INTERNATIONAL MONETARY FUND

IMF Country Report No. 22/383

BENIN

December 2022

FIRST REVIEWS UNDER THE EXTENDED FUND FACILITY AND THE EXTENDED CREDIT FACILITY ARRANGEMENTS—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BENIN

In the context of the First Reviews under the Extended Fund Facility and the Extended Credit Facility Arrangements, 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 14, 2022, following discussions that ended on November 3, 2022, with the officials of Benin on economic developments and policies underpinning the Fund-supported program under the Extended Fund Facility and the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on December 2, 2022.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the Internal Development Association.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for Benin.

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PRESS RELEASE

PR22/432

IMF Executive Board Completes the First Reviews under the Extended Fund Facility and Extended Credit Facility Arrangements for Benin

FOR IMMEDIATE RELEASE

- IMF Board completed the First Review under the 42-month blended EFF/ECF arrangement for Benin, providing the country with immediate access to about US$144 million.
- The program is off to a strong start, with all end-June 2022 performance criteria and indicative targets met and all structural benchmarks implemented.
- After three years of warranted policy accommodation to cushion the impact of severe and repeated shocks on the population, Parliament has adopted a budget law resuming the consolidation of public finances next year, while protecting social spending.

Washington, DC: On December 14, 2022, the Executive Board of the International Monetary Fund completed the First Review of Benin's Fund-supported program. The 42-month blended EFF/ECF under High Combined Credit Exposure (HCCE), approved on July 8, 2022 (see PR 22/252), seeks to help Benin address pressing financing needs, support the country's National Development Plan centered on achieving the Sustainable Development Goals (SDGs), and catalyze donor support. This review completion allows for the immediate disbursement of SDR 108.30 million (about US$144 million) toward budget support, bringing total disbursements under the program so far to SDR 216.6 million (about US$287 million).

The Beninese economy is gaining strength, notwithstanding heightened global uncertainty and increasing regional security risks. Economic activity is projected to expand by 6 percent this year, driven by agroindustry, construction, and port-related activity. The current account deficit would widen to 6.1 percent of GDP, due to high fuel and food prices, compounded by the strong US dollar appreciation. Nevertheless, inflation has remained subdued, owing to a strong harvest season and subsidy measures adopted by the government since Russia's invasion of Ukraine.

The program is off to a strong start, with all end-June 2022 program's quantitative performance criteria and indicative targets met with wide margins and structural benchmarks implemented.

Following the Executive Board discussion, Mr. Okamura, Deputy Managing Director and Acting Chair, issued the following statement:

"The authorities' strong tax collection efforts and spending reprioritization are complementing frontloaded IMF financing under the EFF/ECF, allowing Benin to meet unanticipated spending needs related to the protracted war in Ukraine and spillovers from regional security risks.

"After three years of warranted policy accommodation to contain the impact of severe and repeated shocks, the National Assembly adopted a budget law resuming the consolidation of

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public finances next year. The budget allocates substantial resources to critical social and security-related spending.

“The envisaged revenue-based fiscal consolidation will create space for Benin’s large development needs while preserving debt sustainability. It will be supported in the near-term by the authorities’ recent strategy for streamlining tax expenditures, and in outer years by the upcoming Medium-Term Revenue Mobilization Strategy (MTRS) that seeks to further expand the tax base and improve the overall efficiency of the tax system.

“The authorities should continue to fine-tune policy calibration to translate macroeconomic gains in recent years into improved social outcomes. In this context, a fundamental reform of fuel subsidies would help release resources toward human capital development for future generations. Clear communication of policy tradeoffs and targeted support measures to the most vulnerable would be critical to maintain broad support for necessary reforms. The swift operationalization of the recently established social registry would provide the necessary infrastructure to channel support to vulnerable households in the adjustment process.

“Ongoing steadfast implementation of the authorities’ action plan to strengthen the AML/CFT framework, together with efforts to enhance governance and transparency—building on the IMF governance diagnostic once finalized—will bolster the institutional foundations of private-sector led inclusive growth. Promoting access to finance, particularly for small- and medium-sized enterprises, while remaining vigilant vis-à-vis financial sector risks would also be important in this regard. Efforts to mitigate food insecurity and strengthen climate resilience are also needed.”

INTERNATIONAL MONETARY FUND

BENIN

December 2, 2022

FIRST REVIEWS UNDER THE EXTENDED FUND FACILITY AND THE EXTENDED CREDIT FACILITY ARRANGEMENTS

EXECUTIVE SUMMARY

Backdrop. On July 8, 2022, the IMF Executive Board approved 42-month Extended Fund Facility (EFF) and Extended Credit Facility (ECF) arrangements under High Combined Credit Exposure (HCCE) (391 percent of quota, about US$650 million) to help Benin meet pressing financing needs and support the country's National Development Plan centered on achieving SDGs. The program is off to a strong start notwithstanding elevated uncertainty. While there is broad consensus that sound macroeconomic management in recent years is generating tangible dividends for the economy as a whole, the public is frustrated over the fact that this is taking time to translate into improved socioeconomic conditions for all. This sentiment has been compounded by temporary import price pressures since Russia's invasion of Ukraine. Legislative elections will be held in early January 2023, with related risks to the program expected to be limited.

Policy discussions. The First EFF/ECF Review focused on (i) the authorities' response to the war in Ukraine, notably the shift towards more targeted and cost-effective measures (in the context of the 2022 supplementary budget); (ii) the budget law for 2023 (the first year of fiscal consolidation under the program), including spending composition and tax measures to underpin revenue-based consolidation; (iii) food security and next steps in strengthening social safety nets; and (iv) strengthening the AML/CFT framework and preserving financial stability.

Program performance. All end-June quantitative performance criteria (QPCs) and indicative targets (ITs) were met with wide margins, with strong fiscal performance extending through end-September, supported by exceptional tax collection effort. All Structural Benchmarks (SBs) were implemented, albeit some with minor delays. The authorities adopted two decrees to strengthen the AML/CFT framework, meeting the related end-June SB. They also adopted a regulation allowing procurement agencies to collect beneficial ownership (BO) information in September, implementing the end-June SB with delay; they've been publishing the BO information regularly since October (end-September SB). The authorities established the social registry in a timely manner; the mapping of poor and extreme poor across Benin's municipalities occurred after the end-July due date.

Risks to the program. Risks to the program appear manageable. Security spending could be a source of pressure on the budget, a risk that is mitigated by the authorities' continued commitment to fiscal responsibility and public consensus on keeping debt under control. Risks to the program are further mitigated by Benin's established track record in macroeconomic management, strong support from development partners, and a comprehensive and frontloaded IMF capacity development (CD) program. The authorities' intention to calibrate policies deliberately to translate macroeconomic gains into improved socio-economic outcomes would improve equity. The potential for the January 2023 legislative elections to derail program implementation is mitigated by Benin's entrenched reform path, the communication by the government of policy priorities underpinning the 2023 budget law through a simplified "citizen budget", and the recent minimum wage upgrade. Benin continues to meet HCCE criteria in staff assessment. Moreover, a recent IMF's Fiscal Safeguards Review (FSR) points to reasonable safeguards to support relatively large Fund budget support to Benin under HCCE.

Approved By
Annalisa Fedelino (AFR) and Geremia Palomba (SPR)

Discussions were held in Cotonou during October 25–November 3, 2022. The mission comprised Mr. Lonkeng (head), Mr. Zouhar (Resident Representative), Ms. Daly, Messrs. Bennouna and Specht (all AFR), Mrs. Bloch (FAD), and Mr. Houessou (local economist). The mission was supported by Mses. Eckling (HQ) and Nononsi (local office). Ms. Thomas (LEG) also participated. The mission met with Senior Minister of Economy and Finance Wadagni, Senior Minister of Development and Coordination of the Governmental Action Bio Tchané, Special Advisor to the President Dagnon, Minister of Health Hounkpatin, Minister of Industry and Trade Assouman, National Director of the BCEAO (the regional central bank) Assilamehoo, President of the Audit Court Bio Tchané, Director of the Military Cabinet of the President General Bada, other senior government officials, the civil society, the banking association and other private sector representatives, university students, and the donor community.

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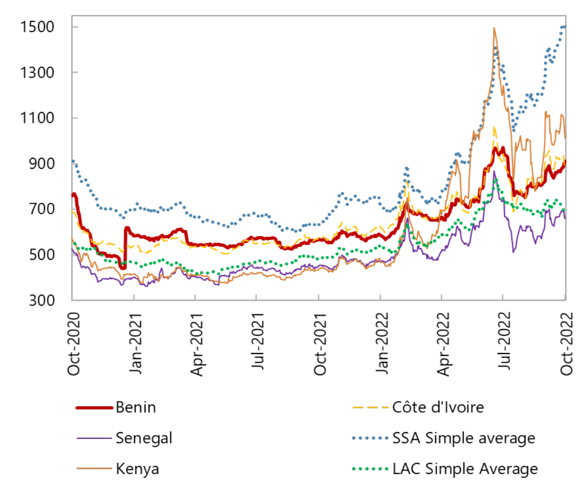
CONTEXT

1. The program is off to a solid start; the economy is gaining strength, notwithstanding heightened uncertainty. Large and frontloaded financial support under the new 42-month blended EFF/ECF arrangement—approved by the IMF Executive Board on July 8—is providing the Beninese authorities with much-needed room for maneuver at a time of heightened global and domestic uncertainty. Port activity has continued to expand, albeit at a slower pace than prior to Russia's invasion of Ukraine; agriculture is rebounding. All restrictive anti-COVID-19 measures were lifted in mid-June; the vaccination rate stood at around 35 percent as of end-September, above WAEMU peers.

2. However, there is frustration about the perceived disconnect between sound macroeconomic management in recent years and delayed improvements in social outcomes. This sentiment has recently been compounded by temporary pressures from imported inflation amid the war in Ukraine, with the public pointing to more generous government support elsewhere in the region. This is notwithstanding fiscal accommodation over the past three years—supported by hard-won fiscal space—to contain the economic fallout from large and repeated shocks on the population. In addition to ongoing subsidy measures to limit the impact of high import prices on purchasing power, the authorities have recently announced public sector wage increases—after several years of quasi-freeze—and an upgrade of the minimum wage. A key challenge to Benin remains how to translate macroeconomic gains into improved social outcomes—the country ranked 153 out of 163 countries in the 2022 *Sustainable Development Report*. The recently established social registry provides the necessary infrastructure for various social assistance programs, including the flagship Insurance for Human Capital Development (ARCH).

3. Benin's security situation has become more challenging, and natural disaster-related risks remain. The latest September attack on a customs outpost resulted in two deaths, and security concerns are causing intermittent school closures in the North, which could compound COVID-19-related scars on human capital. Recent seasonal flooding caused significant casualties, cotton output losses, and damaged infrastructure, including to roads, schools, and health centers.

Text Figure 1. Benin: Selected Emerging Market Sovereign Bond Spreads (2020–2022)



Sources: Bloomberg and IMF staff calculations

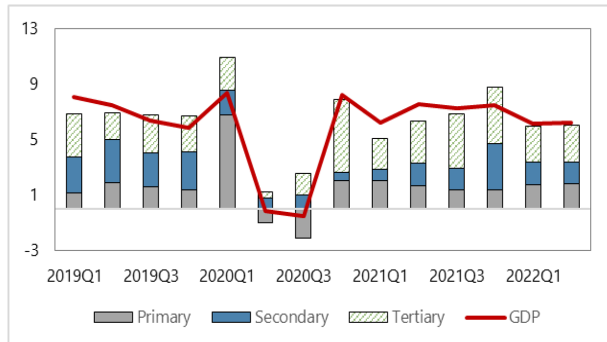
4. Notwithstanding these near-term and structural challenges, the authorities remain committed to reforms. They put a premium on maintaining a solid track record in fiscal responsibility—sovereign spreads have held up well outside volatility bouts (Text Figure 1)—and durably transforming the Beninese economy. The authorities adopted a 2022 Supplementary Budget in early November, broadly in line with program objectives.

RECENT ECONOMIC DEVELOPMENTS

5. The economic recovery is underway, but uncertainty remains elevated.

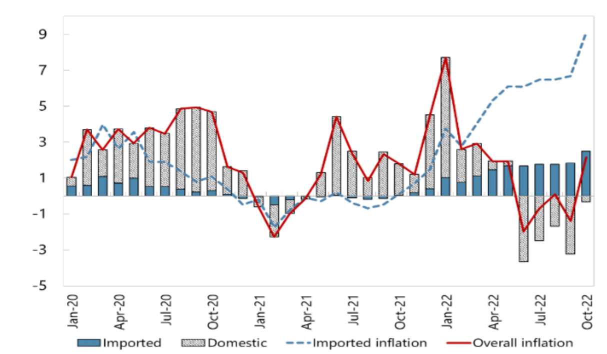
- **Real GDP** in 2022H1 is estimated at 6.2 percent (y/y), mainly driven by a rebound in agriculture, with positive spinoffs to **agroindustry** (Text Figure 2). The launch of infrastructure projects under the second-generation Government's Action Program (PAG II; 2021–26) is positively impacting construction. The expansion of the Port of Cotonou to host larger vessels is boosting transit. The number of airport passengers increased by an unprecedented 52 percent during the first half of the year—also reflecting efforts to boost culture/art tourism.[1]

Text Figure 2. Benin: Contributions to Growth
(percentage points)



Sources: Beninese authorities and IMF staff calculations

Text Figure 3. Benin: Contributions to Inflation
(January 2019-October 2022, y/y)



Sources: Beninese authorities and IMF staff calculations

- **Inflation** has remained distinctly subdued (1.1 percent, y/y, for the first 10 months of the year), as a strong harvest season and subsidy measures adopted since Russia's invasion of Ukraine partially offset import price pressure (Text Figure 3). Nevertheless, food insecurity risks have risen (Annex IV).

- **The current account deficit** in 2021 was about 4.1 percent of GDP and is projected to widen by 2 ppts to 6.1 percent of GDP in 2022, nearly unchanged from the previous forecast, as the increase in the international price of cotton offset a drop in the production of cotton grains due to floods, a larger food and fuel imports bill, and lower grants (¶27).

- **Credit** to the private sector rose by 7 percent at end-July 2022 (y/y), buoyed by construction and cotton export sectors. The banking system has remained resilient overall, as reflected in the continued downward trend in NPLs (11 percent, y/y, at end-July 2022, from 12.6 percent at end-December 2021) (Figure 4).

[1] The infrastructure projects under PAG-II aim to promote tourism, including cultural tourism, given spillovers to the rest of services in the economy.

6. **Fiscal outturns at end-September 2022 were better than expected** (Text Table 1)**:**

- Preliminary data suggest strong fiscal performance for the first three quarters of the year, with a basic primary balance deficit of CFAF 60.9 billion at end-September 2022 (significantly below the end-September indicative target of a deficit of CFAF 154.4 billion).
- The performance was supported by buoyant taxes (up by about 16 percent, y/y), partly reflecting the measures adopted in the original 2022 budget. The authorities' tax effort was stronger in gross terms—they adopted new measures to offset tax giveaways related to subsidies introduced in response to the war in Ukraine.
- Expenditure execution has started to pick up from its low level earlier in the year, driven mainly by capital expenditures. Interest payments were lower than anticipated, as Benin continues to benefit from prudent liability management in previous years and limited exposure to variable interest rate debt.

Text Table 1. Benin: June – September 2022 Fiscal Outturn
(billions of CFA francs, cumulative)

	End-June		End-September	
	EFF/ECF	Actual	EFF/ECF	Preliminary
Total revenue and grants	**714.5**	**755.5**	**1057.0**	**1145.3**
Total revenue	688.2	720.7	1024.9	1101.2
Tax revenue	593.8	617.2	885.5	914.9
Nontax revenue	94.4	103.5	139.4	186.3
Grants	26.4	34.9	32.1	44.1
Total expenditure and net lending	**1143.5**	**1056.1**	**1651.7**	**1586.9**
Current expenditure	636.4	566.2	943.5	902.2
Current primary expenditure	481.4	440.1	761.1	750.1
Interest	155.0	126.1	182.5	152.1
Capital expenditure	507.2	492.3	708.2	687.2
o/w domestically financed	282.3	276.8	414.5	412.0
Net lending	0.0	-2.5	0.0	-2.5
Overall balance (commitment basis, incl. grants)	**-429.0**	**-300.5**	**-594.7**	**-441.6**
Basic primary balance[1]	-75.4	3.8	-150.7	-60.9

1/Total revenue (excluding grants) minus current primary expenditure and capital expenditure financed by domestic resources.
Sources: Beninese authorities and IMF staff calculations and estimates.

OUTLOOK AND RISKS

7. The medium-term macroeconomic outlook is broadly in line with initial program projections (Text Table 2), with the notable exception of headline inflation, now forecasted at 2.5 percent in 2022 (against 5 percent at program approval), mainly reflecting continued subdued inflation at end-October (Annex IV). While debt is projected to increase by 3 ppts of GDP by end-2022, partly due to the sharp appreciation of the U.S. dollar (14 percent against the CFAF so far in 2022), Benin continues to be assessed at moderate risk of external debt distress (see DSA). The country's external position is assessed to be in line with the level implied by fundamentals and desirable policies.[2] Over the medium term, growth would converge to its potential of 6 percent and inflation is expected to stabilize at 2 percent, consistent with the peg to the euro. The current account deficit is expected to hover around 4 percent of GDP over the medium term.

8. Risks to the outlook are tilted to the downside from 2023 amid heightened uncertainty.

- Intensifying spillovers from Russia's war in Ukraine could disrupt transit trade and increase volatility in commodity price and financing conditions. Relatedly, further pressure on imported energy and food prices and the resulting food insecurity could fuel social discontent. Negative shocks from Nigeria could take a heavy toll on transit activity and international tax revenue. Moreover, Benin remains vulnerable to climate change shocks. Uneven benefits from the ongoing structural transformation could fuel frustration among the population and compound the deteriorating security situation in the region (Annex I).

- Upside risks could materialize considering momentum at the port and in tourist arrivals amid the current art/cultural euphoria. In addition, sustained expansion of the Port of Cotonou over the medium term and lower food and oil prices could strengthen the fiscal and external positions.

Text Table 2. Benin: Key Macroeconomic Indicators

	Avrg 2017-19	2020	2021	2022	2023	2024	2025	2026	2027
		Est.	Est.	Projections					
Real GDP (percent change)	6.4	3.8	7.2	6.0	6.0	5.9	6.1	6.0	6.0
CPI inflation, average (percent)	0.6	3.0	1.7	2.5	3.0	2.0	2.0	2.0	2.0
Overall balance (commitment basis, incl grants)	-2.6	-4.7	-5.7	-5.6	-4.3	-2.9	-2.9	-2.9	-2.9
Tax revenue	10.2	10.5	11.0	11.5	11.9	12.5	13.0	13.3	13.6
Primary expenditure	9.3	10.2	9.4	9.7	9.4	9.4	9.4	9.3	9.8
Current account balance	-4.2	-1.7	-4.1	-6.1	-5.5	-4.7	-4.7	-4.5	-4.1
Public debt	40.6	46.1	50.3	52.8	53.2	51.7	50.0	48.7	47.5

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

[2] See IMF Country Report No. 22/245.

PROGRAM PERFORMANCE

9. All end-June 2022 quantitative performance criteria (QPCs) and indicative targets (ITs) were met with wide margins (Text Table 3). In addition to prudent budget execution amid tight financing conditions, the fiscal overperformance was supported by strong tax collection efforts. The contracting and guaranteeing of external debt (in present value terms) remained within the QPC. Benin did not accumulate external or domestic arrears. Priority social spending was well-above the program floor. Preliminary data for September suggest that this strong program performance continued, with all indicative targets within reach.

Text Table 3. Benin: Quantitative Performance Criteria and Indicative Targets, 2021-2022[1]

(billions of CFA francs)

	December 31, 2021	June 30, 2022			September 30, 2022			December 31, 2022
		PC			Indicative Target			Performance Criteria
	Est.	Prog.	Actual	Status	Prog.	Prel.	Status	Prog.
A. Quantitative performance criteria[2]								
Basic primary balance (floor)[3]	-148.5	-77.3	3.8	Met	-154.4	-60.9		-127.6
Net domestic financing (ceiling)[4]	-380.8	290	129	Met	431	264		377
B. Continuous quantitative performance criteria (ceilings)								
Accumulation of external payments arrears	0.0	0.0	0.0	Met	0.0	0.0		0.0
Accumulation of domestic payments arrears	0.0	0.0	0.0	Met	0.0	0.0		0.0
Ceiling on the present value of new external debt contracted or guaranteed by the government[5]	1,016.0	620	294	Met	620	432		620
C. Indicative Targets[2]								
Tax revenue (floor)	1,082.3	578.9	617.2	Met	876.7	914.9		1,232.9
Priority social expenditure (floor)[6]	150.0	46.2	76.5	Met	92.5	TBD		149.1

Sources: Beninese authorities; IMF staff estimates and projections.
1/ The terms in this table are defined in the Technical Memorandum of Understanding (TMU).
2/ The performance criteria and indicative targets are cumulative from the beginning of the calendar year.
3/ Total revenue (excluding grants) minus current primary expenditure and capital expenditure financed by domestic resources.
4/ Includes on-lending from the BCEAO related to the IMF disbursement. If the amount of disbursed external budgetary assistance net of external debt service obligations falls short of the program forecast, the ceiling on net domestic financing will be adjusted pro-tanto, subject to limits specified in the TMU. If the amount of disbursed external budgetary assistance net of external debt service obligations exceeds the program forecast, the ceiling will be adjusted downward by the excess disbursement.
5/ Annual limit. 2022. End-September outturn as of November 2, 2022.
6/ Includes internally and externally financed expenditures related to government interventions that directly reduce poverty in the areas of education, health and nutrition, social safety nets, access to electricity, water and sanitation, microfinance, and security and civil protection. Excludes salary expenditures.

10. All Structural Benchmarks (SBs) were implemented, albeit some with minor delays (Table 11). The authorities adopted two decrees to strengthen the AML/CFT risk-based supervision of the designated non-financial sectors and to implement targeted financial sanctions obligations, meeting the related end-June SB under the program. They also adopted a regulation allowing procurement agencies to collect beneficial ownership (BO) information in September[3], implementing the end-June SB with delay; they've been publishing the BO information regularly since October (end-September SB).[4] The authorities established the social registry in a timely manner; the mapping of poor and extreme poor by municipality

[3] Circulaire n°2022-001/PR/ARMP/SP/DRAJ/SRR/SA
[4] Portail des marchés publics du Bénin (marches-publics.bj)

occurred after the end-July due date.[5] The authorities voluntary agreed to undergo the IMF's Fiscal Safeguards Review (FSR)—stemming from the fact that all of the disbursements and purchases under the program will be used for budget support—before it was formally required under the Safeguards Assessment Policy under HCCE (Box 1). The authorities are developing a strategy for streamlining tax expenditures (SB for end-November 2022).

Box 1. Benin: Fiscal Safeguards Review (FSR): Key Findings and Recommendations[1/]

The recent IMF Fiscal Safeguards Review (FSR) concludes that Benin's PFM system provides broadly reasonable assurance for the use of Fund resources for budget support. This box highlights areas for improvements.

The recent FSR aligns with the findings of previous evaluations[2/] which have highlighted Benin's encouraging performance. They revealed several institutional strengths and good PFM practices compared to similar countries in the region, including on budget transparency (65 out of 100) which places Benin in second position in Africa after South Africa in the 2021 Open Budget Survey (OBS), PFM legislation well aligned with international standards and a budget prepared, voted and executed in program mode via a fully integrated financial system since January 2022.

Continued improvement of the public financial management (PFM) system and implementation of the legal framework remains a priority. The FSR being finalized concluded that while Benin's PFM system provides broadly reasonable assurance for the use of Fund resources for budget support, some critical areas need improvement, including Treasury Single Account (TSA), fiscal reporting, and PFM oversight, the main vulnerabilities of which gave rise to the following proposals for reform measures:

- **Consolidation of the TSA.** Full consolidation of the TSA at the Central Bank has not yet been achieved. A more decisive action by the authorities is required to expedite the closing of public bank accounts in commercial banks, close the Treasury bank accounts at the Central Bank that have become irrelevant or duplicated, and organize the leveling mechanism on the TSA of the accounts to be maintained.
- **Fiscal reporting.** The accounting quality is not yet aligned to best practices, in particular regarding the reliability and the timely production of the trial balance of state accounts. Therefore, setting up a formal monitoring system for the accounting quality of monthly and annual balances is essential.
- **Internal and external audits**. Despite recent progress in establishing the premises of a sound internal and external audit system, much remains to be done to make it effectively operational. Priorities in this area are to (i) step up capacity within the internal audit function; and (ii) operationalize the external audit function, in particular by providing the recently established Court of Auditors with the necessary human and technical capacities to be able to issue an audit opinion on the State's annual financial statements and to develop a formal procedure to follow up on the implementation of recommendations.

1/ Prepared by the IMF's inter-departmental Fiscal Safeguard Review mission team, led by Abdoulahi Mfombouot (FAD).
2/ Public Investment Management Assessment (PIMA; 2019), Fiscal Transparency Evaluation (FTE; 2021) and Open Budget Survey (OBS; 2021).

[5] https://social.gouv.bj/public/medias/registre-social-unique-(rsu)--note-synthese-sur-la-mise-en-place-du-registre-social-1664540401.pdf.

POLICY DISCUSSIONS

Discussions focused on (i) the authorities response to the war in Ukraine, notably the shift towards more targeted and cost effective measures (in the context of the 2022 supplementary budget); (ii) the budget law for 2023 (the first year of fiscal consolidation under the program), including composition and tax measures to underpin revenue-based consolidation; (iii) tax expenditures rationalization and next steps in strengthening social safety nets; and (iv) strengthening the AML/CFT framework and preserving financial stability.

A. Maintaining Macroeconomic Stability While Preserving Fiscal Sustainability

11. Fiscal policy is calibrated flexibly in 2022 under the program to absorb shocks, with revenue-based consolidation from next year. While providing room to accommodate urgent spending needs in 2022 (¶12–13), the fiscal program over the medium term is calibrated to comply with the WAEMU convergence criterion that currently stipulates an overall fiscal deficit of 3 percent of GDP by 2024; it seeks to preserve debt sustainability.

The 2022 Supplementary Budget

12. The authorities adopted a supplementary budget in early November to accommodate urgent spending needs, in line with the program. The supplementary targets an overall fiscal deficit of 5.9. percent of GDP (against 4.5 percent of GDP in the original budget), based on the authorities' expectation for additional budget support.[6] Staff's revised baseline forecast for the fiscal deficit of 5.6 percent of GDP is based on the already confirmed additional budget support of 0.1 ppt of GDP. While acknowledging the authorities' strategy to secure the additional spending space with Parliament given the difficulty to issue another supplementary budget this year (due to the electoral calendar) should they secure additional budget support, staff advised to spend the extra envelope only when the extra budgetary resources become available.

13. The budget reflects higher than anticipated policy support measures in response to the war in Ukraine, a scale-up in security spending, partly offset by additional tax collection and reprioritization efforts.

- *Spending pressures related to the war in Ukraine.* The need for additional support in response to the protracted war in Ukraine has raised the related budgetary cost to 1.4 ppts of GDP (from an estimated 0.4 ppt of GDP at program inception), of which 1.2 ppts in subsidy costs (Text table 4). The authorities subsidized fertilizers to the tune of 0.3 ppt of GDP for the 2022/23 agricultural campaign to mitigate food insecurity risk; extended the initial set of relief measures until the end of the year, reflected in both the revenue and spending sides; and introduced additional support measures to households (0.2 ppt of GDP), including the clearance of long overdue salary arrears to civil servants and expanding the health insurance coverage under ARCH, the authorities' flagship social protection program (MEFP ¶7).

[6] The baseline fiscal deficit was 5.5 percent of GDP at program inception, with the built-in flexibility to go up to 6 percent of GDP (TMU ¶7).

- The scale-up in security spending, to improve state presence in communities under security threats—in line with the authorities' civilian approach to addressing security challenges[7]—is slightly less front-loaded than envisaged at program approval (lower by 0.2 ppt of GDP in 2022). This is due to changes in phasing and is mostly recorded under domestically-financed capital expenditure, rather than spread across line-items, leading to a downward revision in goods and services.

Text Table 4. Benin: Forecasted Cost of Subsidies Related to the War in Ukraine by end-2022 (percent of GDP)

	Direct subsidies (spending)	Tax exemptions (revenue)	Total
Fuel	0.2	0.3	**0.5**
Fertilizers	0.1	0.2	**0.3**
Electricity	0.1		**0.1**
Selected food products¹		0.2	**0.2**
Other exemptions²		0.1	**0.1**
Total cost			**1.2**

Sources: Beninese authorities and IMF staff calculations.
1/ Rice, vegetable oil and flour
2/ Exemptions related to freights and to BCEAO banks' corporate taxation

- *Additional tax revenue effort and spending reprioritization.* To accommodate new spending pressures, the authorities are taking measures to create an additional 1.3 ppts of GDP in fiscal space compared with the original budget, by stepping up their tax collection efforts significantly (1.0 ppt of GDP) and reprioritizing spending (0.3 ppt of GDP) (MEFP ¶17; Text Table 1). Specifically, the supplementary budget fully preserves the yields from the original tax package of 0.5 ppt of GDP, which, considering that part of recent subsidy measures takes the form of tax giveaways (as opposed to transfers as anticipated), will require a stronger tax effort than was foreseen at program inception (by about 0.7 ppt of GDP). This is being primarily achieved through collection of tax arrears, expansion of the reform on standardized invoices, removal of VAT exemptions on imported rice, as well as changes in corporate and financial activities taxation. The authorities are reprioritizing spending through a reduction in non-priority investment (0.2 ppt of GDP) and closure of 7 public entities (0.1 ppt of GDP). In addition, they adjusted diesel and gasoline pump prices by a cumulative 40 and 25 percent respectively this year—well-above regional peers—which helped contain fuel subsidy costs compared to a status quo scenario (Annex III).

The 2023 Draft Budget Law

14. The authorities enacted a 2023 budget in line with the main objectives of the program. The targeted overall deficit is 4.3 ppts of GDP, corresponding to a reduction in the fiscal deficit of 1.3 ppts of GDP (Text Table 5). The adjustment is deemed feasible in staff and authorities' assessment.

- One the one hand, the winding down of one-offs mostly related to recent shocks (0.4 ppts of GDP) and a reduction in interest payments (0.3 ppt of GDP) will release space for continued spending to mitigate security-related risks (0.5 ppt of GDP increase over 2022). Continued support measures related to the war in Ukraine (¶13) and a reduction in grant financing (¶27) will lower total revenues compared with program approval, necessitating spending prioritization particularly non-priority capital expenditure and some reductions in transfers (beyond one-off reductions).

[7] The authorities developed a national security risk strategy with associated costing for 2022–26 (see Box 3, IMF Country Report No. 22/245). The strategy is geared toward improving state presence and effectiveness in communities at risk, with social spending (e.g., water supply, farm roads and support to agriculture) accounting for three quarter of the overall spending envelope.

- On the other hand, and consistent with the authorities' commitment to a revenue-based consolidation under the program, the budget includes a tax package expected to cover the 0.5 ppt of GDP planned at program inception (¶15). The exceptional tax effort to fully make up for the shortfalls related to tax giveaways for subsidies in 2022 is not expected to be sustained in 2023 under the baseline. As such, while the tax target for end-December 2022 was maintained to lock-in the commendable tax effort to date, tax IT for 2023 in the program has been revised downward to allow for a gradual phase out of subsidies-related tax giveaways in a challenging socio-economic environment, keeping the program's overall balance unchanged.

- Compared with program approval, the adjustment requires a reprioritization of spending (particularly in capital expenditure) to accommodate new spending pressures from prolonged war in Ukraine support, higher spending to improve state presence and effectiveness in communities under security threats, and lower grants. It also requires saving of 0.4 ppt of GDP in subsidy cost to offset spending increases related to public sector wage upgrade.

Text Table 5. Benin: Fiscal Adjustment Between 2022 and 2023[1]

(percent of GDP)

A. New Spending Pressures	**0.9**
Security risk spending scale up	0.5
Wage bill increase	0.4
B. Policy Measures	**1.8**
Tax revenue measures	0.5
Reduction in one-off spending[1]	0.4
Spending repriorization	0.9
o/w capital expenditure[2]	0.7
o/w transfers	0.1
C. Other fiscal space creation	**0.4**
Increase in grants[3]	0.1
Interest payment reduction	0.3
D. Total Overall Adjustment ((B+C)-A)	**1.3**
Memo Item	
Subsidy reform[4]	0.4

1/ Includes reductions in COVID-related spending and other temporary measures such as payment to the World Food Programme of accumulated cost related to the school feeding programme.
2/ Mostly reflects a reduction in non-security related capital expenditure.
3/ Includes EU budget support
4/ The associated savings would be reflected in lower tax expenditures or transfers.

Sources: Beninese authorities and IMF staff calculations and projections.

- Higher than anticipated security outlays or tax expenditures related to the war in Ukraine, including due to an increase in fuel subsidy costs (Annex III), represent important risks to the budget. Should these risks materialize, the authorities plan to implement additional revenue measures and further reduce non-priority spending. The well-established budgetary process which would require identifying such measures before the approval of such spending increases provides an important safeguard.

15. The 2023 tax package continues the gradual rationalization of tax expenditures from the 2022 budget.

- Tax expenditures amounted to 1.7 percent of GDP in 2021, above the WAEMU median at 1.5 percent. While Benin has recently made important progress on rolling back VAT exemptions (e.g., on water, electricity and imported rice), consolidating a strategy for streamlining tax expenditures—a structural benchmark for end-November 2022—remains a priority. The authorities' projections point to a decline in tax expenditures over the next years. They are finalizing internal analyses on the effect of removing certain exemptions to inform the tax expenditure rationalization strategy.

- New tax measures in the 2023 budget law (MEFP; Text Table 1) include the removal of tax exemptions for provision of certain services by public organizations, and for registering free of charges the transfer of buildings, and effectively applying the minimum tax on the sale of used vehicles. The authorities also expect to generate additional revenues from savings from the recovery of taxes and duties, the move to transactional values at customs, as well as from improved implementation of previous tax policy measures, including a stricter framing of investment incentives policies related to new businesses and the expansion of electronic VAT invoicing.

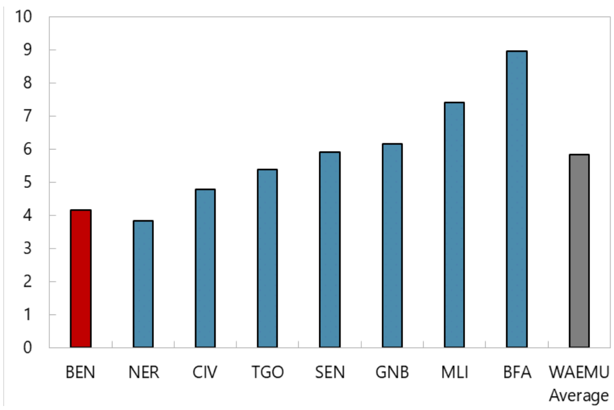
16. The authorities recently announced public sector wage increases effective from 2023, after protracted negotiations. While they maintained the 5 percent across-the-board salary increase that was anticipated at program approval, they granted higher top-up benefits for low-wage earners to compensate for purchasing power erosion. The total impact of additional measures is estimated to about 0.32 ppt GDP (Text Table 6). While these adjustments are not expected to drive Benin's wage bill above the regional average (around 6 percent of GDP) over the medium term, they would imply a deviation of the wage-to-tax-revenue ratio from the WAEMU target of 35 percent in the near term. However, given the authorities' commitment to ensuring that public compensation remains equitable and sustainable (grounded on robust technical analysis), the program's macroeconomic framework still assumes a return to the 35 percent target from 2025. Considering the relatively low wage bill in Benin across a set of benchmark indicators (Text Figures 4a–4b) after several years of wage containment, the program accommodates the planned wage increase, which the authorities committed to finance through additional permanent measures starting in 2023 (¶14).

Text Table 6. Benin: Deviations from Original Wage Bill, 2023

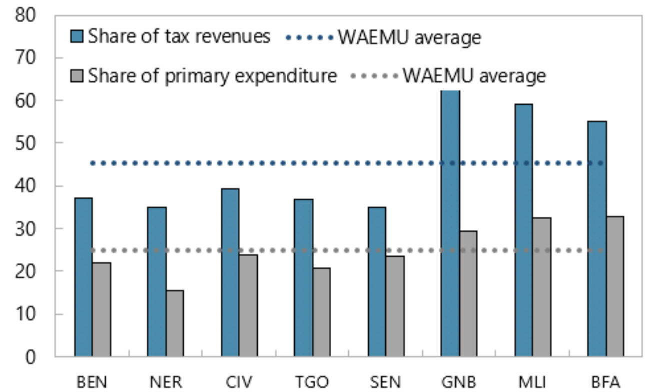
	CFAF billions	Percent of GDP
Top-up for low-wage earners	29.1	0.25
Extended pay for "aspiring" teachers from 9 to 12 months	9.4	0.08
Other (incl. authorities refined projections for notch progressions and lower base effect from 2022)	-1.5	-0.01
Total wage bill increase	**37**	**0.32**

Sources: Beninese authorities and IMF staff calculations.
Note: Numbers relate to central government (military and civil servants). "Aspiring" teachers (*Aspirants au Métier d'Enseignant* - AME) refer to individuals who are part of a list of suitable candidates to teach in primary and secondary schools, after passing a qualification test.

Text Figure 4a. Benin: Wage Bill as a Share of GDP in WAEMU Countries, 2021
(percent of GDP)



Text Figure 4b. Benin: Wage Bill as a Share of Tax Revenues and Primary Expenditure in WAEMU Countries, 2021



Sources: IMF staff calculations.

Financing Strategy

17. Benin will maintain a prudent borrowing strategy aimed at containing borrowing costs and mitigating refinancing risks (MEFP ¶16). It will continue to prioritize concessional financing from multilateral donors. Benin also plans to leverage the recently approved partial credit guarantee provided by the AfDB that guarantees commercial debt service obligations for strong-performing countries to mobilize financing for SDGs on favorable terms. Consistent with the authorities' intent to maintain market access, and contingent on market conditions, staff's baseline continues to assume a Eurobond issuance at the end of the program in 2025. On the regional market, Benin plans to prioritize issuances with increasingly longer maturities to improve the debt repayment profile.

B. Structural Issues

18. Reforming fuel subsidies will provide much-needed fiscal space towards Benin's large development challenges (Annex III). Benin has adjusted diesel and gasoline prices by a cumulative 40 and 25 percent respectively since the beginning of the year, passing on to consumers more than half of global oil price increases associated with geopolitical tensions. Fuel subsidies pre-dated the war in Ukraine; they are projected to reach about 1 percent of GDP this year, before receding next year as global oil prices normalize. While these estimates are lower than in regional peers, partly reflecting smuggled cheap gasoline from Nigeria (about 85 percent of household consumption), reforming fuel subsidies would release much needed fiscal space towards Benin's large development needs and new security-related spending. While the authorities are committed to phasing out fuel subsidies, they have expressed a strong preference for partly relying on additional tax measures should international oil prices increase significantly above their current baseline forecast in the near-term, considering the challenging socio-economic environment.

19. Further strengthening social safety nets is of paramount importance, considering repeated crises. The recently established social registry provides a centralized identification infrastructure to support various social assistance programs, including ARCH, the authorities' flagship social protection program.

Operationalizing it could also help channel direct support to vulnerable households in times of hardship. Staff welcome the authorities' plan to further enhance the social registry with a module identifying areas susceptible to climate-related shocks as part of a strategy to mitigate food security risks (MEFP ¶19).

20. Curbing food insecurity risks is a policy priority.

- Benin is identified as one of the most vulnerable countries to food insecurity—it ranked as the 91st most vulnerable in a sample of 113 countries in the Global Food Security Index (GFSI 2022). Compared to LICs in the region, food insecurity in Benin is mainly driven by climate change shocks rather than affordability and availability (Text Figure 5), suggesting that strengthening resilience to climate change (MEFP ¶21) and recourse to sustainable agriculture are promising avenues for containing food insecurity in the country.

- The authorities also view their flagship school feeding program, currently administered by the World Food Programme (WFP) but financed by the Beninese government (with a cost around 0.1 percent of GDP in 2022), as a prime tool for containing food insecurity risks while keeping children at school. For continuity, they will submit to Parliament a law to ensure the sustainability of the program and ensure a gradual transfer of the administration of the program to the government, as jointly envisaged with the WFP (Table 11) (***new Structural Benchmark for end-April 2023***).

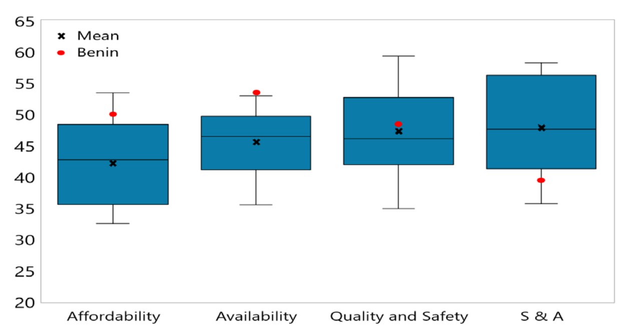
21. Digitalizing the processing of land titles' requests could dramatically reduce delays and improve access to finance. The authorities are committed to modernize the land administration (*Agence Nationale du Domaine et du Foncier ANDF*). They will digitalize the processing of land titles requests (***new Structural Benchmark for end-April 2023***), including through (1) designing the land management application (*e-terre*) and developing its functionalities; (2) providing training to ANDF staff on the use of the new system; and (3) embedding data management tools to the new application.

Governance and the AML/CFT Framework

22. A joint FAD/LEG/MCM governance diagnostic TA mission had high traction with the Beninese authorities. The government intends to use the recommendations of the TA mission, in consultation with Fund staff, to contribute to the achievement of goals under the second-generation Government Action Program 2021–2026.

23. The publication of the governance diagnostic is an end-February 2023 structural benchmark under the program. For the next review, the authorities, together with staff, will identify key recommendations of the diagnostic

Text Figure 5. Benin: Global Food Security Index (GFSI) Sub-Component Scores in SSA LICs and Benin (2022)



Sources: GFSI and IMF staff calculations.
Note: The boxplots indicate, from top to bottom, the maximum, the 75th percentile, the median, the 25th percentile, and minimum values.
S & A stands for Sustainability and Adaptation

to be included as program conditionality, building on the authorities' action plan in this regard.

24. The mission encouraged the authorities to maintain the steadfast implementation of their AML/CFT action plan. The Council of Ministers adopted in June an action plan to strengthen the AML/CFT framework and to correct the deficiencies identified by the mutual evaluation of Benin's AML/CFT framework. Sustained action is required to address remaining gaps in the legal framework, commence risk-based supervision of the higher risk designated non-financial sectors, improve BO transparency, and strengthen enforcement. The authorities are committed to further progress in those areas, including operationalizing supervisors for the designated non-financial sectors and implementing a targeted financial sanctions regime in the near-term (MEFP ¶25).

25. The government is undertaking measures to address deficiencies identified in the June audit of COVID-related spending. These include improved maintenance mechanism to avoid premature deterioration of medical equipment and strengthening the training of healthcare personnel.

C. Financial Sector

26. Continued vigilance by supervisory authorities is paramount to ensure financial stability. The banking system has remained resilient overall, as reflected in the continued downward trend in NPLs. The expiration (in December 2021) of the BCEAO's loan repayment deferral appears to have a limited impact on the banking sector, given that only 7.7 percent of the remaining unsettled deferred credit were downgraded, causing a marginal NPLs increase from 10.78 percent to 11.1 percent at end-June 2022. Although the financial sector exposition to the two under-capitalized banks (accounting for less than 5 percent of total banking sector's assets) is limited, staff underscored the need to bring them back to conformity with prudential norms. Staff welcome continued close monitoring of *La Poste du Benin* (LPB) activities by the supervisory authorities, to ensure compliance with its statute that prevents it from granting loans to the private sector and taking credit risk.

27. Access to finance remains a major impediment to private sector development in Benin, especially among SMEs. A recent business survey revealed that 88 percent of the companies did not have access to credit. The cost of credit is cited as a major impediment to credit demand by 30 percent of SMEs. The authorities rely on the federative role of the newly created SMEs Development Agency (*L'Agence de Développement des Petites et Moyennes Entreprises*) to promote private sector development in Benin. This single window aimed at guaranteeing greater access to finance, including by providing adapted financing mechanism to micro and SMEs. The authorities are committed to design a comprehensive national financial inclusion strategy (*Structural Benchmark for end-March 2023*).

PROGRAM ISSUES

28. Burden sharing and financing assurances. The program is fully financed over the next twelve months with good prospects for financing for the remainder of the arrangements. The World Bank provided an additional US$50 million (about 0.3 ppt of GDP) in budget support to Benin after EFF/ECF approval and advanced the entire disbursement for 2022 (US$150 million) to September (from December in previous years). However, Benin will no longer receive budget support grants from World Bank owing to its recent graduation to a "gap" country status under IDA.[8] Also, while EU budget support is still expected to be approved by year-end, disbursements are likely to start only in 2023, due to reasons outside the authorities' control (the EU program will now run from 2023–26, as opposed to 2022–25 as initially planned). The AfDB is providing a partial credit guarantee to allow Benin to raise external funds—at more affordable rates than otherwise—towards SDGs financing; direct budget support is no longer expected in 2022 or 2023. On balance, budget support loans are marginally higher in 2022 than at program inception (by 0.1 percent of GDP) and burden sharing is slightly improved from program approval under the baseline, with the Fund covering just under half of financing gaps over the program period (Table 6). The EU has signaled upside potential to its budget support in 2023. In this connection, the remaining portion of the fiscal balance adjustor linked to budget support in 2022 (TMU ¶7) will be carried over to 2023, to incentivize budget support and improve burden sharing under the program.

29. Program monitoring and conditionality. Program performance will continue to be monitored through semi-annual program reviews based on quantitative performance criteria, indicative targets (Table 7), and structural benchmarks (Table 11). As noted above (¶19–20), structural conditionality was augmented with two new structural benchmarks, one to mitigate food insecurity risk, and another one on digitalizing the processing of land titles' requests in order to reduce delays.

30. Capacity to repay the Fund is assessed to be adequate, although program risks are elevated amid high global and domestic uncertainty. The total amount of outstanding credit from the Fund will amount to 429.4 percent of quota in 2022 and increases to 543.9 percent of quota in 2023. In addition, total obligations based on existing and prospective credit will peak at 0.49 percent of GDP (3 percent of total revenues excluding grants and 2 percent of exports) in 2029. The program remains subject to risks from higher than anticipated security outlays, a more protracted COVID-19 pandemic, and social discontent. In the event these risks materialize the authorities would identify additional adjustment efforts and reprioritize spending.

31. Safeguards assessment. The BCEAO has implemented all recommendations provided in the 2018 safeguards assessment. The assessment found that the BCEAO had broadly appropriate governance arrangements and a robust control environment. An update assessment of the BCEAO is planned for 2023.

32. Capacity development and data quality. Aligned with program objectives, CD continue to prioritize improving governance, transparency (including BO reporting in procurement), enhancing revenue mobilization, PFM and upgrading the statistical system.

STAFF APPRAISAL

33. The 42-month EFF/ECF, approved by the IMF Executive Board in July, is off to a strong start. The economy is gaining strength, notwithstanding elevated uncertainty. Inflation has remained distinctly subdued, reflecting a robust harvest season and the government subsidizing selected items to contain

[8] Gap countries have a GNI above the IDA operational cutoff (currently US$1,255) for more than two consecutive years.

import price pressure from the war in Ukraine. Fiscal performance has been strong—the authorities' response to unanticipated spending needs related to the protracted war in Ukraine and security risks has achieved a balance between policy adjustment (additional tax collection efforts and spending prioritization) and financing (postponement of the planned adjustment in the original 2022 budget). The authorities should calibrate policy deliberately in their quest to translate macroeconomic gains into improved socio-economic outcomes.

34. Maintaining fiscal accommodation through the recently adopted supplementary budget is warranted, considering large spending needs that were not foreseen at the time of the original 2022 budget. Safeguarding the expected yields from the package of tax policy and administrative measures in the original 2022 budget, as contemplated in the supplementary, will be important. This, however, will require a stronger tax effort than anticipated at program inception, considering that most of recent subsidy measures take the form of tax giveaways (as opposed to transfers). The authorities should continue to refine their policy response toward more targeted and cost-effective measures to support the population.

35. The envisaged revenue-based fiscal consolidation starting from next year will be critical to create fiscal space for Benin's large development needs while preserving debt sustainability. Benin continues to be assessed at moderate risk of debt distress. For 2023, accommodating spending pressures from the war in Ukraine and security risks will require reprioritizing spending along with subsidy costs savings to offset the wage bill increase. The ongoing tax collection effort is set to continue in 2023, centered on rationalizing tax expenditures, while considering distributional implications. The strategy being developed for rationalizing tax expenditures will be critical in this regard. More broadly, the contemplated Medium-Term Revenue Strategy (MTRS) should aim to expand the tax base and improve the overall efficiency of the tax system, including by maintaining the digitalization drive.

36. Clearly identified and permanent measures to finance the planned wage increases are needed to avoid crowding-out priority social spending. In this connection, fuel subsidy reform presents an opportunity to release resources to promote human capital accumulation, considering the population's median age of 19. Clear communication will be critical to highlight tradeoffs and the fuel subsidy reform objectives. Staff stress the need to compensate the vulnerable in the adjustment process.

37. Operationalizing the recently established social registry will provide the necessary infrastructure to roll out various social assistance programs. This would help channel support to vulnerable households in times of hardship. Staff welcome plans to further enhance the social registry with a module identifying areas susceptible to climate-related shocks as part of a strategy to mitigate food insecurity risks.

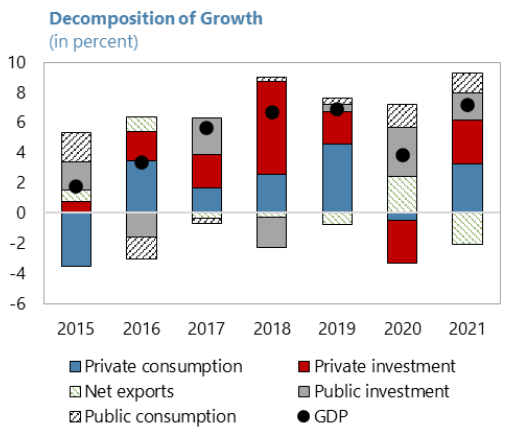
38. The continued steadfast implementation of the homegrown AML/CFT action plan and enhancing governance and transparency would bolster the institutional foundations of private sector-led inclusive growth. In this regard, the authorities' intent to use recommendations from the being completed IMF governance diagnostic to contribute to goals under the second-generation Government Action Program 2021–2026 are welcome. Staff also encourage the authorities to pursue their extensive reform program to correct identified deficiencies in Benin's AML/CFT framework, including by adopting legal instruments to strengthen risk-based supervision and operationalizing the *Commission consultative* *sur le gel administratif* (CCGA) to implement a targeted financial sanctions regime. There is also a need for efforts to address deficiencies uncovered by the recent audit of COVID-19 spending.

39. Promoting access to finance while remaining vigilant vis-à-vis financial sector risks will support growth. Staff encourage continued efforts to bring the two under-capitalized banks to prudential norms. Further development of mechanisms to provide financing to SMEs, including with the help of development partners, and designing a comprehensive national inclusion strategy will promote private sector development.

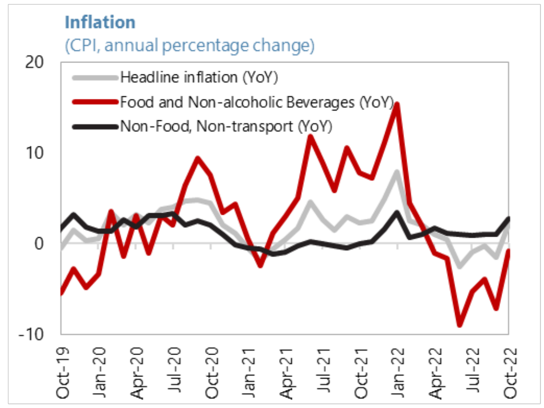
40. Given the strong program performance to date and the authorities' continued commitment to reforms, staff recommends the completion of the first review under the EFF and ECF arrangements.

Figure 1. Benin: Recent Developments, 2012–22

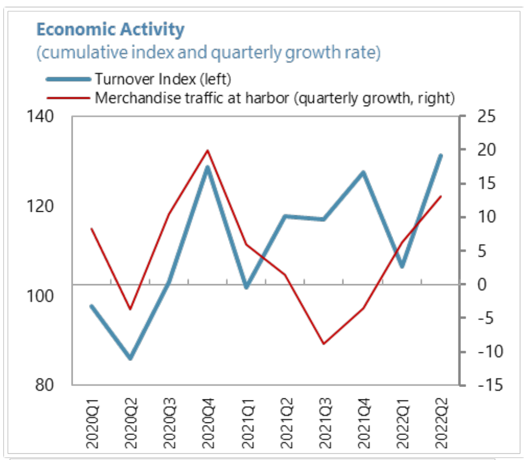
A ramp up in public investment helped offset the collapse in private demand in 2020, while 2021 saw a return of private consumption and investment.



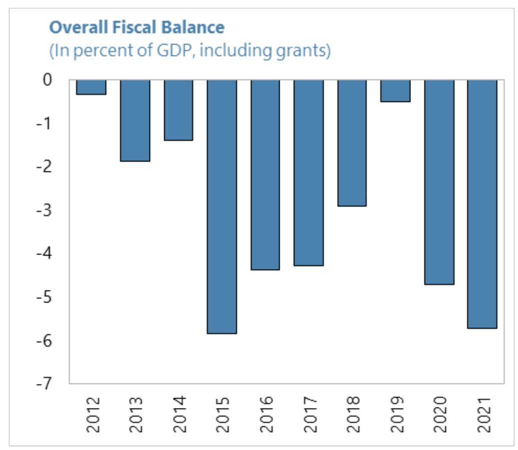
After a spike in early 2022, inflation decreased markedly, even turning negative. Food prices declined faster than the general price level.



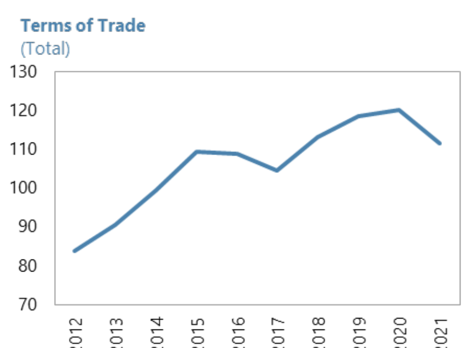
The high frequency turnover index recovered after a drop in early 2022, and merchandise traffic at the harbor continued to increase.



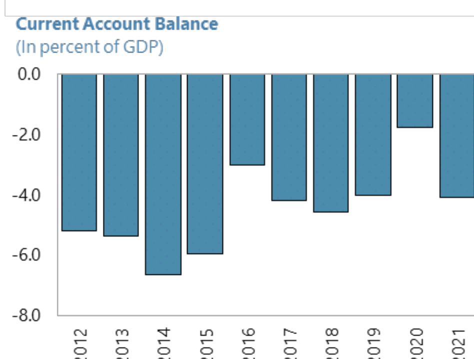
The fiscal deficit widened further in 2021 as repercussions of the pandemic persisted.



Terms of trade deteriorated in 2021 ...



... leading to an estimated widening of the current account deficit.

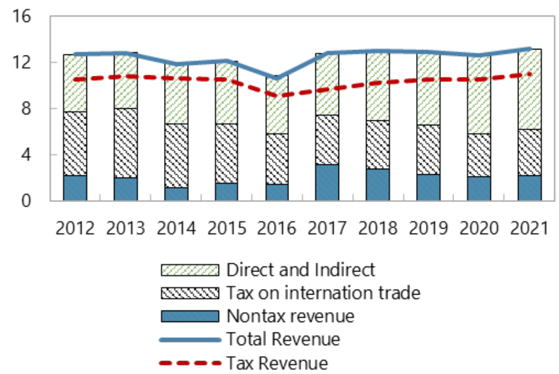


Sources: Beninese authorities and IMF staff projections.

Figure 2. Benin: Fiscal Developments, 2012–21

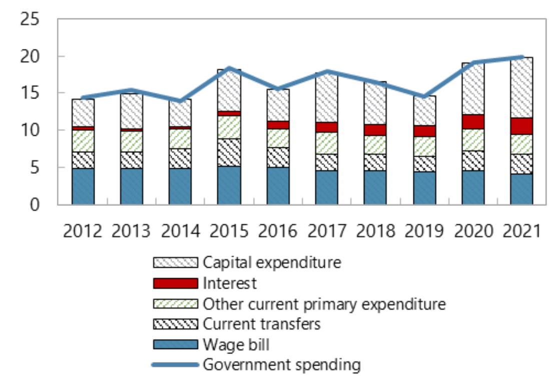
Tax revenue is back on an upward trajectory after a decrease which was partially induced by lower trade taxes as a result of the Nigeria border closure in 2020.

Revenue
(percent of GDP)



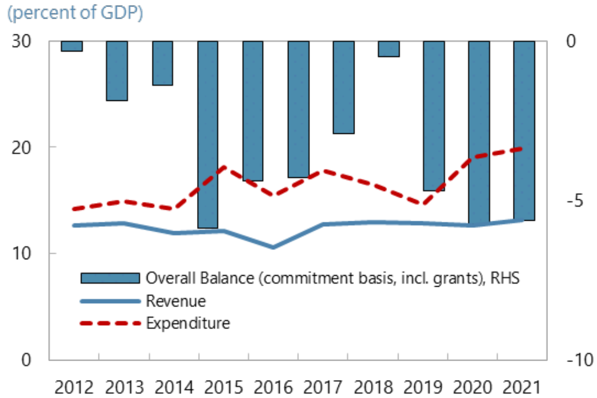
Current and capital expenditures increased to meet pandemic-related needs and to close the country's infrastructure gap, respectively.

Expenditure
(percent of GDP)



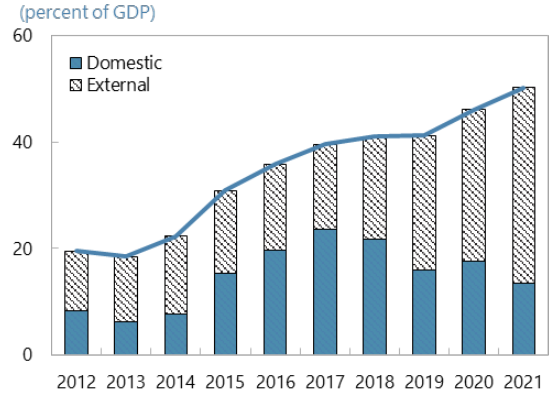
Although the fiscal deficit is projected to be reduced …

Overall fiscal deficit
(percent of GDP)



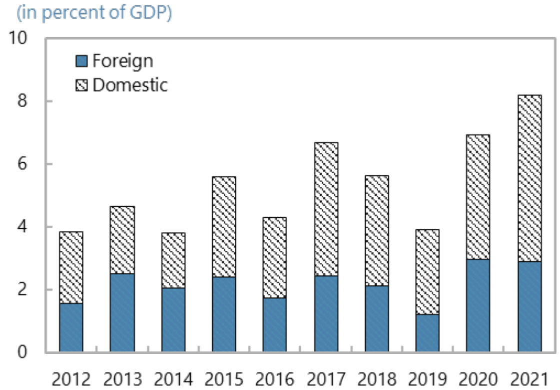
… total government debt is up, driven by increased external liabilities.

Total Government Debt
(percent of GDP)



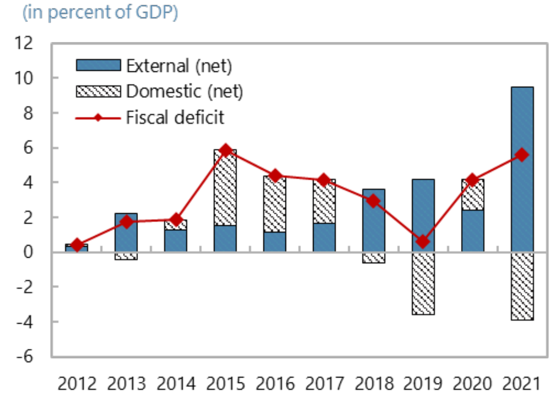
The increase in capital expenditure in 2021 was mostly domestically financed …

Capital Expenditure by Financing Source
(in percent of GDP)



… while deficits were mainly externally financed, including through emergency assistance and large Eurobond issuances.

Financing of the Fiscal Deficit
(in percent of GDP)

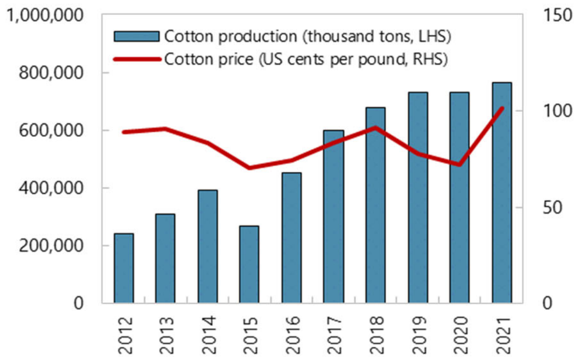


Sources: Beninese authorities and IMF staff calculations.

Figure 3. Benin: Real and External Sector Developments, 2012–21

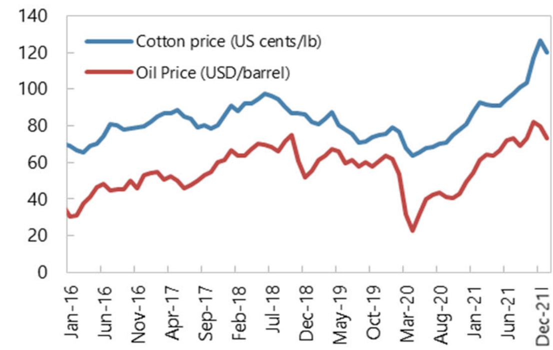
Although cotton production plateaued after nearly tripling in volume since 2015 …

Cotton Production and Price



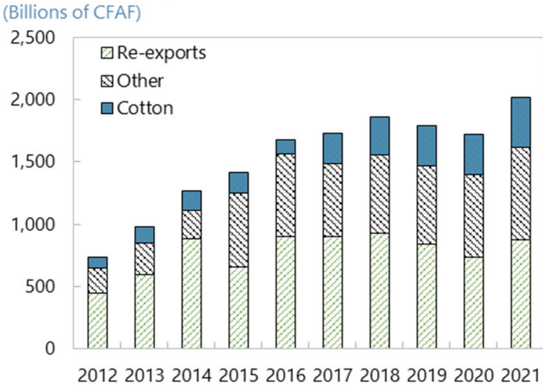
… the international price of cotton continued to rise to its highest levels in years …

International Cotton and Oil Prices
(US cents per pound)



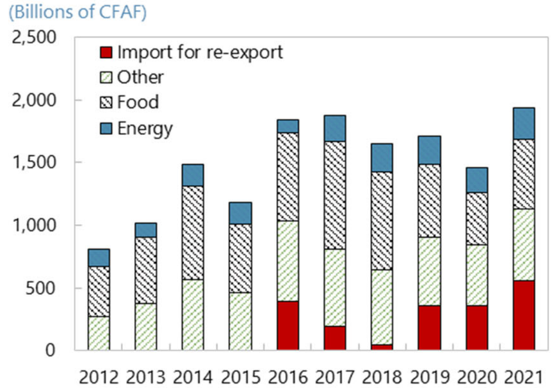
… contributing to significantly higher cotton export receipts in 2021.

Composition of Exports
(Billions of CFAF)



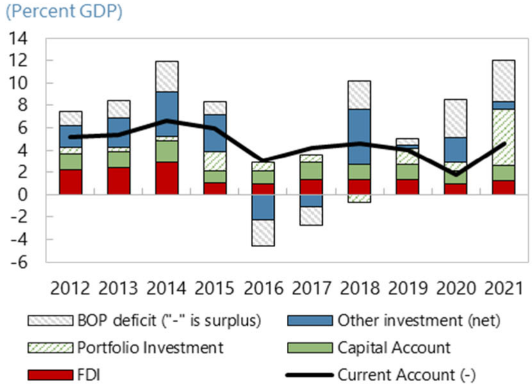
Imports have increased in 2021, partly reflecting high food and energy prices …

Composition of Imports
(Billions of CFAF)



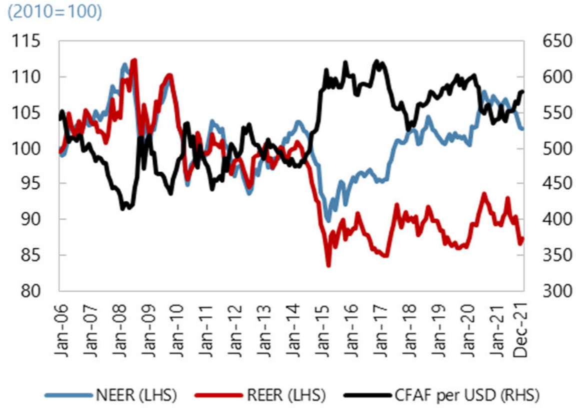
… and widening the current account deficit in 2021 compared to 2020, when supply chain disruptions reduced imports.

Financing Sources
(Percent GDP)



The CFA franc depreciated against the US dollar in 2021, while the effective exchange rate appreciated.

Exchange Rates
(2010=100)

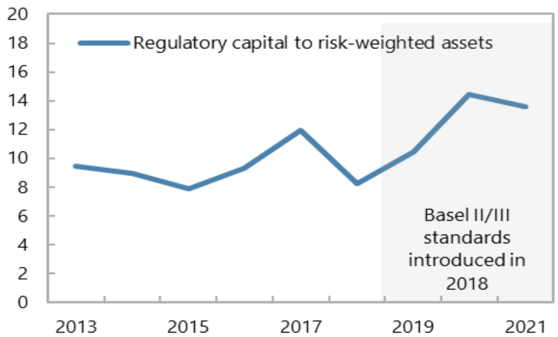


Sources: Beninese authorities and IMF staff calculations.

Figure 4. Benin: Financial Sector Developments, 2012–21

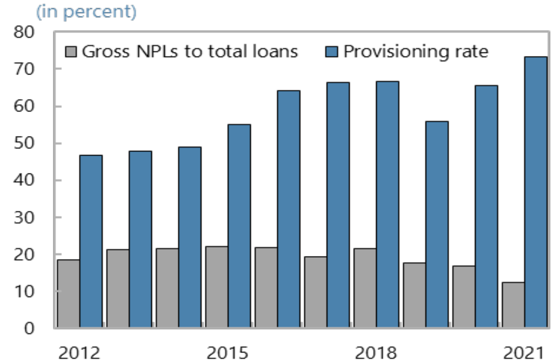
The banking system remains well capitalized (although two banks are undercapitalized).

Capital Adequacy Ratio
(percent of risk-weighted assets)



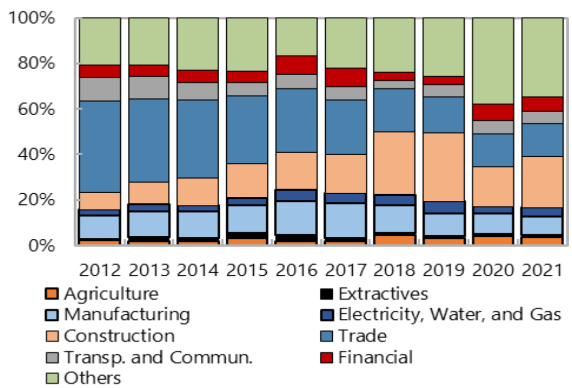
The credit portfolio quality does not seem to have deteriorated during the pandemic, with still high provisioning.

Gross NPLs to total loans and provisioning rate
(in percent)



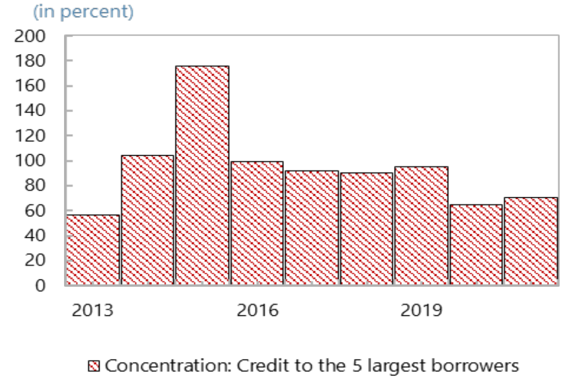
After shrinking in 2020, lending to the construction sector sarted recovering in 2021.

Credit provided, by sector
(in percent)



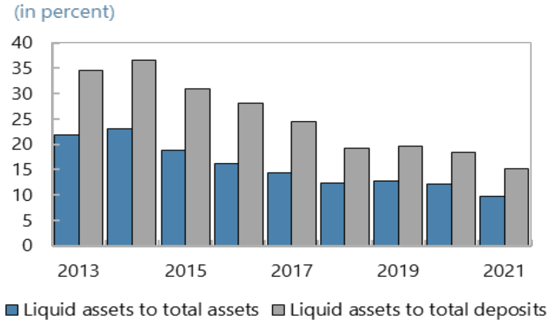
The sector's lending concentration remained elevated but decreased slightly in late 2021 ...

Composition and quality of assets
(in percent)



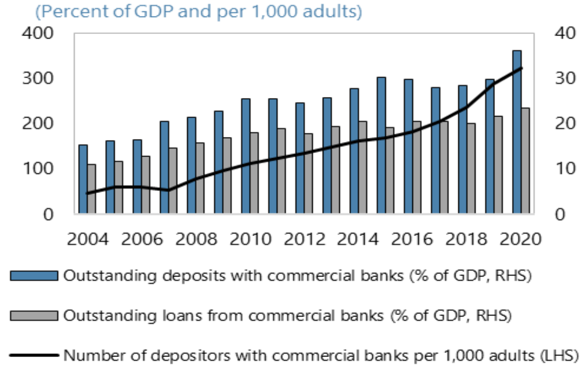
... while liquidity ratios increased in December 2021.

Liquid assets as a share of total assets/deposits
(in percent)



There were notable improvements in access to and use of banking sector services in recent years.

Commercial Bank Deposit and Loan Composition
(Percent of GDP and per 1,000 adults)



Sources: Beninese authorities and IMF staff projections.

Table 1. Benin: Selected Economic and Financial Indicators, 2019–27

	2019	2020	2021	2022		2023	2024	2025	2026	2027
	Est.		Proj.	EFF/ECF	Proj.	Projections				
			(annual percent change)							
National Income and Prices										
Real GDP per capita	3.9	1.0	4.2	2.8	3.1	3.1	3.0	3.2	3.1	3.1
Real GDP	6.9	3.8	7.2	5.7	6.0	6.0	5.9	6.1	6.0	6.0
Nominal GDP	6.5	6.8	8.9	10.8	10.5	8.6	7.9	8.3	8.1	8.0
GDP deflator	-0.3	2.9	1.6	4.9	4.2	2.5	1.9	2.1	2.0	2.0
Consumer price index (average)	-0.9	3.0	1.7	5.0	2.5	3.0	2.0	2.0	2.0	2.0
Consumer price index (end of period)	0.3	1.2	1.7	5.0	2.5	3.0	2.0	2.0	2.0	2.0
External Sector										
Terms of trade (minus = deterioration)	4.8	1.4	-7.2	-2.7	3.4	-0.5	-1.8	0.1	0.3	0.1
Real effective exchange rate (minus = deterioration)	-3.1	3.7	-0.8	...	...	...	...	...	...	...
Money and Credit										
Credit to the private sector	11.9	-5.7	9.2	5.6	8.0	10.3	15.3	...	...	...
Broad money (M2)	6.0	17.3	16.4	10.8	10.5	8.6	7.9	...	...	...
			(percent of GDP, unless otherwise indicated)							
Central Government Finance										
Total revenue	12.9	12.7	13.2	13.4	13.4	13.8	14.4	14.9	15.3	15.7
of which: Tax revenue	*10.6*	*10.5*	*11.0*	11.5	*11.5*	*11.9*	*12.5*	*13.0*	*13.3*	*13.6*
Grants	1.2	1.7	0.9	0.8	0.5	0.6	0.7	0.7	0.6	0.6
Total expenditure and net lending	14.6	19.1	19.9	19.8	19.5	18.7	18.0	18.5	18.8	19.2
Overall balance (commitment basis, including grants)	-0.5	-4.7	-5.7	-5.5	-5.6	-4.3	-2.9	-2.9	-2.9	-2.9
Overall balance (cash basis, including grants)	-0.6	-4.2	-5.6	-5.6	-5.7	-4.3	-2.9	-2.9	-2.9	-2.9
Domestic financing, net	-3.6	1.7	-3.9	1.8	3.3	2.2	0.8	-1.2	0.9	0.6
External financing, net	4.2	2.4	9.5	2.2	2.3	2.2	2.1	4.1	2.1	2.3
External Sector										
Balance of goods and services	-5.0	-2.8	-4.4	-6.9	-6.0	-5.5	-4.7	-4.7	-4.5	-4.2
Exports of goods and services	24.9	22.4	23.5	25.3	26.5	25.8	24.8	24.3	24.1	23.8
Imports of goods and services	-29.9	-25.1	-27.8	-32.2	-32.5	-31.2	-29.5	-29.0	-28.6	-28.0
Current account balance, including official transfers	-4.0	-1.7	-4.1	-6.2	-6.1	-5.5	-4.7	-4.7	-4.5	-4.1
Overall balance of payments	0.5	3.4	6.1	-1.6	-0.9	-0.5	0.3	2.2	0.4	1.3
Public Debt (End Period)										
Total public debt	41.2	46.1	50.3	51.6	52.8	53.2	51.7	50.0	48.7	47.5
External public debt	25.3	28.4	36.8	37.5	38.6	39.0	38.6	39.8	38.6	37.2
Domestic public debt	16.0	17.7	13.5	14.1	14.3	14.2	13.1	10.2	10.1	10.3
Memorandum Items										
Nominal GDP (CFAF billions)	8,432	9,009	9,810	10873	10,838	11,771	12,703	13,757	14,867	16,063
Nominal GDP (US$ billions)	14.4	15.7	17.7	...	...	...	...	...	...	...
Nominal GDP per capita (US$)	1,218.3	1,290.5	1,417.4	...	...	...	...	...	...	...
US$ exchange rate (average)	585.9	574.8	554.2	...	...	...	...	...	...	...
International price of cotton (Cotlook "A" Index, U.S. cents a lb.)	77.9	71.9	101.2	127.7	140.0	120.7	100.5	97.0	97.0	97.0
International price of oil (U.S. dollars a barrel)	61.2	41.8	69.4	106.8	98.2	85.5	80.2	76.2	73.3	71.0

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

Table 2. Benin: Consolidated Central Government Operations, 2019–27[1]

(in billions of CFA francs)

	2019	2020	2021	2022		2023	2024	2025	2026	2027
			Est.	EFF/ECF	Proj.	Proj.	Projections			
Total Revenue and Grants	**1,185.7**	**1,296.3**	**1,387.7**	**1,550.5**	**1,509.2**	**1,699.5**	**1,921.5**	**2,144.7**	**2,366.4**	**2,620.9**
Total revenue	1,088.0	1,142.1	1,295.7	1,458.5	1,454.6	1,623.8	1,831.9	2,052.6	2,270.4	2,517.2
Tax revenue	893.3	947.8	1,082.3	1,245.4	1,241.4	1,395.0	1,582.1	1,782.1	1,978.0	2,185.3
Tax on international trade	358.0	331.5	397.4	464.8	463.3	528.0	600.2	677.5	754.5	839.3
Direct and indirect taxes	535.3	616.3	684.9	780.6	778.1	867.0	981.9	1,104.6	1,223.5	1,346.0
Nontax revenue	194.8	194.2	213.4	213.1	213.1	228.8	249.8	270.5	292.4	332.0
Grants	97.7	154.2	92.0	92.0	54.6	75.7	89.6	92.1	96.0	103.7
Project grants	66.8	46.9	54.6	54.6	54.6	61.7	66.6	72.1	74.3	80.3
Budgetary grants	30.8	107.3	37.4	37.4	0.0	14.0	23.0	20.0	21.6	23.4
Total Expenditure and Net Lending	**1,227.3**	**1,719.9**	**1,949.4**	**2,153.7**	**2,114.5**	**2,205.7**	**2,289.9**	**2,543.7**	**2,797.5**	**3,086.7**
Current expenditure	900.8	1,095.6	1,145.1	1,248.2	1,246.7	1,297.4	1,422.2	1,531.7	1,623.4	1,828.9
Current primary expenditure	766.2	919.4	925.2	1,043.3	1,046.8	1,111.3	1,189.0	1,295.9	1,379.8	1,574.1
Wage bill[2]	369.7	416.5	407.8	473.8	468.0	560.7	609.3	664.0	687.9	743.3
Pensions and scholarships	90.5	92.9	90.5	116.2	116.2	120.4	125.6	129.8	130.6	204.3
Current transfers	180.9	233.0	259.2	257.9	306.8	277.4	292.2	323.3	364.3	409.6
Expenditure on goods and services	125.1	176.9	167.6	195.3	155.8	152.9	162.0	178.8	197.0	216.8
Interest	134.6	176.3	219.9	204.9	199.9	186.1	233.1	235.9	243.6	254.9
Domestic debt	106.8	105.7	153.1	103.9	86.8	82.0	121.8	123.0	108.6	116.2
External debt	27.8	70.6	66.8	101.1	113.1	104.0	111.3	112.9	135.0	138.6
Capital expenditure	330.4	622.4	802.6	905.5	867.8	908.3	867.7	1,011.9	1,174.2	1,257.8
Financed by domestic resources	228.3	356.4	519.0	539.7	534.6	531.7	459.4	569.8	683.5	727.7
Financed by external resources[3]	102.1	266.0	283.7	365.8	333.2	376.7	408.3	442.2	490.6	530.1
Net lending	-3.9	1.8	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance (Commitment Basis, Incl. Grants)	**-41.6**	**-423.6**	**-561.7**	**-603.1**	**-605.3**	**-506.2**	**-368.4**	**-398.9**	**-431.2**	**-465.8**
Primary balance [4]	-4.6	-401.5	-433.8	-490.2	-460.0	-395.8	-224.8	-255.2	-283.5	-314.6
Basic primary balance [5]	93.5	-133.7	-148.5	-124.4	-126.8	-19.2	183.4	187.0	207.1	215.5
Change in arrears	0.0	0.0	0.0	-10.0	-7.6	0.0	0.0	0.0	0.0	0.0
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	0.0	0.0	0.0	-10.0	-7.6	0.0	0.0	0.0	0.0	0.0
of which: net change in arrears stock	*19.1*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	0.0
Float	-7.3	48.7	15.3	0.0	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4
Overall Balance (Cash Basis, Incl. Grants)	**-48.9**	**-374.9**	**-546.4**	**-613.1**	**-615.3**	**-508.6**	**-370.8**	**-401.3**	**-433.6**	**-468.2**
Financing	**48.9**	**374.9**	**546.4**	**613.2**	**615.3**	**508.6**	**370.8**	**401.3**	**433.6**	**468.2**
Domestic financing	-302.9	156.4	-380.8	372.4	362.5	254.4	101.0	-159.2	128.6	92.9
Bank financing	7.7	259.4	-123.4	292.8	258.6	139.3	-23.1	-293.6	17.1	-27.5
Net use of IMF resources	14.5	168.1	94.2	172.0	177.8	120.7	6.3	-14.4	-39.0	-61.9
Disbursements	*25.7*	*171.3*	*94.2*	*177.7*	*180.9*	*129.7*	*53.3*	*44.9*	*0.0*	*0.0*
Repayments	*-11.2*	*-3.2*	*0.0*	*-5.7*	*-3.1*	*-9.0*	*-47.0*	*-59.4*	*-39.0*	*-61.9*
Other [6]	-6.8	91.2	-217.6	120.8	80.8	18.7	-29.4	-279.2	56.1	34.4
Nonbank and regional financing [7]	-310.6	-103.0	-257.4	79.5	103.9	115.0	124.1	134.4	111.5	120.5
External financing	351.9	218.5	927.3	240.8	252.9	254.2	269.8	560.5	305.0	375.3
Project financing[3]	35.2	219.1	229.0	311.1	278.6	315.0	341.7	370.1	416.3	449.8
Budgetary assistance	33.3	49.9	28.2	50.6	96.1	100.7	95.7	54.6	74.3	80.3
Eurobond issuance	325.0	0.0	983.9	0.0	0.0	0.0	0.0	317.3	0.0	0.0
Amortization due	-41.7	-50.5	-313.9	-121.0	-121.9	-161.4	-167.7	-181.4	-185.7	-154.8
Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP	8,432	9,009	9,810	10,873	10,838	11,771	12,703	13,757	14,867	16,063

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

[1]Consolidated central government includes government entities whose operations are include in the table of government financial operations (TOFE). Does not include any local governments, the central back, or any other public or government-owned entity that has autonomous legal status.

[2]2020-27 includes wages of wages of trainee "aspirant" employees previously reflected in goods and services.

[2]Projections from 2022 include financing from BOAD.

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

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

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

[6] Includes financing by Beninese banks.

[7] Includes financing by regional commercial banks.

Table 3. Benin: Consolidated Central Government Operations, 2019–27[1]

(in percent of GDP)

	2019	2020	2021	2022		2023	2024	2025	2026	2027
			Est.	EFF/ECF	Proj.	Proj.	Projections			
Total Revenue and Grants	**14.1**	**14.4**	**14.1**	**14.3**	**13.9**	**14.4**	**15.1**	**15.6**	**15.9**	**16.3**
Total revenue	12.9	12.7	13.2	13.4	13.4	13.8	14.4	14.9	15.3	15.7
Tax revenue	10.6	10.5	11.0	11.5	11.5	11.9	12.5	13.0	13.3	13.6
Tax on international trade	4.2	3.7	4.1	4.3	4.3	4.5	4.7	4.9	5.1	5.2
Direct and indirect taxes	6.3	6.8	7.0	7.2	7.2	7.4	7.7	8.0	8.2	8.4
Nontax revenue	2.3	2.2	2.2	2.0	2.0	1.9	2.0	2.0	2.0	2.1
Grants	1.2	1.7	0.9	0.8	0.5	0.6	0.7	0.7	0.6	0.6
Project grants	0.8	0.5	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Budgetary grants	0.4	1.2	0.4	0.3	0.0	0.1	0.2	0.1	0.1	0.1
Total Expenditure and Net Lending	**14.6**	**19.1**	**19.9**	**19.8**	**19.5**	**18.7**	**18.0**	**18.5**	**18.8**	**19.2**
Current expenditure	10.7	12.2	11.7	11.5	11.5	11.0	11.2	11.1	10.9	11.4
Current primary expenditure	9.1	10.2	9.4	9.6	9.7	9.4	9.4	9.4	9.3	9.8
Wage bill[2]	4.4	4.6	4.2	4.4	4.3	4.8	4.8	4.8	4.6	4.6
Pensions and scholarships	1.1	1.0	0.9	1.1	1.1	1.0	1.0	0.9	0.9	1.3
Current transfers	2.1	2.6	2.6	2.4	2.8	2.4	2.3	2.4	2.5	2.6
Expenditure on goods and services	1.5	2.0	1.7	1.8	1.4	1.3	1.3	1.3	1.3	1.4
Interest	1.6	2.0	2.2	1.9	1.8	1.6	1.8	1.7	1.6	1.6
Domestic debt	1.3	1.2	1.6	1.0	0.8	0.7	1.0	0.9	0.7	0.7
External debt	0.3	0.8	0.7	0.9	1.0	0.9	0.9	0.8	0.9	0.9
Capital expenditure	3.9	6.9	8.2	8.3	8.0	7.7	6.8	7.4	7.9	7.8
Financed by domestic resources	2.7	4.0	5.3	5.0	4.9	4.5	3.6	4.1	4.6	4.5
Financed by external resources[3]	1.2	3.0	2.9	3.4	3.1	3.2	3.2	3.2	3.3	3.3
Net lending	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)	**-0.5**	**-4.7**	**-5.7**	**-5.5**	**-5.6**	**-4.3**	**-2.9**	**-2.9**	**-2.9**	**-2.9**
Primary balance[4]	-0.1	-4.5	-4.4	-4.5	-4.2	-3.4	-1.8	-1.9	-1.9	-2.0
Basic primary balance[5]	1.1	-1.5	-1.5	-1.1	-1.2	-0.2	1.4	1.4	1.4	1.3
Change in arrears	0.0	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	0.0	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
of which: net change in arrears stock	*0.2*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	0.0
Float	-0.1	0.5	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance (Cash Basis, Incl. Grants)	**-0.6**	**-4.2**	**-5.6**	**-5.6**	**-5.7**	**-4.3**	**-2.9**	**-2.9**	**-2.9**	**-2.9**
Financing	**0.6**	**4.2**	**5.6**	**5.6**	**5.7**	**4.3**	**2.9**	**2.9**	**2.9**	**2.9**
Domestic financing	-3.6	1.7	-3.9	3.4	3.3	2.2	0.8	-1.2	0.9	0.6
Bank financing	0.1	2.9	-1.3	2.7	2.4	1.2	-0.2	-2.1	0.1	-0.2
Net use of IMF resources	0.2	1.9	1.0	1.5	1.6	1.0	0.0	-0.1	-0.3	-0.4
Disbursements	0.3	1.9	1.0	1.6	1.7	1.1	0.4	0.3	0.0	0.0
Repayments	-0.1	0.0	0.0	-0.1	0.0	-0.1	-0.4	-0.4	-0.3	-0.4
Other[6]	-0.1	1.0	-2.2	1.1	0.7	0.2	-0.2	-2.0	0.4	0.2
Nonbank and regional financing[7]	-3.7	-1.1	-2.6	0.7	1.0	1.0	1.0	1.0	0.8	0.7
External financing	4.2	2.4	9.5	2.2	2.3	2.2	2.1	4.1	2.1	2.3
Project financing[3]	0.4	2.4	2.3	2.9	2.6	2.7	2.7	2.7	2.8	2.8
Budgetary assistance	0.4	0.6	0.3	0.5	0.9	0.9	0.8	0.4	0.5	0.5
Eurobond issuance	3.9	0.0	10.0	0.0	0.0	0.0	0.0	2.3	0.0	0.0
Amortization due	-0.5	-0.6	-3.2	-1.1	-1.1	-1.4	-1.3	-1.3	-1.2	-1.0
Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP	8,432	9,009	9,810	10,873	10,838	11,771	12,703	13,757	14,867	16,063
Memo Items										
Interest-to-tax revenue ratio (percent)	15	19	20	16	16	13	15	13	12	12
Wage bill to tax ratio (percent)	41	44	38	38	38	40	39	37	35	34

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

[1]Consolidated central government includes government entities whose operations are include in the table of government financial operations (TOFE). Does not include any local governments, the central back, or any other public or government-owned entity that has autonomous legal status.

[2]2020-27 includes wages of wages of trainee "aspirant" employees previously reflected in goods and services.

[3]Projections from 2022 include financing from BOAD.

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

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

[6]Includes financing by Beninese banks.

[7]Includes financing by regional commercial banks.

Table 4. Benin: Balance of Payments 2019–27
(in billions of CFA francs)

	2019	2020	2021		2022		2023	2024	2025	2026	2027
			ECF/EFF	Est.	ECF/EFF	Proj.	Projections				
Current account balance	**-337.3**	**-157.3**	**-433.1**	**-402.1**	**-679.1**	**-664.6**	**-647.0**	**-594.4**	**-649.5**	**-671.6**	**-657.9**
Current Account Balance (Excl. Budget Support Grants)	-368.1	-264.6	-470.5	-439.5	-716.5	-664.6	-661.0	-617.4	-669.5	-693.2	-681.2
Trade balance[1]	-260.4	-89.7	-252.6	-194.9	-516.5	-389.9	-363.2	-295.6	-322.0	-320.0	-290.4
Exports, f.o.b.[1]	1,790.9	1,720.5	2,043.4	2,018.9	2,407.9	2,562.3	2,694.7	2,780.9	2,945.8	3,146.0	3,360.4
Of which: re-exports	*841.3*	*739.1*	*924.3*	*874.3*	*942.9*	*942.4*	*1,041.5*	*1,139.2*	*1,246.3*	*1,363.8*	*1,489.9*
Of which: cotton	*325.5*	*319.3*	*430.8*	*404.7*	*598.9*	*633.6*	*590.6*	*522.6*	*521.3*	*537.7*	*554.6*
Imports, f.o.b.[1]	-2,051.4	-1,810.2	-2,296.0	-2,213.8	-2,924.3	-2,952.2	-3,057.8	-3,076.6	-3,267.8	-3,466.0	-3,650.8
Of which: fuel	*-223.6*	*-199.4*	*-390.3*	*-246.2*	*-662.5*	*-374.6*	*-323.3*	*-290.3*	*-263.6*	*-241.9*	*-223.6*
Services (net)	-162.4	-160.5	-212.9	-232.6	-236.0	-257.0	-279.1	-301.2	-326.1	-352.5	-380.8
Income (net)	-41.5	-69.7	-71.9	-100.2	-48.2	-53.2	-59.2	-66.5	-73.2	-79.6	-76.6
Current transfers (net)	127.1	162.6	104.3	125.5	121.5	35.5	54.4	68.8	71.9	80.4	89.9
Private transfers	77.6	55.0	66.9	76.9	84.1	35.5	40.4	45.8	51.9	58.8	66.5
Public transfers	49.4	107.6	37.4	48.7	37.4	0.0	14.0	23.0	20.0	21.6	23.4
Capital Account Balance	**116.3**	**100.5**	**116.5**	**143.8**	**101.3**	**100.0**	**111.0**	**119.8**	**129.7**	**136.6**	**147.6**
Financial Account Balance (+=Inflow)	**262.6**	**361.8**	**675.8**	**853.5**	**402.1**	**466.4**	**481.4**	**511.3**	**818.5**	**601.5**	**716.1**
Direct investment	112.0	87.6	119.1	168.1	125.9	178.2	188.9	200.1	212.3	246.3	285.6
Portfolio investment	125.0	76.4	488.4	503.8	0.0	0.0	0.0	0.0	317.3	0.0	0.0
Medium- and long-term public capital	168.4	324.3	-56.6	-56.6	240.8	252.9	254.2	269.8	243.3	305.0	375.3
Project loans	35.2	219.1	229.0	229.0	311.1	278.6	315.0	341.7	370.1	416.3	449.8
Budgetary assistance loans	33.3	49.9	28.2	28.2	50.6	96.1	100.7	95.7	54.6	74.3	80.3
Amortization due	-41.7	-50.5	-313.9	-313.9	-121.0	-121.9	-161.4	-167.7	-181.4	-185.7	-154.8
Other Medium- and long-term private capital	-142.7	-126.5	125.0	238.2	35.4	35.3	38.3	41.4	45.6	50.2	55.3
Errors and omissions	3.9	2.0	0.0	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	**45.6**	**306.9**	**359.2**	**598.1**	**-175.7**	**-98.2**	**-54.6**	**36.6**	**298.7**	**66.4**	**205.8**
Change in net foreign assets, BCEAO ('-' = Increase)	**-45.6**	**-306.9**	**-359.2**	**-598.1**	**-2.0**	**-82.7**	**-75.1**	**-89.9**	**-343.7**	**-66.4**	**-205.8**
Change in gross foreign assets, BCEAO ('-' = Increase)	-31.0	-138.8	-257.2	-496.0	3.7	-85.8	-84.2	-136.9	-403.0	-105.5	-267.7
Use of IMF resources, net	-14.5	-168.1	-94.2	-94.2	5.7	3.1	9.0	47.0	59.4	39.0	61.9
Debt relief[2]	0.0	0.0	-7.8	-7.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing Gap						**180.9**	**129.7**	**53.3**	**44.9**	**0.0**	**0.0**
IMF EFF/ECF						180.9	129.7	53.3	44.9		
Current Account Balance	**-4.0**	**-1.7**	**-4.4**	**-4.1**	**-6.2**	**-6.1**	**-5.5**	**-4.7**	**-4.7**	**-4.5**	**-4.1**
Trade balance of goods[1]	-3.1	-1.0	-2.6	-2.0	-4.8	-3.6	-3.1	-2.3	-2.3	-2.2	-1.8
Exports, f.o.b.[1]	*21.2*	*19.1*	*20.8*	*20.6*	*22.1*	*23.6*	*22.9*	*21.9*	*21.4*	*21.2*	*20.9*
Imports, f.o.b.[1]	*-24.3*	*-20.1*	*-23.4*	*-22.6*	*-26.9*	*-27.2*	*-26.0*	*-24.2*	*-23.8*	*-23.3*	*-22.7*
Services	-1.9	-1.8	-2.2	-2.4	-2.2	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4
Income	-0.5	-0.8	-0.7	-1.0	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Current transfers	1.5	1.8	1.1	1.3	1.1	0.3	0.5	0.5	0.5	0.5	0.6
Capital account	1.4	1.1	1.2	1.5	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Financial account	3.1	4.0	6.9	8.7	3.7	4.3	4.1	4.0	5.9	4.0	4.5
Overall Balance	**0.5**	**3.4**	**3.7**	**6.1**	**-1.6**	**-0.9**	**-0.5**	**0.3**	**2.2**	**0.4**	**1.3**
Memorandum items:											
International price of cotton (Cotlook "A" Index, U.S. cents a lb.)	77.9	71.9	101.2	101.2	127.7	140.0	120.7	100.5	97.0	97.0	97.0
International price of oil (U.S. dollars a barrel)	61.2	41.8	69.1	69.4	106.8	98.2	85.5	80.2	76.2	73.3	71.0
Nominal GDP (CFAF billion)	8,432	9,009	9,810	9,810	10,873	10,838	11,771	12,703	13,757	14,867	16,063

Sources: Beninese authorities; IMF staff estimates and projections.

[1] Includes re-exports and imports for re-export.

[2] Includes the IMF debt service relief of CFAF 196.86 billion from the five tranches of Catastrophe Containment and Relief Trust (CCRT).

Table 5. Benin: Monetary Survey, 2019–24

	2019	2020	2021		2022	2023	2024
				EFF/ECF	Proj.	Proj.	Proj.
	(CFAF billion)						
Net foreign assets	**1233.1**	**1549.3**	**2124.4**	**2132.1**	**2210.2**	**2294.4**	**2431.3**
Central Bank of West African States (BCEAO)	314.4	269.8	131.4	-38.7	36.2	-9.3	74.3
Banks	918.7	1279.5	1993.1	2170.8	2174.0	2303.7	2356.9
Net domestic assets	**1108.9**	**1198.6**	**1075.3**	**1414.3**	**1325.0**	**1545.2**	**1712.2**
Domestic credit	1449.9	1720.9	1712.8	1797.8	1835.2	2005.2	2283.5
Net claims on central government	-200.6	58.8	-64.6	-64.6	-64.6	-64.6	-64.6
Credit to the nongovernment sector[1]	1650.5	1662.1	1777.4	1862.4	1899.8	2069.8	2348.2
Of which: Credit to the private sector	1485.0	1399.7	1528.9	1614.0	1651.3	1821.4	2099.7
Other items[2]	341.0	522.3	637.5	383.5	510.2	460.0	571.3
Broad money (M2)	**2342.0**	**2747.9**	**3199.7**	**3546.4**	**3535.2**	**3839.6**	**4143.5**
Currency	569.4	713.7	757.7	839.8	837.1	909.2	981.2
Bank deposits	878.4	1040.5	1393.8	1544.8	1539.9	1672.5	1804.9
Other deposits	894.2	993.8	1048.2	1161.8	1158.1	1257.8	1357.4
	(Change, in percent of beginning-of-period broad money)						
Net foreign assets	**2.2**	**13.5**	**20.9**	**0.2**	**2.7**	**2.4**	**3.6**
Central Bank of West African States (BCEAO)	-5.0	-1.9	-5.0	-5.3	-3.0	-1.3	2.2
Banks	7.1	15.4	26.0	5.6	5.7	3.7	1.4
Net domestic assets	**3.9**	**3.8**	**-4.5**	**10.6**	**7.8**	**6.2**	**4.3**
Domestic credit	-4.6	11.6	-0.3	2.7	3.8	4.8	7.2
Net claims on central government	-14.4	11.1	-4.5	0.0	0.0	0.0	0.0
Credit to the nongovernment sector	9.9	0.5	4.2	2.7	3.8	4.8	7.2
Other items	-8.4	7.7	4.2	-7.9	-4.0	-1.4	2.9
Broad money (M2)	**6.0**	**17.3**	**16.4**	**10.8**	**10.5**	**8.6**	**7.9**
Currency	2.2	6.2	1.6	2.6	2.5	2.0	1.9
Bank deposits	2.8	6.9	12.9	4.7	4.6	3.8	3.4
Other deposits	1.0	4.3	2.0	3.5	3.4	2.8	2.6
Memorandum items:							
Velocity of broad money	3.7	3.5	3.3	3.2	3.2	3.2	3.2
Broad money (percent of GDP)	27.8	30.5	32.6	32.6	32.6	32.6	32.6
Credit to the private sector (annual percentage change)	11.9	-5.7	9.2	5.6	8.0	10.3	15.3
Nominal GDP (CFAF billion)	8,432	9,009	9,810	10,873	10,838	11,771	12,703
Nominal GDP growth (annual percentage change)	6.5	6.8	8.9	10.8	10.5	8.6	7.9

Sources: BCEAO; IMF staff estimates and projections.

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

[2] 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: External Financing Requirements and Sources, 2021–25

	2021	2022	2023	2024	2025	Cumulative 2022-25
		Projections				Projection
	(CFAF billion, unless otherwise indicated)					
1. Gross financing requirements	**1,449**	**869**	**898**	**875**	**1,195**	**3,836**
Current account balance (excl. grants)	439	665	661	617	669	2,613
Debt Amortization (excl. regional market securities/IMF)	314	122	161	168	181	632
IMF Repurchases/repayments	0	3	9	47	59	118
Change in NFA (excl. IMF) ("+" = increase)	692	80	66	43	284	473
Errors and Omissions	3	0	0	0	0	0
2. Available financing	**1,289**	**575**	**653**	**703**	**1,075**	**3,007**
Foreign direct investment (net)	168	178	189	200	212	779
Other net flows [1]	837	81	88	95	421	683
of which: Eurobond	*984*	*0*	*0*	*0*	*317*	317
Project (official external)	284	316	377	408	442	1,544
Grants	*55*	*55*	*62*	*67*	*72*	255
Loans	*229*	*262*	*315*	*342*	*370*	1,289
3. Financing Gap (1-2)	**160**	**294**	**244**	**172**	**120**	**830**
Budget support (Multilateral)	66	96	115	119	75	404
Grants	*37*	*0*	*14*	*23*	*20*	*57*
Loans	*28*	*96*	*101*	*96*	*55*	*347*
Vaccination Support (WB)		17	*0*	*0*	*0*	*17*
Exceptional Financing	94	181	130	53	45	409
IMF	94	181	130	53	45	409

Source: Beninese authorities; IMF staff estimates and projections

[1] Includes portfolio investment, private investment, and capital account (excl grants).

Table 7. Benin: Quantitative Performance Criteria and Indicative Targets, 2021–2023[1]

(CFAF billion)

	December 31, 2021	June 30, 2022			September 30, 2022		December 31, 2022	March 31, 2023	June 30, 2023	September 30, 2023	December 31, 2023
	Est.	PC			Indicative Target		Performance Criteria	Indicative target	Performance Criteria	Indicative target	Indicative target
		Prog.	Actual	Status	Prog.	Prel.	Prog.	Prog.	Prog.	Prog.	Prog.
A. Quantitative performance criteria[2]											
Basic primary balance (floor)[3]	-148.5	-77.3	3.8	Met	-154.4	-60.9	-127.6	3.8	-1.6	-74.2	-19.6
Net domestic financing (ceiling)[4]	-380.8	290	129	Met	431	264	377	130	205	357	261
B. Continuous quantitative performance criteria (ceilings)											
Accumulation of external payments arrears	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of domestic payments arrears	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on the present value of new external debt contracted or guaranteed by the government[5]	1,016.0	620	293.7	Met	620	432	620	620	620	620	620
C. Indicative Targets[2]											
Tax revenue (floor)	1,082.3	578.9	617.2	Met	876.7	914.9	1,232.9	321.5	669.5	989.4	1,365.5
Priority social expenditure (floor)[6]	150.0	46.2	76.5	Met	92.5	TBD	149.1	16.4	50.9	101.8	164.2

Sources: Beninese authorities; IMF staff estimates and projections.

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

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

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

[4]Includes on-lending from the BCEAO related to the IMF disbursement. If the amount of disbursed external budgetary assistance net of external debt service obligations falls short of the program forecast, the ceiling on net domestic financing will be adjusted pro-tanto, subject to limits specified in the TMU. If the amount of disbursed external budgetary assistance net of external debt service obligations exceeds the program forecast, the ceiling will be adjusted downward by the excess disbursement.

[5]Annual limit. 2022. End-September limit as of November 2, 2022.

[6]Includes internally and externally financed expenditures related to government interventions that directly reduce poverty in the areas of education, health and nutrition, social safety nets, access to electricity, water and sanitation, microfinance, and security and civil protection. Excludes salary expenditures.

Table 8. Benin: Financial Stability Indicators, 2013–21

	2013 Dec.	2014 Dec.	2015 Dec.	2016 Dec.	2017 Dec.	2018[1] Dec.	2019 June	2019 Dec.	2020 June	2020 Dec.	2021 June	2021 Dec.
Regulatory capital to risk-weighted assets	9.5	9.0	7.9	9.3	11.9	8.2	9.6	10.4	10.0	14.4	13.4	13.6
Core capital to risk-weighted assets	7.2	7.1	5.2	7.4	10.2	7.2	8.7	9.7	9.3	13.6	12.6	12.7
Provisions to risk-weighted assets	11.4	12.1	15.6	16.0	16.4	12.6	11.1	10.3	11.4	11.3	10.1	8.4
Capital to total assets	4.5	4.0	2.7	3.7	4.7	5.1	5.6	5.4	4.7	6.7	6.4	6.2
Composition and quality of assets												
Total loans to total assets	47.7	46.1	39.0	39.6	43.5	46.1	47.5	48.5	45.3	42.5	40.9	37.6
Concentration: Credit to the 5 largest borrowers	56.3	103.9	175.7	99.6	91.6	90.4	99.6	95.5	94.9	64.6	76.9	70.1
Credit by sector[2]												
Agriculture, Forestry, and Fishing	2.0	1.6	3.2	1.9	1.8	4.4	2.6	3.1	3.6	4.0	4.3	3.6
Extractive Industries	1.7	1.8	2.1	2.6	1.5	1.2	1.0	0.9	1.4	1.1	1.4	0.8
Manufacturing	11.2	11.7	12.5	15.0	15.2	12.2	11.0	10.2	10.5	8.7	7.5	8.2
Electricity, Water, and Gas	3.3	2.5	3.0	5.0	4.4	4.3	5.2	5.2	4.8	3.2	4.9	4.0
Buildings and Public Works	9.4	12.0	14.9	16.3	17.0	27.9	28.8	30.0	27.7	17.6	20.7	22.4
Commerce, Restaurants, and Hotels	36.9	34.4	29.9	28.2	24.1	18.7	18.7	15.9	15.3	14.3	14.4	14.4
Transportation and Communication	9.6	7.5	6.0	6.2	5.9	3.9	5.0	5.6	6.3	6.0	6.7	5.7
Financial and Business Services	5.2	5.6	4.9	7.9	8.0	3.4	3.3	3.5	5.9	7.2	9.0	6.1
Other Services	20.8	22.8	23.5	16.7	22.1	23.9	24.4	25.7	24.5	37.8	31.0	34.9
Non-Performing Loans (NPLs)												
Gross NPLs to Total loans	21.2	21.5	22.1	21.8	19.4	21.6	20.2	17.7	16.4	16.8	14.9	12.6
Provisioning rate	48.0	49.0	55.0	64.0	66.4	66.5	59.0	55.9	64.6	65.5	70.9	73.3
Net NPLs to total loans	12.3	12.3	11.3	9.1	7.5	8.5	9.4	8.6	6.5	6.5	4.8	3.7
Net NPLs to capital	130.9	140.8	161.2	96.9	69.2	77.2	80.0	77.8	62.4	41.4	31.0	22.5
Earnings and profitability												
Average cost of borrowed funds	3.3	3.1	3.1	3.2	3.0	3.2	…	2.2	…	3.1	…	2.2
Average interest rate on loans	9.1	8.4	8.3	7.8	7.4	7.5	…	6.7	…	7.8	…	5.4
Average interest margin[3]	5.8	5.3	5.2	4.6	4.3	4.3	…	4.5	…	4.7	…	3.2
After-tax return on average assets (ROA)	0.4	0.9	0.3	0.0	0.0	0.1	…	0.4	…	0.4	…	1.0
After-tax return on average equity (ROE)	5.6	14.4	4.9	0.5	0.4	1.9	…	5.3	…	5.2	…	13.9
Noninterest expenses/net banking income	69.9	60.9	63.7	73.2	76.9	74.8	…	77.0	…	68.0	…	64.3
Salaries and wages/net banking income	29.8	26.2	27.5	32.3	33.9	32.4	…	31.9	…	28.3	…	27.1
Liquidity												
Liquid assets to total assets	21.9	23.0	18.9	16.2	14.5	12.5	11.7	12.8	11.5	12.1	9.0	9.7
Liquid assets to total deposits	34.7	36.7	30.9	28.0	24.4	19.3	16.8	19.6	18.0	18.4	13.3	15.2
Total loans to total deposits	84.1	82.2	72.6	79.4	84.4	83.4	77.9	82.3	79.5	72.9	67.7	65.2
Total deposits to total liabilities	63.1	62.7	61.1	57.9	59.2	64.6	69.3	65.4	63.7	65.5	67.6	63.4
Demand deposits to total liabilities[4]	26.9	26.6	25.9	24.4	26.3	29.4	31.3	28.5	27.0	30.0	29.5	31.8
Term deposits to total liabilities	36.2	36.1	35.2	33.5	32.9	35.1	38.0	36.9	36.7	35.5	38.0	31.7

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] Credits reported to the Central Risk Office

[3] Excluding taxes on banking operations.

[4] Including savings accounts.

Table 9. Benin: Schedule of Purchases and Disbursements Under the EFF/ECF Arrangements

Availability date	Amount (SDR Million)			Percent of Quota[1]			Conditions for disbursement/purchases
	Total	ECF	EFF	Total	ECF	EFF	
July 8, 2022	108.30	36.10	72.20	87.48	29.16	58.32	Executive Board approval of the ECF/EFF arrangements
November 21, 2022	108.30	36.10	72.20	87.48	29.16	58.32	Observance of end-June 2022 performance criteria, and completion of the first review under the arrangements.
May 1, 2023	50.81	16.94	33.88	41.04	13.68	27.36	Observance of end-December 2022 performance criteria, and completion of the second review under the arrangements.
November 1, 2023	101.59	33.86	67.72	82.06	27.36	54.70	Observance of end-June 2023 performance criteria, and completion of the third review under the arrangements.
May 1, 2024	31.20	10.40	20.80	25.20	8.40	16.80	Observance of end-December 2023 performance criteria, and completion of the fourth review under the arrangements.
November 1, 2024	31.20	10.40	20.80	25.20	8.40	16.80	Observance of end-June, 2024 performance criteria, and completion of the fifth review under the arrangements.
May 1, 2025	26.20	8.70	17.50	21.16	7.03	14.14	Observance of end-December 2024 performance criteria, and completion of the sixth review under the arrangements.
October 31, 2025	26.458	8.849	17.609	21.37	7.15	14.22	Observance of end-June 2025 performance criteria, and completion of the seventh review under the arrangements.
Total	484.058	161.349	322.709	391.00	130.33	260.67	

Sources: IMF Staff Estimates

1/Benin's quota is 123.8 million SDR.

Table 10. Benin: Indicators of Capacity to Repay the IMF 2022–34[1]

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
IMF obligations based on existing credit (millions of SDRs)													
Principal	2.1	10.6	55.1	69.6	45.7	57.8	57.0	52.3	36.7	19.3	19.3	0.0	0.0
Charges and interest[2]	0.0	5.6	5.2	3.8	2.7	2.4	2.0	1.5	1.1	0.6	0.2	0.0	0.0
Total obligations based on existing and prospective credit													
Principal													
Millions of SDRs	2.1	10.6	55.1	69.6	45.7	72.6	96.7	108.0	100.9	86.1	86.1	43.0	17.7
Billions of CFA francs	1.8	9.0	47.0	59.4	39.0	61.9	82.4	92.1	86.0	73.3	73.3	36.7	15.1
Percent of government revenue	0.1	0.6	2.6	2.9	1.7	2.5	2.9	3.0	2.5	1.9	1.7	0.8	0.3
Percent of exports of goods and services	0.1	0.3	1.5	1.8	1.1	1.6	2.0	2.0	1.7	1.4	1.3	0.6	0.2
Percent of GDP	0.0	0.1	0.4	0.4	0.3	0.4	0.5	0.5	0.4	0.3	0.3	0.1	0.1
Percent of quota	1.7	8.6	44.5	56.2	36.9	58.7	78.1	87.3	81.5	69.5	69.5	34.8	14.3
Charges and interest													
Millions of SDRs	0.4	9.4	14.1	14.0	13.7	13.2	11.9	9.0	6.8	4.9	2.9	1.3	0.5
Billions of CFA francs	0.3	8.0	12.0	12.0	11.6	11.3	10.1	7.7	5.8	4.2	2.5	1.1	0.4
Outstanding IMF credit													
Millions of SDRs	531.6	673.3	680.7	663.8	618.0	545.4	448.8	340.7	239.9	153.8	67.7	24.7	7.0
Billions of CFA francs	443.9	573.0	581.1	566.5	527.2	464.8	382.5	290.4	204.4	131.1	57.7	21.1	6.0
Percent of government revenue	30.5	35.3	31.7	27.6	23.2	18.5	13.6	9.3	5.9	3.4	1.4	0.4	0.1
Percent of exports of goods and services	15.4	18.9	18.5	16.9	14.6	11.9	9.1	6.4	4.2	2.5	1.0	0.3	0.1
Percent of GDP	4.1	4.9	4.6	4.1	3.5	2.9	2.2	1.5	1.0	0.6	0.2	0.1	0.0
Percent of quota	429.4	543.9	549.8	536.2	499.2	440.5	362.5	275.2	193.7	124.2	54.7	20.0	5.7
Net use of IMF credit (millions of SDRs)	214.5	141.8	7.3	-16.9	-45.7	-72.6	-96.7	-108.0	-100.9	-86.1	-86.1	-43.0	-17.7
Disbursements (including prospective ones)	216.6	152.4	62.4	52.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	2.1	10.6	55.1	69.6	45.7	72.6	96.7	108.0	100.9	86.1	86.1	43.0	17.7
Memorandum items:													
Nominal GDP (billions of CFA francs)	10,838	11,771	12,703	13,757	14,867	16,063	17,350	18,737	20,230	21,838	23,569	25,433	27,440
Exports of goods and services (billions of CFA francs)	2,876	3,035	3,148	3,344	3,614	3,904	4,217	4,554	4,917	5,308	5,729	6,182	6,670
Government revenue (billions of CFA francs)	1,455	1,624	1,832	2,053	2,270	2,517	2,812	3,111	3,460	3,844	4,267	4,732	5,242
CFAF/SDR (period average)	835	851	854	853	853	852	852	852	852	852	852	852	852
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

Sources: IMF staff estimates and projections.

[1] Data are projections

[2] On July 14, 2021, the IMF Executive Board approved a modified interest rate setting mechanism which effectively sets interest rates to zero on ECF and SCF through July 2023 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 11. Benin: Structural Benchmarks, 2022–23

Reform area	Structural benchmark	Due date	Status
AML/CFT	Adoption by the Council of Ministers of (i) a Ministerial Decree designating the National Committee for the Coordination of Activities in the Area of AML/CFT (CNCA) as the AML/CFT supervisor for designated non-financial businesses and professions (DNFBPs) and setting out its powers and responsibilities to undertake risk-based supervision of the sector in line with FATF Recommendation 28; (ii) Ministerial decree to implement a targeted financial sanctions regime to comply with relevant United Nations Security Council resolutions related to terrorism and terrorism financing and proliferation financing in line with the recommendations (6 and 7) of the FATF and empowering the Consultative Committee on Administrative Freezing (CCGA) to effectively implement this regime.	End-June 2022	Met
Governance and Transparency	Adopt into law a secondary regulation requiring procurement agencies to collect BO information for companies awarded public procurement contracts above CFAF 10 million.	End-June 2022	Not met: implemented with delay
Social Safety Nets	Finalize the community validations of vulnerable households identified through the first cycle of proxy-mean test surveys (mass registration) in at least 70 of the 77 communes; and publish social registry results at the commune level on an easily accessibly government website.	End-July 2022	Not met: implemented with delay
Governance and Transparency	Publish on a regular basis the BO information for companies awarded public procurement contracts above CFAF 10 million on an easily accessible government website.	End-September 2022	Not met: implemented with delay
Revenue Mobilization	Develop a strategy for rationalizing tax expenditures over 2023–25 (a detailed report on 2021 tax expenditures will be annexed to the draft budget law submitted to Parliament).	End-November 2022	

Table 11: Structural Benchmarks, 2022–23 (Concluded)

Reform area	Structural benchmark	Due date	Status
Governance and Transparency	Conduct and publish a governance diagnostic.	End-February 2023	
Financial Inclusion	Transpose the WAEMU's regional financial inclusion strategy (adopted by the WAEMU Council of Ministers in 2016) at the national level and design a comprehensive financial inclusion strategy for Benin.	End-March 2023	
Revenue Mobilization	Develop a medium-term revenue mobilization strategy (MTRS).	End-September 2023	
Public Financial Management	Prepare a statement containing a quantitative analysis of fiscal risks in all key areas, including macroeconomic risks, public enterprises, debt management, contingent liabilities, natural disasters, pension and social securities, as part of the 2024 draft budget law documentation.	End-October 2023	
Public Financial Management	Publish all the criteria for the appraisal and selection of major investment projects, along with feasibility studies.	End-December 2023	
Food security	Submit to parliament a draft law to improve the organization and governance of the school feeding program (PNASI), covering the following aspects: (i) a sustainable financing strategy which includes the sharing of responsibilities between the central government, municipalities, and schools; (ii) a prioritization of coverage of the regions most susceptible to food insecurity risks; (iii) the adaptation and clarification of standards required for the delivery of food products to school canteens in order to promote the participation of local farmers; and (iv) gradually transferring the management of the PNASI to the Beninese authorities through the establishment of the National Institution in charge of school feeding.	End-April 2023	Newly proposed
Land titling	Digitalize the processing of land titles requests, including through designing the land management application (*e-terre*) and developing its functionalities, providing training to ANDF (*Agence Nationale du Domaine et du Foncier)* staff on the use of the new system and embedding data management tools to the new application.	End-April 2023	Newly proposed

Annex I. Risk Assessment Matrix (RAM)[1]

Source of Risks	Relative Likelihood/ Time Horizon	Excepted Impact if Realized	Recommended Policy Response
External Risks			
Intensifying spillovers from Russia's war in Ukraine	**High** **Short to Medium Term**	**High** Further sanctions resulting from the war and related uncertainties exacerbate trade and financial disruptions and commodity price volatility, while tightening financial conditions could add to purchasing power erosion and delay addressing pre-existing social challenges.	Rely on cost-effective targeted measures in response to the food and energy price shock and reduce non-priority spending to preserve programmed fiscal targets; bolster investors' confidence through careful communication on policy actions, and maintain prudent debt policy and management; mobilize more concessional financing.
Deepening geo-economic fragmentation and geopolitical tensions	**High** **Short to Medium Term**	**High** Intensification of security shocks could potentially have large adverse effects on activity and public finances, and complicate policy implementation.	Enhance State presence in communities at risk through improved access to basic public services; improve public spending efficiency and commit to a credible medium-term fiscal consolidation.
Local Covid-19 outbreaks	**Medium** **Short to Medium Term**	**Medium** Limited access to, and longer-than-expected deployment of vaccines, combined with dwindling policy space, could trigger capital outflows, impact debt sustainability and lead to reassessment of growth prospects.	Compensate lower fiscal revenues through spending prioritization; target support to vulnerable households; mobilize donor support and seek highly concessional financing; and press ahead with reforms to boost private investment and growth.
Adverse developments in Nigeria	**High** **Short to Medium Term**	**High** Slower recovery and adverse security situation would reduce trade revenues, and growth in Nigeria, Benin's main trading partner, with adverse impact on Benin's re-exports, customs revenue, and informal trade.	Reduce trade dependence vis-à-vis Nigeria by moving away gradually from the transit-centered "entrepot" growth model; improve the business environment to support economic diversification and private sector development.
Natural disasters related to climate change	**Medium** **Medium Term**	**High** Severe economic damage and acceleration of migration flows; increased commodity price levels leading to higher food insecurity.	Accelerate reforms to strengthen resilience through irrigation and improved productivity in agriculture; mitigate the immediate impact on the poor including through targeted transfers and emergency assistance.
Domestic Risks			
Policy implementation risks, due to widespread social discontent and political instability	**Medium** **Short Term**	**High** Social tensions could increase political polarization, undermine economic activity, disrupt the reform agenda, and exert pressure on the budget.	Strengthen social safety nets to mitigate the impact on the poor; enhance the delivery of basic public services; ensure transparency and accountability in public spending and improve the efficiency of public investment.
Intensification of financial sector vulnerabilities	**Medium** **Short to Medium Term**	**Medium** A surge in non-performing loans could deteriorate confidence and lower capital, affecting banking sector stability and credit to the private sector.	Enhance monitoring of financial sector developments; consult with the WAEMU banking commission and communicate with banks on measures needed to ensure a prompt resolution of NPLs and adequate capitalization.

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

Annex II. Staff Assessment of High Combined Credit Exposure (HCCE) Criteria

Criterion 1: *The member is experiencing or has the potential to experience exceptional balance of payments pressures on the current account or capital account, resulting in a need for Fund financing that cannot be met without giving rise to a combined access to PRGT and GRA resources in amounts exceeding the thresholds that apply as limits in the GRA.*

Benin faces several sources of BOP pressures:

- While slightly improved compared to program approval, the current account is projected to widen in 2022–23, due to higher import bill from the sharp increase in global oil and food prices and strong US dollar appreciation. The expected improvements in BOP in 2022–2023 remain limited and highly dependent on volatile commodity prices amid heightened global uncertainty. Increased public spending to address urgent development needs will continue to add to BOP pressures. In addition, although cotton prices are expected to remain elevated over the medium term (albeit well-below their 2022 level), this would not be enough to offset the impact on exports from plateauing cotton production after nearly tripling in volume between 2015–20. The need to gradually reduce reliance on cheaper smuggled fuel products from Nigeria would also add to the import bill over the medium term. Moreover, Benin remains vulnerable to climate change shocks, with tight connection to food insecurity (¶20).
- On the financing side, FDI flows (although increasing) are expected to cover only a fraction of the ongoing infrastructure push. Moreover, the ongoing tightening in global financial conditions may constrain Benin's ability to tap international capital markets at terms consistent with the program's interest-to-revenue guide and debt sustainability.

Criterion 2: *Risks to the sustainability of public debt are adequately contained*.

Notwithstanding the recent increase in debt levels amid strong US dollar appreciation, Benin is still assessed at moderate risk of debt distress, albeit with limited space to absorb shocks (DSA). The authorities continue to maintain a prudent borrowing strategy, prioritizing avoiding a high risk of debt distress and conducting active debt management.

Criterion 3: *The policy program of the member provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment*.

Benin has strong institutional capacity to implement a large Fund-supported program, given its solid track record of policy implementation as demonstrated in its performance under the previous ECF (2017–20). The authorities have also consistently implemented past TA recommendations and enjoy good traction with the donor community. The country was assessed above SSA peers in several areas under the 2021 FAD Fiscal Transparency Evaluation. Benin's score in the World Bank's Country Policy and Institutional Assessment Report (CPIA) further improved recently to 3.7, reflecting, notably, progress in economic management, structural reforms, and inclusive and pro-gender policies. There is demonstrated commitment to reform (and resolve to maintain it), with robust involvement of the civil society, including in the budget process, as additional safeguard. Strong upfront conditionality in governance, transparency and AML/CFT, and the authorities' frontloaded tax collection effort (albeit from a low base) have set the program on strong footing. Legislative elections will be held in early January 2023, with related risks to the program expected to be limited. The recent Fiscal Safeguards Review (FSR) confirms that there are reasonable safeguards in place in Benin to support relatively large Fund budget support under HCCE (the authorities voluntarily agreed to undergo this review before it was formally required under the Safeguards Assessment Policy under HCCE).

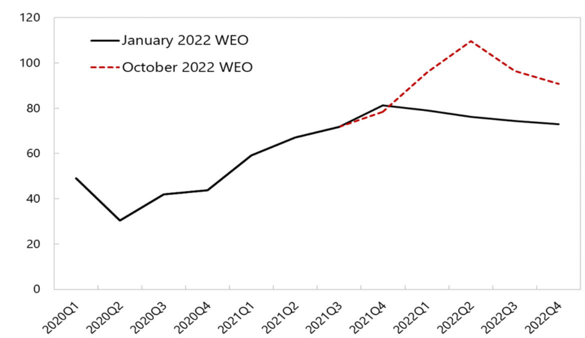
Annex III. Fuel Subsidies: Costly and Regressive[1]

Fuel subsidies are costly (exceeding Benin's health spending in 2022) and poorly targeted (nearly half of fuel subsidies benefit the wealthiest 20 percent of households). Reforming them would provide much-needed fiscal space to increase investment in education, health, and social assistance, thereby strengthening the human capital of future generations of Beninese.

1. The surge in global oil prices amid geopolitical tensions has triggered renewed interest in the old issue of the relevance of fuel subsidies.

a) A comparison of WEO oil price forecasts in January and October 2022 suggests that Russia's invasion of Ukraine led to a surge in international oil prices by 50 percent in 2022:Q2, with an expected 33 percent upward revision in 2022 as a whole (Text Figure 1). In this unique context, most governments around the world recoursed to fuel subsidies to limit the passthrough of international prices on the local economy.

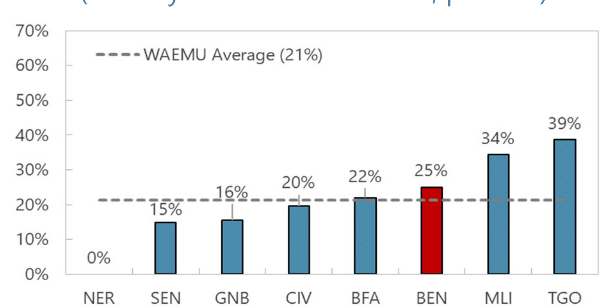
Text Figure 1. International Oil Prices
(US dollars per barrel)



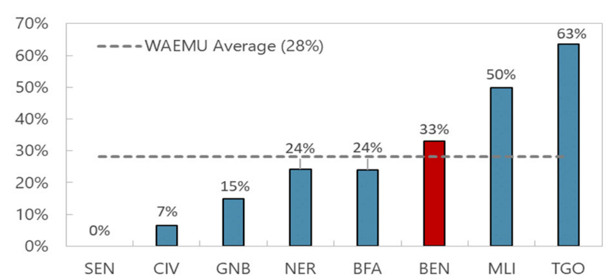
Sources: WEO and IMF staff calculations.

b) Many studies have stressed the fiscal cost and environmental impact of generalized fuel subsidies (see e.g., IMF (2013); Parry and others (2014)). In addition to their significant impact on the budget, fuel subsidies could contribute to crowding out priority spending (IMF; 2017) with a limited impact on protecting the purchasing power of low-income households, as the share of energy in the consumption basket is higher, on average, for higher income households (Coady and others (2015)). Moreover, those subsidies can unduly encourage consumption of fossil fuels which is damaging for the environment.

Text Figure 2a. Change in the Price of Gasoline in WAEMU Member Countries in 2022
(January 2022–October 2022, percent)



Text Figure 2b. Change in the Price of Diesel in WAEMU Member Countries in 2022
(January 2022–October 2022, percent)



Sources: Globalpetrolprices.com, Beninese authorities and IMF staff calculations.

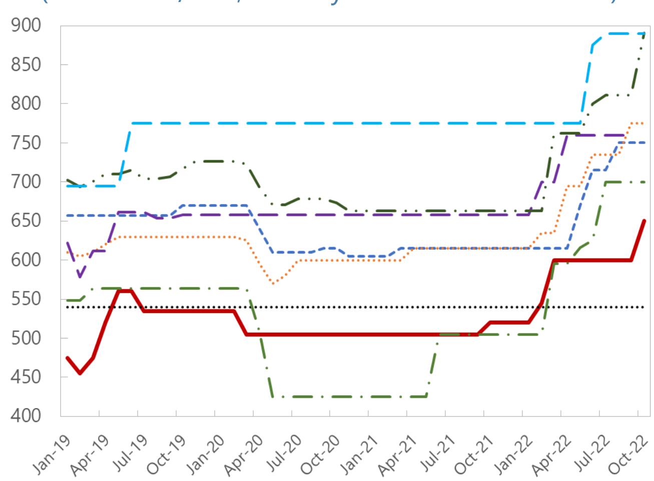
[1] Prepared by Hicham Bennouna (AFR), with inputs from Carolina Bloch (FAD) and Younes Zouhar (Resident Representative).

2. The Beninese authorities adjusted fuel pump prices significantly this year in response to the shock. With a cumulative increase in gasoline pump prices of 25 percent at mid-October 2022 (compared to the level observed in January 2022), Benin's pump price adjustment is above the WAEMU average of 21 percent (Text Figure 2a). Regarding diesel, the cumulative increase amounts to 33 percent in Benin (absorbing more than half of the increase in the international price of crude oil), above the WAEMU average of 28 percent (Text Figure 2b). These pump price adjustments have generated important permanent savings of about 0.4 percent of GDP in 2022 in Benin, compared to a non-adjustment scenario.

3. Despite hikes in 2022, pump prices in Benin remain below their regional average, generating significant costs to the budget in 2022 and inevitably crowding out some priority spending. Pump prices were relatively low in Benin at the end of 2021, reflecting quasi-freeze in recent years. And while the hikes in 2022 helped close the gap, prices are still relatively low today compared to regional peers (Text Figures 3a-3b). Fuel subsidy bill is estimated to reach 115 billion CFA francs in Benin in 2022 (about 1 percent of GDP) before receding to 90 billion CFA francs in 2023 (or about 0.8 percent of GDP).

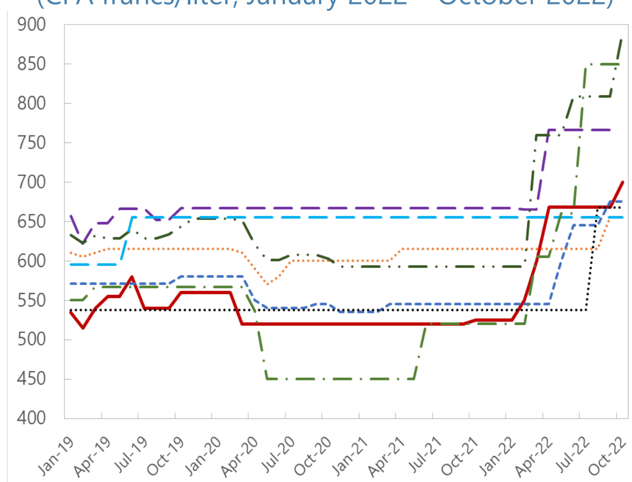
Text Figure 3a. Price of Gasoline in WAEMU Member Countries in 2022

(CFA francs/liter, January 2022 – October 2022)



Text Figure 3b. Price of diesel in WAEMU Member Countries in 2022

(CFA francs/liter, January 2022 – October 2022)



Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, Togo

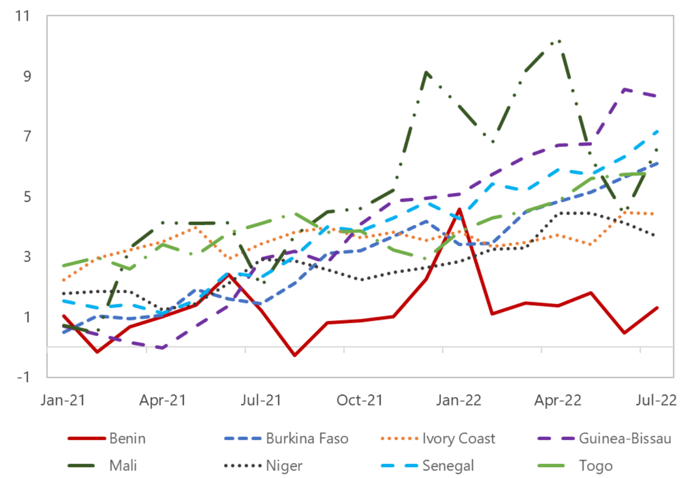
Sources: Globalpetrolprices.com, Beninese authorities and IMF staff calculations.

4. Fuel subsidies benefit wealthier households, contrary to popular perception. Governments generally introduce subsidies on fuel products with the intention to protect the purchasing power of vulnerable and middle-class households. However, several empirical studies find that the bulk of these subsidies benefit wealthier households. An analysis by IMF staff on Benin, using data from household survey conducted by INSTAD, finds that nearly half of fuel subsidies benefit the wealthiest 20 percent of households, compared to less than 10 percent for the poorest 20 percent of households. These estimates consider not only the direct effects of fuel subsidies (e.g., purchase of fuel), but also the indirect effects (e.g., the induced effect on transport costs).

5. The use of fuel subsidies is a structural phenomenon that predated the war in Ukraine. According to estimates based on the latest IMF World Economic Outlook projections for the world price of crude oil and foreign exchange rates, almost half of the estimated cost of subsidies in 2022 is related to the war in Ukraine—namely, 0.4 percent of GDP out of a total of 1 percent of GDP. At current pump prices, simulation results suggest a total cost of subsidies of around 0.8 percent of GDP in 2023, given that the expected normalization of commodity prices in 2023 is partially offset by the increased demand for fuel products stemming from the expansion in economic activity in 2023.

Text Figure 4. Core Inflation Evolution in WAEMU Countries

(January 2021 – July 2022, percent)



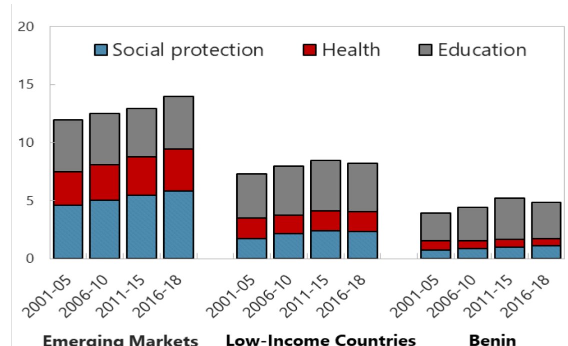
Sources: Beninese authorities and IMF staff calculations.

6. Moreover, the cost of subsidies in Benin depends on fuel pricing in Nigeria. Fuel smuggled from Nigeria into Benin—the so-called *kpayo*—represents about 85 percent of household consumption in Benin. A sharp rise in the price of *kpayo* due to a possible change in the price of fuel in Nigeria could reduce arbitrage opportunities for smugglers on both sides of the border and significantly increase formal demand for gasoline. The cost of fuel subsidies in 2023 would increase by 0.3 ppt of GDP (to 1.1 percent of GDP) in such a scenario.

7. Against this backdrop, reforming fuel subsidies will provide much-needed fiscal space towards Benin's large development challenges. Simulations of fuel subsidies cost in 2023 for alternative scenarios for the adjustment of prices at the pump suggest substantial savings from fuel subsidy reform, while keeping aggregate inflation at a moderate level (Text Figure 4). Such a reform is particularly pressing for Benin where the levels of public spending on education, health and social protection are relatively low (Text Figure 5), with additional security spending needed to counter the recent surge of terrorist threats in the northern part of the country.

Text Figure 5: Social Spending

(percent of GDP)



Sources: WEO, World Development Indicators.

8. International experience suggests that fuel subsidy reform should be preceded by clear communication and accompanied by a compensatory mechanism for vulnerable households. Although benefiting mainly better-off households, the phase out of fuel subsidies will negatively affect the purchasing power of poor households because of the weight of the subsidized product in their budgets, including indirect effects such as transportation costs. In addition, in order to reduce resistance to the reform, depoliticize fuel pricing, and build public support, a communication campaign should be conducted in advance. It should clearly state the rationale for the reform, emphasizing the cost of subsidies to the government budget and their crowding out effect, notably on priority social spending. The public should also be re-assured about the appropriate use of the savings that will be generated from the reform, including the increase in social spending. In addition, part of the savings generated by the reform should be channeled into social safety nets, including targeted measures to compensate for the loss of purchasing power of the most vulnerable.

Authorities' Views

9. While the authorities are committed to phasing-out fuel subsidies over the medium term, they flagged important structural and conjunctural constraints that may slow the process. First, they noted that further diesel price adjustment—after the cumulative hikes of 40 percent in 2022—would alter the price differential vis-à-vis Nigeria, which could incentivize smuggling of diesel (illicit traffic of fuel as so far been limited to gasoline), leading to significant petroleum revenue losses. Second, they argued that Benin's fuel market is fully liberalized, with no intervention of the State in the purchase of fuel products, compared to peers which either have a local refinery or rely on imports of refined fuel products by the State, often benefiting from discount in strategically timed bulk purchases. Third, the authorities argued that diesel is mostly used in agriculture (diesel-powered tractors) and in transport (dominant in transit-dependent economies like Benin); a removal of fuel subsidies would therefore negatively affect economic activity, increase consumer prices, including for foodstuffs, which may exacerbate food insecurity risks. Last, but not least, they underscored that the challenging economic environment, including uncertainty over the near-term path of international oil prices, makes it difficult to pre-commit with precision to further pump price adjustment *ex-ante* (after the already large hikes in 2022).

10. Against this background, the authorities see revenue mobilization as an alternative for offsetting fuel subsidies in the near-term. Already, they are expected to raise an additional 0.7 ppt of GDP in tax revenues in 2022 to offset tax giveaways related to subsidies (of which 0.3 ppt of GDP for fuel subsidies offset). This is on top of the tax package amounting 0.5 ppt of GDP in the original 2022 budget. Staff emphasized that it would be critical to gradually phase out fuel subsidies over time and compensate the vulnerable in the adjustment process.

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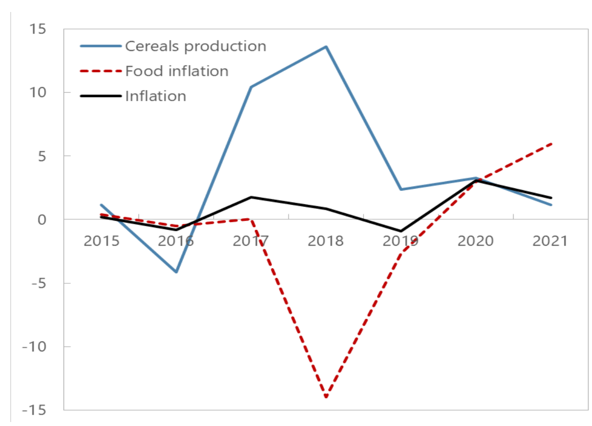
Annex IV. Understanding Recent Inflation Developments in Benin[1]

After rebounding in January 2022 to 8 percent (y/y), inflation has been on a downward trend in Benin, reaching negative territory in July 2022. Recent inflation dynamics reflect several Benin-specific factors—a favorable 2021/2022 harvest season; the authorities' measures to limit the impact of rising international prices and curb the upward trend in food insecurity; and stronger custom's border control to limit smuggling of subsidized fertilizers. But declining inflation masks a rising food insecurity crisis.

1. **Benin's inflation is mainly driven by domestically produced essential food items highly correlated with the harvest season.** After the fall in food crop production in 2020, the 2021 harvest season was marked by a good performance of the main stapple food products, with an overall increase of 2.7 percent in 2021 compared to the 2020-2021 campaign and 4 percent with respect to the average of the last five years (2016-2020). In addition, major crops such as maize, yam and cassava have increased compared to the 2020-2021 crop year. As a result, the drop in inflation during the 10 first months of 2022 was likely driven by food price dynamics given strong negative correlation observed between cereals production and food inflation (Text Figure 1). Moreover, the prices of domestically produced goods have largely contributed to offset the increase in imported products prices, owing to the large share of the former in the CPI basket (72.6 percent).

Text Figure 1. Negative Correlation Between Cereals Productions and Food Inflation
(2015-2021, percent)



Sources: Beninese authorities and IMF staff calculations.

2. **While fuel and food subsidies associated with the war in Ukraine took a toll on the fiscal balance, they have also helped curb inflation.** Faced with the urgency to act to limit the rapid increase in the cost of living of Beninese households caused by the war in Ukraine, the authorities were confronted with a tradeoff between fully passing through the shock to consumers with the associated inflationary pressures or absorbing part of the commodity shock entailing a higher subsidies bill. They introduced a first wave of subsidy measures to the tune of 0.68 ppt of GDP to limit the impact of rising international prices on households, including subsidies on selected products (rice, flour, and vegetable oil) and a 50 percent rebate on freight (Text Table 1). Furthermore, to ensure the effectiveness of those relief measures, the government strengthened custom's border control to limit smuggling of subsidized fertilizers. The authorities have since

[1] Prepared by Hicham Bennouna (AFR).

included subsidies on fertilizers to the tune of 0.3 ppt of GDP for the 2022/23 agricultural campaign to help curb the upward trend in food insecurity since the onset of COVID-19.

Text Table 1. List of Relief Measures Adopted by the Government in Response to the War in Ukraine 1/

For locally produced food products
A ban to export agricultural products by introducing an additional fee on selected food products leaving the country (shea, cashew, soy, corn, and gari).
Ceiling farmers' mark-up on selected agricultural products (soybeans, cassava, paddy rice, shea butter and yams).
Partial waive of all taxes on rice and fruit juices produced in Benin.
VAT exemption of selected food (vegetable oils, wheat flour).
Fertilizers subsidies.
For imported products
Application of a liberating flat rate of VAT on rice.
VAT exemption of selected imported food (vegetable oils, wheat flour).
Rebate on freight costs.
Other measures
Partial pass-through from international oil prices to pump prices.
Suspension of electricity tariffs readjustment.
Freezing of cement prices at their current level.
Strengthening custom's control all over border checkpoints to limit smuggling of stapple food and subsidized fertilizers.
Enhance communication through regional road shows to explain why the cost of living is rising to the populations.

Source: Beninese authorities.

1/ The food export ban was temporary and limited to June–October 2021.

3. **The good harvest season together with food subsidies have significantly contributed to curb the impact of the war in Ukraine on inflation.** While the relief measures adopted by the government concerns directly 19 percent of the CPI basket (Text Table 2), econometric analysis suggests that the second-round effect might have largely contributed to limit the impact of the war in Ukraine on overall inflation (Text Table 3). Estimations (Text Table 3) suggest that the second-round effects stemming from low food prices during February-September 2022 (-3 percent, yoy) have largely offset the impact of increased oil prices[2] (6 percent, y/y), given that the elasticity of core inflation to food prices (0.22) is higher than the elasticity of core inflation to oil prices (0.18). These developments contributed to limiting core inflation to 1.4 percent during the same period.

Text Table 2. Weight of Products Concerned by the Relief Measures (percent)

Products	Weight in the CPI basket (%)
Shea	0.02
Cassava	0.03
wheat flour	0.07
Yam	0.79
Gari	1.44
Electricity	1.98
vegetable oil	2.52
Corn	3.32
Rice	3.46
Fuels	5.33
	18.95

Sources: Beninese authorities and IMF staff calculations

[2] Under the constraint of availability of firms' transport cost, the analysis is limited to the impact of fuel prices on households' transport costs, proxied by the transport sub-index, as reflected in the CPI basket.

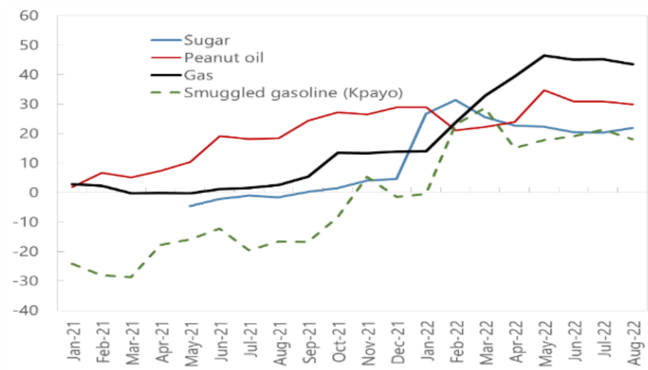
Text Table 3. Estimation Results of Benin-Specific Pass-Through Mechanism
(Estimation sample 2013M1-2022M7)

$$Core_t = 0.63 * Core_{t-1} + 0.18 * Transport_t + 0.22 * Food_t + \varepsilon_{Core,t}$$

$Food_t$, $Transport_t$ and $Core_t$ refer to food prices, transport prices and core inflation.

Notwithstanding relatively low aggregate inflation, the commodity price shock, amidst the war in Ukraine, is exacerbating food insecurity, already affected by COVID-19. Benin is as one of the most vulnerable countries to food insecurity. It was ranked as the 93rd most vulnerable in a sample of 113 countries by Global Food Security Index (GFSI; 2021). Compared to LIC countries, food insecurity is mainly driven by climate change shocks rather than affordability, availability, and quality of food[3]. Although aggregate inflation has remained subdued at 1.3 percent (y/y) for the first eight months of the year, sustained increases in the prices of some key items in the consumption basket (e.g., vegetable oils, wheat flour, corn, sugar, etc.) continue to exert pressure on food security (Text Figure 2). Around 40 percent of the population are facing food insecurity (WFP Heatmap[4]). In addition, over 830 000 people are expected to be food insecure during the June–August 2022 period (WFP, Hunger Hotspots[5]). This is an unprecedented situation which marks a nearly 200 percent increase compared to the same period last year and represents the highest levels since 2014. Besides supporting households through subsidies of essential food items and fertilizers, the government's efforts to expand the school feeding program to over 75 percent of primary schools in Benin (corresponding to a coverage of 1.5-1.8 million children for this school year) has helped mitigate the impacts of the repeated shocks.

Text Figure 2. Evolution of Prices for Selected Essential Food Items
(January 2021 – August 2022, percent)



Sources: Beninese authorities and IMF staff calculations.

[3] The GFSI evaluates a broad range of indicators following 4 dimensions, including affordability (purchasing power, policies to support to most vulnerable, etc.), availability (production and dissemination capacity, research to expand agriculture output, etc.), quality and safety of food and sustainability and adaptation to climate change.
[4] https://hungermap.wfp.org/.

[5] Hunger Hotspots (fao.org).

Appendix I. Letter of Intent

Cotonou, November 25, 2022

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431
United States

Dear Managing Director,

Our economic reform program—anchored on the National Development Program (NDP; 2018-25) and articulated in the Government Action Program (2021-26)—which the IMF has been supporting since last Summer through the Extended Fund Facility (EFF) and the Extended Credit Facility (ECF), has begun under very good auspices. We have met all end-June quantitative targets that we agreed on last April and have made significant strides in our structural reform agenda.

The IMF's support, particularly through large and front-loaded financing, has given us some room for maneuver in a context of tighter financing conditions. Indeed, as the COVID-19 pandemic had just begun to subside, Benin was faced with new and far-reaching challenges, including regional terrorist threats in the northern part of the country and the ongoing war in Ukraine. In this context, we are pleased that we have jointly calibrated the EFF/ECF flexibly to enable us to confront these exogenous shocks. This accommodation has allowed the government to deploy much-needed measures to contain the socio-economic fallout from the war in Ukraine on the population, including by subsidizing fertilizers for the 2022/23 agricultural campaign. It has also allowed us to start strengthening the presence and effectiveness of the State in communities under high security risk in the north of the country, in line with our "civilian approach" to tackling security challenges.

Fortunately, despite heightened uncertainty, economic growth in 2022 is expected to reach 6 percent, driven mainly by agroindustry, construction, and port activities. Importantly, the expansion is occurring in a context of low inflation, mainly due to the very good harvest season, although the strong appreciation of the US dollar is putting additional pressure on the price of imported goods and, in turn, on the current account.

After three years of warranted fiscal accommodation in the face of severe and repeated shocks, we have submitted to Parliament the 2023 budget law which reinforces the consolidation of public finances, necessary to preserve public debt sustainability which we value highly. In order to protect public spending, in view of our country's huge development needs, we've opted for a fiscal consolidation geared towards unleashing Benin's tax potential. We also intend to prioritize spending, in particular through a reform of fuel subsidies. We envisage an increase in public sector wages next year with a top-up for low-wage earners, after several years of quasi-wage freeze.

We have made significant progress in implementing our AML/CFT action plan and continue to advance this important agenda. We have also established the social registry identifying poor and extreme poor households across the 77 communes of Benin. The operationalization of this registry will provide the necessary infrastructure to deploy various social assistance programs in times of hardship, including ARCH (Human Capital Insurance Scheme), our flagship social protection program.

The Government believes that the set of reforms enclosed to the MEFP are adequate to achieve the program objectives but remains committed to take any further measures that may become appropriate for this purpose. The Government will consult with the Fund on the adoption of these measures and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

We will fulfil the commitments set forth in the MEFP and agree to provide the IMF with information pertaining to the implementation of the measures agreed upon and on program execution, as set out in the attached Technical Memorandum of Understanding (TMU; Attachment II). Considering the achievements under the program to date and the commitments presented in the MEFP, the government is requesting the completion of the First Review under the EFF and ECF arrangements, and the disbursement of 108.3 million SDRs.

To implement these priorities and bolster its credibility among the international community, the Government intends to maintain a productive relationship with its development partners. To this end, we plan to work closely with the Fund to support our strategy to promote growth through investments in human capital and infrastructure.

In line with the government's objective to foster transparency, we consent to the publication of this letter, its attachments, and the Staff Report associated with our request for support.

Very truly yours,

/s/

Romuald Wadagni

Senior Minister of State, Minister of Economy and Finance

Attachments (2):

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

Attachment I. Memorandum of Economic and Financial Policies (MEFP)

BACKGROUND

1. Building on our achievements under the Government Action Program for the period 2016-2021, we have re-calibrated public policy to ensure inclusive growth. This recalibration is inspired by the "highly social" second mandate of our government. It is consistent with the National Development Program (PND, 2018-25) which focuses on achieving the Sustainable Development Goals (SDGs), implemented through the Government Action Program (PAG, 2021-2026), and supported by the International Monetary Fund (IMF) through the Extended Fund Facility (EFF) and the Extended Credit Facility (ECF). The current document updates the MEFP at program approval in July 2022.[1]

2. Our structural reform commitments under the EFF/ECF (2022-2025) for end-September were broadly implemented (see Table 2). This attests to the good progress made in implementing the government's reform program. All quantitative criteria and indicative targets at end June 2022 were also met with wide margins, reflecting sound macroeconomic management and our established track record in fiscal responsibility. Following three years of fiscal accommodation to address the repercussions of exogenous shocks, 2023 is the first year of fiscal consolidation under the program, incorporating the government's main priorities. The action plan described in this memorandum will reflect the development objectives envisaged under the 2021-2026 PAG that informed the design of the EEF/ECF (2022-2025).

RECENT ECONOMIC DEVELOPMENTS AND PROSPECTS

3. Overall, the economic recovery is proceeding despite elevated uncertainties. Benin's economic revival, which began in 2017, continues in 2022 despite the heightened uncertainty since Russia's invasion of Ukraine:

- We now expect GDP growth of 6 percent in 2022, slightly above the initial forecast of 5.7 percent under the EFF/ECF, driven by agroindustry and construction, as well as the expansion of the port activities.

- Inflation is expected to be relatively low at [2.6] percent in 2022, partly reflecting measures to cap the prices of certain products to support the population's purchasing power following Russia's invasion of Ukraine, and a good harvest season. Nonetheless, Beninese households, as elsewhere in the world, continue to suffer from rising prices of some imported products.

[1] See IMF Country Report No. 22/245.

- Regarding external accounts, the increase in the import bill due to the rise in commodity prices and the depreciation of the CFA franc against the dollar, is expected to widen the current account deficit of the balance of payments to 6.1 percent of GDP in 2022.

4. Medium-term economic growth is expected to be in line with the initial program forecasts. The government intends to speed up the implementation of measures to promote high-potential sectors, including agriculture, tourism, the digital economy, and the knowledge economy, placing heavy emphasis on technical education and vocational training. The major projects that have been launched to overcome Benin's infrastructure deficit will be continued, particularly in the areas of transportation, energy, and sanitation. This strategy will be supported by measures to improve the business environment with the aim to foster the emergence of a dynamic and competitive private sector, the promotion of the industrial sector, and the development of regional value chains. On this basis, economic growth is expected to remain strong at around 6 percent, with the potential for even higher rates, given our country's immense assets, including the favorable prospects of the Glo-Djigbé industrial zone and the expected knock-on effects of the Niger-Benin oil pipeline.

5. Nonetheless, these prospects remain subject to significant risks.

- At the regional level, an upsurge in terrorist attacks originating in neighboring countries could undermine the business climate and exacerbate social tensions.

- Globally, a deterioration in the economic environment resulting in a sharp fall in the price of cotton, our country's main export, could affect the agriculture sector's contribution to income generation and the balance of payments. Similarly, a sustained rise in food and energy prices, should the war in Ukraine persist, would further increase the cost of living for Beninese households.

- In addition, Benin remains vulnerable to the effects of climate change, such as recurrent floods and droughts.

MAINTAINING MACROECONOMIC STABILITY AND CONSOLIDATING PUBLIC FINANCES

The fiscal policy envisaged in our IMF-supported economic and financial program has been calibrated in 2022 to accommodate the urgent needs arising from multiple shocks. While maintaining public expenditure at a high level, fiscal policy from 2023 onwards will be calibrated to bring the budget deficit down to the regional norm, including through stronger domestic revenues mobilization, and enhanced prioritization and efficiency in public spending.

A. Towards Fiscal Consolidation

6. As of end-June, we have met all the EFF/ECF quantitative targets and continue to execute the budget in a prudent manner.

- **Overall, revenues at end-June 2022 were better than forecasted under the EFF/ECF (+CFAF 40.9 billion).** This improvement was largely driven by tax revenues (CFAF 38.3 billion more than the floor under the program); and it reflects the effects of recently adopted measures, in particular: (i) the reform of standardized invoices and the strengthening of controls; (ii) the extension of the sales tax on the electronic communication services to money transfer services ; (iii) the reform of the statement of personal income tax and social security contributions on a single form, and reorganization of the tax on wages and salaries, which have made it possible to include, in a timely manner, about 4,500 jobs created in the Glo-Djigbé special economic zone; and (iv) the measures implemented at the Autonomous Port of Cotonou to accommodate larger vessels.

- **Expenditure at end-June 2022 was up sharply by 18.6 percent relative to end-June 2021.** This reflects the reforms implemented to improve the implementation of budgetary appropriations. It is also attributable to measures adopted to mitigate the effects of the war in Ukraine on the prices of essential products, and the implementation of a strategy to respond to the security threat, for which Benin is experimenting a civilian approach. The high level of execution of social spending at end-June 2022 (CFAF 76.4 billion compared to the program target of CFAF 46.2 billion) has also contributed to this outcome.

- **The balance of budget execution at end-June 2022 shows a deficit of CFAF 300.5 billion**. The basic primary balance stood at CFAF 3.8 billion, which is a clear improvement on the target set in the program. **The deficit on a cash basis, including grants,** was financed, in equal measure, with external funds (mainly official financing) and domestic resources under contained borrowing costs.

Supplementary 2022 Budget Law

7. We adopted a supplementary budget to deal with shocks that were not anticipated when the 2022 budget law was crafted (Text Table 1). The 2022 supplementary budget is geared, firstly, toward measures to support household purchasing power (of more than CFAF 100 billion) in the face of the rise in international prices following the war in Ukraine; and, secondly, toward implementation of the government's security strategy, including the civilian component.

- ***Household support measures***, notably measures aim at alleviating the burden of high prices on households, including price subsidies for certain products (rice, wheat flour and vegetable oils) and a 50 percent rebate on maritime freight prices. These measures, initially planned for March-June 2022, have been extended for the rest of the year in light of the persistent surge in international prices compounded by the strong depreciation of the CFAF against the US dollar. In addition, longstanding salary arrears owed to civil servants were partially cleared for an amount of CFAF 10.8 billion (0.1 percent of GDP), reducing the salary arrears to CFAF 28 billion by end-2022. In addition, an extra CFAF 13.8 billion (0.13 percent of GDP) has been included in the supplementary budget to speed up the implementation of health component of the Human Capital Insurance Scheme *(Assurance pour le Renforcement du Capital Humain* – ARCH).

- ***Subsidies of energy products.*** Relief in the form of tax exemptions and direct subsidies for fuel products are expected to amount to 0.5 percent of GDP (0.3 percent of GDP in tax relief and 0.2 percent in direct subsidies). Electricity subsidies are expected to reach 0.1 percent of GDP in 2022.

- ***Measures to support farmers (0.3 percent of GDP).*** In response to soaring international fertilizer prices, we have introduced targeted subsidies for farmers amounting to CFAF 31.5 billion net (equivalent to 0.3 percent of GDP) in the 2022/23 agricultural season, to curb rising food insecurity. This has been supplemented by a contribution of FCFA [22.5] billion by the interprofessional cotton association (AIC).

Text Table 1. Fiscal Accommodation Under the 2022 Supplementary Budget
(Change from the original 2022 Budget Law, in ppts of GDP)

Spending increases (A)	**2.4**
War in Ukraine-related	1.4
Direct subsidies (on fertilizers, fuels and electricity)	0.4
Tax giveaways (on foodstuffs, fertilizers and fuels)	0.8
Clearing longstanding salary arrears	0.1
ARCH	0.1
Mitigating security risk (incl. social measures)	0.7
Strengthening road network[1]	0.1
Other[2]	0.2
Fiscal space creation (B)	**1.3**
Spending reprioritization	0.3
Reduction in non-priority capex	0.2
Closure of public entities	0.1
Additional tax collection effort	1.0
Fiscal accommodation[3] (A-B)	**1.1**

1/ Excluding projects related to mitigating security risk.
2/ Increases in other transfers, interest costs, pensions.
3/ The "fiscal accommodation" could increase by up to an additional 0.3 ppt of GDP (as per the supplementary budget), conditional on securing additonal budget support, which could be used for targeted support measures.

- ***Strengthening the road network (0.1 percent of GDP).*** Funds to develop the road network, in particular in rural areas, have been increased by CFAF 14 billion.

- ***Response to security challenges (0.7 percent of GDP).*** The supplementary budget has prioritized security measures, by providing an additional CFA 70 billion in funding for the rapid implementation of the government's strategy to address the heightened risk of regional terrorism, while prioritizing a civilian approach.

2023 Budget Law

8. **Following a warranted fiscal accommodation over the last three years, the 2023 Budget Law reinforces fiscal consolidation with a view to achieving convergence to regional norms.** These include targets for the budget deficit and the wage bill, in addition to the efforts to meet the tax-to-GDP target. The fiscal consolidation strategy aims at a deficit of 4.3 percent of GDP in 2023, which will then be reduced to 2.9 percent in 2024, slightly below the current regional threshold of 3 percent of GDP. Our strategy is based on achieving our tax potential, and prioritizing and improving the efficiency of public expenditure, to create fiscal space for urgent security measures and higher social spending.

9. We will also ensure that the wage bill does not absorb a disproportionate share of our budgetary resources over the medium term. With a view to revalue employment in Benin, the government has agreed with its social partners on the basic principle of raising workers' income. The consensus was as follows: (i) an increase in the basic Minimum Interprofessional Wage (SMIG), which takes account the real cost of living, and the partial contribution of employers to the compulsory health insurance premium; and (ii) an increase in civil servants' pay, which will be reflected in a harmonized increase in the index point and the payment of a top-up benefit (larger for low-wage earners) not related to the index point but fixed according to income brackets. The parameters and the scenario of these salary adjustment are consistent with the budgetary margin that the government intends to assign to raising workers' wages. We will ensure that the wage bill remains sustainable, drawing on the IMF technical assistance scheduled for December 2022.

10. We will reform fuel subsidies. This will free up resources to finance the country's large development needs. To this end, we will seek technical assistance from the IMF to review the current pricing mechanism for fossil fuel products, which dates back to 2004. This will enable us to reassess the alignment of our current pricing mechanism for petroleum products to international standards, while taking into account the constraints imposed by the successive crises. The work will need to prioritize the identification of ways to mitigate the effects of international price volatility on domestic prices. A medium-term reform plan will be developed, based on the recommendations of the mission, taking into account the economic and social conjuncture.

11. We will also continue the reform of electricity price subsidies that has already begun. We recently eliminated the social tranche, thereby generating savings to fund access to clean electricity and water. Following a pause during the COVID-19 pandemic, we plan to resume the gradual adjustment of the electricity tariff at an opportune time, with the aim of eliminating the differential over the medium term.

Text Table 2. Selected Tax Revenues Measures for 2023

Measure	Estimated Yields	
	CFAF billions	% of GDP
New tax policy measures in the 2023 Budget Law	**7.4**	**0.06**
Removal of tax exemptions for the provision of certain services by public organizations	1.8	0.02
Removal of tax exemptions for registering free of charges the transfer of buildings	2.2	0.02
Effectively applying the minimum tax on the sale of used vehicles	3.4	0.03
Improved implementation of previous tax policies	**24.6**	**0.21**
Custom administration measures (e.g., move to transactional value, improving interconnection with neighboring countries)	**28**	**0.24**
Total yields from permanent measures for 2023	**60**	**0.51**

Sources : Direction Genérale des Impots (DGI) et Direction Genérale des Douanes (DGD) du Bénin.

12. Efforts to improve the efficiency of public investment will continue. We overhauled in 2021 the general framework for managing public investment. The newly introduced innovations concern the strengthening of multicriteria project analysis, the systemization of feasibility studies prior to budgeting, and the introduction of an additional layer of transparency, consisting of the publication of feasibility studies and project review criteria. Based on these reforms, we will systematically publish all evaluation and selection criteria for major investment projects, as well as the related feasibility studies, starting at the end of December 2023 ***(Structural benchmark for end-December 2023)***. We have also requested technical support from the IMF to update the Public Investment Management Assessment, including also a climate change component.

13. Revenue mobilization is the cornerstone of our medium-term fiscal consolidation, given Benin's relatively low level of tax revenues and the need to protect social and infrastructure spending. Benin's commitment to increasing domestic revenue mobilization started with the 2022 Budget Law, driven by the overall effects of the reform of the General Tax Code and the ongoing digitalization of customs clearance procedures. This is reflected in the revenue performance at end June and end-September 2022 (see Paragraph 6). This tax revenue mobilization effort will continue for the rest of the year, with an improvement projected in line with the rebound that traditionally occurs in the last quarter of each year. The revenue mobilization effort is maintained in the draft 2023 Budget Law, through new tax measures, some of which are shown in Text Table 2.

14. Mindful of the need to keep tax expenditures under control, we are committed to speeding up work to develop a strategy for their rationalization *(Structural benchmark for end-November 2022).* In this regard, we will build on the recent work that led to the preparation of the report on fiscal expenditures in 2021, appended to the draft 2023 Budget Law.

15. We will also develop a medium-term revenue mobilization strategy (MTRS) *(Structural benchmark for end September 2023).* In this regard, the existence of a Central Directorate for the Supervision of Financial Authorities will help speed up the ongoing work. We will strengthen the synergy between the various tax administrations to ensure a coherent MTRS.

16. The overall medium-term financing strategy for 2023-2026 will continue to prioritize the diversification of financing sources and active debt management. Benin intends to continue its efforts to mobilize concessional resources, in particular external budgetary support from its traditional multilateral partners (the World Bank, the African Development Bank, and the European Union), to supplement the exceptional and front-loaded financing from the IMF. In the current context of tightening financial conditions and reduced budget support opportunities, we will also examine the possibility of using guarantee mechanisms to leverage more financing on attractive terms in respect of maturities and interest rates. All of this will be done in accordance with our EFF/ECF (2022-2025) commitments. Benin will remain alert to changing conditions on bond markets (both international and regional); and it will ready itself to issue bonds (regional/Eurobond) on the most attractive terms and in line with the current debt strategy. Financing from regional development banks, such as the West African Development Bank (BOAD) and the ECOWAS Bank for Investment and Development (EBID), will also provide a substantial share of bank financing in local currency.

B. Strengthening Public Financial Management

17. Public finance transparency will be strengthened further, in line with the recommendations contained in the latest public finance transparency assessment conducted by IMF staff in 2021. Among other things during the five-year period 2021-2026, we will amend the

Organic Law Relating to the Budget Laws (LOLF), to set a deadline for the publication of the Supreme Audit Courts audit report on execution of the Budget Law and make its publication mandatory. We will also continue to strengthen budget risk management. In this regard, with technical support from the Fund, we will prepare a statement on a quantitative analysis of budgetary risks in key areas by end-October 2023, to be appended to the documentation for the draft 2024 Budget Law ***(Structural benchmark for end-October 2023)*.**

18. In terms of cash management, with IMF technical support, we will strengthen the technical and operational framework of the Treasury Single Account. This will involve duly completing the interconnection between all the accounting centers (*postes comptables*) of the government's financial agencies and their field offices and modernizing the Treasury's banking services. In addition, we plan to: (i) implement the project to connect the Treasury to the Interbank Monetary Group of the West African Economic and Monetary Union (GIM-UEMOA) regional platform for the issuance and acceptance of Public Treasury bank cards and the acquisition of electronic payment terminal payments by end-March 2023; and (ii) put the National Electronic Payment Platform into production and close the multiple State accounts held in commercial banks.

ACCELERATING PROGRESS TOWARD SDGs AND BUILDING RESILIENCE TO CLIMATE CHANGE

A. A "Highly" Social Mandate

19. To accelerate progress towards the Sustainable Development Goals (SDGs), we have increased resources allocated to the social sectors and improved implementation capacity.

- As envisaged in the program, we finalized the social registry, with support from the World Bank; and we published the aggregate results for each *commune*. The number of people living in extreme and non-extreme poverty in each *commune* is available and made public. An expert will be hired to support the administration in managing the social register. In addition, the government will consider enhancing the social register by extending coverage to include household vulnerability to climate shocks.

- In relation to the social dimension of the Government's Program of Action 2021-2026, substantial funds are being channeled into social actions. A total of 120 Single Social Protection Windows (Guichets *Uniques de Protection Sociale* – GUPS) are being created throughout the country, in particular by transforming the 85 existing Social Promotion Centers (CPS). The strategy to combat gender-based violence (GBV) will be strengthened through comprehensive and holistic care for GBV victims. Standard operating procedures and free access to medical certificates will also be improved.

20. We will strengthen well-targeted social protection mechanisms by leveraging the social registry.

- **In terms of social protection**, we will increase the number of ARCH program beneficiaries living in poverty, from the current level of 280,000. We also intend to increase the number of schools benefiting from canteens**.**

- **We will strengthen health spending and improve its efficiency by capitalizing on the transition to budget programing.** Specifically, we will increase financial and human resources for the following: (i) the national malaria control program to reduce the prevalence rate from the current 40 percent to 20 percent by the end of 2024; (ii) the maternal health program to improve access to health services and stem the rise in maternal mortality; and (iii) the children immunization program**.**

- **As a result of multiple shocks, the population subject to food insecurity has increased.** In order to stem the rise in food insecurity risks, we will thrive to strengthen the sustainability of the successful school feeding program. In this context, we will send, by end-April 2023, to the National Assembly a draft law to improve the organization and governance of the Integrated National School Feeding Program (*Programme National d'Alimentation Scolaire* – PNASI) through the setting up a sustainable financing framework, the prioritization of the areas vulnerable to food insecurity, and the involvement of local farmers ***(new Structural benchmark for end-April 2023)*****.**

B. Strengthening Resilience to Climate Change

21. Strengthening Benin's resilience to climate change is a key part of the government's policy.

- The government intends to improve the well-being of all Beninese people and to preserve the environment at the national level, with a vision of achieving inclusive and sustainable development based on resilient and safe cities. The aim is to achieve balanced territorial development and a gradual improvement in the living conditions of the different populations. Major progress has been made in this regard, particularly in terms of road development, the construction of street gutters and drainage connectors. These efforts will be pursued with a view to: (i) containing floods that cause damage to riverside homes and infrastructure; (ii) eliminating standing water in the city; (iii) providing for wastewater discharge so as to improve sanitary conditions; (iv) informing, educating, and communicating with the population on hygiene, waste, and sanitation issues; (v) improving the quality of life of the inhabitants of several disadvantaged riverside neighborhoods through ancillary urban improvements.

- Among other achievements, Benin now has a law on climate change, a national policy on climate change management, and a national climate change adaptation plan that identifies eight areas of vulnerability. In the latter, the response to flooding is a top priority. In addition, the framework law on the environment will be updated in 2022, through eight enabling decrees. These will include wastewater management; household solid waste management; hazardous waste management; air quality; soil and subsoil pollution; facilities classified for environmental protection (ICPEs), noise regulations; waste oil, and the law on the public health code. These endeavors will be maintained and supported, to develop sustainable resilience to climate change.

STRENGTHENING GOVERNANCE, TRANSPARENCY, THE RULE OF LAW AND THE AML/CFT FRAMEWORK

22. The government has reaffirmed good governance and the rule of law as the main pillar of its program of action for 2021-2026. In this regard, a diagnostic assessment of governance was recently conducted with technical support from the IMF. We expect to publish the corresponding report by the end of February 2023 ***(Structural benchmark for end-February 2023).*** We will draw up an action plan based on the recommendations arising from the governance diagnostic and ensure their implementation.

23. We reaffirm our commitment to public spending transparency. We will take steps to implement the suggestions made by the State Audit Office in its audit of COVID-related expenditures (published last June). These include: (i) deployment of an equipment maintenance mechanism to avoid premature deterioration; (ii) training of the personnel on use the equipment for examinations related to other pathologies if and when COVID-19 disappears, and (iii) improvement of the health monitoring capacities at the borders.

24. The regulation and supervision of public procurement will be strengthened further.

- We will move toward e-procurement. For this purpose, we have made significant progress in mobilizing the funds needed to acquire the tools to make this operational and to build capacity for change in behavior. Deployment of the e-procurement pilot phase is scheduled for September 30, 2023.
- In addition, we have further strengthened the transparency of information on beneficial owners, through the adoption by the public procurement regulator (*Autorité de Régulation des Marchés Publics* – ARMP), and the implementation since October 3, 2022 of a circular establishing the obligation to produce information on the beneficial owner(s) of public contracts in the Republic of Benin. This information is published on a regular basis (https://www.marches-publics.bj/beneficiaires).
- We have allocated sufficient funds to publish information on public contracts, specifically on the procurement portal. The penalties for noncompliance with these provisions range from the cancellation of procedures to the exclusion from public procurement processes. We are also embarked on a self-assessment of the public procurement system according to the Methodology for Assessing Procurement Systems (MAPS II), with a view to bringing our legal, institutional, and operational framework for public procurement, as well as the rules for promoting integrity, in line with to international standards, particularly those of the World Bank.

25. We will continue to strengthen the anti-money laundering and financing of terrorism (AML/CFT) framework to comply with international standards and sustain anticorruption

efforts. Since the adoption of Benin's Mutual Evaluation Report by the Intergovernmental Action Group against Money Laundering in West Africa (GIABA) in May 2021, we have developed an action plan to implement the recommendations. This has been adopted by the Council of Ministers and is supported by a roadmap. Two decrees have been adopted as part of the implementation of this plan, to strengthen technical compliance of the AML/CFT framework (see Table 2). These legal instruments will also be reinforced by: (i) a decree relating to the National Coordination Committee for AML/CFT Activities (CNCA), specifying and clarifying the committee's sanctioning powers, procedures, and types of sanctions (by end-April 2023); and (ii) finalization and publication of the operational procedures of the Advisory Commission on Administrative Freezing (by end-April 2023 as well). We will also speed up implementation of the roadmap. To this end, the following actions are underway and should be completed by end-May 2023.

- A revision of the penal code to criminalize money laundering and the financing of terrorism, which until now have not been included as offenses in the code;

- Sectoral risk assessments (in the areas of real estate, the financing of terrorism, nonprofit organizations, and legal entities): to address the shortcomings identified by the mutual evaluation report; and to update the national risk assessment;

- Provision of adequate resourcing and development of risk-based tools for Agence Nationale du Domaine et du Foncier (ANDF) to allow the commencement of AML/CFT supervision of the real estate sector;

- Operationalization of the CNCA with adequate resources for the risk-based supervision of the other designated non-financial sectors;

- Review of laws governing the creation and registration of legal entities, with the aim to define modalities of collecting information for effective identification of the beneficial owners of legal entities and legal structures;

- Continued strengthening of the capacity of investigating and prosecuting authorities, to emphasize the need to deprive criminals of their resources by insisting on the seizure and confiscation of proceeds and instrumentalities of crime;

- Amendment of the decree on the duties, organization, and functioning of the Ministry of Justice and Legislation, to clearly designate the authority tasked with coordinating requests for mutual legal assistance and extradition. This action is designed to strengthen international cooperation in prosecuting criminals irrespective of their refuge, and tracing their assets for the purpose of conviction, seizure, and confiscation.

ACCELERATING STRUCTURAL REFORMS

A. A Resilient and Inclusive Financial Sector

• **We will continue to strengthen the stability of the financial system.** The process of bringing the two banks that do not meet the minimum capital adequacy requirement into compliance is well underway.

• **We will transpose the WAEMU regional financial inclusion strategy to the national level *(Structural benchmark for end-March 2023).*** The government intends to increase to 85% by 2026 the proportion of the adult population with permanent access to a diversified range of suitable financial products and services, at affordable costs and used effectively and efficiently. The work currently underway to internalize the strategy will need to be speeded up to finalize the strategy by the agreed-upon date. The government intends to make *La Poste du Benin* a vehicle of financial inclusion. Procedures are underway to obtain its license as a financial institution.

B. Towards Private Sector-Led Growth

• **The Beninese economy remains vulnerable to shocks from Nigeria and is not sufficiently diversified.** The need to diversify our economy and promote the private sector is at the heart of the government's reform agenda. To ensure a robust structure for the Beninese economy, the government has promoted various reforms, including the following:

- ***The development of special economic zones.*** The steps taken in this direction, which are currently focused on the Glo-Djigbé Industrial Zone (GDIZ), aim to make our economy more attractive in terms of mobilizing foreign direct investment. As of end-September 2022, the GDIZ had about 40 enterprises in the process of being set up, involving an announced investment of about CFAF 730.93 billion.
- ***Strengthening human capital.*** To make enhance the quality of human resources, the government rolled out in December 2019 a National Strategy for Technical and Vocational Education and Training. It is currently being implemented, with several thousand professionals already trained, hundreds of technical and vocational teachers in training, and high schools undergoing construction or rehabilitation.
- ***Promotion of the role of small and medium-sized enterprises (SMEs).*** Incentives for SMEs include: (i) establishment of the online business creation platform "monentreprise.bj"; (ii) free connection to water and electricity; (iii) tax exemption for all businesses for the first 12 months of activity. The government has also reformed the institutional framework for promoting SMEs, creating the SME Development Agency through Decree 2022-199 of March 23, 2022. This new SME promotion tool has financing and facilitating access to markets as its core mission.
- ***Improvement of the business climate.*** To improve the business climate, we intend to institute a framework for public-private dialogue, with a view to prevent agenda inconsistencies/discrepancies, and to promote private-sector involvement in the financing of

public projects and programs. In addition, as part of the ongoing modernization of land and property administration, we intend to finalize, by end-April 2023, the dematerialization procedures for issuing land ownership land/real estate titles. This will entail development of the additional functionalities required in the land management software application, the training of the national real estate agency (ANDF) staff, and the implementation of procedures to enable the data transfer and communication with the *e-terre* land management application ***(New Structural benchmark for end-April 2023).***

C. Upgrading Our Statistical System

- **The availability of reliable data and their timely publication are essential for clarifying economic policy decisions**. In terms of progress, the National Statistical System (SSN) has now a legal framework aligned with international standards. The new law passed by the National Assembly on June 2, 2022 and promulgated by the President of the Republic on June 27, 2022, aims to facilitate the production and dissemination of official statistics. Following the enactment of the law, Decree No. 2022-452 of July 27, 2022 was issued, on the Nomenclature of Activities and Products in Benin (NAP-Benin), which is linked to international and regional benchmark nomenclatures (NAEMA-NOPEMA revision 1). The standardization effort will continue with the production by end-April 2023. of manuals and guides to serve as a reference for the production of statistics that meet the standards Special attention will be paid to the production of statistics on the environment and climate change; implementation of a permanent mechanism for producing employment and poverty data; and the establishment of a mechanism for measuring the informal sector and thus improving macroeconomic aggregates. We will also take steps to more closely monitor trends in food insecurity throughout the country.

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- **Program Monitoring.** The program will be monitored through semi-annual reviews, based on the performance criteria, indicative targets, and structural benchmarks defined in Tables 1 and 2 of this Memorandum and in the attached Technical Memorandum of Understanding (which also defines the requirements for data reporting to IMF staff).

Table 1. Benin: Quantitative Performance Criteria and Indicative Targets, 2021–23[1]

(CFAF billion)

	December 31, 2021	June 30, 2022			September 30, 2022			December 31, 2022	March 31, 2023	June 30, 2023	September 30, 2023	December 31, 2023
		PC			Indicative Target			Performance Criteria	Indicative target	Performance Criteria	Indicative target	Indicative target
	Est.	Prog.	Actual	Status	Prog.	Prel.	Status	Prog.	Prog.	Prog.	Prog.	Prog.
A. Quantitative performance criteria[2]												
Basic primary balance (floor)[3]	-148.5	-77.3	3.8	Met	-154.4	-60.9		-127.6	3.8	-1.6	-74.2	-19.6
Net domestic financing (ceiling)[4]	-380.8	290	129	Met	431	264		377	130	205	357	261
B. Continuous quantitative performance criteria (ceilings)												
Accumulation of external payments arrears	0.0	0.0	0.0	Met	0.0	0.0		0.0	0.0	0.0	0.0	0.0
Accumulation of domestic payments arrears	0.0	0.0	0.0	Met	0.0	0.0		0.0	0.0	0.0	0.0	0.0
Ceiling on the present value of new external debt contracted or guaranteed by the government[5]	1,016.0	620	294	Met	620	432		620	620	620	620	620
C. Indicative Targets[2]												
Tax revenue (floor)	1,082.3	578.9	617.2	Met	876.7	914.9		1,232.9	321.5	669.5	989.4	1,365.5
Priority social expenditure (floor)[6]	150.0	46.2	76.5	Met	92.5	TBD		149.1	16.4	50.9	101.8	164.2

Sources: Beninese authorities; IMF staff estimates and projections.

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

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

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

[4] Includes on-lending from the BCEAO related to the IMF disbursement. If the amount of disbursed external budgetary assistance net of external debt service obligations falls short of the program forecast, the ceiling on net domestic financing will be adjusted pro-tanto, subject to limits specified in the TMU. If the amount of disbursed external budgetary assistance net of external debt service obligations exceeds the program forecast, the ceiling will be adjusted downward by the excess disbursement.

[5] Annual limit. 2022. End-September outturn as of November 2, 2022.

[6] Includes internally and externally financed expenditures related to government interventions that directly reduce poverty in the areas of education, health and nutrition, social safety nets, access to electricity, water and sanitation, microfinance, and security and civil protection. Excludes salary expenditures.

Table 2. Benin: Structural Benchmarks, 2022–23

Reform area	Structural benchmark	Due date	Status	
AML/CFT	Adoption by the Council of Ministers of (i) a Ministerial Decree designating the National Committee for the Coordination of Activities in the Area of AML/CFT (CNCA) as the AML/CFT supervisor for designated non-financial businesses and professions (DNFBPs) and setting out its powers and responsibilities to undertake risk-based supervision of the sector in line with FATF Recommendation 28; (ii) Ministerial decree to implement a targeted financial sanctions regime to comply with relevant United Nations Security Council resolutions related to terrorism and terrorism financing and proliferation financing in line with the recommendations (6 and 7) of the FATF and empowering the Consultative Committee on Administrative Freezing (CCGA) to effectively implement this regime.	End-June 2022	Met	
Governance and Transparency	Adopt into law a secondary regulation requiring procurement agencies to collect BO information for companies awarded public procurement contracts above CFAF 10 million.	End-June 2022	Not met: implemented with delay	
Social Safety Nets	Finalize the community validations of vulnerable households identified through the first cycle of proxy-mean test surveys (mass registration) in at least 70 of the 77 communes; and publish social registry results at the commune level on an easily accessibly government website.	End-July 2022	Not met: implemented with delay	
Governance and Transparency	Publish on a regular basis the BO information for companies awarded public procurement contracts above CFAF 10 million on an easily accessible government website.	End-September 2022	Not met: implemented with delay	
Revenue Mobilization	Develop a strategy for rationalizing tax expenditures over 2023–25 (a detailed report on 2021 tax expenditures will be annexed to the draft budget law submitted to Parliament).	End-November 2022		

Table 2. Benin: Structural Benchmarks, 2022–23 (Continued)

Reform area	Structural benchmark	Due date	Status
Governance and Transparency	Conduct and publish a governance diagnostic.	End-February 2023	
Financial Inclusion	Transpose the WAEMU's regional financial inclusion strategy (adopted by the WAEMU Council of Ministers in 2016) at the national level and design a comprehensive financial inclusion strategy for Benin.	End-March 2023	
Revenue Mobilization	Develop a medium-term revenue mobilization strategy (MTRS).	End-September 2023	
Public Financial Management	Prepare a statement containing a quantitative analysis of fiscal risks in all key areas, including macroeconomic risks, public enterprises, debt management, contingent liabilities, natural disasters, pension and social securities, as part of the 2024 draft budget law documentation.	End-October 2023	
Public Financial Management	Publish all the criteria for the appraisal and selection of major investment projects, along with feasibility studies.	End-December 2023	
Food security	[Submit to parliament a draft law to improve the organization and governance of the school feeding program (PNASI), covering the following aspects: (i) a sustainable financing strategy which includes the sharing of responsibilities between the central government, municipalities, and schools; (ii) a prioritization of coverage of the regions most susceptible to food insecurity risks; (iii) the adaptation and clarification of standards required for the delivery of food products to school canteens in order to promote the participation of local farmers; and (iv) gradually transferring the management of the PNASI to the Beninese authorities through the establishment of the National Institution in charge of school feeding.]	End-April 2023	Newly proposed
Land titling	Digitalize the processing of land titles requests, including through designing the land management application (*e-terre*) and developing its functionalities, providing training to ANDF (*Agence Nationale du Domaine et du Foncier)* staff on the use of the new system and embedding data management tools to the new application.	End-April 2023	Newly proposed

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) sets out the understandings regarding the definitions of the performance criteria (PCs) and indicative targets (ITs) that will be applied under Benin's program supported by a 42-month EFF/ECF (2022–2025), as described in the Memorandum of Economic and Financial Policies (MEFP) and its attached tables. It also specifies the frequency and deadlines for data reporting to the staff of the International Monetary Fund (IMF) for program monitoring purposes. Reviews will assess quantitative targets as of specified test dates and on a continuous basis.

PROGRAM ASSUMPTIONS

2. Exchange rates under the program. For the purposes of this TMU, the value of transactions denominated in foreign currencies will be converted into the domestic currency of Benin (the CFA franc, or CFAF), based on the key exchange rates below as of December 31, 2021 (Table 1).

Table 1. Benin: Exchange Rates. (End of period, 2021)

CFAF/US$	580.3
CFAF/€	655.96
CFAF/SDR	811.4

DEFINITIONS

3. Unless otherwise indicated, "government" is understood to mean the central government of the Republic of Benin and does not include any local governments, the Central Bank, or any other public or government-owned entity that has autonomous legal status and whose operations are not included in the table of government financial operations (*Tableau des opérations financières de l'État, TOFE*).

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

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

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

i. suppliers' credits, that is, contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided;

ii. leases, that is, arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains title to the property. For the purpose of this guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair, or maintenance of the property; and

iii. Treasury bills and bonds issued in Communauté Financière Africaine (CFA) francs on the West African Economic and Monetary Union's (WAEMU) regional market, which are included in public debt for the purpose of this TMU.

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

c. The present value of loans will be calculated using a single discount rate set at 5 percent.

d. For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD SOFR is 2.73 percent and will remain fixed for the duration of the program. [1] The spread of six-month Euro LIBOR over six-month USD SOFR is -500 basis points. The spread of six-month GBP SONIA over six-month USD SOFR is -0.0 basis point. For interest rates on currencies other than Euro and GBP, the spread over six months USD SOFR is -500 basis points. Where the variable rate is linked to a benchmark interest rate other than the six-month USD SOFR, a spread reflecting the difference between the benchmark rate and the six-month USD SOFR (rounded to the nearest 50 bps) will be added.

[1] The program reference rates and spreads are based on the "average projected rate" for the six-month USD SOFR over the following 10 years from the October 2022 World Economic Outlook (WEO).

e. Domestic debt is defined as debt denominated in CFA franc other than the debt contracted from BOAD. External debt is defined as debt denominated in any currency other than the CFA franc. For program purposes, BOAD loans are considered as external debt.

QUANTITATIVE PERFORMANCE CRITERIA

A. Floor on the Basic Primary Fiscal Balance (excluding grants)

Definition

5. The basic primary fiscal balance is defined as the difference between total fiscal revenue on a cash basis (tax and nontax) and basic primary fiscal expenditure. Basic primary fiscal expenditure is defined as fiscal (current plus capital) expenditure minus (a) interest payments on domestic and external debt; and (b) capital expenditure financed by external grants and loans (on a payment order basis). Grants are excluded from revenue in this definition and net government lending is excluded from fiscal expenditure.

6. The balances at end-December 2022 and end-June 2023 (PCs) and the balances at end-March, end-September and end-December 2023 (ITs) must be equal to or greater than the amounts indicated in Table 1 of the MEFP.

Adjustor

7. For 2022, the floor on the basic primary fiscal balance (cumulative since January 1, 2022) will be adjusted downward by the amount of additional budget support (as defined in Paragraph 9) beyond the programmed 88 CFAF billion, for an amount up to CFAF 54 billion at end-December 2022. For 2023, the floor on the basic primary fiscal balance (cumulative since January 1, 2023) will be adjusted downward by the amount of additional budget support (as defined in Paragraph 9) in 2023 beyond the programmed 100.7 CFAF billion, for a maximum amount equal to the unused portion in 2022 of the above-mentioned 54 billion CFA francs in this paragraph.

B. Ceiling on Net Domestic Financing of the Government

Definitions

8. Net domestic financing of the government is defined as the sum of (i) the net position (difference between the government's claims and debt) vis-à-vis the central bank and commercial banks and (ii) financing of the government through the issuance (net of redemptions) of securities to individuals or legal entities outside the banking system or to nonresident banks domiciled in the West African Economic and Monetary Union (WAEMU).

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

Performance Criteria and Indicative Targets

10. Net domestic financing at end-December 2022 and end-June 2023 (both PCs) and net domestic financing at end-March, end-September, and end-December 2023 (both ITs) must be equal to or less than the amounts indicated in Table 1 attached to the MEFP.

Adjustor

11. Net domestic financing of the government will be adjusted downward (upward) if net external budgetary assistance exceeds (or falls short) of the program projections in Table 2:

- If, at the end of a quarter, net external budgetary assistance exceeds the total projected amounts (cumulative since January 1 of the same year) by more than CFAF 5 billion, the NDF ceiling will be lowered by an amount equivalent to that excess, minus CFAF 5 billion.
- If at the end of a quarter, net external budgetary assistance falls short of the projected amounts (cumulative since January 1 of the same year), the NDF ceiling will be raised pro tanto, up to a maximum of CFAF 50 billions.

Table 2. Benin: Expected Net External Budgetary Assistance[1]
(Billions of CFA francs)

September 30, 2022	-88.9
December 31, 2022	-25.8
March 31, 2023	-27.6
June 30, 2023	-59.8
September 30, 2023	-108.3
December 31, 2023	-46.7

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

C. Non-Accumulation of New Domestic Payment Arrears by the Government

Definition

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

Continuous Performance Criteria

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

D. Non-Accumulation of External Payment Arrears by the Government

Definition

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

Continuous Performance Criterion

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

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

Definition

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

17. The term "government" used for this performance criterion and for the performance criterion on the new external debt contracted by the government, includes the government, as paragraph 3.

18. This performance criterion also covers government-guaranteed debt of local governments and all public enterprises, including administrative public agencies (EPA), scientific and technical public agencies, professional public agencies, and enterprises jointly owned by the Beninese government with the governments of other countries.

Adjustor

19. For 2022, the ceiling on the present value of new External debt contracted or guaranteed by the government (cumulative since January 1, 2022) will be adjusted upward by the present value equivalent of the amount of additional budget support beyond the programmed 88 CFA billion, for an amount up to CFA 54 billion at end-December 2022. For 2023, the ceiling on the present value of new External debt contracted or guaranteed by the government (cumulative since January 1, 2023) will be adjusted upward by the amount of additional budget support (as defined in Paragraph 9) in 2023 beyond the programmed 100.7 CFAF billion, for a maximum amount equal to the unused portion in 2022 of the above-mentioned 54 billion CFA francs in this paragraph.

Continuous Performance Criterion

20. The present value of new external borrowing contracted or guaranteed by the government should not exceed CFAF 620 billion in 2022 and CFAF 620 billion in 2023 (Table 3a-3b). Changes to this ceiling may be made (subject to approval by the IMF Executive Board) based on the results of the public debt sustainability analysis prepared jointly by the staffs of the World Bank and the IMF.

Table 3a. Benin: Borrowing plan in 2022

(Billions of CFA francs)

PPG external debt	Volume of new debt in 2022		PV of new debt in 2022 (program purposes)	
	FCFA billion	Percent	FCFA billion	Percent
By sources of debt financing	**1015.6**	**100**	**635.5**	**100**
Concessional debt, of which	**674.3**	**66**	**347.1**	**55**
Multilateral debt	571.5	56	283.9	45
Bilateral debt	102.8	10	63.2	10
Non-concessional debt, of which	**341.3**	**34**	**288.4**	**45**
Semi-concessional	323.8	32	270.9	43
Commercial terms	17.5	2	17.5	3

Table 3b. Benin: Borrowing plan in 2023
(Billions of CFA francs)

PPG external debt	Volume of new debt in 2023		PV of new debt in 2023 (program purposes)	
	FCFA billion	Percent	FCFA billion	Percent
By sources of debt financing	**909.5**	**100**	**619.9**	**100**
Concessional debt, of which	**530.8**	**58**	**269.0**	**43**
Multilateral debt	408.3	45	193.7	31
Bilateral debt	122.4	13	75.3	12
Non-concessional debt, of which	**378.7**	**42**	**350.9**	**57**
Semi-concessional	118.2	13	90.4	15
Commercial terms	260.5	29	260.5	42

INDICATIVE TARGETS

F. Floor on Tax Revenue

Definition

21. Tax revenue includes revenues collected on a cash basis by revenue-collection departments. The data are reported in the Government Financial Operations Table (statistical TOFE) prepared monthly by the Economic and Financial Programs Monitoring Unit of the Ministry of Economy and Finance.

22. The revenue will be calculated cumulatively from the beginning of the calendar year. Revenue collections at end-December 2022 as well as end-March, end-June, end-September, and end-December 2023 must be equal to or greater than the amounts indicated in Table 1 attached to the MEFP. The tax revenue floor is an IT for the entire duration of the program.

G. Priority Social Spending

23. Priority social expenditure includes expenditure executed from the State budget (from both domestic and external resources), excluding salary expenditure and relating mainly to public interventions in the areas of education, health and nutrition, the establishment of social safety nets, access to electricity, water and sanitation, microfinance (small and medium enterprises), as well as security and to civil protection. Priority social spending (PSE) is very selective and captures only spending that directly reduces poverty.

24. Priority social expenditure will be monitored on a payment order basis under the program. The indicative target applies to the execution of expenditure (not the allocation). The indicative target for the central government priority social spending floor will be calculated cumulatively from the beginning of the calendar year.

25. This indicative target will be monitored through the table of quarterly expenditure provided by the Ministry of Economy and Finance. A detailed list of priority expenditure items is provided in Table 4:

Table 4. Benin: Priority Social Spending Coverage

Agriculture	**Education**	**Social Affairs**	**Health**	**Sanitation and nature protection**	**Energy**
-National Agricultural Development Fund; -Food safety; -Control of fishery products exploitation standards; -Support for rural economic growth; -Support for agricultural productivity of small farms; -Support for agricultural diversification and food production; -Development of market gardening; -Development of agricultural infrastructure in grassroots communities; -Development of irrigated areas in rural areas; -Soil protection and rehabilitation; -Development of lowlands; -Strengthening storage capacities; -Food security and resilience building; -Nutrition.	-School canteen program; -Free schooling at the primary level; -Provision of school books; -Free schooling for girls in secondary school; -Scholarships for students in technical and vocational high schools and colleges; -Construction and equipment of educational infrastructures in the three levels of education; -University works (catering, transport, accommodation, etc.); -Scholarships and university assistance; -Support program for doctoral students; -Scholarships for the training of trainers; -Reinforcement of social infrastructures.	-Cash transfer to the household; -Micro-credits to the poorest for the promotion of income generating activities; -Support to national solidarity; -Promotion of the family; -Regulation and management of child adoption processes; -Promotion at the base; -Support for people with disabilities; -Capacity strengthening, training and learning center for people with disabilities; -Support for the elderly; -Social welfare.	-Vaccination and primary health care; -Blood transfusion; -Screening and treatment of diseases covered by the State*; -Construction and equipment of hospitals; -Development of traditional medicine and pharmacopoeia; -Reproductive health; -Health care for the indigent; -Community health;	-Modernization of the efficient waste collection system; -Storm water sanitation; -Protection against coastal erosion; -Social housing development; -Forest protection expenditures; -Incentives for reforestation; -Expenditures to promote the substitution of wood energy for domestic gas.	- Electrification of rural localities; - Development of renewable energy and energy efficiency; - Development of conventional energy; - Reinforcement and extension of electrical networks; - Biomass electricity; - Strengthening resilience to climate change impacts.
Sport	**Security and civil protection**	**Infrastructure and Transportation**	**Water and mining**	**Justice**	**Employment**
-Development of the practice of sport at the grassroots level; -Promotion of school and university sports; -Sports competitions; -Leisure and association life	-Disaster prevention and management; -Integrated management of border areas; -Maintenance and management of the population register	-Development of rural roads; -Small bridges and various works of crossing of lowlands and others	-Drinking water supply; -Water supply system; -Development of multifunctional hydraulic infrastructures	-Child and youth safeguarding expenses; -Food for prisoners; -Social reintegration of prisoners	-Various internship programs managed by the ANPE; -Training-entrepreneurship of young people

*Assistance to hemodialysis patients; screening and treatment of ulcer, pneumo-pathobiology, fight against tuberculosis, AIDS, hepatitis, non-communicable diseases, leprosy, malaria, sickle cell anemia, subsidies to hospitals, etc.

Indicative Target

26. Priority Social spending at end-December 2022 as well as end-March, end-June, end-September and end-December 2023 must be equal to or greater than the amounts indicated in Table 1 of the MEFP.

INFORMATION FOR PROGRAM MONITORING

I. Data on Performance Criteria and Indicative Targets

27. To facilitate effective program monitoring, the authorities will provide IMF staff with the following data in excel format:

Monthly:

- Data on any loan (terms and creditors) contracted or guaranteed by the government, in the first week after the end of the month of entry into force of these loans;
- Monthly consumer price index, within two weeks of the end of the month;
- The TOFE, including revenue on a cash basis, detailed data on net domestic financing of the government (bank and nonbank domestic financing, including claims held by the nonbank private sector); and data on the basic primary fiscal balance, within six weeks of the end of the month;
- Data on the balance, accumulation, amount (stock), and repayment of public domestic and external payment arrears, including in the event that these arrears amount to zero, within six weeks of the end of the month;
- The monetary survey, produced by the BCEAO, within eight weeks of the end of the month.

Quarterly:

- The price structure of petroleum products;
- The employment index and the traffic of merchandise at the Port of Cotonou, within 25 days of the end of the month;
- The Industrial production index and the turnover index, within three months of the end of the quarter;

- High priority social spending (Table 4), including health, education, social protection and security, by functional classification of expenditure, within eight weeks after the end of the quarter;

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

- Stock-flow adjustment table;

- National account statistics, within three months of the end of the quarter.

- Total new Eurobond issuances provided on quarterly basis, within two weeks after the end of the quarter.

J. Other Information

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

- Financial soundness indicators, produced semi-annually by the BCEAO, within eight weeks of the end of the semester.

- Data on the implementation of the public investment program, including detailed information on sources of financing within eight weeks of the end of the quarter; and

- Update of the PPP projects catalog and the amounts of contracted projects, within eight weeks of the end of the quarter.

- Execution of the investment budget, within eight weeks of the end of the quarter.

- Data on the stock of external debt, external debt service, the signing of external loan agreements and disbursements of external loans, within twelve weeks of the end of the quarter.

- Data on military and security spending, within eight weeks of the end of the quarter.

- Balance of payments data, produced by the BCEAO, within ten months of the end of the year.

- More generally, the authorities will report to the IMF staff any information needed for effective monitoring of the implementation of economic policies.

INTERNATIONAL MONETARY FUND

BENIN

December 2, 2022

FIRST REVIEWS UNDER THE EXTENDED FUND FACILITY AND THE EXTENDED CREDIT FACILITY ARRANGEMENTS—DEBT SUSTAINABILITY ANALYSIS

Approved By
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Prepared by the staff of the International Monetary Fund (IMF) and the International Development Association (IDA)[1]

Benin Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	*Moderate*[1]
Overall risk of debt distress	*Moderate*
Granularity in the risk rating	*Limited space to absorb shocks*
Application of judgment	*No*

Benin remains at moderate risk of external and overall debt distress, unchanged from the previous DSA (July 2022). All projected external debt burden indicators remain below high-risk thresholds under the baseline scenario apart from a one-off breach in the debt service to revenue ratio in 2030 related to Eurobond repayment. While public debt is expected to increase in 2022 with higher financing needs and the strong appreciation of the U.S. dollar and other currencies against the CFA franc, the large component of debt denominated in euro (to which the CFA is pegged) provides a cushion. Nevertheless, the space to absorb shocks remains limited. External debt burden indicators breach high-risk thresholds in select stress tests, particularly commodity price and export-related shocks. The high debt service-to-revenue ratio continues to leave debt vulnerable to revenue underperformance or shifts in market sentiment that could increase rollover costs. Moreover, although the baseline present value (PV) of the public debt-to-GDP ratio remains below its prudent benchmark, it is vulnerable to natural disasters as illustrated by the shock scenario, based on Benin's exposure. Sustained revenue mobilization efforts, along with continued prudent borrowing and active debt management strategy, will be important for mitigating the risk of debt distress.

[1] Prepared by the IMF and the World Bank. This DSA follows the Guidance Note of the Join Bank-Fund Debt Sustainability Framework for Low Income Countries, February 2018. Benin retains a medium-rated debt-carrying capacity, given the 2.99 Composite Indicator, which is based on the October 2022 WEO and the 2021 CPIA.

PUBLIC DEBT COVERAGE

1. **This Debt Sustainability Analysis (DSA) covers central government and central bank debt as well as guarantees provided by the central government (Text Table 1).**[2] Central bank debt borrowed on behalf of the government (i.e., debt to the IMF) is included as external debt. External debt is defined on a currency basis owing to data limitations, except for debt from the regional development bank (BOAD), which is included as external debt for the purpose of the DSA.

Text Table 1. Benin: Public Debt Coverage Under the Baseline Scenario

	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: Contingent Liability 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	1.9	The stock of SOE's debt not captured in the central government sector is estimated at 1.9 percent of GDP at end-2021.
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)			9.3	

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%.

2. **Although debt coverage remains fairly comprehensive, data limitations prevent the inclusion of non-guaranteed SOE debt in the baseline.** Benin received a top score for sectoral coverage on the IDA Debt Reporting heat map. Although public debt does not include non-guaranteed SOE debt, the authorities recently published the outstanding stock of non-guaranteed SOE debt (comprising 13 SOEs) in their annual fiscal risk report, which stood at 1.9 percent of GDP at end-2021. They also included details on on-lending to SOEs in quarterly debt bulletins in 2021, as part of IDA's Sustainable Development Finance Policy (SDFP) and most recent Development Policy Operation.[3] Also, under the SDFP, the Debt Management Office and the Directorate in charge of SOEs (DGPED) established a monitoring system following the adoption by ministerial order of a risk-based framework for granting SOE guarantees. More information on the finances of the SOEs (e.g.,

[2] Debt on-lent to SOEs is also included as part of central government borrowing.

[3] Since 2021:Q3, the authorities have started to publish the updated debt bulletins on the dedicated website.

revenues) and their debt is needed to fully incorporate them into the baseline. The authorities see consolidating the general government fiscal accounts with the financial statements of the SOEs (both on the revenue and expenditure sides) as an important prerequisite for inclusion in the DSA. Expanding the coverage of fiscal accounts remains an important medium-term capacity development priority.[4]

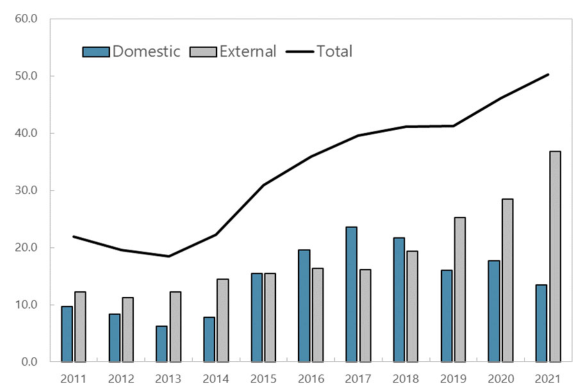
3. **The contingent liabilities shock has been calibrated to reflect risks associated with debt not captured in the baseline and other risks**. The total shock stands at 9.3 percent of GDP, which includes 1.9 percent of GDP in SOE debt based on the end-2021 stock and 2.4 percent of GDP for PPPs based on the capital stock from the World Bank's PPP database (6.8 ppts of GDP), and the default setting for financial market risk (5.0 percent of GDP) (Text Table 2).[5] Benin's debt policy is rated at 4.5 out of 6 in the 2020 and 2021 CPIA evaluations, with higher values corresponding to debt management strategies more conducive to minimizing budgetary risks and ensuring debt sustainability.

BACKGROUND

A. Recent Debt Developments

4. **Benin's public debt is expected to continue its increasing trend through 2022.** Debt rose from 22.0 percent of GDP in 2014 to 50.3 percent of GDP in 2021 driven by a scale-up in investment and large COVID-19 driven deficits.[6]
Debt levels are expected to increase in 2022 as a result of higher spending to meet urgent needs (with less grants) and the USD appreciation against the CFA franc. While the USD has risen sharply against the CFA franc by approximately 14 percent in the first 10 months of the year, the impact on the debt stock is mitigated by the fact that a significant portion of the debt stock is denominated in CFA franc or euros.[7]

Text Figure 1. Benin: Total Public Debt
2011–21
(Percent of GDP)



Sources: Country authorities and IMF staff estimates and projections.

[4] See Annex IX in Benin: 2022 Article IV Consultation and Requests for an Extended Arrangement under the Extended Fund Facility and an Arrangement under the Extended Credit Facility (IMF Country Report 22/245).

[5] Contingent liabilities have not materialized from these entities in recent years.

[6] Benin does not currently have any arrears vis-à-vis external creditors. Public domestic debt arrears are commitments to domestic suppliers that were validated in a 2019 audit (totaling 0.1 ppt of GDP as of end-June 2022), hence would not trigger a debt distress event.

[7] The projected exchange rate impact on the debt stock has been adjusted to reflect the fact that a large portion (70 percent) of Benin's debt stock is denominated in CFA franc or euros (to which the CFA franc is pegged). The remainder is denominated in USD (6 percent) or currencies that have also appreciated in 2022, such as the SDR and Chinese RMB.

5. Proactive liability management has helped smooth out the public debt service profile, reduce costs, and roll over risks. Benin also remains active on the WAEMU regional market, with a view to lengthen maturities and roll over risks. Gross bond issuances totaled 3.9 percent of GDP in the first six months of the year, with the authorities issuing both 5- and 7-year bonds. The overall public debt service-to-revenue ratio is expected to average ca. 34 percent in 2022-26. The 2021 reimbursement of about 65 percent of the 2019 Eurobond falling due in 2024–26 helped smooth the amortization profile by a cumulative 2 percent of GDP and reduced 2022-26 interest costs by 0.4 percent of GDP. This follows earlier operations such as the issuance of a US$300 million external commercial loan in 2018 backed by a World Bank partial guarantee to reprofile costly short term-domestic debt.

Table 1. Benin: Decomposition of Public Debt and Debt Service by Creditor, 2021–23[1]

	Debt Stock (end of period)			Debt Service					
	2021			2021	2022	2023	2021	2022	2023
	(In US$)	*(Percent total debt)*	*(Percent GDP)*	*(In US$)*			*(Percent GDP)*		
Total	8501.1	100	50.3	2248	844	1101	13.3	5.0	6.0
External	6221.8	73.2	36.8	690	360	406	4.084	2.13	2.2
Multilateral creditors[2]	3187	37.5	18.9	124	131	167	0.733	0.78	0.91
IMF	450	5.3	2.7						
World Bank	1369	16.1	8.1						
ADB/AfDB/IADB	481	5.7	2.8						
Other Multilaterals	888	10.4	5.3						
Arab Bank for Economic Development	54	0.6	0.3						
BOAD	376	4.4	2.2						
Nordic Development Fund	15	0.2	0.1						
ECOWAS Bank for Investment and Development	68	0.8	0.4						
European Investment Bank	64	0.7	0.4						
IFAD	66	0.8	0.4						
OPEC	27	0.3	0.2						
Islamic Development Bank	212	2.5	1.3						
Bilateral Creditors	478	5.6	2.8	81	47	38	0.5	0.3	0.2
Paris Club	57	0.7	0.3	0	2	4	0.0	0.0	0.0
France	57	0.7	0.3						
Non-Paris Club	421	5.0	2.5	81	45	34	0.5	0.3	0.2
China	323	3.8	1.9						
India	19	0.2	0.1						
Kuwait	40	0.5	0.2						
Saudi Arabia	37	0.4	0.2						
Bonds	1895	22.3	11.2	485	90	92	2.9	0.5	0.5
Commercial creditors	662	7.8	3.9	0	91	109	0.0	0.5	0.6
MUFG Bank	254	3.0	1.5						
RABOBANK	164	1.9	1.0						
Bank of China	12	0.1	0.1						
Societe General	59	0.7	0.3						
UKEF	46	0.5	0.3						
Banco de Brazil	55	0.6	0.3						
Deutche Bank	36	0.4	0.2						
NTXS	28	0.3	0.2						
BPI France	7	0.1	0.0						
Credit Suisse	3	0.0	0.0						
Domestic	2279	26.8	13.5	1557	485	695	9.2	2.9	3.8
Held by residents, total	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Held by non-residents, total	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
T-Bills	0	0.0	0.0						
Bonds	2001	23.5	11.8						
Loans[3]	278	3.3	1.6						
Memo items:									
Collateralized debt	0		0.0						
Contingent liabilities	327		1.9						
o/w: Public guarantees	10		0.1						
o/w: Other explicit contingent liabilities[4]	317		1.9						
Nominal GDP			16905	16905	16886	18408			

1/As reported by Country authorities according to their classification of creditors, including by official and commercial.

2/"Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears).

3/Includes central bank on lending related to the SDR allocation and guaranteed debt.

4/Estimation of commerical non-guaranteed SOE debt that is not included in the debt stock based on end-2021 estimation.

Sources: Country authorities; and staff estimates and projections

6. The composition of debt has shifted gradually toward external debt in recent years, where borrowing costs were comparatively lower (Text Table 3). The largest shares of debt at end-2021 were held by multilateral creditors and international bond holders at 38 percent and 22 percent, respectively. Domestic debt made up about 27 percent of the debt stock, with the majority of it being government securities on the regional financial market.

B. Macroeconomic Assumptions

7. Macroeconomic assumptions underlying the DSA projections are consistent with the program baseline and broadly in the line with the previous DSA (July 2022) (Text Table 4). Compared with the previous DSA, the baseline incorporates updates to inflation and the deflator, lower grant assumptions, and a modest increase in near-term spending to mitigate the impact of the war in Ukraine. The main assumptions are as follows:

- **Real GDP Growth.** Notwithstanding the more prolonged impact of the Ukraine war, growth is forecast at 6.0 percent of GDP for 2022 (an increase over the previous DSA, based on high frequency indicators), supported by public investment and robust port activity. Over the medium-term, large-infrastructure investment consistent with the authorities' development objectives[8] and some recovery in private investment bolstered by the authorities' efforts to improve competitiveness (e.g., acceleration of the Special Economic Zone, promotion of SMEs) will continue to support growth, which is expected to remain around potential at 6 percent.[9] Similarly, longer-term projections remain conservative at 5.7 percent converging to the steady-state.

- **Inflation and GDP deflator.** Inflation for 2022 is now projected at 3 percent of GDP (compared with 5 percent at program approval), curbed by the government's policy response measures to the war in Ukraine and a strong agricultural season. The GDP deflator is slightly higher over the medium-term, averaging 2.5 percent over 2022-26 compared with 2.0 percent in the previous DSA, which can be traced to a terms of trade improvement in line with new inflation projections. The GDP deflator is expected to converge around 2 percent over the long term.

- **Primary fiscal balance.** As with the previous DSA, the primary deficit (including grants) is expected to widen to 3.7 percent of GDP in 2022. Revenues and grants for 2022 are somewhat lower at 13.9 percent of GDP (compared with 14.3 percent in the previous DSA), owing to lower expectations for external budget support grants, which will be more than offset by an increase in external budget support loans (see ¶8). Total expenditure will remain higher in the near-term at 19.6 percent of GDP in 2022, consistent with frontloaded spending under the IMF-supported program to accommodate urgent spending needs related to security risks and the war in

[8] Benin's National Development Plan (PND; 2018-25) emphasizes Sustainable Development Goals (SDG), particularly closing infrastructure and human capital gaps by scaling up spending on education, health, access to water, and electricity. The IMF 2022-25 ECF/EFF will help anchor this development plan by focusing on creating fiscal space to support significant development needs while preserving debt sustainability.

[9] Estimate is based on a growth accounting exercise, using envisaged public and private investment dynamics for 2023-26, average historical contributions to growth of human capital accumulation for 2015-18 and estimated total factor productivity during the previous IMF-supported ECF (2017-20).

Ukraine. The medium-term fiscal consolidation path will remain broadly the same, averaging a primary deficit of 1.9 ppt of GDP over 2022-27. The path remains consistent with the current regional fiscal convergence norm. Fiscal consolidation efforts will be supported by the IMF EFF/ECF and the WB's DPF Series "*Benin: Unlocking Human Productive Potential*". Key measures include revenue mobilization,[10] alongside spending prioritization, efficiency gains in public investment, unwinding of temporary spending measures (related to COVID-19 and the war in Ukraine), and interest bill savings thanks to active debt management. Over the long-term while the government's ambitious development plan will generate spending needs, they have a solid track record of fiscal prudence and prioritizing debt sustainability, further bolstered by the

- strong public consensus on keeping debt under control.

Text Table 4. Benin: Baseline Macroeconomic Assumptions for Debt Sustainability Analysis

	2021	2022	2023	2024	2025	2026	2027	Medium-term 2022-27	Long-term 2028-42
GDP Growth (percent)									
Current DSA	7.2	6.0	6.0	5.9	6.1	6.0	6.0	6.0	5.7
Previous DSA[1]	7.2	5.7	6.2	6.0	6.0	6.0	6.0	6.0	5.7
GDP Deflator (percent)									
Current DSA	1.6	4.2	2.5	1.9	2.1	2.0	2.0	2.5	2.0
Previous DSA	1.6	4.9	1.0	1.5	2.0	2.0	2.0	2.0	2.0
Current account deficit (percent GDP)									
Current DSA	-4.1	-6.1	-5.5	-4.7	-4.7	-4.5	-4.1	-4.9	-4.1
Previous DSA	-4.4	-6.2	-5.7	-4.6	-5.0	-4.5	-4.1	-5.0	-4.1
Exports									
Current DSA	23.5	26.5	25.8	24.8	24.3	24.1	23.8	24.9	23.8
Previous DSA	24.0	25.3	23.9	23.0	22.8	22.6	22.4	23.3	22.4
Primary Balance (percent GDP)									
Current DSA	-3.5	-3.7	-2.7	-1.1	-1.2	-1.3	-1.3	-1.9	-1.5
Previous DSA	-3.5	-3.7	-2.8	-1.3	-1.3	-1.3	-1.4	-2.1	-1.4
Revenue and grants (percent GDP)									
Current DSA	14.1	13.9	14.4	15.1	15.6	15.9	16.3	15.2	19.1
Previous DSA	14.1	14.3	15.0	15.5	15.9	16.2	16.6	15.4	19.1
Total exepnditure (percent GDP)									
Current DSA	19.9	19.5	18.7	18.0	18.5	18.8	19.2	18.8	22.0
Previous DSA	19.9	19.8	19.3	18.4	18.8	19.1	19.5	19.1	22.2
Overall balance (percent GDP)									
Current DSA	-5.7	-5.6	-4.3	-2.9	-2.9	-2.9	-2.9	-3.6	-2.9
Previous DSA	-5.7	-5.5	-4.3	-2.9	-2.9	-2.9	-2.9	-3.6	-2.9

1/July 2022 EFF/ECF Request
Source: IMF staff estimates and projections

- **Current account deficit.** Similar to the previous DSA, the current account deficit is expected to widen to about 6 percent of GDP in 2022 driven by higher food and oil prices and increased government spending including security-related outlays (with high import content). Thanks to an improvement in the terms of trade, exports are projected be slightly higher than in the previous DSA. The current account is expected to improve over the medium and long term, hovering close to -4 percent of GDP, supported by fiscal consolidation and ongoing reforms to boost competitiveness offsetting projected declines in cotton export receipts as international prices moderate

8. Consistent with the authorities' borrowing plan, this DSA assumes that the authorities will continue to maintain a prudent borrowing strategy, maximizing concessional resources to

[10] This would include the rationalization of tax expenditures as well as measures identified under the forthcoming Medium-Term Revenue Mobilization Strategy, which is a 2023 structural benchmark under the IMF-supported program

the extent possible. The baseline includes financing from the IMF-supported program as well as financing from the World Bank in line with IDA allocations.[11] Compared with the previous DSA, a reduction in grant financing will be substituted with loans on largely semi-concessional terms by other multilateral creditors. External borrowing plans for contracting debt 2022-23 mostly consist of concessional and semi concessional loans from multilateral and bilateral creditors (Text Tables 5-6). Given the authorities' intent to maintain regular market access, the DSA also assumes more regular market access following the conclusion of the program including a US$500 million Eurobond issuances in 2025 and the assumption that existing Eurobond repayments will be rolled over in 2030-42. This will be contingent on market conditions. Grant-equivalent financing is expected to decline on average over the long-term as a share of GDP as Benin's relative income increases. Over time, Benin is also expected to rely more on domestic sources of financing as the domestic debt market continues to develop.[12]

Text Table 5. Benin: External Borrowing Plan 2022 (Programmed Contracted Debt)

PPG external debt	Volume of new debt in 2022		PV of new debt in 2022 (program purposes)	
	FCFA billion	Percent	FCFA billion	Percent
By sources of debt financing	**1015.6**	**100**	**635.5**	**100**
Concessional debt, of which	**674.3**	**66**	**347.1**	**55**
Multilateral debt	571.5	56	283.9	45
Bilateral debt	102.8	10	63.2	10
Non-concessional debt, of which	**341.3**	**34**	**288.4**	**45**
Semi-concessional	323.8	32	270.9	43
Commercial terms	17.5	2	17.5	3

9. **Public debt is projected to decline over the medium to long term as a result of prudent fiscal policy and steady growth.** After peaking at 53 percent of GDP at end-2023, reflecting fiscal policy accommodation to contain the socio-economic fallout from the protracted COVID-19 pandemic, the war in Ukraine, and mitigation of security risks, public debt is projected to decline to 44 percent by 2032 as fiscal deficits are contained and growth converges to its potential. The debt trajectory is predicated on the authorities implementing a revenue-based fiscal consolidation to ensure convergence to WAEMU regional fiscal norms.

[11] Updated IDA assumptions reflect the IDA20 allocations and the fact that Benin has recently graduated to "gap" country status and is no longer eligible for new grants. They also include updates to the terms of IDA financing, including the assumption that a portion of the allocation will be in the form of shorter (12-year) maturity loans during FY23-25.

[12] This DSA assumes domestic financing will come mostly in the form of one-to-seven-year bonds with a small portion of longer maturities at rates from 6 to 7 percent, with some upside risks (including to substitute external financing) given recent issuance experience.

Text Table 6. Benin: External Borrowing Plan 2023 (Programmed Contracted Debt)

PPG external debt	Volume of new debt in 2023		PV of new debt in 2023 (program purposes)	
	FCFA billion	Percent	FCFA billion	Percent
By sources of debt financing	**909.5**	**100**	**619.9**	**100**
Concessional debt, of which	**530.8**	**58**	**269.0**	**43**
Multilateral debt	408.3	45	193.7	31
Bilateral debt	122.4	13	75.3	12
Non-concessional debt, of which	**378.7**	**42**	**350.9**	**57**
Semi-concessional	118.2	13	90.4	15
Commercial terms	260.5	29	260.5	42

10. **Macro-fiscal projections are realistic (Figures 3-4).** The three-year primary adjustment is consistent with historical cross-country data, falling just at the top quartile for past adjustments in LICs with IMF-supported programs. The growth path does not exceed those derived from typical fiscal multipliers for LICs. Public and private investment rates are similar to the previous DSA as is the modest contribution of public investment to growth. While drivers of debt indicate large residual components contributing to unanticipated changes in debt over the past five years, this is consistent with the unanticipated nature of the COVID-19 shock and recording differences in the balance of payments and debt data.[13]

11. **The macroeconomic outlook is subject to a number of risks, which remain tilted to the downside.** Further increases in international food and oil prices—amidst the ongoing war in Ukraine—would exert pressure on external accounts while further eroding the purchasing power of the vulnerable, thus potentially fueling social tensions. A shift in global risk appetite could complicate medium-term rollover risks. Higher than anticipated security outlays could weigh heavily on the budget. Moreover, Benin remains susceptible to natural disasters and acute and chronic climate change risks.

C. Country Classification and Determination of Stress Test Scenarios

12. **Benin's debt carrying capacity continues to be classified as medium.** Based on a calculation of a composite indicator reflecting factors such as the 2021 WB CPIA index and the October 2022 WEO (real growth rates, reserve coverage, remittances, and world growth), Benin has a

[13] The domestic debt stock includes debt flows in the form of COVID-19 economic support measures (e.g., credit lines and guarantees) that were not part of the fiscal deficit. For external debt, balance of payment flows data are recorded on a non-resident basis while the DSA records external debt on a currency basis (with the exception of BOAD debt which is also treated as external), which likely contributed to the large residual in 2021 where a portion of the Eurobond issuance was used to repay non-resident debt.

CI score of 2.99 (Text Table 7). As a result, this DSA continues to use the same external debt burden thresholds and total public benchmarks for countries with medium debt carrying capacity (Text Table 8).

13. Stress tests generally follow standardized settings, with the addition of tailored stress tests to capture risks related to contingent liabilities, natural disasters, commodity prices, and market financing. Given Benin's high vulnerability to natural disasters and climate change (particularly from flooding and coastal erosion), the standard natural disaster shock has been applied. Commodity exports (cotton) make up a significant part of the export base (35 percent of exports excluding reexported products in 2021), leaving it open to potential price shocks. Finally, outstanding Eurobonds may leave Benin exposed to rollover risk in the event of a change in global risk sentiment—though the current maturity profile mitigates this risk over the next two years.

Text Table 7. Benin: Calculation of Debt-Carrying Capacity

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.660	1.41	47%
Real growth rate (in percent)	2.719	6.021	0.16	5%
Import coverage of reserves (in percent)	4.052	44.277	1.79	60%
Import coverage of reserves^2 (in percent)	-3.990	19.604	-0.78	-26%
Remittances (in percent)	2.022	0.817	0.02	1%
World economic growth (in percent)	13.520	2.898	0.39	13%
CI Score			2.99	100%
CI rating			Medium	

DEBT SUSTAINABILITY RESULTS

A. External Debt Sustainability

14. All external debt burden indicators remain below their policy-dependent thresholds in the baseline apart from a temporary breach in the debt service-to-revenue ratio related to large Eurobond repayment in 2030 (Table 1, Figure 1). The PV of total PPG external debt to GDP is expected to remain well below the threshold throughout the projection period and follow a steadily declining path, averaging 33 percent of GDP in 2022-26 and 29 percent of GDP in the long-term. Compared with the previous DSA, the PV of total PPG external debt to GDP will peak at 33 percent of GDP in 2025 (compared with 31 percent of GDP in the previous DSA). The debt service-to-revenue ratio will temporarily exceed the threshold in 2030 when large Eurobond repayments are falling due, underscoring the importance of debt management. However, the analysis automatically discounts this one-off breach.

Text Table 8. Benin: Debt Burden Thresholds & Benchmarks

EXTERNAL debt burden thresholds	Weak	Medium	Strong
PV of debt in % of			
Exports	140	180	240
GDP	30	40	55
Debt service in % of			
Exports	10	15	21
Revenue	14	18	23

TOTAL public debt benchmark	Weak	Medium	Strong
PV of total public debt in percent of GDP	35	55	70

15. Stress tests highlight Benin's vulnerability to shocks, particularly those related to commodity prices and exports. All four debt-burden indicators breach their thresholds under certain stress tests, with commodity price (the most severe shock in the PV of debt-to-GDP and the debt service to revenue indicators) and export shocks (the most severe shock in the export-based indicators) causing significant breaches. Although the PV of debt to GDP ratio did not breach the threshold under any stress test in the previous DSA, the recent increase in debt levels leaves the debt burden vulnerable to commodity and export shocks. These shocks illustrate risks posed by limited economic diversification. The debt service-to-revenue ratios experiences breaches all several stress tests, but these are largely related to large Eurobond related repayments, where risks could be managed via prudent debt management**.** Although the historical scenario is relatively more severe than the baseline, the calibration period of 2012–2021 captures particularly severe periods in Benin's economy including the impact of COVID-19, the Nigeria border closure, and the 2015 downturn. Moreover, compared with the historical record, continued efforts to mobilize revenues and active debt management are expected to help stabilize debt levels.

16. The granularity assessment indicates that Benin has limited space to absorb shocks (Figure 5). Under the module, which allows qualifying the moderate risk of debt-distress, Benin is assessed as having limited space because the baseline PV of debt-to-GDP, debt service to export, and debt-service-to-revenue indicator are close enough to (or exceed) their respective thresholds that a median observed shock would result in a downgrade to high-risk. Compared with the previous DSA, the margin has become more limited, underscoring the importance of prudent borrowing and liability management (particularly given that many of the instances where space is limited occur around Eurobond repayment).

17. The market-financing module suggests that market risks are moderate (Figure 6). Although EMBI spreads are above the benchmark and increasing, reflecting the recent volatility bout amidst the war in Ukraine, gross financing needs remain well below the respective benchmark, and potential for heightened liquidity needs is moderate. The debt-service to revenue and debt service-to-export ratios would exceed their thresholds in 2030, given the repayment profile discussed above (which by design does not incorporate possible liability management operations that would help manage these risks).

B. Total Public Debt Sustainability

18. Total public PPG remains below its respective benchmark in the baseline (Figure 2 and Table 2). The present value of public debt averages 40 percent of GDP over the projection period, well below the 55 percent benchmark.

19. Stress tests indicate that public debt is most vulnerable to commodity price shocks and natural disasters. For the PV of debt-to-GDP ratio, a natural disaster shock would be the most extreme shock, with large increase with large increases in debt-to-revenue and debt service-to-revenue ratios (the latter exceeding 60 percent in 2027). Under the commodity price shock, the PV of debt-to-GDP ratio would exceed 50 percent (but not breach the benchmark) from 2025 onward.

RISK RATING AND VULNERABILITIES

20. This DSA finds that Benin remains at moderate risk of external and overall debt distress, unchanged from the previous DSA. All external debt indicators remain below their high-risk thresholds and benchmarks, apart from a one-off breach of the debt service-to-revenue ratio in 2030, related to Eurobond repayments. Debt levels, though relatively manageable, are expected to increase in 2022 and remain vulnerable to shocks. As evidenced by the high debt service to revenues ratio, large amortization payments and the low revenue base may pose liquidity risks. Lower than expected revenues, including due to policy implementation lags, or a shift in market sentiment leading to higher borrowing and rollover costs could heighten debt risks.

21. Sustained revenue mobilization efforts along with a prudent borrowing and debt management strategy will be important for mitigating the risk of debt distress. As highlighted by the granularity assessment, Benin has limited space to absorb shocks owing to the narrow space between the debt service to revenue ratios and high-risk thresholds in years where large Eurobond bullet repayments are due. Continuing proactive liability management to facilitate the rollover of these payments, maximizing concessional borrowing, and implementing measures to bring tax revenues closer to Benin’s potential will help mitigate risks to debt distress.

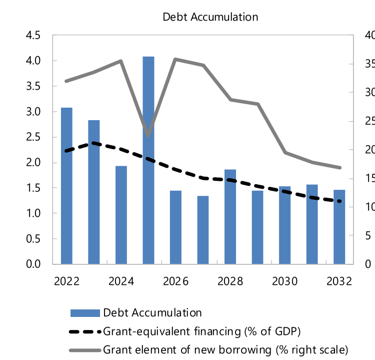
Authorities’ Views

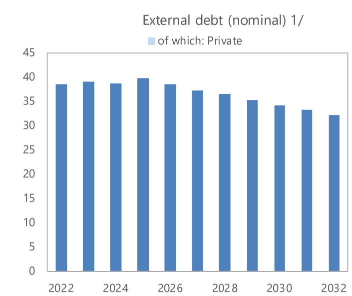
22. The authorities broadly agree with the assessment that Benin remains at a moderate risk of external debt distress but see more space to absorb shocks. They remain of the view that debt from BOAD should be classified as domestic debt given the institution’s governance structure and the regional arrangement that makes the CFA currency union a consolidated unit (classifying such debt as domestic would further improve the external debt profile). The authorities also see a greater role for domestic financing, and at longer maturities. They remain committed to preserving debt sustainability, mitigating refinancing risks, and containing borrowing costs through a combination of revenue mobilization, active debt management, and prudent borrowing. The authorities also plan to continue to prioritize CFA and euro-denominated borrowing to mitigate currency risk.

Table 1. Benin: External Debt Sustainability Framework, Baseline Scenario, 2019–2042
(in percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
External debt (nominal) 1/	25.3	28.4	36.8	38.6	39.0	38.6	39.8	38.6	37.2	32.2	22.8	19.6	36.6
of which: public and publicly guaranteed (PPG)	25.3	28.4	36.8	38.6	39.0	38.6	39.8	38.6	37.2	32.2	22.8	19.6	36.6
Change in external debt	5.9	3.2	8.4	1.7	0.5	-0.4	1.2	-1.3	-1.4	-1.1	-1.3		
Identified net debt-creating flows	2.5	-1.3	-0.9	2.2	1.7	1.0	1.0	0.7	0.2	0.3	0.2	2.0	0.7
Non-interest current account deficit	3.6	1.3	3.4	5.3	4.6	3.8	3.9	3.6	3.2	3.3	3.3	4.2	3.7
Deficit in balance of goods and services	5.0	2.8	4.4	6.0	5.5	4.7	4.7	4.5	4.2	4.2	4.2	5.6	4.6
Exports	24.9	22.4	23.5	26.5	25.8	24.8	24.3	24.1	23.8	23.8	23.8		
Imports	29.9	25.1	27.8	32.5	31.2	29.5	29.0	28.6	28.0	28.0	28.0		
Net current transfers (negative = inflow)	-1.3	-1.8	-1.2	-1.4	-1.5	-1.5	-1.6	-1.6	-1.6	-1.6	-1.6	-2.1	-1.5
of which: official	-0.4	-0.7	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2		
Other current account flows (negative = net inflow)	-0.1	0.2	0.2	0.7	0.6	0.6	0.8	0.7	0.6	0.7	0.7	0.6	0.7
Net FDI (negative = inflow)	-1.3	-1.0	-1.7	-1.6	-1.6	-1.6	-1.5	-1.7	-1.8	-2.0	-2.7	-1.6	-1.8
Endogenous debt dynamics 2/	0.3	-1.6	-2.5	-1.4	-1.3	-1.3	-1.3	-1.3	-1.2	-1.0	-0.4	-0.6	-1.2
Contribution from nominal interest rate	0.4	0.5	0.7	0.8	0.9	0.9	0.8	0.9	0.9	0.8	0.8	0.3	0.8
Contribution from real GDP growth	-1.3	-0.9	-1.8	-2.2	-2.2	-2.1	-2.2	-2.2	-2.1	-1.8	-1.2	-0.9	-2.1
Contribution from price and exchange rate changes	1.1	-1.2	-1.5	...	...	...	...	...	...	...	...	-0.03	...
Residual 3/	3.4	4.5	9.2	-0.5	-1.2	-1.4	0.2	-1.9	-1.6	-1.3	-1.6	0.5	-1.1
of which: exceptional financing	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	28.5	32.0	33.0	32.3	33.4	32.0	30.7	27.2	21.0		
PV of PPG external debt-to-exports ratio	...	...	121.3	120.5	128.1	130.4	137.5	133.2	128.9	114.1	88.2		
PPG debt service-to-exports ratio	4.9	5.5	8.7	7.5	8.8	10.4	10.6	10.1	9.3	12.2	10.0		
PPG debt service-to-revenue ratio	9.4	9.7	15.5	14.9	16.4	17.8	17.2	15.8	14.1	16.1	12.3		
Gross external financing need (Billion of U.S. dollars)	0.9	0.5	1.3	1.6	1.6	1.6	1.7	1.8	1.9	3.1	6.6		
Key macroeconomic assumptions													
Real GDP growth (in percent)	6.9	3.8	7.2	6.0	6.0	5.9	6.1	6.0	6.0	5.8	5.4	5.4	5.9
GDP deflator in US dollar terms (change in percent)	-5.5	4.9	5.4	-6.9	-0.6	2.1	2.7	2.6	2.6	2.0	2.0	0.0	1.1
Effective interest rate (percent) 4/	2.3	2.1	3.0	2.3	2.5	2.4	2.3	2.5	2.4	2.7	3.5	1.8	2.5
Growth of exports of G&S (US dollar terms, in percent)	-6.9	-2.3	18.6	11.5	2.3	4.0	6.8	7.6	7.7	7.9	7.4	10.4	7.3
Growth of imports of G&S (US dollar terms, in percent)	-7.8	-8.6	25.1	15.2	1.2	2.1	7.2	7.1	6.5	7.9	7.4	8.9	7.2
Grant element of new public sector borrowing (in percent)	...	...	...	32.0	33.4	35.5	22.4	35.8	34.7	16.8	10.3	...	27.7
Government revenues (excluding grants, in percent of GDP)	12.9	12.7	13.2	13.4	13.8	14.4	14.9	15.3	15.7	18.1	19.3	12.5	15.7
Aid flows (in Billion of US dollars) 5/	0.2	0.3	0.2	0.6	0.7	0.8	0.8	0.8	0.6	0.4	0.5		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	2.2	2.4	2.3	2.1	1.9	1.7	1.2	0.8	...	1.8
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	37.8	40.8	44.5	29.9	46.1	46.3	29.7	32.5	...	37.8
Nominal GDP (Billion of US dollars)	14	16	18	17	18	20	22	24	26	38	79		
Nominal dollar GDP growth	0.9	8.9	12.9	-1.3	5.3	8.2	8.9	8.8	8.8	7.9	7.4	5.5	7.1
Memorandum items:													
PV of external debt 7/	...	...	28.5	32.0	33.0	32.3	33.4	32.0	30.7	27.2	21.0		
In percent of exports	...	...	121.3	120.5	128.1	130.4	137.5	133.2	128.9	114.1	88.2		
Total external debt service-to-exports ratio	4.9	5.5	8.7	7.5	8.8	10.4	10.6	10.1	9.3	12.2	10.0		
PV of PPG external debt (in Billion of US dollars)			5.0	5.6	6.1	6.4	7.2	7.6	7.9	10.2	16.5		
(PVt-PVt-1)/GDPt-1 (in percent)				3.1	2.8	1.9	4.1	1.4	1.3	1.5	0.5		
Non-interest current account deficit that stabilizes debt ratio	-2.3	-1.9	-5.0	3.5	4.1	4.2	2.7	4.9	4.6	4.3	4.7		

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.

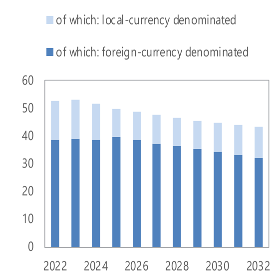
Table 2. Benin: Public Sector Debt Sustainability Framework, Baseline Scenario, 2019–2042

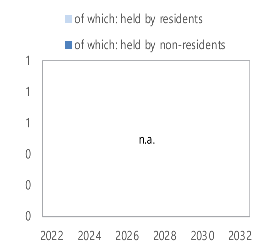
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
Public sector debt 1/	41.2	46.1	50.3	52.8	53.2	51.7	50.0	48.7	47.5	43.4	45.6	34.5	48.0
of which: external debt	25.3	28.4	36.8	38.6	39.0	38.6	39.8	38.6	37.2	32.2	22.8	19.6	36.6
Change in public sector debt	0.1	4.9	4.1	2.6	0.3	-1.5	-1.7	-1.3	-1.2	-0.6	1.1		
Identified debt-creating flows	-1.4	1.4	3.9	0.6	-0.1	-1.2	-1.0	-0.8	-0.7	-0.3	1.1	1.5	-0.5
Primary deficit	-1.1	2.7	3.5	3.7	2.7	1.1	1.2	1.3	1.3	1.3	2.1	2.0	1.6
Revenue and grants	14.1	14.4	14.1	13.9	14.4	15.1	15.6	15.9	16.3	18.7	20.0	13.4	16.4
of which: grants	1.2	1.7	0.9	0.5	0.6	0.7	0.7	0.6	0.6	0.6	0.6		
Primary (noninterest) expenditure	13.0	17.1	17.6	17.7	17.2	16.2	16.8	17.2	17.6	20.1	22.1	15.3	18.0
Automatic debt dynamics	-0.4	-3.3	0.5	-3.9	-2.8	-2.2	-2.2	-2.1	-2.0	-1.7	-1.0	-0.7	-2.2
Contribution from interest rate/growth differential	-1.2	-0.8	-1.9	-3.9	-2.8	-2.2	-2.2	-2.1	-2.0	-1.7	-1.0	-1.0	-2.2
of which: contribution from average real interest rate	1.5	0.7	1.2	-1.0	0.1	0.7	0.8	0.8	0.7	0.8	1.2	0.7	0.5
of which: contribution from real GDP growth	-2.6	-1.5	-3.1	-2.9	-3.0	-3.0	-3.0	-2.8	-2.7	-2.4	-2.3	-1.6	-2.7
Contribution from real exchange rate depreciation	0.8	-2.4	2.4	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	1.9	-0.1	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.1
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	2.0	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	1.6	3.5	0.3	2.0	0.5	-0.3	-0.7	-0.5	-0.5	-0.3	0.0	1.3	-0.1
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	43.3	44.6	44.6	42.9	41.2	40.1	39.2	36.8	42.7		
PV of public debt-to-revenue and grants ratio	...	...	306.0	320.6	309.0	283.9	264.4	251.8	240.0	196.4	214.0		
Debt service-to-revenue and grants ratio 3/	45.8	42.5	76.7	34.3	45.0	35.1	39.0	29.9	40.4	33.7	36.8		
Gross financing need 4/	5.4	10.8	14.2	9.2	9.2	6.4	7.3	6.0	7.9	7.7	9.5		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	6.9	3.8	7.2	6.0	6.0	5.9	6.1	6.0	6.0	5.8	5.4	5.4	5.9
Average nominal interest rate on external debt (in percent)	2.4	2.1	2.8	2.4	2.4	2.3	2.2	2.3	2.3	2.6	3.3	1.9	2.3
Average real interest rate on domestic debt (in percent)	6.5	3.5	7.2	0.2	4.5	5.3	5.2	5.7	5.6	5.3	4.7	3.5	4.9
Real exchange rate depreciation (in percent, + indicates depreciation)	4.3	-9.9	9.0	...	...	...	...	...	...	...	...	2.0	...
Inflation rate (GDP deflator, in percent)	-0.3	2.9	1.6	4.2	2.5	1.9	2.1	2.0	2.0	2.0	2.0	1.5	2.2
Growth of real primary spending (deflated by GDP deflator, in percent)	-6.6	36.7	10.3	6.3	2.9	0.0	9.9	8.5	8.7	8.4	5.6	8.5	7.3
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-1.2	-2.2	-0.7	1.2	2.4	2.5	2.9	2.6	2.5	1.9	1.0	-1.4	2.3
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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.

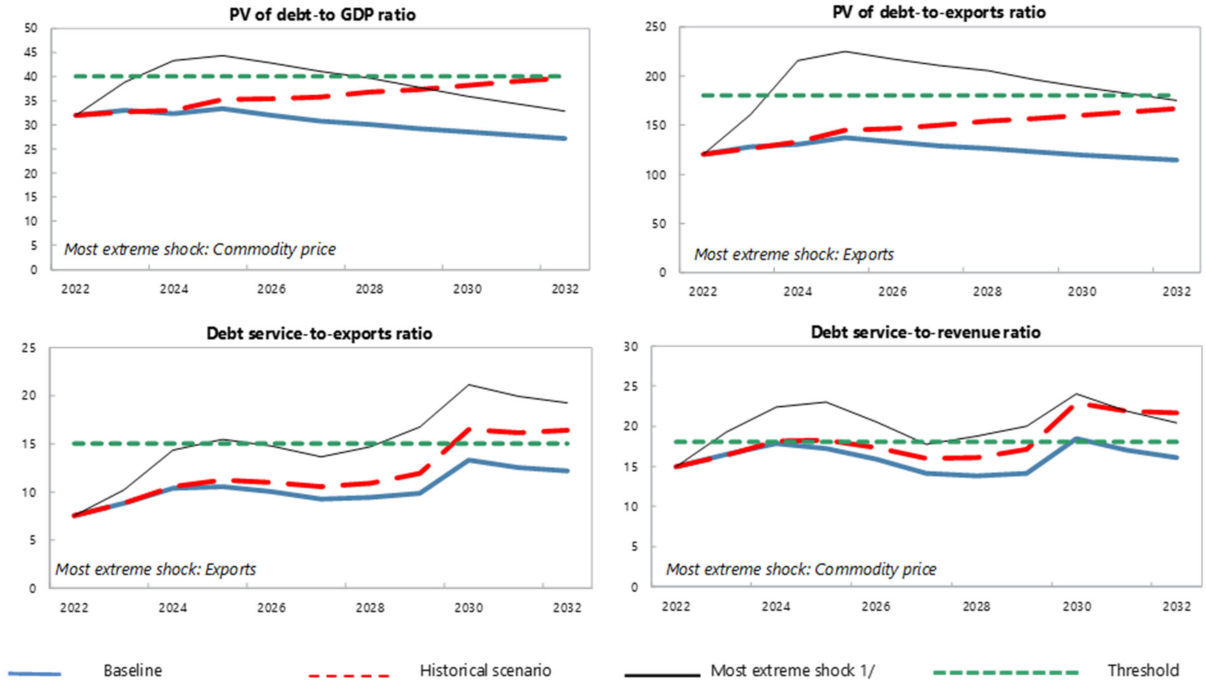
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

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.

Figure 1. Benin: Indicators of Public Guaranteed External Debt under Alternatives Scenarios. 2022–2032[2]



Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	No	No
Commodity price	No	No
Market financing	Yes	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	2.3%	2.9%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	21	18
Avg. grace period	6	4

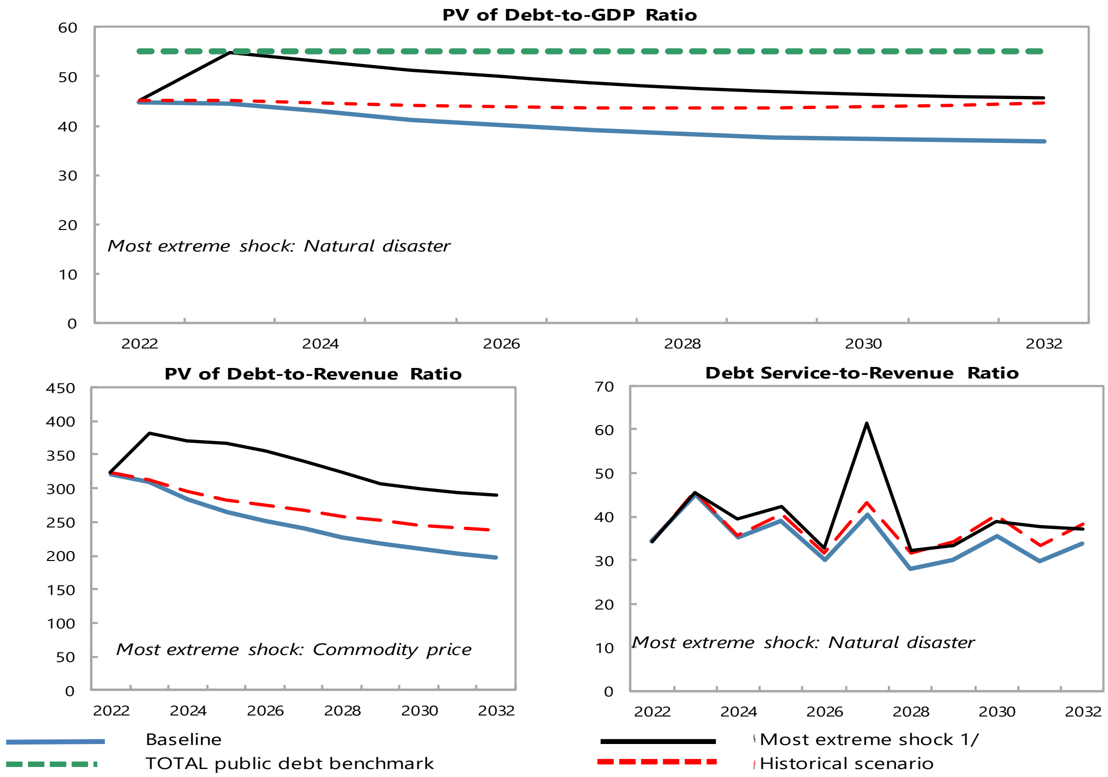
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-ff breach, only that stress test (with a one-off breach) would be presented.

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

Figure 2. Benin: Indicators of Public Debt Under Alternatives Scenarios, 2022–2032



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	58%	58%
Domestic medium and long-term	40%	40%
Domestic short-term	2%	2%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.3%	2.9%
Avg. maturity (incl. grace period)	21	18
Avg. grace period	6	4
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.1%	4.1%
Avg. maturity (incl. grace period)	4	4
Avg. grace period	3	3
Domestic short-term debt		
Avg. real interest rate	3.3%	3.3%

* 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 2032. 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.

Table 3. Benin: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2022–2032

(Percent of GDP)

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of debt-to GDP ratio											
Baseline	32	33	32	33.4	32	31	30	29	29	28	27
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	32	33	33	35	35	36	37	37	38	39	40
B. Bound Tests											
B1. Real GDP growth	32	34	35	36	35	33	33	32	31	30	29
B2. Primary balance	32	34	35	36	34	33	33	32	31	30	29
B3. Exports	32	37	**42**	**43**	**41**	39	38	37	35	34	33
B4. Other flows 3/	32	34	35	36	35	33	32	31	30	29	29
B5. Depreciation	32	**42**	37	39	37	36	35	34	34	33	32
B6. Combination of B1-B5	32	38	37	38	36	35	34	33	32	31	30
C. Tailored Tests											
C1. Combined contingent liabilities	32	37	37	38	36	36	35	34	34	33	32
C2. Natural disaster	32	38	38	39	37	37	37	36	35	35	34
C3. Commodity price	32	39	**43**	**44**	**43**	**41**	40	38	36	34	33
C4. Market Financing	32	37	36	37	36	34	34	33	32	31	30
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	120	128	130	137	133	129	127	123	120	117	114
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	120	127	133	145	147	150	154	157	160	164	167
B. Bound Tests											
B1. Real GDP growth	120	128	130	137	133	129	127	123	120	117	114
B2. Primary balance	120	132	140	147	143	139	137	133	130	127	124
B3. Exports	120	161	**216**	**225**	**218**	**211**	**205**	**197**	**189**	**182**	175
B4. Other flows 3/	120	134	141	148	144	139	136	131	127	124	120
B5. Depreciation	120	128	119	126	122	118	116	114	111	110	108
B6. Combination of B1-B5	120	147	136	164	159	153	150	145	141	138	134
C. Tailored Tests											
C1. Combined contingent liabilities	120	145	148	155	151	151	149	144	141	139	136
C2. Natural disaster	120	152	156	163	159	160	158	154	151	150	147
C3. Commodity price	120	**200**	**221**	**220**	**204**	**189**	174	166	158	151	144
C4. Market Financing	120	128	130	137	134	129	127	123	119	117	113
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	8	9	10	11	10	9	9	10	13	13	12
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	8	9	11	11	11	11	11	12	**16**	**16**	**16**
B. Bound Tests											
B1. Real GDP growth	8	9	10	11	10	9	9	10	13	13	12
B2. Primary balance	8	9	11	11	11	10	10	11	14	13	13
B3. Exports	8	10	14	**15**	15	14	15	**17**	**21**	**20**	**19**
B4. Other flows 3/	8	9	11	11	10	10	10	11	14	13	13
B5. Depreciation	8	9	10	10	10	9	9	9	12	12	11
B6. Combination of B1-B5	8	9	12	12	12	11	12	12	**16**	15	14
C. Tailored Tests											
C1. Combined contingent liabilities	8	9	11	11	11	10	10	11	14	13	13
C2. Natural disaster	8	9	11	12	11	10	11	11	15	14	14
C3. Commodity price	8	12	14	15	14	12	13	15	**18**	**17**	**16**
C4. Market Financing	8	9	10	11	10	10	10	14	**17**	12	12
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	15	16	18	17	16	14	14	14	**18**	17	16
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	15	16	**18**	**18**	17	16	16	17	**23**	**22**	**22**
B. Bound Tests											
B1. Real GDP growth	15	17	**19**	**19**	17	15	15	15	**20**	**18**	17
B2. Primary balance	15	16	**18**	**18**	17	15	15	15	**20**	**18**	17
B3. Exports	15	17	**19**	**20**	**18**	16	17	**19**	**23**	**21**	**20**
B4. Other flows 3/	15	16	**18**	18	16	15	15	15	**20**	**18**	17
B5. Depreciation	15	**21**	**23**	**21**	**19**	17	17	16	**22**	**20**	**19**
B6. Combination of B1-B5	15	17	**20**	**19**	18	16	16	16	**21**	**19**	18
C. Tailored Tests											
C1. Combined contingent liabilities	15	16	**19**	**18**	17	15	15	15	**19**	18	17
C2. Natural disaster	15	16	**19**	**18**	17	15	15	15	**20**	**18**	17
C3. Commodity price	15	**19**	**22**	**23**	**20**	18	**19**	**20**	**24**	**22**	**20**
C4. Market Financing	15	16	18	17	16	15	14	**20**	**23**	17	16
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, 2022–2032

	Projections 1/										
	2022	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**
					PV of Debt-to-GDP Ratio						
Baseline	45	45	43	41	40	39	38	38	37	37	37
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	45	45	45	44	44	44	44	44	44	44	45
B. Bound Tests											
B1. Real GDP growth	45	47	48	47	47	47	47	47	48	49	49
B2. Primary balance	45	47	47	45	44	43	42	41	41	40	40
B3. Exports	45	47	50	48	47	46	45	43	42	41	41
B4. Other flows 3/	45	46	45	44	42	41	40	40	39	39	38
B5. Depreciation	45	52	48	45	42	40	38	36	34	32	31
B6. Combination of B1-B5	45	45	45	43	41	40	39	38	37	37	37
C. Tailored Tests											
C1. Combined contingent liabilities	45	53	51	49	48	47	45	45	44	43	43
C2. Natural disaster	45	55	53	51	50	49	48	47	46	46	46
C3. Commodity price	45	48	49	50	52	53	53	53	53	54	54
C4. Market Financing	45	45	43	41	40	39	38	38	37	37	37
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
					PV of Debt-to-Revenue Ratio						
Baseline	321	309	284	264	252	240	227	218	210	203	196
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	325	313	295	282	275	267	258	252	246	241	237
B. Bound Tests											
B1. Real GDP growth	325	327	318	303	295	288	279	274	269	265	262
B2. Primary balance	325	324	313	291	277	264	249	239	229	220	212
B3. Exports	321	328	333	310	295	280	264	251	238	227	217
B4. Other flows 3/	321	318	301	280	267	254	240	229	219	211	204
B5. Depreciation	325	360	320	288	265	244	223	207	191	178	166
B6. Combination of B1-B5	325	310	294	273	259	246	231	221	211	203	195
C. Tailored Tests											
C1. Combined contingent liabilities	325	370	340	317	302	286	270	258	247	237	229
C2. Natural disaster	325	380	351	328	314	298	283	272	261	252	244
C3. Commodity price	325	381	370	367	356	342	323	307	300	294	290
C4. Market Financing	321	309	284	264	252	241	228	219	209	202	196
					Debt Service-to-Revenue Ratio						
Baseline	34	45	35	39	30	40	28	30	36	30	34
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	34	46	36	41	32	43	32	34	40	33	38
B. Bound Tests											
B1. Real GDP growth	34	47	38	43	33	45	34	36	43	37	42
B2. Primary balance	34	45	36	41	31	45	33	32	37	32	36
B3. Exports	34	45	36	41	31	42	30	34	39	33	37
B4. Other flows 3/	34	45	35	40	30	41	29	31	37	31	35
B5. Depreciation	34	44	38	41	32	41	29	31	38	32	35
B6. Combination of B1-B5	34	44	35	39	30	40	30	30	35	30	34
C. Tailored Tests											
C1. Combined contingent liabilities	34	45	39	41	32	59	31	32	38	36	36
C2. Natural disaster	34	46	39	42	33	61	32	33	39	38	37
C3. Commodity price	34	52	42	47	36	47	34	42	47	41	45
C4. Market Financing	34	45	35	39	30	41	28	35	40	30	34

Sources: Country authorities; and staff estimates and projections.

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

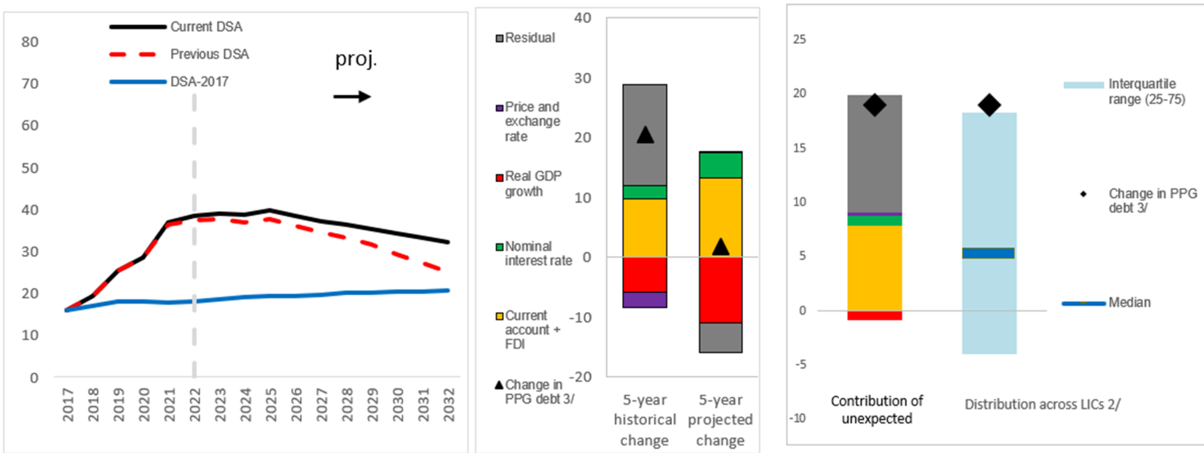
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

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

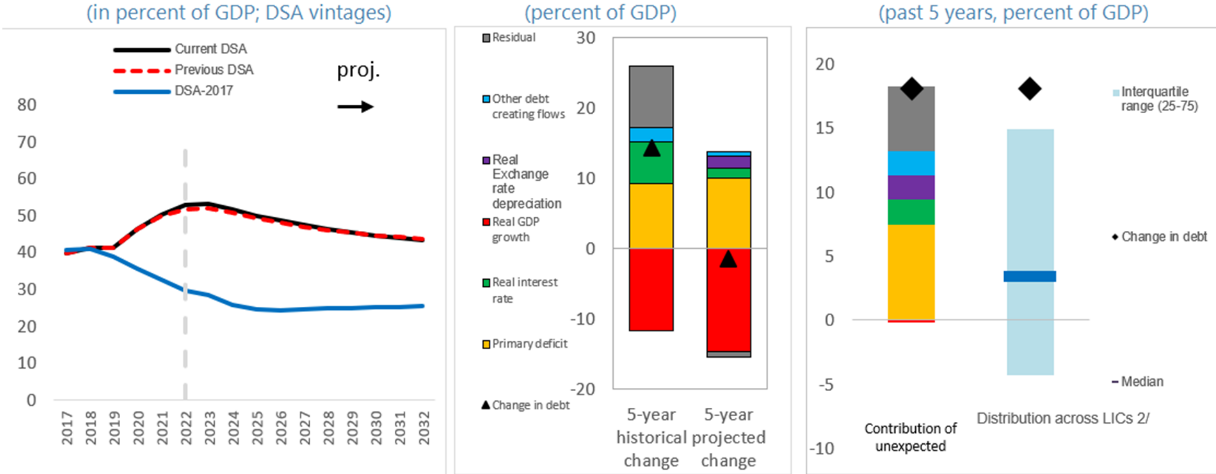
External debt

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.

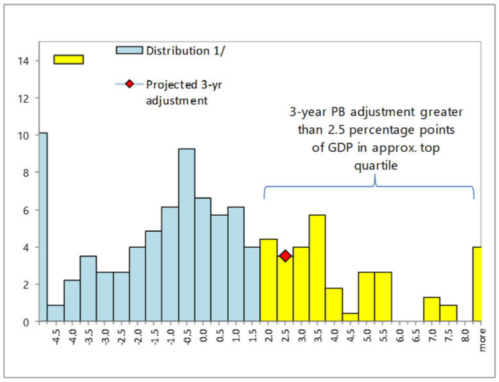
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

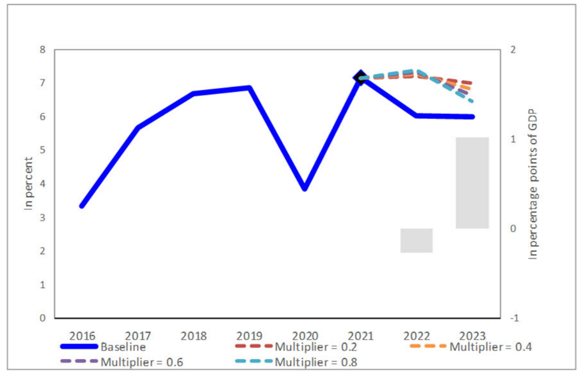
Figure 4. Benin: Realism Tools

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



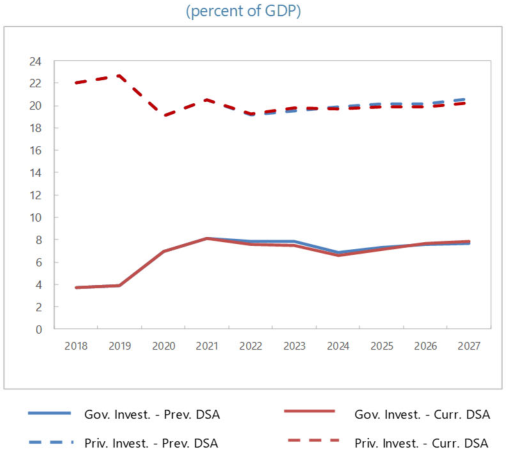
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

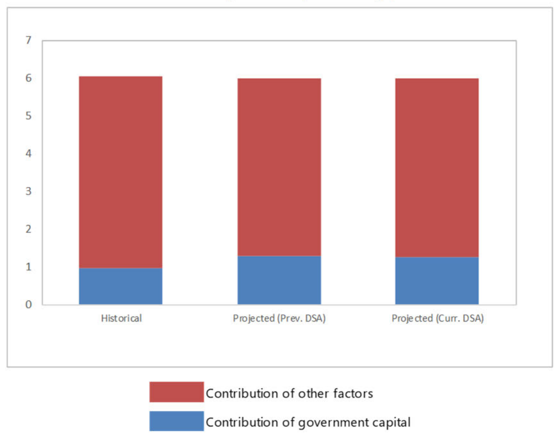


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)

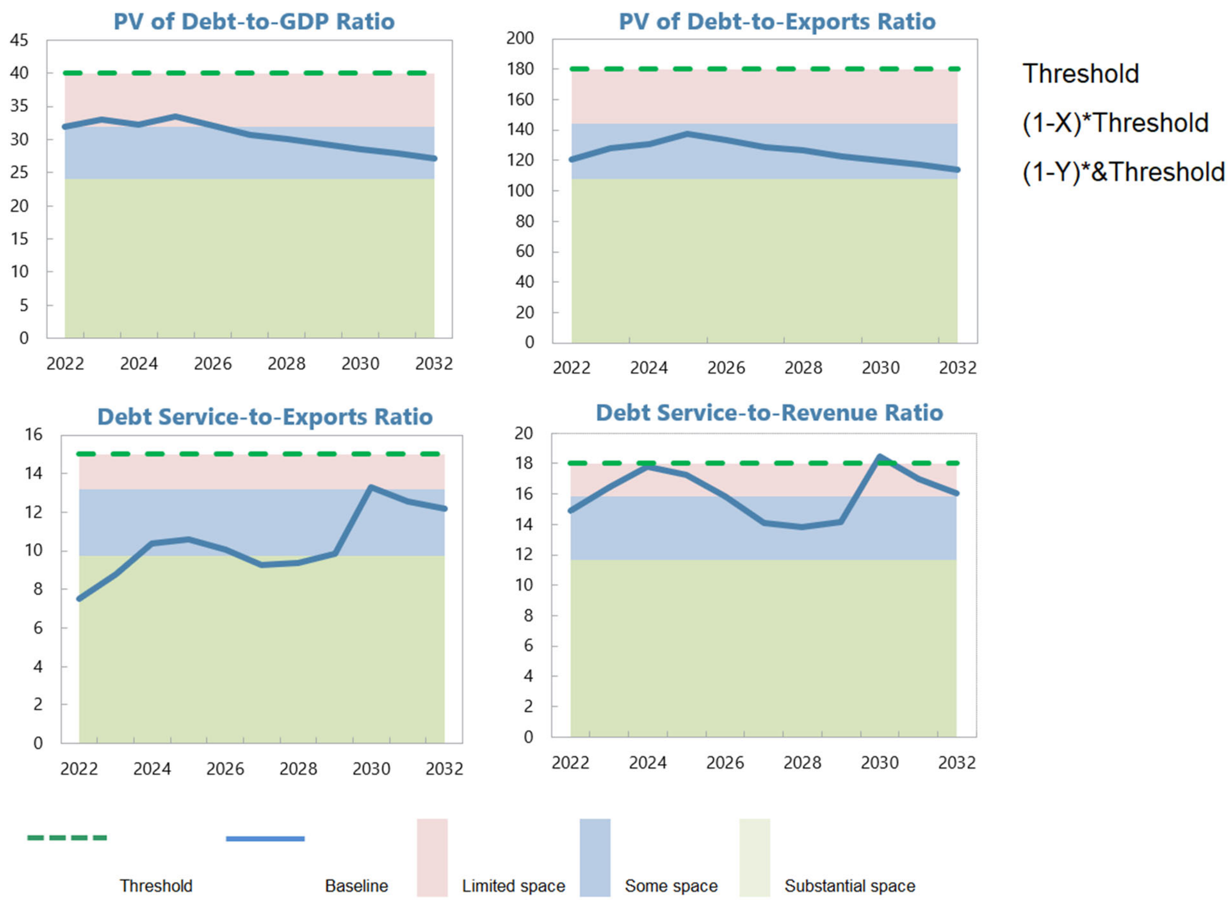


Contribution to Real GDP growth
(percent, 5-year average)



Sources: Country authorities; and staff estimates and projections

Figure 5. Benin: Qualification of the Moderate Category, 2022–2032 1/



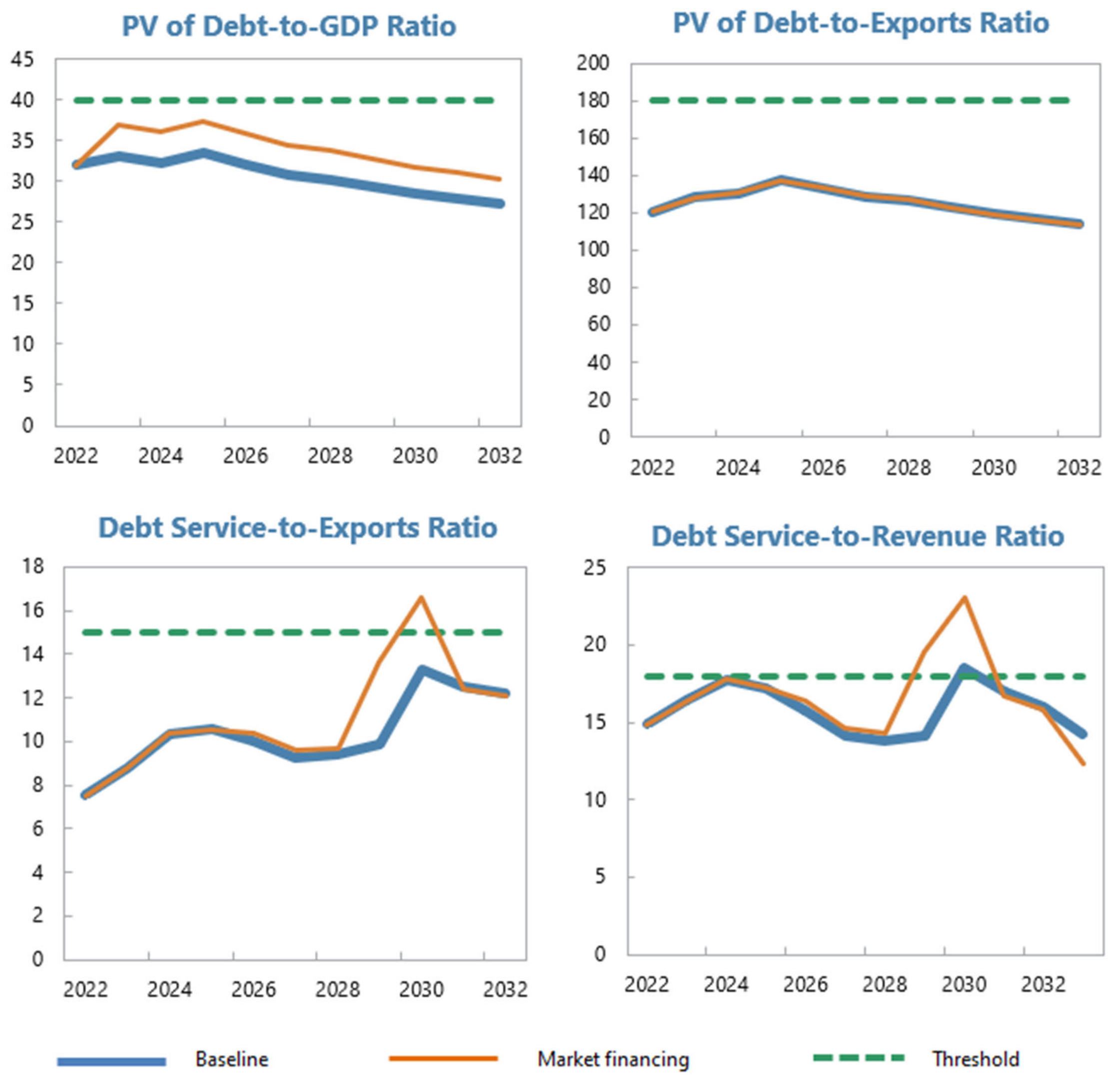
Sources: Country authorities; and staff estimates and projections.

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	9	770
Breach of benchmark	No	Yes
Potential heightened liquidity needs	Moderate	

1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.
2/ EMBI spread as of November 7, 2022



Sources: Country authorities; and staff estimates and projections.

Statement by the Staff Representative on Benin

December 14, 2022

This statement provides a factual update on developments since the Staff Report was finalized. The additional information does not change the thrust of the staff appraisal.

Program conditionality and budget law

- The authorities recently developed a strategy for streamlining tax expenditures over 2023–25 (and annexed to the budget law a detailed report on 2021 tax expenditures), meeting the related end-November 2022 structural benchmark under the program.
- The National Assembly unanimously adopted the 2023 draft budget law in early December (the budget is in line with the program).

Fiscal outturns

- Preliminary data suggest that the strong fiscal performance continued through end-October, supported by robust tax collection (up by 18 percent, y/y).
- The basic primary deficit stood at CFAF 23.7 billion (compared with an end-December projected deficit of CFAF 126.8 billion).

Statement by Mr. Sylla, Executive Director for Benin
Mr. N'Sonde, Alternate Executive Director
and Mrs. Boukpessi, Advisor to the Executive Director
December 14, 2022

1. The Beninese authorities appreciate Fund's engagement with Benin over the past years. They highly value the constructive discussions they have had with Staff in the context of the First Reviews Under the Extended Fund Facility (EFF) and the Extended Credit Facility (ECF) arrangements under High Combined Credit Exposure (HCCE), approved by the Executive Board last July.

2. Benin has enjoyed solid economic growth in recent years supported by sound macroeconomic management, significant investment, and a steady pace of reform implementation in key areas, including public finance, the financial sector, and the business environment. The lingering effects of the Covid-19 pandemic, the intensified regional terrorism threats in the northern part of the country, and spillovers from the ongoing war in Ukraine have required a recalibration of the authorities' economic reform program anchored on the National Development Program (NDP; 2018-25). The NDP is implemented through the Government Action Program II (GAP II, 2021-2026) since last year, consistent with the current presidential mandate highly oriented towards social sectors. In this context, further strengthening social safety nets and curbing food insecurity risks rank high on the authorities' policy priorities and their efforts towards achieving the Sustainable Development Goals (SDGs).

3. The large and front-loaded IMF financial support under the new 42-month blended EFF/ECF arrangements provides a solid framework to the GAP II. This Fund support should also catalyze the much-needed financing to make significant inroads toward the SDGs and enhance the country's resilience to shocks. The authorities remain strongly committed to the objectives of the program and would appreciate the IMF's continued support to their ambitious reform agenda.

Recent Macroeconomic Developments and Program Performance

4. The Beninese economy has shown resilience amid the Covid-19 pandemic, with one of the most robust growths in Sub-Saharan Africa. After bouncing back by an estimated 7.2

percent in 2021, Real GDP is projected to grow at 6 percent in 2022, supported by solid agro-industry, construction, and port-related activities. Inflation has remained relatively subdued, reflecting a robust harvest season as well as price subsidies introduced since the effects of the war in Ukraine started to impact the prices of some imported products, including fuel, fertilizers, and foodstuffs. Regarding the fiscal performance, preliminary estimations suggest that the deficit stands at 5.6 percent of GDP—albeit good tax revenue outcomes—driven by increased capital and priority social expenditures. While public debt has increased somewhat amid strong US dollar appreciation, Benin remains at moderate risk of debt distress, reflecting the authorities' prudent and active debt management. In the financial system, credit to the private sector increased thanks to buoyant construction and cotton export activities, while non-performing loans (NPLs) have declined. On the external front, the current account deficit is expected to widen to 6.1 percent in 2022, mainly on the back of higher food and fuel imports bill and lower grants.

5. Program implementation has been very strong. All end-June 2022 quantitative performance criteria (QPCs), continuous QPCs, and indicative targets (ITs) were met with significant margins. The fiscal overperformance on the tax revenue and priority social expenditures were well above the program floors. On the structural front, the authorities have implemented important reforms in the areas of AML/CFT, governance and transparency, and social safety nets. In particular, (i) two decrees to strengthen the AML/CFT framework were adopted, (ii) a regulation allowing procurement agencies to collect beneficial ownership information on companies awarded public procurement contracts above CFAF 10 million was approved, and (iii) those contracts are regularly published on a government website. In addition, the authorities have successfully established the social registry and the mapping of poor and extremely poor populations across urban areas in the country.

Economic Outlook and Risks

6. Benin's economic outlook is positive despite uncertainty stemming from heightened spillovers from geopolitical tensions, increased food insecurity and social pressures along with security threats in the region. The country's vulnerability to climate-related shocks add to the challenges. The growth momentum is expected to continue, with real GDP projected at 6 percent in 2023 and remaining strong over the medium term. Growth will be supported by the implementation of measures that promote productivity-enhancing sectors, including agriculture, tourism, and the digital and knowledge economies. The large projects under the GAP I (2016-2021) that aimed to tackle Benin's infrastructure deficit is expected to bear fruits, notably in the transportation, energy, and sanitation areas, and will be scaled up under GAP II. Along with reforms to improve the business environment, the authorities are highly optimistic about seeing higher growth rates–above the projected 6 percent–thanks notably to the favorable prospects of the Glo-Djigbé industrial zone and the expected positive spillover effects of the Niger-Benin oil pipeline.

7. The authorities are fully cognizant of the downside risks stemming from the materialization or intensification of exogenous factors aforementioned and they will do their utmost efforts to protect the economy through continued reforms to enhance resilience.

Policies and Reforms for the Remainder of 2022 and the Period Ahead

Fiscal Policy and Reforms, and Financing Strategy

8. The 2022 fiscal policy has been flexibly designed to accommodate the urgent needs caused by the recent shocks, including spillovers from the geopolitical events, the depreciation of the CFAF against the US dollar, and security concerns. To address the latter, a supplementary budget adopted last November has prioritized security measures for 0.7 percent of GDP and the government stand ready to swiftly implement its strategy to combat insecurity stemming from jihadist attacks. It should be recalled that these attacks are the direct consequences of the deteriorating security situation in the Sahel. Fiscal support measures also comprise price subsidies on for certain food and energy products –notably rice, wheat flour, and vegetable oils – and a reduction in maritime freight prices. Other key measures include targeted fertilizer subsidies to help ensure a smooth agriculture campaign and address food insecurity risk. On social outlays, the authorities will expand the health insurance coverage under the authorities' flagship social protection program, *Assurance pour le Renforcement du Capital Humain – ARCH.*

9. From 2023 onwards, while discussions on the reforms of the Western African Economic and Monetary Union (WAEMU) Convergence Pact continue, the Beninese authorities reiterate their commitment to reaching the current regional convergence criteria on the fiscal deficit as early as 2024, the wage bill will be kept under control, and they will step up efforts to meet the regional tax-to-GDP target as soon as the impacts of current multiple exogenous shocks are absorbed. A fiscal deficit of 4.3 percent of GDP is projected in 2023 and then reduced to 2.9 percent in 2024.

10. Further actions will be taken to boost domestic revenue mobilization by broadening the tax base and closing the tax potential gap. The reform of the General Tax Code and the ongoing digitalization of customs clearance procedures are already yielding results, as shown in the fiscal overperformance in end-June, September, and October 2022. Together with new tax policy measures, yields are expected to reach 60 CFAF billion in 2023. A medium-term revenue mobilization strategy (MTRS) with a Central Directorate for the Supervision of Financial Authorities is also being developed.

11. On the expenditure side, efforts will be pursued to improve the prioritization and efficiency of public spending and create the space needed for higher social and security spending. Expenditure prioritization will take place through notably fuel and electricity subsidy reforms and an increase in public sector wages for low-earning workers announced this week. On the former, the authorities aim to align Benin's current pricing mechanism for petroleum products to best international standards. They will seek IMF technical assistance (TA) to review the 2004 pricing mechanism for fossil fuel products, which is still in effect. They take good note of Staff's analysis and recommendations laid out in Annex III of the report. They will develop a medium-term reform roadmap based on the TA recommendations while also giving due consideration to the country's economic and social circumstances. On

the wage bill, the authorities endeavor to preserve its sustainability and will build on the ongoing IMF TA's recommendations. As for rationalization, a strategy has been developed with the view to contain and streamline tax expenditures over 2023-2025.

12. Improving the efficiency of public investment continues to rank high on the authorities' agenda. They have already conducted a comprehensive review of the general framework for managing public investment in 2021 with a particular focus on multicriteria project analysis, feasibility studies, and transparency. The authorities also count on the IMF TA to update the Public Investment Management Assessment, with the integration of climate change (C-PIMA). It's also noteworthy that a recent IMF's Fiscal Safeguards Review (FSR)—voluntarily agreed upon by the authorities—has found that Benin's PFM system provides broadly reasonable assurance for adequate use of Fund resources for budget support.

13. Benin's debt remains at moderate risk of debt distress. It is the authorities' intention to pursue a prudent strategy to contain borrowing costs and mitigate refinancing risks. To this end, they will continue to rely on concessional financing and external budgetary support from their key multilateral partners (the World Bank, the African Development Bank (AfDB), and the European Union). They stand ready to issue bonds on the most attractive terms, consistent with their debt strategy agreed under the EFF/ECF arrangement. They will also seek to leverage the new AfDB credit guarantee schemes for SDGs financing. The authorities will continue to tap into the regional development bank markets in local currency.

Further Strengthening Governance, Transparency, and the AML/CFT Framework

14. The Beninese government is attentive to the importance of strengthening measures to promote good governance, enhance transparency, and address corruption. They have undergone a diagnostic of vulnerabilities in governance with technical support from the IMF and highly valued staff advice. They will put in place an action plan consistent with recommendations from the diagnostic and its implementation. They have also completed the transparency and accountability requirements regarding the management of Covid-related spending, and they intend to proceed with corrective measures to address gaps identified in the audit by the State Audit Office.

15. Continuing to tackle the vulnerabilities in the AML/CFT framework to comply with international standards and sustain anticorruption efforts remains a top priority for the government. It will pursue comprehensive reforms in this area, including by adopting legislative tools to strengthen risk-based supervision.

Safeguarding Financial Stability and Advancing Other Structural Reforms

16. Benin being a member of a regional monetary union, both national and regional authorities attach high value to safeguarding financial stability. They are determined to take necessary actions within the confines of their respective competence to address financial sector vulnerabilities, including bank undercapitalization and NPLs. Progress is being made to bring the two banks that do not meet the minimum capital adequacy requirement into

compliance. The authorities are also mindful of the need to deepen financial markets. In this vein, with technical assistance from development partners, they continue to implement initiatives to broaden access to finance, including for small and medium-sized enterprises (SMEs). The authorities created the SME Development Agency in March 2022. With the view to promoting financial inclusion, they aim to transpose the WAEMU regional financial inclusion strategy to the national level by end-March 2023.

17. The authorities strongly believe that a diversified economy with a robust private sector is essential to reducing poverty, raising the standards of living of the Beninese population, and strengthening long-term economic prospects. In this regard, they are promoting the development of special economic zones and strengthening human capital with a special focus on technical and vocational education and training. The authorities will pursue their efforts to ameliorate the business climate, launch a framework for public-private dialogue, and make inroads in land registration and management.

Building Resilience to Climate Change

18. Benin, like other countries in West Africa, is suffering from the adverse effects of climate change through notably devastating floods and coastal erosion whereas it contributes only very marginally to this threat. Given the high vulnerability towards climate-related shocks, strengthening resilience is one of the government's priorities with the vision of an inclusive and sustainable development based on resilient and safe cities. The authorities are committed to climate adaptation, particularly through the national adaptation plan to address persistent vulnerabilities. The country has also enacted a law on climate change and adopted a national policy on climate change management. Cognizant of the need to act swiftly in this area, a World Bank diagnostic mission on the effects of climate change along with the C-PIMA will be conducted in the first quarter of 2023. Against this background, the authorities have expressed their interest in IMF support under the Resilience and Sustainability Facility (RSF).

Conclusion

19. Amid a challenging domestic and external environment, Benin has continued to implement steadfastly its economic and financial reform program and sustained its track record of strong growth. Despite the uncertainty and downside risks to the outlook, the authorities are confident that the calibrated policy measures envisaged under their Fund-supported program will continue to help weather the impact of exogenous shocks, improve the fiscal and economic outlook, and translate the macro-economic gains into strengthened social safety nets and reduced inequalities. Considering the strength of Benin's policy and reform agenda and the authorities' unwavering commitment to the program's objectives, we would appreciate the Board's support for the completion of the first reviews under the ECF and the EFF arrangements.