to domestic debt has increased.

⁴ Using the new definition of capital, the aggregate CAR at end-2017 would have been 8.4, which suggests that about 80 percent of the decline between end-2017 and June-2018 was due to regulatory changes.

⁵ Public investment accounted for 5.9 percent of GDP in 2016, then went up to 9.1 percent in 2017, and is projected to return gradually to 6.0 percent by 2024.

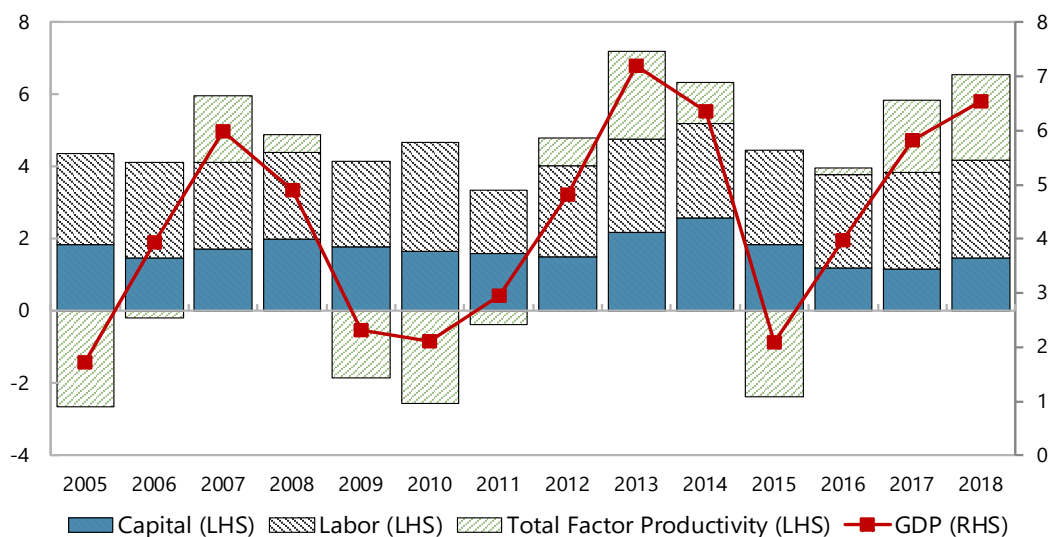
⁶ A guarantee of half a percent of GDP was provided to the electricity distribution company in December 2018 and added to the 2018 debt stock.

Box 1. Medium-Term Growth in Benin

Estimating medium-term growth is difficult in small, low-income economies like Benin, where growth tends to be volatile and subject to structural changes. For robustness, three alternative approaches are employed:

- *Statistical filter.* A Hodrick-Prescott filter estimates trend output growth at 6.5 percent (for 2018).
- *Econometric estimation.* An econometric Growth-at-Risk (GaR) model, which projects a growth distribution, estimates medium-term growth between 6.4-6.8 percent depending on the specification (Selected Issues Paper I).
- *Production function approach.* This approach uses demographic data from the International Labor Organization, capital accumulation projections from the macroeconomic framework, as well as alternative scenarios for future total factor productivity growth (25th, 50th, and 75th percentile of productivity growth recorded over 2008-18). The method places growth in the range of 5.5 and 7.3 percent at the end of the forecast horizon, with a mid-point at 6.6 percent.

Benin, Growth Decomposition, by Component
(percent of GDP)



Source: Beninese authorities and IMF Staff estimates.

12. The current account is projected to keep improving in the medium term. Its gradual convergence towards about 5 percent of GDP assumes the successful implementation of the fiscal consolidation plan and the expansion of agriculture production. There is ample room to raise production capacity for cashew nuts, whose exports are expected to increase significantly. Cotton exports are also projected to rise, although at a slower pace.⁷ The external sector assessment indicates that Benin's external position was broadly consistent with fundamentals and desirable policy settings in 2018 (Annex III).

13. The outlook is nonetheless subject to downside risks (Annex II). In the short term, the primary sources of risks are: (i) political discontent in the aftermath of the April 2019 Parliamentary elections, which may disrupt the reform momentum; (ii) lower-than-expected growth in Nigeria, which would weaken Benin's exports, fiscal position, and growth; and (iii) further deterioration of bank profitability, which would weigh on credit and economic activity in the formal sector. In the medium term, growth prospects are heavily dependent on the ability to revive private investment and attract foreign investors. A tightening of international and regional financial conditions (which will depend, among other factors, on the ability of Ivory Coast and Senegal to issue Eurobonds) could raise debt servicing costs.

Authorities' Views

14. The authorities envisage a more buoyant growth outlook. In their view, staff's forecasts do not fully capture the structural break set in motion by the new policies of the government. They expect growth to exceed 7 percent in 2019 and beyond (MEFP ¶28). They agreed that agriculture and port activity will be key drivers of medium-term growth, but they also emphasized the role of future GAP projects (which will boost construction) and the development of new sectors such as tourism and digital economy. They consider that the main risks to growth could come from uncertainties about the pace of increase in private investment and the regional economic outlook, including demand from Nigeria. However, risks should be mitigated by the government's reform agenda geared towards improving the business climate and diversifying the growth engines. Regarding the inflation and current account projections, the authorities concurred with IMF staff assessment.

POLICY DISCUSSIONS

Discussions focused on the five key components of a medium-term strategy that would put Benin on the path towards achieving the SDGs: (A) revenue mobilization to create budgetary space for development programs; (B) debt sustainability to foster economic stability and bolster investor confidence; (C) economic diversification and transformation to make growth stronger, more sustainable, and less volatile; (D) risks to growth posed by financial sector vulnerabilities; and (E) the governance reform agenda.

⁷ Following the exceptional production growth in the last three years, the cotton sector is now facing constraints related to the availability of land, producers, and ginning plants.

A. Creating Fiscal Space for Development Programs

15. Tax revenue mobilization is a priority for the authorities. In 2018, the tax-to-GDP ratio was 14.0 percent of GDP, below the median ratios of SSA countries and non-resource-rich LIDCs (respectively, 15.1 and 15.4 percent of GDP). The authorities eliminated some tax expenditures for GSM mobile phone companies in mid-2018 (with budgetary savings for 2019 estimated at 0.3 percent of GDP). Along with other tax measures, the 2019 budget also removed 0.9 percent of GDP of tax exemptions (IMF Country Report 18/364).

16. Further revenue mobilization will help create space for priority social spending and infrastructure. Baseline projections over 2020–24 assume that fiscal consolidation will continue to rely on the scaling down of public investment initiated in 2018–19, with the goal of bringing the investment ratio back to its pre-scaling up level (Table 3). However, a more desirable medium-term fiscal strategy should focus on revenue mobilization. This would alleviate the need to compress public investment and provide more budgetary space for development programs.⁸ In 2019, priority social expenditure is expected to grow at the same pace as GDP, despite the overall budget envelope being stable in nominal terms. The authorities have also started the pilot phase of their future universal health insurance system, with the objective of making it fully operational by 2022 (Box 2). Staff emphasized that the new program should be fully financed. Technical and capacity constraints identified during the pilot phase (notably, staff and infrastructure shortfalls in the health provision system) should be lifted before its generalization.

17. There is a large revenue potential from consumption taxes. The mission presented revenue-mobilizing options that could be implemented in the 2020 budget and beyond (Selected Issues Paper III). Excise tax rates, which are below the ceilings set by the WAEMU, could be increased for certain goods. Further rationalization of VAT exemptions is also warranted. Closing the VAT policy and compliance gaps could generate around 3 percent of GDP, while aligning the excise revenue-to-GDP ratio with the SSA average would raise half a percent of GDP. Such a large revenue effort could be achieved over a decade at a pace of $\frac{1}{4}$ – $\frac{1}{2}$ percent of GDP per year. It is not included in the current projections.

18. To secure the gains of the revenue mobilization strategy, new tax incentives should be carefully monitored and properly offset. The authorities are contemplating the creation of special economic zones to support their food processing industry (MEFP ¶47). Staff recognizes that targeted incentives may be useful to incentivize new tradable activities in a very competitive international environment. Nonetheless, these incentives can have large budgetary costs and be redundant (that is, the same investments would have been undertaken in their absence). They can also be distortive when large tax breaks require offsets that place excessive burden on other narrow tax bases.

⁸ This alternative and preferred scenario is not reflected in the baseline projections, which are based on the conservative assumption of unchanged tax policy.

Therefore, to be effective, tax incentives must be carefully designed.⁹ And their budgetary impact should be periodically assessed and accommodated by revenue-raising measures.

Box 2. The Universal Health Insurance System

In May 2017, the government of Benin adopted the legal framework establishing a new social protection system (Assurance pour le Renforcement du Capital Humain, ARCH) with the aim of ensuring effective and affordable social insurance to the Beninese population, especially the poor (40 percent of the total population). ARCH contains four services: universal health insurance, training, credit provision, and pension insurance for people in the informal sector.

The health insurance is the main component of ARCH and its implementation is the most advanced. In 2019, the government started a pilot phase in three regions by identifying and testing the system on the poorest populations. The insurance is expected to be progressively expanded to the rest of the population and become fully operational by 2022.

Studies about financing and implementation are being conducted with the assistance of USAID and the World Bank. The system is expected to be self-financed, except for poor populations who will benefit from a public subsidy to cover their insurance premium. The budgetary cost of this subsidy is minimal during the pilot phase (0.06 percent of GDP in the 2019 budget), since it is tested on a small sample of the population (about 300,000 extreme poor). When the system is generalized, the cost of the public subsidy should reach 0.5 percent of GDP, according to preliminary estimates. At the moment, the plan is to cover this cost with additional taxes generated by the medium-term revenue mobilization strategy (Selected Issues Paper III).

Authorities' Views

19. The authorities reaffirmed their commitment to comply with the 3 percent deficit ceiling beyond 2019, while continuing to enhance revenue mobilization. To achieve the development objectives set in their 2018-25 national development plan, the authorities have, so far, relied on the rationalization of current expenditures (in particular the wage bill) and the scaling down of public investment. Over the medium term, they intend to place more emphasis on enhancing tax revenue mobilization in order to support investment in physical infrastructure and social programs such as ARCH (MEFP ¶30). The authorities also agreed that the revenue mobilization strategy should focus primarily on exploiting the potential of consumption taxes (VAT and excises).

⁹ "Good" tax incentives are generally (i) targeted towards exporting firms; (ii) not limited to large investments; (iii) temporary; and (iv) cost-based rather than profit-based (see 2015 IMF Policy Paper "Options for LIC Effective and Efficient Use of Tax Incentives for Investment").

B. Preserving Debt Sustainability

20. 2019 is expected to mark a turning point in the debt trajectory. The debt ratio is projected to start declining after five years of continuous increase. Ensuring that debt remains on a declining path afterwards will require strict adherence to the medium-term fiscal consolidation plan, in particular by keeping the fiscal deficit below 3 percent of GDP, in line with the WAEMU criterion. The risk of debt distress continues to be assessed as moderate (see updated Debt Sustainability Analysis (DSA) report).

21. Benin's first Eurobond issuance helped diversify the financing mix and improved debt terms. In March 2019, the authorities issued their first Eurobond, in the amount of €500 million (5.2 percent of GDP) with a weighted maturity of 6 years and an interest rate of 6.0 percent. The terms compared favorably to issuances on the regional market (e.g., 7.0 percent for a 5-year bond issued earlier in March). The Eurobond brings several benefits, including: (i) diversifying financing sources away from the relatively illiquid regional market, (ii) lowering debt service costs, (iii) hedging against the volatility of other foreign financing sources, and (iv) contributing to regional reserve accumulation.

22. At the same time, greater reliance on non-concessional external financing creates new types of risks that call for enhanced monitoring and management. Compared to regional borrowing, the Eurobond carries an exchange rate risk, which is estimated to be small in the short to medium term given the peg between the CFAF and the euro. The Eurobond will also modify the nature of the refinancing risk by exposing Benin to changes in global risk aversion. For instance, a shift in the risk appetite of international investors due to global factors could result in a decompression of spreads and capital flow reversals in low-income countries, making the Eurobond more difficult to rollover when it becomes due. Reforms of the debt management framework can help manage these new risks (Box 3).

23. A new targeted composition of the portfolio between domestic and external debt should anchor the debt management strategy. Following the debt reprofiling of October 2018 and the recent Eurobond issuance, the debt composition has changed markedly with external debt increasing from 40 percent of total debt in 2017 to close to 60 percent in 2019. Further efforts to optimize the debt portfolio by substituting external for domestic financing should strike the right balance between improving debt terms (lowering interest payments and extending maturities) and maintaining a safe exposure to external risks. In particular, the debt composition target (currently 50-50) should be revised to take into account the current macro-fiscal framework, existing vulnerabilities in the debt portfolio, market capacity constraints, and the expected evolution of market variables (interest and exchange rates). The updated debt composition target will provide guidance on future borrowing activities.

24. Risks to debt arising from future infrastructure projects need to be monitored and managed proactively. About 60 percent of the GAP projects are expected to be financed by the private sector, mainly in the form of Public Private Partnerships (PPPs). While private sector participation may require some public support, the implications for public debt should be carefully

monitored. In particular, PPPs should be properly reflected in fiscal accounts, and their fiscal risks assessed. The provision of new guarantees provided to state-owned enterprises (SOEs) should be conditioned on a DSA assessment.¹⁰ Regarding the airport project mentioned in IMF Country Report 18/364, feasibility studies are still underway, and the authorities did not have more information on the project size and financing relative to the last review (MEFP 143).

Box 3. Debt Management Framework for Frontier Markets

With its recent Eurobond issuance, Benin has tapped for the first time international sovereign bond markets and, going forward, will be able to access a more diversified set of financing options. The country can learn from the experience of other frontier markets (Guscina, Pedras, and Prosciuttini, 2014; and Mecagni, 2014).¹ Access to international markets brings opportunities to investors, including increasing available financing, improving debt terms, broadening the investor base, and benefiting from financial innovations. However, this may also generate new vulnerabilities that need to be monitored and managed carefully by reinforcing and adapting the institutional, legal, and operational framework for debt management.

- Debt management strategy.** The move from concessional and/or domestic borrowing towards more market-based international financing often requires enhancing the formulation and implementation of the debt management strategy. Several reforms have proved successful, such as: (i) identifying and updating a targeted composition of debt (for example the share between domestic and external debt) that strikes the right balance between costs and risks; (ii) providing clear indication of future plans regarding foreign and domestic markets debt issuance to meet the targeted debt composition; (iii) better anticipating and planning for debt rollover and avoiding bunching of maturities; (iv) establishing plans for active liability debt management (facilitated by the access to international markets); and (v) nurturing an active investors relationship, including by strengthening public financial management and public debt transparency practices (e.g., publishing information on the composition of public debt in a timely manner).
- Debt Management Office (DMO) capacity.** The debt strategy needs to be supported by organizational and operational changes at the DMO. This includes (i) ensuring the retention and training of qualified staff (more risk-focused and more market-aware); (ii) establishing tighter procedures on debt repayment and monitoring; (iii) clarifying the division of responsibilities and enhancing communication and data exchange between the various bodies involved in debt management (including the Ministry of Finance and DMO) to help mitigate operational and reputational risks; and (iv) organizing the DMO by functional lines (front, medium and back offices) to ensure clear reporting and help manage the new operational risks.

¹ Mecagni, M., 2014, "Issuing international sovereign bonds", International Monetary Fund.

Guscina, A., G. Pedras, and G. Prosciuttini, 2014, "First-Time International Bond Issuance New Opportunities and Emerging Risks", International Monetary Fund.

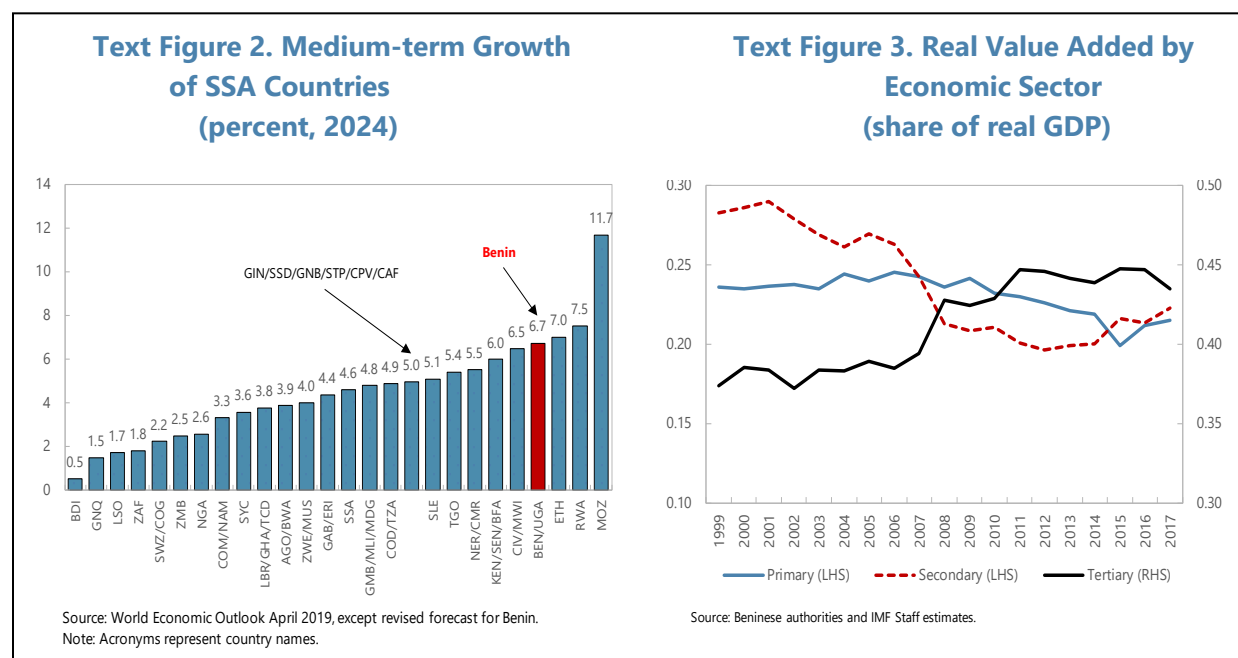
¹⁰ Other conditions discussed in IMF How-to Note 2017/06 "How to Strengthen the Management of Government Guarantees" also apply: guarantees should only be considered for projects (i) that generate positive returns, (ii) whose economic benefits exceed costs, (iii) that could not be financed without guarantees, and (iv) for which the beneficiary is creditworthy.

Authorities' Views

25. The authorities are committed to maintaining the debt ratio on a firm declining path. They emphasized the reforms recently introduced in the DMO to raise human capacity, strengthen debt monitoring, improve communication with the public, and reinforce the coordination with the Treasury (MEFP ¶115). They see the Eurobond as a first step towards accessing international bond markets on a more regular basis, while maintaining a flexible, proactive, and prudent approach to raise financing on markets offering the best financial conditions. While their 2017-21 debt management strategy document already foresees the use of Eurobonds, the authorities concurred with the need to update the annual operational plan to reflect the new challenges related to the Eurobond issuance, including by revising the debt composition target (MEFP ¶137). Regarding the management of PPP-related risks, the Ministry of Finance set up in 2018 a unit in charge of managing them, which is now building capacity to become fully operational (MEFP ¶142).

C. Promoting Economic Diversification

26. Benin has a strong medium-term growth potential. As described in Box 1, staff estimates medium-term growth to lie between 6½ and 7 percent—which places Benin among the fastest growing countries in SSA (Text Figure 2). But the economy remains vulnerable due to its small size, relatively low economic diversification, reliance on formal and informal trade with Nigeria, and financial sector vulnerabilities.



27. Achieving this high potential will require diversifying the economy and fostering economic transformation to make growth more sustainable and less volatile. Benin’s total factor productivity growth has been, on average, barely positive in the past 15 years (Box 1). In terms of structural transformation, the share of the agriculture sector has remained broadly stable, while

the expansion of the banking sector was accompanied by a certain degree of deindustrialization (Text Figure 3). Textile and food processing industries have experienced a decline due to foreign competition and lack of past investment.¹¹ On the trade side, diversification and sophistication are relatively low, with a concentration of exports in agricultural products like cotton and cashew nuts (Annex III).

28. Further improvement of the business environment is essential to support the structural transformation of the economy. According to the Global Competitiveness Report, the main impediments to doing business in Benin are access to finance, weak governance, and poor infrastructure. Access to finance and governance are discussed in Sections D and E below. Regarding infrastructure, staff noted the progress made by the government in expanding electricity capacity, which increased by 67 percent between 2015 and 2018. Staff recommended further efforts to improve the financial situation of the distribution company through the swift implementation of the performance improvement plan developed with the support of the Millennium Challenge Corporation and the World Bank (including the introduction of cost-recovery tariffs), as well as accountability measures such as publishing audited financial results.¹² With regard to production, staff stressed the importance of ensuring that the cost of supply of electricity remains affordable through an optimal mix of imports and domestic power generation. Finally, inefficiencies, reflected in high losses between the electricity delivered in the grids and billed to customers, will need to be addressed (Selected Issues Paper II).

29. Another priority is to deal with sectoral bottlenecks to growth by raising productivity in agriculture and promoting industrial development. Policies can help move up the quality and productivity ladder in the agriculture sector—for instance, land tenure security, irrigation, extension services, development of high-value crops and food processing, and better storage in warehouses. Staff also emphasized the risks of premature deindustrialization. Manufacturing is generally a key driver of economic development due to its high productivity growth, tradability, low skill requirements, and ease of absorbing new technology. Its decline may undermine economic convergence, unless it is offset by a move towards high-productivity tradable services. Measures to support industrial development could include further improvements in infrastructure, governance reforms (notably, quality of investment climate and rule of law), technical and financial support to small- and medium-size enterprises to help them reach critical size, and targeted tax incentives.¹³

30. It remains critical to close the large gaps in education and health. The education system performs relatively well according to quantitative indicators (e.g., enrollment rate at the primary level). However, various measures of quality signal weaknesses, such as the low literacy rate (52.5

¹¹ The relatively low cotton production until 2015 has also had a negative impact on ginning activities, which are part of the manufacturing sector.

¹² The financial situation of the distribution company has improved since 2017 and its debt was estimated at 0.2 percent of GDP at end-2018.

¹³ Tax incentives generally rank low in investment climate surveys in low-income countries, and there are many examples in which they are reported to be redundant and costly for the budget. Their effective use requires that they be carefully designed. See conditions in footnote 9.

percent of the young population in Benin compared to 64.3 percent in SSA). In the area of health, multiple indicators signal lingering problems—in particular the high maternal mortality. In both areas, reforms could focus on developing infrastructure and improving staffing, where Benin lags behind comparator countries.¹⁴ However, financing is not the only constraint. There is also scope for enhancing spending efficiency (measured as the relationship between the volume/quality of services and the price paid for them). For instance, among SSA countries having broadly similar health expenditure per capita (around \$100, PPP), Benin records below-average health outcomes, for instance in life expectancy.

Authorities' Views

31. The authorities recognize the importance of raising productivity and diversifying the economy. Their medium-term growth strategy relies primarily on strengthening traditional sectors (agriculture and commerce), while developing new high-potential sectors such as tourism, digital economy and knowledge-based economy (MEFP ¶28). Regarding agriculture, the priority is to promote nascent productions such as cashew and pineapple, and further develop the cotton sector. The authorities also acknowledged the diagnostic of deindustrialization, which they attribute to the competition of Asian imports and the difficulty to protect their domestic industry (since tariffs increase the cost of imported investment goods). They plan to develop a special economic zone outside Cotonou, which would benefit from specific tax regime and labor code, in order to attract private investors in the agro-industry. They are now conducting feasibility studies and have entered into discussion with potential business partners.

D. Strengthening the Financial Sector

32. A sound, deep, and inclusive financial sector is another condition for strong medium-term growth. The depth of Benin's financial sector is relatively limited, with bank credit accounting for about 30 percent of GDP at end-2018. The small size of the formal economy restrains private sector lending, generating high credit concentration and a strong competition for funding given the narrow depositor base. In addition, low profitability, significant exposure to the WAEMU sovereigns as well as high NPLs limit banks' ability to support credit to the private sector and, ultimately, economic growth. The mission discussed with the authorities the main recommendations of the last WAEMU consultation (IMF Country Report 19/90), in particular, the need to recapitalize small banks, complete the transition to new regulatory and accounting standards along the agreed regional calendar, and strengthen the microfinance sector.

¹⁴ The number of teachers (in proportion to the number of students) and doctors (in proportion to the total population) are below best performers in a group of comparator countries with the same level of development (Garcia-Escribano, M., D. Prady, and M. Sy, forthcoming, "The Spending Challenge for Reaching the SDGs in Sub-Saharan Africa: Lessons Learned from Benin and Rwanda", IMF Working Paper).

33. The profitability of the Beninese banking sector is negatively impacted by the high level of provisions and the high cost of bank resources. These two factors are identified by the accounting decomposition conducted in the Selected Issues Paper IV.

- *High provisions.* Provisions accounted for 13 percent of total credits in Benin compared to an average of 9 percent in the WAEMU banking system at end-2017. The high level of provisions in Benin reflects several factors, including high NPLs (18.9 percent of total loans at end-June 2018), and the fact that the Beninese residence permits (“permis d’habiter”) are not recognized as collateral by the regulator. Like in other WAEMU countries, recent accounting and financial reporting changes have also raised provisioning requirements.
- *Cost of resources.* Interest paid on bank deposits is higher in Benin than in other WAEMU countries. This may result from the relatively low volume of savings channeled through the banking system and the market power of large public depositors. In September 2018, the authorities adopted a law establishing the Caisse des Depots et Consignations (CDC). One of the stated objectives of the institution is to lower the cost of term deposits by placing in banks a pool of dedicated savings that may have previously escaped the banking system (e.g., deposit associated with legal contracts). The authorities are in the process of hiring an international consulting firm to assist with the operationalization of the new institution, which is expected to start its activities by the end of the year.¹⁵ Staff welcomed the creation of the CDC as a new vehicle to support the financing of strategic development projects. It also urged the authorities to consider additional ways of mobilizing savings and lowering the cost of deposits. These could include: (i) improving public confidence in the financial system through enhanced governance; (ii) expanding the depositor base (especially women) through mobile banking and development of financial sector infrastructure; (iii) advancing financial literacy; and (iv) providing individuals, especially in rural areas, with valid identification documents.

34. The restructuring of the two small public banks initiated last year should continue.

These banks (representing 1.3 percent of assets of the banking sector in 2017) have recorded repeated losses in the past several years and are currently restructured with the assistance of an international financial institution. The authorities have announced their decision to merge them in the context of the restructuring, which will reduce the capital needs relative to the statutory minimum level in the WAEMU (CFAF 10 billion per bank) and allow exploiting synergies between the two institutions.¹⁶ The authorities prefer merging the banks than closing the weaker one, which provides key financial inclusion services in the country. They have hired an international audit firm to identify merger options and estimate their costs. These options will be discussed with IMF staff during the forthcoming missions. Once the merger option is selected, the authorities will prepare a

¹⁵ The consulting firm will assist the authorities with the identification of resources to be collected and managed by the CDC; the development of a business plan, investment doctrine and human resource strategy; the implementation of risk management and governance frameworks; and the creation of an information management system.

¹⁶ The synergies will build on the weaker bank’s branch network which is spread throughout the country and the stronger bank’s recently deployed modern information system. This will better position the merged bank to attract new customers, including through new product offerings.

restructuring plan for the merged bank to be submitted to the Banking Commission for approval by the end of the year. The authorities committed to following best principles for bank mergers presented by staff (MEFP ¶51), including choosing the option that would minimize the cost for the government while preserving financial stability.¹⁷

35. Microfinance institutions (MFIs) can also play an important role in fostering financial inclusion and supporting economic development, provided that they are well regulated. There is a significant number of unauthorized MFIs in Benin despite notable efforts by the authorities to clean up the sector (Box 4). Staff encouraged the government to continue formalizing viable and closing unviable unauthorized MFIs. The human resources of the National Surveillance Agency (*Agence nationale de surveillance des systèmes financiers décentralisés*) could also be strengthened to better detect risks early on and enforce regulations, including through timely closure.

Box 4. Microfinance Institutions in Benin

MFIs are key to fostering financial inclusion in Benin. In 2018, the sector comprised of 112 licensed entities, serving over 20 percent of the country's population, with CFAF 107 billion in deposits collected (1.8 percent of GDP) and CFAF 158 billion (2.7 percent of GDP) in loans issued. However, there is a large number of unauthorized MFIs. The latest data is available for 2011, when a census recorded 495 unauthorized entities. These entities can create financial stability risks that require tighter supervision. In collaboration with the regional supervisor, the authorities have taken steps to close unauthorized and nonviable MFIs and formalize viable ones. Over the 2013-2018 period, 240 unauthorized MFIs were formalized, while 17 nonviable MFIs were closed.

Despite the authorities' efforts, the proliferation of illegal structures continues. This has prompted the authorities to (i) enact enhanced measures governing the issuance of MFI licenses in 2018 and (ii) strengthen the national supervisory activities—including by implementing a digital collection of financial information from the supervised entities. To obtain a better purview of the current state of the MFI sector, the authorities are also planning to conduct another census by end-2019. Finally, they have initiated reforms related to enhancing the capacity of the supervisory personnel at the National Surveillance Agency but are facing significant problems in retaining qualified staff.

There is also a significant potential for mobile money to bring the unbanked population into the fold. The number of active mobile money account holders increased more than six times, from 393,000 to 2.5 million between 2015 and 2018. Through their National Fund for Microfinance (Fonds National de Microcrédit), the authorities have recently started exploring synergies between MFIs and mobile money providers by developing the technological infrastructure to support the growth of mobile micro-credit. In order to exploit the full potential of these synergies, the national authorities and the BCEAO are jointly assessing and addressing risks for mobile money operators, such as the lack of interoperability across providers and liquidity problems.

¹⁷ The following principles will guide the merger process: (i) adequate recapitalization in line with WAEMU's latest prudential requirements; (ii) minimum cost for the government while preserving financial stability; (iii) strengthening of the new bank's governance, reporting, and internal control framework; and (iv) efficient organizational structure and business model that ensure the viability of the bank, including by closing non-profitable activities or branches (unless these activities fulfill a public service—in which case the bank should be compensated by a subsidy from the budget in a transparent way).

Authorities' Views

36. The authorities are aware of the issue of weak profitability of the banking system and are taking active steps to address it. First, to reduce provision levels, the authorities have recently adopted a decree that will tackle some practical issues with the procedure of formalization of real estate guarantees (MEFP¶ 23). Cadaster and land registry reforms will also help properly evaluate real estate assets owned by banks. Second, in order to lower the cost of term deposits, the authorities stressed the role of the CDC, which will encourage greater mobilization of resources and have positive spillovers on banks through the CDC deposits (MEFP¶ 53-54). Taken together, these measures are expected to positively affect bank profitability. Regarding non-bank institutions, the authorities are committed to continuing cleaning up the MFI sector and support synergies between MFIs and mobile money operators.

E. Upgrading the Governance and Anti-Corruption Framework

37. Benin is perceived as facing several governance challenges that may adversely impact its competitiveness and attractiveness to foreign investors as well as its ability to achieve sustainable inclusive growth. International evidence shows that corruption affects economic performance.¹⁸ According to the 2018 Global Competitiveness Report, corruption is described as the second most problematic factor for doing business in Benin after constraints on access to financing.¹⁹ Nonetheless, Benin performs better than the average of SSA in most international governance rankings, including the Worldwide Governance Indicators and the Transparency International Corruption Perception Index. Also, most governance indicators point to progress in recent years. To keep up the momentum, Benin should push forward the reform agenda in several directions (see more details in Selected Issues Paper V).

38. Fiscal governance reforms can foster a more efficient, transparent, and fairer use of public funds.

- *Revenue administration.* To mitigate tax fraud, several weaknesses in revenue administration need to be dealt with, including by shifting more resources towards audit, control, and risk monitoring functions (new SB).
- *Public financial management.* To enhance fiscal transparency, the consolidation of the TSA should overcome the technical and operational difficulties that have delayed its implementation so far (new SB). In addition, the management of public investment could be strengthened by improving project selection and ensuring that public procurement is conducted according to the

¹⁸ There is a growing understanding that corruption impacts economic performance by weakening the state's capacity to perform its core functions and by affecting drivers of potential and inclusive growth (see 2017 IMF Policy Paper "The Role of the Fund in Governance Issues—Review of the Guidance Note").

¹⁹ International competitiveness and doing business indicators should be interpreted with caution since their methodology generates margins of error for each governance estimate and they are based on surveys of perceptions by enterprises, citizens, and experts. Estimates reflect the relative, not the absolute, performance of a country.

law. The creation of agencies in charge of managing some investment projects should also be subject to strict reporting, accounting and budgeting procedures.

39. Reforms of the regulatory framework could create a more predictable and secure business environment.

- *Trade facilitation.* The lack of clarity and automation of the formalities required for importers and exporters creates risks of negotiations and illegal payments between customs agents and individuals seeking to circumvent the rules. Staff emphasized the importance of simplifying and shortening customs procedures (new SB).
- *Enforcement of contracts and property rights.* Property registration remains difficult and contract enforcement is weak, creating vulnerabilities to corruption through bribery. Priority should be given to ensuring the efficiency of the recently established Commercial Courts, the transparent enforcement of court fees and the publication of judgements.

40. Anticorruption efforts could focus on better implementing existing laws and reinforcing the effectiveness of existing institutions.

- *Anti-corruption framework.* The asset declaration regime should be strengthened to meaningfully and effectively detect acts of corruption. The anti-corruption agency should be provided with full independence to carry out its mandate and its annual reports should be made publicly available. Finally, an anti-corruption strategy should be adopted, setting priorities to mitigate identified risks, establishing an action plan with specific timelines, and identifying resources to be mobilized for its implementation.
- *Anti-Money Laundering (AML).* To prevent and detect the laundering of proceeds of corruption, the AML regime should be further strengthened by enhancing the capacity of the financial intelligence unit, reinforcing the supervision of regulated sectors, and addressing the recommendations of the upcoming evaluation against the Financial Action Task Force standards.

Authorities' Views

41. The authorities were in broad agreement regarding the overall assessment and reform priorities. They reiterated their willingness to enhance transparency and automatize procedures in order to reduce the risks of fraud and corruption. They emphasized the significant reforms taken in recent years to enhance governance, including introducing electronic tax filing and payment, and establishing legal and operational frameworks for investment management, electricity production, port activities, and anti-money laundering (MEFP¶ 17-20). They agreed that more could be done to improve the effectiveness of the judiciary system and the protection of property rights and contracts. Regarding the asset declaration regime, the authorities stressed that all information is freely accessible upon request to the relevant agencies fighting fraud and corruption. In their view, publishing the declarations could be self-defeating and lead to social tensions and misreporting. They also noted that further progress on AML/CFT may necessitate changes to the WAEMU-level legislation.

PROGRAM CONDITIONALITY AND MODALITIES

- 42. Program performance was very satisfactory at end-2018.** All end-2018 QPCs were observed. A shortfall in external financing in the second semester led to a compression of public investment and over-performance relative to the basic primary balance floor. All September 2018 indicative targets (ITs) were also met, except the one on net domestic financing.²⁰ As of May 2019, the five SBs under review were met.
- 43. Modified and new QPCs.** The end-June QPC on the basic primary balance was modified to reflect the recognition of domestic arrears (which must be recorded in the fiscal balance according to international accounting rules). The end-June QPC on the domestic financing ceiling and the continuous PC on the external financing ceiling were also jointly modified to reflect the deficit-neutral change in borrowing composition from domestic towards external financing. Specifically, the 2019 external financing ceiling was updated and increased by the amount of the Eurobond (5.2 percent of GDP), while the domestic financing ceiling was revised down by the same amount. In addition, new QPCs were set for end-December 2019.
- 44. The authorities agreed to add three new SBs to be assessed during the next program review.** These SBs relate to a diagnostic of the main impediments to trade (by end-September 2019); the reinforcement of the data and risk analysis capacity of the customs administration (by end-December 2019); and an impact assessment of the TSA on commercial banks (by end-March 2020). In addition, the deadline of the SB on the implementation of a system of control and verification of investments was shifted from end-June to end-November 2019 to take into account the legislative cycle and the time needed to establish a new assembly.
- 45. The program is consistent with regional policies.** By ensuring that all first-order convergence criteria (deficit, debt, and inflation) are met, Benin's Fund-supported program is aligned with economic policies at the WAEMU level. In particular, it is consistent with the strategy to strengthen reserves and, more generally, regional external stability, as discussed in IMF Country Report 19/90.
- 46. Financing assurances are adequate.** The program is fully financed up to April 2020. Benin has a track record of meeting its obligations to the Fund and has adequate capacity to repay it. At end-April 2019, outstanding Fund credit (including the GRA) was around 91.00 percent of quota or SDR 112.44 million. The debt service payments to the Fund will remain manageable and the risk of debt distress moderate.
- 47. An updated safeguards assessment of the BCEAO was completed in 2018.** It found that the regional central bank had maintained a strong control environment; audit arrangements were in broad conformity with international standards; and the financial statements were prepared in

²⁰ A shortfall in external financing in the third quarter of 2018 led the authorities to rely more extensively on domestic borrowing to execute their public investment plan. This was offset in the fourth quarter through lesser recourse to the regional market.

accordance with the International Financial Reporting Standards. The BCEAO has recently enhanced the oversight role of its audit committee in line with the recommendations of the assessment.

DATA ISSUES AND CAPACITY DEVELOPMENT

48. Rebasing of National Accounts. The authorities are finalizing the technical work, with the support of the IMF Statistics Department. The plan is to publish the revised national accounts in 2015 base year in the second half of 2019. In parallel, the authorities are also improving their Consumption Price Index (CPI) by both widening the coverage (the index now covers the entire country instead of just Cotonou) and changing the base year to 2014. The national institute of statistics has started publishing the monthly CPI using the new index and is currently working on the back-casting.

49. Conjunctural data. To facilitate an effective program monitoring, staff stressed the need to improve the availability, timeliness and comprehensiveness of high-frequency indicators. This is also important given the higher level of international investors' scrutiny following the Eurobond issuance.

50. Extension of fiscal accounts to SOEs and subnational governments. Staff stressed the need to extend the DSA coverage to SOEs (see updated DSA report). The authorities agreed to assess the scope for consolidating central government fiscal accounts with the financial statements of the SOEs; their analysis will be discussed with staff during the fifth review mission. Also, they are working with AFRITAC WEST to expand the fiscal accounts to the social security fund and local governments according to GFS 2014 guidelines.

51. Capacity development. Since the 2017 AIV consultation, most Technical Assistance (TA) has focused on domestic resource mobilization, public financial management, and statistics. Implementation has been broadly satisfactory (Annex IV). The IMF local office in Benin has established facilities to allow government officials to take online training. For the next 12 months, TA priorities are well aligned with the program and include cash management, fiscal transparency, revenue administration, and tax policy with a focus on VAT (Annex V).

STAFF APPRAISAL

52. Performance under the program is very satisfactory. All QPCs at end-2018 and all SBs under review were met. Staff supports the authorities' request for completion of the fourth review under the ECF arrangement. The macroeconomic and structural policies outlined in the MEFP are adequate to pursue the program's objectives. Risks to program implementation are manageable.

53. The medium-term economic outlook continues to be favorable. Preliminary estimates indicate that 2018 growth accelerated to 6.7 percent, mainly because of stronger port and agriculture activity. These two factors should continue to support medium-term growth, which is projected above 6½ percent over 2019-24. This places Benin among SSA countries with the highest medium-term growth potential. Inflation is expected to remain contained. Finally, Benin's external

position was broadly consistent with fundamentals and desirable policy settings in 2018, but non-price competitiveness remains weak.

54. Maintaining the fiscal deficit below 3 percent of GDP is key for debt sustainability. The authorities are expected to comply with the WAEMU 3 percent of GDP deficit ceiling this year. Fiscal consolidation should continue after 2019 to place debt on a firm downward path and support the regional strategy to foster external stability at the WAEMU level.

55. Beyond 2019, the fiscal strategy should primarily focus on mobilizing more revenue. The authorities are implementing this year an ambitious tax package primarily focused on reducing tax expenditures. Revenue outcomes for the first quarter of 2019 suggest that the authorities are on track to meet the new tax targets. Further revenue mobilization efforts, notably in VAT and excises, are needed to create budgetary space for social spending and prevent additional cuts to public investment. This strategy will also require that tax incentives be periodically assessed and, if necessary, offset with other measures.

56. To sustain Benin's high growth, the economy needs to accelerate its structural transformation. Staff urged the authorities to speed up reforms aimed at improving the business environment and infrastructure; diversifying the economy and supporting industrial development; promoting high-quality education and health; reinforcing the anti-corruption framework; and addressing financial sector vulnerabilities, especially the weak bank profitability. The authorities should also pursue the restructuring of the two public banks.

57. Maintaining debt on a firm downward path calls for a prudent borrowing strategy and enhanced debt management. The debt ratio is projected to decline in 2019 after five years of continuous increase. The Eurobond paves the way for greater access to non-concessional external financing. This will help diversify the financing mix and create opportunities to lengthen debt maturity, but may also generate new vulnerabilities that will need to be monitored and mitigated carefully.

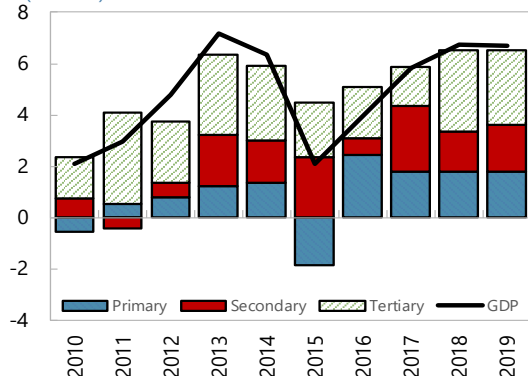
58. Staff supports the authorities' request for completion of the fourth review of the ECF-supported program. Staff also supports the modification of QPCs on the primary balance and domestic financing for end-June 2019; the modification of the continuous PC on external financing; the new QPCs for end-December 2019; and the addition of three new SBs.

59. Staff recommends that the next Article IV Consultation be held on the 24-month cycle.

Figure 1. Benin: Recent Economic Developments, 2010–19

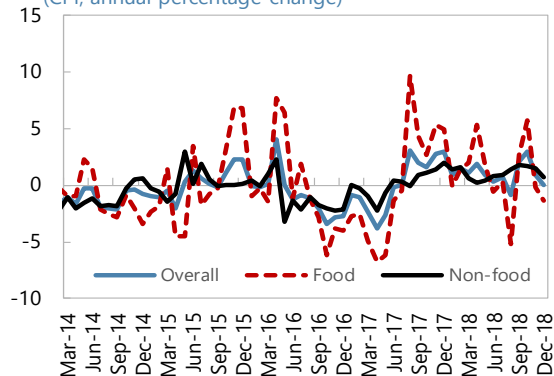
Growth has increased since 2016, pulled primarily by the tertiary sector...

Contribution to GDP Growth
(Percent)



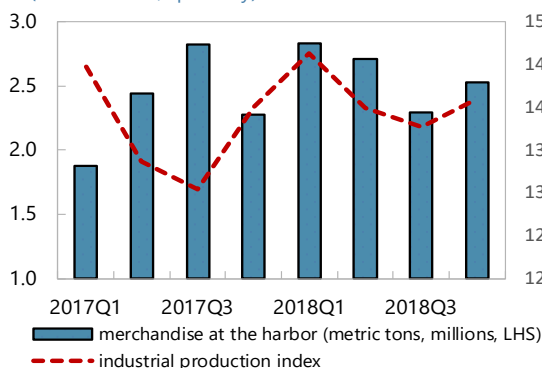
...and inflation has remained subdued.

Inflation
(CPI, annual percentage change)



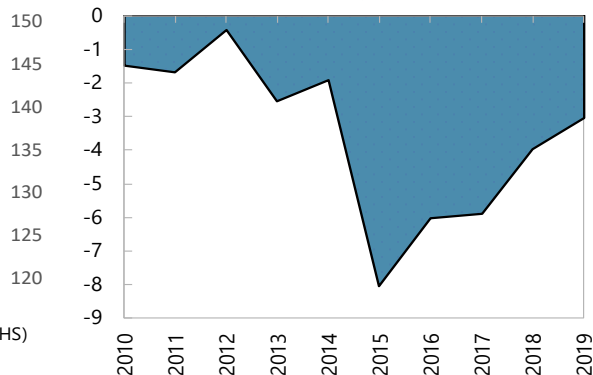
Industrial production has picked up since mid-2017.

Economic Activity
(Cumulative, quarterly)



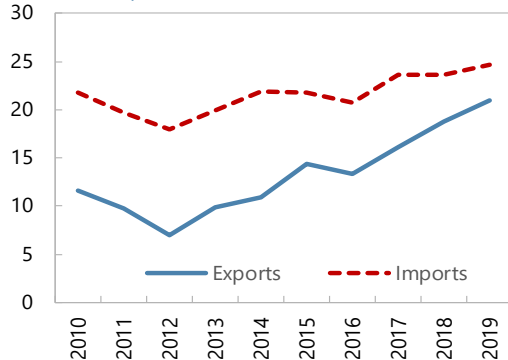
The fiscal deficit has improved significantly under the program.

Overall Fiscal Balance
(In percent of GDP, including grants)



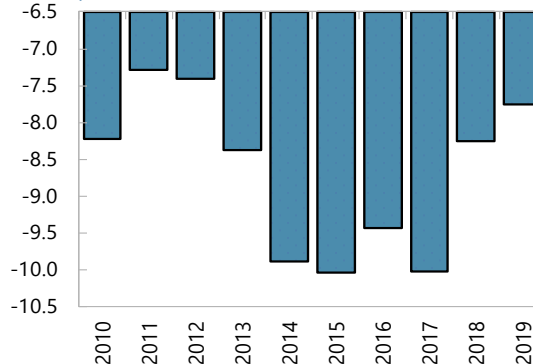
The large structural gap between exports and imports is narrowing...

International Trade
(Goods, in percent of GDP)



...which improved the current account deficit in 2018.

Current Account Balance
(In percent of GDP)

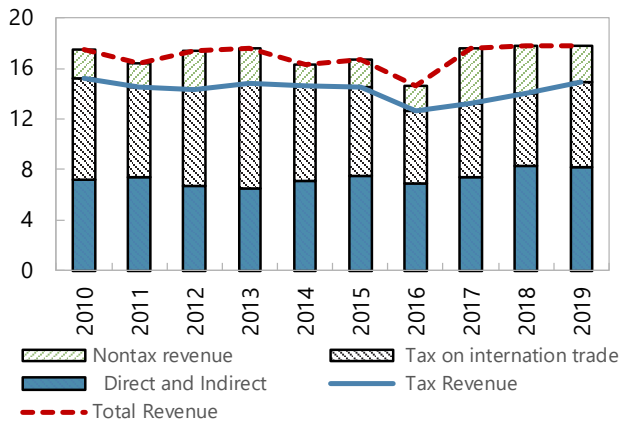


Sources: Beninese authorities and IMF staff calculations.

Figure 2. Benin: Fiscal Developments and Projections, 2010–19

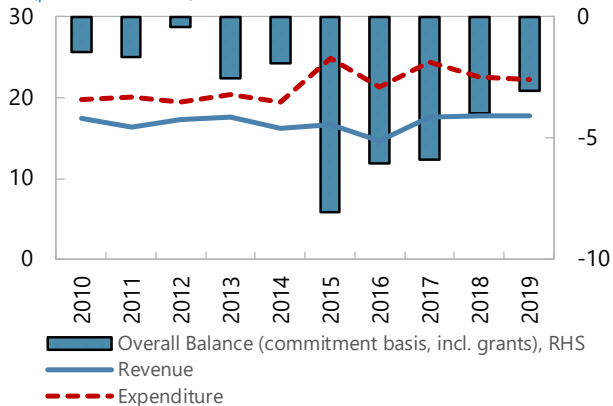
Improved tax revenues...

Revenue
(percent of GDP)



...have led to a stronger fiscal position in 2018.

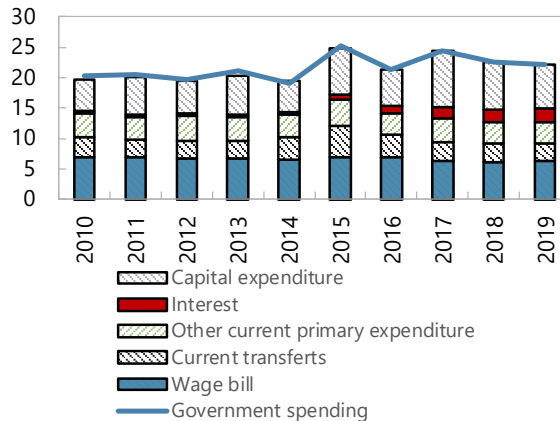
Overall fiscal deficit
(percent of GDP)



Sources: Beninese authorities and IMF staff calculations.

combined with a scaling down of public investment...

Expenditure
(percent of GDP)



Government debt is expected to peak in 2018.

Total Government Debt
(percent of GDP)

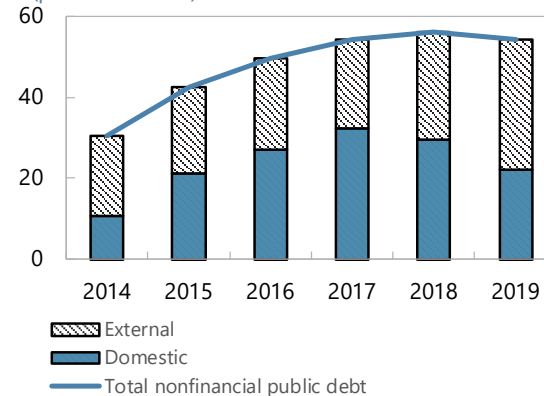
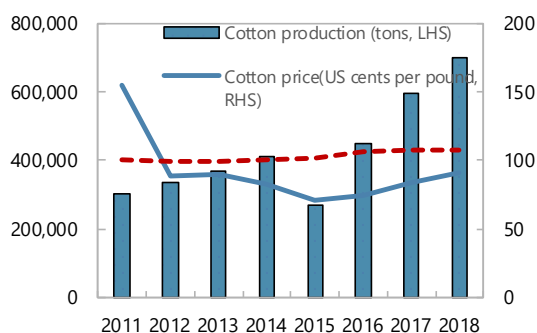


Figure 3. Benin: Real and External Sector Developments, 2011–19

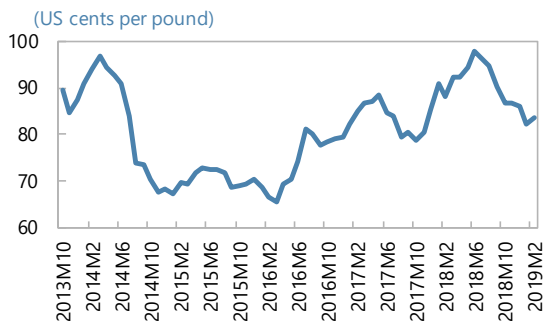
Cotton production rose in recent years...

Cotton Production and Price



... as prices trended up until mid-2018.

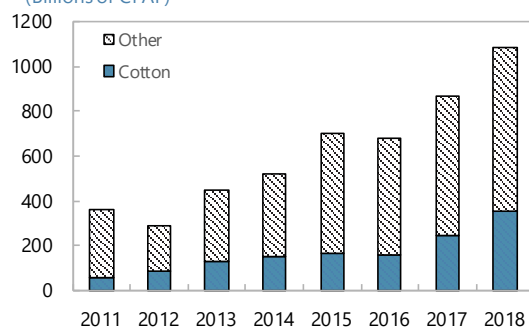
International Cotton Prices



Total exports have increased continuously...

Composition of Exports

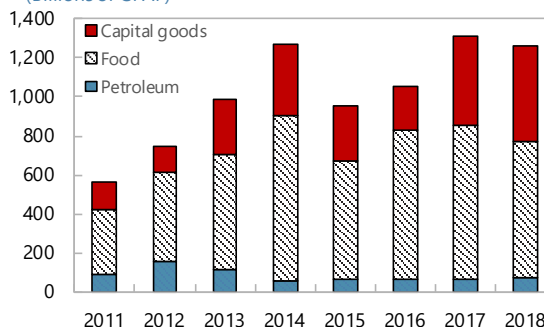
(Billions of CFAF)



... while imports have decreased in 2018.

Composition of Imports

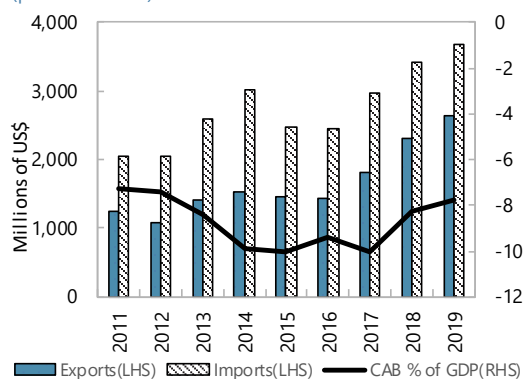
(Billions of CFAF)



The current account has improved since 2018.

Current Account Balance

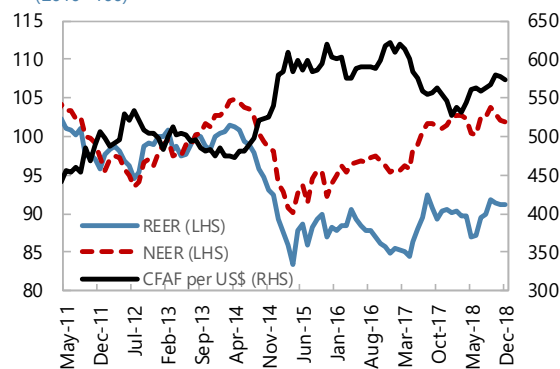
(percent of GDP)



While the CFA franc depreciated against the US dollar in 2018, the real effective exchange rate remained stable.

Exchange Rates

(2010=100)



Sources: Beninese authorities and IMF staff calculations.

Table 1. Benin: Selected Economic and Financial Indicators, 2017–24

	2017	2018		2019		2020	2021	2022	2023	2024
	Act.	EBS/18/ 364	Est.	EBS/18/ 364	Prog.		Projections			
(Annual percentage change)										
National income										
GDP at current prices	5.9	7.4	7.6	8.4	8.3	8.6	8.7	8.7	8.7	8.7
GDP at constant prices	5.8	6.5	6.7	6.5	6.7	6.7	6.7	6.7	6.7	6.7
GDP deflator	0.0	0.9	0.9	2.0	1.6	1.9	1.9	1.9	1.9	1.9
Consumer price index (average)	0.1	1.0	1.0	2.0	1.7	2.0	2.0	2.0	2.0	2.0
Consumer price index (end of period)	3.0	1.0	0.0	2.0	1.7	2.0	2.0	2.0	2.0	2.0
Central government finance										
Total revenue	26.6	8.2	8.9	8.9	8.1	10.0	8.7	8.7	8.7	8.7
Expenditure and net lending	21.3	2.1	-0.9	2.3	6.9	6.0	6.5	7.2	7.7	7.4
External sector										
Exports of goods and services	23.9	18.4	21.3	18.5	18.3	15.4	13.5	11.5	10.6	10.5
Imports of goods and services	18.4	10.4	9.8	11.8	11.7	11.5	9.8	10.4	8.3	8.5
Terms of trade (minus = deterioration)	1.0	0.6	0.9	0.9	0.8	5.0	2.0	0.6	0.9	1.9
Nominal effective exchange rate (minus = depreciation)	...	...	...	...	...	...	...	...	...	...
Real effective exchange rate (minus = depreciation)	...	...	...	...	...	...	...	...	...	...
(Change in percent of beginning-of-period broad money, unless otherwise indicated)										
Money and credit										
Net domestic assets	7.3	-10.4	-3.4	-4.1	-10.3	...	...	...	...	...
Domestic credit	-2.1	-1.5	9.3	14.1	7.6	...	...	...	...	...
Net claims on central government	-3.3	-2.8	-2.7	7.2	0.6	...	...	...	...	...
Credit to the nongovernment sector	1.2	1.3	12.0	6.9	7.0	...	...	...	...	...
Broad money (M2)	1.0	6.9	5.5	8.4	8.3	...	...	...	...	...
(Percent of GDP)										
National accounts										
Gross investment	28.4	25.5	28.4	26.2	28.4	28.3	28.7	29.0	29.3	29.7
Government investment	9.1	8.2	7.7	7.2	7.2	6.6	6.5	6.3	6.1	6.0
Nongovernment investment	19.2	17.2	20.7	19.0	21.2	21.7	22.2	22.7	23.2	23.7
Gross domestic saving	15.9	14.2	17.8	15.9	18.8	19.3	20.5	21.2	22.1	23.8
Government saving	2.3	2.6	2.9	3.0	2.7	2.9	3.1	3.2	3.2	3.4
Non-government saving	13.6	11.6	14.8	12.9	16.1	16.4	17.3	18.0	18.8	20.4
Gross national saving	18.4	16.6	20.1	17.8	20.6	21.2	22.1	23.0	23.9	24.5
Consumption	84.1	85.8	82.2	84.1	81.2	80.7	79.5	78.8	77.9	76.2
Government consumption	11.5	11.3	11.0	10.7	11.0	11.1	10.9	10.8	10.8	10.8
Non-government consumption	72.6	74.6	71.2	73.4	70.2	69.6	68.7	68.0	67.2	65.5
Central government finance										
Total revenue (excluding grants)	17.5	17.7	17.8	17.7	17.7	18.0	18.0	18.0	18.0	18.0
Expenditure and net lending	24.5	23.3	22.5	22.0	22.3	21.7	21.3	21.0	20.8	20.6
Primary balance ¹	-5.0	-3.4	-2.6	-1.8	-2.1	-1.4	-1.0	-0.7	-0.5	-0.4
Basic primary balance ²	-1.5	0.4	0.3	1.9	1.6	1.7	2.1	2.4	2.4	2.5
Overall fiscal deficit (commitment basis, excl. grants)	-6.9	-5.6	-4.8	-4.2	-4.5	-3.8	-3.3	-3.1	-2.9	-2.6
Overall fiscal deficit (commitment basis, incl. grants)	-5.9	-4.7	-4.0	-2.7	-3.0	-2.5	-2.0	-1.7	-1.5	-1.3
Central government debt ³	54.3	54.4	56.1	53.8	54.1	52.0	49.8	47.8	46.0	44.2
of which domestic arrears stock					0.3	0.2	0.1	0.0	0.0	0.0
External sector										
Balance of goods and services	-12.5	-11.3	-10.6	-10.3	-9.6	-9.0	-8.2	-8.0	-7.4	-6.9
Current account balance (incl. grants)	-10.0	-8.9	-8.3	-8.4	-7.8	-7.1	-6.5	-6.2	-5.6	-5.1
Current account balance (excl. grants)	-10.3	-9.2	-8.5	-8.8	-8.2	-7.5	-6.9	-6.5	-5.9	-5.4
Overall balance of payments	3.2	6.1	3.7	4.3	6.4	4.2	4.4	4.5	4.6	4.8
Nominal GDP (billions of CFA francs)	5,382	5,783	5,792	6,269	6,272	6,812.3	7,402	8,045	8,747	9,509
Nominal GDP (millions of US\$)	9,265	10,456	10,432	11,184	10,934	11,876	12,904	14,025	15,249	16,577
Total non-financial public sector debt (percent of GDP) ⁴	54.4	54.6	56.8	54.0	54.7	52.5	50.3	48.3	46.4	44.6
of which government guarantees (percent of GDP)	0.2	0.2	0.6	0.2	0.6	0.5	0.5	0.4	0.4	0.4
Population (millions)	11.2	11.4	11.5	11.7	11.8	12.1	12.5	12.8	13.2	13.6
Nominal GDP per capita (U.S. dollars)	829	915	908	954	926	978	1033	1093	1156	1222

Sources: Beninese authorities; IMF staff estimates and projections.

¹ Total revenue (excluding grants) minus current primary expenditure, capital expenditure, and net lending.² Total revenue (excluding grants) minus current primary expenditure and capital expenditure financed by domestic resources.³ Includes arrears stock.⁴ Data include central government debt, government guarantees, and domestic arrears.

Table 2. Benin: Consolidated Central Government Operations, 2017–24

	2017	2018		2019		2020	2021	2022	2023	2024
	Act.	EBS/18/ 364	Est.	EBS/18/ 364	Prog.	Projections				
	(Billions of CFA francs)									
Total revenue (excluding grants)	944.4	1021.7	1028.6	1112.4	1112.4	1223.2	1329.0	1444.5	1570.6	1707.3
Tax revenue	712.8	777.7	811.4	935.6	935.6	1018.3	1106.4	1202.5	1307.5	1421.3
Tax on international trade	316.0	348.3	331.9	421.5	421.5	458.0	497.6	540.9	588.1	639.3
Direct and indirect taxes	396.8	429.4	479.4	514.1	514.1	560.3	608.7	661.6	719.4	782.0
Nontax revenue	231.6	244.0	217.2	176.8	176.8	204.9	222.6	242.0	263.1	286.0
Total expenditure and net lending	1318.1	1346.2	1305.9	1376.6	1395.7	1479.8	1576.7	1690.4	1820.1	1954.4
Current expenditure	820.2	871.2	857.8	925.1	944.2	1030.8	1096.2	1184.3	1287.3	1384.7
Current primary expenditure	713.8	743.5	731.8	771.2	790.3	868.5	925.2	997.5	1084.6	1179.0
Wage bill	337.3	378.3	356.7	397.7	397.7	429.2	466.3	506.8	551.1	599.0
Pensions and scholarships	95.6	92.8	92.2	99.3	99.3	108.8	121.9	132.5	144.1	156.7
Current transfers	166.6	170.0	179.4	173.1	173.1	202.4	212.5	223.0	242.4	263.5
Expenditure on goods and services ¹	114.3	102.5	103.6	101.2	120.2	128.1	124.4	135.2	147.0	159.8
Interest	106.4	127.7	126.0	153.9	153.9	162.3	171.0	186.7	202.7	205.6
Domestic debt	88.4	111.4	108.8	121.9	121.9	123.4	127.6	138.5	150.5	148.4
External debt	18.0	16.3	17.1	32.0	32.0	38.9	43.4	48.2	52.2	57.3
Capital expenditure and net lending	497.9	475.0	448.2	451.5	451.5	449.0	480.5	506.2	532.8	569.7
Capital expenditure and net lending	491.5	475.0	445.6	451.5	451.5	449.0	480.5	506.2	532.8	569.7
Financed by domestic resources	313.0	257.0	279.1	220.4	220.4	238.2	251.4	257.1	279.6	294.4
Financed by external resources	178.5	218.0	166.5	231.1	231.1	210.9	229.1	249.0	253.3	275.3
Net lending	6.4	0.0	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment basis, incl. grants) ¹	-316.5	-270.1	-230.1	-171.4	-190.5	-167.6	-149.5	-139.2	-133.5	-121.9
Primary balance ²	-267.3	-196.8	-151.4	-110.4	-129.4	-94.4	-76.7	-59.2	-46.9	-41.4
Basic primary balance ³	-82.4	21.2	17.6	120.7	101.7	116.5	152.4	189.8	206.4	233.9
Change in arrears and float	-5.3	-10.0	-0.4	-10.0	9.1	-16.4	-16.4	-16.4	-10.0	-10.0
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	-5.3	-10.0	-0.4	-10.0	9.1	-16.4	-16.4	-16.4	-10.0	-10.0
of which: net change in arrears stock ¹					19.1	-6.4	-6.4	-6.4	0.0	0.0
Overall balance (cash basis, excl. grants)	-364.4	-334.5	-281.4	-274.3	-274.3	-273.0	-264.0	-262.3	-259.5	-257.1
Financing	364.4	334.5	281.4	274.3	274.3	273.0	264.0	262.3	259.5	257.1
Domestic financing	185.9	-54.9	-51.4	36.0	-289.0	72.4	57.0	36.6	36.7	19.5
Bank financing	-69.6	-58.1	-57.1	162.1	13.8	207.2	203.5	195.8	209.9	207.7
Net use of IMF resources	17.9	13.3	14.1	11.9	11.9	1.7	-9.4	-7.2	-8.5	-12.3
Disbursements	25.8	25.0	23.0	24.4	24.4	12.8	0.0	0.0	0.0	0.0
Repayments	-7.9	-11.7	-8.8	-12.5	-12.5	-11.1	-9.4	-7.2	-8.5	-12.3
Other ^{4,5}	-87.4	-71.4	-71.2	150.2	1.9	205.5	212.8	203.1	218.4	220.1
Nonbank and regional financing	255.5	3.2	5.7	-126.1	-302.8	-134.8	-146.5	-159.2	-173.1	-188.2
Privatization	0.0	0.0	-8.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring	-7.0	-7.0	-1.7	-2.0	-2.0	0.0	0.0	0.0	0.0	0.0
Other ^{4,6}	262.5	10.2	15.4	-124.1	-300.8	-134.8	-146.5	-159.2	-173.1	-188.2
External financing	178.5	389.5	332.7	238.3	563.3	200.6	207.0	225.7	222.8	237.6
Borrowing and Grants	230.3	418.3	361.5	276.5	601.5	254.5	277.3	301.4	301.4	325.8
Project financing	178.5	218.0	166.5	231.1	231.1	210.9	229.1	249.0	253.3	275.3
Grants	43.3	37.0	31.2	67.5	67.5	74.0	80.4	87.4	95.0	103.3
Loans	135.3	181.0	135.3	163.6	163.6	136.9	148.7	161.6	158.2	172.0
Budgetary assistance	51.7	200.3	195.0	45.4	45.4	43.7	48.2	52.4	48.2	50.5
Grants	14.0	17.5	16.0	25.3	25.3	15.0	17.8	19.3	21.0	21.9
Loans	37.8	182.8	179.0	20.1	20.1	28.7	30.4	33.0	27.2	28.6
Eurobond ⁷					325.0					
Amortization due	-51.8	-28.8	-28.8	-38.2	-38.2	-53.9	-70.2	-75.7	-78.6	-88.2
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP	5,382	5,783	5,792	6,269	6,272	6,812	7,402	8,045	8,747	9,509

Sources: Beninese authorities; IMF staff estimates and projections.

¹ For 2019, arrears to suppliers of 0.3 percent of GDP are included in expenditure and deficit relative to EBS/18/364.² Total revenue (excluding grants) minus current primary expenditure, capital expenditure, and net lending.³ Total revenue (excluding grants) minus current primary expenditure and capital expenditure financed by domestic resources.⁴ Compared to EBS/18/364, the recomposition of the financing reflects the issuance of the eurobond and the related reduction in domestic borrowing.⁵ Includes financing by Beninese banks.⁶ Includes financing by regional banks.⁷ The Eurobond of FCFA 325 billion is used for budget financing. Domestic financing is adjusted downward relative to EBS/18/364 by the same amount.

Table 3. Benin: Consolidated Central Government Operations, 2017–24

	2017	2018		2019		2020	2021	2022	2023	2024
	Act.	EBS/18/ 364	Est.	EBS/18/ 364	Prog.	Projections				
	(Percent of GDP)									
Total revenue excluding grants	17.5	17.7	17.8	17.7	17.7	18.0	18.0	18.0	18.0	18.0
Tax revenue	13.2	13.4	14.0	14.9	14.9	14.9	14.9	14.9	14.9	14.9
Tax on international trade	5.9	6.0	5.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7
Direct and indirect taxes	7.4	7.4	8.3	8.2	8.2	8.2	8.2	8.2	8.2	8.2
Nontax revenue	4.3	4.2	3.8	2.8	2.8	3.0	3.0	3.0	3.0	3.0
Total expenditure and net lending	24.5	23.3	22.5	22.0	22.3	21.7	21.3	21.0	20.8	20.6
Current expenditures	15.2	15.1	14.8	14.8	15.1	15.1	14.8	14.7	14.7	14.6
Current primary expenditures	13.3	12.9	12.6	12.3	12.6	12.7	12.5	12.4	12.4	12.4
Wage bill	6.3	6.5	6.2	6.3	6.3	6.3	6.3	6.3	6.3	6.3
Pensions and scholarships	1.8	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Current transfers	3.1	2.9	3.1	2.8	2.8	3.0	2.9	2.8	2.8	2.8
Expenditure on goods and services ¹	2.1	1.8	1.8	1.6	1.9	1.9	1.7	1.7	1.7	1.7
Interest	2.0	2.2	2.2	2.5	2.5	2.4	2.3	2.3	2.3	2.2
Domestic debt	1.6	1.9	1.9	1.9	1.9	1.8	1.7	1.7	1.7	1.6
External debt	0.3	0.3	0.3	0.5	0.5	0.6	0.6	0.6	0.6	0.6
Capital expenditure and net lending	9.3	8.2	7.7	7.2	7.2	6.6	6.5	6.3	6.1	6.0
Capital expenditure	9.1	8.2	7.7	7.2	7.2	6.6	6.5	6.3	6.1	6.0
Financed by domestic resources	5.8	4.4	4.8	3.5	3.5	3.5	3.4	3.2	3.2	3.1
Financed by external resources	3.3	3.8	2.9	3.7	3.7	3.1	3.1	3.1	2.9	2.9
Net lending (minus = reimbursement)	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment basis, incl. grants) ¹	-5.9	-4.7	-4.0	-2.7	-3.0	-2.5	-2.0	-1.7	-1.5	-1.3
Primary balance ²	-5.0	-3.4	-2.6	-1.8	-2.1	-1.4	-1.0	-0.7	-0.5	-0.4
Basic primary balance ³	-1.5	0.4	0.3	1.9	1.6	1.7	2.1	2.4	2.4	2.5
Change in arrears and float	-0.10	-0.17	-0.01	-0.16	0.1	-0.2	-0.2	-0.2	-0.1	-0.1
External debt	0.00	0.00	0.00	0.00	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	-0.10	-0.17	-0.01	-0.16	0.1	-0.2	-0.2	-0.2	-0.1	-0.1
of which: net change in arrears stock ¹					0.3	-0.1	-0.1	-0.1	0.0	0.0
Overall balance (cash basis, excl. grants)	-6.8	-5.8	-4.9	-4.4	-4.4	-4.0	-3.6	-3.3	-3.0	-2.7
Financing	6.8	5.8	4.9	4.4	4.4	4.0	3.6	3.3	3.0	2.7
Domestic financing	3.5	-0.9	-0.9	0.6	-4.6	1.1	0.8	0.5	0.4	0.2
Bank financing	-1.3	-1.0	-1.0	2.6	0.2	3.0	2.7	2.4	2.4	2.2
Net use of IMF resources	0.3	0.2	0.2	0.2	0.2	0.0	-0.1	-0.1	-0.1	-0.1
Other ^{4,5}	-1.6	-1.2	-1.2	2.4	0.0	3.0	2.9	2.5	2.5	2.3
Nonbank and regional financing	4.7	0.1	0.1	-2.0	-4.8	-2.0	-2.0	-2.0	-2.0	-2.0
Privatization	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other ^{4,6}	4.9	0.2	0.3	-2.0	-4.8	-2.0	-2.0	-2.0	-2.0	-2.0
External financing	3.3	6.7	5.7	3.8	9.0	2.9	2.8	2.8	2.5	2.5
Borrowing and Grants	4.3	7.2	6.2	4.4	9.6	3.7	3.7	3.7	3.4	3.4
Project financing	3.3	3.8	2.9	3.7	3.7	3.1	3.1	3.1	2.9	2.9
Grants	0.8	0.6	0.5	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Loans	2.5	3.1	2.3	2.6	2.6	2.0	2.0	2.0	1.8	1.8
Budgetary assistance	1.0	3.5	3.4	0.7	0.7	0.6	0.7	0.7	0.6	0.5
Grants	0.3	0.3	0.3	0.4	0.4	0.2	0.2	0.2	0.2	0.2
Loans	0.7	3.2	3.1	0.3	0.3	0.4	0.4	0.4	0.3	0.3
Eurobond ⁷					5.2					
Amortization due	-1.0	-0.5	-0.5	-0.6	-0.6	-0.8	-0.9	-0.9	-0.9	-0.9
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Total revenue and grants	18.6	18.6	18.6	19.2	19.2	19.3	19.3	19.3	19.3	19.3
Revenue	17.5	17.7	17.8	17.7	17.7	18.0	18.0	18.0	18.0	18.0
Grants	1.1	0.9	0.8	1.5	1.5	1.3	1.3	1.3	1.3	1.3
Total central government debt	54.3	54.4	56.1	53.8	54.1	52.0	49.8	47.8	46.0	44.2
of which domestic arrears stock					0.3	0.2	0.1	0.0	0.0	0.0
Total nonfinancial public sector debt ⁸	54.4	54.6	56.8	54.0	54.7	52.5	50.3	48.3	46.4	44.6
GDP (billions of CFA francs)	5,382	5,783	5,792	6,269	6,272	6,812	7,402	8,045	8,747	9,509

Sources: Beninese authorities; IMF staff estimates and projections.

¹ For 2019, arrears to suppliers of 0.3 percent of GDP are included in expenditure and deficit relative to EBS/18/364.² Total revenue (excluding grants) minus current primary expenditure, capital expenditure, and net lending.³ Total revenue (excluding grants) minus current primary expenditure and capital expenditure financed by domestic resources.⁴ Compared to EBS/18/364, the recomposition of the financing reflects the issuance of the eurobond and the related reduction in domestic borrowing.⁵ Includes financing by Beninese banks.⁶ Includes financing by regional banks.⁷ The Eurobond of FCFA 325 billion is used for budget financing. Domestic financing is adjusted downward.⁸ Data include central government debt, government guarantees, and arrears.

Table 4. Benin: Consolidated Central Government Operations, 2018–19

	2018 ¹		2019 ¹							
	Year		Q1		Q2		Q3		Year	
	EBS/17/109	Est.	EBS/18/364	Est.	EBS/18/364	Prog.	EBS/18/364	Prog.	EBS/18/364	Prog.
	(Billions of CFA francs)									
Total revenue (excluding grants)	1021.6	1028.6	235.1	250.2	505.5	505.5	762.5	762.5	1112.4	1112.4
Tax revenue	855.2	811.4	192.6	206.9	428.1	428.1	646.0	646.0	935.6	935.6
Tax on international trade	387.0	331.9	86.3	90.8	155.5	195.5	290.1	290.1	421.5	421.5
Direct and indirect taxes	468.2	479.4	106.4	116.1	272.6	232.6	355.9	355.9	514.1	514.1
Nontax revenue	166.4	217.2	42.4	43.3	77.4	77.4	116.5	116.5	176.8	176.8
Total expenditure and net lending	1377.6	1305.9	254.4	288.2	611.5	611.5	972.0	972.0	1376.6	1395.7
Current expenditure	877.6	857.8	199.9	205.2	426.7	426.7	665.5	665.5	925.1	944.2
Current primary expenditure	744.7	731.8	177.6	268.9	360.5	360.5	557.2	557.2	771.2	790.3
Wage bill	378.3	356.7	100.7	107.0	196.8	196.8	277.5	277.5	397.7	397.7
Pensions and scholarships	93.9	92.2	24.5	107.0	49.2	49.2	83.0	83.0	99.3	99.3
Current transfers	170.0	179.4	33.6	36.2	70.2	70.2	129.7	129.7	173.1	173.1
Expenditure on goods and services ²	102.5	103.6	18.9	18.7	44.3	44.3	67.0	67.0	101.2	120.2
Interest	132.9	126.0	22.3	20.2	66.2	66.2	108.3	108.3	153.9	153.9
Domestic debt	107.6	108.8	16.6	16.3	56.2	56.2	85.9	85.9	121.9	121.9
External debt	25.3	17.1	5.7	3.9	10.0	10.0	22.4	22.4	32.0	32.0
Capital expenditure and net lending	500.0	448.2	54.5	83.0	184.8	184.8	306.5	306.5	451.5	451.5
Capital expenditure	500.0	445.6	54.5	81.6	184.8	184.8	307.8	307.8	451.5	451.5
Financed by domestic resources	273.0	279.1	41.9	65.5	100.6	100.6	157.6	157.6	220.4	220.4
Financed by external resources	227.0	166.5	12.7	16.1	84.2	84.2	150.1	150.1	231.1	231.1
Net lending (minus = reimbursement)	0.0	2.5	0.0	1.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment basis, excl. grants)	-356.0	-324.5	-19.3	-38.0	-106.0	-106.0	-210.8	-210.8	-264.3	-283.3
Primary balance ³	-223.1	-151.4	3.0	-17.8	-39.8	-39.8	-102.5	-102.5	-110.4	-129.4
Basic primary balance ⁴	3.9	17.6	15.6	-0.3	44.5	44.5	47.7	47.7	120.7	101.7
Change in arrears	-10.0	-0.4	-2.5	0.0	-5.0	-5.0	-7.5	-7.5	-10.0	9.1
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	-10.0	-0.4	-2.5	0.0	-5.0	-5.0	-7.5	-7.5	-10.0	9.1
Overall balance (cash basis, excl. grants)	-366.0	-281.4	-21.8	-43.3	-111.0	-111.0	-218.2	-218.2	-274.3	-274.3
Financing	366.0	281.4	21.8	43.3	111.0	111.0	218.2	218.2	274.3	274.3
Domestic financing	118.8	-51.4	15.0	27.6	45.9	-38.0	68.8	-158.5	36.0	-289.0
Bank financing	145.1	-57.1	46.5	-86.2	109.0	113.4	163.4	68.6	162.1	13.8
Net use of IMF resources	15.5	14.1	3.0	-3.2	6.0	6.0	8.9	8.9	11.9	11.9
Disbursements	26.7	23.0	6.1	0.0	12.2	12.2	18.3	18.3	24.4	24.4
Repayments	-11.2	-8.8	-3.1	-3.2	-6.3	-6.3	-9.4	-9.4	-12.5	-12.5
Other ^{5,6}	129.6	-71.2	43.5	-83.0	103.0	107.4	154.5	59.7	150.2	1.9
Nonbank financing	-26.3	5.7	-31.5	113.8	-63.0	-151.4	-94.6	-227.1	-126.1	-302.8
Privatization	0.0	-8.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring	-7.0	-1.7	-0.5	-0.9	-1.0	-1.0	-1.5	-1.5	2.0	-2.0
Other ^{5,7}	-19.3	15.4	-31.0	114.7	-62.0	-150.4	-93.1	-225.6	-124.1	-300.8
External financing	247.1	332.7	6.9	15.7	65.1	149.0	149.4	376.7	238.3	563.3
Project financing	227.0	166.5	12.7	16.1	84.2	84.2	150.1	150.1	231.1	231.1
Grants	67.0	31.2	0.0	9.8	34.3	34.3	51.9	51.9	67.5	67.5
Loans	160.0	135.3	12.7	6.3	49.9	49.9	98.3	98.3	163.6	163.6
Amortization due	-35.3	-28.8	-5.8	-4.3	-19.2	-19.2	-23.5	-23.5	-38.2	-38.2
Budgetary assistance	55.4	195.0	0.0	3.9	0.0	3.9	22.8	10.1	45.4	45.4
Grants	15.8	16.0	0.0	0.0	0.0	0.0	0.0	0.0	25.3	25.3
Loans	39.6	179.0	0.0	3.9	0.0	3.9	22.8	10.1	20.1	20.1
Use of eurobond proceeds ⁸				0.0		80.0		240.0		325.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum item:</i>										
Grants	82.8	47.2	0.0	9.8	34.3	34.3	51.9	51.9	92.8	92.8
GDP (billions of CFA francs, annual)	5,792	5,792	6,269	6,272	6,269	6,272	6,269	6,272	6,269	6,272

Sources: Beninese authorities; IMF staff estimates and projections.

¹ Data are computed on a cumulative basis² For 2019, arrears to suppliers of FCFA 19.6 billion are included in expenditure and deficit relative to EBS/18/364.³ Total revenue (excluding grants) minus current primary expenditure, capital expenditure, and net lending.⁴ Total revenue (excluding grants) minus current primary expenditure and capital expenditure financed by domestic resources.⁵ Compared to EBS/18/364, the recomposition of the financing reflects the issuance of the eurobond and the related reduction in domestic borrowing.⁶ Includes financing by Beninese banks.⁷ Includes financing by regional banks.⁸ The Eurobond of FCFA 325 billion is used for budget financing as follow: 80 billion in Q2, 160 billion in Q3, and 85 billion in Q4. Domestic financing is adjusted downward relative to EBS/18/364 by the same amount.

Table 5. Benin: Balance of Payments, 2017–24

	2017	2018		2019		2020	2021	2022	2023	2024
	Act.	EBS/18/ 364	Est.	EBS/18/ 364	Prog.	Projections				
(Billions of CFA francs)										
Current account balance	-539.3	-512.0	-478.4	-529.2	-486.7	-484.9	-483.3	-501.3	-492.6	-487.6
Excluding budgetary assistance grants	-553.3	-529.4	-494.4	-554.5	-512.0	-510.2	-508.6	-526.6	-517.9	-512.9
Balance of goods and services	-670.6	-652.0	-614.2	-645.6	-601.2	-612.3	-606.6	-646.8	-649.5	-656.3
Credit	1054.5	1248.4	1279.3	1479.0	1513.9	1746.4	1982.6	2211.5	2446.9	2703.3
Debit	-1725.1	-1900.4	-1893.5	-2124.6	-2115.1	-2358.7	-2589.2	-2858.3	-3096.4	-3359.6
Trade balance ¹	-405.0	-340.5	-280.7	-292.6	-230.9	-149.5	-81.3	-29.8	-25.4	-28.8
Exports, f.o.b.	868.1	1054.5	1085.5	1277.0	1312.0	1541.9	1778.4	2028.6	2270.3	2524.7
Cotton and textiles	244.0	335.5	354.7	431.6	461.2	676.9	781.3	905.1	1012.7	1083.0
Other	624.0	719.0	730.8	845.4	850.7	865.0	997.1	1123.5	1257.6	1441.6
Imports, f.o.b. ²	-1273.1	-1395.0	-1366.1	-1569.6	-1542.8	-1691.3	-1859.7	-2058.4	-2295.7	-2553.5
Services (net)	-265.6	-311.5	-333.5	-353.0	-370.3	-462.9	-525.3	-617.0	-624.0	-627.5
Credit	186.5	193.9	193.8	202.0	201.9	204.5	204.1	182.9	176.6	178.6
Debit	-452.1	-505.4	-527.4	-555.0	-572.3	-667.4	-729.4	-799.9	-800.7	-806.2
Income (net)	-6.8	-8.2	-10.9	-27.7	-29.6	-35.0	-39.7	-44.7	-48.9	-54.3
Of which: interest due on central government debt	-18.0	-16.3	-17.1	-32.0	-32.0	-38.9	-43.4	-48.2	-52.2	-57.3
Current transfers (net)	138.1	148.3	146.7	144.1	144.1	162.4	163.0	190.2	205.8	223.0
Unrequited private transfers	36.1	41.6	41.5	53.2	53.2	71.0	71.1	79.5	88.9	99.4
Public current transfers	102.1	106.7	105.2	90.9	90.9	91.4	91.9	110.7	116.9	123.6
Of which: budgetary assistance grants	14.0	17.5	16.0	25.3	25.3	25.3	25.3	25.3	25.3	25.3
Capital and financial account balance	518.6	864.7	750.0	800.6	889.4	771.5	811.8	859.4	894.8	945.9
Capital account balance	43.3	37.0	31.2	37.6	67.5	74.0	80.4	87.4	95.0	103.3
Financial account balance	475.3	827.7	718.8	763.0	821.9	697.5	731.4	772.0	799.8	842.6
Medium- and long-term public capital	125.2	339.0	289.5	149.4	149.4	155.9	156.5	170.4	179.7	191.4
Disbursements	177.0	367.8	318.3	187.7	187.7	209.8	226.8	246.1	258.4	279.6
Project loans	139.3	185.0	139.3	167.6	167.6	181.1	196.4	213.0	231.2	251.0
Of which: central government project loans	135.3	181.0	135.3	163.6	163.6	136.9	148.7	161.6	158.2	172.0
Budgetary assistance loans ³	37.8	182.8	179.0	20.1	20.1	28.7	30.4	33.0	27.2	28.6
Amortization due	-51.8	-28.8	-28.8	-38.2	-38.2	-53.9	-70.2	-75.7	-78.6	-88.2
Foreign direct investment	94.1	109.8	129.2	119.0	155.0	181.7	187.4	203.7	221.4	240.7
Portfolio investment	106.6	128.3	123.6	180.8	329.1	226.0	245.5	260.1	282.8	307.5
Other medium- and long-term private capital	61.2	72.5	72.6	86.4	86.5	94.9	104.1	114.3	111.8	109.3
Deposit money banks	-18.1	-21.5	-21.8	-21.2	-20.6	-20.7	-20.7	-20.7	-20.7	-20.7
Short-term capital ²	106.2	199.7	125.7	248.5	122.5	59.9	58.5	47.7	25.9	14.1
Errors and omissions	191.1	0.0	-55.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance ³	170.3	352.7	216.1	271.4	402.7	286.7	328.5	358.1	402.3	458.4
Change in net foreign assets, BCEAO (- = increase) ³	-170.3	-352.7	-216.1	-271.4	-402.7	-286.7	-328.5	-358.1	-402.3	-458.4
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Percent of GDP, unless otherwise indicated)										
Memorandum items:										
Current account balance (incl. budgetary assistance grants)	-10.0	-8.9	-8.3	-8.4	-7.8	-7.1	-6.5	-6.2	-5.6	-5.1
Current account balance (excl. budgetary assistance grants)	-10.3	-9.2	-8.5	-8.8	-8.2	-7.5	-6.9	-6.5	-5.9	-5.4
Balance of goods and services	-12.5	-11.3	-10.6	-10.3	-9.6	-9.0	-8.2	-8.0	-7.4	-6.9
Trade balance	-7.5	-5.9	-4.8	-4.7	-3.7	-2.2	-1.1	-0.4	-0.3	-0.3
Exports	16.1	18.2	18.7	20.4	20.9	22.6	24.0	25.2	26.0	26.6
Imports	-23.7	-24.1	-23.6	-25.0	-24.6	-24.8	-25.1	-25.6	-26.2	-26.9
Income and current transfers (net)	2.4	2.4	2.3	1.9	1.8	1.9	1.7	1.8	1.8	1.8
Capital account balance	0.8	0.6	0.5	0.6	1.1	1.1	1.1	1.1	1.1	1.1
Financial account balance ³	8.8	14.3	12.4	12.2	13.1	10.2	9.9	9.6	9.1	8.9
Overall balance ³	3.2	6.1	3.7	4.3	6.4	4.2	4.4	4.5	4.6	4.8
International price of cotton (Cotlook "A" Index, U.S. cents a lb.)	83.6	93.3	91.4	91.5	83.7	85.8	84.0	84.0	84.0	84.0
International price of oil (U.S. dollars a barrel)	52.8	69.4	68.3	68.8	59.2	59.0	58.1	57.6	57.6	58.0
WAEMU gross official reserves (in \$US billions)	12.4	16.3	15.4	17.6	16.5	17.1	18.7	20.5	22.9	26.8
WAEMU gross official reserves (months of WAEMU imports of GS) ²	3.9	4.4	4.3	4.5	4.4	4.3	4.4	4.7	4.8	5.0
WAEMU gross official reserves (in percent of broad money)	3.4	4.0	3.8	4.0	3.9	3.8	3.8	3.8	3.9	4.2
GDP (billions of CFA francs)	5,382	5,783	5,792	6,269	6,272	6,812	7,402	8,045	8,747	9,509

Sources: Beninese authorities; IMF staff estimates and projections.

Note: ... = not available.

¹ Excludes re-exports and imports for re-export.² Projections for short-term capital include estimates to adjust for the trend in errors and omissions.³ The upward revision in 2019 relative to EBS/18/364 is due partly to the Eurobond issuance.

Table 6. Benin: Monetary Survey, 2017–20

	2017	2018		2019		2020
	Act.	EBS/18/ 364	Est.	EBS/18/ 364	Prog.	Proj.
(Billions of CFA francs)						
Net foreign assets	994.9	1369.1	1185.4	1661.7	1609.0	1914.2
Central Bank of West African States (BCEAO)	208.2	560.9	424.3	832.4	827.2	1111.7
Banks	786.7	808.2	761.1	829.3	781.8	802.5
Net domestic assets	1202.0	981.9	1130.2	888.4	900.5	813.0
Domestic credit	1659.5	1628.9	1855.4	1947.1	2025.2	2352.7
Net claims on central government ¹	328.5	270.4	271.5	432.5	285.3	485.7
Credit to the nongovernment sector ²	1331.0	1358.5	1584.0	1514.5	1739.9	1867.0
o/w: Credit to the private sector	1222.7	1240.2	1375.7	1396.2	1531.6	1658.7
Other items (net)	212.1	401.5	497.6	813.2	897.2	1289.3
Broad money (M2)	2107.6	2252.9	2224.4	2442.2	2408.8	2616.2
Currency	533.5	570.3	520.2	618.2	563.4	611.9
Bank deposits	727.8	777.9	817.1	843.3	884.8	961.0
Deposits with postal checking accounts	846.3	904.7	887.0	980.7	960.6	1043.3
Other	89.3	98.2	91.3	108.0	100.7	111.0
(Change, in percent of beginning-of-period broad money)						
Net foreign assets	-5.3	17.8	9.0	13.0	19.2	12.8
Central Bank of West African States (BCEAO)	8.2	16.7	10.3	12.0	18.2	11.9
Banks	-13.5	1.0	-1.2	0.9	0.9	0.9
Net domestic assets	7.3	-10.4	-3.4	-4.1	-10.4	-3.7
Domestic credit	-2.1	-1.5	9.3	14.1	7.7	13.7
Net claims on central government	-3.3	-2.8	-2.7	7.2	0.6	8.4
Credit to the nongovernment sector ¹	1.2	1.3	12.0	6.9	7.1	5.3
Other items (net)	-0.9	0.0	5.5	0.0	0.0	0.0
Broad money (M2)	1.0	6.9	4.8	8.4	8.3	8.6
Currency	0.0	1.7	-0.6	2.1	2.0	2.0
Bank deposits	1.6	2.4	4.2	2.9	3.1	3.2
Deposits with postal checking accounts	-0.5	2.8	1.2	3.4	3.3	3.4
<i>Memorandum items:</i>						
Velocity of broad money	2.6	2.6	2.7	2.6	2.7	2.7
Broad money as share of GDP	39.2	39.0	38.4	39.0	38.4	38.4
Credit to the nongovernment sector, (year-on-year change of end-December credit stock, in percent) ¹	1.9	2.1	19.0	11.5	9.8	7.3
Credit to the private sector (year-on-year change of end-December credit stock, in percent)	-0.2	1.4	12.5	12.6	11.3	8.3
Nominal GDP (billions of CFA francs, annual)	5,382	5,783	5,792	6,269	6,272	6,812
Nominal GDP growth (annual change in percent)	5.9	7.4	7.6	8.4	8.3	8.6
Sources: BCEAO; IMF staff estimates and projections.						
¹ Revisions relative to EBS/18/364 reflect the recomposition of financing after the eurobond.						
² Including credit to the private sector and to other non-financial public sector.						

Table 7. Benin: Schedule of Disbursements Under the ECF Arrangement

Date Available	Amount	Conditions Necessary for Disbursement
April 7, 2017	SDR 15.917 million	Executive Board approval of the ECF arrangement.
October 31, 2017	SDR 15.917 million	Observance of end-June 2017 performance criteria, and completion of the first review under the arrangement.
April 30, 2018	SDR 15.917 million	Observance of end-December 2017 performance criteria, and completion of the second review under the arrangement.
October 31, 2018	SDR 15.917 million	Observance of end-June 2018 performance criteria, and completion of the third review under the arrangement.
April 30, 2019	SDR 15.917 million	Observance of end-December 2018 performance criteria, and completion of the fourth review under the arrangement.
October 31, 2019	SDR 15.917 million	Observance of end-June, 2019 performance criteria, and completion of the fifth review under the arrangement.
March 23, 2020	SDR 15.918 million	Observance of end-December 2019 performance criteria, and completion of the sixth review under the arrangement.
Total	SDR 111.42 million	

Source: International Monetary Fund

Table 8. Benin: Indicators of Capacity to Repay the IMF, 2019–33

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
IMF obligations based on existing credit ¹ (millions of SDRs)															
Principal	10.6	13.8	11.7	9.0	10.6	13.8	12.7	12.7	11.1	6.4	0.0	0.0	0.0	0.0	0.0
Charges and interest ²	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
IMF obligations based on existing and prospective drawings (millions of SDRs)															
Principal	10.6	13.8	11.7	9.0	10.6	15.4	20.7	22.3	20.7	15.9	8.0	1.6	0.0	0.0	0.0
Charges and interest	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total obligations based on existing and prospective credit ³															
Millions of SDRs	10.6	13.9	11.7	9.1	10.7	15.5	20.8	22.3	20.8	16.0	8.0	1.7	0.1	0.1	0.1
Billions of CFA francs	8.5	11.1	9.4	7.3	8.6	12.4	16.6	17.9	16.6	12.8	6.4	1.3	0.0	0.0	0.0
Percent of government revenue	0.8	0.9	0.7	0.5	0.5	0.7	0.9	0.8	0.7	0.5	0.2	0.0	0.0	0.0	0.0
Percent of exports of goods and services	0.6	0.7	0.5	0.4	0.4	0.5	0.7	0.7	0.6	0.4	0.2	0.0	0.0	0.0	0.0
Percent of debt service	2.8	3.4	2.8	2.1	2.3	3.4	2.7	2.7	2.4	1.7	0.8	0.2	0.0	0.0	0.0
Percent of GDP	0.1	0.2	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Percent of quota	11.3	9.6	7.4	8.7	12.6	16.8	18.1	16.8	13.0	13.0	13.0	13.0	13.0	13.0	13.0
Outstanding IMF credit ³															
Millions of SDRs	133.7	135.8	124.2	115.1	104.5	89.1	68.4	46.2	25.5	9.6	1.6	0.0	0.0	0.0	0.0
Billions of CFA francs	107.2	108.9	99.5	92.3	83.8	71.4	54.9	37.0	20.4	7.7	1.3	0.0	0.0	0.0	0.0
Percent of government revenue	9.6	8.9	7.5	6.4	5.3	4.2	2.9	1.7	0.9	0.3	0.0	0.0	0.0	0.0	0.0
Percent of exports of goods and services	7.1	6.6	5.6	4.8	4.0	3.1	2.2	1.4	0.7	0.2	0.0	0.0	0.0	0.0	0.0
Percent of debt service	35.8	33.5	29.2	26.0	22.9	19.6	8.8	5.7	3.0	1.0	0.2	0.0	0.0	0.0	0.0
Percent of GDP	1.7	1.6	1.3	1.1	1.0	0.8	0.5	0.3	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Percent of quota	108.0	109.7	100.3	93.0	84.4	72.0	55.3	37.3	20.6	7.7	1.3	0.0	0.0	0.0	0.0
Net use of IMF credit (millions of SDRs)															
Disbursements (including prospective ones)	21.3	2.1	-11.7	-9.0	-10.6	-15.4	-20.7	-22.3	-20.7	-15.9	-8.0	-1.6	0.0	1.0	2.0
Repayments and repurchases	31.8	15.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
	10.6	13.8	11.7	9.0	10.6	15.4	20.7	22.3	20.7	15.9	8.0	1.6	0.0	0.0	0.0
<i>Memorandum items:</i>															
Charges and interest, after assumed subsidies (millions of SDRs)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Nominal GDP (billions of CFA francs)	6,272	6,812	7,402	8,045	8,747	9,509	10,341	11,250	12,245	13,332	14,521	15,822	17,246	18,805	20,512
Exports of goods and services (billions of CFA francs)	1,514	1,644	1,787	1,942	2,111	2,295	2,496	2,715	2,955	3,218	3,505	3,819	4,163	4,539	4,951
Government revenue (billions of CFA francs)	1,112	1,223	1,329	1,444	1,571	1,707	1,863	2,123	2,315	2,508	2,722	2,960	3,232	3,232	3,232
Debt service (billions of CFA francs)	299	325	341	355	365	365	620	652	689	736	809	880	959	1,065	1,162
Net Foreign Assets Central Bank (billions of CFA francs)	827	908	997	1,095	1,202	1,320	1,450	1,592	1,748	1,919	2,107	2,313	2,540	2,789	3,062
CFA francs/SDR (period average)	801.5	801.5	801.5	801.5	801.5	801.5	801.5	801.5	801.5	801.5	801.5	801.5	801.5	801.5	801.5
Quota (millions of SDRs)	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8

Sources: IMF staff estimates and projections.

¹ Data are projections² On December 4, 2018 the IMF Executive Board approved an extension of the modified interest rate setting mechanism which effectively sets interest rates to zero on ECF and SCF through June 30, 2019 and possibly longer. The Board also decided to extend zero interest rate on ESF until end-June 2019 while interest rate on RCF was set to zero in July 2015. Based on these decisions and current projections of SDR rate, the following interest rates are assumed beyond June 30, 2019: projected interest charges between 2019 and 2020 are based on 0/0/0/0.25 percent per annum for the ECF, SCF, RCF and FINRESF, respectively, and beyond 2020 0/0.25/0/0.25 percent per annum.³ Total debt service includes IMF repurchases and repayments.

Table 9. Benin: Gross External Requirement, 2019–21
(in percent of GDP)

	2019	2020	2021
Total financing requirement	8.8	8.3	7.8
Current account deficit ¹	8.2	7.5	6.9
Medium and long-term debt	0.6	0.8	0.9
Of which public debt	0.6	0.8	0.9
Total financing sources	13.7	11.5	11.7
Capital transfers	3.8	3.8	3.8
Direct investment (Net)	2.5	2.7	2.5
Portfolio investment (Net)	5.2	3.3	3.3
Medium and long-term private loans (Net)	1.4	1.4	1.4
Others (Net)	0.8	0.3	0.6
Increase in gross reserves	5.8	3.9	4.3
Rescheduled debt and arrears clearance	0.0	0.0	0.0
Errors and omissions	0.0	0.0	0.0
Total financing needs	0.9	0.7	0.5
Official financing	0.9	0.7	0.5
IMF	0.2	0.0	-0.1
Prospective purchases	0.4	0.2	0.0
Repurchases	-0.2	-0.2	-0.1
Official creditors	0.7	0.6	0.7
World Bank	0.3	0.2	0.2
Others	0.5	0.4	0.4

Source: Beninese authorities; IMF staff estimates and projections.

¹Excluding grants

Table 10. Benin: Financial Stability Indicators, 2012–18

	2012	2013	2014	2015	2016	2017	2018 ¹
	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	June
Regulatory capital to risk-weighted assets	9.2	9.5	9.0	7.9	9.3	11.9	7.6
Core capital to risk-weighted assets	7.9	7.2	7.1	5.2	7.4	10.2	6.7
Provisions to risk-weighted assets	8.6	11.4	12.1	15.6	16.0	16.4	12.2
Capital to total assets	4.8	4.5	4.0	2.7	3.7	4.7	4.5
Composition and quality of assets							
Total loans to total assets	47.4	47.7	46.1	39.0	39.6	43.5	47.3
Concentration: Credit to the 5 largest borrowers	61.1	56.3	103.9	175.7	99.6	91.6	103.3
Credit by sector ²							
Agriculture, Forestry, and Fishing	2.1	2.0	1.6	3.2	1.9	1.8	2.4
Extractive Industries	0.7	1.7	1.8	2.1	2.6	1.5	1.8
Manufacturing	10.1	11.2	11.7	12.5	15.0	15.2	12.1
Electricity, Water, and Gas	2.8	3.3	2.5	3.0	5.0	4.4	2.9
Buildings and Public Works	7.5	9.4	12.0	14.9	16.3	17.0	13.8
Commerce, Restaurants, and Hotels	40.2	36.9	34.4	29.9	28.2	24.1	23.8
Transportation and Communication	10.3	9.6	7.5	6.0	6.2	5.9	4.5
Financial and Business Services	5.7	5.2	5.6	4.9	7.9	8.0	2.9
Other Services	20.6	20.8	22.8	23.5	16.7	22.1	35.8
Non-Performing Loans (NPLs)							
Gross NPLs to Total loans ³	18.6	21.2	21.5	22.1	21.8	19.4	18.9
Provisioning rate	46.8	48.0	49.0	55.0	64.0	66.4	70.0
Net NPLs to total loans	10.8	12.3	12.3	11.3	9.1	7.5	6.5
Net NPLs to capital	106.2	130.9	140.8	161.2	96.9	69.2	68.6
Earnings and profitability							
Average cost of borrowed funds	3.3	3.3	3.1	3.1	3.2	3.0	...
Average interest rate on loans	9.5	9.1	8.4	8.3	7.8	7.4	...
Average interest margin ⁴	6.2	5.8	5.3	5.2	4.6	4.3	...
After-tax return on average assets (ROA)	0.0	0.4	0.9	0.3	0.0	0.0	...
After-tax return on average equity (ROE)	-0.6	5.6	14.4	4.9	0.5	0.4	...
Noninterest expenses/net banking income	68.9	69.9	60.9	63.7	73.2	76.9	...
Salaries and wages/net banking income	28.4	29.8	26.2	27.5	32.3	33.9	...
Liquidity							
Liquid assets to total assets	22.9	21.9	23.0	18.9	16.2	14.5	14.4
Liquid assets to total deposits	35.7	34.7	36.7	30.9	28.0	24.4	21.8
Total loans to total deposits	80.7	84.1	82.2	72.6	79.4	84.4	82.3
Total deposits to total liabilities	64.3	63.1	62.7	61.1	57.9	59.2	66.3
Demand deposits to total liabilities ⁵	27.4	26.9	26.6	25.9	24.4	26.3	30.8
Term deposits to total liabilities	36.8	36.2	36.1	35.2	33.5	32.9	35.5

Source: BCEAO.

Note: ... = not available.

¹ Year of first data reporting in accordance with Basel II/III and Revised Chart of Accounts (Interim Data)² Identified sectors represent at least 80 percent of credit³ The improvement of NPLs since 2015 includes the reduced exposure by several banks to a business group that encountered difficulties in 2012-14.⁴ Excluding taxes on banking operations.⁵ Including savings accounts.

Annex I. Implementation of Past IMF Recommendations¹

Area	Specific Recommendations	Status
Economic development	<ul style="list-style-type: none"> Promote economic diversification by focusing on sectoral policies, improving education, bolstering governance, and upgrading infrastructure and trade networks. 	In progress
	<ul style="list-style-type: none"> Improve agricultural productivity. 	In progress
	<ul style="list-style-type: none"> Promote private sector investment by improving the business environment. Address weaknesses in the doing business indicators. 	In progress
Fiscal policy	<ul style="list-style-type: none"> Meet the WAEMU's fiscal convergence criterion. 	Good
	<ul style="list-style-type: none"> Accelerate the reforms needed to broaden the tax base. 	Good
	<ul style="list-style-type: none"> Modernize tax and customs administrations, improve their efficiency, strengthen their coordination and enhance tax compliance. 	In progress
	<ul style="list-style-type: none"> Implement key supportive structural measures to increase the absorptive capacity and the efficiency of investment spending. 	In progress
	<ul style="list-style-type: none"> Adopt cost-effective safety net programs such as e-vouchers and mobile transfers to protect the most vulnerable. 	Not implemented
Debt management	<ul style="list-style-type: none"> Ensure that the programmed fiscal consolidation path is achieved to support the public debt anchor and preserve long-term debt sustainability. 	Good
	<ul style="list-style-type: none"> Seek longer maturity obligations on the regional market. 	In progress
	<ul style="list-style-type: none"> Better monitor fiscal risks related to PPPs and SOEs. 	Low
Financial sector Governance	<ul style="list-style-type: none"> Address stability risks from unauthorized MFIs. 	In progress
	<ul style="list-style-type: none"> Strengthen audit institutions. 	In progress
	<ul style="list-style-type: none"> Strengthen the anti-corruption framework. 	In progress
Data	<ul style="list-style-type: none"> Improve the quality and timeliness of economic data and address data gaps—in particular, balance of payments, international investment position, employment, and social indicators. 	Low
	<ul style="list-style-type: none"> Address weakness in public finance by finalizing a framework to implement the Government Financial Statistics Manual. 	Low

¹This annex assesses recommendations made in the 2017 IMF Article IV report. "Good" describes recommendations that have been successfully implemented; "in progress" for recommendations whose implementation has been initiated but is yet to be completed; "low" for recommendations that need to be expanded in scope; and "not implemented" for recommendations whose implementation has not yet been initiated.

Annex II. Risk Assessment Matrix¹

Source of Risks	Relative Likelihood/ Time Horizon	Excepted Impact if Realized	Recommended Policy Response
External Risks			
Rising protectionism and retreat from multilateralism	High Short to, Medium Term	Low Would reduce exports; although impact likely to be limited given high share of informal exports	Accelerate reforms to diversify exports; enhance competitiveness; access new markets; pursue efforts to promote regional integration
Weaker-than-expected global growth	Medium Short to, Medium Term	Medium Negative impact on Benin exports, which would transmit to growth and fiscal position	Strengthen the business climate to diversify export markets; preserve fiscal space for countercyclical policy; reinforce the resilience of the banking sector by building up capital buffers
Intensification of security risks	High Short to Medium term	Low Security risks from neighboring countries could impact domestic stability, tourism, and result in immigration flows	Create fiscal space for security spending; maintain current policies; develop further food security strategy
Adverse developments in Nigeria	Low Short to, Medium Term	High Slower recovery and adverse security situation would reduce trade revenues, and growth; subsidy cuts in Nigeria can cause fuel price spikes in Benin	Accelerate the structural transformation of the economy to lessen its dependence on Nigeria; improve the business environment to support private sector growth and diversification
Sharp tightening of global financial conditions	High Short Term	Low A tightening of the ECB policy would be transmitted to financial conditions of the WAEMU region due to the peg; and raise sovereign debt service	Reduce non-priority spending to accommodate higher interest bill and preserve programmed fiscal targets; prompt banks to better manage refinancing risk
Domestic Risks			
Rise in interest rate on regional financial markets	Medium Short to Medium Term	Medium Higher costs of domestic borrowing for government	Rely predominantly on concessional financing; optimize debt portfolio; adjust public investment level to reduce borrowing needs, if necessary
Adverse weather conditions	Medium Short to Medium Term	High Adversely affect agricultural output and exports; increase subsidy needs; and reduce the population's living standards	Develop further food security strategy; strengthen resilience through irrigation and productivity in agriculture; mitigate the impact on the poor through targeted fiscal transfers and other types of public spending
Policy implementation risks, including due to social-political disturbances (strikes) or elections	Medium Short to Medium Term	High Interruption of the reform agenda; lower revenue mobilization and higher current expenditure, resulting in a deterioration of fiscal position	Build coalition of stakeholders to support the reform program; implement contingency plans, such as offsetting cuts in non-priority spending; reprioritize public investment; strengthen governance
Intensification of financial sector vulnerabilities	Medium Short to Medium Term	Medium A surge in non-performing loans could deteriorate confidence and lower further capital, affecting banking sector stability	Step up the monitoring of financial sector developments. Consult with the regional banking commission and communicate with banks on measures needed to ensure a prompt resolution of NPLs and adequate capitalization

¹ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term (ST)" and "medium term (MT)" are meant to indicate that the risk could materialize within 1 and 3 years, respectively.

Annex III. External Stability Assessment

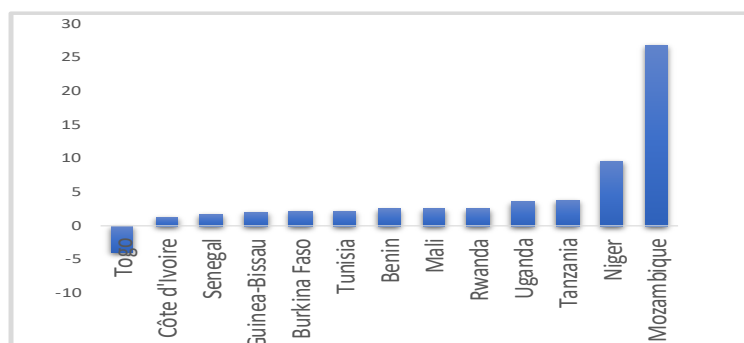
The current account deficit is expected to improve in 2018 reflecting strong export growth and the dampening effect of fiscal consolidation on imports. Such a trend should continue in the medium term. The external sector assessment indicates that Benin's external position was broadly consistent with fundamentals and desirable policy settings in 2018, but non-price competitiveness remains weak.

- 1. Benin's current account deficit is elevated.** It increased by 1.5 percent of GDP during the 2013-17 period from 8.4 to 9.9 percent of GDP. This reflects primarily the scaling up of public investment and structural weaknesses in competitiveness (see below).
- 2. However, the deficit contracted markedly in 2018.** The current account deficit (including grants) declined from 10.0 percent of GDP in 2017 to 8.3 percent of GDP in 2018. The improvement was mainly driven by a significant increase in exports of cotton, and, to a lesser extent, cashew nuts. Reforms to strengthen the technical capacities of farmers, expand cultivable lands, and distribute higher-quality seeds led to a surge in agricultural production, which had also a dampening effect on food imports.
- 3. Benin's exports are relatively concentrated in terms of products and markets.** In terms of export diversification and sophistication, Benin is broadly comparable to its WAEMU neighbors but compares unfavorably to the SSA average and to other regions. More than one third of Benin's exports are agriculture products like cotton and cashew nuts. The Herfindahl-Hirschman index of market concentration ranks Benin above the SSA median (0.18 versus 0.10). Export sophistication, measured by the share of high-technology exports in total manufacturing exports, is below the SSA average.
- 4. External financing is mainly comprised of concessional financing and FDI.** Data shows a relatively stable composition of the financing of the current account deficit between official loans (representing 33 percent of total current account deficit, on average over the last three years) private loans (27 percent), portfolio investment flows (19 percent), FDIs (19 percent), public transfers including project grants (7 percent), partly offset by an increase in reserves (-8 percent).¹

¹ Errors and omissions represented 3 percent of the current account deficit over the same period. The negative sign indicates an increase in reserves.

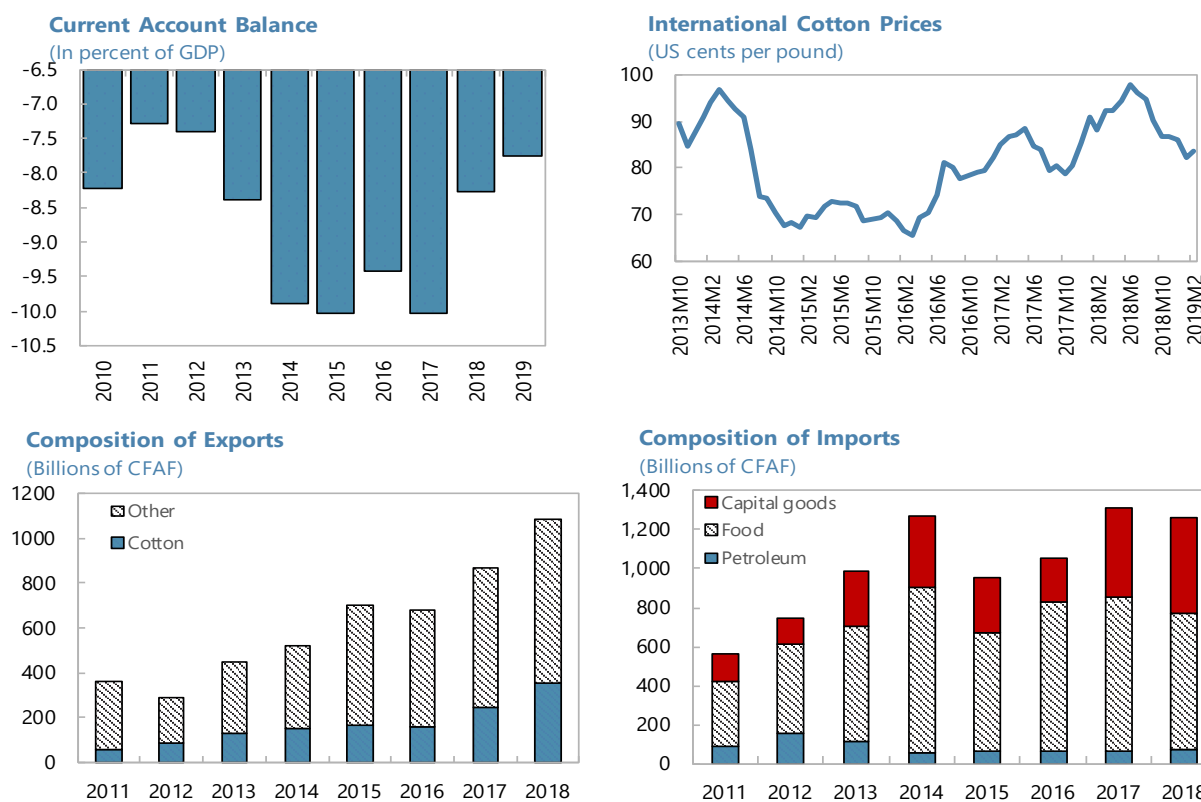
5. Attracting FDI in a small market like Benin is challenging. The net inflows of FDIs represented 3.4 percent of GDP in 2017, which is below the SSA average estimated at 5.6 percent of GDP in 2017. At the time of the 2017 IMF/World Bank Annual Meetings, Benin became a full participant in the G20 CwA initiative with the hope of bolstering the private sector financing of the GAP for 2016-21. However, the CwA participation has not yet produced tangible benefits, with no new foreign-financed project initiated under the CwA banner.

Text Figure 3.1. FDIs in percent of GDP, Average 2010–17



Source: World Economic Outlook

Figure 3.1. Benin: External Developments



Sources: Beninese authorities and IMF staff calculations.

6. Gross international reserve coverage for the WAEMU, as a whole, rose sharply in 2018 reflecting Eurobond issuances and improved compliance with export receipts repatriation requirements.² After an increase of CFAF 655 billion (US\$1.2 billion) in 2017, WAEMU international reserves rose by another CFAF 1,377 billion (US\$2.4 billion) to reach CFAF 8,561 billion (US\$14.9 billion) at end-2018. The increase in 2018 reflects Eurobond net proceeds, which were almost 75 percent higher than 2017 Eurobond issuances, as well as improved compliance with export receipts repatriation requirements. The rate of repatriation of export receipts is estimated to have increased from 43 percent in 2017 to 56 percent in 2018. At end-2018, external reserves were estimated to cover 4.3 months of prospective extra-regional imports of goods and services up from 3.9 months at end-2017. Under the baseline scenario of fiscal consolidation—where member states meet the regional fiscal deficit convergence criterion of 3 percent of GDP from 2019 onwards and external competitiveness improves in the medium-term—the reserve import cover is projected to reach 4.8 months by 2023.³

7. The EBA-based assessment suggests that Benin’s external position is broadly consistent with fundamentals and desirable policy settings. The assessment is based on two alternative methodologies. First, the EBA’s current account model compares the actual current account balance with the computed norm of the current account and infers the real exchange rate adjustment necessary to bridge the gap. Such a methodology delivers a current account gap at -0.3 percent, resulting in a very small over-valuation of the Real Effective Exchange Rate (REER) of 0.7 percent. Thus, this model indicates that the REER is broadly consistent with fundamentals and desirable policy settings. A second approach, the EBA’s Lite Index REER approach, compares the fitted REER with the estimated norm of the REER. Such a methodology suggests a small undervaluation of 5.4 percent of the REER. Overall, Benin’s external position is considered as being broadly consistent with fundamentals and desirable policy settings.

Text Table 3.1. Benin: EBA-based Assessment Results

Implied over (+)/under (-) valuation (percentage change)	
EBA’s Current Account Model	0.7
EBA’s Lite Index REER	5.4
<i>Memorandum items (in percent of GDP)</i>	
Cyclically adjusted CA	-10.3
Multilaterally Consistent Cyclically adjusted CA Norm	-9.9
<i>o/w</i> Policy gap	-1.3

Source: IMF Staff Estimates

² See IMF, 2019, “West African Economic and Monetary Union—Staff Report on Common Policies of Member Countries”, IMF Country Report No.19/90.

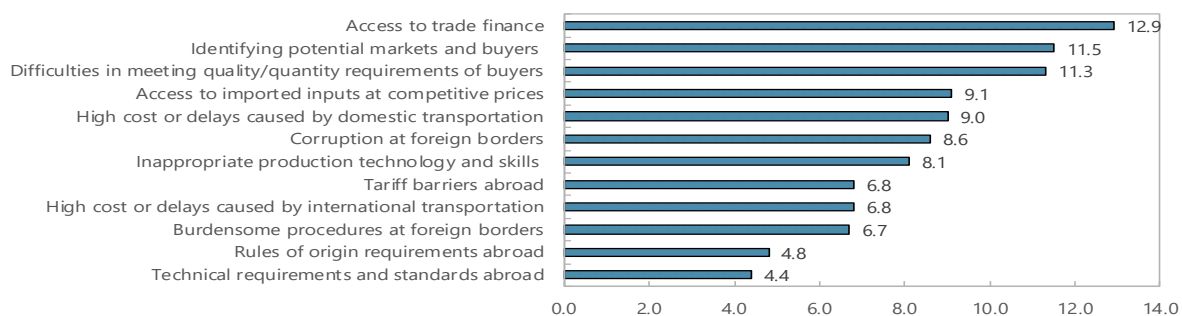
³ The WAEMU reserve projections do not include the March 2019 Eurobond issuance of Benin.

8. Survey-based indicators show that Benin's external competitiveness is below peers.

The 2017-18 World Economic Forum's (WEF) Global Competitiveness Report ranks Benin in the bottom 20 percent countries. Such a score remains unchanged compared to the 2016-17 outcome. In most categories, Benin scores below the SSA average. Survey participants list access to trade finance, difficulties in meeting requirements of buyers, and identification of markets for buyers as the most problematic factors for exporting (Figure 2). Burdensome procedures, tariff and non-tariff barriers and corruption at the border are listed as the most severe obstacles to importing (Figures 3.2 and 3.3).

Figure 3.2. Most Problematic Factors for Exporting

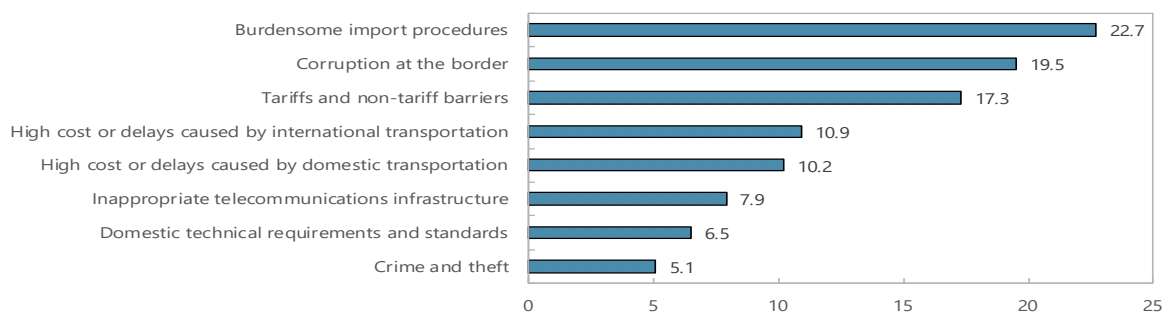
(Percent of responses)



Source: World Economic Forum. Global Enabling Trade Report, 2016.

Figure 3.3. Most Problematic Factors for Importing

(Percent of responses)



Source: World Economic Forum. Global Enabling Trade Report, 2016.

Annex IV. Technical Assistance, 2017–19 Assessment

Benin faces capacity and institution building challenges, which are being addressed with tailored technical assistance. Since the last Article IV consultation, technical assistance has aimed at increasing domestic resource mobilization, strengthening public financial management, and improving statistics—with a special focus on strengthening capacity building in the field and achieving structural reforms. Implementation of past TA recommendations has been broadly satisfactory.

Provider	Description	Results/Deliverables	Status and Appraisal
STA	National Accounts - Rebasing December 2018	<ul style="list-style-type: none"> Use available survey results—EMICOV¹ 2007 and 2015, EHCVM² 2018, ERI-ESI³ 2018—on household expenditure and informal sector production and intermediate consumption to improve data on agriculture production. INSAE to publish GDP estimates for 2015 and 2016 as soon as possible under the 1993 SNA. To provide users with a series of national accounts up to 2017 complying with the System of National Accounts 2008 (2008 SNA). 	<p>Ongoing. INSAE has re-estimated the household's final consumption expenditures from EMICOV. ERI-ESI is completed. INSAE is working on production accounts of informal sector to challenge data from studies and monographs conducted last year and that showed quality issues.</p> <p>Ongoing. A committee overseeing INSAE is yet to provide a final approval for publication.</p> <p>Ongoing. INSAE prepared 2015 national accounts estimates.</p>
	National Accounts June 2018	<ul style="list-style-type: none"> Launch an unregistered foreign trade survey (ECENE). Improve trade-offs on supply-use balances while ensuring the best coverage of national public institutions (EPN) and local governments (LG) as well as the results of ECENE. 	<p>Ongoing. Two passages of the ECENE were conducted since November 2018 and two more are expected.</p> <p>Ongoing. INSAE is still collecting data from EPNs and LGs.</p>
<p>¹ Enquête Modulaire Intégrée sur les Conditions de Vie des ménages.</p> <p>² Enquête Harmonisée sur les Conditions de Vie des Ménages.</p> <p>³ Enquête Régionale Intégrée sur l'Emploi et le Secteur Informel, which provides informal sector data on production and intermediate consumption by product.</p>			

Provider	Description	Results/Deliverables	Status and Appraisal
		<ul style="list-style-type: none"> • Develop a note on sources and methods for preparing the CNAs of the new 2015 base according to the 2008 SNA and start the retropolation work after finalization of the supply-use balances. 	Ongoing. A draft version of the note has been developed.
	National Accounts November 2017	<ul style="list-style-type: none"> • Launch studies and monographs that address the source data gap. • Finalize the work of the new 2015 base in line with the 2008 SNA, completing the employment resources balances, the branch accounts and the drafting of methodological notes. • Finalize the retropolation and reconciliation of data for the year 2016 to disseminate the 1999-2016 GDP series according to the 2008 SNA. 	<p>Ongoing. Several studies (restaurant, transport, agriculture, etc.) have been conducted by INSAE or independent consultants hired by the Ministry of Finance. Quality issues have been reported.</p> <p>Ongoing. Estimates are available.</p> <p>Ongoing. Templates have been drafted.</p>
	External Sector December 2018	<ul style="list-style-type: none"> • Initiate the discussion with the World Bank to start reporting to the QEDS. • Strengthen the team in charge of compiling ESS. • Set up a revision policy with support of the BCEAO headquarters. 	<p>Ongoing.</p> <p>Ongoing.</p> <p>Ongoing.</p>
MCM	Medium-term debt management strategy August 2017	<ul style="list-style-type: none"> • Train officials on medium-term debt management strategies and on the implementation of the domestic borrowing program. 	Ongoing. Debt sustainability is an anchor to the current ECF arrangement. It is essential that the Beninese authorities develop and implement sound debt management strategies. There is room for improvement regarding data on state guarantees.

Provider	Description	Results/Deliverables	Status and Appraisal
FAD	Revenue administration September 2017	<ul style="list-style-type: none"> The TA mission helped Benin's revenue administration to formulate and implement a strategy to improve tax compliance. 	Ongoing. Tax compliance remains weak in Benin. The mission clearly identified the key focus areas for the authorities. They include: (i) digitalization of tax procedures and functions to enhance the quality, transparency and traceability of tax data, (ii) introduction of a focused management results and distance the tax administration from the current revenue-based management system; and (iii) promotion of optimal human resources management to adapt the structure and distribution of staff to issues, risks and priorities.
	Revenue administration February 2019	<ul style="list-style-type: none"> This was a stocktaking mission of the September 2017 Revenue Administration mission. 	Ongoing. The tax administration made some progresses with the creation of the tax policy unit, the introduction of e-services particularly for large enterprises, the bancarization of the payment of some taxes. However, reforms need to be prioritized and sequenced. The tax administration continues to have a revenue-based management system. The IT system is now up-to-date, but staff are not enough trained to use it efficiently.
	PFM/PIMA October 2017	<ul style="list-style-type: none"> The PIMA report proposed measures to improve the institutional framework. This was done by enacting a comprehensive legal framework through the finalization and adoption of a high-level regulatory text that encompasses all phases of the public investment management cycle and by upgrading the preparation and implementation of investment projects by ways of improving their selection and conducting procurement according to the law. 	Ongoing. The high-level regulatory text was finalized and adopted. There is still a lack of transparency regarding the selection of project and there is no systematic use of selection criteria. To improve the preparation and implementation of investment projects, the authorities have recently established a fund to finance feasibility studies for investment projects. The institutional framework of the procurement system is strong (both exhaustive and up-to-date) but its implementation can be improved.

Provider	Description	Results/Deliverables	Status and Appraisal
PFM/PIMA February 2019	<ul style="list-style-type: none"> FAD conducted a follow-up mission in February 2019. The mission seeks to assess progress made by Benin authorities regarding the action plan developed by the October 2016 PFM/PIMA mission. 	<p>Ongoing. The follow-up mission noted some progresses regarding the planning of investments and the cleaning of the public investment projects' pipeline. However, many weaknesses highlighted in the October 2017 mission remains. They include: (i) ex ante assessment of projects; (ii) ex ante selection of projects; (iii) procurement system; (iv) information system, and; (v) assessment cost of investment projects. Lack of progress in these key areas will continue to hinder the efficiency of public investment that remains relatively weak in Benin compared to peers.</p>	

Annex V. Capacity Development Strategy for FY2019–20

Overall Assessment

Implementation of macroeconomic and structural policies in Benin has generally been satisfactory. The authorities show strong ownership of the IMF program and underlying reform agenda, which is well aligned with the GAP priorities. The Capacity Development (CD) program in Benin and the associated TA delivery are intrinsically interweaved with the ECF arrangement's policy recommendations. Nonetheless, coordination and capacity issues, data gaps, high staff turnover at both senior and technical levels, and limited resource allocation can weigh on the overall impact of CD activities.

Objectives and Past Achievements

As a low-income country, Benin faces capacity and institution-building challenges, which are being addressed with tailored technical assistance. Enhancing domestic revenue mobilization (revenue administration and tax policy), increasing the efficiency of public expenditures particularly capital spending, improving budget preparation and execution, and increasing the efficiency of cash management will be essential to preserve debt sustainability in the longer term and boost economic growth. These key priorities will also require reforms to strengthen economic governance (in particular through more effective public finance management systems) and improve real, government, and external sector statistics, including, oversight of public enterprises and newly created public agencies.

Program engagement has contributed in the past to capacity building in Benin. Key achievements in recent years have included the following:

- Gradual implementation of the TSA.
- Increased capacity to formulate economic and financial policies under the ECF-supported program, including macroeconomic forecasts.
- Enhanced production of budget execution data and reports.
- Stronger link between national strategies and the investment program.
- Extension of multiyear planning to all sectors.
- Better performance of the tax and customs administrations, and better assessment of tax expenditures.
- Support provided to the National Institute of Statistics to rebase the national accounts.

Forward-Looking Priorities and Challenges

There is room to improve the impact and scope of the CD activities with more efforts on revenue and customs administration, tax policy, PFM, debt management, national accounts, and enhancing the quality of macroeconomic data. In particular:

- Public investment management needs to be improved to ensure efficiency and transparency in investment project selection, and monitoring.

- There is scope for revenue administration efficiency gains, given the large size of the compliance gap in Benin.
- The tax and customs administrations have improved their exchange of information but the cooperation between the two agencies is not fully effective.
- An SOE unit was created in 2017, but oversight is weak, needs to be strengthened and consolidated, while the reporting and monitoring of SOEs could be improved.
- A TSA was created but its implementation has been delayed.
- The assessment of tax expenditures needs to be more comprehensive.
- Internal audit and control methods need also to be strengthened by using professional standards and systematic risk-based approach—in particular, with the full implementation of the Chart of Accounts.

Therefore, for FY2020, key priorities and objectives include:

Priorities	Objectives
Tax Policy	<ul style="list-style-type: none"> • Set up a fiscal reference system to provide a comprehensive assessment of tax expenditures and agree on a plan to reduce them over the medium term.
Tax Administration	<ul style="list-style-type: none"> • Assess the implementation of plan developed in 2017 to improve tax compliance with a focus on how to: (i) limit fiscal fraud, (ii) improve the services to taxpayers and, (iii) complete the digitalization of tax procedures. Improve the management of VAT by supporting the tax administration in the formulation of VAT targets (VAT gap analysis) and improve VAT forecasts.
Customs Administration	<ul style="list-style-type: none"> • Support customs administration to finalize the automated risk management project in order to better secure revenues from trade. In addition, support both tax and customs administrations to better exchange information.
Public Financial Management	<ul style="list-style-type: none"> • Consolidate progress on the medium-term expenditure framework which needs to be fully implemented. • Enhance the efficiency of public spending through the implementation of the updated action plan. • Make the TSA fully operational while limiting the impact of its consolidation and operationalization on commercial banks. • Improve risk assessment and monitoring of contingent liabilities of SOEs. • Strengthen fiscal reporting and accounting particularly for newly creating public agencies and upcoming PPP projects.
Statistics	<ul style="list-style-type: none"> • National accounts: update base year and move to 2008 SNA, including the completion of the GDP rebasing. • External statistics: improve both current and financial account data collection and quality. • Enhance e-GDDS.

The main risk to CD is weak absorptive capacity, which could be mitigated by carefully selecting and designing the TA programs to tailor to the local audience's needs.

Appendix I. Letter of Intent

THE MINISTER

Cotonou, May 27, 2019

TO

Madame Christine LAGARDE
Managing Director
International Monetary Fund
WASHINGTON, DC 20431, USA

Dear Madame Lagarde:

I am pleased to inform you that Benin has made significant progress owing to the implementation of the Government Action Program (GAP). Implementation of the GAP, along with the introduction of important structural reforms in the context of the economic and financial program (2016-2019) concluded with the International Monetary Fund (IMF), have led to a sustained economic growth. This growth has been achieved in a context of low inflation, control of the budget deficit, and a favorable outlook for the current account balance over the medium term.

The economic recovery that began in 2016 is ongoing. In 2017, it was essentially driven by public investment, cotton production, and the Nigerian economy's emergence from a recession. Growth continued to intensify in 2018, in part owing to a strong performance of the agricultural sector and port activity. Inflation remained subdued in 2018 at 1 percent.

The budget deficit (including grants) was held at 4.0 percent of GDP in 2018, well below the initially programmed level (4.7 percent of GDP), essentially reflecting a decrease in spending. For 2019, the goal is to bring the deficit under the threshold of 3 percent of GDP, in line with the West African Economic and Monetary Union (WAEMU) fiscal convergence criterion.

Finally, the current account deficit (including grants) improved in 2018 owing to strong agricultural exports, in particular cotton and cashew nuts.

The attached Memorandum of Economic and Financial Policies (MEFP) describes the progress made in the implementation of the economic and financial program supported by the Extended Credit Facility (ECF) and presents the additional measures that we expect to take to shore up our achievement of the main objectives for 2019. In this context, we propose three new structural benchmarks relating to the establishment of the Treasury Single Account, the strengthening of the administration's statistical analysis capacities, and a diagnostic assessment of the main trade barriers in our country.

Overall, the results of the economic and financial program are very satisfactory. All of the quantitative performance criteria for end-December 2018 and the continuous performance criteria have been met.

All of the structural benchmarks were met on time. We are asking for a modification of the three quantitative performance criteria concerning the basic primary fiscal balance and budget funding at end-June 2019 to take into account the Eurobond issuance that took place in March 2019.

The government is convinced that the measures and policies outlined in the attached MEFP are adequate to achieve the objectives of its program. It will take all additional measures that may be necessary to this end and will consult the IMF on the adoption of such measures and prior to any revision of the policies outlined in the attached MEFP, in accordance with the Fund's policies concerning such consultations. The government will provide IMF staff with any information that may be needed to monitor implementation of the program and achievement of the program's objectives, as set out in the attached Technical Memorandum of Understanding (TMU). The government authorizes the IMF to publish this letter and its attachments on its external website, as well as the IMF staff report, following the approval by the IMF Executive Board of the fourth review under the ECF arrangement.

The government would therefore like to request the completion of the fourth review under the ECF arrangement, a modification of the three quantitative performance criteria at end-June 2019, and the disbursement of SDR 15.917 million (around \$22.055 million).

Sincerely yours,

/s/

Romuald WADAGNI

Minister of Economy and Finance

Attachments (2):

1. Memorandum of Economic and Financial Policies
2. Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies for 2018–2019

1. This report is an update of the Memorandum of Economic and Financial Policies (MEFP) of December 2018, attached to the staff report for the third review of the ECF-supported program. The document describes recent economic developments in Benin and sets out the policies that the government intends to implement in 2019. The aim of these policies is to facilitate the continuation of fiscal consolidation and domestic revenue mobilization efforts, as well as to strengthen domestic and external economic stability. Implementation of the quantitative performance criteria and structural benchmarks up to end-December 2018 will be assessed in this MEFP. Some additional structural benchmarks will also be included.

RECENT ECONOMIC DEVELOPMENTS

2. The recovery of economic growth, which begun in 2016, continues. In 2018, growth was essentially driven by the record level of cotton and vegetable production and strong port activity. The tertiary sector (port activity in particular) and the primary sector (agriculture in particular) were the main contributors to growth in 2018, estimated at 6.7 percent. The initial estimates suggest that growth will remain robust in 2019, owing to the strong performance of the port sector, particularly the significant increase in transit traffic to other countries that use the Port of Cotonou. Inflation remained positive in 2018 (1.0 percent), as a result of rising education and transport costs.

3. The preliminary estimates show a strong contraction in the current account deficit in 2018. After expanding in 2017, as a result of an increase in food imports and growth in public investments, the current account deficit (including grants) fell from 10.0 percent of GDP in 2017 to 8.3 percent of GDP in 2018. This improvement is due primarily to a significant increase in exports linked to a record cotton production, and to a lesser extent to higher sales of cashew nuts. Reforms aimed at boosting the technical capacities of farmers, expanding farmland, and distributing higher-quality seeds resulted in an increase in agricultural output, which also led to a reduction in food imports. The external sector assessment indicates that Benin's external position was broadly consistent with fundamentals and desirable policy settings in 2018.

4. Fiscal consolidation continues in 2018. The containment of expenditure and the improvement in domestic resource mobilization led to an estimated fiscal deficit (on a commitment basis, grants included) of 4.0 percent of GDP in 2018, compared to 5.9 percent of GDP in 2017. The sharp reduction in the fiscal deficit can be explained primarily by the under execution of externally financed public investment. The mobilized revenue at end-December 2018 amounted to CFAF 1,028.6 billion, compared to an initial program target of CFAF 1,021.6 billion. This strong revenue performance is explained by the strong performance of nontax revenue (CFAF 217.2 billion, compared to an initial target of CFAF 166.4 billion), and domestic tax revenue (direct and indirect), which made up for the shortfall in customs revenue (CFAF 55.1 billion).

5. The ratio of public debt to GDP rose from 54.4 percent of GDP in 2017 to 56.8 percent in 2018. The continued reliance on the regional financial market offering less concessional terms for the financing of public investment projects (owing to weaknesses in the disbursement of external commitments), and the granting of government guarantees to the national electricity company (SBEE), increased the level of public debt in 2018.

6. In 2019, we are projecting a decline in public debt to 54.7 percent as a result of the fiscal consolidation and strong economic growth. With a view to diversifying the sources of financing, in 2019 we issued our first Eurobond, which met with great success in the market. The amount of the issuance was €500 million (equivalent to 5.2 percent of GDP), with a weighted maturity of 6 years, an interest rate of 6 percent, and a 3-year repayment plan, over the period 2024-26. The terms of the Eurobond are better than those of securities recently issued in the regional financial market, such as the 5-year bond issued by the Beninese government at the beginning of March 2019 at an interest rate of 6.99 percent. The Eurobond issuance did not result in an increase in overall debt, since it was offset entirely by a decline in domestic borrowing. Ultimately, the debt sustainability analysis (DSA) confirms the moderate risk of debt distress, which has not changed since the conclusion of the December 2018 DSA.

7. For the banking sector, the aggregate banking system's capital ratio declined significantly in the second half of 2018 (falling from 11.9 percent at end-2017 to 7.6 percent at end-June 2018). Most of the decline in the capital ratio is due to the entry into force of a new prudential arrangement and a new accounting framework. The liquidity ratio (total loans/total deposits) stood at 82 percent at end-June 2018. The heavy concentration of the bank loan portfolio (loans to the 5 largest borrowers/equity capital) remains a source of concern. Finally, the high level of nonperforming loans persists, despite a slight improvement noted at end-June 2018. The ratio of nonperforming loans to total loans fell from 19.4 percent in December 2017 to 18.9 percent in June 2018.

IMPLEMENTATION OF THE 2018 PROGRAM

A. Program Performance

8. Program implementation is satisfactory overall. The available data and information show that all the quantitative performance criteria (QPCs) at end-December 2018 were met. As for the structural benchmarks, all of them were met at end-March 2019. The status of the QPCs at end-December 2018 is as follows:

- *Net domestic financing (NDF) of the government*, defined as the sum of net bank credit to the government and net nonbank financing of the government, amounted to CFAF -51.4 billion under a ceiling of CFAF 118.8 billion.

- *The basic primary fiscal balance*, defined as the difference between total fiscal revenue and basic primary fiscal expenditures, amounted to CFAF 17.6 billion with a floor set at CFAF 3.9 billion.
- *Total government revenue*, which includes tax and nontax revenue – but excludes foreign grants, the revenue of autonomous entities, and privatization proceeds – amounted to CFAF 1,028.6 billion, compared to a floor of CFAF 1,021.6 billion.

9. The strict implementation and monitoring of reforms led to observance of all structural benchmarks in accordance with the timetable indicated in the three-year ECF arrangement. These benchmarks included: (i) the elimination of tax expenditures equivalent to CFAF 60 billion in the 2019 budget law; (ii) the establishment of a credit bureau by the Ministry of Finance; (iii) the performance of an audit by the government of the stock of arrears to domestic suppliers; (iv) the adoption of a decision by the Ministry of Finance to strengthen enforcement of the regulatory framework for the supervision and licensing of microfinance institutions; and (v) the introduction of performance contracts with the main public enterprises.

B. Fiscal Management

10. Concerning the revenue agencies, the implementation of reforms aimed at modernizing the tax administration to ensure lasting improvement in revenue collection continues in 2018. In customs, progress was made in effective implementation of the one-stop foreign trade window (*Guichet unique du commerce exterieur*, GUCE), with the objective to minimize the use of paper documents in customs clearance operations. Since the first six months of 2018: (i) the GUCE portal is available; (ii) the interface between the GUCE and the goods tracking system to improve cargo monitoring is operational; and (iii) import intentions are now centralized within the GUCE, which, among other things, will help us improve our customs revenue forecasts. We still need to make serious efforts to improve the collection rate for customs arrears. Indeed, the customs administration collects just 5 percent of the duties resulting from the detection of infractions during the control process. We are committed to ensuring that the Directorate General of Customs has an effective collection service and to vigorously pursuing the procedures and penalties provided for by law. **In order to build the capacity of the customs administration to assess and mitigate risks, we have decided to strengthen the statistical monitoring service by adding new statisticians to its staff (before end-December 2019).**

11. The Directorate General of Taxes (DGI) vigorously pursued the reforms introduced in 2017 within the framework of the tax administration's Strategic Orientation Plan (POSAF). The key reforms included: (i) continued efforts to promote the use of the banking system for tax payments;¹ (ii) the rollout of the tax management system (SIGTAS) to improve operational transparency and contribute to the reduction of tax fraud with a data repository featuring an intelligent business analysis system; (iii) the launch in March 2018 of electronic procedures to enable the electronic filing and payment

¹ The share of revenue collected through the banking system in the total revenue collected by the DGI went from 17 percent in December 2017 to 36 percent in June 2018.

of taxes. The electronic procedures have been extended to major companies registered at the Coastal, Atlantic, and Borgou-Alibori Taxation Centers for Medium-Sized Enterprises (CIME); and, finally, (iv) the launch of electronic billing machines to improve the collection of VAT. We will conduct an initial assessment of the electronic procedures and electronic billing machines by end-2019.

12. We also strengthened cooperation between the customs and tax agencies. Several IT developments were launched to facilitate information exchanges between customs and taxes. They include: (i) the establishment of a shared platform for tax-customs data exchanges; and (ii) the development of several integrated interfaces in the shared platform. The key capabilities integrated into the platform are: (i) keeping the comprehensive taxpayer directory up to date vis-à-vis the tax administration; (ii) automatic integration of the new Single Taxpayer Identification (Identifiant fiscal unique, IFU) numbers generated by SIGTAS; (iii) recognition by the Automated System for Customs Data (ASYCUDA) of the activation/deactivation of taxpayers; and (iv) automatic integration of all paid customs declarations in ASYCUDA. A recent crosscheck of the two revenue agencies' data, however, showed that some importers are still unknown to DGI staff. This means that cooperation between the two agencies needs to be further strengthened. To begin with, we will ensure that the system of penalties applicable to importers unknown to the tax administration – a fine of 10 percent, possibly increased by an additional 3 percent – is assessed.

13. As for tax policy, Benin has made significant progress by performing an inventory, evaluation, and publication of tax expenditures. Since 2016, thanks to the creation of the Tax Policy Unit (UPF) and support from the IMF, a report is prepared each year with a list of tax exemptions and it is attached to the budget law for the following year. However, only the evaluation of tax expenditures is published. In order to improve transparency of public finances, we are committed to including the tax expenditure inventory as part of the report on tax expenditures. We will also make it easier for the UPF to access SIGTAS in order to ensure their autonomy in terms of the collection of data needed to estimate tax expenditures. This would also allow the Directorate of Large Enterprises to focus on other important tasks.

14. The implementation of reforms undertaken to ensure the rationalization of public expenditure continued in 2018. In terms of managing the wage bill, the reforms mainly concerned: (i) census-payment operations focused on active and retired government employees, carried out with the aid of biometrics; (ii) use of the banking system for student scholarships; and (iii) systematic use of the banking system for periodic benefits paid to active employees and pensions of CFAF 50,000 or more, etc. Steps were also taken to improve the effectiveness and transparency of public investments, including: (i) continuation of the effort to clean up the public investment projects (PIP) pipeline; (ii) creation of a “public investment preparation and management fund” to finance investment project feasibility studies; and (iii) better articulation of national and sectoral strategies with the public investment program (PIP). Nevertheless, there are still some weaknesses (ex-post evaluation of projects, their physical and financial monitoring, etc.). We will continue to carry out the recommendations contained in the follow-up report on evaluation of public investment management.

15. The debt management office (CAA) has undertaken various reforms related to its technical capacity building. The organization has begun to recruit bilingual staff with qualifications in econometrics and statistics. It undertook a reorganization of the operations department with a view of achieving a more rigorous monitoring and control of disbursements and repayments. The agency also established portfolio managers and each one is responsible for a particular type of lender (local banks, foreign banks, technical and financial partners, etc.). In October 2018 the CAA launched a loan repayment mechanism that is supposed to take effect 15 days before the due dates. The CAA also established a due date monitoring table, which is updated on a daily basis. Within the context of managing commitments, the organization created a team that is devoted exclusively to the financial analysis of loans and another one that is responsible for monitoring the course of loans, from their negotiation to their signature. There is also a legal team responsible for legal issues related to loans. The CAA's website has been redesigned and a coordination committee, chaired by the minister, has been established. This allows for a consolidation of communications between the Treasury and the CAA during the drafting of the cash flow plan. A survey was conducted to obtain comprehensive data on the debt of public enterprises as well as their contingent liabilities. As a result of the survey, it was found that Benin has 13 public enterprises of an economic nature that are in operation. The amount of non-guaranteed commercial debt of public enterprises was equal to CFAF 49.9 billion, or 0.86 percent of GDP at end-December 2018. Moreover, to minimize the fiscal risks associated with public enterprise debt, the CAA is coordinating, in collaboration with the Directorate General of Government Holdings and Privatization (DGPED), a monitoring arrangement that provides for periodic meetings with said enterprises.

16. Owing to the less concessional terms of financing obtained on the regional financial market and the associated rollover risk of the short-term domestic debt, in October 2018 we initiated a program to optimize the debt portfolio through a reprofiling operation. This arrangement consists of repurchasing certain short-term loans contracted with domestic creditors at high costs with the proceeds of long-term loans contracted with international commercial creditors at lower interest rates. The debt reprofiling operation was financed by a private international financial institution with a guarantee provided by the World Bank. The guarantee amounts to EUR 154.8 million (equivalent to USD 180 million, corresponding to an International Development Association (IDA) allocation of USD 45 million), for a commercial loan to the government denominated in euros in the amount of EUR 387 million (equivalent to USD 450 million). We used two-thirds of the funds to buy back costly domestic debt, including debt owed to a regional development bank. The operation will help reduce the interest costs of public debt and extend its average maturity.

C. Governance Reforms

17. Important steps have been taken in the context of reforming the administrative control bodies. The objective of this reform is to facilitate the creation of a performance culture in the government and step up the fight against impunity by reorganizing the control bodies and implementing measures aimed at their professionalization. This will be achieved by: (i) making the Inspectorate General of Finance (IGF) the central body responsible for operational coordination of

the activities of the government's internal audit units and for monitoring the actions taken by the various ministries in response to the main audit recommendations; (ii) putting the sectoral ministries back at the center of the ministries' internal control system; (iii) finding a long-term solution to the shortage of quality human resources within the government's internal audit bodies; (iv) reducing the vulnerability of audit institutions and increasing their contribution to the effectiveness of services; and (v) providing auditors with sufficient resources to perform their assignments. To that end, the government overhauled the regulatory framework with the issuance of three decrees. The new texts formalize a paradigm shift and provide for transitioning from the "inspection-verification" approach to the "internal audit" concept in all its forms. The aim of the new "internal audit" approach is to bring value added to managers, particularly through advisory assistance, with a view to attaining the strategic, operational, and regulatory objectives. The proposed texts will also enable Benin to adopt international standards and overcome the institutional and regulatory obstacles hindering the effectiveness of its internal control and audit activities within the public administration of Benin.

18. In the area of justice, important reforms have been undertaken this year. Two commercial courts were created and operationalized in 2018 following: (i) the identification of buildings to house the Commercial Court of Cotonou and the Court of Commercial Appeals of Porto Novo; and (ii) the appointment of professional and consular judges, and the official installation of the courts in those two jurisdictions. In addition, the Court for the Suppression of Economic and Terrorism Crimes (CRIET), which was installed in August 2018, is now operational. Its objective is to curb terrorism and economic crimes, as provided for in the criminal legislation in force, as well as suppress drug trafficking and related crimes.

19. Anti-corruption efforts are being strengthened thanks to the initiatives undertaken by the National Anti-Corruption Authority (ANLC) to implement the asset declaration regime laid out in the 2011 Anti-Corruption Law. In particular, the ANLC's measures are intended, among other things, to: (i) ensure that penalties are imposed by responsible courts if the assets of individuals covered by the law are not declared; and (ii) allow the online declaration of assets. In February 2019, parliament passed the Law on Strengthening Public Governance. This law allows the state to hold any official responsible who through his or her acts and actions misleads the government with a negative impact on public finances.

20. Finally, with regard to the observance of international governance standards, Benin ratified the United Nations Convention against Corruption in 2005, followed by the African Union Convention against Corruption and the Economic Community of West African States (ECOWAS) anti-corruption protocol. The ANLC is also in the process of preparing an action plan for implementing the recommendations made following the assessment of the National Integrity System (SNI) carried out by Transparency International in 2016 with the support of the European Union. In addition, in June 2018 parliament adopted the new law on combating money laundering and the financing of terrorism. This will enable Benin to harmonize and strengthen its national regulations in conformity with the new measures under way in the West African Economic and Monetary Union, in order to fight financial crime.

D. Financial Sector

21. The main components of the Basel II and III capital regulations became effective in January 2018, including the definition of tier 1 capital, tier 2 capital, and the capital conservation buffer. The Basel II and III provisions that were recently introduced are being implemented gradually, starting on January 1, 2018. The new prudential framework takes an incremental approach in order to absorb the new requirements with regard to the minimum capital, leverage, and concentration requirements, etc. The framework specifies that the capital adequacy ratio in 2019 should not be below 8.625 percent. At end-June 2018, 5 of the 12 reporting banks making loans were below this regulatory threshold. These standards are considered essential to safeguarding a sufficient buffer of high-quality capital, as well as strengthening banks' balance sheets. A new chart of accounts for banks and an accounting framework for loan loss provisioning, in line with the IFRS9, were also introduced in January 2018. The standards on liquidity ratios aligned with the Basel II and III principles are being prepared at the regional level.

22. Together with the Central Bank of West African States (BCEAO), the government has a key role in ensuring the stability and soundness of the financial system. To that end, we are pursuing a number of structural reforms. The Law on Credit Information Bureaus (CIB) was adopted by the National Assembly and promulgated on January 23, 2017, by the President of the Republic. The Bureau became fully operational in 2018. The adoption of this law formalizes the establishment of the necessary legal framework for the launch of CIB activities by Benin. In addition, the ministerial decree authorizing the opening of a branch office of CREDITINFO-VOLO in Benin was signed on February 1, 2018. Regarding the policy framework for bank resolution, the Annex to the agreement governing the WAEMU Banking Commission (BC) was amended by Decision No. 10 of 29/09/2017/CM/UMOA of the WAEMU Council of Ministers. As a result, the BC is now responsible for the resolution of credit institutions. The general framework for the resolution of institutions has been defined and the BC has a Resolution College. We are aware that information concerning loans contracted prior to the establishment of the CIB and credit histories dating back more than 3 years are, for the time being, incomplete, due to the fact that banks must request the prior authorization of customers to report such information to the CIB database. We are therefore looking at various legal options to remove this obstacle.

23. To strengthen the land reform and formalize the collateral used in lending activities, we created the National State Land and Land Tenure Agency (ANDF) in 2016, which, among other things, handles the conversion of occupancy permits into real estate titles. The initiative included in the 2016 Supplementary Budget Law to eliminate recording fees was successful, and the number of real estate titles recorded has grown. We will also work to advance the electronic recording of real estate titles – which has already been completed for the city of Cotonou – by extending the process to the entire country. In May 2019 we adopted a decree to facilitate the conversion of occupancy permits into real estate titles – which are recognized as collateral by the banking regulator. This should result in a decrease in banks' provisioning and an improvement in their financial condition. We also established a Trade and Personal Property Credit Register (RCCM) and are planning to provide electronic access to the register. In addition, the implementation of these measures will

enable banks to reduce the level of provisions and ultimately increase their capacity to lend to the private sector.

24. Spurred by the BCEAO, a support mechanism has been put into place for the financing of small and medium-sized enterprises/small and medium-sized industries (SME/SMI), or a SME mechanism in the WAEMU. The establishment of such a mechanism was necessary owing to the important role played by SMEs in the economic fabric of the member countries. According to the governments, these businesses account for between 80 and 95 percent of the enterprises surveyed. Most of the studies indicate that it is difficult for these businesses to gain access to financing, in particular medium- and long-term financing. The mechanism is focused on four main areas: (i) promotion of SMEs; (ii) improvement of their management; (iii) refinancing of bank loans to SMEs; and (iv) diversification of financial instruments adapted for their financing. In this connection, it is expected that various actors will be involved in the implementation of a number of actions. For the governments, these include the adoption of measures aimed at providing incentives and simplified procedures to encourage the emergence of SMEs (setting aside a proportion of public procurement for SMEs, the development of subcontracting, etc.). The purpose of the support and oversight structures with regard to SMEs is to provide upstream assistance in meeting the eligibility conditions and to perform ex-post monitoring after financing has been obtained. They should then work downstream to ensure a proper use of bank credits, a smooth implementation of business plans, and compliance with deadlines, which will allow for a reduction in the risk of payment default. As for the lending institutions, they will finance the SMEs, either directly or in collaboration with the support and oversight structures of these enterprises. For its part, the BCEAO will take action with regard to the terms of financing offered to SMEs, by making bank credits to these enterprises more attractive through appropriate refinancing (at a rate of 2.5 percent). In Benin, the mechanism was officially launched in August 2018.

25. We believe that the microfinance sector is key to promoting small enterprises' access to the financial system. To preserve its viability and credibility, we have adopted a ministerial decision for microfinance institutions aimed at strengthening their supervision and the granting of licenses. Progress has been made in closing unauthorized microfinance institutions (MFIs). In addition, the regional financial inclusion strategy is being implemented. Steps have also been taken to rehabilitate the microfinance sector, particularly by improving the quality of financial and accounting information through the implementation in 2016 of the centralized IT solution for monitoring decentralized financial systems (SICS-SFD). In operational terms and with regard to supervision of the sector, in the course of 2018 the National Decentralized Financial Systems Surveillance Agency (ANSSFD) continued implementing the microfinance sector rehabilitation strategy document, which is based on the following three pillars: (i) application of the law to all authorized decentralized financial systems; (ii) application of the law to all entities operating illegally; and (iii) continued strengthening of the stability and balanced operation of the decentralized finance sector with a view to ensuring its long-term sustainability. From 2013 to end-November 2018, of the twenty-five (25) entities on the initial list of unauthorized institutions, the ANSSFD provided step-by-step support to those that prepared applications for authorization. As a result, five (5) large-scale institutions with branches throughout the entire country were authorized.

In addition, a national census of microfinance initiatives will be carried out in 2019 to update the list of institutions operating outside of the regulatory framework.

PROGRAM FOR 2019

26. The objective of the three-year program (2017-2019) signed by the IMF and the government of Benin is to lay the foundation for accelerated and inclusive growth while preserving macroeconomic stability and public debt sustainability. Implementation of the reforms is expected to enable: (i) creating a more fiscal space through the mobilization of additional domestic resources; (ii) enhancing the efficiency of public expenditure, particularly investments; and (iii) improving the governance and business environment with a view to stimulating private sector activity.

27. The macroeconomic framework envisages growth of 6.7 percent in 2019, supported essentially by the strong performance of the agricultural sector in general and cotton production in particular, port traffic, and construction. Following the increase in food and oil prices in 2018, inflation is projected at 1.7 percent on average in 2019. The current account deficit (including grants) is expected to narrow to 7.8 percent of GDP in 2019, thanks to the sustained growth of exports in response to the revitalization of the cotton sector and a decline in imports driven by the scaling down of food imports and public investment.

28. Over the medium-term, growth is expected to remain robust (above 7 percent). Our strategy will be to strengthen, on the one hand, the traditional drivers, which are agriculture and port activity, and on the other hand, to develop new sectors with strong potential, such as tourism, the digital economy, and the knowledge economy.

A. 2019 Budget

29. In December 2018, the National Assembly passed the 2019 Budget Law in accordance with the draft submitted by the government and the program objectives. The fiscal deficit, on a commitment basis (grants included), is expected to reach 2.7 percent of GDP in 2019 (3 percent when unpaid debt to suppliers identified during a recent audit are included), compared to 4.0 percent in 2018. Government revenue is expected to amount to 17.7 percent of GDP, while total expenditure would be contained at 22 percent of GDP (22.3 percent when the aforementioned unpaid debt is included).

30. The 2019 Budget Law is based on exceptional tax revenue mobilization. Tax expenditures are expected to decrease by an amount equivalent to 1.2 percent of GDP in 2019 (in part as a result of the elimination by the budget law of tax expenditure equivalent to CFAF 60 billion and **the implementation of a system to control the exemptions granted under the special investment regimes**). In addition, the budget will adopt other tax-related measures such as a withholding tax on hydrocarbon sales carried out in Benin by nonresidents, enlargement of the base of the visitors' tax in hotels and similar establishments, as well as the transfer of responsibility for collection of the

tax to the DGI, and an increase in the rate of the tax on tobacco and cigarettes. All these tax policy measures, coupled with the pursuit of revenue agency reforms, are expected to result in the mobilization of CFAF 1,112.4 billion in government revenue in 2019. Beyond 2019, we will continue the mobilization of tax revenue with the aim of creating additional fiscal space to finance public investment and priority social spending.

31. We inherited from previous governments wage promises to civil servants as well as unpaid debt vis-à-vis domestic suppliers, some of which we decided to honor in 2019 to preserve the climate of social peace. The 2019 budget includes a provision of CFAF 20 billion to begin the process of settling these debts. We conducted an audit of the estimated stock of unpaid debt to suppliers. The amount is estimated at 0.3 percent of GDP.

32. Should the revenue generated by the tax reforms fall short of the budget forecasts, the government will ensure attainment of the fiscal deficit target by slowing the execution of public investment and the settlement of past wage promises to civil servants made by previous governments.

B. Public Expenditure Efficiency, Management, and Programs

33. Pending the World Bank review of public spending, we have since 2016 undertaken to consolidate the wage bill. The key measures implemented to hold back the pace of wage bill increases have included: (i) the biometric census of public sector personnel, which identified 1,355 ghost workers; (ii) use of the banking system for bonuses and allowances not included on pay slips since 2017; and (iii) the repeal of several decrees and regulations that systematically granted benefits. With the help of these measures, savings of about half a percent of GDP will be achieved in 2019 and will be allocated in part to clearing a portion of the wage promises made to civil servants by former governments. To improve the efficiency of public investment, we have begun to implement the recommendations of the Public Investment Management Assessment (PIMA) report, focusing on the following four areas: (i) strengthening the institutional framework; (ii) ensuring the availability and sustainability of financing; (iii) improving the preparation, selection, and implementation of projects (specifically by publishing their selection criteria); and (iv) ensuring sustainable investments. An IMF Fiscal Affairs Department mission visited Cotonou in February 2019 to monitor the evaluation of public investment management. The mission noted progress in the planning of investments. Nevertheless, there are still some weaknesses. With the support from the IMF, we will continue to implement the updated action plan provided by the mission.

34. In addition, a pilot phase of the insurance component of the government's social protection project – Insurance to Build Human Capital (ARCH) – began in 2019, targeting extremely poor populations (300,000 people). The project will be expanded to the general population between 2020 and 2022. The government will cover the entire insurance premium for those in extreme poverty and will provide a partial subsidy (up to 40 percent) for the premium paid by populations categorized as impoverished but not in extreme poverty. The insurance system is based on an

innovative mechanism for targeting poor populations and the establishment of a single social register in cooperation with the World Bank. The other components of the ARCH program are improvement of skills, access to credit, and underwriting of a retirement pension for around 1.8 million people who are working primarily in the informal sector.

35. Several measures are under way in the implementation of the Treasury Single Account (TSA). They include: (i) the adoption of a regulatory framework for the TSA in 2015; (ii) the interconnection and modernization of the unit responsible for the management of correspondent accounts; and (iii) a partial inventory of public accounts in the books of commercial banks in 2017 and an update in 2018. Nevertheless, we are encountering technical and operational difficulties related to the interface of the Treasury's computer system with the BCEAO system. In addition, we need to be sure that the effective implementation of the TSA will not have an impact on the banking system. To this end, **we will conduct a study to evaluate the impact on the stability of the banking system of the withdrawal of public funds from commercial banks and their placement in the TSA (before end-March 2020).**

C. Public Debt Management

36. The Autonomous Amortization Fund (CAA) plans to continue its efforts to optimize the debt portfolio. The aim is in part to align the maturity of the debt with that of financed projects. The CAA has a medium-term debt strategy document for 2017-2021. The document is updated each year to better take into account the financing needs of the current budget.

37. Thus, the annual debt strategy for 2020 will take in account matters related to international financing (including the Eurobond), and in particular, how the government plans to choose between issuances on the domestic market and those on the international market. In addition to the cost of financing, we will take into account the structure of the portfolio (the split between external financing and domestic financing) and the exposure to exchange risk during this process. Our revised debt strategy will include a new quantitative target for the composition in terms of external and domestic debt.

38. In order to strengthen the monitoring of securities issued and developments in the international market, the CAA plans to acquire a Bloomberg terminal. In the meantime, they will communicate with their financial advisers to obtain information about developments in the international market. Implementation of the mechanism to monitor public enterprises should also be stepped up in the context of the medium-term debt strategy.

D. Public Enterprise Reform

39. Public enterprises continue to be a burden on the government budget owing to their weak economic and financial performance. New auditors have been appointed at the 189 public enterprises and government offices. The government has also validated the new draft law on public

enterprises. This law, which has been submitted to the National Assembly but has not yet been adopted, covers the creation, organization, and operation of public enterprises and aims to improve their governance and thus their economic and financial performance. The future law calls for close government monitoring of the economic and financial position of public enterprises. Public enterprises will henceforth be required to transmit their financial statements (accompanied by audit reports) to the Ministry of Economy and Finance by the prescribed deadline. Moreover, a consolidated report on the economic and financial position of public enterprises will be attached to the budget law starting in 2019, once the law has been adopted.

40. To limit the impact of public enterprises on the budget, the government also plans to define a dividend policy for each enterprise in order to make them accountable for achieving results while ensuring financial management consistent with their development. The government has concluded performance contracts with the Autonomous Port of Cotonou and the *Société Béninoise d'Énergie Électrique* (SBEE) with support from the Millennium Challenge Corporation. We plan to expand this measure to other public enterprises by end-2019 in the context of the new law.

E. Infrastructure Projects and Public-Private Partnerships

41. Following the establishment of the legal and regulatory framework for public-private partnerships (PPP) by the Law 2016-24 of June 28, 2017, the government adopted implementing decrees to take account of the new institutional framework for the promotion of investment in Benin. The institutional framework has entered into effect, thanks in particular to the technical assistance from the World Bank. Analysis of the options for financing GAP projects has led to the compilation of a catalog of PPP projects. In accordance with international best practices, we will ensure that: (i) investments in PPPs are included in the budget documents and public finance statistics; and (ii) liabilities relating to PPPs are assessed and annexed to the budget law. We will analyze the fiscal risks relating to these PPP projects. To date, Benin has not yet officially signed a PPP contract. There is a project in the energy sector that is being discussed. It pertains to the Maria Gleta power plant. Banks have requested a guarantee for the project, but we have indicated to them that we are not ready yet to provide a guarantee for the project.

42. In 2018 we established a unit within the Ministry of Economy and Finance for the management of fiscal risks related to PPPs. We are now working on improving its capacity to make the unit fully operational.

43. In addition, the government has entered into preliminary discussions with the People's Republic of China on a future partnership to finance the construction of the Glodjigbé International Airport. At this stage, the financing package and schedule of works have not yet been finalized. We are continuing with all of the preliminary analyses for the financing of the project, and we will discuss them with the IMF teams when they have been finalized. We remain determined to take adequate measures to ensure that the financing of this project is reflected in the public accounts in accordance with international best practices, that the risks on public finances are minimized, and that the public debt sustainability is not jeopardized.

F. Business Environment

44. To make Benin an attractive destination for investors, a new investment promotion mechanism was put in place in 2017, streamlining the institutional and regulatory framework for investment promotion in Benin. At the strategic level, an Inter-ministerial Investment Promotion Committee was created to improve government coordination on issues related to the business environment and to provide a coordinated response to the needs and expectations of investors. At the operational level, the Agency for the Promotion of Investment and Exports (APIEX) has been restructured to become the sole gateway for investors and showcase the promotion of investments and exports in Benin. The APIEX is thus: (i) the one-stop window for business creation, allowing to shorten the business creation time to three hours; (ii) the technical body responsible for reviewing applications for approval under the Investment Code; (iii) the Executive Secretariat of the PPP Support Unit; (iv) the focal point for the implementation of the *Doing Business* reforms; (v) the administrative authority for the special economic zones; and (vi) the export information and facilitation center.

45. In the area of business creation, the two key undertaken measures are the simplification of the procedures for declaring the existence of a business and elimination of the procedure for the physical verification that the name of an enterprise is unique. The tax payment process has been improved by the establishment of an electronic payment procedure (which is also available to large and medium-sized enterprises), strengthening of the provisions regarding the synthetic business tax, and a reduction in the tax from CFAF 400,000 to CFAF 150,000 in 2019. The reforms pertaining to cross-border trade involve an interconnection between the Nigerian and Beninese customs services, the introduction of an online system for making complaints, the creation of an informational website for users regarding customs clearance conditions, and the establishment of a working group responsible for defining customs clearance standards and streamlining customs procedures. With regard to the protection of minority investors, the time period for the handling of cases dropped from 750 days in 2017 to 57 days in 2018.

46. Furthermore, we made amendments and additions to the land code in 2017, which led to the adoption of a revised Law 2017-15 of August 10, 2017. The revised law provides for a reduction in the time required to obtain property titles and, in the case of foreign investors, the lifting of restrictions on the acquisition of real property. The National Agency of Domain and Land (ANDF) has carried out a number of actions related to the launching of the online land-use registry for Cotonou. These include the creation of online folders for notaries (which enable them to track progress in the handling of their applications) and the establishment of deadlines for the issuance of property transfer deeds by the ANDF. As part of the reforms of construction permits, a memorandum, intended for the Association of Architects, was issued to clarify the costs of providing membership certificates. Likewise, Order 2017-131 of December 18, 2017, provides for a clarification of the minimum requirements that need to be met in order for construction permits to be issued.

47. Under the new arrangement, a specific institutional framework for implementing the *Doing Business* reforms has been adopted, along with a matrix of annual actions. Two draft laws designed

to facilitate private investment have been finalized and submitted to the Parliament for adoption (they have not yet been adopted owing to the legislative cycle and the end of the parliamentary term). One draft law contains amendments to the investment code and the other focuses on the promotion and development of micro-, small- and medium-sized enterprises. Innovations introduced by the new Investment Code include:

- simplification of the approval mechanisms (three mechanisms with clear and precise incentives during the startup and operating periods, two alternative mechanisms to further encourage investors interested in the priority sectors of the economy);
- professionalization of the processing of accreditation files, and time limit on the technical decision;
- improvement of the investment monitoring system;
- incorporation of international best practices for the preparation of investment codes and, in particular, incorporation of the comments provided by the United Nations Conference on Trade and Development (UNCTAD) on the existing code; and;
- structuring of incentives to make Benin more competitive and ensure the consistency of its investment code provisions with the series of exemptions granted to investors in special economic zones, as well as with the specific government assistance initiatives designed to promote entrepreneurship.

48. The aim of the Law on Micro-, Small-, and Medium-Sized Enterprises (MSMEs) is to formalize the transposition into national law of the provisions of the WAEMU Community Charter for MPMEs adopted in December 2015. The key innovations involve:

- the establishment of a mechanism for the identification and categorization of MSMEs eligible for specific government measures and assistance;
- the establishment by law of an agency responsible for implementing the national policy to promote MSMEs;
- assistance and support measures for MSMEs, including market access facilities, protection against government payment delays, and the incentive to co-contract and subcontract with large enterprises;
- tax facilities and incentives for the creation and maintenance of MSMEs (for MSMEs that process local raw materials and for business hubs and incubators);
- measures to promote and finance MSMEs (technical assistance, facilities for access to land and developed sites, specific financing and guarantee mechanisms or institutions); and
- measures to support struggling MSMEs.

49. In addition, in 2018 Parliament adopted a law on hiring that aims to promote job creation. This law has corrected a number of legal gaps, particularly those relating to hiring for trial periods, which has long been unregulated, and the types of contracts, including fixed-term contracts, that can be renewed indefinitely. Moreover, the new law allows foreigners to work under open-ended contracts, whereas previously they had access only to fixed-term contracts. The law also eases the licensing conditions and sets a maximum limit of 9 months of compensation in the event of dismissal deemed abusive by the courts.

50. Over the past five years, the main reforms undertaken in the area of trade facilitation were aimed at: (i) the establishment of a more rapid and less burdensome computerized process for the customs clearance of imports and exports; (ii) the integration of customs and control services at the Port of Cotonou (PAC); and (iii) delegation of the management of the PAC to the Port of Antwerp. However, we are still experiencing difficulties related to the automation and clarity of customs clearance procedures. Accordingly, **we will perform a diagnostic assessment of the main impediments to trade, based on the notification framework of the Trade Facilitation Agreement of the World Trade Organization (WTO) (before end-September 2019).**

G. Financial System

51. Two small public banks have reported repeated losses in recent years. The government has put into place a restructuring plan for these two banks. We are currently hoping to perform a merger of these institutions with the aim of reaching a critical size to comply with the minimum capital requirement established in the WAEMU. The merger will also make it possible to take advantage of synergies, in particular by making use of the nationwide network of one of the banks. We have hired an international auditing firm to evaluate the various merger options and their cost to the public purse. In consultation with the IMF team, we will choose a type of merger that will enable the new bank to comply with prudential standards for capital and to regain financial viability. We will ensure that the merger option that is chosen will be the least expensive in terms of public resources. The merger will be in line with international best practices with regards to governance, financial reporting, risk management, control, operations, and strategy. We will then put into place a restructuring plan for the merged bank, which will be presented to the Banking Commission before the end of the year.

52. To modernize the financial sector, the government has also, by Law 2018-38 of September 2018, reactivated the Caisse de Dépôts et Consignations (CDC), which was created on August 31, 1973, by Order 073-60. A Steering Committee for the Operationalization of the CDC was established in January 2019 pursuant to an order issued by the Minister of Economy and Finance and a recruitment notice for its senior members was issued. In addition, we are in the process of entering into a contract with an international consulting firm for the purpose of: identifying the resources of the CDC; drafting a business plan; defining an investment approach and risk management policy; and putting into place a governance framework and human resources management, as well as an information system.

53. The essential mission of the CDC is to receive and conserve movable assets deposited with it and to return them to their rightful owners. It is thus responsible for administering deposits and consignments, providing services relating to the funds whose management is entrusted to it, and receiving administrative and court-ordered consignments and sureties. In general, the CDC has general interest missions in support of the public policies of the central and local governments, particularly in the areas of economic and social development. To achieve them, the CDC pursues investment and risk management policies and strategies that should enable it to better use resources and generate yields above the average cost of government borrowing. To this end, it is adopting prudential rules in line with best practices for investment and risk management.

54. At the practical level, in the context of the modernization of the financial sector of Benin, the CDC will enable the government to: (i) hold equity in companies that it wishes to support or from which it simply wishes to receive dividends, like any shareholder; (ii) work alongside the banking system by making deposits in banks at reduced costs; (iii) participate in the financing of social projects; and (iv) assist effectively in the financing of the economy by making public securities more attractive (proposal of purchase of public securities at low rates by the CDC).

55. We also plan to continue to improve the capacity of the judges and courts to rule on financial matters. The new commercial tribunal in Cotonou is now operational. These courts will help to resolve business disputes. As in previous years, the BCEAO has, in the context of its training program for the judicial profession, undertaken to help build the capacity of judges and magistrates in matters relating to the WAEMU financial regulations.

56. To promote financial inclusion in Benin, the government has taken measures such as the creation of permanent mechanisms for the mobilization of resources by microfinance institutions and improved promotion and coordination of the microfinance sector.

57. To promote the sector, the National Microfinance Fund (FNM) has prepared a new strategic plan for 2017-2021, founded on the following three strategic pillars: (i) facilitating access to appropriate financial resources for microfinance institutions; (ii) building operational capacity and promoting social and technological interventions; and (iii) strengthening governance and the sustainability of FNM actions. In addition, the government, through the Ministry for Social Affairs and Microfinance (MASM), has begun preparing the FinScope survey, the first stage in the Making Access to Financial Service Possible (MAP) process, which will lead to the development of a national financial inclusion strategy in line with the regional financial inclusion strategy developed by the BCEAO. Finally, financial inclusion will be strengthened with the implementation in 2019 of the microfinance component of the Insurance to Build Human Capital (ARCH) project.

H. Rebasing of the National Accounts

58. Since 2016, the government has supported the project for the rebasing of the national accounts and implementation of the *System of National Accounts 2008 (SNA 2008)*. This initiative will lead to significant improvements in: (i) the quality and coverage of the data sources for the

national accounts; and (ii) the incorporation of the *SNA 2008* innovations regarding the goods and services accounts.

59. The National Statistics and Economic Analysis Institute (INSAE) received an IMF technical assistance mission on national accounts statistics in June 2018. The purpose of this mission was to assist INSAE in: (i) reviewing the estimation methods and the new additional information for the work to rebase the GDP; (ii) reviewing the sources for the revision of GDP, particularly the contribution of the informal sector; and (iii) analyzing the quality of the supply and use tables and the level of GDP in the new base year of 2015. Following this mission, it was apparent that a Survey of Informal Cross-border Trade (ECENE) was a priority to correctly estimate total demand and finalize the supply and use balances (SUB). INSAE has begun the process of conducting this survey, which involves four rounds of visits. The final revised estimates are expected no later than summer of 2019.

I. Quantitative Performance Criteria and Structural Benchmarks

60. Quantitative performance criteria have been set for end-June and end-December 2019 and indicative targets for end-September 2019 (table 1). The structural benchmarks for 2019, as well as their macroeconomic justifications, are described in the table 2. The fifth and sixth program reviews are expected to be completed on or after October 31, 2019, and March 23, 2020, respectively.

Table 1. Benin: Status of Quantitative Performance Criteria and Indicative Targets, 2018–19¹
(Billions of CFA francs)

	September 30, 2018		December 31, 2018		March 31, 2019		June 30, 2019		September 30, 2019		December 31, 2019 ⁶	
	Indicative Targets		Performance Criteria		Indicative Targets		Performance Criteria		Indicative Targets		Performance Criteria	
	Prog.	Prel.	Prog.	Prel.	Prog.	Status	Prog.	Prog.	Prog.	Prog.	Prog.	Prog.
A. Quantitative performance criteria²												
Net domestic financing of the government (ceiling) ^{3,4,5}	1030	136.2	118.8	-51.4	Met	15.0	-38.0	-158.5	-289.0			
Basic primary balance (excluding grants) (floor) ⁶	-20.3	-18.9	3.9	17.6	Met	15.6	44.5	47.7	101.7			
Total revenue (floor)	707.1	714.6	1021.6	1028.6	Met	235.1	505.5	762.5	1112.4			
B. Continuous quantitative performance criteria (ceilings)												
Accumulation of external payments arrears	0.0	0.0	0	0	Met	0.0	0.0	0.0	0.0			
Ceiling on the present value of new external debt contracted or guaranteed by the government	468.9	235.3	468.9	379.2	Met	468.9	797.0	797.0	797.0			
Accumulation of domestic payments arrears	0.0	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0			
Contracts by the government for the prefinancing of public investments projects	0.0	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0			
C. Memorandum Items²												
Priority social expenditure (floor)	101.0	134.8	167.0	202.4	Met	37.2	82.5	140.7	180.0			
Budgetary assistance	39.6	0.0	55.4	24.5		0.0	3.9	10.1	45.4			

Sources: Beninese authorities; IMF staff estimates and projections.

¹ The terms in this table are defined in the Technical Memorandum of Understanding (TMU).

² The performance criteria and indicative targets are cumulative from the beginning of the calendar year.

³ The performance criterion on net domestic financing is automatically adjusted as indicated in the TMU.

⁴ The performance criteria and indicative targets are cumulative from the beginning of the calendar year.

⁵ If the amount of disbursed external budgetary assistance net of external debt service obligations falls short of the program forecast, the ceiling on net domestic financing will be adjusted pro-rata, subject to limits specified in the TMU.

⁶ If the amount of disbursed external budgetary assistance net of external debt service obligations exceeds the program forecast, the ceiling will be adjusted downward by the excess disbursement unless it is used to reduce domestic payment arrears.

⁷ The floor of the basic primary balance at end-December 2019 has been revised down to reflect the recognition of arrears.

Table 2. Benin: Prior Actions and Structural Benchmarks for 2018 and 2019

Measures	Dates	Macroeconomic Rationale	Status
Submit a 2019 budget that is consistent with the ECF-supported program to the parliamentary commission for consideration.	Prior action for Third Review	Preserve fiscal sustainability.	Met
Revenue mobilization			
Limit the granting of special conventions outside the investment code to exceptional cases after decision by the Council of Ministers.	June 2018 (continuous thereafter)	Boost revenue collection.	Met
Implement a plan to strengthen tax compliance.	June 2018	Boost tax revenues by improving tax compliance-risk management.	Met
The 2019 adopted budget eliminates tax expenditures equivalent to CFAF 60 billion.	December 2018	Boost tax revenues.	Met
Implement the system of control and verification of the investments envisaged under the frameworks of the code of investment and the special economic zones (MEFP ¶30).	November 2019 ¹	Rationalize exemptions and fight tax fraud.	
Strengthen the research and statistics office within the customs administration by staffing it with statistics personnel with a view to improving risk analysis, the monitoring of exemptions, and fraud detection (MEFP ¶10).	December 2019	Improve customs revenues and fight customs fraud.	
Public financial management			
Prepare and adopt in the Council of Ministers a plan for the reorganization and professionalization of the administrative control bodies of the State.	June 2018	Improve economic governance.	Met

¹ The deadline has been changed from June 2019 to November 2019 owing to the legislative cycle and the end of the parliamentary term.

Table 2. Benin: Prior Actions and Structural Benchmarks for 2018 and 2019 (continued)

Measures	Dates	Macroeconomic Rationale	Status
Prepare monthly cash flow forecasting plans and comprehensive quarterly budget performance evaluations.	June 2018	Increase transparency, timeliness and accuracy of budget information.	Met
Adopt a comprehensive and high-level regulatory text for public investment, as agreed under the PIMA evaluation.	September 2018	Improve public investment management and help identify governance weaknesses.	Not met (implemented in November 2018)
Prepare an updated audit of the stock of past debt due by the government to domestic suppliers at end of December 2018. ²	January 2019	Enhance fiscal transparency.	Met
Perform an impact assessment of the transfer of government deposits from commercial banks to the Treasury Single Account (MEFP 135).	March 2020	Reduce fiscal and financial risks.	
Financial inclusion			
The Ministry of Finance should establish a credit bureau.	December 2018	Improve crisis management.	Met
The Ministry of Finance should adopt a decision to strengthen the implementation of the regulatory framework for the licensing and supervision of microfinance institutions.	December 2018	Promote financial inclusion.	Met
State-owned enterprises reform			
Complete the data collection of SOEs' debt and operationalize the monitoring framework.	September 2018	Better monitor contingent liabilities and improve public debt management.	Met
Set performance contracts with key SOEs.	December 2018	Improve SOEs' contribution to government revenues.	Met

² The unpaid services to suppliers were inherited from the previous governments.

Table 2. Benin: Prior Actions and Structural Benchmarks for 2018 and 2019 (concluded)

Measures	Dates	Macroeconomic Rationale	Status
Trade Perform a diagnostic assessment of the main trade barriers, based on the framework used for the notification stage of the WTO Trade Facilitation Agreement (MEFP ¶150).	September 2019	Facilitate trade.	

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (the “Memorandum”) defines the performance criteria, quantitative benchmarks, and structural benchmarks of the Republic of Benin’s program supported by the Extended Credit Facility (ECF). It also specifies the frequency and deadlines for data reporting to the staff of the International Monetary Fund (IMF) for program monitoring purposes.

PROGRAM ASSUMPTIONS

2. **Exchange rates under the program.** For the purposes of this Memorandum, the value of transactions denominated in foreign currencies will be converted into the domestic currency of Benin (the CFA franc, or CFAF), based on the exchange rates agreed upon for the program projections. The key exchange rates are presented below.¹

CFAF/U	557.6
CFAF/e	655.9
CFAF/S	785.4

DEFINITIONS

3. Unless otherwise indicated, “government” is understood to mean the central government of the Republic of Benin and does not include any political subdivisions (such as local governments), the central bank, or any other public or government-owned entity with autonomous legal personality not included in the government’s flow-of-funds table (*Tableau des opérations financières de l’État*, TOFE).

4. The definitions of “debt” and borrowing for the purposes of this Memorandum are set out in point 8 of IMF Executive Board Decision No. 6230-(79/140), as subsequently amended on December 5, 2014 by Executive Board Decision No. 15688-(14/107):

- (a) **Debt** is understood to mean a current – as opposed to a contingent – liability, created under a contractual agreement for the provision of value in the form of assets (including currency) or services, which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future point(s) in time, and these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take a number of forms; the primary ones being as follows:
- i) loans, that is, advances of money to the obligor by the lender made on the basis of

¹ 2018 exchange rates as at August 18, 2017.

an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the seller in the future (such as repurchase agreements and official swap arrangements);

- ii) suppliers' credits, that is, contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided;
- iii) leases, that is, arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains title to the property. For the purpose of this guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair, or maintenance of the property; and
- iv) Treasury bills and bonds issued in *Communauté Financière Africaine* (CFA) francs on the West African Economic and Monetary Union's (WAEMU) regional market, which are included in public debt for the purpose of this Memorandum.

Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from failure to make payment under a contractual obligation that constitutes debt are also debt. Failure to make payment on an obligation that is not considered debt under this definition (for example, payment on delivery) will not give rise to debt.

- (b) The present value of the loan will be calculated using a single discount rate set at 5 percent.
- (c) For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD LIBOR is 2.63 percent and will remain fixed for the duration of the program. The spread of six-month Euro LIBOR over six-month USD LIBOR is -294 basis points. The spread of six-month JPY LIBOR over six-month USD LIBOR is -260 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is -197 basis points. For interest rates on currencies other than Euro, JPY, and GBP, the spread over six-month USD LIBOR is -200 basis points.² Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added; and
- (d) Domestic debt is defined as debt denominated in CFA francs.
- (e) "External debt" is defined as debt denominated in any currency other than the CFA franc

QUANTITATIVE PERFORMANCE CRITERIA

A. Ceiling on Net Domestic Financing of the Government

Definitions

5. Net domestic financing (NDF) of the government is defined as the sum of (i) net bank credit to the government, defined below; and (ii) net nonbank financing of the government, including the proceeds of the sale of government assets, which includes proceeds from the divestiture of shares of public enterprises, that is, privatizations, Treasury bills, and other securitized obligations issued by the government and listed in CFA francs on the WAEMU regional financial market, and any BCEAO credit to the government, including any drawings on the CFA franc counterpart of the Special Drawing Rights (SDR) allocation.²

6. Net bank credit to the government is defined as the balance between the debts and claims of the government vis-à-vis the central bank and local commercial banks. The scope of net credit to the government is that used by the BCEAO and is in keeping with general IMF practice in this area. It implies a definition of government that is broader than the one indicated in paragraph 2. Government claims include the CFA franc cash balance, postal checking accounts, customs duty bills, and all deposits with the BCEAO and commercial banks of government-owned entities, except for industrial or commercial public agencies (EPIC) and government corporations, which are excluded from the calculation. Government debt to the banking system includes all debt to the central bank and local commercial banks, including Treasury bills and other securitized debt.

7. The data deemed valid within the framework of the program will be the figures for net bank credit to the government and for the net amount of Treasury bills and bonds issued in CFA francs on the WAEMU regional financial market, calculated by the BCEAO, and the figures for nonbank financing calculated by the Treasury of Benin.

8. Gross external budgetary assistance is defined as grants, loans, and non-earmarked debt relief operations (excluding project-related loans and grants, use of IMF resources, and debt relief under the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief (MDRI) Initiatives. Net external budgetary assistance is defined as the difference between gross external budgetary assistance and the sum of total debt service obligations on all external debt (defined as the sum of interest payments and amortizations on all external loans, including interest payments and other charges to the IMF and on project-related loans, but excluding repayment obligations to the IMF), and all payments of external arrears.

² The program reference rate and spreads are based on the “average projected rate” for the six-month USD LIBOR over the following 10 years from the Spring 2018 World Economic Outlook (WEO).

Performance Criteria and Indicative Targets

9. The ceiling on net domestic financing of the government (cumulative since January 1 of the same year) is set as follows: CFAF 15 billion at end-March 2019; CFAF -38.0 billion at end-June 2019; CFAF -158.5 billion at end-September 2019; and CFAF – 289.0 billion at end-December 2019. These ceilings are performance criteria for end-June and end-December 2019, and an indicative target for end-September 2019.

Adjustments

10. Net domestic financing of the government will be adjusted if net external budgetary assistance exceeds or falls short of the program projections indicated in paragraph 10:

- If, at the end of a quarter, net external budgetary assistance exceeds the total projected amounts (cumulative since January 1 of the same year) by more than CFAF 5 billion, the NDF ceiling will be lowered by an amount equivalent to that excess, minus CFAF 5 billion.
- If at the end of a quarter, net external budgetary assistance falls short of the projected amounts (cumulative since January 1 of the same year), the NDF ceiling will be increased by an amount equivalent to this shortfall, within the following limits: the increase may not exceed CFAF 15 billion at end-June 2018 and CFAF 25 billion at end-December 2018. The same rule applies for 2019.

11. For the purposes of calculating the adjustment to the NDF ceiling, the following amounts are projected in the program:

- The amounts of gross external budgetary assistance (cumulative since January 1 of the same year) projected in the program are CFAF 22.6 billion at end-March 2018; CFAF 22.6 billion at end-June 2018; CFAF 39.6 billion at end-September 2018; and CFAF 55.4 billion at end-December 2018.
- The amounts of gross external budgetary assistance (cumulative since January 1 of the same year) projected in the program are CFAF 0 billion at end-March 2019; CFAF 3.9 billion at end-June 2019; CFAF 10.1 billion at end-September 2019; and CFAF 45.4 billion at end-December 2019.

B. Floor of the Basic Primary Fiscal Balance

Definition

12. The basic primary fiscal balance is defined as the difference between total fiscal revenue (tax and nontax) and basic primary fiscal expenditure (on a commitment basis). Basic primary fiscal expenditure is defined as fiscal (current plus capital) expenditure minus (a) interest payments on domestic and external debt; and (b) capital expenditure financed by external grants

and loans. Grants are excluded from revenue and net government lending is excluded from fiscal expenditure.

Performance Criteria and Indicative Targets

13. The floor of the basic primary fiscal balance (cumulative since January 1 of the same year) is a balance of not less than CFAF +15.6 billion at end-March 2019; CFAF +44.5 billion at end-June 2019; CFAF 47.7 billion at end-September 2019; and CFAF 101.7 billion at end-December 2019. The floors for end-June 2019 and end-December 2019 are performance criteria and the floor for end-September 2019 is an indicative target.

C. Floor of Total Government Revenue

Definition

14. Total government revenue includes tax and nontax revenue, as shown in the TOFE, but excludes external grants, revenue of autonomous agencies, and privatization receipts.

Performance Criteria and Indicative Targets

15. The floor on total government revenue (cumulative since January 1 of the same year) is set at an amount that is not less than CFAF 235.1 billion at end-March 2019; CFAF 505.5 billion at end-June 2019; CFAF 762.5 billion at end-September 2019; and CFAF 1112.4 billion at end-December 2019. The floors for end-June and end-December 2019 are performance criteria and the floor for end-September 2019 is an indicative target.

D. Non-Accumulation of New Domestic Payments Arrears by the Government

Definition

16. Domestic payments arrears are defined as domestic payments due but not paid by the government after a 90-day grace period, unless the payment arrangements specify a longer repayment period. The Autonomous Amortization Fund (CAA) and the Treasury record and update the data on the accumulation and reduction of domestic payments arrears. The definitions of debt given in paragraph 4a, of domestic debt in paragraph 4d, and of the government in paragraph 3 apply here.

Continuous Performance Criteria

17. The government undertakes not to accumulate any new domestic payments arrears. The non-accumulation of new domestic payments arrears will be continuously monitored throughout the program.

E. Non-Accumulation of External Payments Arrears by the Government

Definition

18. External public payments arrears are defined as payments due but not paid by the government as of the due date specified in the contract, taking into account any applicable grace periods, on the external debt of the government or external debt guaranteed by the government. The definitions of debt given in paragraph 4a, of external debt in paragraph 4e, and of the government in paragraph 3 apply here.

Continuous Performance Criterion

19. The government undertakes not to accumulate any external public payments arrears, with the exception of arrears related to debt that is the subject of renegotiation or rescheduling. The performance criterion on the non-accumulation of external public payments arrears will be continuously monitored throughout the program.

F. Ceiling on the Present Value of New External Debt Contracted or Guaranteed by the Government with a Maturity of One Year or More

Definition

20. This performance criterion applies not only to debt as defined in paragraph 4a, but also to commitments contracted or guaranteed by the government (including lease-purchase contracts) for which no value has been received. This criterion also applies to private sector debt guaranteed by the government, which constitutes a contingent liability of the government. As indicated in paragraph 4e, external debt excludes Treasury bills and bonds issued in CFA francs on the WAEMU regional market.

21. The term “government” used for this performance criterion and for the performance criterion on the contracting or guaranteeing by the government of new external debt, includes the government, as defined in paragraph 3, local governments, and all public enterprises, including administrative public agencies (EPA), scientific and technical public agencies, professional public agencies, and enterprises jointly owned by the Beninese government with the governments of other countries.

Continuous Performance Criterion

22. The present value of new external borrowing contracted or guaranteed by the government in 2019 will not exceed a cumulative amount of CFAF 797 billion. Changes to this ceiling may be made (subject to approval by the IMF Executive Board) based on the results of the public debt sustainability analysis prepared jointly by the staffs of the World Bank and the IMF.

G. Ceiling on Pre-Financing Contracts for Public Investments

Definition

23. Pre-financing contracts are defined as contracts pursuant to which the following steps are taken concurrently: (i) the government entrusts a private entity with the responsibility for executing public works, financed by a loan to the entity from a domestic commercial bank or group of commercial banks; (ii) the Minister of Finance guarantees this loan and signs an unconditional and irrevocable agreement to replace the private entity to honor the full amount of principal and interest of the loan, which are automatically paid from the Treasury's account at the BCEAO. The concept of government used for this performance criterion is the one defined in paragraph 3.

Continuous Performance Criterion

24. The government undertakes not to enter into any pre-financing contracts during the program. This performance criterion on pre-financing contracts for public investments will be continuously monitored throughout the program.

INDICATIVE TARGETS

H. Floor for Priority Social Expenditures

25. Priority social expenditures are determined in line with the priority programs identified in the GAP. These expenditures consist of selected (nonwage) expenditures in the following sectors, *inter alia*: health; energy, water, and mines; agriculture; livestock and fisheries; social affairs; education; and living standards. The execution of these expenditures is monitored on a payment order basis during the program through the Integrated Government Finance Management System (SIGFIP).

Definition

26. The indicative target for priority social expenditures is defined as the total amount (cumulative since January 1 of the same year) of the payment orders issued under the budget lines indicated in Table 1 below.

Table 1. Priority Social Expenditure Categories

Budget code	Description
25	Ministry of Economy and Finance
36	Ministry of Health
37	Ministry of Energy
76	Ministry of Water and Mines
46	Ministry of SMEs and the Promotion of Employment
39	Ministry of Agriculture Livestock, and Fisheries
26	Ministry of Justice
52	Ministry of Labor and Public Affairs
51	Ministry of Infrastructure and Transport
40	Ministry of Tourism, Culture and Sport
41	Ministry of Social Affairs and Microfinance
27	Ministry of Plan and Development
60	Ministry of Domestic and Public Security
44	Ministry of Higher Education and Scientific Research
62	Ministry of Nursery School and Primary School Education
63	Ministry of Secondary and Technical Education and Vocational Training
34	Ministry of Living Standards and Sustainable Development

Indicative Target

27. The indicative target for priority social expenditures (cumulative since January 1 of the same year) is set as follows: CFAF 15.0 billion at end-March 2018, CFAF 50.0 billion at end-June 2018; CFAF 101.0 billion at end-September 2018; and CFAF 167.0 billion at end-December 2018.

28. The indicative target for priority social expenditures (cumulative since January 1 of the same year) is set as follows: CFAF 37.2 billion at end-March 2019, CFAF 82.5 billion at end-June 2019; CFAF 140.7 billion at end-September 2019; and CFAF 180.0 billion at end-December 2019.

INFORMATION FOR PROGRAM MONITORING**I. Data on Performance Criteria and Indicative Targets**

29. To facilitate effective program monitoring, the authorities will provide IMF staff with the following data:

Every month:

- Data on any loan (terms and creditors) contracted or guaranteed by the government, in the first week after the end of the month;
- Monthly consumer price index, within two weeks of the end of the month;

- The TOFE, including revenue, detailed data on net domestic financing of the government (bank and nonbank domestic financing, including claims held by the nonbank private sector); and data on the basic primary fiscal balance, including data generated by SIGFIP, within six weeks of the end of the month;
- Data on the balance, accumulation, amount (stock), and repayment of public domestic and external payments arrears, including in the event that these arrears amount to zero, within six weeks of the end of the month;
- The monetary survey, within eight weeks of the end of the month.

Every quarter:

- Data pertaining to the amount of exceptional payment orders or other exceptional measures, within six weeks of the end of the quarter; and
- Data pertaining to priority social expenditures, within six weeks of the end of the quarter.

J. Other Information

30. The authorities will provide IMF staff with the following data:

Every month:

- Bank supervision indicators for bank and nonbank financial institutions within eight weeks of the end of the month.

Every quarter:

- Data on the implementation of the public investment program, including detailed information on sources of financing, within four weeks of the end of the quarter; and
- Data on the stock of external debt, external debt service, the signing of external loan agreements and disbursements of external loans, within twelve weeks of the end of the quarter.

On an *ad hoc* basis:

- In the quarter when they become available: a copy of the budget law and its supplementary documents; a copy of the most recent budget review law; as well as any decree or law pertaining to the budget or the implementation.



BENIN

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—INFORMATIONAL ANNEX

May 31, 2019

Prepared By

The African Department
(In consultation with other departments)

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RELATIONS WITH THE FUND

(As of April 30, 2019)

1. Membership Status: Joined: July 10, 1963 Article VIII

2. General Resources Account:	SDR Million	%Quota
<u>Quota</u>	123.80	100.00
<u>Fund Holdings of Currency</u>	105.77	85.44
<u>Reserve Tranche Position</u>	18.06	14.59
Notes Issuance		
Holdings Exchange Rate		

3. SDR Department:	SDR Million	%Allocation
<u>Net Cumulative Allocation</u>	59.17	100.00
<u>Holdings</u>	53.84	90.99

4. Outstanding Purchases and Loans:	SDR Million	%Quota
ECF Arrangements	112.44	90.82

5. Latest Financial Arrangements:

<u>Type</u>	<u>Date of Arrangement</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
ECF	Apr. 07, 2017	Apr. 06, 2020	111.42	63.67
ECF	Jun. 14, 2010	Jun. 03, 2014	74.28	74.28
ECF ¹	Aug. 05, 2005	Jun. 30, 2009	24.77	24.77

6. Overdue Obligations and Projected Payments to Fund:²

(SDR Million; based on existing use of resources and present holdings of SDRs):

	<u>2019</u>	<u>2020</u>	<u>Forthcoming</u>	<u>2022</u>	<u>2023</u>
Principal	10.57	13.79	<u>2021</u> 11.67	9.02	10.61
Charges/Interest	0.04	0.06	0.06	0.06	0.06
Total	10.61	13.86	11.73	9.08	10.67

¹ Formerly PRGF.

² When a member has overdue financial obligations outstanding for more than three months the amount of such arrears will be shown in this section.

7. Implementation of HIPC Initiative:

	Enhanced
- Commitment of HIPC assistance	<u>Framework</u>
Decision point date	July 2000
Assistance committed	
by all creditors (US\$ million) ³	265.00
Of which: IMF assistance (US\$ million)	24.30
(SDR equivalent in millions)	18.40
Completion point date	March 2003
- Disbursement of IMF assistance (SDR million)	
Assistance disbursed to the member	18.40
Interim assistance	11.04
Completion point balance	7.36
Additional disbursement of interest income ⁴	1.66
Total disbursements	20.06

Decision point - point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

Interim assistance - amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

Completion point - point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 2 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

³ Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence, these two amounts cannot be added.

⁴ Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

8. Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-Eligible Debt (SDR million) ⁵	36.06
Financed by: MDRI Trust	34.11
Remaining HIPC resources	1.95
II. Debt Relief by Facility (SDR million)	

<u>Delivery</u>	<u>GRA</u>	<u>Eligible Debt</u>		<u>Total</u>
		<u>Date</u>	<u>PRGT</u>	
January 2006	N/A		36.06	36.06

9. Implementation of Catastrophe Containment and Relief (CCR): Not Applicable.

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR).

10. Exchange Arrangement:

Benin is a member of the West African Economic and Monetary Union (WAEMU). The union's common currency, the CFA franc, is pegged to the Euro at a rate of CFAF 655.957 = EUR 1, consistent with the official conversions rate of the French franc to the Euro and the previous fixed rate of the CFA franc to the French franc of CFAF 100= F 1. The de jure and de facto exchange rate arrangements are a conventional peg. As of June 1, 1996, Benin and other members of WEAMU accepted the obligations of Articles VIII, section 2, 3, and 4 of the Fund's Articles of Agreement. Benin's exchange system has no restrictions on making payments or transfers for current international transactions and the country does not engage in multiple currency practices.

11. Article IV Consultations:

The last completed Article IV consultation was completed on December 1, 2017 based on staff discussions with the authorities in Cotonou from September 13 to 27, and in Washington DC during October 10 to 11.

12. ROSC Assessment:

A Fiscal Affairs Department (FAD) mission conducted the fiscal module of a Report on Observance of Standards and Codes (ROSC) in May 2001. The mission recommended the adoption of a three-year action plan containing measures to improve expenditure management. The mission also identified a list of actions to be taken quickly to ensure that the authorities could monitor budget execution. The ROSC fiscal transparency module for Benin was circulated to the Board on June 6, 2002 (Country

⁵ The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

Report No. 02/217). In 2009, the World Bank conducted an Accounting and Auditing ROSC, for which the report was published on April 18, 2009.

13. Technical Assistance for the Last Five Years:

Headquarters

Department	Type of Assistance	Time of Delivery	Purpose
FAD	Technical assistance	October 2014	Following-up of previous recommendations and reviewing the mining taxation regime.
FAD	Technical assistance	June 2015	Advising the authorities on a reform strategy for overseeing public agencies and SOEs.
FAD	Technical assistance	December 2015	Tax administration
FAD	Technical assistance	February 2016	Organization of Direction Générale des Impôts (DGI)
FAD	Technical assistance	April 2016	Design of tax administration objectives
FAD	Technical assistance	April 2016	Design of tax administration modernization plans
FAD	Technical assistance	June 2016	SOEs and Fiscal Risks Management
FAD	Technical assistance	September 2016	Audit of Big Firms
FAD	Technical assistance	October 2016	Tax administration modernization
FAD	Technical assistance	November 2016	Implementation of tax administration modernization plans
FAD	Technical assistance	January 2017	Customs administration
FAD	Technical assistance	August 2017	Strengthening tax administration's risk management capacity (1 of 2)
FAD	Technical assistance	September 2017	Tax Expenditure Review
FAD	Technical assistance	September 2017	Customs administration
FAD	Technical assistance	September 2017	Improving Tax Compliance
FAD	Technical assistance	October 2017	Public Investment Management Assessment
FAD	Technical assistance	January 2018	Strengthening Customs Administration Core Processes (1/2)
FAD	Technical assistance	February 2018	Strengthening Customs Administration Core Processes (2/4)
FAD	Technical assistance	June 2018	Strengthening Customs Administration Core Processes (3/4)
FAD	Technical assistance	September 2018	Strengthening Customs Administration Core Processes (4/4)
FAD	Technical assistance	November 2018	Customs administration
FAD	Technical assistance	November 2018	Tax expenditure

FAD	Technical assistance	February 2019	Public Investment Management Assessment follow-up mission
FAD	Technical assistance	February 2019	Asset Management
FAD	Technical assistance	February 2019	Compliance and core procedures
FAD	Technical assistance	February 2019	Strengthen core tax administration's procedures and processes
FAD	Technical assistance	March 2019	Mirror data analysis
FAD	Technical assistance	April 2019	Drafting a new tax compliance plan
STA	Technical assistance	November 2015	HFI project assessment
STA	Technical assistance	December 2016	e-GDDS
STA	Technical assistance	January 2017	Multisector statistics
STA	Technical assistance	May 2017	High Frequency Indicators
STA	Technical assistance	July 2017	Balance of Payments Statistics
STA	Technical assistance	April 2018	Balance of Payments Statistics
STA	Technical assistance	December 2018	Balance of Payments Statistics
MCM	Technical assistance	November 2015	Medium-Term Debt Management Strategy

Afritac West

Department	Type of Assistance	Time of Delivery	Purpose
FAD	Technical assistance	2014	Tax Administration (2)
FAD	Technical assistance	2014	Public Financial Management (3)
FAD	Technical assistance	2014	Customs Administration (3)
FAD	Technical assistance	2015	Customs Administration (6)
FAD	Technical assistance	2015	Tax Administration (8)
FAD	Technical assistance	2015	Public Financial Management (4)
FAD	Technical assistance	2016	Customs Administration (3)
FAD	Technical assistance	2016	Public Financial Management (7)
FAD	Technical assistance	2016	Tax Administration (4)
FAD	Technical assistance	2017	Customs Administration (4)
FAD	Technical assistance	2017	Public Financial Management (4)
FAD	Technical assistance	2017	Tax Administration (4)
FAD	Technical assistance	2018	Customs Administration (5)
FAD	Technical assistance	2018	Public Financial Management (5)
FAD	Technical assistance	2018	Tax Administration (3)
FAD	Technical assistance	2019	Customs Administration (2)
FAD	Technical assistance	2019	Public Financial Management (2)
FAD	Technical assistance	2019	Tax Administration (1)
MCM	Technical assistance	2015	Debt Management Framework (5)
MCM	Technical assistance	2016	Debt Management Framework (3)
MCM	Technical assistance	2017	Debt Management Framework (2)

MCM	Technical assistance	2017	Assets and Liabilities Management (4)
MCM	Technical assistance	2018	Assets and Liabilities Management (2)
MCM	Technical assistance	2019	Assets and Liabilities Management (1)
STA	Technical assistance	2014	National Accounts
STA	Technical assistance	2015	Government Finances Statistics (3)
STA	Technical assistance	2015	National Accounts (2)
STA	Technical assistance	2016	National Accounts (5)
STA	Technical assistance	2016	Government Finances Statistics
STA	Technical assistance	2017	National Accounts
STA	Technical assistance	2018	Government Finances Statistics
STA	Technical assistance	2018	Real Sector Statistics (2)

14. Resident Representative:

Mr. Karim Barhoumi assumed his position in Cotonou as Resident Representative in 2016.

JOINT WORLD BANK-IMF WORK PROGRAM, 2019–20

Title	Products	Timing of Mission	Expected Delivery Date
1. Mutual Information on Relevant Work Programs			
Bank work program in the next 12 months	Development Policy Operation	September 2018; December 2018; January 2019; February 2019; June 2019 (tentative)	November 2019
IMF work program in the next 12 months	1. Fourth Review ECF supported program 2. Staff visit 3. Fifth Review ECF supported program 4. Sixth Review ECF supported program	April 2019 July 2019 September 2019 March 2020	
2. Requests for Work Program Inputs			
Fund request to Bank	Provide authorities with best practice guidance on public-private partnerships.		Ongoing
Bank request to Fund	Regular updates on macroeconomic performance and assessment letters for Development Policy Operations.		Ongoing
3. Agreement on Joint Products and Missions			
Joint products in the next 12 months	Debt Sustainability Analysis	April 2019	June 2019

STATISTICAL ISSUES

As of May 2019

I. Assessment of Data Adequacy for Surveillance
<p>General: Data provision has some shortcomings but is broadly adequate for surveillance. Weaknesses exist due to lack of capacity in the areas of national accounts, public finance, monetary statistics, financial sector prudential indicators, and balance of payments. The authorities are addressing data weaknesses through technical assistance from the Fund.</p>
<p>National Accounts: Inadequate resources and weaknesses in data hamper the accuracy and reliability of the national accounts. Efforts to address these shortcomings are ongoing. Benin participated in WAEMU's harmonization of statistical methodologies and in the GDDS project for AFRITAC West countries to implement the 1993 SNA, and now intends to move to the 2008 SNA (by 2019). The West AFRITAC missions in 2015 sought to accelerate the process and support the compilation of the revised accounts and assisted in rebasing the national accounts from 1985 to 2007. In addition, two TA missions have taken place in June 2018 and December 2018 to help the authorities with the rebasing of the national accounts to a 2015 base year.</p>
<p>Price Statistics: Consumer price data, measured using the WAEMU harmonized consumer price index, are adequate for surveillance. The methodology for the WAEMU harmonized consumer price index has been revised to be consistent with other WAEMU countries with the assistance of AFRISTAT. The current index covers the capital city only, but Benin is participating in a regional project aimed at extending the coverage of the CPI to the whole country.</p>
<p>Government Finance Statistics: The quality of fiscal data is broadly adequate for surveillance, but has some shortcomings in coverage, periodicity, timeliness, and accessibility. The authorities have not reported GFS data for publication in the Government Finance Statistics Yearbook since the 2013 reference year and do not report quarterly data for publication in the International Financial Statistics. Benin is working toward implementing the new TOFE directive based on the <i>Government Finance Statistics Manual 2001 (GFSM 2001)</i>. Currently this TOFE is produced on a trial basis along with the TOFE based GFSM 1986. The implementation of the new TOFE is under way. To that end, three tables are being prepared: i) TOFE based GFSM 2001, ii) Statement of sources and uses of cash, and ii) statement of public debt (at face value). The authorities are working as well to produce the TOFE using the Trial Balance as the source data. The authorities have yet to expand the coverage of the TOFE to include all the subsectors of the general government.</p>
<p>Monetary and Financial Statistics: Monthly monetary and financial statistics (MFS), covering the central bank and other depository corporations, are compiled and disseminated by the regional Central Bank of West African States (BCEAO) and are broadly adequate. Benin reports data on some key series and indicators of the Financial Access Survey (FAS), including the two indicators adopted by the UN to monitor Target 8.10.1 of the Sustainable Development Goals (SDGs).</p>
<p>Financial sector surveillance: With technical assistance from the IMF's Statistics Department, the BCEAO has compiled a set of FSIs for deposit takers with quarterly frequency. However, while the BCEAO has used FSIs for its internal purposes, it has not yet granted approval to publish the data on the IMF's FSI website.</p>

External sector statistics: Benin reports balance of payments and international investment position (IIP) statistics to STA using the methodology of the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)* since 2011. The authorities have submitted 2017 balance of payments and IIP data for publication in the *Balance of Payments Statistics Yearbook (BOPSY)*.

Benin has made significant strides under the three-year JSA-AFR project, financed by the government of Japan and administered by the IMF, on improving external sector statistics (ESS) in 17 francophone countries in Central and Western Africa, becoming one of the closest contenders among project countries to be able to graduate to the SDDS, as far as ESS are concerned. Despite an acute staff shortage, the quality of ESS has continued to improve in the wake of the three TA missions under the project. External trade statistics have been enhanced through the installation of ASYCUDA++ and ASYCUDA World customs computer systems in all the main border customs offices, the port, the airport, and some regional offices. A major outcome of the December 2018 mission is that Benin is ready to submit quarterly EDS to the World Bank's QEDS database; these include a table on the gross external debt position of the public sector and of the private sector, as well as a table on the gross external position by institutional sectors. These data are consistent with the external debt items in the IIP, and with the statistics of the Caisse Autonome d'Amortissement. Benin is now also ready to disseminate quarterly BOP data and is expecting instructions in this respect from BCEAO Headquarters. However, improvements are still needed, in particular in the area of informal trade.

II. Data Standards and Quality

The country is an e-GDDS participant. However, most of its metadata, with the exception of the real sector and socio-demographic metadata, have not been updated since October 2002. Some (CGO, DCS, CBS, BoP, ILV, IIP) have posting dates in the last few years, mostly in 2016.

No data ROSC is available.

Benin: Table of Common Indicators Required for Surveillance

	Date of latest observation	Date received	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of Publication ⁷
Exchange Rates	02/2019	03/2019	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	04/2019	05/2019	M	M	M
Reserve/Base Money	04/2019	05/2019	M	M	M
Broad Money	04/2019	05/2019	M	M	M
Central Bank Balance Sheet	04/2019	05/2019	M	M	M
Consolidated Balance Sheet of the Banking System	03/2019	05/2019	M	M	M
Interest Rates ²	01/2019	03/2019	M	M	M
Consumer Price Index	12/2018	02/2019	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	NA	NA	NA	NA	Not published
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	03/2018	05/2018	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	09/2016	06/2017	Q	Q	Q
External Current Account Balance	2017	12/2019	A	A	A
Exports and Imports of Goods and Services	2017	06/2018	A	A	A
GDP/GNP	2017	11/2018	A	A	A
Gross External Debt	NA	NA	NA	NA	Not published
International Investment Position ⁶	2017	12/2018	A	A	A

¹ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

² Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁷ Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).



BENIN

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—DEBT SUSTAINABILITY ANALYSIS

May 31, 2019

Approved By
Dominique Desruelle and Maria Gonzalez, (IMF) and Marcello Estevao (IDA)

Prepared by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA).

Benin: Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	Moderate
Overall risk of debt distress	Moderate
Granularity in the risk rating	Some space to absorb shock
Application of judgment	No

Benin remains at moderate risk of external debt distress. The rating is unchanged from the previous November 2018 DSA. All the projected external debt burden indicators remain below their thresholds under the baseline, but the ratio of the present value (PV) of external debt to exports exceeds its threshold in the case of an extreme shock to exports.¹

With regard to total public and publicly guaranteed (PPG) debt (external plus domestic), the overall risk of debt distress remains also moderate. The public debt-to-GDP ratio is below its prudent benchmark in the baseline scenario; however, the PV of public debt-to-GDP rises very slightly above its benchmark from 2024 until the end of the projection period under the real GDP shock scenario. Other factors motivating the overall rating include: the past evolution of domestic debt, the relatively high debt service burden, as well as the existence of contingent liabilities. Medium-term fiscal consolidation, sound public investment management, and enhanced debt management capacity are needed to reduce debt vulnerabilities.

¹ Under the revised Debt Sustainability Framework for Low-Income Countries, Benin's Composite Indicator is 3.0 based on the April 2019 WEO and the 2017 CPIA, corresponding to the medium debt-carrying capacity.

PUBLIC DEBT COVERAGE

Text Table 1. Benin: Subsectors of the Public Sector			
Subsectors of the public sector			Sub-sectors covered
1	Central government		X
2	State and local government		
3	Other elements in the general government		
4	o/w: Social security fund		
5	o/w: Extra budgetary funds (EBFs)		
6	Guarantees (to other entities in the public and private sector, including to SOEs)		X
7	Central bank (borrowed on behalf of the government)		X
8	Non-guaranteed SOE debt		
1	The country's coverage of public debt	The central government, central bank, government-guaranteed debt	
		Used for the	
		Default	analysis
			Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0 percent of GDP	0.0
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2.9
4	PPP	35 percent of PPP stock	2.6
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5.0
	Total (2+3+4+5) (in percent of GDP)		10.5
1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.			

- In the Debt Sustainability Analysis (DSA) of Benin, public debt covers both the debt of the central government as well as the guarantees provided by the central government².** The DSA classifies external and domestic debt based on the currency criterion, given data constraints that prevent the use of the residency criterion. Debt to the IMF owed by the Central Bank is included in external debt.
- The authorities completed an audit about the stock of unpaid claims held by the private sector on the government in January 2019.** The authorities found a stock of arrears to suppliers of 0.3 percent GDP. This amount of arrears was added to the 2019 debt stock. The current fiscal projections also assume a gradual clearance of the arrears over 2020-22 at a pace of 0.1 percent of GDP per year.
- Due to methodological constraints, the debt of state-owned enterprises (SOEs) and subnational governments are not included in the baseline analysis but are captured in the contingent liability shock.** SOEs can entail contingent liabilities for the government and create fiscal risks.³ It is important to have an exhaustive overview of the situation of SOEs debt in Benin. The authorities

² Government domestic arrears are also included see below.

³ In the context of the Government Action Program, the authorities are contemplating several key projects of infrastructure, including some conducted through SOEs. For instance, the government has recently started discussions with the Chinese authorities to build a new international airport. At this stage, the amount, financing scheme, and calendar are unknown. When information is available, this project will be reflected in the DSA to the extent that it impacts public debt and, more generally, fiscal sustainability.

have made progress in the area of monitoring in past years, by collecting financial information on SOEs. They recently produced an estimate of 0.9 percent of GDP for the non-guaranteed commercial debt of 13 state-owned companies at end-2018.⁴ Also, to address contingent liability risks, the authorities are in the process of adopting a new law on SOEs that aims at improving their governance and indirectly their economic and financial performance. In the context of the current DSA, the contingent liability shock was increased by 0.9 percent of GDP (to reflect the new information on SOE debt), which comes on top of the standardized 2 percent of GDP shock. Further work is needed to properly incorporate SOEs in the DSA. This will entail (i) reconciling various sources of information on guarantees and non-guaranteed debt to come up with a total amount of SOEs debt; and (ii) assessing the scope for consolidating the general government fiscal accounts with the financial statements of the SOEs (both on the revenue and expenditure sides).

BACKGROUND ON DEBT

4. Benin's public debt has been increasing rapidly since 2014. Total public debt (external plus domestic) increased from 30.5 percent in 2014 to 56.8 percent in 2018.⁵ The increase was primarily due to higher domestic debt, which tripled over three years, growing from 10.6 percent of GDP in 2014 to 32.4 percent of GDP in 2017. Such a rise in the domestic debt was essentially driven by the scaling-up of public investment. Over 2015-17, the authorities have increasingly relied on the domestic and regional financial market to finance public investment projects at non-concessional terms. With the debt reprofiling, the stock of domestic debt declined in 2018, and is estimated at 30.3 percent of GDP. As for external debt, the increase was relatively small over the 2014-18 period (6.7 percent of GDP), reaching 26.5 percent of GDP in 2018.

5. The debt service burden is relatively high in Benin. The ratio of debt service to revenue stands at 65 percent in 2018⁶ and is expected to decrease to around 45 percent on average in the medium term and 21 percent in long run. By comparison, the debt service is projected to account for 28 percent of revenue, on average, in WAEMU countries and 21 percent in all low-income developing countries in 2018⁷.

6. Financial conditions in the regional financial system have eased due to Eurobond issuances and despite a firmer monetary policy. Between early 2017 and end-2018, the BCEAO reduced its refinancing volume to banks by about 24 percent. Regional liquidity nonetheless gradually improved in the wake of the Eurobonds issued by Côte d'Ivoire and Senegal—equivalent to 87 percent of the WAEMU's aggregate fiscal deficit in 2018—which led to a substantial reduction in sovereign bond

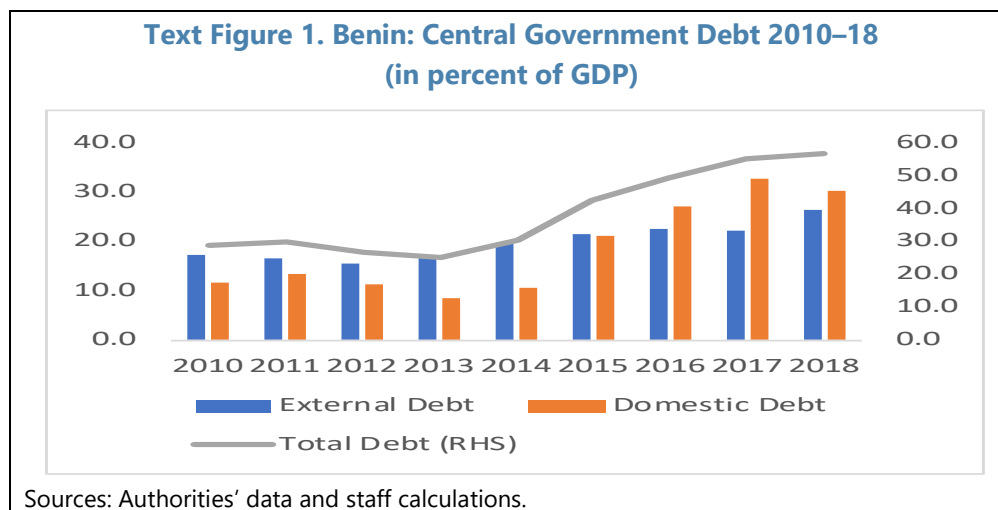
⁴ Guarantees to SOEs are already included in public debt, although more work needs to be done to reconcile the two data sources (guarantees disclosed in the budget and information on non-guaranteed SOE debt).

⁵ In the paper, debt stocks are measured at the end of the year. For instance, 2018 debt refers to the debt at the end of 2018.

⁶ An additional amount of debt repayment of CFA 170 billion, related to the debt reprofiling operation, was included in the 2018 debt service.

⁷ See IMF DSA Database for LICs.

issuances on the regional market. As a result, the average rate at the BCEAO weekly refinancing auction, which had remained at its 4.5 percent ceiling from November 2017 to June 2018, declined to below 3 percent. It crawled back up to its 4.5 percent ceiling in late 2018, though, on the back of seasonal liquidity needs.



STRUCTURE OF DEBT

7. Benin's external public debt is essentially owed to multilateral and bilateral creditors. In 2016 and 2017, Benin's domestic debt surpassed external debt. It represented about 60 percent of total debt at end-2017. The October 2018 debt reprofiling operation, which exchanged cheap and long-term external debt against more expensive and shorter-maturity domestic debt, allowed a rebalancing of the composition of the total debt stock. As of end-December 2018, external debt represented around 47 percent of the total debt, while the domestic debt accounted for 53 percent of the debt. External public debt, essentially owed to multilateral and bilateral creditors, is most of the time provided on concessional terms.

8. Domestic public debt is dominated by government securities issued in the regional bond market. Benin's domestic public debt has increased significantly between 2014 and 2017, driven mainly by the increasing reliance on the regional bond market to raise funds. About 80 percent of domestic liabilities consisted of government securities issued on the regional financial market at end-2018. Such debt is non-concessional and is associated with roll-over and interest rate risks.

9. Benin issued its first Eurobond in March 2019, which is expected to change significantly the structure of the debt portfolio. The Eurobond amounts to EUR 500 million (equivalent to 5.2 percent of 2019 GDP) and was issued at favorable terms (see Box for 1 details). The authorities have decided to reduce, by the same amount, the domestic financing projected for the year, leaving the 2019 borrowing plan unchanged. As a result, external debt should, for the first time since 2015, exceed domestic debt, with respective shares projected at 58 percent and 42 percent of total debt for 2019.

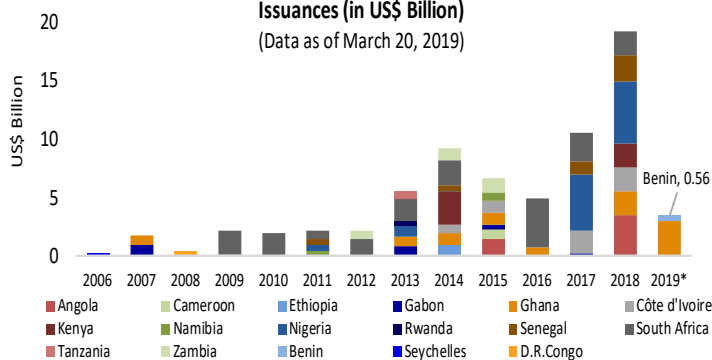
Box 1. Benin’s First Eurobond Issuance

Accommodative global financial conditions have narrowed spreads and boosted capital inflows to sub-Saharan Africa’s (SSA) frontier markets since 2009-10. Unconventional monetary policies in advanced economies have produced a prolonged episode of ultra-low global interest rates and extremely low volatility in financial markets, since 2009-10. This, in turn, has contributed to a revival of favorable global funding conditions and widespread financial risk-taking, as developed market investors searched for yield to meet targeted return.

Taking advantage of the benign global financial environment, Benin issued its first Eurobond and became the 17th country in SSA to tap international capital markets to meet its financing needs (Text Figure 2).

The Eurobond was issued in March 2019, for an amount of EUR 500 million at a yield of 6 percent with a weighted maturity of 6 years. The issuance was two times oversubscribed, attracting EUR 1.1 billion in demand. Terms compare very favorably to recent issuances by Benin on the regional market (7.0 percent for a 5-year bond issued in early-March 2019).

Text Figure 2: Sub-Saharan African Frontier Market: International Sovereign Bond Issuances (in US\$ Billion)
(Data as of March 20, 2019)



Source: Bloomberg

While Eurobond issuance provides the Beninese government with access to longer-term financing at favorable rates, it also leads to some rebalancing of risks. The exchange rate risk is estimated to be small in the short to medium term given the peg between the FCFA and the euro. The comparison of refinancing risks between the Eurobond and regional issuances, however, is more difficult to assess. On the one hand, the regional market can become very illiquid when bigger WAEMU economies (such as Senegal and Cote d’Ivoire) borrow, leaving limited space for Benin. On the other hand, international markets may shut down for frontier markets in case of a reversal in global risk appetite.¹ Nonetheless, the refinancing risk is expected to decrease over the short term, given the improved access to longer-term financing. At the same time, over the medium-term or once the Eurobond comes close to maturity, refinancing risk is expected to increase.

¹ Faster-than-expected normalization of monetary policies of advanced economies, a strong growth slowdown in China, or adverse spillover effects of U.S.-China trade tensions are examples of major events that could result in a decompression of spreads and reversals of capital flows going to frontier markets. This could make the rollover of the Eurobond more difficult and could raise debt servicing costs.

Text Table 2. Benin: Structure of External Debt, Estimated at end 2018
(in CFAF billion)

Creditors	2018
<i>Multilateral Creditors</i>	1021.0
IDA	541.2
FAD (African Development Fund)	244.4
Others	235.4
<i>Bilateral Creditors</i>	511.0
Others	317.3
People's Republic of China	166.9
Kuwait	26.8

Sources: Beninese authorities and IMF staff calculations.

Text Table 3. Benin: Structure of Domestic Debt, Estimated at end 2018
(in CFAF billion)

Creditors	2018
Other local banks	292.6
Bonds	1267.0
T-bills	160.1
Total domestic debt	1719.7

Sources: Beninese authorities and IMF staff calculations.

BACKGROUND ON MACROECONOMIC FORECASTS

10. Macroeconomic assumptions have been updated compared to the November 2018 DSA.

The main changes relate to the primary balance and the real GDP growth for the medium term (Text Table 4). Benin's growth is revised upwards to 6.7 percent in 2018, mainly because of higher-than-anticipated agriculture and port activities. The real GDP growth forecasts for 2019 and beyond have also been revised up to reflect new estimates of medium-term growth (see IMF 2019 Article IV Report). Medium-term prospects are strong, driven by the lagged effect of the public investment scaling-up, greater participation of the private sector, strong agricultural production, and the development of new sectors such as tourism and digital economy.

- The 2018 primary deficit was lower than expected mainly driven by an under execution of the capital expenditure budget. The primary surplus is estimated to reach 0.3 percent of GDP on average in the period 2019-24 and 0.9 percent of GDP on average, in the long run. Beyond 2019, the projections assume a continued scaling-down of public investment, which should bring back

the investment ratio to its pre-scaling up level and maintain the deficit below the 3 percent of GDP regional norm.

- The non-interest current account deficit is expected to decline gradually in the medium to long term, thanks to the implementation of fiscal consolidation plan and structural reforms to boost competitiveness. Higher exports should result from larger cotton production. Imports should also remain contained due to the scaling-down of public investment and the increase in agricultural production.

11. Risks to the baseline are tilted to the downside. On the fiscal position, the main risks include extra spending pressures related to the political cycle as well as failures to implement key reforms, in particular in the area of revenue administration and the elimination of tax expenditures. On growth, achieving the expected performance will require that the authorities rigorously implement measures that intent to increase the agricultural production capacity and structural reforms that aim at improving business environment and governance.

Text Table 4. Benin: Macroeconomic Projections

	DSA 2018				DSA 2019			
	2018	Aver.2019-23	2028	2038	2018	Aver.2019-24	2029	2039
	<i>(Percent of GDP, unless otherwise indicated)</i>				<i>(Percent of GDP, unless otherwise indicated)</i>			
GDP growth (percent)	6.5	6.5	6.0	5.0	6.7	6.7	6.0	5.0
GDP deflator (percent)	1.0	1.8	2.5	2.9	1	1.8	2.5	2.9
Non-interest current account balance	8.8	6.6	4.4	3.6	8.0	5.7	4.4	1.7
Primary balance	2.5	-0.4	-0.7	-0.7	1.8	-0.3	-0.9	-0.9
Exports	21.6	25.0	29.5	30.8	22.1	26.6	29.1	29.1
Revenues and grants	18.6	19.4	19.8	20.8	18.6	19.3	19.7	20.6

Sources: Beninese authorities and IMF staff calculations.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

Country	Benin		
Country Code	638		
Debt Carrying Capacity	Medium		
Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Medium	Medium 3.00	Medium 3.03	Medium 3.47

Note: Until the October 2018 WEO vintage is released, the previous vintage classification and corresponding score are based solely on the CPIA per the previous framework.

Applicable Thresholds

APPLICABLE		APPLICABLE	
EXTERNAL debt burden thresholds		TOTAL public debt benchmark	
PV of debt in % of		PV of total public debt in percent of GDP	55
Exports	180		
GDP	40		
Debt service in % of			
Exports	15		
Revenue	18		

Cut-off Values of the CI

New framework			
Cut-off values			
Weak	CI ≤	2.69	
Medium	2.69 < CI ≤		3.00
Strong	CI >	3.00	

Calculation of the CI Index				
Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.473	1.34	45%
Real growth rate (in percent)	2.719	5.906	0.16	5%
Import coverage of reserves (in percent)	4.052	40.207	1.63	54%
Import coverage of reserves*2 (in percent)	-3.990	16.166	-0.65	-22%
Remittances (in percent)	2.022	1.552	0.03	1%
World economic growth (in percent)	13.520	3.583	0.48	16%
CI Score			3.00	100%
CI rating			Medium	

REALISM TOOLS

12. The growth projections for 2019 are slightly more optimistic than the growth path predicted by the growth and fiscal adjustment tool (Figure 4). More generally, the deviation between baselines projections and the growth path with LIC's typical multiplier of 0.4, can be explained by several factors:

- The authorities are implementing an ambitious public investment scaling plan, which peaked in in 2017-18. Given the traditional long lags of investment multipliers, we expect the positive growth effects to persist at least until 2019-20.⁸
- The revitalizing of the cotton production (a record high growth of 67 percent and 33 percent of cotton production, in 2016 and 2017 respectively) will be transmitted to the secondary sector in 2018-19 and beyond, through the ginned cotton activity, as well as higher export revenues. The cotton activity should remain dynamic in 2019, impacting export revenues and growth in 2020. Furthermore, port activities have been dynamic in 2018 and are expected to remain strong in the medium term.
- A number of large public-private infrastructure projects of the Government's Action Program are expected to start in 2020.
- Nigeria's economy is estimated to accelerate in 2018 and growth should be maintained in 2019-20.

⁸ See computation of the size and persistence of fiscal multipliers in Sub-Saharan Africa *Regional Economic Outlook* October 2017.

13. The fiscal adjustment path is assessed to be realistic despite being in the upper end of the historical distribution. Fiscal consolidation is expected to amount to about 4 percent between 2017 and 2020. This is high by historical standards (Figure 4). However, the adjustment will be mostly achieved through a scaling down of public investment, which increased by about 3 percent of GDP between 2016 and 2017-18 and will revert towards its 2016 level in subsequent years.

14. The projections of public and private investment as well as their contribution to real GDP growth remain broadly unchanged compared to the previous DSA. Benin's medium-term outlook continues to be favorable, with economic growth projected at 6.7 percent over 2019-24, led by rising private investment. At the same time, the public investment ratio is expected to decline over the medium-term to return to its pre-scaling up 2016 level.

15. Relative to the previous DSA, the drivers of debt dynamics show a higher external debt path, compensated by lower domestic debt. The increase in the external debt stock reflects the Eurobond issuance. The reduction by the same amount of the domestic financing projected for the year is expected to leave the 2019 public debt stock unchanged.

RISK RATING AND VULNERABILITIES: EXTERNAL DEBT SUSTAINABILITY RESULTS

16. The external debt burden indicators remain below the policy-dependent thresholds in the baseline scenario. Under the baseline, all debt indicators remain below their relevant policy-dependent thresholds. The PV of total PPG external debt is expected to stabilize at about 24 percent of GDP on average over 2019-24, reaching 10 percent of GDP in 2039. Thus, the ratio would remain below the corresponding threshold of 40 percent of GDP throughout the projection period.

17. However, the ratio of the present value of external debt to exports exceeds its threshold in the case of an extreme shock to exports. This breach is what motivates the assessment of moderate risk for external debt. The breach of the PV of Public and Publicly Guaranteed (PPG) external debt-to-exports ratio under the most extreme stress test (MX shock, standard and tailored) lasts four years (2021-2024). Such a breach lasts an extra year compared to the November 2018 DSA (in which the breach occurred over 2020-22), and its magnitude is larger (19.4 percent of GDP on average in the current vintage compared to 13.7 percent on average in the previous one). The increase in the stock of PPG external debt explains such a deterioration. Other indicators, the debt-to-GDP ratio and all debt service indicators, remain below their thresholds under the extreme shock scenarios.

18. Sizable breaches are recorded under the historical scenario for two external debt burden indicators. The historical scenario shows breaches for the PV of external debt-to-GDP ratio and the external debt service-to-revenue ratio. However, this scenario is unlikely to materialize. The projections for real GDP growth, non-interest current account and net FDI flows are above the historical averages because of the major reforms taken by the authorities to boost economic growth and the revitalization of exports supported by a booming agricultural production.

19. The market financing risk indicators show no breach of the GFN benchmarks, and the potential heightened liquidity needs are low. For the moment, there is no available data for the JP Morgan EMBI spreads. To add granularity to the moderate risk rating, Benin shows “some space” to absorb shocks. This is mainly due to the rise in the debt service-to-revenue indicator over the period 2024-26. The PV of debt to GDP also lies in the “some space” zone.

RISK RATING AND VULNERABILITIES: PUBLIC DEBT SUSTAINABILITY RESULTS

20. Total PPG debt (external plus domestic) remains below its respective benchmark, but the PV of public debt-to-GDP rises very slightly above its benchmark from 2024 until the end of the projection period under the real GDP shock scenario. The overall risk of debt distress remains moderate. Total debt does not show any breach in the baseline scenario. However, the ratio of the PV of public debt-to-GDP exceeds very slightly its benchmark under the real GDP shock scenario from 2024 until the end of the projection period. This breach is more pronounced than the one of the November 2018 DSA, because the current vintage has added some new items to the debt stock, including domestic arrears (0.3 percent of GDP) and additional government guarantees (0.4 percent of GDP). The PV of public debt-to-GDP records also a breach under the historical scenario.

21. Other factors also motivate the rating of moderate risk debt distress for total debt. These factors include: the past evolution of domestic debt; the relatively high ratio of debt service to revenue; the existence of contingent liabilities of SOEs; and the moderate risk of external debt distress.

CONCLUSION

22. The updated DSA confirms that Benin stands at moderate risk of external and overall public debt distress. The ratings are unchanged relative to the Staff Report of November 2018 (EBS/18/364). Medium-term fiscal consolidation and improved debt management are needed to maintain debt sustainability.

23. The authorities concur broadly with staff’s assessment. Consistent with the main findings of the DSA, the authorities remain committed to strengthening debt sustainability by adhering to medium-term fiscal consolidation, conducting sound public investment management, and enhancing debt management capacity.

Table 1. Benin: External Debt Sustainability Framework, Baseline Scenario, 2016–39

	Actual				Projections							Average 8/				
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Historical	Projections
External debt (nominal) 1/ <i>of which: public and publicly guaranteed (PPG)</i>	22.5	22.0	26.5	31.9	31.0	30.2	29.4	28.5	27.0	19.6	19.6	19.2	25.7	25.7	19.2	25.7
Change in external debt	1.2	-0.5	4.4	5.4	-0.8	-0.9	-0.7	-1.0	-1.4	-0.7	-0.7	5.9	1.8	5.3	5.3	5.3
Identified net debt-creating flows	7.4	6.6	3.6	3.6	2.4	2.1	1.6	1.1	0.9	1.4	-0.7	5.9	1.8	5.3	5.3	5.3
Non-interest current account deficit	9.2	9.7	8.0	7.2	6.5	5.9	5.4	4.8	4.6	4.4	1.8	12.1	5.3	5.3	5.3	5.3
Deficit in balance of goods and services	11.9	12.5	10.6	9.6	8.9	8.2	7.8	7.2	5.9	5.4	5.4	12.1	5.3	5.3	5.3	5.3
Exports	16.7	19.6	22.1	24.1	25.6	26.8	27.7	27.4	27.7	29.1	29.1	12.1	5.3	5.3	5.3	5.3
Imports	28.7	32.1	32.7	33.7	34.6	35.0	35.5	34.6	33.6	34.5	34.5	12.1	5.3	5.3	5.3	5.3
Net current transfers (negative = inflow)	-2.5	-2.6	-2.5	-2.3	-2.4	-2.2	-2.4	-2.4	-2.3	-2.4	-2.4	-3.6	-2.4	-2.4	-3.6	-2.4
<i>of which: official</i>	-1.9	-1.9	-1.8	-1.4	-1.3	-1.2	-1.4	-1.3	-1.3	-1.4	-1.4	-0.1	2.3	2.3	-0.1	2.3
Other current account flows (negative = net inflow)	-0.3	-0.2	-0.1	0.0	-0.1	-0.1	0.0	0.0	1.0	1.4	-1.2	-0.1	2.3	2.3	-0.1	2.3
Net FDI (negative = inflow)	-1.3	-1.7	-2.2	-2.5	-2.7	-2.5	-2.5	-2.5	-2.5	-2.5	-2.2	-2.2	-2.4	-2.4	-2.2	-2.4
Endogenous debt dynamics 2/	-0.5	-1.3	-2.2	-1.2	-1.4	-1.3	-1.3	-1.2	-1.2	-1.2	-0.8	-0.8	-2.4	-2.4	-0.8	-2.4
Contribution from nominal interest rate	0.2	0.3	0.3	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.3	0.4	0.4	0.4	0.4	0.4
Contribution from real GDP growth	-0.8	-1.2	-1.3	-1.7	-2.0	-1.9	-1.9	-1.8	-1.8	-1.8	-1.1	-0.6	-0.6	-0.6	-0.6	-0.6
Contribution from price and exchange rate changes	0.1	-0.5	-1.1	...	...	...	...	...	...	...	...	...	...	...	...	...
Residual 3/	-0.2	-0.1	0.9	1.8	-3.3	-3.0	-2.3	-2.0	-2.3	-2.0	-2.0	-4.8	-2.4	-2.4	-4.8	-2.4
<i>of which: exceptional financing</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sustainability indicators																
PV of PPG external debt-to-GDP ratio	...	...	18.2	24.8	24.6	24.3	24.2	23.8	22.7	16.5	9.9	...	...	...	...	...
PV of PPG external debt-to-exports ratio	...	...	82.4	102.6	95.9	90.8	87.4	86.7	82.1	56.8	33.9	...	...	...	...	...
PPG debt service-to-exports ratio	5.0	4.8	3.8	5.4	5.7	5.2	4.9	4.8	6.7	4.4	3.6	...	...	...	...	...
PPG debt service-to-revenue ratio	5.7	5.4	4.7	7.4	8.2	7.8	7.5	7.3	10.3	6.8	5.2	...	...	...	...	...
Gross external financing need (Billion of U.S. dollars)	0.7	0.8	0.7	0.7	0.6	0.6	0.6	0.5	0.6	0.9	0.3	...	...	...	...	...
Key macroeconomic assumptions																
Real GDP growth (in percent)	4.0	5.8	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.0	5.0	...	...	...	...	...
GDP deflator in U.S. dollar terms (change in percent)	-0.6	2.1	5.5	-1.7	1.8	1.8	1.8	1.9	1.8	2.5	2.9	...	...	...	...	...
Effective interest rate (percent) 4/	1.1	1.6	1.5	2.0	1.9	2.1	2.2	2.2	2.2	1.7	3.5	...	...	...	...	...
Growth of exports of goods (US dollar terms, in percent)	-1.9	26.4	26.9	14.5	15.4	13.5	12.4	7.6	9.7	-4.5	8.1	...	...	...	...	...
Growth of imports of goods (US dollar terms, in percent)	-0.3	20.8	14.8	8.1	11.4	9.9	10.2	6.1	5.4	8.6	8.0	...	...	...	...	...
Grant element of new public sector borrowing (in percent)	...	...	...	12.1	32.4	31.3	30.0	30.7	29.6	29.1	29.1	...	...	...	...	...
Government revenues (excluding grants, in percent of GDP)	14.7	17.5	17.8	17.7	18.0	18.0	18.0	18.0	18.0	19.0	20.2	...	...	...	...	...
Aid flows (in Billion of US dollars) 5/	0.1	0.1	0.1	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3	...	...	...	...	...
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	2.5	2.2	2.1	2.1	2.1	2.0	1.9	1.3	...	...	...	...	...
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	25.1	54.9	55.6	54.8	57.4	56.6	48.1	51.0	...	...	...	...	...
Nominal GDP (Billion of US dollars)	9	9	10	11	12	13	14	15	17	26	56	...	...	...	...	...
Nominal dollar GDP growth	3.4	8.0	12.6	4.8	8.6	8.7	8.7	8.7	8.7	8.6	8.0	...	...	...	...	...
Memorandum items:																
PV of external debt 7/	...	...	18.2	24.8	24.6	24.3	24.2	23.8	22.7	16.5	9.9	...	...	...	...	...
In percent of exports	...	...	82.4	102.6	95.9	90.8	87.4	86.7	82.1	56.8	33.9	...	...	...	...	...
Total external debt service-to-exports ratio	5.0	4.8	3.8	5.4	5.7	5.2	4.9	4.8	6.7	4.4	3.6	...	...	...	...	...
PV of PPG external debt (in Billion of US dollars)	...	...	1.9	2.7	2.9	3.1	3.4	3.6	3.8	4.2	5.5	...	...	...	...	...
(PV-PV-1)/GDP-1 (in percent)	...	...	...	7.8	1.9	1.9	2.0	1.6	0.9	0.9	0.1	...	...	...	...	...
Non-interest current account deficit that stabilizes debt ratio	8.0	10.2	3.5	1.8	7.3	6.8	6.1	5.8	6.0	5.1	2.5	...	...	...	...	...

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.
 2/ Derived as $(1 - g - p(1+g))/(1+g+p-pg)$ times previous period debt ratio, with $r =$ nominal interest rate; $g =$ real GDP growth rate, and $p =$ growth rate of GDP deflator in U.S. dollar terms.
 3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
 4/ Current-year interest payments divided by previous period debt stock.
 5/ Defined as grants, concessional loans, and debt relief.
 6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).
 7/ Assumes that PV of private sector debt is equivalent to its face value.
 8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.
 9/ The peak in 2019 and the negative debt accumulation in 2025–26 partly reflect the Eurobond operation.

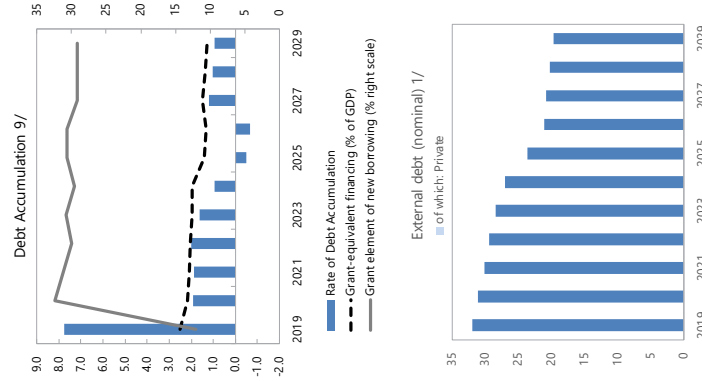


Table 2. Benin: Public Sector Debt Sustainability Framework, Baseline Scenario, 2016–39

	Actual		Projections										Average 6/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections	
Public sector debt 1/	49.7	54.4	56.8	54.7	52.5	50.3	48.3	46.4	44.6	36.1	22.4	37.0	44.8	
of which: external debt	22.5	22.0	26.5	31.9	31.0	30.2	29.4	28.5	27.0	19.6	12.4	19.2	25.7	
Change in public sector debt	7.3	4.8	2.3	-2.1	-2.2	-2.3	-2.0	-1.8	-1.9	-1.8	-1.2	1.7	-1.8	
Identified debt-creating flows	5.1	0.7	0.9	-1.6	-1.9	-2.2	-2.3	-2.4	-2.4	-1.7	-1.2	2.5	-0.6	
Primary deficit	4.7	3.8	1.8	0.6	0.1	-0.3	-0.6	-0.8	-0.9	-0.9	-0.9	18.2	19.4	
Revenue and grants	15.3	18.6	18.6	19.2	19.3	19.3	19.3	19.3	19.3	19.7	20.6	20.7	18.8	
of which: grants	0.7	1.1	0.8	1.5	1.3	1.3	1.3	1.3	1.3	0.7	0.4			
Primary (noninterest) expenditure	20.0	22.4	20.3	19.8	19.3	19.0	18.7	18.5	18.4	18.8	19.7			
Automatic debt dynamics	0.4	-3.1	-0.8	-2.1	-2.0	-1.9	-1.7	-1.6	-1.6	-0.8	-0.3			
Contribution from interest rate/growth differential	-1.0	-2.4	-3.8	-2.7	-3.8	-3.7	-3.5	-3.3	-3.3	-1.8	-0.9			
of which: contribution from average real interest rate	0.6	0.4	-0.4	0.9	-0.4	-0.4	-0.3	-0.3	-0.3	0.3	0.2			
of which: contribution from real GDP growth	-1.6	-2.7	-3.4	-3.6	-3.4	-3.3	-3.2	-3.0	-2.9	-2.1	-1.1			
Contribution from real exchange rate depreciation	1.4	-0.8	3.0	...	...	...	...	...	...	...	...
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Residual	2.2	4.1	1.4	0.0	1.6	1.7	2.1	2.3	2.2	0.9	0.6	1.4	1.4	
Sustainability indicators														
PV of public debt-to-GDP ratio 2/	...	...	49.2	47.5	45.9	44.3	42.9	41.6	40.1	32.9	19.8		
PV of public debt-to-revenue and grants ratio	...	...	264.9	247.1	238.4	229.7	222.6	215.9	208.1	166.9	96.0		
Debt service-to-revenue and grants ratio 3/	48.4	37.4	64.7	50.7	52.5	54.7	41.1	35.1	33.3	27.2	16.1			
Gross financing need 4/	12.1	10.7	13.8	10.0	8.0	8.6	6.3	5.3	5.2	4.4	2.4			
Key macroeconomic and fiscal assumptions														
Real GDP growth (in percent)	4.0	5.8	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.0	5.0	4.4	6.4	
Average nominal interest rate on external debt (in percent)	1.2	1.7	1.4	2.1	1.9	2.0	2.1	2.2	2.3	1.7	3.5	1.5	2.0	
Average real interest rate on domestic debt (in percent)	5.3	6.4	5.4	5.4	6.7	6.8	7.3	7.9	7.4	9.2	7.5	1.9	9.1	
Real exchange rate depreciation (in percent, + indicates depreciation)	7.0	-3.8	16.1	...	...	...	...	...	...	...	...	4.4	...
Inflation rate (GDP deflator, in percent)	-0.3	0.0	0.8	1.5	1.8	1.8	1.9	1.8	1.8	2.5	2.9	1.7	2.0	
Growth of real primary spending (deflated by GDP deflator, in percent)	-14.0	18.4	-3.1	3.9	4.2	4.8	5.0	5.6	6.2	6.5	5.5	5.7	5.6	
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-2.6	-1.0	-0.6	2.6	2.3	2.0	1.4	1.0	1.0	0.9	0.3	-1.4	1.3	
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			

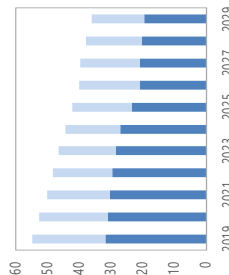
Sources: Country authorities; and staff estimates and projections.

- 1/ Coverage of debt: The central, state, and local governments, central bank, government-guaranteed debt. Definition of external debt is: Currency-based.
- 2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.
- 3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.
- 4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.
- 5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio (-): a primary surplus), which would stabilize the debt ratio only in the year in question.
- 6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

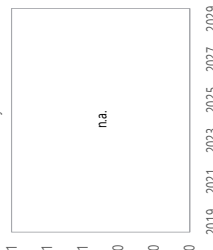
Definition of external/domestic debt	Currency-based
Is there a material difference between the two criteria?	Yes

Public sector debt 1/

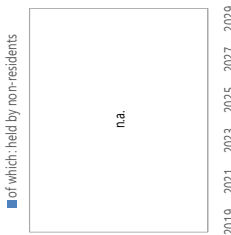
■ of which: local-currency denominated
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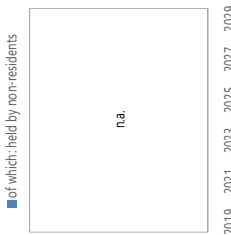
■ of which: held by residents
 ■ of which: held by non-residents



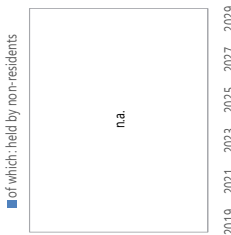
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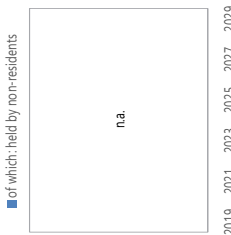
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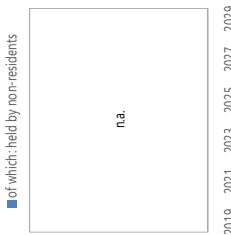
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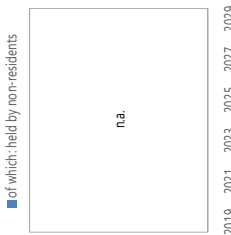
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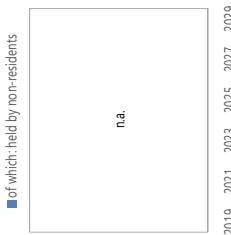
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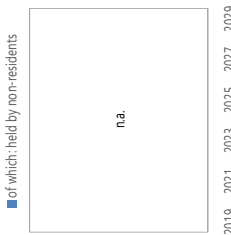
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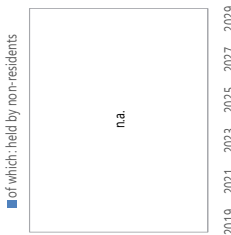
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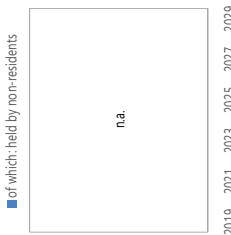
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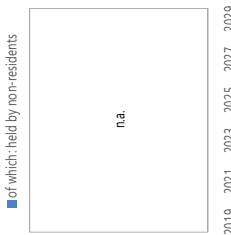
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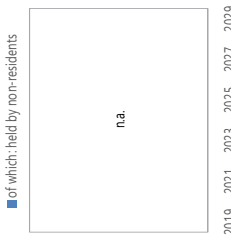
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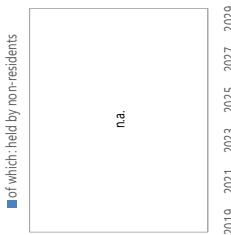
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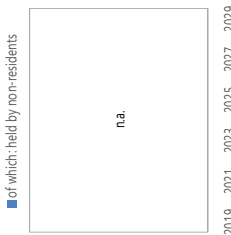
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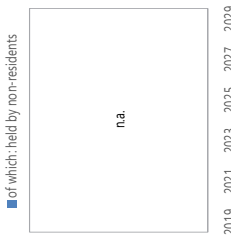
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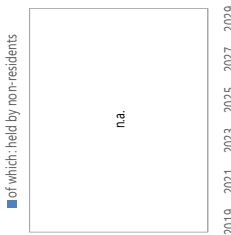
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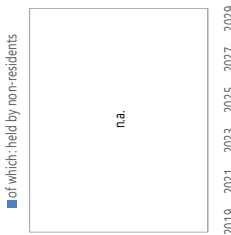
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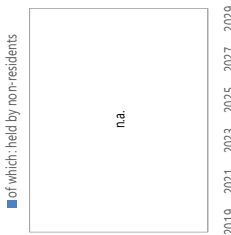
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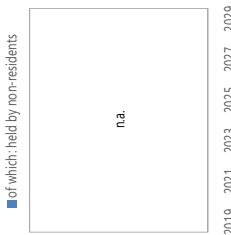
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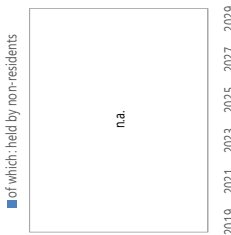
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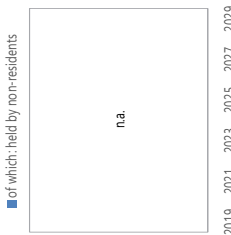
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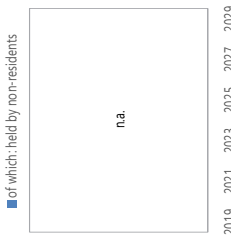
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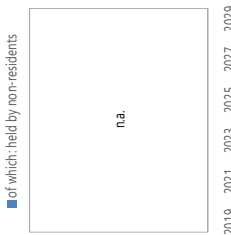
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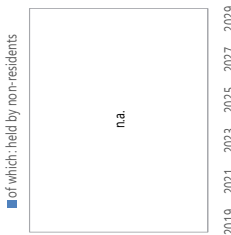
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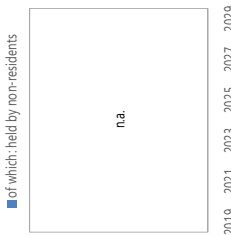
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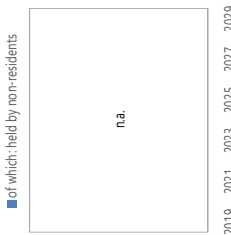
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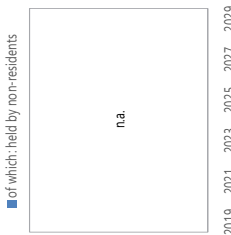
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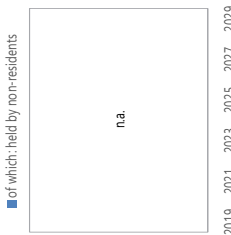
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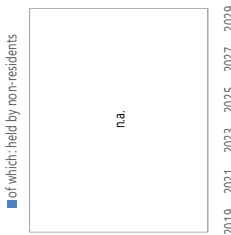
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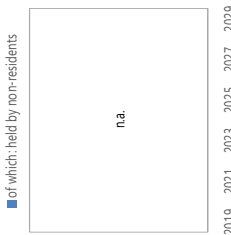
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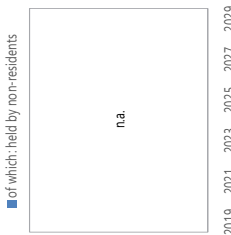
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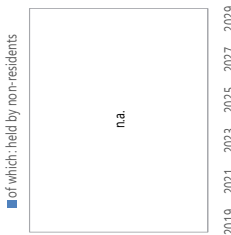
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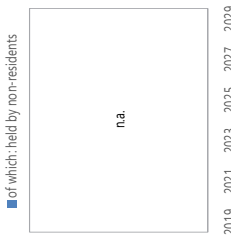
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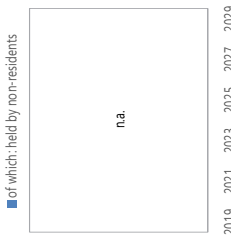
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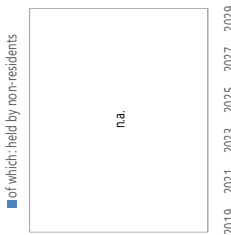
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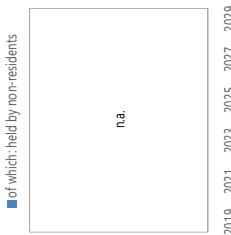
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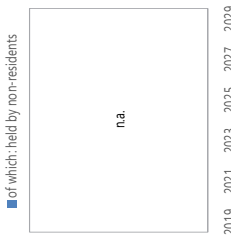
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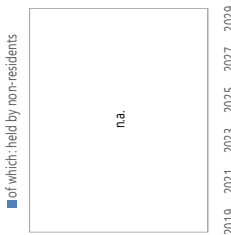
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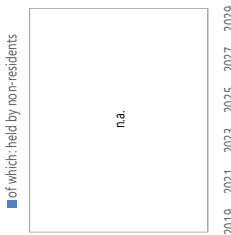
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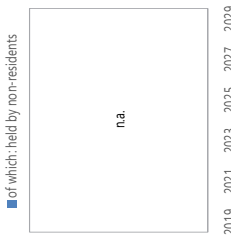
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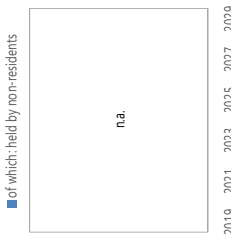
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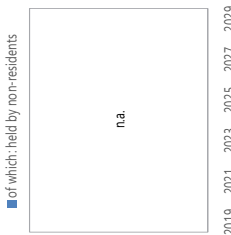
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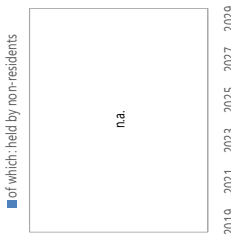
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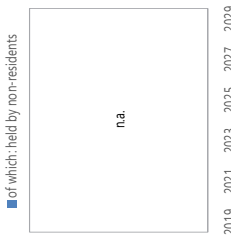
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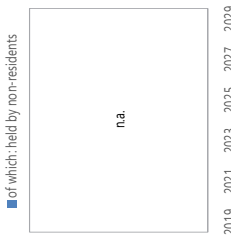
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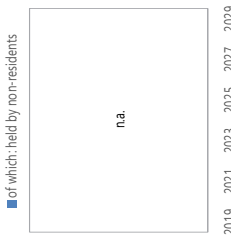
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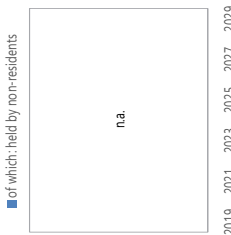
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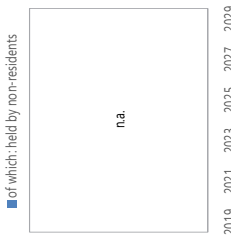
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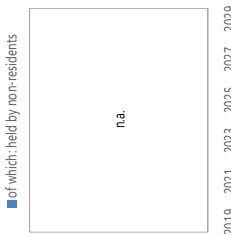
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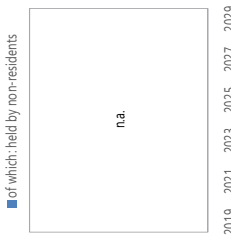
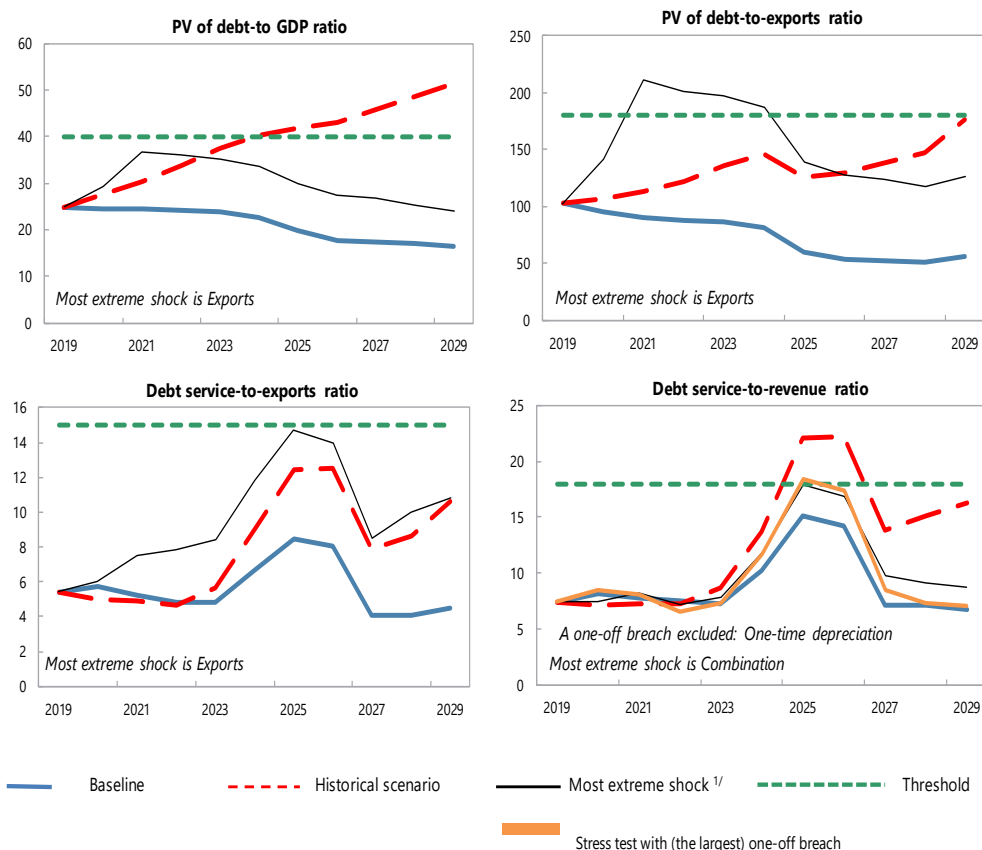


Figure 1. Benin: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2029



Customization of Default Settings		
	Size	Interactions
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	n.a.	n.a.
Commodity Prices ^{2/}	n.a.	n.a.
Market Financing	No	No

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	2.4%	2.4%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	22	22
Avg. grace period	6	6

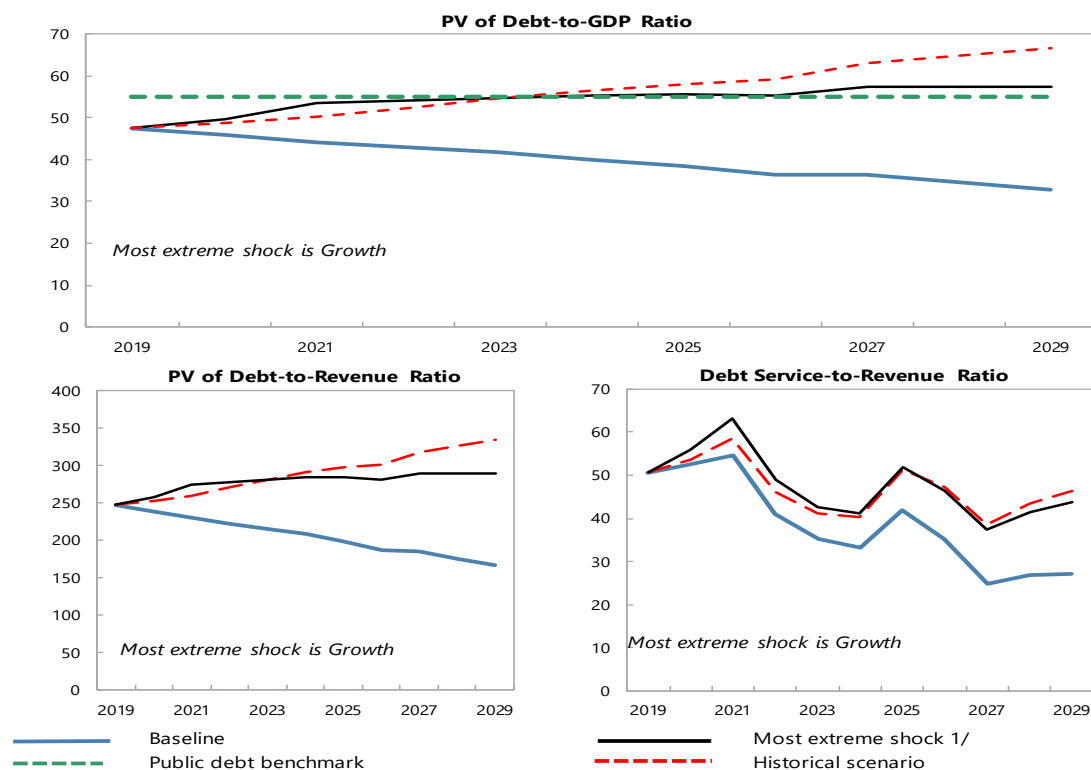
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Benin: Indicators of Public Debt Under Alternative Scenarios, 2019–29



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	44%	44%
Domestic medium and long-term	53%	53%
Domestic short-term	3%	3%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.4%	2.4%
Avg. maturity (incl. grace period)	22	22
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	3.8%	3.8%
Avg. maturity (incl. grace period)	9	9
Avg. grace period	5	5
Domestic short-term debt		
Avg. real interest rate	4.0%	4.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Benin: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2019–29 (in percent)

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of debt-to-GDP ratio											
Baseline	25	25	24	24	24	23	20	18	17	17	17
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	25	27	30	34	37	40	42	43	46	49	51
B. Bound Tests											
B1. Real GDP growth	25	26	28	28	27	26	23	20	20	19	19
B2. Primary balance	25	27	31	31	30	29	26	24	24	24	23
B3. Exports	25	29	37	36	35	34	30	27	27	25	24
B4. Other flows 3/	25	26	28	28	27	26	23	21	20	19	19
B5. One-time 30 percent nominal depreciation	25	31	26	26	26	25	21	19	18	18	18
B6. Combination of B1-B5	25	31	31	31	30	29	25	23	22	21	21
C. Tailored Tests											
C1. Combined contingent liabilities	25	29	29	29	29	28	25	23	23	23	23
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	25	25	24	24	24	23	20	18	17	17	17
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	103	96	91	87	87	82	60	54	53	51	57
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	103	107	113	122	136	146	126	130	139	147	176
B. Bound Tests											
B1. Real GDP growth	103	96	91	87	87	82	60	54	53	51	57
B2. Primary balance	103	105	116	112	111	106	79	73	73	72	80
B3. Exports	103	142	211	201	198	188	140	128	124	118	127
B4. Other flows 3/	103	103	104	100	99	94	69	62	61	59	64
B5. One-time 30 percent nominal depreciation	103	96	77	75	74	70	51	45	44	44	49
B6. Combination of B1-B5	103	129	100	127	126	119	87	79	76	74	81
C. Tailored Tests											
C1. Combined contingent liabilities	103	112	108	105	105	100	75	70	70	70	78
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	103	96	91	87	87	82	60	54	53	51	57
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	5	6	5	5	5	7	8	8	4	4	4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	5	5	5	5	6	9	12	13	8	9	11
B. Bound Tests											
B1. Real GDP growth	5	5	4	4	4	6	8	8	4	4	4
B2. Primary balance	5	6	6	6	6	8	9	9	5	5	6
B3. Exports	5	6	8	8	8	12	15	14	8	10	11
B4. Other flows 3/	5	5	4	4	5	7	9	8	5	5	5
B5. One-time 30 percent nominal depreciation	5	5	4	3	4	6	8	8	4	3	4
B6. Combination of B1-B5	5	5	6	5	6	9	11	11	6	6	7
C. Tailored Tests											
C1. Combined contingent liabilities	5	6	6	5	5	7	9	8	5	5	5
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	5	6	5	5	5	7	8	8	4	4	4
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	7.4	8.2	7.8	7.5	7.3	10.3	15.1	14.2	7.1	7.1	6.8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	7	7	7	7	9	14	22	22	14	15	16
B. Bound Tests											
B1. Real GDP growth	7	7	7	7	7	11	17	16	8	8	8
B2. Primary balance	7	8	9	9	9	12	17	16	9	10	9
B3. Exports	7	7	7	8	8	12	17	16	10	11	11
B4. Other flows 3/	7	7	7	6	7	10	16	15	8	8	8
B5. One-time 30 percent nominal depreciation	7	9	8	7	7	12	18	17	8	7	7
B6. Combination of B1-B5	7	7	8	7	8	12	18	17	10	9	9
C. Tailored Tests											
C1. Combined contingent liabilities	7	8	8	8	8	11	16	15	8	8	8
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	7	8	8	7	7	10	15	14	7	7	7
Threshold	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

Table 4. Benin: Sensitivity Analysis for Key Indicators of Public Debt, 2019–29 (in percent)

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of Debt-to-GDP Ratio											
Baseline	47	46	44	43	42	40	39	36	36	35	33
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	47	49	50	52	55	57	58	59	63	65	67
B. Bound Tests											
B1. Real GDP growth	47	50	53	54	55	55	56	55	57	57	57
B2. Primary balance	47	50	54	53	51	50	48	46	45	43	42
B3. Exports	47	50	55	54	52	50	48	45	45	42	40
B4. Other flows 3/	47	48	48	46	45	43	41	39	39	37	35
B5. One-time 30 percent nominal depreciation	47	50	46	44	41	38	35	32	31	28	26
B6. Combination of B1-B5	47	47	51	50	49	47	46	44	44	43	42
C. Tailored Tests											
C1. Combined contingent liabilities	47	55	53	51	50	48	46	44	44	42	40
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	47										
Public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	247	238	230	223	216	208	199	187	185	175	167
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	247	253	260	270	281	291	297	301	318	326	335
B. Bound Tests											
B1. Real GDP growth	247	257	275	278	282	284	284	282	290	289	290
B2. Primary balance	247	257	283	274	266	258	246	234	231	220	210
B3. Exports	247	259	288	278	269	259	246	232	227	213	201
B4. Other flows 3/	247	248	248	241	233	225	214	201	198	187	178
B5. One-time 30 percent nominal depreciation	247	260	242	227	214	200	182	165	158	144	132
B6. Combination of B1-B5	247	246	262	256	251	245	236	226	226	217	210
C. Tailored Tests											
C1. Combined contingent liabilities	247	285	274	265	258	250	238	225	223	212	203
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	247										
Debt Service-to-Revenue Ratio											
Baseline	51	53	55	41	35	33	42	35	25	27	27
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	51	54	59	46	41	40	51	47	39	44	46
B. Bound Tests											
B1. Real GDP growth	51	56	63	49	43	41	52	46	37	42	44
B2. Primary balance	51	53	58	46	40	38	46	43	35	38	38
B3. Exports	51	53	55	43	37	35	43	36	27	30	31
B4. Other flows 3/	51	53	55	42	36	34	42	36	26	28	28
B5. One-time 30 percent nominal depreciation	51	50	54	41	35	35	45	39	27	28	28
B6. Combination of B1-B5	51	52	58	45	39	37	46	40	32	34	35
C. Tailored Tests											
C1. Combined contingent liabilities	51	53	59	44	38	36	45	44	34	36	36
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing											

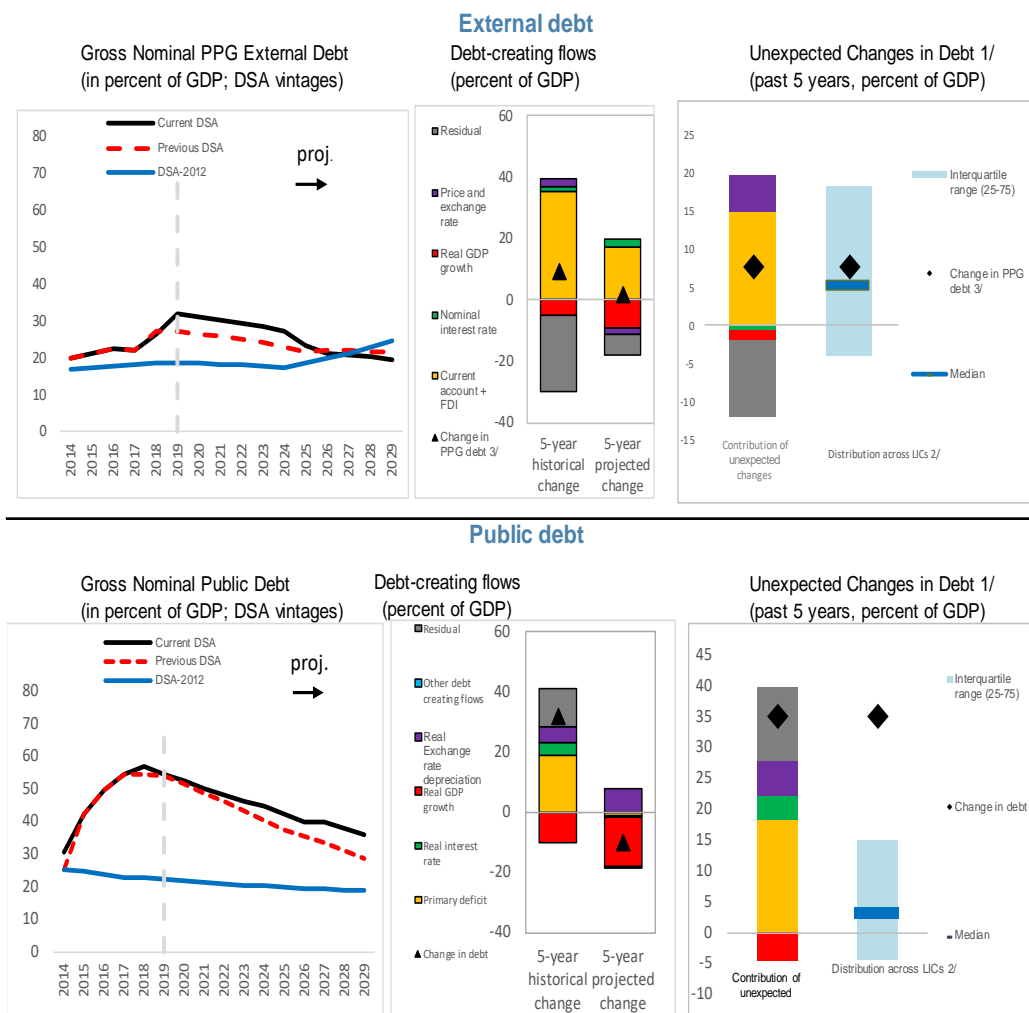
Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Figure 3. Benin: Driver of Debt Dynamics – Baseline Scenario



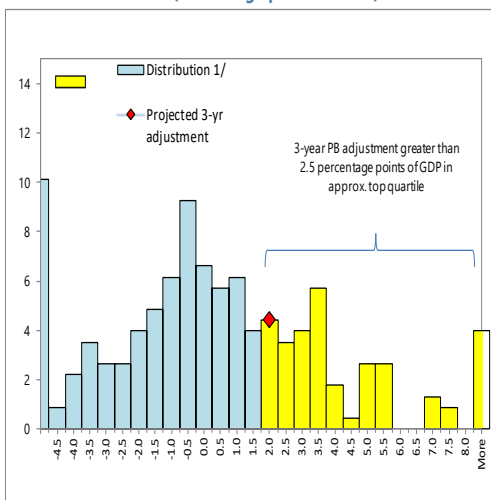
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

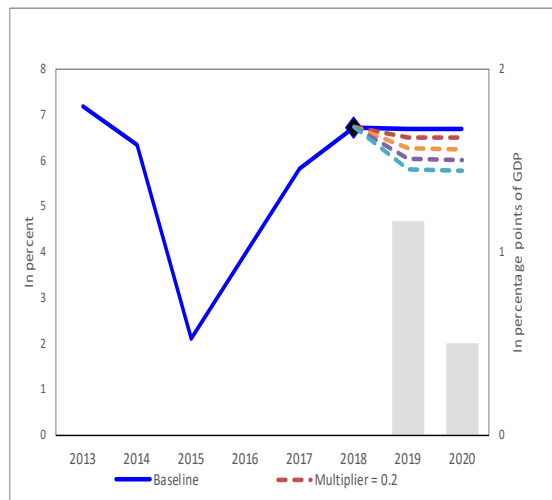
3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

Figure 4. Benin: Realism Tools

**3-Year Adjustment in Primary Balance
(Percentage points of GDP)**



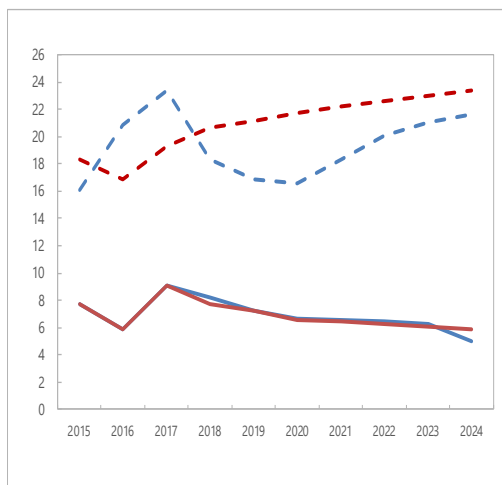
Fiscal Adjustment and Possible Growth Paths 1/



1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

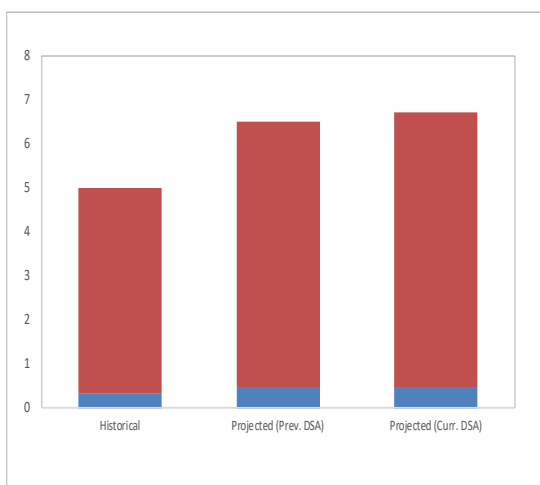
1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

**Public and Private Investment Rates
(% of GDP)**



— Gov. Invest. - Prev. DSA — Gov. Invest. - Current DSA
 - - - Priv. Invest. - Prev. DSA - - - Priv. Invest. - Current DSA

**Contribution to Real GDP growth
(percent, 5-year average)**



■ Contribution of other factors
 ■ Contribution of government capital

Figure 5. Benin: Qualification of the Moderate Category, 2019–29 1/



Sources: Country authorities; and staff estimates and projections.

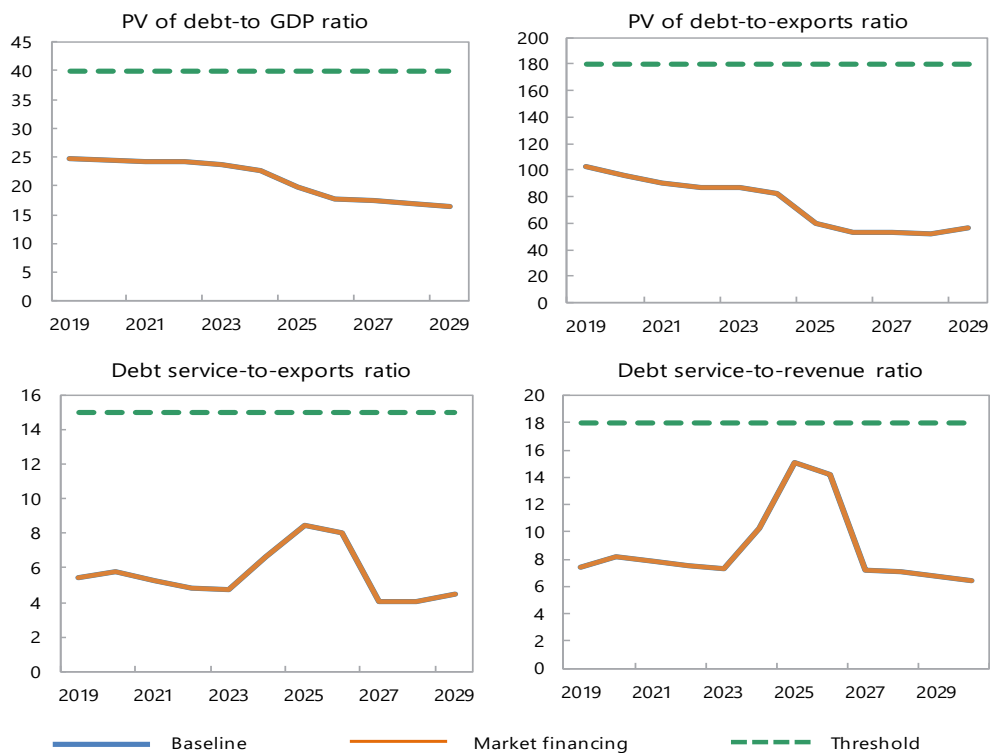
1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

Figure 6. Benin: Market-Financing Risk Indicators, 2019–29

	GFN	1/	EMBI	2/
Benchmarks	14		570	
Values	10		n.a.	
Breach of benchmark	No		n.a.	
Potential heightened liquidity needs	Moderate			

1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.

2/ EMBI spreads correspond to the latest available data.



Sources: Country authorities; and staff estimates and projections.

**Statement by Mr. Raghani, Executive Director for Benin,
and Mrs. BoukpeSSI, Advisor to the Executive Director
June 21, 2019**

1. On behalf of our Beninese authorities, we would like to thank Staff, Management and the Executive Board for the IMF's continued support. They highly value the constructive engagement with the Fund, including the policy dialogue held with staff in the context of the 2019 Article IV consultation and the Fourth Review under the Extended Credit Facility (ECF) arrangement.

2. Benin's economic performance continues to be solid despite a challenging external environment. Growth has increased since 2016 on the back of robust activity in the primary and tertiary sectors and implementation of a set of far-reaching reforms.

3. Implementation of the ECF-supported program has been very satisfactory, with nearly all the monitoring targets—quantitative and structural—met since the beginning of the program in 2017. The authorities continue to view the arrangement as instrumental to their efforts to strengthen macroeconomic stability, preserve public debt sustainability and advance structural reforms, with the aim to sustain the strong growth momentum, make it more inclusive and achieve their development goals. They will remain steadfast in pursuing the program objectives which are in line with their reform agenda under the Government's Action Program (*Programme d'Action du Gouvernement*, PAG) for 2016-21 and their National Development Plan (*Plan National de Développement*, PND) for 2018-25.

4. The authorities broadly share the thrust of the staff report, which properly highlights the major achievements of the recent period, the challenges facing the economy, and the policy priorities going forward.

Recent Developments, Program Performance and Outlook

5. After reaching 5.8 percent in 2017, real GDP growth accelerated to 6.7 percent in 2018, driven by strong cotton production and increased activity in the port and construction sectors. The fiscal deficit stood at 4.0 percent of GDP, lower than the projected 4.7 percent of GDP, owing to investment under-execution but also an overperformance of both domestic tax revenues and nontax revenues. Average inflation was low in 2018 at 1 percent and is projected to remain within the regional target of 3 percent. The current account deficit narrowed significantly last year due to robust exports of cotton and other agriculture products. The banking sector continues to experience daunting structural challenges which hamper profitability. These, combined with the redefinition of bank capital under the Basel II/III reform, brought the sector's capital adequacy ratio below the regulatory threshold. High loan concentration and non-performing loans (NPLs), albeit on a slight decline, add to financial vulnerabilities.

6. The Beninese authorities tapped for the first time international sovereign bonds markets in March 2019, with the issuance of €500 million Eurobond (5.2 percent of GDP) on more favorable terms than those offered at that time in the regional markets. This successful issuance gives Benin access to more financing options. On the other hand, efforts were made to contain domestic borrowing. All in all, Benin's overall risk of debt distress remains moderate.

7. As a result of the strong macroeconomic performance and the authorities' steadfast implementation of their reform agenda, the totality of continuous and end-December 2018 quantitative targets as well as all structural benchmarks (SBs) were met. As for priority social expenditures, the indicative target set for end-December 2018 was also met, exceeding the floor of FCFA 167.0 billion to reach FCFA 202.4 billion.

8. Looking forward, the authorities are optimistic over the country's growth prospects. Projected real GDP growth for 2019 has been revised upward to 6.7 percent on grounds of strengthening agricultural sector and port activity, recent infrastructure improvements under the PAG, and continued tourism activity. In addition, opportunities offered by the digital and knowledge-based economies should sustain growth over the medium-term. On the fiscal front, the authorities' consolidation efforts are poised to help achieve a deficit of 3 percent of GDP in line with the WAEMU convergence criterion and inflation will remain well below the WAEMU convergence criterion as well. Public debt-to-GDP ratio is projected to start declining in 2019 and reach levels below 50 percent over the medium-term. The current account deficit will narrow further on the back of robust exports in cotton and cashew nuts production. The authorities agree on the risks highlighted in the staff report, including uncertainties about the regional outlook and unfavorable external and financial conditions.

Macroeconomic Policies and Structural Reforms Going Forward

9. Against the backdrop of risks, and with a view to strengthening the resilience of the Beninese economy, the authorities' policies will focus over the medium-term on boosting domestic revenue mobilization, safeguarding debt sustainability, promoting financial stability, fostering economic diversification and improving the business environment for a private sector-led growth.

10. The authorities will continue to consider the ECF program objectives as anchor to their policy actions. They are requesting a modification of the following quantitative performance criteria (QPC): (i) the end-June 2019 QPC on the net domestic financing together with the modification of the continuous performance criterion (PC) on new external debt contracted or guaranteed by the government to take into account the Eurobond issuance and reflect the deficit-neutral effect in borrowing composition from domestic towards external financing; (ii) the end-June 2019 (QPC) on the basic primary balance to rightly record domestic arrears in the fiscal balance. They are also proposing three new SBs: (i) a diagnostic of the main impediments to trade (by end-September 2019);

(ii) the reinforcement of the data and risk analysis capacity of the customs administration (by end-December 2019); and (iii) an impact assessment of the TSA on commercial banks (by end-March 2020).

Strengthening fiscal consolidation

11. Sustaining consolidation efforts to reinforce fiscal sustainability while creating the necessary space to accommodate public infrastructure needs and priority social spending continues to rank high on the authorities' agenda. In this vein, tax policy and administrative measures aimed at enhancing domestic revenue mobilization, rationalizing expenditures while protecting social spending have been developed. Key revenue measures include streamlining tax expenditures and exemptions and, over the medium-term, making use of the potential offered by consumption taxes notably the possible increase of excise tax rates for some goods, and further broadening of the VAT. The authorities underscore the importance of transforming the economy, including by bringing the large informal sector into the formal economy, and consequently collecting more revenue. Structural reforms will be also pursued under the Strategic Plan for the Tax Administration., The fiscal deficit for 2019 is projected at 3.0 percent of GDP and the ratio of public debt-to-GDP at 54.1 percent in 2019. All first- order WAEMU convergence criteria on fiscal balance, debt and inflation are expected to be met this year.

Safeguarding debt sustainability

12. Our authorities share staff's conclusion in the new Debt Sustainability Analysis (DSA), that Benin is still at a moderate risk of debt distress. They are fully aware of the new type of risks brought by the access to non-concessional external financing with Eurobond issuances which require enhanced monitoring and management of debt dynamics. In this regard, public debt management will continue to be strengthened in line with international best practices and within the WAEMU requirements. Considerable progress has already been made to this end with recent reforms to reinforce the technical and operational capacity of the debt management office– (*Caisse Autonome d'Amortissement, CAA*).

13. A prudent borrowing strategy will be pursued and the upcoming update of the Medium-Term Debt Strategy (MTDS) will guide decisions on external borrowing and help achieve a balanced mix of domestic and foreign currency debt. The authorities will continue to strengthen the monitoring of the debt of public enterprises, including by upgrading the related database with the assistance from an international advisory firm. They will also closely monitor fiscal risks stemming from public-private partnerships (PPPs). A unit within the Ministry of Economy and Finance tasked to manage those risks has been established and is about to be fully operational with technical assistance provided by the World Bank.

Enhancing the financial sector

14. The authorities are cognizant of the need to maintain a sound and stable financial sector and promote financial inclusion to support economic activity. They are resolutely committed to strengthening further financial stability in coordination with the regional central bank –*Banque Centrale des Etats de l’Afrique de l’Ouest (BCEAO)* – and to tackling the high level of NPLs and elevated interest costs paid on deposits and which affect the sector’s profitability. Along with the operationalization of the law on Credit Information Bureau (CIB) in 2018, measures being pursued include: (i) decrees relative to the land registry reform and to the formalization of real estate collateral guarantees; and (ii) advances in the operationalization of *Caisse des Dépôts et Consignations (CDC)*, the public entity in charge of securing and channeling savings towards the financing of transformative investments.

15. Important steps are also being taken to restructure two small public banks with a view to mitigate risks to the budget. A merger of the two banks that will allow compliance with capital requirements and expand the network agencies is being considered with the support of an international auditing firm. The authorities will build on international best practices, consult with the Fund and submit a comprehensive restructuring plan to the Secretariat of WAMU Banking Commission by end-2019.

16. Efforts to improve access to credit, while taking steps to enhance the sector’s regulatory and supervisory framework are being pursued. Closing microfinance institutions (MFIs) operating without a license, setting up of permanent mechanisms to MFIs’ resource mobilization and improving the promotion and coordination of the sector as embodied under the *Fonds National de Microcrédit* are also key aspects of actions to foster financial inclusion in Benin. A national financial inclusion plan in line with the BCEAO strategy is being drafted. In addition, the authorities intend to leverage opportunities offered by mobile money to expand access to finance.

Advancing economic diversification and structural transformation

17. The authorities highly appreciate the Selected Issues paper focusing on Benin’s medium-term growth potential. They recognize the impediments in attaining this high potential and would like to emphasize that accelerating economic transformation to sustain high and long-term growth is at the core of their priorities.

18. To advance this transformation agenda, the authorities have developed specific policies notably (i) the strengthening of the agriculture and trade sectors; and (ii) the development of new high-potential sectors such as tourism and openings offered by technological changes with the digital and knowledge-based activities. In the agricultural sector, they will further develop the cotton sector and promote productions of Benin’s cashew nuts and pineapples. They will also strive to promote high value-added products and buttress the processing industry through technological innovations. A special economic

zone to attract private investors in the agro-industry is being envisaged.

19. Continuous progress in improving the business environment is of paramount importance given the central role that the private sector is expected to play in advancing the country's economic transformation agenda. Various reforms in that regard have been initiated including the creation of an Inter-ministerial Investment Promotion Committee as well as the restructuring of the Agency for the Promotion of Investment and Exports (APIEX) to improve government coordination on business environment issues and provide concerted responses to potential investors in Benin. The authorities will push ahead with the needed reforms to tackle remaining structural challenges facing the economy, notably addressing infrastructure bottlenecks in transports, telecommunications and electricity.

20. The authorities are also pursuing reforms in health and education sectors. The recent social protection system, the *Assurance pour le Renforcement du Capital Humain—ARCH*- has already started its pilot phase in three regions. It will be expanded to the rest of the country, become fully operational by 2022 and provide universal medical insurance, microcredit and pension system for the poorest segments of the population.

Governance

21. Significant steps are underway to enhance governance and curb corruption. More transparency and more automatized procedures are part of efforts to reduce risks of fraud and corruption. Other measures include, the reform of the administrative control bodies, the reform of audit institutions and the creation of a more competitive procurement system. In the judicial system, two commercial courts were created; a law on combating money-laundering and the financing of terrorism was passed; the Court of repression of economic and terrorism crimes - *Court de Répression des Infractions Economiques et du Terrorisme (CRIET)* was established in 2018; and a law on strengthening public governance was adopted in February 2019.

Conclusion

22. Benin's economy continues its strong growth momentum underpinned by the authorities' reform commitment. It is their intention to keep up with good progress in consolidating the macroeconomic framework, safeguarding financial stability and transforming the economy. They would appreciate the Board's support for the conclusion of the 2019 Article IV consultation and the completion of the 4th Review under the ECF arrangement.