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BENIN

January 2021

REQUESTS FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY AND PURCHASE UNDER THE RAPID FINANCING INSTRUMENT —PRESS RELEASE; AND STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BENIN

In the context of the Requests for Disbursement Under the Rapid Credit Facility and Purchase Under the Rapid Financing Instrument, 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 December 21, 2020, following discussions that ended on November 25, 2020, 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 December 10, 2020.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the Internal Development Association.
- A **Statement by the Executive Director, Alternate Executive Director, and Advisor** for Benin.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR20/385

IMF Executive Board Approves a US$ 177.96 Million in Emergency Assistance for Benin to Address the COVID-19 Pandemic

FOR IMMEDIATE RELEASE

- The Executive Board of the IMF approved US$ 177.96 million in emergency assistance to Benin under the Rapid Financing Instrument (RFI) and the Rapid Credit Facility (RCF). Today's disbursement supplements the augmentation of US$103.3 million approved under the ECF in May 2020.
- Weaker external demand and the deepening of the economic impact of the COVID-19 pandemic have worsened external and fiscal positions.
- Additional resources under the RCF/RFI will help scale up the government's COVID-19 response and catalyze additional donor resources.
- The authorities have committed to further enhance the transparency of the COVID-19 spending, to ensure that the financing provided is spent on addressing the crisis.

Washington, DC – December 21, 2020: The Executive Board of the International Monetary Fund (IMF) approved a disbursement under the Rapid Credit Facility (RCF) equivalent to SDR 41.30 million (US$ 59.35 million, 33.33 percent of quota) and a purchase under the Rapid Financing Instrument (RFI) equivalent to SDR 82.54 million (US$ 118.61 million, 66.67 percent of quota) to address the urgent fiscal and balance of payment needs emerging from efforts to tackle the persistent impact of the COVID-19 pandemic.

This is the second IMF emergency assistance since the outbreak of the pandemic: on May 15, 2020, the IMF Executive Board approved an augmentation of access under the 2017-20 ECF arrangement of US$ 103.3 million (see IMF Press Release No 20/216). Today's additional financing brings the total IMF loan assistance provided to Benin to address COVID-10 pandemic to US$ 281.26 million.

The COVID-19 pandemic has had a more severe impact on economic activity than anticipated, affecting almost all sectors of the economy. Economic prospects have further deteriorated with the worsening of the fiscal and current account deficits. The IMF emergency support will finance the scaling up of the health and economic relief, shore up confidence, and help catalyze donor support. To ensure that the financing provided is spent as intended in addressing the crisis, the authorities have committed to further enhancing the transparency of the procurement process.

Following the Executive Board discussion, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, made the following statement:

"Benin's macroeconomic outlook has further deteriorated since the completion in May 2020 of the sixth and final review under the ECF-supported arrangement. Economic growth is projected to decelerate to 2 percent in 2020, from nearly 7 percent in 2019, as a result of containment and mitigation measures, the global economic slowdown, and the prolonged border closure with Nigeria. While Benin's pandemic response has been effective in curbing the spread of the COVID-19, the economic shock has created urgent fiscal pressures and balance of payment needs.

"The authorities are taking actions to address the human and economic implications of the COVID-19 pandemic while safeguarding their hard-won fiscal achievements. The pandemic is expected to curb previously improving socioeconomic trends and to be detrimental to inclusiveness. The authorities are implementing a plan aimed at raising healthcare spending and providing assistance to vulnerable households and support to impacted businesses.

"The authorities have reiterated their commitment to sound and transparent public financial management, which they see as paramount to ensure that the funds are spent as intended. They have published key information on the main contracts procured in the context of their fight against the pandemic and are committed to undergo ex-post audits of the pandemic spending.

"Once conditions permit, the authorities are committed to reverting to their medium-term fiscal path, by maintaining the fiscal deficit below the regional ceiling. Raising domestic revenue closer to the regional target should remain a primary fiscal objective, as this would strengthen debt sustainability, ensure that the COVID-19 shock does not jeopardize fiscal sustainability, and allow Benin to finance its medium-term economic development plan and reduce poverty."

More information

IMF Lending Tracker (emergency financing request approved by the IMF Executive Board)
https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker

IMF Executive Board calendar
https://www.imf.org/external/NP/SEC/bc/eng/index.aspx

BENIN

December 10, 2020

REQUESTS FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY AND PURCHASE UNDER THE RAPID FINANCING INSTRUMENT

EXECUTIVE SUMMARY

Context. The COVID-19 pandemic has severely affected Benin. The authorities' early and decisive action has helped stave off the spread of the virus, and a sizeable fiscal response has kept a recession at bay. Nevertheless, the economy has suffered a substantial downgrade in its economic outlook, with growth slowing down from 6.9 percent in 2019 to 2 percent in 2020, against an initial projection of 7 percent before the pandemic. Large financing needs, opened by the authorities' fiscal response to the crisis, have given rise to an urgent balance of payments need.

Request for Fund support. In the attached letter of intent, the authorities request support under the RCF/RFI equivalent to 100 percent of quota (SDR 123.8 million, US$ 176 million, FCFA 95.6 billion), including a disbursement under the RCF under the "exogenous shock" window (SDR 41.263 million, 33.33 percent of quota) and a purchase under the RFI under the standard window (SDR 82.537 million, 66.67 percent of quota). The disbursement, which amounts to about 1.1 percent of GDP, would provide timely support to address the urgent fiscal and BOP needs emerging from efforts to tackle the impact of the pandemic. These needs, if left unaddressed, would result in immediate and severe economic disruption and derail the COVID-19 pandemic response implementation. The urgency, together with the heightened uncertainty of the outlook and the practical difficulties of holding comprehensive policy discussions in the current conditions, precludes the design and implementation of a UCT-quality program. The disbursement would be used as a direct budget support, contributing to the identified financing gap and complementing already large external financing from bilateral and multilateral donors and domestic financing. Benin's capacity to repay the Fund is adequate. Staff supports the request.

Macroeconomic policies. The authorities acted swiftly to control the spread of the virus, including by introducing a partial lockdown (cordon sanitaire) and a compulsory quarantine of all people coming to Benin by air, in addition to significantly limiting the transit of people across land borders. To contain the economic impact of the health crisis, they have boosted health care spending, expanded assistance to vulnerable households, and provided support to impacted business. As a result of these measures, fiscal deficit is expected to widen to 5.1 percent of GDP. The authorities are committed to returning to the WAEMU convergence criterion of 3 percent of GDP by 2022.

Approved By
Catriona Purfield (AFR) and Maria Gonzalez (SPR)

Discussions on the Request for Disbursement Under the Rapid Credit Facility and Purchase Under the Rapid Financing Instrument (RCF) Arrangement were held by video conference from Washington D.C. on November 23-25, 2020. The mission team comprised Ms. Amina Lahreche (head), Messrs. Goran Amidzic, Alexandre Nguyen-Duong and Alex Pouhe, and Messes. Vanessa Arellano Banoni and Saanya Jain (all AFR), Mr. Anthony Ramarozatovo (FAD), and Mr. Younes Zouhar (Resident Representative). Mr. Aivo Andrianarivelo (Executive Director) and Ms. Esso Boukpessi (OED) also participated in the mission. The mission met with Mr. Romuald Wadagni, Minister of Economy and Finance and officials in the Ministry of Finance. Ms. Christelle Ndome-Yandun provided editorial assistance for the preparation of this report.

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RECENT ECONOMIC DEVELOPMENTS, OUTLOOK AND RISKS

A. Recent Economic Developments

1. **In the six months following the completion of the sixth and final review under the ECF-supported arrangement, the macroeconomic outlook in Benin has further deteriorated (Text Table 1, Text Figure 1, Box 1).** The COVID-19 pandemic has had a more severe impact on economic activity than anticipated, despite numerous measures taken to contain the spread of the virus and support affected households and businesses.[1] Benin is also negatively affected by the further downward revision in growth in Nigeria and the WAEMU—the country's main trading partners—by 0.9 and 1.9 percentage points, respectively, compared to the sixth review. In addition, the border with Nigeria remains closed, considerably slowing down trade and reexport activities.[2]

- *Real GDP growth* is projected at around 2 percent in 2020 (compared to 3.2 percent at the time of the sixth review, and almost 7 percent in 2019). These downward revisions to the growth outlook are broadly in line with that experienced in other WAEMU countries and reflect Benin's somewhat lower integration in global value chains. They also reflect the adverse impact of the particularly pronounced economic downturn in Nigeria, a country to which Benin is closely integrated. High frequency data show that economic activity was mostly affected during the second quarter of 2020, due to containment and mitigation measures in Benin and the global economic slowdown. Agriculture, commerce and trade, transport, and the hospitality industry were among the most affected sectors. Some signs of recovery, although fragile, appeared in June 2020, following the gradual reopening of the economy in May 2020.

- *Inflation* has been on the rise, driven by higher food and transport prices, with year-on-year CPI growth reaching 4.8 percent in September 2020.

- *The current account* deficit is expected to widen from 3 percent of GDP at end-2019 to 3.7 percent at end-2020, reflecting a sharp contraction in reexport activities (notably with Nigeria), import and value chains disruptions, lower travel and tourism receipts in addition to diminished inflow of remittances.

- *The fiscal position* is expected to worsen. Despite the authorities' efforts to reprioritize spending, and notwithstanding higher grants from donors, lower revenues—notably international trade

[1] Benin reported its first COVID-19 case on March 16, 2020. As of November 16, the total number of confirmed cases was at 2844, in addition to 43 fatalities. Following a swift implementation of containment and social distancing measures, the authorities have gradually started reopening the economy in early May 2020. The gradual reopening is subject to continued social distancing guidelines and mandatory use of masks, among other measures. For additional information, see IMF's Tracker of Policy Responses to COVID-19.

[2] In August 2019, Nigeria decided unilaterally to close the border with some neighboring countries, including Benin. The Nigerian authorities motivated their decision by the need to curb smuggling and spur local agricultural production. At the time of the sixth review, the assumption was for the border to gradually reopen at the beginning of the second semester of 2020. Following the recent dialogs between the governments of Benin and Nigeria, it is now assumed that the border will reopen in 2021.

taxes and custom duties—and higher public spending are expected to bring the overall 2020 fiscal deficit (commitment basis, including grants) to 5.1 percent of GDP (compared to 3.5 percent of GDP at the time of the sixth review). The increase in the fiscal deficit mainly reflects the implementation of the authorities' COVID-19 response plan. The fiscal deficit amounted to 4.1 percent of GDP at end-September 2020.[3] Benin's sovereign spread remains elevated at around 584 basis points at end-October 2020 (compared to 299 basis points at end-December 2019).

- *The banking system* entered the crisis with slightly improving capital buffers, reflected by the aggregate capital adequacy ratio of banks increasing from 9.6 at end-June 2019 to 10.5 percent at the end-December 2019, above the regulatory threshold of 9.5 percent required for end-2019. The ratio of gross non-performing loans (NPL) to total loans is estimated at 16.4 percent at end-June 2020. The BCEAO also took significant additional steps to meet banks' liquidity needs and mitigate the negative impact of the pandemic on economic activity (Annex I). However, the decision to allow banks not to treat as non-performing the loans of customers faced with COVID-19-related repayment difficulties[4] may temporarily mask the magnitude of NPLs in the banking sector at the end of 2020.

Text Table 1. Benin: Comparison of Selected Economic Indicators 2019-20
(Percent of GDP, unless otherwise indicated)

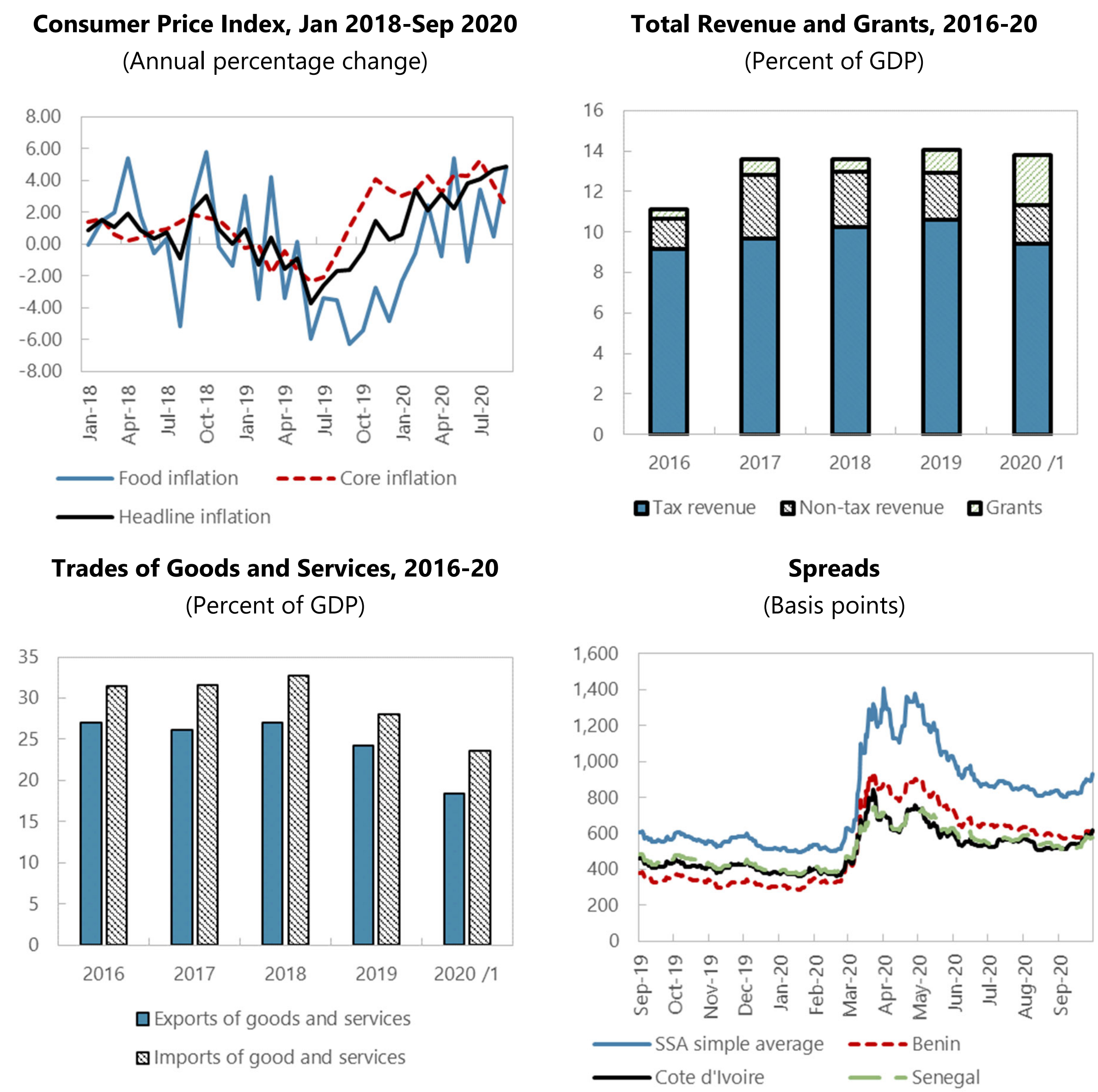
	2019	2020		
	Est.	5th review[1]	6th review[2]	Proj.
Real GDP (annual percent change)	6.9	6.7	3.2	2.0
GDP Deflator (annual percent change)	-0.3	1.2	1.0	2.5
Consumer price inflation (average, annual percent change)	-0.9	1.0	0.6	3.0
Total revenue	12.9	13.5	12.4	11.3
Grants	1.2	1.0	1.5	2.5
Total expenditure and net lending	14.6	16.3	17.4	19.0
Overall balance (commitment basis, incl. grants)	-0.5	-1.8	-3.5	-5.1
Balance of goods and services	-3.8	-6.8	-5.7	-5.2
Current account balance	-3.0	-4.7	-4.6	-3.7
Overall balance of payments	0.5	3.1	-0.5	0.4
Nominal GDP (CFAF billion)	8,432.2	9,036.4	8,783.6	8,814.2
Nominal GDP (US$ billion)	14.4	15.4	14.9	15.4

Source: Beninese authorities; IMF staff estimates and projections.
[1] IMF Country report No. 19/398, December 2019
[2] IMF Country report No. 20/175, May 2020

[3] Revenue collection, current expenditure and capital expenditure are estimated at 8.8, 9.0 and 4.6 percent of GDP respectively at end-September 2020.

[4] The measures were adopted for a 3-month period and are renewable up to end-2020.

Text Figure 1. Benin: Impact of the COVID-19 Pandemic



Source: Beninese authorities; IMF staff calculation; Bloomberg LP

1/ Projections

2. **The Beninese authorities acted swiftly to contain the spread and mitigate the economic impact of the virus (Text Table 2, Box 2).** Cognizant that the impact of the virus will spill over into 2021, they have adopted a set of measures in 2020 amounting to CFAF 323 billion or 3.7 percent of GDP, and extending over multiple years (2020-22).[5] These measures are (i) a health

[5] The majority of the plan has been executed in 2020 (2 percent of GDP, or CFAF 178 billion). About 0.5 percent (CFAF 40 billion) is expected to be executed in 2021, notably in the first semester to support the economic recovery.

preparedness and response plan[6] of CFAF 80 billion for 2020 (0.9 percent of GDP) and CFAF 66 billion for 2021 (0.7 percent of GDP), and (ii) a socio-economic response plan to support formal sector companies (CFAF 82 billion or 0.9 percent of GDP) and vulnerable households—for the latter, through cash transfers, electricity and water bills subsidies, and urgent social projects (CFAF 16 billion or 0.2 percent of GDP). A public guarantee plan of CFAF 85 billion (1.0 percent of GDP) and credit lines and refinancing measures of CFAF 60 billion (0.7 percent of GDP) were established to foster access to finance for micro, small, and medium enterprises.[7] The authorities intend to finance 74 percent of the response plan (CFAF 238 billion or 2.7 percent of GDP) in 2020 as most measures have been executed in 2020 and the remainder will start being implemented in December 2020-early 2021.

3. **The authorities mobilized large external resources from development partners in support to their response to the COVID-19 shock**. Total additional external budget support reached 2.3 percent of GDP[8], of which 1.2 percent of GDP comprised grants (Text Table 3). IMF support amounted to 0.7 percent of GDP (program augmentation and CCRT). The European Union, IMF and World Bank share the bulk of the budget support, contributing to about 70 percent of all additional budget support by end-September 2020. Benin has also benefited from external funding (about 0.2 percent of GDP) related to projects that were either new, adjusted, restructured, or recommitted in the context of COVID-19. The authorities have declined to participate in the G20 Debt Service Suspension Initiative (¶14).

Text Table 3. Benin: Additional External Budget Support (Loans and Grants) in 2020 [1]
(Relative to the fifth review)

	CFAF billion	Percent of GDP
Initial baseline (fifth review, pre-COVID-19)	**55.9**	**0.6**
of which: External financing (net)	*42.1*	*0.5*
of which: Budgetary grants	*13.8*	*0.2*
Additional external financing (net)[1]	**90.5**	**1.0**
of which: World Bank	*14.1*	*0.2*
of which: IMF [2]	*60.7*	*0.7*
Additional grants[2]	**110.0**	**1.2**
of which: World Bank	*43.4*	*0.5*
of which: European Union	*39.7*	*0.5*
Additional external financing and Grants[2]	**200.5**	**2.3**

Source: Beninese authorities; IMF staff estimates and projections.
[1] Actual and prospective as of end-October 2020.
[2] Including ECF-supported augmentation and CCRT. Excluding the proposed emergency financing under the RCF/RFI.

[6] The health preparedness and response plan, which was developed according to International Health Regulation (IHR) and World Health Organization (WHO) COVID-19 guidelines, proposes a series of measures amounting to CFAF 619 billion (7.3 percent of GDP) for 2020-21.

[7] The National Fund for Agricultural Development (FNDA) will implement the financial measures allocated to small and medium enterprises in the agricultural sector (CFAF 100 billion) and the National Fund for Microfinance (FNM) will operate the use of the credit lines for microfinance institutions (CFAF 10 billion). These measures are described in the minutes of the Council of Ministers of June 10, 2020 and July 29, 2020.

[8] Relative to the fifth review (December 2019).

Box 1. Social Impact of the Pandemic

The COVID-19 pandemic is expected both to curb previously improving socioeconomic trends and be detrimental to inclusiveness. Although it is still early to fully quantify the distributional impacts of the pandemic, socioeconomic indicators through mid-2020 shed some light on the social impact of COVID-19 in Benin.[1]

- *Access to health care*. Women, children, and the elderly have been particularly impacted by the pandemic. Reflecting the impact of the lockdown, curative care services and prenatal consultations declined in the first semester of 2020, compared to the previous year. The hospital and medically supervised delivery rate decreased by 21 percent in the first semester of 2020 compared to 2019. Vaccine coverage for children declined from 91 percent in 2019 to 72 percent in 2020. However, the pandemic has had a limited impact on high priority health care related to malaria, tuberculosis and HIV.

- *Access to education*. The temporary closure of schools (between March 30, 2020 and May 11, 2020) may lead to an increase in the dropout rate, notably for young women. In 2018-19, the dropout rate was estimated at around 21 percent.

- *Access to food and food production*. The pandemic had a negative impact on food security. The accessibility of food products decreased, prices of staple food increased, and nearly half of Beninese households are vulnerable to food insecurity.[2] The pandemic also had a negative impact on food production, livestock and fisheries. Mitigation measures adopted to contain the outbreak reduced the workforce in the primary sector (notably the migrant workforce), delayed soil preparation, and reduced access to animal feed and veterinary inputs. Nearly 15 percent of households working in the agricultural sector were in a situation of severe food insecurity due to the pandemic.

- *Household income and poverty*. The authorities estimate that average household income would decrease in 2020, in part due to large expected gross job losses (up to between 360,000 and 620,000), with the trade, transport and tourism sectors particularly impacted. The poverty rate is projected to increase from 38.5 percent in 2019 to above 45 percent in 2020.

[1] Étude des Impacts Socio-économiques de la COVID-19 au Bénin, Beninese authorities, United Nations, African Development Bank, November 2020.
[2] August 2020 INSAE Surveys.

B. Outlook and Risks

4. Benin’s economy is on a gradual recovery path. Real GDP growth is projected at around 5 percent in 2021 (compared to 6 percent at the time of the sixth review) driven by a rebound in tertiary activities, notably in the trade, hotel, restaurant, and transport sectors. The magnitude and speed of the recovery will depend on the evolution of the pandemic, the global outlook (including Nigeria’s economic outlook), and the reopening of the border with Nigeria[9] (now expected in 2021). In the medium-term, real GDP growth is projected to return to its pre-COVID-19 levels, averaging 6.5 percent in 2022-25. The current account deficit is expected to stabilize at around 3.9 percent of GDP in the medium-term as reexport activities with neighboring countries progressively resume and private transfers increase.

[9] Discussions between the Nigerian and Beninese authorities have accelerated in the second semester of 2020.

Text Table 2. Benin: Government Response Plan

	2020			2021 [2]	
	6th Review[1]	Proj.	Percent of GDP	Proj.	Percent of GDP
(1) Healthcare response	**60**	**80**	**0.9**	**66**	**0.7**
(2) Assistance to vulnerable households[3]	**50**	**16**	**0.2**	**n.a.**	**n.a.**
Utility bill subsidies	-	6	0.1		
Cash transfers	-	5	0.1		
Other measures (social projects)	-	5	0.1		
(3) Support to impacted businesses	**40**	**82**	**0.9**	**10**	**0.1**
Tax measures	-	21	0.2		
Purchase of assets	-	15	0.2		
Utility bill subsidies	-	4	0.0		
Other subsidies	-	9	0.1		
Other measures	-	9	0.1		
Interest subsidies	-	25	0.3		
of which: agricultural sector [4]	-	*15*	*0.2*		
of which: small and medium enterprises [5]	-	*10*	*0.1*	*10*	*0.1*
(4) = (1) + (2) + (3) Total budgetary cost	**150**	**178**	**2.0**	**76**	**0.8**
(5) Other measures announced in 2020 [6]		**145**	**1.6**		
Credit lines and refinancing		60	0.7		
of which: agricultural sector [4]		*50*	*0.6*		
of which: micro and very small enterprises [7]		*10*	*0.1*		
Government guarantees		85	1.0		
of which: agricultural sector [4]		*35*	*0.4*		
of which: small and medium enterprises		*50*	*0.6*		
(6) = (4) + (5) Total COVID-19 response announced in 2020		**323**	**3.7**	**76**	**0.8**

Source: Beninese authorities; IMF staff estimates

[1] IMF Country Report No. 20/175

[2] Amounts related to the assistance to vulnerable households and measures to support the economy in 2021 are not yet available at the time of the drafting of this report.

[3] Assistance for vulnerable households may increase following the completition of a survey that will help better identify the most vunerable segment of the population (expected by end-December 2020).

[4] The *National Fund for Agricultural Development (FNDA)* is in charge of the implementation.

[5] This measure will extend over three years for a total amount of CFAF 30 billion (CFAF 10 billion per year).

[6] These measures were announced at the Council of Ministers on June 10, 2020 and on July 29, 2020. They will extend over multiple years.

[7] The *National Fund for Microfinance Institutions (FNM)* is in charge of the implementation.

5. **Downside risks dominate the outlook.** A larger-than-expected impact of the pandemic on the economy, especially if a lockdown or tighter social distancing measures become necessary in Benin or its trading partners, or the worsening of the trade disruption with Nigeria, would weigh heavily on growth and recovery prospects. Should a deteriorating situation require more extensive fiscal measures, this would lead to a worsening of the fiscal outlook. The April-May 2021 presidential election elevates policy implementation risks and may generate revenue losses and public spending pressures, which in turn could complicate the gradual return to a lower fiscal deficit.

The uncertainties affecting international capital markets—including higher pressures on the regional market as fiscal deficits widen across the WAEMU—and uncertainties around donors' economic recovery may affect Benin's external financing prospects. A slower recovery could also weaken banks' balance sheets, leading to a negative macro-financial feedback loop. At the regional level, contagion from security risks, which have intensified in neighboring countries, could generate additional budgetary costs related to security spending and revenue losses. On the external side, high dependence on cotton exports and reexport activities leaves Benin's external position vulnerable to shocks to external demand and agricultural commodity prices. The rain dependent agriculture remains exposed to the vagaries of the weather.

Box 2. The Two Pillars of the COVID-19 Response Plan

Benin's COVID-19 response plan has been designed to mitigate the impact of the health and economic shock as well as to pursue the authorities' medium-term development plan.

- *The first pillar of the COVID-19 response plan* focused on measures designed to address the urgent social and health care needs. The authorities also strengthened the implementation of the insurance component of the social protection project (ARCH) and will extend it to the entire population in 2021. Other priorities include better access to water, the extension of the school feeding programs, the promotion of girls' education, and the improvement of access to maternal health services.

- *The second pillar of the COVID-19 response plan*, which will extend over multiple years (2020-22), mainly focuses on the dual objective of supporting the economic recovery and pursuing a lasting and sustainable economic development. The plan comprises key measures to support access to finance for small and micro enterprises, to help expand the formal sector, strengthen the private sector, promote economic diversification, and support vulnerable segments of the population, in line with the priorities of the National Development Plan.

POLICY DISCUSSIONS

A. Fiscal Policy

6. The authorities' supplementary budget increases the 2020 fiscal deficit to 5.1 percent of GDP as they allow fiscal stabilizers to play and implement new health and economic support measures (Text Table 4). The upward revision of the fiscal deficit by 3.4 percent of GDP relative to the initial budget was approved in the supplementary budget law adopted by Parliament on October 15, 2020. The latter tentatively identifies IMF financing as an option to fill the financing gap. The higher deficit will not entail a breach of the regional fiscal framework, since the application of the 3 percent of GDP ceiling has been temporarily suspended by the WAEMU Head of States on April 27, 2020 in response to the crisis. Relative to the initial budget, the revised budget includes additional current expenditure to support affected households and businesses (1.6 percent of GDP) as well as an increase in capital expenditure and health spending to meet the needs of the social and health sectors (0.6 percent of GDP) as defined in the health COVID-19 response plan. The fiscal deficit also reflects a large shortfall in tax collection from (i) customs (1.5 percent of GDP) due to subdued port activity and prolonged border closure with Nigeria, and (ii) tax administration (0.8 percent of GDP) as a result of weaker economic growth and temporary revenue measures[1] granted to affected businesses. Staff's budget presentation differs slightly from the 2020 budget Law due to the inclusion into transfers of the interest subsidies included in the agriculture and microfinance credit support program, whereas the budget presents these subsidies as financing items (see ¶2). Staff also expects the execution of domestically financed capital expenditure to be slightly lower than the authorities' projections.[2]

Text Table 4. Benin: Fiscal Framework, 2020

(CFAF billion)

	Budget Law	6th Review[1]	Suppl. Budget Law[2]	Proj.
Total revenue and grants	**1,307.8**	**1,216.7**	**1,217.3**	**1,217.3**
Tax revenue	1,030.0	900.6	829.9	829.9
Tax on international trade	444.0	371.3	315.0	315.0
Direct and indirect taxes	586.0	529.3	514.9	514.9
Nontax revenue	190.0	186.3	168.8	168.8
Grants	87.8	129.7	218.6	218.6
Total expenditure and net lending	**1,469.2**	**1,528.5**	**1,670.6**	**1,670.6**
Current expenditure	969.2	1,059.5	1,113.8	1,138.8
Wage bill	405.9	405.9	394.7	394.7
Pensions and scholarships	103.0	103.0	103.0	103.0
Current transfers	186.5	236.5	233.3	258.3
Expenditure on goods and services	111.5	151.8	193.5	193.5
Interest	162.3	162.3	189.3	189.3
Capital expenditure	500.0	469.0	556.8	531.8
Overall balance (commitment basis, incl. grants)	**-161.4**	**-311.8**	**-453.3**	**-453.3**
Cash adjustment	-16.4	-16.4	-16.4	-16.4
Overall balance (cash basis, incl. grants)	-177.8	-328.2	-469.7	-469.6
Financing	**177.8**	**328.2**	**469.7**	**374.0**
Domestic financing	74.6	208.1	344.7	249.0
Bank financing	23.8	157.3	323.3	228.3
Net use of IMF resources	*1.4*	*69.6*	*172.0*	*70.1*
Other	*22.3*	*87.7*	*151.3*	*158.2*
Nonbank financing	50.8	50.8	21.3	20.7
External financing	103.2	120.1	125.0	125.0
Financing gap	**0.0**	**0.0**	**0.0**	**-95.6**
Proposed RCF/RFI financing[3]				95.6
Financing gap relative to the 6th review				**229.8**
Additional domestic financing, net[4]				40.4
Additional external grants				88.9
Additional external borrowing at concessional terms from donors				4.9
RCF/RFI financing				95.6
Nominal GDP	9,036.0	8,787.0	8,838.3	8,814.2

Sources: Beninese authorities; IMF staff estimates and projections.
[1] IMF Country Report No. 20/175
[2] Includes financing under the RCF/RFI.
[3] Includes emergency financing under the RCF/RFI of 100 percent of Benin's quota (1/3 RCF and 2/3 RFI).
[4] Includes financing in CFAF from the regional market and external creditors.

7. Despite additional financing from development partners and the regional market, staff assesses that a fiscal financing gap of about 1.1 percent of GDP (CFAF 95.6 billion, US$ 176

[1] On the tax policy side, temporary and targeted tax exemptions granted by the authorities are: (i) VAT and customs duties exemptions on sanitary and hygiene products, and on purchases of inputs and equipment related to COVID-19, (ii) full deduction on Corporate Income Tax taxable basis of donations made within the COVID-19 response framework, and (iii) exemption or conversion of the motorized vehicle tax already paid by public transporters into a tax credit. On the revenue administration side, measures are (i) flexibility with tax payment rules (postponing filing dates, non-application of penalties for late payment), (ii) accelerating VAT refunds; (iii) extending payment arrangements and relaxing the terms for paying tax arrears; and (iv) temporarily reducing in-field audits.

[2] This is consistent with the pool of capital projects that could be delayed to early 2021.

million) will remain over the current fiscal year, creating an equivalent and urgent BOP need. To close the 2020 financing gap, the authorities are seeking assistance under the Rapid Credit Facility (RCF) and the Rapid Financing Instrument (RFI). Relative to the sixth review, this would cover about 35 percent of the financing gap (Text Table 5) and the remaining 65 percent would be covered by the regional market (including through a special COVID-19 T-Bill issuance) and additional external sources (loans and grants). Room for maneuver to close the financing gap is small as most public expenditures are already committed and alternative financing sources are very uncertain, would be on non-concessional terms, and would be unlikely to materialize before the first quarter of 2021. While much of the COVID-19 response plan has been implemented in 2020, a significant share will be implemented in early 2021 to support the economic recovery and bolster the next agricultural campaign. The authorities have also temporarily increased their deposits at the BCEAO as a buffer against liquidity risks in early 2021, reflecting continued uncertainty surrounding growth, revenue collections, and unexpected financing shortfalls from development partners and/or from international and regional capital markets ahead of the April/May presidential election; this would help secure that the implementation of COVID-19 relief is implemented as envisaged[3,4] Consequently, absent RCF/RFI support, the end-year float would increase and carry over well into 2021, opening an equivalent BOP gap.[5] This could complicate cash management, at least in the first quarter, disrupt the execution of the 2021 budget as well as the COVID-19 response plan, and undermine Benin's economic recovery.

8. From 2021 onwards, the authorities plan to revert to their medium-term fiscal path, bringing the fiscal deficit under 3 percent of GDP by 2022 (Text Table 6). The authorities' medium-term fiscal program[6] targets a fiscal deficit of 4.5 percent of GDP in 2021, converging below 3 percent of GDP in subsequent years. It assumes the attenuation of the effects of the crisis in 2021 and a gradual economic recovery. The authorities also prepared a downside scenario which allows an increase in the fiscal deficit to 4.6 percent of GDP in 2021 and a return to the 2019 WAEMU convergence criterion after 2023 in the event economic activity is more subdued in 2021 (real GDP growth of 4.5 percent compared to baseline projection of 5 percent), in part due to lower investment and domestic demand ahead of the presidential election in April-May 2021. The credit lines and guarantees established to support the economy during the COVID-19 crisis may create contingent fiscal risks to the budget in future years highlighting the importance of adhering to the WAEMU fiscal convergence path.

[3] The Presidential election is scheduled to take place in April/May 2021. Strong governance commitments on COVID-related support, backed by the countries excellent track record in its past engagement with the Fund, including in governance, will help ensure that spending remains well-targeted.

[4] Average deposits at the BCEAO are projected at around 5.5 percent of GDP in 2020, compared to 5.0 percent of GDP in 2019.

[5] Absent the RCF/RFI, it is expected that a large share of the end-year float would be cleared with domestic resources.

[6] Authorities' Document de Programmation Budgétaire et Économique Pluriannuelle 2021-2023.

Text Table 5. Benin: Sources and Financing of the 2020 Fiscal Gap
(Relative to the 6th review report)

		CFAF billion	Percent of GDP
Source of the fiscal gap	(1) Additional measures in response to COVID-19	178.0	2.0
	of which: spending measures	157.0	1.8
	of which: tax measures	21.0	0.2
	(2) Revenue losses due to COVID-19 and border closure	88.3	1.0
	(3) = (1) + (2) = Fiscal gap	266.3	3.0
Financing of the fiscal gap	(4) Reallocation of spending and savings within the budget	34.5	0.4
	(5) Government deposits (for cash management purposes, "-"= increase in assets)	-75.0	-0.9
	(6) On-lending operations related to the COVID-19 response plan ("-"= increase in assets)[1]	-60.0	-0.7
	(7) Additional grants[2]	88.9	1.0
	(8) Additional domestic financing[3]	175.4	2.0
	(9) Additional external financing[4]	4.9	0.1
	(10) Proposed RCF/RFI financing and CCRT	97.6	1.1
Higher 2020 fiscal deficit[5]	Higher deficit relative to 6th review = (3)-(4)-(7) [above the line] = (5)+(6)+(8)+(9)+(10) [below the line]	142.9	1.6

Source: Beninese authorities; IMF staff calculation.

[1] This corresponds to implementation of the credit lines and refinancing plan of the COVID-19 response plan.

[2] Including the European Union and the World Bank.

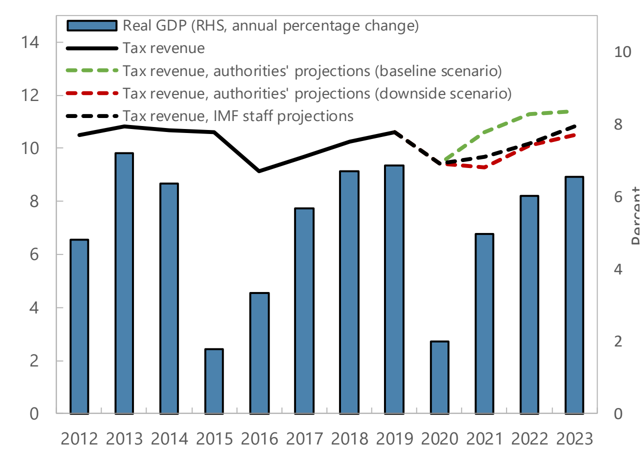
[3] Including the COVID-19 T-bill issuance of CFAF 133 billion.

[4] Including the Islamic Development Bank (ISDB), the African Development Bank (AFDB), and the World Bank.

[5] Cash basis, including grants.

9. **The authorities' tax revenue path hinges on a relatively fast recovery and reopening of the border with Nigeria**. This compares to a relatively low buoyancy in the past, which has led tax revenue to hover around 10.3 percent of GDP since 2012 (Text Figure 2). In the absence of major tax policy changes in the 2021 budget law, and because of the lagged reaction of revenue collection to the 2020 economic slowdown, staff expects a slower tax revenue recovery. Achieving the medium-term fiscal plans require additional measures. There is room to enhance tax collection, thanks to major administrative reforms initiated by the customs and tax administrations since

Text Figure 2. Benin: Tax revenue, 2012-23
(percent of GDP, unless otherwise indicated)



Sources: Beninese authorities' projections; IMF staff projections and calculation.

2017 to simplify and modernize its operations, and those envisaged in the context of the Medium-Term Revenue Strategy (MTRS) currently being developed in collaboration with the IMF's technical assistance. Staff considers that tax revenues will likely rise more gradually than envisaged in the authorities' budget despite recent reforms (notably on property tax and public procurement taxation processes), and in the absence of a major tax policy reforms for 2021 and given the impact of regional economic uncertainty, including the border closure with Nigeria.

Text Table 6. Benin: Fiscal Framework, 2021-2023

(Percent of GDP, unless otherwise specified)

	2021		2022		2023	
	Auth. Proj.[1]	IMF Proj.	Auth. Proj.[1]	IMF Proj.	Auth. Proj.[1]	IMF Proj.
Total revenue and grants	**13.8**	**12.7**	**14.4**	**13.1**	**14.5**	**13.7**
Tax revenue	10.6	9.7	11.3	10.2	11.4	10.8
Tax on international trade	4.4	3.7	4.8	3.9	4.8	4.2
Direct and indirect taxes	6.2	6.0	6.5	6.3	6.6	6.6
Nontax revenue	2.1	1.9	2.1	1.9	2.1	1.9
Grants	1.1	1.2	1.0	1.0	1.0	1.0
Total expenditure and net lending	**18.3**	**17.2**	**17.3**	**16.1**	**17.1**	**16.2**
Current expenditure	12.1	12.3	11.0	11.1	10.8	10.8
Wage bill	4.3	4.4	4.3	4.4	4.3	4.4
Pensions and scholarships	1.2	1.2	1.2	1.2	1.2	1.2
Current transfers	2.5	2.5	2.1	2.2	2.1	2.2
Expenditure on goods and services	1.8	1.9	1.3	1.3	1.0	1.0
Interest	2.3	2.4	2.2	2.0	2.2	2.0
Capital expenditure	6.2	4.9	6.3	5.0	6.3	5.4
Overall balance (commitment basis, incl. grants)	**-4.5**	**-4.5**	**-2.9**	**-3.0**	**-2.7**	**-2.5**
Cash adjustment	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1
Overall balance (cash basis, incl. grants)	-4.7	-4.7	-3.1	-3.2	-2.7	-2.6
Financing	**4.7**	**4.7**	**3.1**	**3.2**	**2.7**	**2.6**
Domestic financing	4.4	3.8	2.0	2.0	1.7	1.4
Bank financing	-0.6	1.9	1.4	1.4	1.1	0.9
Nonbank financing	5.0	1.9	0.6	0.6	0.6	0.5
External financing	0.3	0.9	1.1	1.1	1.1	1.2
Nominal GDP (CFAF billion)	9,559	9,384	10,414	10,128	11,368	11,000

Source: Beninese Authorities projections; IMF staff projections and calculation.

[1] Authorities' projections under baseline scenario in the "*Document de Programmation Budgétaire et Économique Pluriannuelle 2021-2023* "

10. The authorities plan to continue to rely on a mix of domestic and external financing to finance the deficit in 2021, in line with their Medium-Term Debt Strategy (MTDS). The IMF Executive Board approved the second tranche of debt relief under the Catastrophe Containment and Relief Trust (CCRT), covering the period between October 14, 2020 and April 13, 2021, and providing debt relief for an amount of SDR 4.2 million in 2021.[7] This support notwithstanding, financing needs in 2021 are expected to increase reliance on the regional market at the same time when financing needs of other WAEMU members may remain large, thus adding pressure on the regional market and reserves. Additional concessional donor support may be necessary to ease Benin's budget support needs and preserve Benin's economic achievements, but such support is unlikely to

[7] The approval of the third and fourth tranches of the CCRT (about SDR 7.4 billion in debt service relief for Benin for the rest of 2021) is contingent on the IMF securing additional grant pledges from donors (see EBS/20/146).

materialize ahead of the 2021 presidential election. The authorities have reiterated their interest in a new Fund program following the election to support a renewed medium-term economic development strategy and to align with the future government's priorities. This could help catalyze donor support further.

11. Should the COVID-19 shock last or worsen, the authorities would benefit from expanding their existing contingency plan to cope with financing constraints, while maintaining a sustainable fiscal path. Given Benin's limited fiscal space, additional spending to strengthen the health sector and provide support to vulnerable households and affected businesses, beyond what is already incorporated in the baseline, would mainly need to be financed by a reduction in nonpriority spending or the introduction of new revenue measures.[8] The authorities recognize the importance of identifying lower-priority expenditure and implementing investment only as financing becomes available. They also recognize the need to improve spending efficiency to create fiscal space. Similarly, on the revenue side, a menu of exceptional measures could be prepared. Finally, an increase in the fiscal deficit would need to be carefully calibrated to maintain debt sustainability and comply with the regional fiscal convergence criterion.

B. Debt Sustainability

12. Benin's public debt is expected to remain sustainable in the medium-term, but risks have intensified (see accompanying paper). Public debt amounted to 41.2 percent of GDP at end-2019. It is projected to increase to 45 percent of GDP at end-2020 and stabilize at around 43 percent of GDP in the medium-term. The overall risk of debt distress remains moderate, but room to absorb shocks is very thin and sensitive to external economic and financial conditions. External debt service is expected to temporarily increase from 10.3 percent of revenue in 2023 to above 19 percent of revenue in 2024-25 due to the Eurobond amortization, and, to a lesser extent, the repayment schedule of the funds borrowed under the RFI (Text Table 7). This highlights the need to prioritize financing with longer maturities and concessional terms; this also points to the need to increase revenue collection. While capacity to repay remains adequate[9], deepening international market access and increasing concessional external financing will be necessary to mitigate rollover risks highlighted in the debt sustainability assessment (see Debt Sustainability Analysis annex).

[8] Some potential revenue measures have been discussed with the authorities, including related to exemptions. On the expenditure side, the authorities have classified capital projects that are already ongoing and/or are high priority (including those that aim at protecting the most vulnerable segments of the population) and projects that can be postponed and/or have not yet started.

[9] Capacity to repay the Fund is described in Table 6.

Text Table 7. Benin: Public Debt Service to Revenue, 2019-30

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
						Projection						
						(CFAF billion)						
Public debt service	**542**	**650**	**785**	**888**	**960**	**1,150**	**1,171**	**1,260**	**1,277**	**1,295**	**1,333**	**1,441**
External debt service	102	111	125	134	144	308	324	336	265	297	300	322
Domestic debt service	440	540	660	754	816	842	847	924	1,012	999	1,033	1,119
Total revenue	**1,088**	**999**	**1,087**	**1,224**	**1,400**	**1,545**	**1,703**	**1,874**	**2,061**	**2,266**	**2,489**	**2,733**
						(Percent)						
Public debt service to revenue ratio	49.9	65.1	72.2	72.6	68.6	74.5	68.8	67.3	62.0	57.2	53.6	52.7
External debt service to revenue ratio	9.4	11.1	11.5	10.9	10.3	19.9	19.0	18.0	12.8	13.1	12.0	11.8

Source: Beninese authorities; IMF staff projections

13. **Benin meets the criteria of presumed blenders**. Following the rebasing of the national accounts in 2019, Benin's Gross National Income (GNI) per capita is now above the International Development Association (IDA) threshold while the risk of public debt distress remains moderate.[10] As a result, Benin is now classified as a presumed blender, and is expected to comply with the blend cap on access to concessional resources (in the ratio of 1:2) of PRGT-GRA resources when soliciting Fund financial support.[11]

14. **The authorities declined to participate in the Debt Service Suspension Initiative (DSSI).** Debt service relief would have been up to US$ 16.1 million (0.1 percent of GDP) for the period end-April to end-December 2020 and up to US$ 15 million (0.1 percent of GDP) for the eligible period of 2021.[12] The authorities raised concerns that the DSSI could damage investors' risk perception and compromise the country' access to credit outside the regional market. The authorities are very keen to deepen access to international markets by increasing external commercial borrowing, while complying with their Medium-Term Debt Strategy (MTDS) framework.

C. Governance Safeguards

15. **The authorities are implementing a range of governance safeguards aiming at mitigating risks associated with the measures taken in response to the COVID-19 shock**. The commitments under the prospective RCF/RFI will build on the commitments taken in the context of the augmentation under the ECF-supported arrangement and relate to the publication and audit of COVID-related expenditures.

- Since the program augmentation,[13] the authorities have enacted a revised 2020 budget law in October 2020, incorporating COVID-19 related expenditures. Furthermore, ongoing audits are conducted by the General Inspectorate of Finance, the Accounting Chamber, the Economic and

[10] Benin's GNI per capita (US$1,199 in 2019) surpassed the IDA operational cutoff of US$1,175.

[11] IMF finance is drawn from General Resources Account (GRA), which consists of the IMF's quota and borrowed resources and is available to all IMF members; and Poverty Reduction and Growth Trust (PRGT), which borrows from IMF members and on-lends these borrowed resources to low income countries on concessional terms.

[12] The eligible period is defined as January 1, 2021 to end-June 2021.

[13] Sixth review under the ECF-supported arrangement, approved by the IMF Board in May 2020.

Financial Unit, and other private and reputable external auditors. The authorities have published key information on the procurement contracts relating to major projects linked to the COVID-19 response,[14] including information on beneficial ownership and validation of delivery, on the government's website in December 2020.[15] Finally, the budgetary execution process for COVID-19 programs is monitored both by the Ministry of Finance and the Ministry of Health, and the authorities commit to produce and to publish online monthly budget execution reports for the expenditure related to COVID-19.

- In their Letter of Intent, the authorities are reiterating their commitment to ensure that new spending is properly budgeted and that its execution is in line with the international rules of fiscal credibility and transparency. The Accounting Chamber is expected to publish the result of its independent audit of the use and effectiveness of the funds committed by end-June 2021. This audit will be published by the Accounting Chamber in 2021 in its annual activity report and made available on its internet website.

- The authorities also commit to publish online the procurement documents and key contract information[16] related to the major projects implemented under the response plan, also indicating the names of the beneficial owners of the awarded companies, as well as the validation of delivery.

- Given the multi-year nature of the credit support program, the authorities have prepared a memorandum of understanding (MOU) clarifying the timeline of execution of the program and the nature of the transactions with the implementing agencies (FNDA, FNM) and the expected impact on the central government budget. Similarly, they are planning to finalize the Fiscal Transparency Evaluation (FTE) initiated in February 2020 and conduct a comprehensive assessment of fiscal risks by end of June 2021.

- Finally, the authorities have committed to publishing by the end of 2020 the legal framework for the management of public investment as well as the most recent medium-term public investment program.

16. The Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) recently carried out an assessment of Benin against the international AML/CFT standards and the report is due to be discussed and finalized in May 2021. Based on the conclusions of the report, Benin should take the necessary steps to address any deficiencies that are identified. Notably, Benin should ensure that strong measures are in place regarding the transparency of legal entities, including a robust system for identifying and recording beneficial

[14] The procurement threshold for major projects is set at 10 million FCFA.

[15] The information is published on the following official website: https://www.marches-publics.bj/journal-des-marches-publics.

[16] Contract information includes the registration number of the companies, description of the good and services contracted, and amounts contracted.

ownership information (a measure that supports the commitments regarding procurement transparency, outlined in section 8 of the LOI).

ACCESS AND CAPACITY TO REPAY

A. Access Level and Modalities

17. The authorities are requesting support under the RCF/RFI arrangement equivalent to 100 percent of quota (SDR 123.8 million, Text Table 8). This arrangement would comprise of a disbursement under the RCF under the "exogenous shock" window (SDR 41.263 million, 33.33 percent of quota) and a purchase under the RFI under the standard window (SDR 82.537 million, 66.67 percent of quota). The disbursement, which amounts to about 1.1 percent of GDP, would provide timely support to address the urgent fiscal and BOP needs emerging from efforts to address the impact of the pandemic, which, if left unaddressed, would result in immediate and severe economic disruption. It would be used as direct budget support, contribute to about 35 percent of the identified financing gap (relative to the sixth review) and complement other concessional financing. The urgency of the BOP need precludes the design and implementation of a UCT-quality program.

Text Table 8. Benin: Emergency Financing under the RCF and RFI

	Percent of quota	SDR million	CFAF billion	US$ million
Emergency financing	**100.00**	**123.8**	**95.6**	**175.8**
Financing under RCF	33.33	41.3	31.9	58.6
Financing under RFI	66.67	82.5	63.7	117.2
Memorandum items				
Quota	123.8			
US$ exchange rate (end of period)	543.8			
SDR exchange rate (end of period)	772.0			

Source: IMF staff calculation.

18. The authorities expressed their intention to request a program after the elections. The RCF/RFI request is justified by urgent financing need and difficulties in developing a reform program that can be supported a UCT-program given continued elevated uncertainty. The authorities indicated their intention to request a new program based on the priorities and medium-term plan of the new government following the presidential election (April/May 2021).

B. Capacity to Repay and Safeguards Assessment

19. Benin's capacity to repay the Fund is adequate, including due to the country's solid track record of meeting its obligations. Outstanding Fund credit (including the GRA) is projected at around 267.7 percent of quota or SDR 331.4 million. Debt service payments to the Fund will remain manageable, with obligations peaking in 2025 at 3.1 percent of government revenue or 0.4 percent of GDP (Table 6).

20. Safeguard assessment. The BCEAO has only one recommendation outstanding from the 2018 safeguards assessment. This recommendation relates to the strengthening of the risk management function, which is in process. The assessment found that, overall, the central bank has maintained a strong control culture.

STAFF APPRAISAL

21. Benin's swift response to the COVID-19 shock has helped alleviate some of the impact of the crisis on lives and livelihoods. So far, social distancing measures and significant health care investments have helped in limiting the spread of the virus. Despite a sizeable revision in growth, a recession seems to have been avoided, with GDP expected to grow by 2 percent in 2020, followed by a gradual recovery from 2021.

22. Benin's commendable performance has come at the cost of larger public spending, which, in addition to the slowdown in growth that weighed on revenue, resulted in an urgent financing gap. The authorities are implementing additional current transfers to support affected households and businesses and are increasing capital expenditure to meet the needs of the social and health sectors. Concurrently, they are suffering from a slowdown in tax and customs revenue, as the economy slowed down, the borders with Nigeria remained closed, and external demand flagged. Room for maneuver to close the budget financing need is small as most public expenditures are already committed and alternative financing sources are uncertain, would be on less-than-concessional terms, and would be unlikely to materialize before the first quarter of 2021. Consequently, failing to close the financing gap, the end-year float would increase and carry over into 2021. This could complicate cash management, at least in the first quarter, disrupt the execution of the 2021 budget, and undermine Benin's economic recovery.

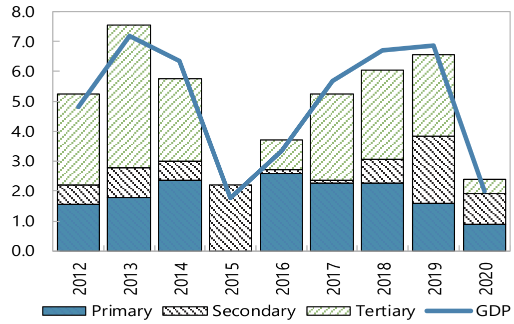
23. The authorities' medium-term budget framework appropriately targets a gradual convergence towards the WAEMU's budget deficit target of 3 percent in 2022. The gradual recovery expected in 2021 will support this objective, but additional revenue mobilization measures, or prioritization of expenditures, may be needed if the authorities' relatively ambitious revenue targets fail to materialize. As the financing needs are expected to remain relatively large in 2021, staff welcomes the authorities' plan to continue seeking the additional concessional financing sources needed to keep external debt at a moderate risk of distress.

24. Staff supports the authorities' request for a disbursement under the RCF in the amount of SDR 41.263 million (33.33 percent of quota) and under the RFI in the amount of SDR 82.537 million (66.67 percent of quota), to be used for budget support.

Figure 1. Benin: Recent Developments, 2012-20

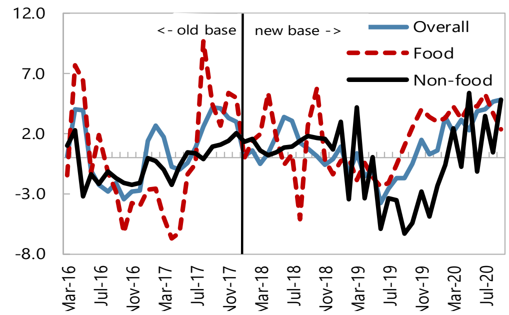
Growth, primarily driven by the tertiary sector over 2016-19, will decelerate in 2020 as the COVID-19 shock negatively impacts the secondary and tertiary sectors.

Contribution to GDP Growth
(Percent)



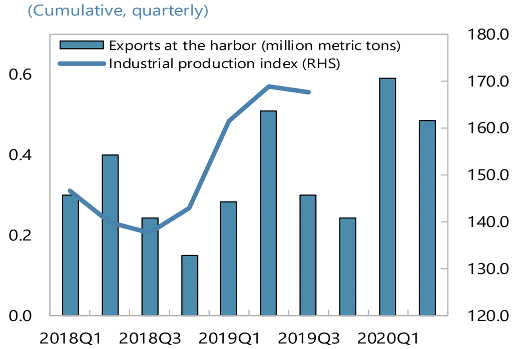
Inflation has picked up slightly this year.

Inflation
(CPI, annual percentage change)



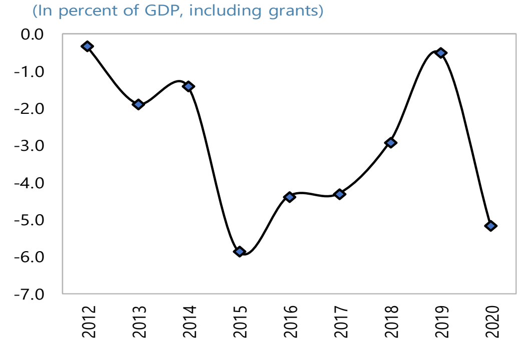
Port activity increased in the first haf of 2020 compared to the previous year.

Economic Activity
(Cumulative, quarterly)



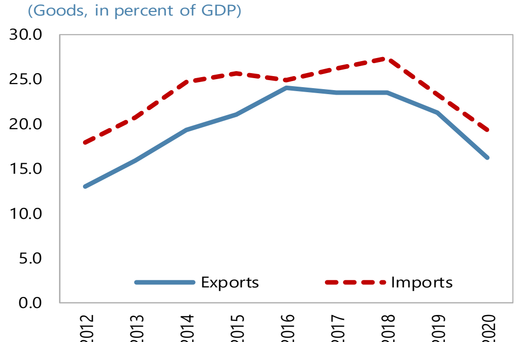
The fiscal deficit narrowed significantly under the 2017-2020 ECF program, but is expected to widen in 2020 due to the COVID-19 shock.

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



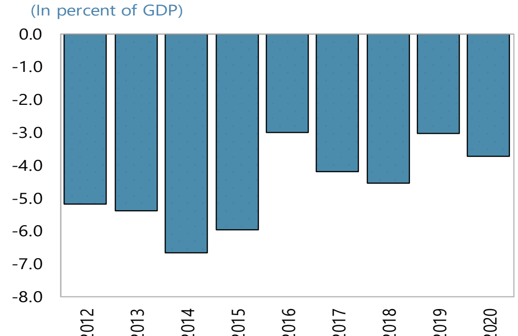
Structurally higher imports...

International Trade
(Goods, in percent of GDP)



...led to a deterioration of the current account deficit.

Current Account Balance
(In percent of GDP)

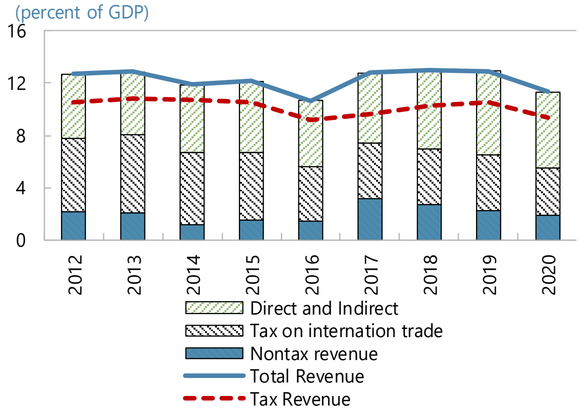


Source: Beninese authorities and IMF staff projections.

Figure 2. Benin: Fiscal Developments and Projections, 2012-20

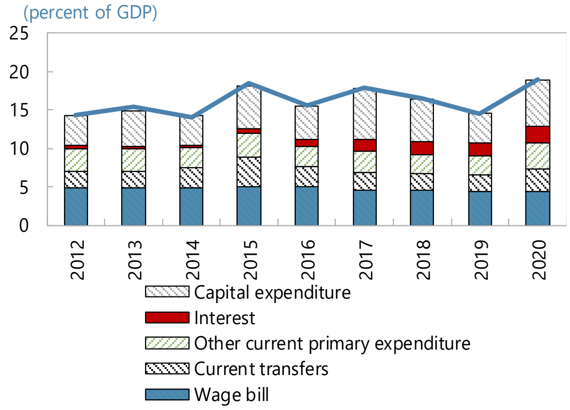
Tax revenues are expected to be negatively impacted by the COVID-19 shock…

Revenue
(percent of GDP)



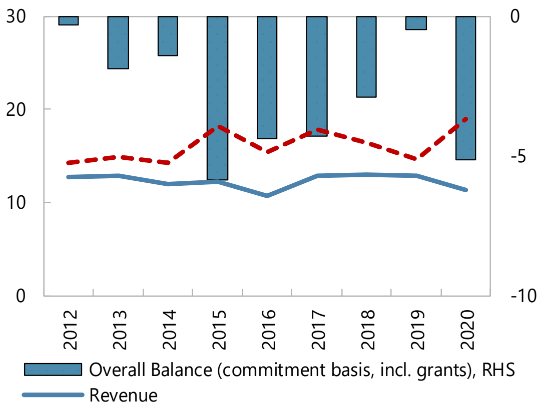
…which, combined with an anticipated increase in expenditure in

Expenditure
(percent of GDP)



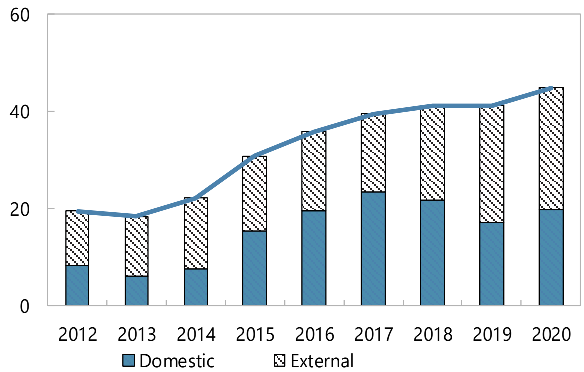
…is expected to worsen the fiscal position in 2020.

Overall fiscal deficit
(percent of GDP)



Government debt is expected to peak in 2020.

Total Government Debt
(percent of GDP)

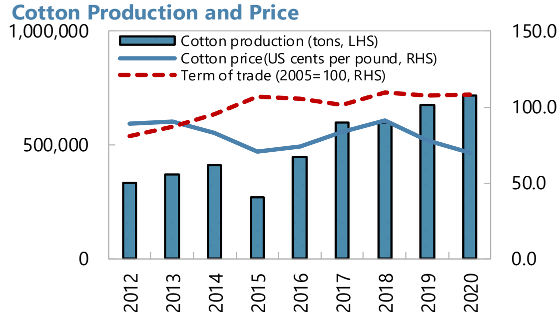


Sources: Beninese authorities and IMF staff calculations.

Figure 3. Benin: Real and External Sector Developments, 2012-20

Cotton production rose in recent years...

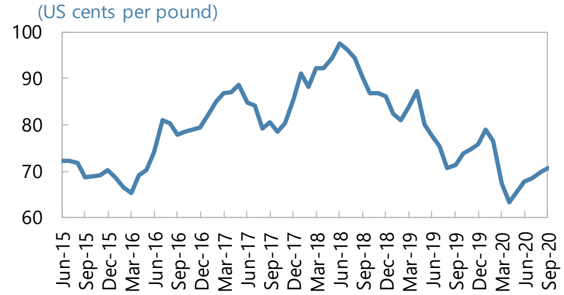
Cotton Production and Price



... but prices, which began to decline in mid-2018, further deteriorated in early-2020 because of the pandemic.

International Cotton Prices

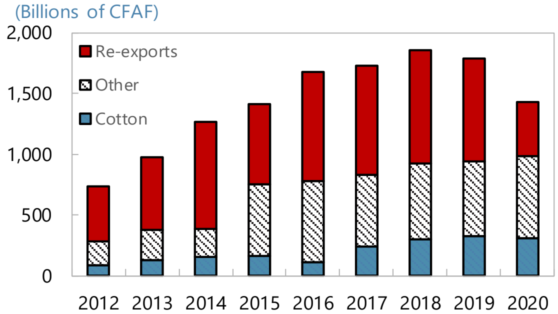
(US cents per pound)



Total exports are expected to fall in 2020

Composition of Exports

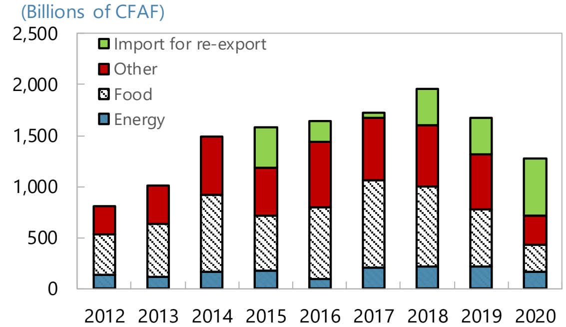
(Billions of CFAF)



... as well as total imports.

Composition of Imports

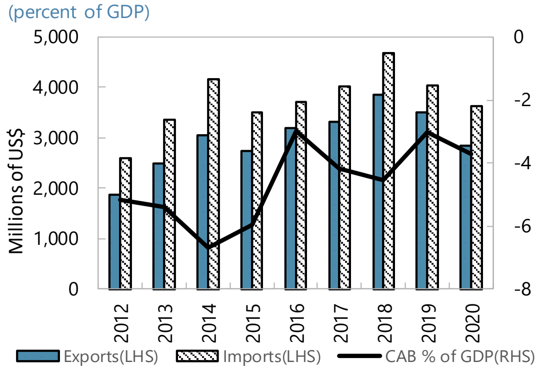
(Billions of CFAF)



The current account is projected to deteriorate in 2020 compared to 2019,

Current Account Balance

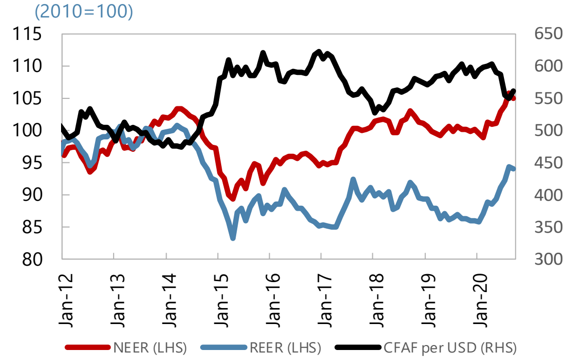
(percent of GDP)



while the CFA franc strengthened early this year after several years of continued depreciation.

Exchange Rates

(2010=100)



Sources: Beninese authorities and IMF staff calculations.

Table 1. Benin: Selected Economic and Financial Indicators, 2018-25

	2018	2019	2020			2021	2022	2023	2024	2025
	Est.		5th Review	6th review	Proj.	Projections				
National income and prices	(Annual percentage change)									
Real GDP	6.7	6.9	6.7	3.2	2.0	5.0	6.0	6.5	6.5	6.5
Nominal GDP	7.3	6.5	8.0	4.2	4.5	6.5	7.9	8.6	8.6	8.5
GDP deflator	0.6	-0.3	1.2	1.0	2.5	1.4	1.8	1.8	1.9	1.9
Consumer price index (average)	0.8	-0.9	1.0	0.6	3.0	2.0	2.0	2.0	2.0	2.0
Consumer price index (end of period)	-0.1	0.3	1.9	0.6	3.0	2.0	2.0	2.0	2.0	2.0
External sector										
Terms of trade (minus = deterioration)	8.2	-2.2	0.0	0.9	0.6	-2.5	-0.6	-0.3	0.1	0.0
Real effective exchange rate (minus = deterioration)	1.9	-3.3	...	...	...	...	...	...	...	...
Money and credit										
Credit to the private sector	8.5	11.9	10.1	2.2	-2.4	4.2	9.4	...	...	...
Broad money (M2)	4.8	6.0	8.0	4.2	4.5	6.5	7.9	...	...	...
Central government finance	(Percent of GDP, unless otherwise indicated)									
Total revenue	13.0	12.9	13.5	12.4	11.3	11.6	12.1	12.7	12.9	13.1
of which: Tax revenue	*10.3*	*10.6*	*11.4*	*10.3*	*9.4*	*9.7*	*10.2*	*10.8*	*11.0*	*11.2*
Grants	0.6	1.2	1.0	1.5	2.5	1.2	1.0	1.0	1.0	0.8
Total expenditure and net lending	16.5	14.6	16.3	17.4	19.0	17.2	16.1	16.2	15.9	15.9
Overall balance (commitment basis, including grants)	-2.9	-0.5	-1.8	-3.5	-5.1	-4.5	-3.0	-2.5	-2.0	-2.0
Overall balance (cash basis, including grants)	-3.0	-0.6	-2.0	-3.7	-5.3	-4.7	-3.2	-2.6	-2.1	-2.1
Domestic financing, net	-0.6	-3.6	0.8	1.3	3.9	3.8	2.0	1.4	2.2	2.1
External financing, net	3.6	4.2	1.1	1.2	1.4	0.9	1.1	1.2	-0.1	-0.1
External sector										
Balance of goods and services[1]	-5.8	-3.8	-6.8	-5.7	-5.2	-4.5	-4.6	-4.3	-4.3	-4.2
Exports of goods and services[1]	27.0	24.3	14.7	21.8	18.5	21.7	23.3	23.0	22.9	22.8
Imports of goods and services[1]	-32.8	-28.1	-20.0	-27.5	-23.6	-26.2	-27.9	-27.4	-27.2	-27.0
Current account balance, including official transfers[1]	-4.6	-3.0	-4.7	-4.6	-3.7	-3.9	-4.1	-3.8	-3.9	-3.8
Overall balance of payments[1,2]	2.5	0.5	3.1	-0.5	0.4	-0.3	0.1	0.3	-1.0	-1.2
Public debt (end period)[3]										
Total public debt	41.1	41.2	40.1	43.3	45.0	45.4	44.5	43.0	41.3	39.6
External public debt	19.4	24.0	23.3	25.1	25.1	24.7	24.5	24.3	23.1	22.0
Domestic public debt	21.7	17.3	16.7	18.3	19.9	20.7	20.0	18.8	18.2	17.6
Memorandum items										
Nominal GDP (CFAF billions)	7,916	8,432	9,036	8783.6	8,814	9,384	10,128	11,000	11,945	12,967
Nominal GDP (US$ billions)	14.3	14.4	15.4	14.9	15.4	17.6	...	...	...	...
Nominal GDP per capita (US$)	1,240.8	1,218.2	1,271.0	1228.7	1,264.6	1,408.7	...	...	...	...
US$ exchange rate (average)	555.2	585.9	585.4	588.5	573.8	533.4	...	...	...	...
International price of cotton (Cotlook "A" Index, U.S. cents a lb.)	91.4	77.9	73.3	69.9	70.0	72.2	72.2	71.4	71.4	71.4
International price of oil (U.S. dollars a barrel)	68.3	61.4	55.5	39.1	41.7	46.7	48.1	49.2	50.2	51.2

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

[1] Includes re-exports and imports for re-export, except for EBS/19/398 for which re-export activities are recorded in current transfers.

[2] In 2024 and 2025, the decline in the overall balance of payments reflects the first repayment of the 2019 eurobond.

[3] The GDP rebasing published in 2019 revised down the public debt ratio by about 15 percentage points (see Annex I of IMF Country Report No. 19/398).

Table 2. Benin: Consolidated Central Government Operations, 2018-25

(CFAF billion)

	2018	2019	2020				2021		2022	2023	2024	2025
		Est.	5th Review	6th Review	Suppl. Budget Law	Proj.	Auth. Proj.	Proj.	Projections			
Total revenue and grants	**1,075.8**	**1,185.7**	**1,307.8**	**1,216.7**	**1,217.3**	**1,217.3**	**1,322.7**	**1,195.2**	**1,323.4**	**1,509.3**	**1,662.9**	**1,800.6**
Total revenue	1,028.6	1,088.0	1,220.0	1,087.0	998.7	998.7	1,214.2	1,086.7	1,223.5	1,400.3	1,544.6	1,702.6
Tax revenue	811.4	893.3	1,030.0	900.6	829.9	829.9	1,013.2	907.0	1,029.6	1,189.7	1,315.8	1,454.3
Tax on international trade	331.9	358.0	444.0	371.3	315.0	315.0	419.0	344.7	392.3	459.1	510.5	567.1
Direct and indirect taxes	479.4	535.3	586.0	529.3	514.9	514.9	594.2	562.3	637.2	730.6	805.3	887.1
Nontax revenue	217.2	194.8	190.0	186.3	168.8	168.8	201.0	179.7	194.0	210.7	228.8	248.3
Grants	47.2	97.7	87.8	129.7	218.6	218.6	108.5	108.5	99.9	108.9	118.3	98.0
Project grants	31.2	66.8	74.0	74.0	94.8	94.8	74.4	74.4	84.2	91.8	99.7	77.8
Budgetary grants	16.0	30.8	13.8	55.7	123.8	123.8	34.1	34.1	15.7	17.1	18.6	20.2
Total expenditure and net lending	**1,305.9**	**1,227.3**	**1,469.2**	**1,528.5**	**1,670.6**	**1,670.6**	**1,753.7**	**1,617.5**	**1,627.3**	**1,784.2**	**1,901.8**	**2,059.9**
Current expenditure	857.8	900.8	969.2	1,059.5	1,113.8	1,138.8	1,156.9	1,155.5	1,123.2	1,189.0	1,279.1	1,378.7
Current primary expenditure	731.8	766.2	806.9	897.2	924.5	949.5	936.1	934.7	919.3	971.9	1,055.5	1,145.8
Wage bill	356.7	369.7	405.9	405.9	394.7	394.7	411.6	411.6	448.2	488.4	530.4	575.8
Pensions and scholarships	92.2	90.5	103.0	103.0	103.0	103.0	111.0	111.0	121.1	131.9	143.2	155.5
Current transfers	179.4	180.9	186.5	236.5	233.3	258.3	238.1	238.1	219.1	238.7	259.3	281.4
Expenditure on goods and services[1]	103.6	125.1	111.5	151.8	193.5	193.5	175.4	174.0	131.0	112.9	122.6	133.1
Interest	126.0	134.6	162.3	162.3	189.3	189.3	220.8	220.8	203.8	217.0	223.6	232.9
Domestic debt	108.8	106.8	123.4	123.4	102.4	102.4	141.0	141.0	152.9	161.0	161.7	170.5
External debt	17.1	27.8	38.9	38.9	86.9	86.9	79.8	79.8	51.0	56.0	61.9	62.4
Capital expenditure	445.6	330.4	500.0	469.0	556.8	531.8	596.8	462.0	504.1	595.3	622.8	681.2
Financed by domestic resources	279.1	228.3	285.8	254.8	321.8	296.8	375.8	241.0	260.2	329.5	334.1	398.4
Financed by external resources	166.5	102.1	214.2	214.2	235.0	235.0	221.0	221.0	243.9	265.8	288.6	282.8
Net lending	2.5	-3.9	0.0	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]	**-230.1**	**-41.6**	**-161.4**	**-311.8**	**-453.3**	**-453.3**	**-431.0**	**-422.3**	**-303.8**	**-275.0**	**-238.9**	**-259.3**
Primary balance [2]	-151.4	-4.6	-86.9	-279.2	-482.6	-482.6	-318.7	-310.0	-199.9	-166.9	-133.7	-124.4
Basic primary balance [3]	17.6	93.5	127.4	-65.0	-247.6	-247.6	-97.7	-89.0	44.0	98.9	155.0	158.5
Change in arrears	-0.4	0.0	-16.4	-16.4	-16.4	-16.4	-16.4	-16.4	-16.4	-10.0	-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	0.0	0.0
Domestic debt (net)	-0.4	0.0	-16.4	-16.4	-16.4	-16.4	-16.4	-16.4	-16.4	-10.0	-10.0	-10.0
of which: net change in arrears stock [1]	*…*	*19.1*	*-6.4*	*-6.4*	*-6.4*	*-6.4*	*-6.4*	*-6.4*	*-6.4*	*0.0*	*0.0*	*0.0*
Float	-3.7	-7.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis, incl. grants)	**-234.2**	**-48.9**	**-177.7**	**-328.2**	**-469.6**	**-469.6**	**-447.4**	**-438.6**	**-320.2**	**-285.0**	**-248.9**	**-269.3**
Financing	**234.2**	**48.9**	**177.7**	**328.2**	**469.6**	**374.0**	**448.1**	**438.6**	**320.2**	**285.0**	**248.9**	**269.3**
Domestic financing	-51.4	-302.9	74.5	208.1	344.6	249.0	418.4	356.9	204.4	156.3	261.3	277.1
Bank financing	-57.1	-14.0	23.7	131.3	323.3	228.3	-57.2	178.3	143.7	101.3	213.5	225.3
Net use of IMF resources	14.1	14.5	1.4	69.6	172.0	70.1	-5.7	-5.7	-6.9	-8.1	-41.9	-53.0
Disbursements	*23.0*	*25.7*	*12.5*	*74.7*	*175.2*	*73.3*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Repayments	*-8.8*	*-11.2*	*-11.1*	*-5.2*	*-3.2*	*-3.2*	*-5.7*	*-5.7*	*-6.9*	*-8.1*	*-41.9*	*-53.0*
of which : CCRT debt relief	*0.0*	*0.0*	*0.0*	*6.0*	*7.7*	*7.7*	*3.3*	*3.3*	*0.0*	*0.0*	*0.0*	*0.0*
Other [4]	-71.2	-28.5	22.3	61.7	151.3	158.2	-51.5	184.0	150.5	109.3	255.4	278.3
Nonbank and regional financing [5]	5.7	-288.9	50.8	76.8	21.3	20.7	475.6	178.6	60.8	55.0	47.8	51.9
External financing	285.5	351.9	103.2	120.1	125.0	125.0	29.7	81.7	115.8	128.7	-12.4	-7.8
Project financing	135.3	35.2	140.2	140.2	140.2	140.2	146.6	146.6	159.7	173.9	188.9	205.0
Budgetary assistance	179.0	33.3	34.2	51.1	56.0	56.0	29.5	29.5	38.9	42.4	44.9	48.7
Eurobond issuance	0.0	325.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization due	-28.8	-41.7	-71.2	-71.2	-71.2	-71.2	-146.4	-94.4	-82.8	-87.7	-246.1	-261.6
Financing Gap						95.6	0.0	0.0	0.0	0.0	0.0	0.0
of which: RCF/RFI financing						95.6	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items: additional financing relative to the 6th review						**229.8**						
Additional domestic financing						40.4						
Additional external grants						88.9						
Additional external borrowing at concessional terms from donors						4.9						
RCF/RFI financing						95.6						
Nominal GDP	7,916	8,432	9,036	8,784	8,814	8,814	9,559	9,384	10,128	11,000	11,945	12,967

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

[1] For 2019, arrears to suppliers of CFAF 19.1 billion are included in expenditure and deficit (see IMF Country report 19/203). Arrears were accumulated before 2016 and recognized in 2019.

[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] Includes financing by Beninese banks.

[5] Includes financing by regional commercial banks.

Table 3. Benin: Consolidated Central Government Operations, 2018-25

(Percent of GDP)

	2018	2019	2020				2021		2022	2023	2024	2025
		Est.	5th Review	6th Review	Suppl. Budget Law	Proj.	Auth. Proj.	Proj.	Projections			
Total revenue and grants	**13.6**	**14.1**	**14.5**	**13.9**	**13.8**	**13.8**	**13.8**	**12.7**	**13.1**	**13.7**	**13.9**	**13.9**
Total revenue	13.0	12.9	13.5	12.4	11.3	11.3	12.7	11.6	12.1	12.7	12.9	13.1
Tax revenue	10.3	10.6	11.4	10.3	9.4	9.4	10.6	9.7	10.2	10.8	11.0	11.2
Tax on international trade	4.2	4.2	4.9	4.2	3.6	3.6	4.4	3.7	3.9	4.2	4.3	4.4
Direct and indirect taxes	6.1	6.3	6.5	6.0	5.8	5.8	6.2	6.0	6.3	6.6	6.7	6.8
Nontax revenue	2.7	2.3	2.1	2.1	1.9	1.9	2.1	1.9	1.9	1.9	1.9	1.9
Grants	0.6	1.2	1.0	1.5	2.5	2.5	1.1	1.2	1.0	1.0	1.0	0.8
Project grants	0.4	0.8	0.8	0.8	1.1	1.1	0.8	0.8	0.8	0.8	0.8	0.6
Budgetary grants	0.2	0.4	0.2	0.6	1.4	1.4	0.4	0.4	0.2	0.2	0.2	0.2
Total expenditure and net lending	**16.5**	**14.6**	**16.3**	**17.4**	**19.0**	**19.0**	**18.3**	**17.2**	**16.1**	**16.2**	**15.9**	**15.9**
Current expenditure	10.8	10.7	10.7	12.1	12.6	12.9	12.1	12.3	11.1	10.8	10.7	10.6
Current primary expenditure	9.2	9.1	8.9	10.2	10.5	10.8	9.8	10.0	9.1	8.8	8.8	8.8
Wage bill	4.5	4.4	4.5	4.6	4.5	4.5	4.3	4.4	4.4	4.4	4.4	4.4
Pensions and scholarships	1.2	1.1	1.1	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Current transfers	2.3	2.1	2.1	2.7	2.6	2.9	2.5	2.5	2.2	2.2	2.2	2.2
Expenditure on goods and services[1]	1.3	1.5	1.2	1.7	2.2	2.2	1.8	1.9	1.3	1.0	1.0	1.0
Interest	1.6	1.6	1.8	1.8	2.1	2.1	2.3	2.4	2.0	2.0	1.9	1.8
Domestic debt	1.4	1.3	1.4	1.4	1.2	1.2	1.5	1.5	1.5	1.5	1.4	1.3
External debt	0.2	0.3	0.4	0.4	1.0	1.0	0.8	0.9	0.5	0.5	0.5	0.5
Capital expenditure	5.6	3.9	5.5	5.3	6.3	6.0	6.2	4.9	5.0	5.4	5.2	5.3
Financed by domestic resources	3.5	2.7	3.2	2.9	3.7	3.4	3.9	2.6	2.6	3.0	2.8	3.1
Financed by external resources	2.1	1.2	2.4	2.4	2.7	2.7	2.3	2.4	2.4	2.4	2.4	2.2
Net lending	0.0	0.0	0.0	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]	**-2.9**	**-0.5**	**-1.8**	**-3.5**	**-5.1**	**-5.1**	**-4.5**	**-4.5**	**-3.0**	**-2.5**	**-2.0**	**-2.0**
Primary balance[2]	-1.9	-0.1	-1.0	-3.2	-5.5	-5.5	-3.3	-3.3	-2.0	-1.5	-1.1	-1.0
Basic primary balance[3]	0.2	1.1	1.4	-0.7	-2.8	-2.8	-1.0	-0.9	0.4	0.9	1.3	1.2
Change in arrears	0.0	0.0	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	0.0	0.0	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1
of which: net change in arrears stock[1]	…	*0.2*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*0.0*	*0.0*	*0.0*
Float	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis, incl. grants)	**-3.0**	**-0.6**	**-2.0**	**-3.7**	**-5.3**	**-5.3**	**-4.7**	**-4.7**	**-3.2**	**-2.6**	**-2.1**	**-2.1**
Financing	**3.0**	**0.6**	**2.0**	**3.7**	**5.3**	**4.2**	**4.7**	**4.7**	**3.2**	**2.6**	**2.1**	**2.1**
Domestic financing	-0.6	-3.6	0.8	2.4	3.9	2.8	4.4	3.8	2.0	1.4	2.2	2.1
Bank financing	-0.7	-0.2	0.3	1.5	3.7	2.6	-0.6	1.9	1.4	0.9	1.8	1.7
Net use of IMF resources	0.2	0.2	0.0	0.8	2.0	0.8	-0.1	-0.1	-0.1	-0.1	-0.4	-0.4
Disbursements	0.3	0.3	0.1	0.9	2.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	-0.1	-0.1	-0.1	-0.1	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.4	-0.4
of which : CCRT debt relief	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other[4]	-0.9	-0.3	0.2	0.7	1.7	1.8	-0.5	2.0	1.5	1.0	2.1	2.1
Nonbank and regional financing[5]	0.1	-3.4	0.6	0.9	0.2	0.2	5.0	1.9	0.6	0.5	0.4	0.4
External financing	3.6	4.2	1.1	1.4	1.4	1.4	0.3	0.9	1.1	1.2	-0.1	-0.1
Project financing	1.7	0.4	1.6	1.6	1.6	1.6	1.5	1.6	1.6	1.6	1.6	1.6
Budgetary assistance	2.3	0.4	0.4	0.6	0.6	0.6	0.3	0.3	0.4	0.4	0.4	0.4
Eurobond issuance	0.0	3.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization due	-0.4	-0.5	-0.8	-0.8	-0.8	-0.8	-1.5	-1.0	-0.8	-0.8	-2.1	-2.0
Financing Gap						1.1	0.0	0.0	0.0	0.0	0.0	0.0
of which: RCF/RFI financing						1.1	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items: additional financing relative to the 6th review						**2.6**						
Additional domestic financing						0.5						
Additional external grants						1.0						
Additional external borrowing at concessional terms from donors						0.1						
RCF/RFI financing						1.1						
Nominal GDP	7,916	8,432	9,036	9,037	8,814	8,814	9,559	9,384	10,128	11,000	11,945	12,967

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

[1] For 2019, arrears to suppliers of CFAF 19.1 billion are included in expenditure and deficit (see IMF Country report 19/203). Arrears were accumulated before 2016 and recognized in 2019.

[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] Includes financing by Beninese banks.

[5] Includes financing by regional commercial banks.

Table 4. Benin: Balance of Payments, 2018-25
(CFAF billion, unless otherwise indicated)

	2018	2019	2020			2021	2022	2023	2024	2025
		Est.	5th Review[1]	6th Review[2]	Proj.	Projections				
Current account balance	**-360.4**	**-255.8**	**-424.2**	**-400.1**	**-328.6**	**-369.9**	**-411.0**	**-420.8**	**-460.6**	**-489.4**
Current account balance (excl. grants)	-376.4	-286.6	-449.5	-455.8	-452.4	-404.0	-426.7	-437.9	-479.2	-509.5
Trade balance[3]	-308.6	-176.5	-477.2	-415.9	-272.0	-269.1	-285.2	-285.8	-313.0	-329.0
Exports, f.o.b.[3]	1,857.6	1,788.6	1,329.3	1,647.9	1,430.2	1,749.9	2,042.4	2,189.8	2,356.1	2,544.7
Of which: re-exports	*928.6*	*841.3*	…	*584.0*	*444.3*	*700.0*	*900.0*	*943.9*	*996.9*	*1,062.0*
Imports, f.o.b.[3]	-2,166.2	-1,965.1	-1,806.5	-2,063.9	-1,702.2	-2,019.0	-2,327.6	-2,475.6	-2,669.1	-2,873.7
Services (net)	-147.4	-140.4	-140.9	-85.0	-182.4	-153.5	-177.2	-188.4	-203.1	-218.7
Income (net)	-30.6	-39.7	-68.1	-50.7	-41.5	-44.2	-47.7	-51.8	-56.3	-61.1
Current transfers (net)[4]	126.3	100.8	262.0	151.5	167.3	96.9	99.2	105.2	111.8	119.4
Private transfers	67.5	70.0	73.8	95.8	43.5	62.8	83.5	88.1	93.2	99.2
Public transfers	58.8	30.8	188.2	55.7	123.8	34.1	15.7	17.1	18.6	20.2
Capital account balance	**109.1**	**106.8**	**74.0**	**155.2**	**109.8**	**89.4**	**99.2**	**106.8**	**114.7**	**92.8**
Financial account balance	**444.7**	**194.6**	**631.5**	**196.6**	**256.9**	**248.2**	**321.5**	**344.1**	**221.0**	**239.4**
Direct investment	102.4	109.6	140.5	85.2	57.3	93.4	110.9	120.4	130.8	141.9
Portfolio investment	-54.0	76.3	162.6	44.9	61.5	65.5	70.7	76.8	83.4	90.5
Medium- and long-term public capital	283.1	41.3	139.8	120.1	125.0	81.7	115.8	128.7	-12.4	-7.8
Project loans	135.3	35.2	176.8	140.2	140.2	146.6	159.7	173.9	188.9	205.0
Budgetary assistance loans	179.0	33.3	34.2	51.1	56.0	29.5	38.9	42.4	44.9	48.7
Amortization due[5]	-28.8	-41.7	-71.2	-71.2	-71.2	-94.4	-82.8	-87.7	-246.1	-261.6
Other Medium- and long-term private capital	113.0	-32.6	188.7	-53.6	13.1	7.6	24.2	18.2	19.3	14.8
Errors and omissions	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance[5]	**196.9**	**45.6**	**281.3**	**-48.3**	**38.1**	**-32.4**	**9.8**	**30.1**	**-124.8**	**-157.2**
Change in net foreign assets, BCEAO ('-' = increase)	**-196.9**	**-45.6**			**-38.1**	**32.4**	**-9.8**	**-30.1**	**124.8**	**157.2**
Change in gross foreign assets, BCEAO	-182.7	-31.1			127.6	26.7	-16.6	-38.1	82.9	104.2
Use of IMF resources, net[6]	-14.1	-14.5			-70.1	5.7	6.9	8.1	41.9	53.0
RCF/RFI financing					-95.6	0.0	0.0	0.0	0.0	0.0
Debt relief[7]	0.0	0.0			-7.7	-3.3	0.0	0.0	0.0	0.0
	(Percent of GDP, unless otherwise indicated)									
Current account balance	**-4.6**	**-3.0**	**-4.7**	**-4.6**	**-3.7**	**-3.9**	**-4.1**	**-3.8**	**-3.9**	**-3.8**
Trade balance of goods[3]	-3.9	-2.1	-5.3	-4.7	-3.1	-2.9	-2.8	-2.6	-2.6	-2.5
Exports, f.o.b.[3]	*23.5*	*21.2*	*14.7*	*18.8*	*16.2*	*18.6*	*20.2*	*19.9*	*19.7*	*19.6*
Imports, f.o.b.[3]	*-27.4*	*-23.3*	*-20.0*	*-23.5*	*-19.3*	*-21.5*	*-23.0*	*-22.5*	*-22.3*	*-22.2*
Services	-1.9	-1.7	-1.6	-1.0	-2.1	-1.6	-1.8	-1.7	-1.7	-1.7
Income	-0.4	-0.5	-0.8	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Current transfers	1.6	1.2	2.9	1.7	1.9	1.0	1.0	1.0	0.9	0.9
Capital account	1.4	1.3	0.8	1.8	1.2	1.0	1.0	1.0	1.0	0.7
Financial account	5.6	2.3	7.0	2.2	2.9	2.6	3.2	3.1	1.9	1.8
Overall balance[5]	**2.5**	**0.5**	**3.1**	**-0.5**	**0.4**	**-0.3**	**0.1**	**0.3**	**-1.0**	**-1.2**
Memorandum items:										
International price of cotton (Cotlook "A" Index, U.S. cents a lb.)	91.4	77.9	73.3	69.9	70.0	72.2	72.2	71.4	71.4	71.4
International price of oil (U.S. dollars a barrel)	68.3	61.4	55.5	39.1	41.7	46.7	48.1	49.2	50.2	51.2
Nominal GDP (CFAF billion)	7,916	8,432	9,036	8,784	8,814	9,384	10,128	11,000	11,945	12,967

Sources: Beninese authorities; IMF staff estimates and projections.

[1] IMF Country report No. 19/398, December 2019.

[2] IMF Country report No. 20/175, May 2020.

[3] Includes re-exports and imports for re-export, except for EBS/19/398 where re-export activities were captured in current transfers.

[4] Re-export activities were captured in current transfers in EBS/19/398 where re-export activities were captured in current transfers.

[5] In 2024 and 2025, the declines in the financial account and overall balance of payments reflect the first repayments of the 2019 eurobond.

[6] Excluding RFC/RFI financing.

[7] Includes the IMF debt service relief of CFAF 11 billion from the Catastrophe Containment and Relief Trust (CCRT) approved on April 13, 2020 and October 2, 2020, corresponding to the period of April 14, 2020 to April 13, 2021.

Table 5. Benin: Monetary Survey, 2018–20

	2018	2019		2020	
	Act.	6th Review[1]	Est.	6th Review[1]	Proj.
	(CFAF Billion)				
Net foreign assets	**1185.0**	**1232.7**	**1232.6**	**1254.0**	**1097.3**
Central Bank of West African States (BCEAO)	423.8	314.0	314.0	335.3	138.7
Banks	761.1	918.7	918.7	918.7	958.7
Net domestic assets	**1024.0**	**1082.8**	**1109.4**	**1158.0**	**1350.7**
Domestic credit	1550.5	1449.9	1449.9	1544.2	1493.3
Net claims on central government	118.1	-200.6	-200.6	-138.9	-121.5
Credit to the nongovernment sector[2]	1432.4	1650.5	1650.5	1683.1	1614.8
Of which: Credit to the private sector	1326.7	1485.0	1485.0	1517.6	1449.3
Other items[3]	526.4	367.1	329.7	386.2	142.6
Broad money (M2)	**2209.0**	**2315.6**	**2342.0**	**2412.1**	**2448.1**
Currency	520.2	543.5	569.4	566.1	595.2
Bank deposits	817.1	878.1	878.4	914.7	918.2
Other deposits	871.6	894.0	894.2	931.3	934.7
	(Change, in percent of beginning-of-period broad money)				
Net foreign assets	**9.1**	**2.1**	**2.2**	**0.9**	**-5.8**
Central Bank of West African States (BCEAO)	10.3	-5.0	-5.0	0.9	-7.5
Banks	-1.2	7.1	7.1	0.0	1.7
Net domestic assets	**-4.3**	**-4.5**	**3.9**	**4.1**	**10.3**
Domestic credit	1.1	-4.5	-4.6	4.1	1.9
Net claims on central government	-3.7	-14.4	-14.4	2.7	3.4
Credit to the nongovernment sector	4.8	9.9	9.9	1.4	-1.5
Other items	5.4	-6.7	-8.4	-0.7	-8.5
Broad money (M2)	**4.8**	**4.8**	**6.0**	**4.2**	**4.5**
Currency	-0.6	1.1	2.2	1.0	1.1
Bank deposits	4.2	2.8	2.8	1.6	1.7
Other deposits	1.2	1.0	1.0	1.6	1.7
Memorandum items:					
Velocity of broad money	3.7	3.7	3.7	3.7	3.7
Broad money (percent of GDP)	27.9	27.5	27.8	27.5	27.8
Credit to the private sector (annual percentage change)	8.5	11.9	11.9	2.2	-2.4
Nominal GDP (CFAF billion)	7,916	8,432	8,432	8,784	8,814
Nominal GDP growth (annual percentage change)	7.3	6.5	6.5	4.2	4.5

Sources: BCEAO; IMF staff estimates and projections.

[1] IMF Country report No. 20/175, May 2020.

[2] Including credit to the private sector and to other non-financial public sector.

[3] Including deposits excluded from broad money, securities other than shares excluded from broad money, loans, financial derivatives, insurance technical reserves, and shares and other equity.

Table 6. Benin: Indicators of Capacity to Repay the Fund, 2020-34[1]

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
IMF obligations based on existing credit (millions of SDRs)															
Principal	0.0	7.4	9.0	10.6	13.8	28.3	37.5	37.5	29.5	24.8	9.2	0.0	0.0	0.0	0.0
Charges and interest[2]	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
Total obligations based on existing and prospective credit															
Principal															
Millions of SDRs	0.0	7.4	9.0	10.6	55.1	69.6	45.7	45.7	37.8	33.0	17.5	0.0	0.0	0.0	0.0
Billions of CFA francs	0.0	5.7	6.9	8.1	41.9	53.0	34.9	34.9	28.8	25.2	13.3	0.0	0.0	0.0	0.0
Percent of government revenue	0.0	0.5	0.6	0.6	2.7	3.1	1.9	1.7	1.3	1.0	0.5	0.0	0.0	0.0	0.0
Percent of exports of goods and services	0.0	0.3	0.3	0.3	1.5	1.8	1.1	1.0	0.8	0.6	0.3	0.0	0.0	0.0	0.0
Percent of GDP	0.0	0.1	0.1	0.1	0.4	0.4	0.2	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0
Percent of quota	0.0	6.0	7.3	8.6	44.5	56.2	36.9	36.9	30.5	26.7	14.1	0.0	0.0	0.0	0.0
Charges and interest															
Millions of SDRs	0.4	0.8	0.9	0.9	0.8	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Billions of CFA francs	0.3	0.6	0.7	0.7	0.6	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding IMF credit															
Millions of SDRs	331.4	324.0	315.0	304.3	249.3	179.7	134.0	88.2	50.5	17.5	0.0	0.0	0.0	0.0	0.0
Billions of CFA francs	264.5	247.0	239.2	231.2	189.7	137.0	102.1	67.2	38.4	13.3	0.0	0.0	0.0	0.0	0.0
Percent of government revenue	26.5	22.7	19.6	16.5	12.3	8.0	5.4	3.3	1.7	0.5	0.0	0.0	0.0	0.0	0.0
Percent of exports of goods and services	16.3	12.1	10.1	9.1	6.9	4.6	3.2	1.9	1.0	0.3	0.0	0.0	0.0	0.0	0.0
Percent of GDP	3.0	2.6	2.4	2.1	1.6	1.1	0.7	0.4	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Percent of quota	267.7	261.7	254.4	245.8	201.3	145.2	108.2	71.3	40.8	14.1	0.0	0.0	0.0	0.0	0.0
Net use of IMF credit (millions of SDRs)	211.6	-7.4	-9.0	-10.6	-55.1	-69.6	-45.7	-45.7	-37.8	-33.0	-17.5	0.0	0.0	0.0	0.0
Disbursements (including prospective ones)	211.6	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
Repayments and repurchases	0.0	7.4	9.0	10.6	55.1	69.6	45.7	45.7	37.8	33.0	17.5	0.0	0.0	0.0	0.0
Memorandum items:															
Nominal GDP (billions of CFA francs)	8,814	9,384	10,128	11,000	11,945	12,967	14,057	15,234	16,502	17,871	19,342	20,934	22,646	24,487	26,472
Exports of goods and services (billions of CFA francs)	1,627	2,041	2,363	2,535	2,730	2,950	3,198	3,466	3,754	4,066	4,400	4,763	5,152	5,571	6,023
Government revenue (billions of CFA francs)	999	1,087	1,224	1,400	1,545	1,703	1,874	2,061	2,266	2,489	2,733	3,000	3,291	3,607	3,952
CFAF/SDR (period average)	798	763	760	760	761	762	762	762	762	762	762	762	762	762	762
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 projections

[2] On May 24, 2019, the IMF Executive Board approved a modified interest rate setting mechanism which effectively sets interest rates to zero on ECF and SCF through June 2021 and possibly longer. The Board also decided to extend zero interest rate on ESF until end June 2021 while interest rate on RCF was set to zero in July 2015. Based on these decisions and current projections of the SDR rate, the following interest rates are assumed beyond June 2021: 0/0/0/0 percent per annum for the ECF, SCF, RCF and ESF, respectively. The Executive Board will review the interest rates on concessional lending by end-June 2021 and every two years thereafter.

Table 7. Benin: Financial Soundness Indicators, 2012-19

	2012 Dec.	2013 Dec.	2014 Dec.	2015 Dec.	2016 Dec.	2017 Dec.	2018 [1] Dec.	2019 June	2019 Dec.
Regulatory capital to risk-weighted assets	9.2	9.5	9.0	7.9	9.3	11.9	8.2	9.6	10.5
Core capital to risk-weighted assets	7.9	7.2	7.1	5.2	7.4	10.2	7.2	8.7	9.8
Provisions to risk-weighted assets	8.6	11.4	12.1	15.6	16.0	16.4	12.6	11.1	10.2
Capital to total assets	4.8	4.5	4.0	2.7	3.7	4.7	5.1	5.6	5.5
Composition and quality of assets									
Total loans to total assets	47.4	47.7	46.1	39.0	39.6	43.5	46.1	47.5	48.5
Concentration: Credit to the 5 largest borrowers	61.1	56.3	103.9	175.7	99.6	91.6	90.4	99.6	93.5
Credit by sector [2]									
Agriculture, Forestry, and Fishing	2.1	2.0	1.6	3.2	1.9	1.8	4.4	2.6	3.1
Extractive Industries	0.7	1.7	1.8	2.1	2.6	1.5	1.2	1.0	0.9
Manufacturing	10.1	11.2	11.7	12.5	15.0	15.2	12.2	11.0	10.2
Electricity, Water, and Gas	2.8	3.3	2.5	3.0	5.0	4.4	4.3	5.2	5.2
Buildings and Public Works	7.5	9.4	12.0	14.9	16.3	17.0	27.9	28.8	30.0
Commerce, Restaurants, and Hotels	40.2	36.9	34.4	29.9	28.2	24.1	18.7	18.7	15.9
Transportation and Communication	10.3	9.6	7.5	6.0	6.2	5.9	3.9	5.0	5.6
Financial and Business Services	5.7	5.2	5.6	4.9	7.9	8.0	3.4	3.3	3.5
Other Services	20.6	20.8	22.8	23.5	16.7	22.1	23.9	24.4	25.7
Non-Performing Loans (NPLs)									
Gross NPLs to Total loans	18.6	21.2	21.5	22.1	21.8	19.4	21.6	20.2	17.7
Provisioning rate	46.8	48.0	49.0	55.0	64.0	66.4	66.5	59.0	55.9
Net NPLs to total loans	10.8	12.3	12.3	11.3	9.1	7.5	8.5	9.4	8.6
Net NPLs to capital	106.2	130.9	140.8	161.2	96.9	69.2	77.2	80.0	76.2
Earnings and profitability									
Average cost of borrowed funds	3.3	3.3	3.1	3.1	3.2	3.0	3.2	...	2.4
Average interest rate on loans	9.5	9.1	8.4	8.3	7.8	7.4	7.5	...	6.4
Average interest margin[3]	6.2	5.8	5.3	5.2	4.6	4.3	4.3	...	4.0
After-tax return on average assets (ROA)	0.0	0.4	0.9	0.3	0.0	0.0	0.1	...	0.5
After-tax return on average equity (ROE)	-0.6	5.6	14.4	4.9	0.5	0.4	1.9	...	7.0
Noninterest expenses/net banking income	68.9	69.9	60.9	63.7	73.2	76.9	74.8	...	78.5
Salaries and wages/net banking income	28.4	29.8	26.2	27.5	32.3	33.9	32.4	...	32.9
Liquidity									
Liquid assets to total assets	22.9	21.9	23.0	18.9	16.2	14.5	12.5	11.7	12.8
Liquid assets to total deposits	35.7	34.7	36.7	30.9	28.0	24.4	19.3	16.8	19.6
Total loans to total deposits	80.7	84.1	82.2	72.6	79.4	84.4	83.4	77.9	82.3
Total deposits to total liabilities	64.3	63.1	62.7	61.1	57.9	59.2	64.6	69.3	65.4
Demand deposits to total liabilities[4]	27.4	26.9	26.6	25.9	24.4	26.3	29.4	31.3	28.5
Term deposits to total liabilities	36.8	36.2	36.1	35.2	33.5	32.9	35.1	38.0	36.9

Source: BCEAO.

Note: ... = not available.

[1] The first year of data reporting in accordance with Basel II/III and Revised Chart of Accounts (Interim Data)

[2] Identified sectors represent at least 80 percent of credit

[3] Excluding taxes on banking operations.

[4] Including savings accounts.

Annex I. Policy Response of the BCEAO to the COVID-19 crisis

1. Decisive and timely steps taken by the BCEAO prevented tightening of financial conditions on the regional financial markets and mitigated the negative impact of the pandemic on economic activity. The introduced measures aimed at providing additional liquidity, preserving financial stability and supporting the enterprises affected by the crisis.

2. Measures to provide adequate levels of liquidity:

- Shift to a full allotment strategy at a fixed rate of 2.5 percent (the minimum monetary policy rate), which allowed banks to satisfy their liquidity needs fully at a rate about 25 basis points lower than before the crisis;

- Launch of a special 3-month refinancing window at a fixed rate of 2.5 percent for limited amounts of 3-month "COVID-19 T-Bills" to be issued by each WAEMU sovereign to help meet immediate funding needs related to the current pandemic. The amount of such special T-Bills issued by Benin amounted to 1.5 percent of GDP;

- Cut the ceiling and the floor of the monetary policy corridor by 50 basis points, to 4 and 2 percent respectively;

3. Policies to preserve financial stability:

- Extended by one year the five-year period initiated in 2018 for the transition to Basle II/III bank prudential requirements. In particular, the regulatory capital adequacy ratio will remain unchanged at end-2020 from its 2019 level of 9.5 percent, before gradually increasing to 11.5 percent by 2023 instead of 2022 initially planned;

4. Initiatives to support the enterprises affected by the crisis:

- Broadened the collateral framework to access central bank refinancing to include bank loans to prequalified 1,700 private companies;

- Set-up a framework inviting banks and microfinance institutions to accommodate demands from customers with COVID-19-related repayment difficulties to postpone for a 3-month renewable period up to end-2020 debt service falling due, without the need to classify such postponed claims as non-performing;

- Introduced various measures to promote the use of electronic payments.

Appendix I. Letter of Intent

THE MINISTER

Cotonou, December 10, 2020

TO

Madame Kristalina GEORGIEVA
Managing Director
International Monetary Fund
Washington, DC 20431, USA

Dear Madame Georgieva,

1. The Beninese authorities are grateful to the International Monetary Fund (IMF) for its support under the Extended Credit Facility (ECF) arrangement and, more recently, for the augmentation of access approved by the IMF Executive Board on May 15, 2020 at the time of the sixth and final review. The timely and swift increase of access to IMF financing has been crucial in mobilizing additional donor support and securing resources to scale up the health capacities and mitigate the socio-economic effects of the COVID-19 pandemic.

2. The COVID-19 pandemic has had a more severe impact on economic activity than anticipated. It has partially undermined the hard-won macroeconomic and social gains achieved over the past years and is jeopardizing the pursuit of the transformation of the Benin's economy under the Government Action Program (GAP). Compared with the ECF augmentation request in May, economic prospects have further deteriorated, and preliminary data indicate a significant impact of weak global demand, the domestic pandemic containment measures, and to some extent the closure of the border with Nigeria. Almost all economic sectors have been affected. In addition to a significant drop in tourism receipts and remittances, international trade and traffic activity in the port of Cotonou, one of the largest in West Africa, have significantly receded. All of this has led to the worsening of the fiscal and current account deficits. Real GDP growth is projected at 2 percent of GDP in 2020, against 6.9 percent in 2019, causing a significant welfare loss as per capita GDP is expected to decline by about 1 percent.

3. To contain the effects of the COVID-19 crisis, the government has initially rolled out an urgent response plan of CFAF 150 billion (1.7 percent of GDP) to scale up health sector capacities, protect the vulnerable households, and support the private sector. The program revolved around three pillars: (i) public health measures to combat the pandemic and to support the health care system; (ii) measures to protect the most vulnerable segments of the population; and (iii) economic support and recovery measures directed at the affected businesses. These measures have helped to stave off the spread of the virus and prevented a recession. However, confronted with a larger-than-anticipated impact of the COVID-19 pandemic, the government has found it necessary to introduce additional measures and scale up the budget appropriations to the COVID-19 response plan. For example, the COVID-19 related health spending at end of September amounted to 0.7 percent of GDP, outpacing the envelope planned at the time of the sixth review. The amended response for 2020 has been revised upward to 3.7 percent of GDP. This includes the introduction of guarantee and interest subsidy mechanisms to catalyze bank lending to SMEs in the agricultural and non-agricultural sectors during these difficult times.

4. Furthermore, the COVID-19 crisis has underscored the need to accelerate the development agenda in order to address the large gaps in the social sector and inclusive infrastructure. To this end, the government has scaled up investment by about 0.6 percentage point of GDP in 2020 to support the nascent economic recovery and the timely achievement of the Sustainable Development Goals, and to foster the structural transformation of the economy.

- *Inclusive growth*. The government intends to continue its efforts to foster inclusive growth and achieve a significant reduction in the poverty rate. In particular, the government is planning to accelerate, with support of the World Bank, the implementation of the insurance component of the government social protection project (ARCH). The program will be extended to the entire population in 2021. Priorities include also the generalization of access to water, the extension of the school feeding programs, the promotion of girls' education, and the improvement of access to maternal health services.

- *Economic diversification.* In line with the medium-term development plan, the government strategy for 2020-21 focuses on four key areas: (i) the modernization of the traditional sectors such as the agriculture and the fishing industry, (ii) the development of tourism and digital sectors, (iii) investment in infrastructure such roads, ports, and energy, and (iv) investment in public education and professional training.

- *Private sector development*. The government is determined to continue its policy of support to the development of the private sector and will accelerate the ongoing reforms to tackle the barriers to doing business in the areas of (i) business creation; (ii) access to electricity and water; (iii) obtaining building permits; (iv) payment of taxes and fees; (v) cross-border trade; (vi) access to public contracts; (vii) transfer of property; and (viii) obtaining loans.

5. Given the larger-than-initially anticipated shortfall in tax revenue and the scaling up of the COVID-19 response, the fiscal deficit for 2020 has been revised upward to 5.1 percent of GDP (from 3.5 percent at the time of the sixth review). We have already started raising additional resources in the domestic market as well as from donors to finance the scaling up of the COVID-19 response.

Compared to the sixth review, we anticipate an increase in domestic funding by 2.2 percent of GDP as well as the mobilization of additional support, notably in the form of grants of 1.1 percent of GDP. Despite these additional resources, a financing gap of 1.1 percent of GDP will emerge in the final quarter of 2020. If it is not addressed, the end-year float would increase and carry over well into 2021, complicating cash management, increasing significantly the fiscal pressures and undermining the pace of recovery next year.

6. The government remains committed to maintaining fiscal sustainability and preserving fiscal discipline. The quality of our economic and public sector management has translated into a higher CPIA rating for Benin and we are committed to maintain and improve our performance. In this regard, the 2020 Supplementary Budget Law adopted in October 2020 by the National Assembly takes into account the impact of the crisis on government revenue and ensures a proper budgeting of the additional spending measures. We aim at bringing back the budget deficit within the WAEMU convergence criteria of 3 percent of GDP by 2022, as the crisis abates. To this effect, we have submitted to the National Assembly a draft budget law for 2021 that targets a deficit of 4.5 percent of GDP.

7. Against this background, and given the urgent fiscal and balance of payments needs, the government of Benin requests an additional emergency financing from the IMF under the Rapid Credit Facility (RCF) and the Rapid Financing Instrument (RFI) in the total amount of SDR 123.8 million, equivalent to 100 percent of our quota to cover the balance of payments financing needs arising from the COVID-19 response plan. We are committed to using the additional IMF financing for the sole purpose of responding to the health and economic crisis. We do not intend to introduce or intensify exchange and trade restrictions and other measures or policies that would compound Benin's balance of payments difficulties. With respect to the safeguards assessment, we note that the latest safeguards assessment of the BCEAO was completed in 2018.

8. We reiterate our firm commitment to an effective and transparent implementation of the COVID-19 related spending. In line with our commitments at the time of the ECF augmentation, we have published the list of the major contracts awarded in the context of the fight against the pandemic. We have also published the key information on these contracts, including the beneficial owners of awarded companies , as well as the validation of delivery. We will continue to make sure that spending is properly budgeted and that its execution is in line with the international rules of fiscal credibility and transparency. In this context, we are committed to (i) publishing online on a monthly basis the procurement documents and key contract information relating to the major projects implemented under the response plan, indicating the amounts and the names of the beneficial owners of the awarded companies, as well as the validation of delivery, (ii) ensuring that adequate expenditure controls are in place; (iii) ensuring that the execution of expenditure related to COVID-19 is officially accounted for through monthly budget execution reports that will be published online. In addition, we will entrust the Accounting Chamber (*Cour des comptes*) with the audit of the use and effectiveness of the funds committed. This audit will be published by the Accounting Chamber by end-June 2021 and made available on its internet website.

9. We are firmly committed to advance domestic revenue mobilization and to avoid any tax measure that could reduce tax revenue. We will also continue our efforts to strengthen fiscal transparency and public financial management practices. In this regard, we have prepared a memorandum of understanding (MOU) to clarify the timeline for the implementation of the government support to credit, as well as the nature of the financial relations between the government and the public entities in charge of its implementation (National Fund for the Agricultural Development and the National Fund for Microfinance). We plan to finalize, with the support of the IMF technical assistance, the Fiscal Transparency Evaluation (FTE) initiated in February 2020 and conduct a comprehensive assessment of fiscal risks by end of June 2021. Finally, we will publish by the end of 2020 the legal framework of the management of public investment as well as the most recent medium-term public investment program.

10. In order to implement these priorities and support its credibility in the international community, Benin intends to maintain its productive relationship with its development partners. To this end, we are planning to maintain our close engagement with the Fund, to support Benin's strategy to promote growth through structural investments in human capital and infrastructure.

11. We authorize the Fund to publish this Letter of Intent and the Staff Report for the request for a disbursement under the RCF/RFI.

Sincerely yours,

/s/

Romuald WADAGNI

Minister of Economy and Finance

BENIN

December 10, 2020

REQUESTS FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY AND PURCHASE UNDER THE RAPID FINANCING INSTRUMENT—DEBT SUSTAINABILITY ANALYSIS

Approved By
Catriona Purfield, Maria Gonzalez (IMF), and Marcello Estevão (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	Limited space to absorb shock
Application of judgement	Yes

Benin remains at moderate risk of external and overall debt distress*. The rating is unchanged from the previous May 2020 Debt Sustainability Analysis (DSA), but risks to debt sustainability have increased. All the projected external debt burden indicators but one are below their thresholds under the baseline.[1] The debt service-to-revenue ratio temporarily exceeds its threshold under the baseline (in 2024 and 2025). The breach is short-lived and small, but would also mechanically signal a high risk of debt distress. Nevertheless, given the breaches of the other thresholds (PV of debt-to-exports and debt service-to-exports) under the extreme shock scenarios and Benin's fiscal path, staff assess the risk of external debt distress to remain at moderate. Benin's spread is no longer above the market financing module's benchmark. The issuance of the COVID-19 T-Bill has increased rollover risk. Policy slippages and vulnerabilities due to the COVID-19 and the Nigeria border closure shocks are downside risks to the baseline. Public and publicly guaranteed (PPG) debt (external plus domestic) remains at moderate risk of distress. Nonetheless, the PV of public debt-to-GDP ratio remains below its prudent benchmark in both the baseline and shock scenarios.*

[1] The DSA follows the IMF and World Bank Staff Guidance Note on the Application of the Joint Fund-Bank Debt Sustainability Framework (DSF) for Low-Income Countries (LICs) (February 2018). Benin retains a medium-rated debt-carrying capacity, given the 2.9 Composite Indicator, which is based on the 2020 October WEO and the 2019 CPIA released in July 2020 (Text Table 9). Benin's CPIA rating improved due to higher economic and public sector management ratings.

PUBLIC DEBT COVERAGE

1. 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 government (Text Table 1).[2] 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.[3]

2. The authorities completed an audit of the stock of unpaid claims held by the private sector on the government in January 2019. They identified a stock of arrears to suppliers of 0.2 percent GDP, incurred before 2016. 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.

3. The guaranteed debt of state-owned enterprises (SOEs) is included in the baseline analysis. Because SOEs can entail contingent liabilities for the government and create fiscal risks, it is important to have an exhaustive overview of their financial situation.[4] The authorities have made progress in the area of monitoring in past years, by collecting financial information on SOEs. In early 2019, they produced an estimate of 0.6 percent of GDP for the non-guaranteed commercial debt of 13 state-owned companies at end-2018.[5] For end-2019, SOE non-guaranteed commercial debt is estimated at 0.5 percent of GDP. To address contingent liability risks, the authorities adopted a new law on SOEs in July 2020, which was promulgated on September 2, 2020.[6] The new law aimed at improving SOE's governance and indirectly economic and financial performance. In the context of the current DSA, the following approach is taken:

- *All guaranteed SOE* debt is included in the debt stock in the baseline.
- *Non-guaranteed SOE debt* is captured as contingent liability shock (Text Table 2). This shock is set at 0.5 percent of GDP (to reflect the information collected on SOE debt).
- Further work is needed to properly and fully incorporate SOEs in the DSA baseline, including consolidating the general government fiscal accounts with the financial statements of the SOEs (both on the revenue and expenditure sides).[7] The authorities see this consolidation as a prerequisite before incorporating SOE debt into total debt (in the baseline) and are working with AFRITAC WEST to establish a work program.

[2] Government domestic arrears are also included, see below.

[3] This refers to Benin's share of IMF debt owed by Central Bank.

[4] In the context of the Government Action Program, the authorities are contemplating several key projects of infrastructure, including some conducted through SOEs.

[5] Guarantees on SOE debt provided by the central government are already included in public debt.

[6] As part of the Sustainable Development Policy Framework of IDA19, the authorities have agreed to publish the commercial debt outstanding of SOEs annually, and no later than by June 30 of the following year.

[7] While the stock of non-guaranteed debt has been estimated at 0.5 percent of GDP at end-2019, further work is necessary to fully capture the terms.

Text Table 1. Benin: Public Sector Coverage

	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	

Text Table 2. Benin: Magnitude of the Contingent Liability Tailored Stress Test

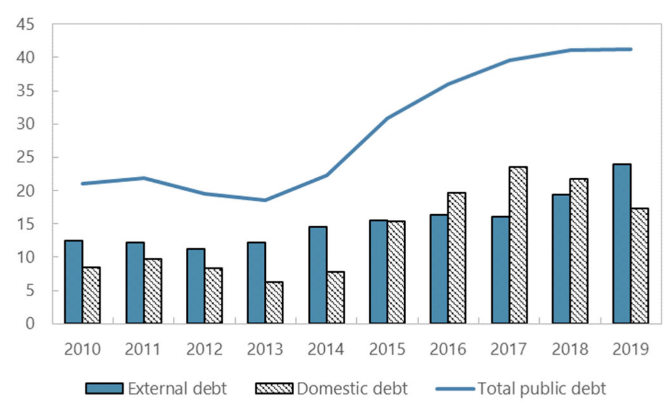
1	The country's coverage of public debt	The central government, central bank, government-guaranteed debt		
		Default	Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0 percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	0.5	The stock of SOE's debt not captured in the central government sector is estimated at 0.5 percent of GDP at end-2019.
4	PPP	35 percent of PPP stock	2.4	
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)		7.9	

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%.

BACKGROUND ON DEBT

4. Benin's public debt has increased rapidly since 2014. Total public debt (external plus domestic) increased from 22.3 percent in 2014 to 30.9 percent in 2015 and, at a slower pace subsequently, to 41.2 percent in 2019 (Text Figure1).[8] The increase was primarily due to higher domestic debt, which tripled over three years, growing from 7.8 percent of GDP in 2014 to 23.7 percent of GDP in 2017. This rise was partly 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.

Text Figure 1. Benin: Total Public Debt, 2010-19
(Percent of GDP)



5. The increase in Benin's public debt has accelerated during the first three quarters of 2020 in response to the COVID-19 shock and the border closure with Nigeria. Total public debt increased from 41.2 percent of GDP at end-2019 to 48.7 percent of GDP at end-September 2020 (Text Table 3). Customs revenue dropped significantly in 2020 due to the border closure with Nigeria, lower trade due to the

[8] In this paper, debt stocks are measured at the end of the year. For instance, 2019 debt refers to the debt stock at the end of 2019.

impact of the pandemic, and tax measures to support the economy. At the same time, public expenditure increased to accommodate the health response to COVID-19 and spending measures to support vulnerable households and businesses. Consequently, the fiscal deficit (commitment basis, including grants) has increased compared to pre-COVID-19 target at end-December 2020 (1.8 percent of GDP) and the sixth review under the ECF-support arrangement (3.5 percent of GDP). It is estimated at 4.1 percent of GDP at end-September 2020.

Text Table 3. Benin: Evolution of public outstanding debt, March 2018 to September 2020
(CFAF billion, unless otherwise specified)

	2018				2019				2020		
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.
External debt	**1,222**	**1,275**	**1,411**	**1,532**	**2,016**	**2,110**	**2,074**	**2,021**	**2,162**	**2,263**	**2,293**
Bilateral debt	222	225	234	242	253	264	261	245	260	281	324
Multilateral debt	975	1,004	960	1,021	1,145	1,207	1,202	1,151	1,222	1,258	1,290
Commercial debt	26	46	217	269	290	311	284	296	352	396	351
Eurobond	0	0	0	0	328	328	328	328	328	328	328
Domestic debt	**1,761**	**1,797**	**1,680**	**1,720**	**1,748**	**1,785**	**1,660**	**1,456**	**1,696**	**1,988**	**1,997**
Treasury bonds	1,162	1,260	1,263	1,267	1,256	1,289	1,262	1,190	1,425	1,529	1,553
Treasury bills	171	115	160	160	160	170	49	22	0	142	142
Local banks	428	423	257	293	332	326	348	244	271	317	302
Total public debt	**2,983**	**3,072**	**3,091**	**3,252**	**3,764**	**3,895**	**3,734**	**3,477**	**3,858**	**4,251**	**4,290**
Total public debt (percent of GDP)	37.7	38.8	39.0	41.1	44.6	46.2	44.3	41.2	43.8	48.2	48.7

Source: Beninese authorities; IMF staff calculations.

6. **The debt service burden is relatively high in Benin**. The external debt service to revenue ratio stood at 6.9 percent in 2019 but is expected to steeply increase to nearly 20 percent in 2024 (because of the amortization of the Eurobond), before declining to around 7 percent in the long-term. The ratio of debt service-to-revenue stood at 49.9 percent in 2019 and is expected to increase to around 74 percent on average in the medium term, before declining to around 46 percent on average in the long term (2030-40).

7. **Conditions on the regional and sovereign security markets have remained broadly favorable as the BCEAO took preemptive measures to limit the impact of the COVID-19 pandemic**. Broad money growth had remained buoyant in 2019 on the back of a pickup of net foreign assets while credit to the private sector outpaced nominal GDP. The weighted average auction rate on the money market remained at the top of the BCEAO's monetary policy corridor (4.5 percent) in the first quarter of 2019 before hovering around 3 percent during the rest of the year, in part due to a small increase in liquidity supply by the BCEAO. Meanwhile access on the regional sovereign security market remained good with some lowering of yields and lengthening of the average maturity in 2019. These broadly favorable liquidity conditions have persisted year-to-date as the BCEAO took preemptive steps to better satisfy banks' demand for liquidity and mitigate the negative impact of the pandemic on economic activity. In late March, the BCEAO further raised the amount of liquidity auctioned to banks before adopting a fixed-rate full-allotment strategy thereby allowing banks to satisfy their liquidity needs fully at the minimum policy rate of 2.5 percent, that is about 25 basis points lower than hitherto.

Text Table 4. Benin: COVID-19 T-Bill Issuances, 2020

	Maturity (months)	Amounts (CFAF billion)			Average interest rate (percent)
		Sought	Proposed	Raised	
May 6, 2020	3	130	583.2	133	3.1
July 30, 2020	3	133	368.8	133	2.2
November 4, 2020	1	133	229	133	2.6

Source: UMOA-Titres

8. Benin issued a 3-month COVID-19 T-Bill amounting to CFAF 133 billion (1.5 percent of GDP) in May 2020. In April 2020, the BCEAO launched a special 3-month refinancing window at a fixed rate of 2.5 percent for limited amounts of 3-month "COVID-19 T-Bills" to be issued by each WAEMU sovereign to help meet immediate funding needs related to the current pandemic without creating undue pressures on the regional market. Benin was able to roll over its original COVID-19 T-Bills issuance in July 2020 through a new 3-months COVID-19 T-Bills that banks may refinance with the BCEAO for their term to maturity at 2 percent , and then in November 2020 through a one-month COVID-19 T-Bills. (Text Table 4).

STRUCTURE OF DEBT

9. The 2019 Eurobond, combined with the 2018 debt reprofiling, has tilted the composition of the public debt towards external debt. In 2016 and 2017, Benin's domestic debt accounted for more than half of total debt (about 60 percent of total debt at end-2017). The October 2018 debt reprofiling operation, which issued cheaper and long-term external debt to buy back more expensive and shorter maturity domestic debt, started to rebalance the composition of the debt stock.[9] In addition, Benin issued its first Eurobond in March 2019. The Eurobond amounted to EUR 500 million (equivalent to 3.9 percent of 2019 GDP). The issuance was done at favorable terms. As of end-December 2019, external debt represented 58.1 percent of the total debt.

10. Benin's external public debt is essentially owed to multilateral and commercial creditors. As of end-2019, Benin's external debt owed to multilateral creditors represented around 57 percent of total external debt against about 31 percent and 12 percent held by commercial and bilateral creditors respectively. However, the share of the multilateral debt decreased after the issuance of the Eurobond (which is commercial debt) in March 2019. The share of concessional loans represented 54 percent of total external debt at end-2019. Total external debt amounted to CFAF 2,021 billion (about US$ 3.4 billion) and CFAF 2,293 billion (about US$ 4 billion) at end-2019 and end-September 2020 respectively (Text Table 5).

11. Domestic public debt is dominated by government securities issued on 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 markets. About 82 percent of domestic liabilities consisted of government securities issued on the regional financial market at end-2019. Such debt is non-concessional and is associated with roll-over and interest rate risks. Total domestic debt amounted to CFAF 1,455.9 billion as of end-2019 (Text Table 6).

12. The structure of Benin's debt portfolio has not fundamentally changed at end-September 2020. The share of external debt to total debt stood at 53.4 percent at end-September 2020 compared to

[9] The World Bank's Policy-Based Guarantee (PBG) used US$ 45 million of IDA funds to secure commercial loans for EUR 387 million at favorable terms (about 4 percent and a maturity of about 12 years), of which EUR 260 million were used to replace short-term domestic debt.

55.6 percent at end-September 2019. The issuance of the 3-month COVID-19 T-Bill (CFAF 133 billion) has shortened the average maturity of Benin's domestic debt portfolio, thus increasing rollover risk.

Text Table 5. Benin: Structure of External Debt at end-2019 and end-September 2020
(CFAF billion)

Creditors	Dec. 2019	Sep. 2020
Multilateral creditors	**1,151**	**1,290**
IDA	574	620
FAD (African Development Fund)	262	248
IMF	88	160
Other	227	262
Bilateral creditors	**245**	**324**
People's Republic of China	171	171
Other	74	153
Commercial creditors	**624**	**679**
Eurobond	328	328
Other	296	351
Total external debt	**2,021**	**2,293**

Source: Beninese authorities; IMF staff calculation.

Text Table 6. Benin: Structure of Domestic debt at end-2019 and end-September 2020
(CFAF billion)

By creditors	Dec. 2019	Sep. 2020
Treasury bonds	1,190	1,553
Treasury bills	22	142
Other local banks	244	302
By maturity	**Dec. 2019**	**Sep. 2020**
Less than one year	22	142
One to three years	297	454
Three to Seven years	783	982
Greater than seven years	353	419
Total domestic debt	**1,456**	**1,997**

Source: Beninese authorities; IMF staff calculation.

BACKGROUND ON MACROECONOMIC FORECASTS

13. **Macroeconomic assumptions have been updated compared to the May 2020 DSA** (Text Table 7)**.**

- Benin's GDP growth was revised from 3.2 to 2 percent as a result of the slowdown of the economic activity due to COVID-19, and, to a lesser extent, the prolonged border closure with Nigeria. Medium-term prospects are favorable, driven by the growth in agricultural and cotton exports, improvement in business climate, and development of new sectors such as tourism and digital economy.

- The primary fiscal balance[10] was revised down from -1.6 percent of GDP to -3 percent of GDP in 2020 because of the extended border closure and the COVID-19 pandemic on revenue collection as well as an increase in public expenditure to support the health sector and affected households and businesses. However, the fiscal position will gradually improve after the shock, with the primary balance estimated at around 0.2 percent of GDP in 2025.

- The non-interest current account deficit is expected to stabilize in the medium to long term, thanks to the implementation of the fiscal consolidation plan and structural reforms to boost competitiveness. Higher exports would result from larger cotton production. Imports should also

[10] Including grants.

remain contained due to the scaling-down of public investment and the increase in agricultural production, which should reduce food imports.

- The grant assistance for debt relief under the Catastrophe Containment and Relief Trust (CCRT) has been reflected in the DSA.[11] The eligible debt service for relief from the CCRT amounts to SDR 13.8 million (about CFAF 11 billion), covering the period between April 14, 2020 and April 13, 2021. The CCRT debt relief is reflected under exceptional financing in Table 1 and under debt relief (HIPC and other) in Table 2.

- To date, the authorities declined to participate in the Debt Service Suspension Initiative (DSSI). Debt service relief covered by the DSSI amounts to US$ 16.1 million (0.1 percent of GDP) for the period end-April to end-December 2020 and to US$ 15 million (0.1 percent of GDP) for the eligible period of 2021.[12]

- World Bank financial support to the COVID-19 crisis has also been reflected in the DSA. On April 27, 2020 the World Bank Board adopted the Benin COVID-19 Preparedness and Response project of US$ 10.4 million under the Fast-Track COVID-19 Facility. The Bank also approved a Supplemental Financing DPO (US$50 million) to support the health sector on June 26, 2020.

14. The perimeter of exports has been expanded in the context of this DSA.[13] As a result of statistical improvements carried out by the BCEAO, including a new survey on cross-border trade activities in 2019, the measurement of informal trade has been enhanced. As a result, informal exports are now included in the perimeter of exports in the DSA and the Balance of Payments. This is consistent with the recently published Balance of Payments data.[14]

15. Risks to the baseline are tilted to the downside. A deeper and more severe COVID-19 shock, an extended closure of the border with Nigeria, unresolved banking sector problems, and a possible contagion of security risks could all worsen Benin's fiscal position. Other risks include extra spending pressures and lower revenue collection related to the political cycle. 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.

16. The fiscal policy path is assessed to be realistic (Figure 4). The fiscal path is in the middle of the historical distribution. The change with respect to the previous DSA is due to the fact that the fiscal deficit is revised upwards to accommodate the impact of the COVID-19 pandemic.

17. The growth projection for 2020 is below the path predicted by the growth and fiscal adjustment tool (Figure 4). The deviation between baseline projections and the growth path with LIC's

[11] See IMF Policy Paper No. 20/022 and IMF Policy Paper No. 20/045.

[12] The eligible period is defined as January 1, 2021 to end-June 2021.

[13] The change of perimeter was implemented in the previous DSA (May 2020), but not in the DSA of the fifth review under the ECF-supported arrangement (December 2019).

[14] « Balance des Paiements et Position Extérieure Globale », December 2019.

typical multiplier of 0.4 is explained by the negative effect of the COVID-19 on the economic activity. However, GDP growth is expected to rebound in 2021.

Text Table 7. Benin: Macroeconomic Projections

	DSA 2020 - 6th review					DSA 2020 - RCF/RFI				
	2019	2020	Average 2021-24	2029	2039	2019	2020	Average 2021-24	2029	2039
	(Percent of GDP, unless otherwise indicated)					*(Percent of GDP, unless otherwise indicated)*				
GDP growth (percent)	6.9	3.2	6.7	6.4	5.7	6.9	2.0	6.5	6.4	5.7
GDP deflator (percent)	-0.3	1.0	2.0	1.8	1.9	-0.3	2.5	1.8	1.9	1.9
Non-interest current account deficit	3.9	4.1	3.8	3.6	3.7	2.6	3.2	3.4	3.4	3.6
Primary deficit	-1.1	1.6	0.3	0	0	-1.1	3.0	0.9	-0.3	0.0
Exports	24	21.8	24.8	24.7	24.7	24.3	18.5	22.7	22.8	22.8
Revenues and grants	14.1	13.9	14.3	14.3	14.3	14.1	13.8	13.4	14.7	15.7

Sources: Beninese authorities; IMF staff calculations and projections.

18. The contribution of public investment to real GDP growth is also realistic. The current projection of the contribution of public investment to growth is in par with the previous DSA's projections.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

19. Benin's debt carrying capacity remains medium. The values of the components of the Composite Indicator (CI) score are based on the October 2020 WEO (Text Table 9). Thus, the thresholds to assess debt sustainability have remained unchanged compared to the previous DSA. The main contributors to the score are the CPIA value, which measures the quality of institutions and policies, as well as the import coverage of reserves.

20. Stress tests follow standardized settings, with the addition of a market financing shock. The standardized stress tests apply the default settings (Text Table 8). The market financing shock is the only tailored stress test that applies to Benin due to the existence of an outstanding Eurobond. The test assumes a temporary increase in the cost of new commercial external borrowing by 400 basis points combined with a nominal depreciation of 15 percent of the CFAF vis-à-vis the US$ and a shortening of maturities and of grace periods.[15]

EXTERNAL DEBT SUSTAINABILITY RESULTS

21. All the external debt burden indicators but one remain below the policy-dependent thresholds in the baseline scenario. A temporary small breach (two years) is observed in the case of the debt service-to-revenue ratio in 2024 and 2025. This is mainly explained by the repayment of the Eurobond in 2024 onwards. The PV of total PPG external debt is expected to stabilize at about 18.9 percent of GDP on average over 2021–25, reaching 5.3 percent of GDP in 2039. It would remain below the corresponding threshold of 40 percent of GDP throughout the projection period.

[15] The considered shortening of maturities of commercial external borrowing are as follows; (i) if the original maturity is greater than 5 years, the new maturity is set to 5 years; (ii) if the original maturity is less than 5 years, the new maturity is shortened by 0.7 years.

22. The ratio of debt service-to-revenue, debt service-to-exports, and PV of debt-to-exports exceed their threshold in the case of a shock (Text table 8), implying a moderate risk of external debt distress. The PV of debt-to-export ratio breaches its threshold in 2022-27 in case of shock on exports. This reflects the recent shock to exports due to the border closure with Nigeria and trade disruptions cause by the pandemic. Similarly, the debt service-to-export ratio breaches its threshold in 2024 onward in case of a shock to exports or a combination of shocks. The debt service-to-revenue ratio breaches its threshold in 2024-26 for all shocks. This is mainly explained by the repayment of the Eurobond in 2024-26 and lower revenue mobilization in 2019 and 2020. Finally, the PV of debt-to-GDP remains well below its threshold under the extreme shock scenarios. Breaches of the PV of debt-to-exports, debt service-to-exports, and debt service-to-revenue ratio under stress tests are the reasons behind the assessment of moderate risk for external debt.

Text Table 8. Benin: Standardized Stress Tests

Shock	**Description**
B1. Real GDP growth	Real GDP growth set to its historical average minus one SD, or baseline projection minus one SD, whichever is lower for the second and third years of the projection period.
B2. Primary balance	Primary balance-to-GDP ratio set to its historical average minus one SD, or baseline projection minus one SD, whichever is lower in the second and third years of the projection period.
B3. Export	Nominal export growth (in USD) set to its historical average minus one SD, or baseline projection minus one SD, whichever is lower in the second and third years of the projection period.
B4. Other (non-debt creating) flows	Current transfers-to-GDP and FDI-to-GDP ratios set to their historical average minus one SD, or baseline projection minus one SD, whichever is lower in the second and third years of the projection period.
B5. Depreciation	One-time 30 percent nominal depreciation of the domestic currency in the first year of the projection period, or the size needed to close the estimated real exchange rate overvaluation gap, whichever is large.
B6. Combination	Apply all individual shocks (B1 through B5) at half their magnitudes in the second and third years of the projection period.

23. The supplementary module, which allows qualifying the moderate category for the debt distress risk, indicates that Benin has very limited space to absorb shocks (Figure 5). To add granularity to the moderate risk rating, Benin is assessed as having "limited space" to absorb shocks in the current DSA because at least one baseline debt burden indicator is close enough to its respective threshold that occurrence of the median observed shock would result in a downgrade to high risk. There is a deterioration compared to the May 2020 DSA report, even though Benin was already assessed as having ''limited space'' to absorb shocks.

Text Table 9. Benin: Debt Carrying Capacity and Thresholds

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 2.90	Medium 2.96	Medium 2.98

Calculation of the CI Index

Applicable Threshold

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.547	1.37	47%
Real growth rate (in percent)	2.719	5.233	0.14	5%
Import coverage of reserves (in percent)	4.052	39.093	1.58	55%
Import coverage of reserves^2 (in percent)	-3.990	15.283	-0.61	-21%
Remittances (in percent)	2.022	0.884	0.02	1%
World economic growth (in percent)	13.520	2.928	0.40	14%
CI Score			2.90	100%
CI rating			**Medium**	

Cut-off Values of the CI

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	180
GDP	40
Debt service in % of	
Exports	15
Revenue	18

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	55

New framework

	Cut-off values		
Weak	CI <	2.69	
Medium	2.69	≤ CI ≤	3.05
Strong	CI >	3.05	

OVERALL RISK OF PUBLIC DEBT DISTRESS

24. **Total PPG debt (external plus domestic) remains below its respective benchmark under the baseline and shock scenarios.** The overall risk of debt distress remains moderate. Total debt does not show any breach in the baseline and shock scenarios.

25. **Despite the absence of breaches, the moderate risk rating for PPG external debt motivates the moderate risk rating for total debt**. Other factors of vulnerability include: the higher uncertainty surrounding the projections against the background of the COVID-19 pandemic; the fast increase in

domestic debt in past years; the relatively high ratio of debt service to revenue; the increase in spreads; the possibility of contingent liabilities related to SOEs; revenue losses induced by the effect of the COVID-19 on the economic activity.

MARKET MODULE

26. **The market-financing module shows a small and temporary breach of the policy-dependent thresholds (Figure 6)**. The external debt service-to-revenue ratio breaches the threshold under the baseline in 2024 and 2025. In the macroeconomic framework presented in the RCF/RFI request staff report, it is assumed that the 2019 Eurobond will be partially rolled over with commercial external borrowing. Benin's EMBI spread (estimated at around 438 bps. as of November 23, 2020) no longer breaches the benchmark of 570 bps.[16] Benin's spread was nearly always above the market financing module's benchmark between March 9, 2020 and November 1, 2020, which means that Benin remains vulnerable to liquidity pressures. Benin's spread peaked on March 23, 2020 at around 944 bps.

CONCLUSION

27. **The updated DSA finds that Benin stands at moderate risk of external and overall public debt distress, despite a small and temporary breach of a threshold in the baseline scenario**. The ratings are unchanged relative to the May 2020 Staff Report. While the model mechanically signals a high risk to debt distress rating, staff assesses that it is appropriate to discount the breach because of its temporary (two years) and small nature and given Benin's fiscal path. Moreover, Benin's solid debt management capacity, including on asset and liability management operations, and public debt reporting, are significant mitigating factors. However, marginal breaches should be viewed as indicating risk. In this case, the breach highlights Benin's low revenue collection path and emphasizes the need for the authorities to continue and accelerate the implementation of structural reforms in the area of tax policy and tax and customs administration. It is also important that the authorities prioritize external financing with longer maturities and on concessional terms to reduce the debt service burden. Medium-term fiscal consolidation and improved debt management are needed to maintain debt sustainability.

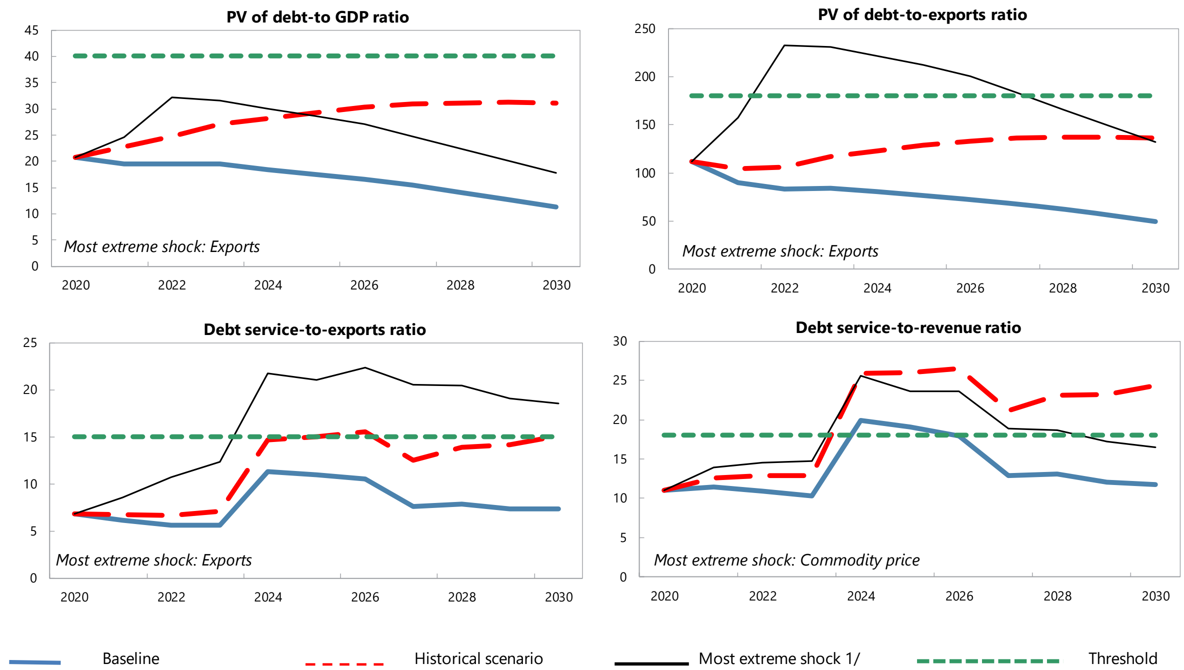
28. **The macroeconomic and fiscal projections are subject to a high degree of uncertainty**. The DSA results could change given the rapidly evolving developments related to the COVID-19 shock. If the pandemic persists and spreads further, the 2020 and 2021 macroeconomic and budgetary performances may worsen further.

29. **The authorities concur broadly with staff's assessment**. 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, including on the establishment of a framework to manage risks stemming from government guarantees.[17]

[16] Benin's spread was nearly always above the market financing module's benchmark between March 9, 2020 and November 1, 2020. Its peak was reached on March 23, 2020 (944 bps.).

[17] The World Bank is providing technical assistance on the establishment of a framework to manage risks stemming from government guarantees.

Figure 1. Benin: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2020-2030



Customization of Default Settings	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	n.a.	n.a.
Commodity price	No	No
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.

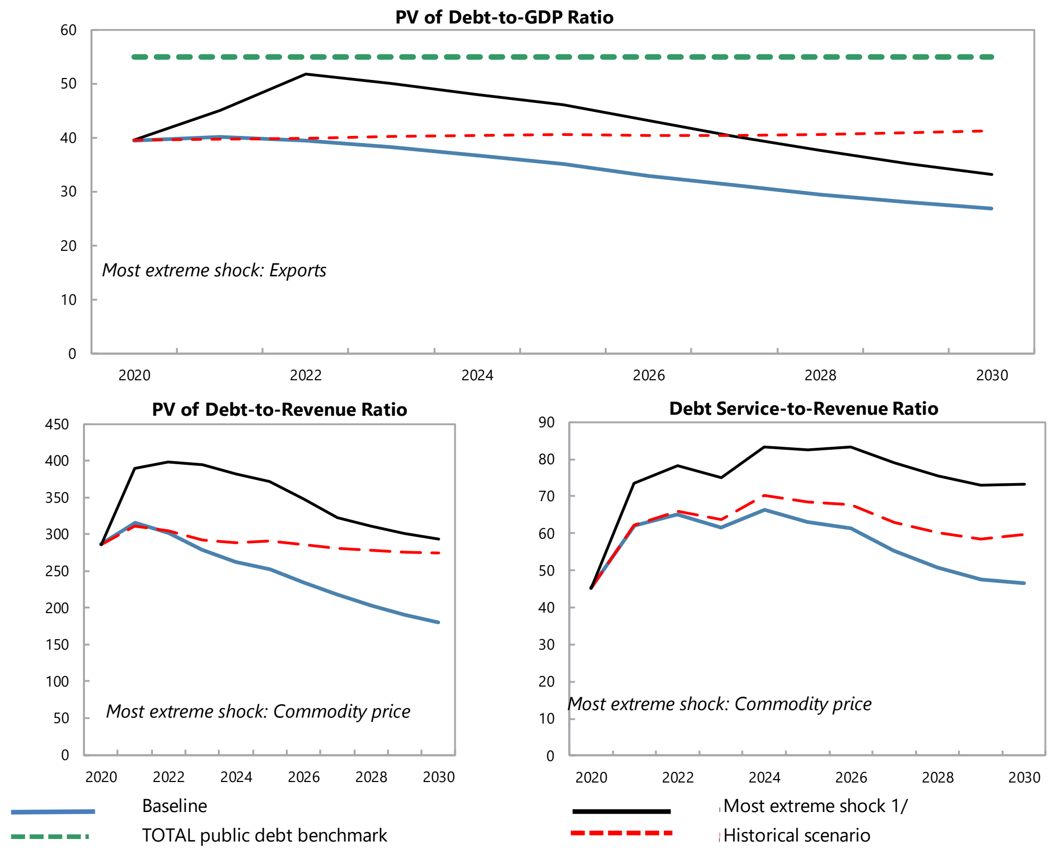
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	2.5%	2.5%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	18	18
Avg. grace period	4	4

* 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 that yields the highest ratio in or before 2030. 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 on-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Benin: Indicators of Public Debt Under Alternative Scenarios, 2020-2030



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	26%	26%
Domestic medium and long-term	59%	59%
Domestic short-term	15%	15%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.5%	2.5%
Avg. maturity (incl. grace period)	18	18
Avg. grace period	4	4
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.7%	4.7%
Avg. maturity (incl. grace period)	4	4
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	4.4%	4.4%

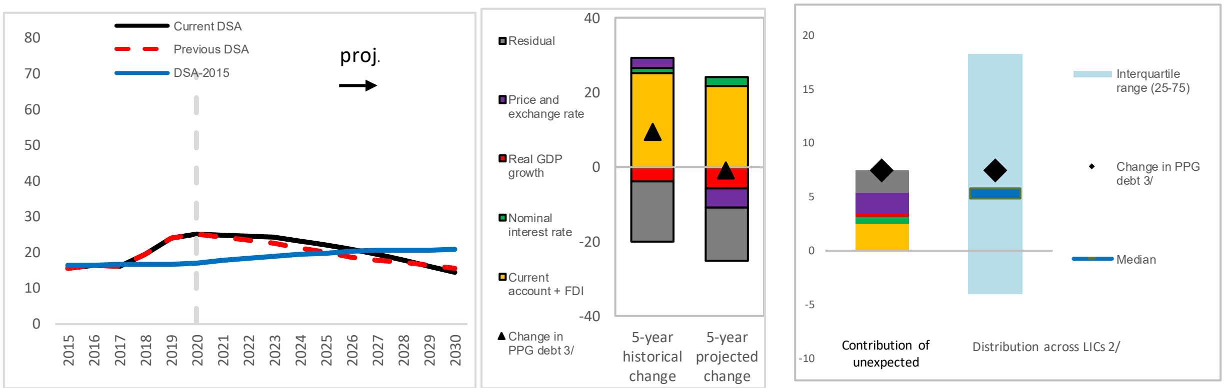
* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

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 2030. 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 exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

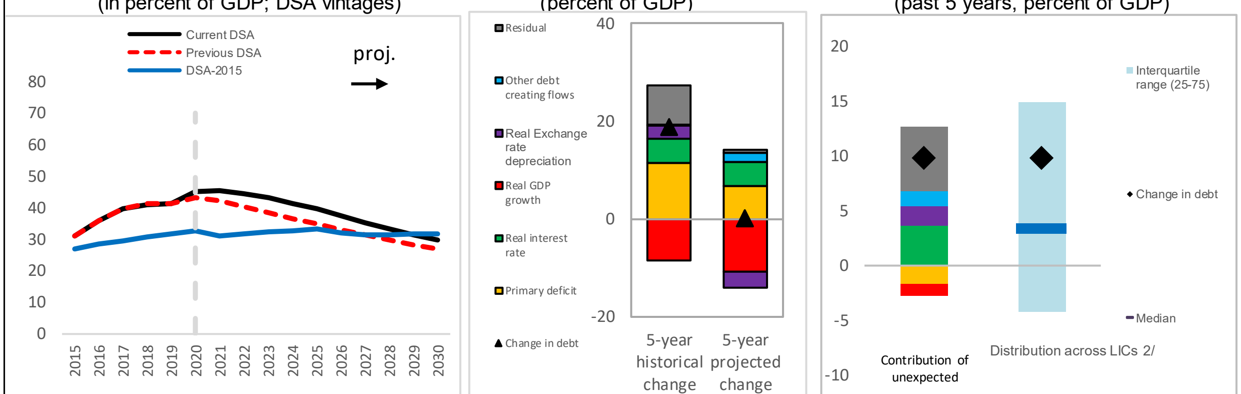
Figure 3. Benin: Driver of Debt Dynamics – Baseline Scenario

Gross Nominal PPG External Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



Public debt

Gross Nominal Public Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



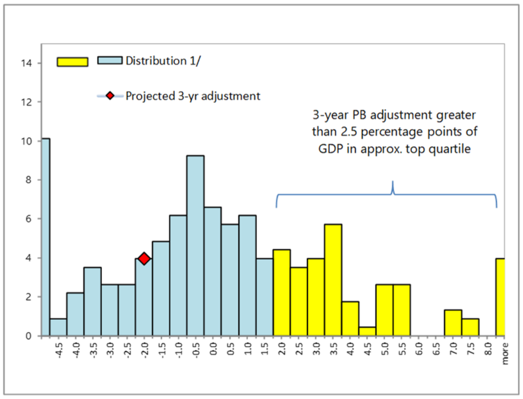
Sources: Country authorities; and staff estimates and projections.

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

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

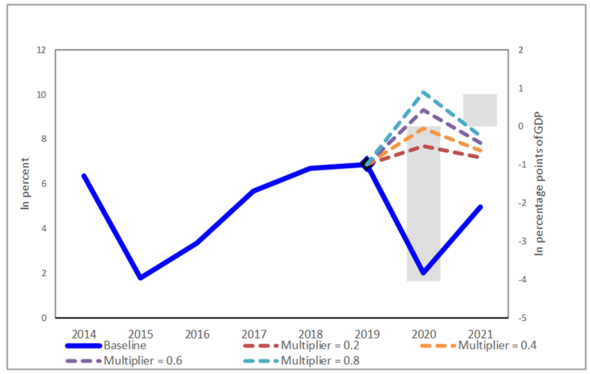
Figure 4. Benin: Realism Tools

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



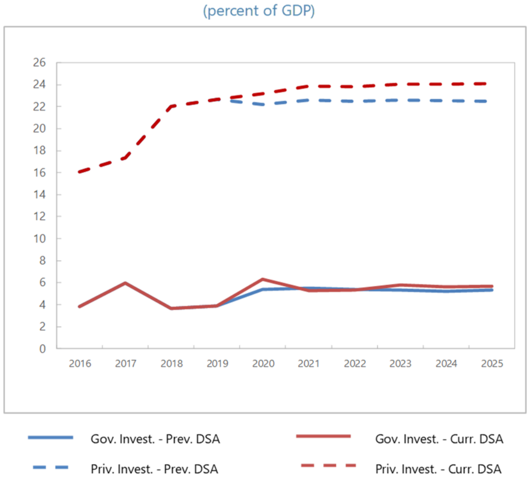
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

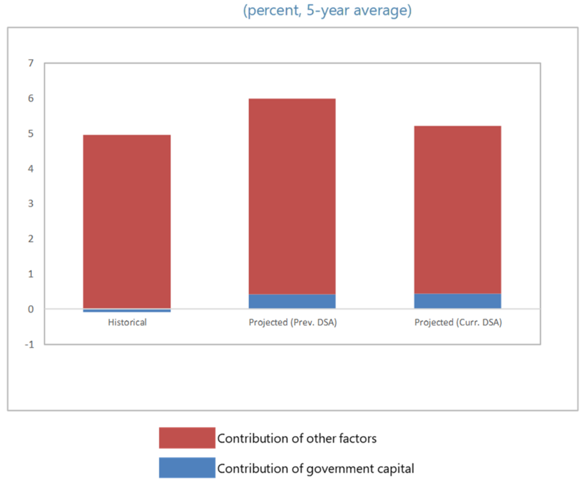


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



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



Sources: Country authorities; and staff estimates and projections.

Note: the nominal private investment-to-GDP rate increase (relative to the previous DSA) is mainly due to a change in methodology for the projection of the private investment deflator.

Figure 5. Benin: Qualification of the Moderate Category, 2020–30 1/

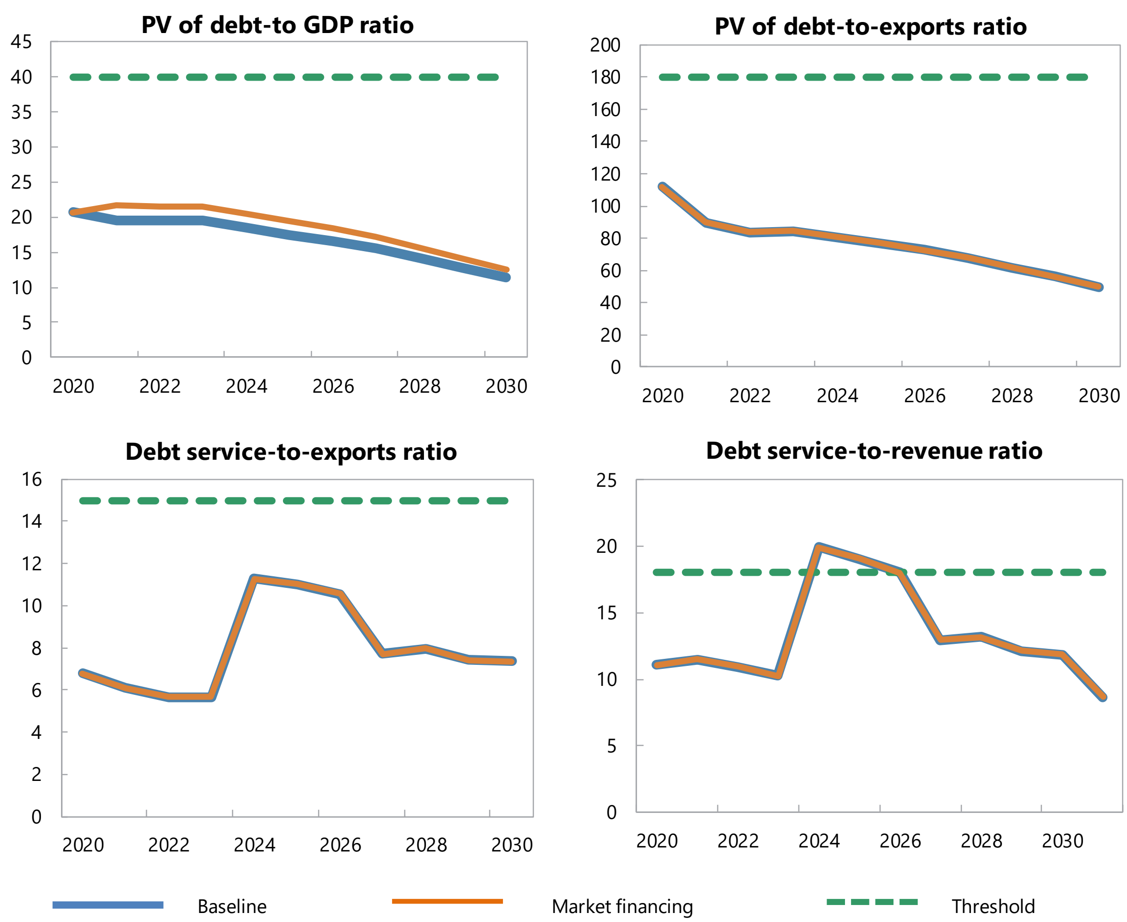
Sources: Country authorities; and staff estimates and projections.

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

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	11	438
Breach of benchmark	No	No
Potential heightened liquidity needs	Low	

1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.
2/ EMBI spreads correspond to the latest available data.



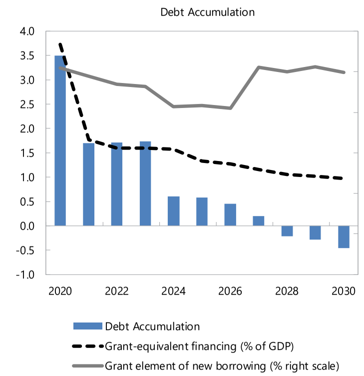
Sources: Country authorities; and staff estimates and projections.

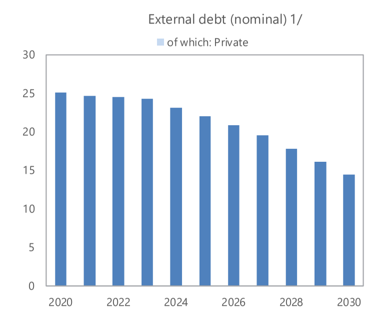
Table 1. Benin: External Debt Sustainability Framework, Baseline Scenario, 2017–40

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
External debt (nominal) 1/	16.1	19.4	24.0	25.1	24.7	24.5	24.3	23.1	22.0	14.4	6.1	**15.4**	**21.1**
of which: public and publicly guaranteed (PPG)	16.1	19.4	24.0	25.1	24.7	24.5	24.3	23.1	22.0	14.4	6.1	**15.4**	**21.1**
Change in external debt	-0.3	3.3	4.6	1.1	-0.4	-0.2	-0.2	-1.2	-1.1	-1.7	-0.5		
Identified net debt-creating flows	4.4	4.1	4.2	3.9	3.8	3.8	3.5	3.5	3.5	3.9	4.5	**6.0**	**3.7**
Non-interest current account deficit	3.9	4.2	2.6	3.2	3.4	3.6	3.3	3.3	3.3	3.5	3.7	**4.6**	**3.4**
Deficit in balance of goods and services	0.1	0.4	0.4	2.8	1.0	-0.8	-0.5	-0.3	-0.2	-0.2	-0.2	**0.7**	**0.1**
Exports	26.1	27.0	24.3	18.5	21.7	23.3	23.0	22.9	22.8	22.8	22.8		
Imports	26.2	27.4	24.7	21.2	22.7	22.5	22.5	22.5	22.6	22.6	22.6		
Net current transfers (negative = inflow)	-1.6	-1.6	-1.3	-1.8	-1.2	-1.3	-1.3	-1.3	-1.4	-1.4	-1.4	**-2.3**	**-1.4**
of which: official	-0.6	-0.7	-0.4	-0.8	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1		
Other current account flows (negative = net inflow)	5.5	5.4	3.5	2.3	3.7	5.6	5.1	5.0	4.8	5.0	5.2	**6.3**	**4.6**
Net FDI (negative = inflow)	1.3	1.3	1.3	0.7	1.0	1.1	1.1	1.1	1.1	1.1	1.1	**1.6**	**1.0**
Endogenous debt dynamics 2/	-0.9	-1.4	0.3	0.0	-0.6	-0.9	-1.0	-0.9	-0.9	-0.6	-0.2		
Contribution from nominal interest rate	0.2	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.3	0.1		
Contribution from real GDP growth	-0.9	-1.0	-1.3	-0.4	-1.1	-1.4	-1.5	-1.5	-1.4	-0.9	-0.3		
Contribution from price and exchange rate changes	-0.3	-0.8	1.1	...	...	...	...	...	...	...	...		
Residual 3/	-4.6	-0.8	0.5	-2.8	-4.2	-4.0	-3.7	-4.7	-4.6	-5.6	-5.0	**-4.7**	**-4.6**
of which: exceptional financing	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	18.6	20.7	19.5	19.5	19.4	18.4	17.5	11.4	4.9		
PV of PPG external debt-to-exports ratio	...	...	76.4	112.0	89.8	83.5	84.3	80.6	76.9	49.9	21.6		
PPG debt service-to-exports ratio	4.1	3.5	5.0	6.8	6.1	5.7	5.7	11.3	11.0	7.4	2.8		
PPG debt service-to-revenue ratio	8.3	7.4	9.4	11.1	11.5	10.9	10.3	19.9	19.1	11.8	4.2		
Gross external financing need (Billion of U.S. dollars)	0.8	0.9	0.7	0.8	1.0	1.1	1.2	1.6	1.7	2.3	4.3		
Key macroeconomic assumptions													
Real GDP growth (in percent)	5.7	6.7	6.9	2.0	5.0	6.0	6.5	6.5	6.5	6.2	5.5	**4.8**	**5.8**
GDP deflator in US dollar terms (change in percent)	1.7	5.2	-5.5	4.6	9.1	2.8	2.4	2.1	2.0	1.9	1.9	**-0.5**	**3.0**
Effective interest rate (percent) 4/	1.6	2.5	2.3	2.2	2.3	2.2	2.3	2.3	2.3	2.1	1.9	**1.6**	**2.2**
Growth of exports of G&S (US dollar terms, in percent)	3.9	16.2	-9.2	-18.9	34.9	16.9	7.8	7.9	8.1	8.2	7.5	**10.0**	**9.0**
Growth of imports of G&S (US dollar terms, in percent)	12.8	17.4	-8.8	-8.4	22.5	8.1	9.1	8.8	9.0	8.2	7.5	**8.2**	**8.3**
Grant element of new public sector borrowing (in percent)	...	...	...	25.5	24.4	23.5	23.2	20.7	20.9	24.9	21.2	**...**	**23.6**
Government revenues (excluding grants, in percent of GDP)	12.8	13.0	12.9	11.3	11.6	12.1	12.7	12.9	13.1	14.1	14.9	**12.4**	**12.9**
Aid flows (in Billion of US dollars) 5/	0.1	0.1	0.2	0.5	0.3	0.3	0.3	0.3	0.3	0.4	0.6		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	3.7	1.8	1.6	1.6	1.6	1.3	1.0	0.9	**...**	**1.6**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	50.4	48.1	44.5	44.4	41.2	37.9	59.7	69.6	**...**	**47.8**
Nominal GDP (Billion of US dollars)	13	14	14	15	18	19	21	23	25	37	79		
Nominal dollar GDP growth	7.4	12.3	0.9	6.7	14.5	9.0	9.1	8.8	8.6	8.2	7.5	**4.3**	**9.0**
Memorandum items:													
PV of external debt 7/	...	...	18.6	20.7	19.5	19.5	19.4	18.4	17.5	11.4	4.9		
In percent of exports	...	...	76.4	112.0	89.8	83.5	84.3	80.6	76.9	49.9	21.6		
Total external debt service-to-exports ratio	4.1	3.5	5.0	6.8	6.1	5.7	5.7	11.3	11.0	7.4	2.8		
PV of PPG external debt (in Billion of US dollars)			2.7	3.2	3.4	3.7	4.1	4.2	4.3	4.2	3.9		
(PVt-PVt-1)/GDPt-1 (in percent)				3.5	1.7	1.7	1.7	0.6	0.6	-0.5	0.0		
Non-interest current account deficit that stabilizes debt ratio	4.2	0.9	-2.0	2.1	3.8	3.7	3.5	4.5	4.4	5.2	4.2		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ 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.

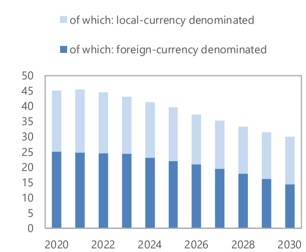
Table 2. Benin: Public Sector Debt Sustainability Framework, Baseline Scenario, 2017-40

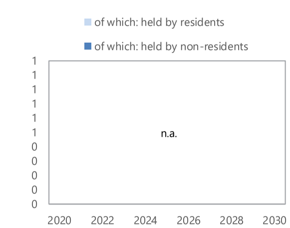
(in percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
Public sector debt 1/	39.6	41.1	41.2	45.0	45.4	44.5	43.0	41.3	39.6	29.9	22.0	29.2	38.7
of which: external debt	16.1	19.4	24.0	25.1	24.7	24.5	24.3	23.1	22.0	14.4	6.1	15.4	21.1
Change in public sector debt	3.7	1.5	0.1	3.7	0.4	-0.9	-1.5	-1.8	-1.7	-1.5	-0.5		
Identified debt-creating flows	0.7	1.0	-1.4	4.9	1.1	-0.5	-1.2	-1.6	-1.5	-2.2	-0.8	1.0	-1.1
Primary deficit	2.8	1.3	-1.1	3.0	2.1	1.0	0.5	0.1	0.2	-0.2	0.0	1.5	0.5
Revenue and grants	13.6	13.6	14.1	13.8	12.7	13.1	13.7	13.9	13.9	14.9	15.7	13.3	14.0
of which: grants	0.8	0.6	1.2	2.5	1.2	1.0	1.0	1.0	0.8	0.8	0.8		
Primary (noninterest) expenditure	16.3	14.9	13.0	16.8	14.9	14.1	14.2	14.0	14.1	14.7	15.7	14.7	14.5
Automatic debt dynamics	-2.1	-0.4	-0.4	0.0	-1.1	-1.5	-1.8	-1.7	-1.7	-2.1	-0.8		
Contribution from interest rate/growth differential	-0.6	-1.1	-1.2	0.0	-1.1	-1.5	-1.8	-1.7	-1.7	-2.1	-0.8		
of which: contribution from average real interest rate	1.3	1.3	1.5	0.8	1.1	1.0	1.0	0.9	0.9	-0.2	0.4		
of which: contribution from real GDP growth	-1.9	-2.5	-2.6	-0.8	-2.1	-2.6	-2.7	-2.6	-2.5	-1.8	-1.2		
Contribution from real exchange rate depreciation	-1.4	0.8	0.8	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.1	0.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Privatization receipts (negative)	0.0	0.1	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	-0.1	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	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	3.0	0.5	1.6	-1.2	-0.6	-0.3	-0.2	-0.2	-0.2	0.7	0.3	1.2	0.1
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	36.0	39.5	40.1	39.5	38.2	36.6	35.1	26.8	20.8		
PV of public debt-to-revenue and grants ratio	...	...	255.7	285.9	315.1	302.1	278.5	263.0	252.7	180.1	132.6		
Debt service-to-revenue and grants ratio 3/	40.2	67.2	45.8	45.2	62.2	65.1	61.5	66.4	63.2	46.6	36.6		
Gross financing need 4/	8.2	10.5	5.4	11.2	10.0	9.5	9.0	9.4	9.0	6.8	5.7		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	5.7	6.7	6.9	2.0	5.0	6.0	6.5	6.5	6.5	6.2	5.5	4.8	5.8
Average nominal interest rate on external debt (in percent)	1.7	2.3	2.4	2.2	2.2	2.2	2.3	2.3	2.3	2.1	1.9	1.7	2.2
Average real interest rate on domestic debt (in percent)	6.8	5.6	6.5	3.4	4.7	4.4	4.3	4.4	4.4	4.5	4.7	2.4	4.4
Real exchange rate depreciation (in percent, + indicates depreciation)	-9.3	5.1	4.3	...	...	...	...	...	...	...	...	2.9	...
Inflation rate (GDP deflator, in percent)	-0.4	0.6	-0.3	2.5	1.4	1.8	1.9	1.9	1.9	1.9	1.9	1.5	1.9
Growth of real primary spending (deflated by GDP deflator, in percent)	18.9	-2.9	-6.6	31.8	-7.0	0.1	8.0	5.0	6.8	8.6	5.5	2.8	7.4
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-0.9	-0.2	-1.2	-0.7	1.7	1.9	2.0	1.9	1.9	1.3	0.5	-0.8	1.5
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		

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

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, 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 stabilizes 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.

Table 3. Benin: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2020–30

(Percent)

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of debt-to GDP ratio											
Baseline	21	20	19	19	18	17	17	15	14	13	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	21	23	25	27	28	29	30	31	31	31	31
B. Bound Tests											
B1. Real GDP growth	21	20	21	21	20	19	18	17	15	14	12
B2. Primary balance	21	20	21	21	20	19	18	17	16	14	13
B3. Exports	21	25	32	32	30	29	27	25	22	20	18
B4. Other flows 3/	21	21	23	23	22	21	19	18	16	15	13
B5. Depreciation	21	24	22	22	21	20	19	17	16	14	13
B6. Combination of B1-B5	21	27	27	27	26	24	23	21	19	17	15
C. Tailored Tests											
C1. Combined contingent liabilities	21	21	21	22	21	20	19	18	17	16	15
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	21	24	28	28	27	26	25	23	21	19	16
C4. Market Financing	21	20	19	19	18	17	17	15	14	13	11
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	112	90	84	84	81	77	73	68	62	56	50
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	112	104	106	117	123	129	133	136	137	137	136
B. Bound Tests											
B1. Real GDP growth	112	90	84	84	81	77	73	68	62	56	50
B2. Primary balance	112	92	88	89	86	83	79	74	68	62	56
B3. Exports	112	158	**233**	**231**	**222**	**212**	**200**	**184**	166	149	132
B4. Other flows 3/	112	98	98	99	95	90	85	79	72	65	58
B5. Depreciation	112	90	76	77	74	70	66	62	57	51	46
B6. Combination of B1-B5	112	149	104	155	148	142	133	123	111	100	89
C. Tailored Tests											
C1. Combined contingent liabilities	112	97	91	93	91	89	85	81	75	70	64
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	112	145	148	144	134	124	112	104	94	85	75
C4. Market Financing	112	90	84	84	81	77	73	68	62	56	50
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	7	6	6	6	11	11	11	8	8	7	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	7	7	7	7	15	**15**	**16**	13	14	14	**15**
B. Bound Tests											
B1. Real GDP growth	7	6	6	6	11	11	11	8	8	7	7
B2. Primary balance	7	6	6	6	12	11	11	8	8	8	8
B3. Exports	7	9	11	12	**22**	**21**	**22**	**21**	**20**	**19**	**19**
B4. Other flows 3/	7	6	6	6	12	11	11	9	9	8	8
B5. Depreciation	7	6	6	5	11	11	10	7	7	7	7
B6. Combination of B1-B5	7	8	9	9	**18**	**17**	**18**	14	14	13	13
C. Tailored Tests											
C1. Combined contingent liabilities	7	6	6	6	12	11	11	8	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	7	8	8	8	15	14	14	12	12	11	11
C4. Market Financing	7	6	6	6	11	11	11	8	8	7	7
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	11	11	11	10	**20**	**19**	18	13	13	12	12
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	11	13	13	13	**26**	**26**	**27**	**21**	**23**	**23**	**24**
B. Bound Tests											
B1. Real GDP growth	11	12	12	11	**22**	**21**	**20**	14	14	13	13
B2. Primary balance	11	11	11	11	**20**	**19**	**19**	14	14	13	13
B3. Exports	11	12	12	13	**23**	**22**	**23**	**21**	**20**	**18**	18
B4. Other flows 3/	11	11	11	11	**21**	**20**	**19**	15	15	14	13
B5. Depreciation	11	14	14	12	**24**	**23**	**22**	15	15	14	14
B6. Combination of B1-B5	11	12	14	13	**24**	**22**	**24**	18	18	16	16
C. Tailored Tests											
C1. Combined contingent liabilities	11	11	11	11	**20**	**20**	**19**	13	14	13	12
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	11	14	15	15	**26**	**24**	**24**	**19**	**19**	17	17
C4. Market Financing	11	11	11	10	**20**	**19**	18	13	13	12	12
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, 2020–30

(Percent)

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	PV of Debt-to-GDP Ratio										
Baseline	39	40	39	38	37	35	33	31	29	28	27
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	39	40	40	40	40	41	40	40	41	41	41
B. Bound Tests											
B1. Real GDP growth	39	42	44	44	43	43	41	40	40	39	38
B2. Primary balance	39	42	43	42	40	38	36	34	32	31	30
B3. Exports	39	45	52	50	48	46	43	40	38	35	33
B4. Other flows 3/	39	42	43	42	40	38	36	34	32	30	29
B5. Depreciation	39	44	42	40	37	34	31	28	26	24	22
B6. Combination of B1-B5	39	40	41	40	38	37	34	33	31	29	28
C. Tailored Tests											
C1. Combined contingent liabilities	39	48	47	45	43	42	39	37	35	34	32
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	39	43	45	47	48	48	48	46	45	44	44
C4. Market Financing	39	40	39	38	37	35	33	31	29	28	27
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
	PV of Debt-to-Revenue Ratio										
Baseline	286	315	302	278	263	253	234	218	204	191	180
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	286	311	305	292	289	290	285	281	278	276	274
B. Bound Tests											
B1. Real GDP growth	286	328	338	320	310	306	293	281	272	263	257
B2. Primary balance	286	329	330	305	288	277	257	239	224	210	199
B3. Exports	286	354	397	365	345	331	306	282	259	239	222
B4. Other flows 3/	286	329	329	303	286	275	254	236	219	204	192
B5. Depreciation	286	348	323	290	265	246	221	199	180	163	148
B6. Combination of B1-B5	286	312	313	289	274	264	244	228	213	200	188
C. Tailored Tests											
C1. Combined contingent liabilities	286	374	357	329	311	299	278	260	243	228	216
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	286	390	399	394	381	372	347	323	311	301	293
C4. Market Financing	286	315	302	278	263	253	234	218	204	191	180
	Debt Service-to-Revenue Ratio										
Baseline	45	62	65	61	66	63	61	55	51	47	47
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	45	62	66	64	70	68	68	63	60	58	60
B. Bound Tests											
B1. Real GDP growth	45	64	71	69	76	75	75	70	67	65	65
B2. Primary balance	45	62	68	68	73	71	68	61	56	52	51
B3. Exports	45	62	66	64	69	65	66	62	57	53	52
B4. Other flows 3/	45	62	65	62	67	64	63	57	53	49	48
B5. Depreciation	45	60	64	60	68	65	63	55	51	47	47
B6. Combination of B1-B5	45	60	66	64	69	66	65	58	53	49	48
C. Tailored Tests											
C1. Combined contingent liabilities	45	62	76	75	81	80	72	65	60	56	54
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	45	74	78	75	83	82	83	79	75	73	73
C4. Market Financing	45	62	65	61	66	63	61	55	51	47	47

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Includes official and private transfers and FDI.

Statement by Mr. Andrianarivelo, Executive Director for Benin
Mr. Sylla, Alternate Executive Director,
Mr. Nguema-Affane, Senior Advisor to the Executive Director and
Mrs. Boukpessi, Advisor to the Executive Director
December 21, 2020

Introduction

1. On behalf of our Beninese authorities, we would like to thank the Executive Board, Management and Staff for the Fund's continued support, including through the augmentation of access in the context of the 6th and final review of their Extended Credit Facility (ECF)- supported program in May 2020. This has helped the government in its initial response to the health and socio-economic fallout of the COVID-19 pandemic and mobilize additional donor financing assistance. However, the larger than anticipated impact of the COVID-19 pandemic in Benin have created sizable fiscal and balance of payments financing needs, threatening the achievements made in fiscal consolidation, debt sustainability and structural reforms in recent years under the Government Action Program and the National Development Plan.

2. To cover part of the financing gap, the authorities are requesting a disbursement under the Rapid Credit Facility (RCF) and a purchase under the Rapid Financing Instrument (RFI) equivalent to 100 percent of Benin's quota (SDR 123.8 million). This will be critical to sustain the government' efforts and continued response to the pandemic. Going forward, cognizant of the uncertainty surrounding the global economic outlook, the Beninese authorities intend to maintain close engagement with the Fund to discuss appropriate policy measures, particularly in the event downside risks materialized.

Recent Economic Developments and Outlook

3. Since the completion of the 6th ECF review, macroeconomics conditions have worsened. The COVID-19 shock combined with the prolonged border closure with Nigeria is taking a heavy toll on the economy. Real GDP growth is expected to decelerate to 2 percent from 3.2 percent projected at the onset of the crisis and from 6.9 % in 2019. Year on year inflation increased due to higher food and transport prices. The fiscal and the current account deficits are expected to widen as a result of the implementation of the authorities' response plan to the ongoing crisis, the strong decline in reexport activities, disruptions in import and value chains, drop in tourism receipts and remittances.

4. Despite these developments, Benin's economic outlook remains strong. Real GDP growth in 2021 is expected to reach 5 percent and to return to the pre-pandemic trend at

6.5 percent over the medium-term. This projected fast recovery relies on a rebound in the tertiary sector activities, the end of the pandemic and a gradual global recovery including in Nigeria along with the reopening of the border which is now expected in early 2021. The authorities remain mindful of the downside risks stemming notably from the protracted COVID-19 pandemic and its second wave in West Africa, weak global demand, continued cross-border trade disruption with Nigeria and security threats in the region. They are committed to pursuing their efforts to mitigate risks under their control and will endeavor to continue building on the robust performance in recent years to safeguard notable macroeconomic gains, which will be essential for a speedy economic recovery once the effects of the pandemic abate.

Impact of the COVID-19 Pandemic and the Government's Response

5. As of December 15, 2020, the total number of confirmed cases was at 3,090, with 2,972 recovered and 44 fatalities. The immediate response plan discussed at the time of the 6th ECF review in May 2020 has helped contain the spread of the virus and limit the impact on lives and livelihoods and support vulnerable businesses. However, the continued deterioration of the external environment and larger than anticipated impact of the pandemic crisis in Benin led to the revision of the initial measures and the introduction of additional measures including a multi-year new guarantee and interest subsidy mechanisms to provide access to finance for small and micro enterprises (SMEs) in the agricultural and nonagricultural sectors. All in all, the comprehensive package of fiscal measures amounts to CFAF 323 billion or 3.7 percent of GDP in 2020 and run until 2022. This package will be financed with committed donors support, concessional financing and grants, notably from the IMF (augmented access, resources freed thanks to the debt service relief under the Catastrophe Containment and Relief Trust, and RCF/RFI), other issuances on the domestic and regional markets notably COVID-19 T-Bill.

6. Consistent with the policy of temporarily easing fiscal rules to combat the effects of the COVID-19 pandemic set in the West African Economic and Monetary Union (WAEMU), the fiscal stance in 2020 has been loosened. In the 2020 supplementary budget law approved in October 2020, the fiscal deficit has been increased to 5.1 percent of GDP, compared to 3.5 percent at the time of the 6th ECF review in May 2020 and 1.8 percent pre-COVID-19 levels. It includes higher spending to support households and business affected by the crisis and increased social health-related outlays. Alongside, revenue collection is expected to underperform in 2020 due to lower port activity, the impact of the prolonged border closure with Nigeria and the temporary tax relief measures.

7. As regards regional monetary and financial policies, the regional central bank – *Banque Centrale des Etats de l'Afrique de l'Ouest* (BCEAO) has taken important measures to ease its monetary policy stance and limit the economic fallout on the financial sector. The measures aimed at (i) maintaining adequate liquidity in the banking system with notably the implementation of a special 3-month "COVID-19 T-Bills", (ii) supporting the affected businesses with measures facilitating electronic payments and

mobile banking to expand access to financial services and (iii) preserving financial stability.

Transparency of COVID-related Spending

8. The authorities commit to ensure transparency and accountability in the management of COVID-related expenditures. They have published the list of the main contracts, as well as the beneficial ownership information and the validation of delivery. They will pursue proper budgeting and execution of new spending in line with international transparency rules. The authorities have produced a memorandum of understanding, in which were clarified the timeline for the implementation of the multi-year credit support program, as well as the financial relationships between the government and the implementing public entities. In addition, an independent audit by the Accounting Chamber –*Cour des Comptes*– will be performed. The audit's findings and recommendations will be published by end-June 2021.

Policies Going Forward

Fiscal policy and Debt Sustainability

9. The Beninese authorities put high value in maintaining fiscal sustainability and preserving fiscal discipline. They intend to bring back the budget deficit within the WAEMU convergence criteria of 3 percent of GDP by 2022, as the crisis recedes. The 2021 draft budget law submitted to the Parliament targets a deficit of 4.5 percent of GDP. Confident about a quick economic recovery and the reopening of the border with Nigeria, the authorities consider that the major tax policy and administrative measures undertaken since 2017 and developed in the context of their Medium-Term Revenue Strategy (MTRS) will pave the way for a strong performance in domestic revenue mobilization and sustain their efforts.

10. They will continue to strengthen public financial management. To this end, the Fiscal Transparency Evaluation started in February 2020 with technical assistance from IMF is about to be completed. A comprehensive assessment of fiscal risks will be also conducted by end-June 2021. Finally, the authorities intend to publish the legal framework of the management of public investment as well as the most recent medium-term public investment program.

11. Debt sustainability remains a high priority to the Beninese authorities. In this regard, they welcome the DSA conclusion that Benin's external and overall debt is sustainable, and the country continues to be at moderate risk of debt distress. However, noting that risks to debt sustainability have increased, especially regarding the external debt service over the period 2024-2025, the authorities wish to reiterate their commitment to follow their Medium-Term Debt Strategy (MTDS) which relies on an appropriate mix of domestic and external financings at more favorable terms.

Structural Economic Transformation

12. Looking ahead, the Beninese authorities are committed to pursue their medium-term objectives which seek to safeguard macroeconomic stability, structurally transform the economy and achieve higher, sustained and inclusive growth. To make growth more inclusive, the authorities will make further inroads in poverty reduction, mainly with the implementation of a social protection system, the *Assurance pour le Renforcement du Capital Humain*—ARCH, which will provide in 2021 universal medical insurance, microcredit and pension system, for the entire population. To advance the transformation agenda, the authorities have developed specific policies for 2020-2024 notably the strengthening of the agriculture and fishing sectors; the development of high-potential sectors such as tourism and digital activities. They will further invest in roads, port and energy infrastructures as well as in human capital (public education and professional training). Continuous progress in improving the business environment ranks high in the authorities' priorities given the expected role of the private sector in advancing the country's economic transformation agenda. The authorities will press ahead with the needed reforms to tackle remaining structural challenges facing the economy.

Conclusion

13. Our Beninese authorities have swiftly acted to respond to the COVID-19 pandemic crisis with measures to contain the spread of the pandemic and an economic package to dampen the impact on the economy. They give assurance to maintain prudent macroeconomic policies needed to support a swift recovery and achieve sustained inclusive growth, once the pandemic abates. However, the protracted economic slowdown and cross-border activities have led to a deterioration of the country's outlook and large fiscal financing gap and balance of payment needs. The authorities look forward to Executive Directors' support for their requests for a disbursement under the RCF and a purchase under the RFI to cover partially their financing needs.