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Benin: Sixth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Nonobservance of Performance Criterion and Augmentation of Access—Staff Report; Staff Supplement; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Benin

In the context of the sixth review under the three-year arrangement under the Poverty Reduction and Growth Facility for Benin and its request for waiver of nonobservance of performance criterion and augmentation of access, the following documents have been released and are included in this package:

- The staff report for the Sixth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Nonobservance of Performance Criterion and Augmentation of Access, prepared by a staff team of the IMF, following discussions that ended on April 8, 2009, with the officials of Benin on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 11, 2009. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A staff supplement on the joint IMF/World Bank debt sustainability analysis.
- A staff statement of June 24, 2009 updating information on recent developments.
- A Press Release summarizing the views of the Executive Board as expressed during its June 24, 2009 discussion of the staff report that completed the review and request.
- A statement by the Executive Director for Benin.

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

Letter of Intent sent to the IMF by the authorities of Benin*
Memorandum of Economic and Financial Policies by the authorities of Benin*

*Also included in Staff Report

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

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BENIN

Sixth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Nonobservance of Performance Criterion and Augmentation of Access

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

Approved by Michael Atingi Ego and Anthony Boote

June 11, 2009

- Discussions for the sixth review under the Poverty Reduction and Growth Facility (PRGF) arrangement with Benin were held in Cotonou on March 25–April 8, 2009. The mission comprised Messrs. Mongardini (Head), Youm, Pani, and Dagher (all AFR) and was assisted by Mr. Yao (Resident Representative).
- The mission met with President Boni Yayi, Senior Minister for Development Koupaki, Finance Minister Lawani, other senior government officials, and representatives of the private sector, nongovernmental organizations, labor unions, and the donor community.
- The three-year arrangement under the PRGF was approved on August 5, 2005, in the amount of SDR 6.19 million (10 percent of quota), and extended to August 4, 2009. The Board approved a 15 percent augmentation (SDR 9.29 million) of access in concluding the fourth review to help Benin adjust to the food and fuel crisis. The authorities are requesting an augmentation of access of 15 percent of quota (SDR. 9.29 million) to mitigate the impact of the global economic crisis. If approved, an additional SDR 10.2 million would become available upon completion of this review, for a total access of SDR 24.77 million (40 percent of quota) under the arrangement. The last Article IV Consultation was concluded on June 16, 2008.
- In the attached letter of intent, the Beninese authorities are requesting completion of the sixth review under the PRGF arrangement, and waiver for a missed performance criterion on net domestic financing at end-December 2008.
- Benin is a member of the West African Economic and Monetary Union (WAEMU) and shares a fixed exchange rate and common external tariff with other members. Monetary and exchange rate policies are conducted by the regional central bank.
- The main authors of this report are Messrs. Mongardini, Yao, Youm, Pani, Dagher, Mahyoub, and Ms. Vibar.

Contents

I. Executive Summary and Staff Appraisal

Performance in 2008 was strong, notwithstanding some slippages. Real GDP growth is estimated at 5 percent. Inflation averaged 8 percent, reflecting the full pass-through of higher international food and fuel prices since July 2008. The authorities met the basic primary fiscal target under the program with a strong domestic tax effort and a tight control on spending in the second half of 2008. The performance criterion on net domestic financing, however, was missed as the government provided lending to the state-owned electricity company in financial distress. Most structural benchmarks have been completed, some with delay.

The macroeconomic outlook is weaker for 2009–10 reflecting the impact of the crisis. Real GDP growth is expected to slow down to about 3-4 percent in 2009–10. The external current account deficit (excluding grants) is projected to widen to over 10 percent of GDP in 2009, reflecting weak demand for exports and lower transfers. Prudent policies and lower commodity prices should bring inflation down below 3 percent by 2010.

The authorities' policy response of allowing automatic fiscal stabilizers to work is appropriate. For 2009, the overall spending envelope agreed under the program will be maintained, except for higher outlays on social safety nets. As a result, the basic primary balance will deteriorate to a deficit of 0.8 percent of GDP in line with revenue shortfalls. This is expected to produce a financing gap of CFAF 44.3 billion (1.4 percent of GDP) in 2009, which is expected to be covered by additional financing from the Fund, the European Union (EU), the World Bank, and other multilateral and bilateral donors.

The implementation of structural reforms needs to be accelerated to enhance the competitiveness of Benin's economy and increase its resilience to exogenous shocks. The adoption of a comprehensive strategy for the cotton sector and the implementation of the public finance management (PFM) action plan are welcome steps. The authorities intend to privatize Benin Telecom, restructure the electricity company, streamline procedures and improve capacity at the Port, and strengthen the judicial system, land tenure, and financial services.

Staff supports the authorities' request for: (i) the completion of the sixth PRGF review, (ii) the waiver for the nonobservance of the quantitative performance criterion, and (iii) the augmentation of access by 15 percent of the quota. The nonobservance of the quantitative performance criterion at end-December 2008 reflected the slippage already waived by the Executive Board at end-June 2008, a reduction of the float, and unforeseen net lending to the electricity company in response to high oil prices. The authorities have taken remedial actions by increasing electricity tariffs and undertaking a financial audit of the electricity company. The global economic crisis is putting pressure on treasury resources; the augmentation of access would cover part of the financing gap pending the mobilization of additional external concessional financing. A successor PRGF arrangement would support the authorities' efforts to mitigate the impact of the global economic crisis in the short run, while accelerating structural reforms to reach higher sustainable growth over the medium term.

II.

II. Recent Economic Developments

Benin remains one of the fastest growing economies in the WAEMU

Real GDP Growth

	2005	2006	2007	2008
Benin	2.9	3.8	4.6	5.0
Burkina Faso	7.1	5.5	3.6	5.0
Côte d'Ivoire	1.9	0.7	1.6	2.3
Guinea-Bissau	3.5	0.6	2.7	3.3
Mali	6.1	5.3	4.3	5.0
Niger	8.4	5.8	3.3	9.5
Senegal	5.6	2.4	4.7	2.5
Togo	1.2	3.9	1.9	1.1
WAEMU average	4.5	3.2	3.3	3.9

Sources: Country authorities and IMF staff estimates and projections.

1. **Growth continued to strengthen in 2008**. Buoyant activity in the Port of Cotonou, high demand from neighboring Nigeria, and the revived momentum for reforms helped raise real GDP growth in 2008 to 5 percent, the highest level since 2005 (Figure 1).

Inflation was above the WAEMU convergence criterion of 3 percent

CPI Inflation

	2005	2006	2007	2008
Benin	5.4	3.8	1.3	8.0
Burkina Faso	6.4	2.4	-0.2	10.7
Côte d'Ivoire	3.9	2.5	1.9	6.3
Guinea-Bissau	5.6	-0.1	4.6	10.4
Mali	6.4	1.5	1.5	9.1
Niger	7.8	0.1	0.1	11.3
Senegal	1.7	2.1	5.9	5.8
Togo	6.8	2.2	1.0	8.4
WAEMU average	4.8	2.2	2.0	7.9

Sources: Country authorities and IMF staff estimates and projections.

2. **The decline in commodity prices helped ease inflationary pressures (Figure 2)**. The authorities' decision in July to allow a full-pass-through of international food and fuel prices led to an initial increase in inflation, but also eased inflationary pressures when these prices started to decline after August. As a result, annual average inflation (8 percent) remained below the program target.

The level of gross official reserves remains the highest in the WAEMU region.

WAEMU: Gross Reserves 1/

	2005	2006	2007	2008
Benin	7.3	6.2	7.3	7.8
Burkina Faso	3.6	4.0	6.0	5.7
Cote d'Ivoire	2.2	2.6	3.3	4.1
Guinea-Bissau	6.5	5.8	5.9	7.1
Mali	4.8	4.6	4.3	5.0
Niger	2.8	3.5	3.9	4.0
Senegal	3.5	3.0	3.1	3.9
Togo	2.8	4.5	4.4	6.0
WAEMU average	3.3	3.5	4.0	4.7

1/ in months of prospective imports of goods and services

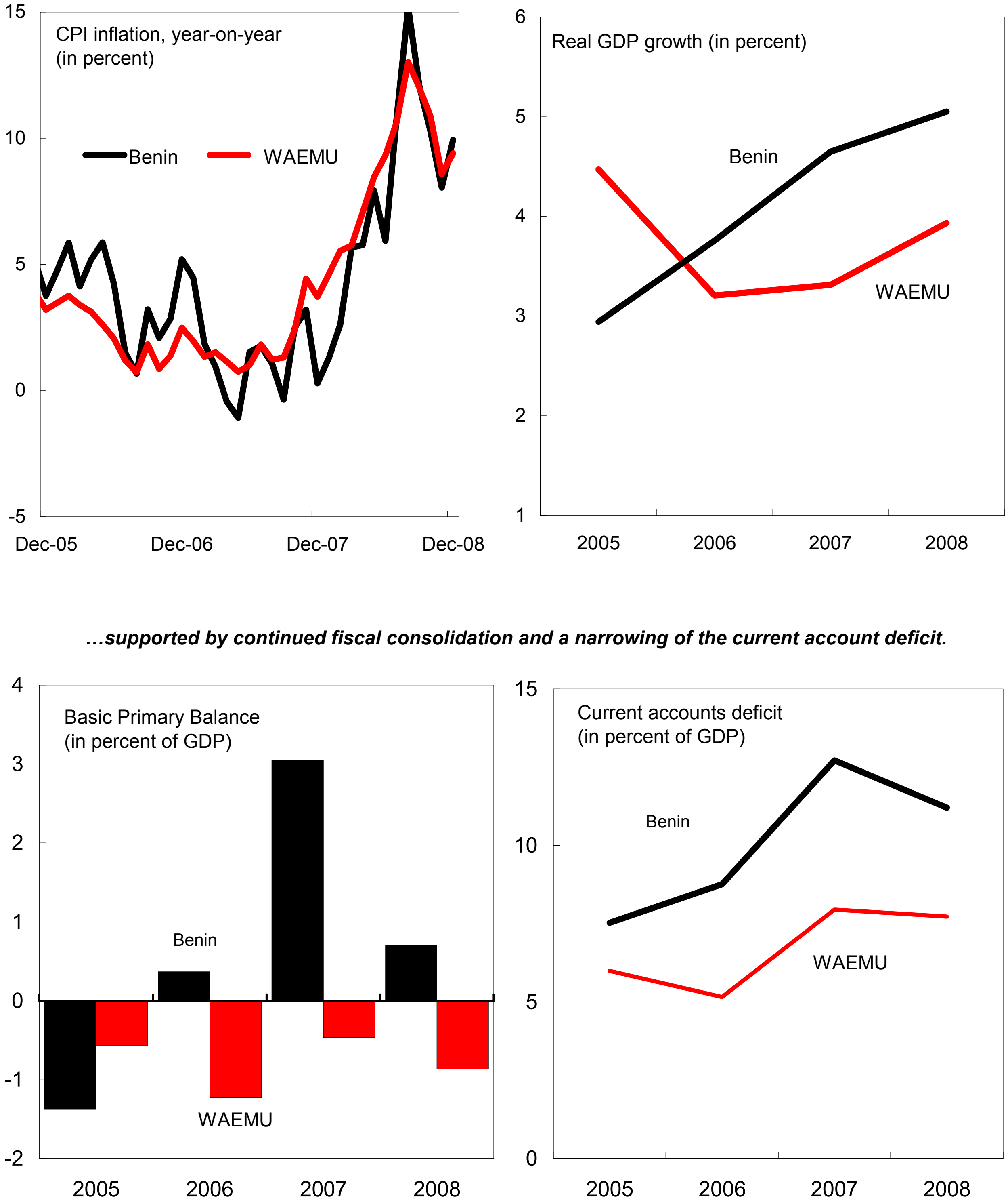
Sources: Country authorities and IMF staff estimates and projections.

3. **Buoyant transit trade and higher cotton exports helped narrow the external current account deficit (excluding grants) to 9.2 percent of GDP (Figure 3)**. Donor assistance and FDI inflows helped finance the current account deficit. Cross-currency movements helped reverse part of the real exchange rate appreciation in the first half of 2008, limiting the annual appreciation to 4.2 percent.

Figure 1. Benin: Macroeconomic Performance, 2005–08

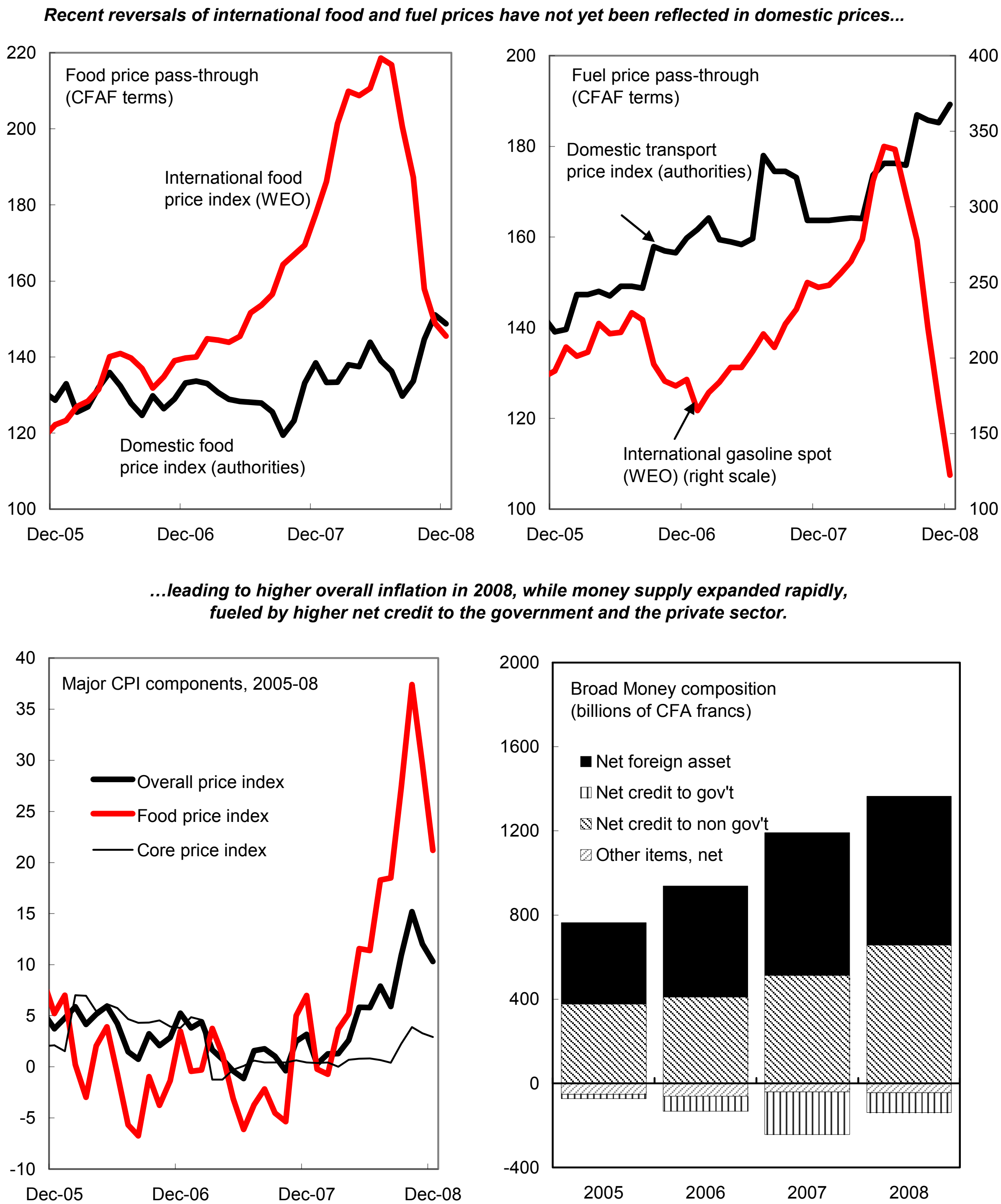
Notwithstanding higher inflation, prompted by higher international food and fuel prices, real GDP growth reached the highest level since 2005...

...supported by continued fiscal consolidation and a narrowing of the current account deficit.



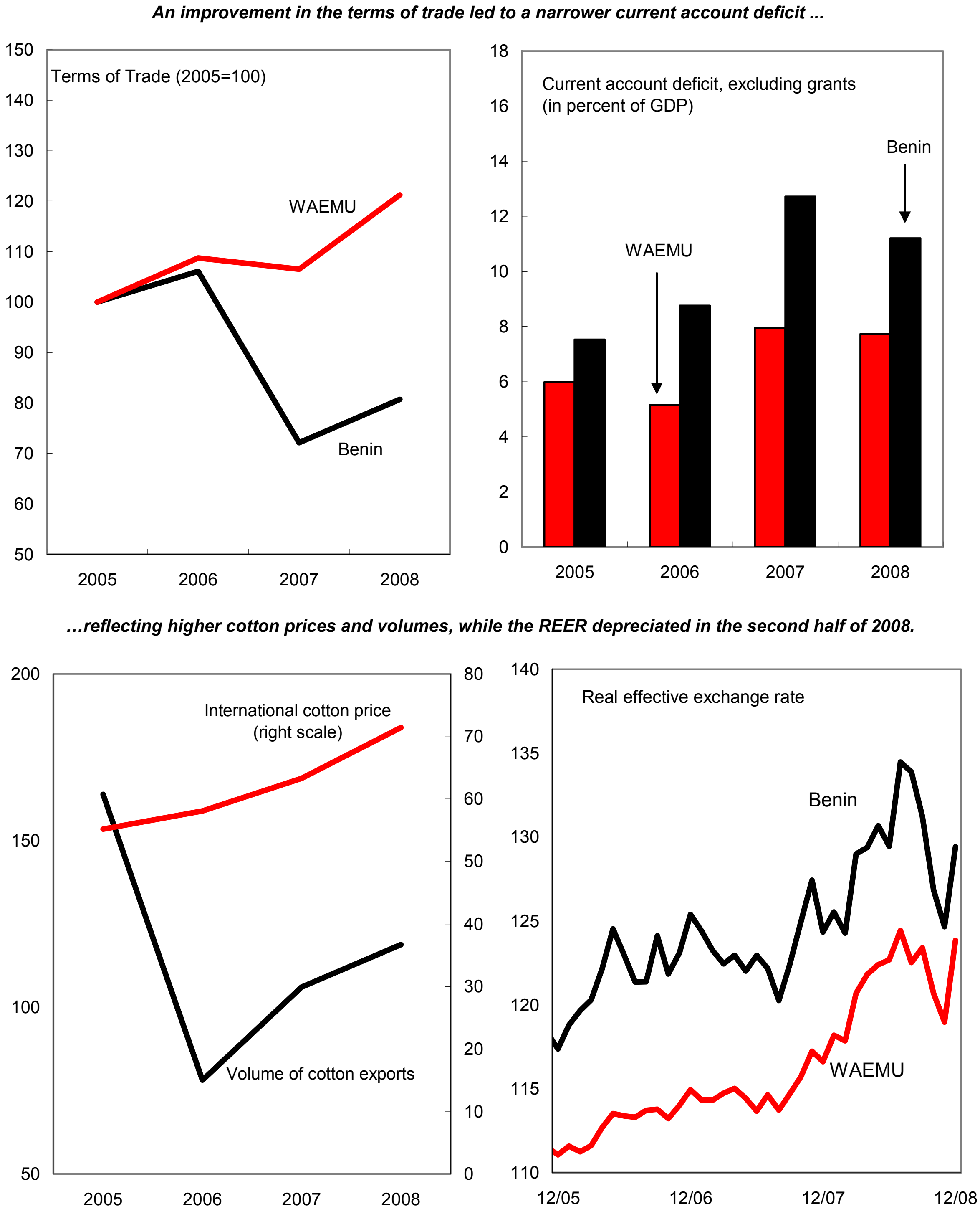
Sources: Beninese authorities and Fund staff estimates.

Figure 2. Benin: Price Developments, 2005–08
(January 2000 = 100)



Sources: Beninese authorities and Fund staff estimates.

Figure 3. Benin: Selected Competitiveness Indicators, 2005–08



Sources: Beninese authorities and Fund staff estimates.

The overall balance worsened more strongly than the WAEMU average, owing to a larger decline in revenue and an increase in expenditure.

WAEMU: Basic primary balance, (in percent of GDP) 1/

	2005	2006	2007	2008
Benin	-1.4	0.4	3.1	0.7
Burkina Faso	-2.9	-4.0	-5.4	-4.7
Cote d'Ivoire	0.4	0.1	1.1	0.2
Guinea-Bissau	-6.9	-7.3	-10.4	-5.9
Mali	-0.6	0.1	-0.8	-0.9
Niger	-1.0	-0.8	0.1	2.1
Senegal	-0.1	-3.5	-1.6	-1.5
Togo	-1.0	-1.9	-0.6	-1.3
WAEMU average	-0.6	-1.2	-0.5	-0.9

1/ Total revenue minus total expenditure, excluding investment financed from abroad, interest payments and net lending.
Sources: Country authorities and IMF staff estimates and projections.

Broad money grew at the fastest rate in the WAEMU.

WAEMU: Broad money growth

	2005	2006	2007	2008
Benin	21.8	16.5	17.7	29.3
Burkina Faso	-3.8	10.2	22.9	12.0
Cote d'Ivoire	7.4	10.3	23.6	7.4
Guinea-Bissau	20.6	5.3	25.5	20.7
Mali	11.7	8.8	9.3	0.4
Niger	6.6	16.2	23.0	12.7
Senegal	7.4	12.7	12.7	1.7
Togo	1.4	22.1	18.2	15.9
WAEMU average	7.5	12.0	18.6	8.7

Sources: Country authorities and IMF staff estimates and projections.

4. **The primary surplus narrowed but remained positive**. Strong domestic revenue collections partly offset the decline in nontax revenue from the exceptionally high level in 2007 (Figure 4). Expenditure and net lending increased by about 1 percent of GDP, prompted by a 28 percent increase in the wage bill, and large advances to the electricity company. Investment spending declined, reflecting lower external financing.

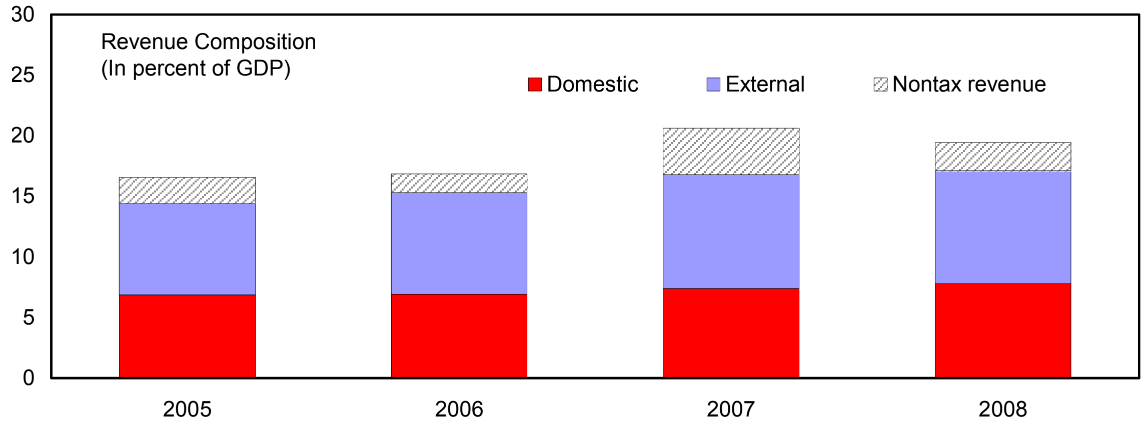
5. **Strong growth in private sector credit and net claims on the government contributed to a large monetary expansion**. Broad money grew by 29.3 percent in 2008. At the same time, the quality of commercial banks' portfolios worsened somewhat, reflecting a rapid expansion of credit to consumers and the cotton sector: the share of nonperforming loans rose to 9.6 percent at end-2008, from 8.9 percent at end-2007.

III. Performance Under the Program

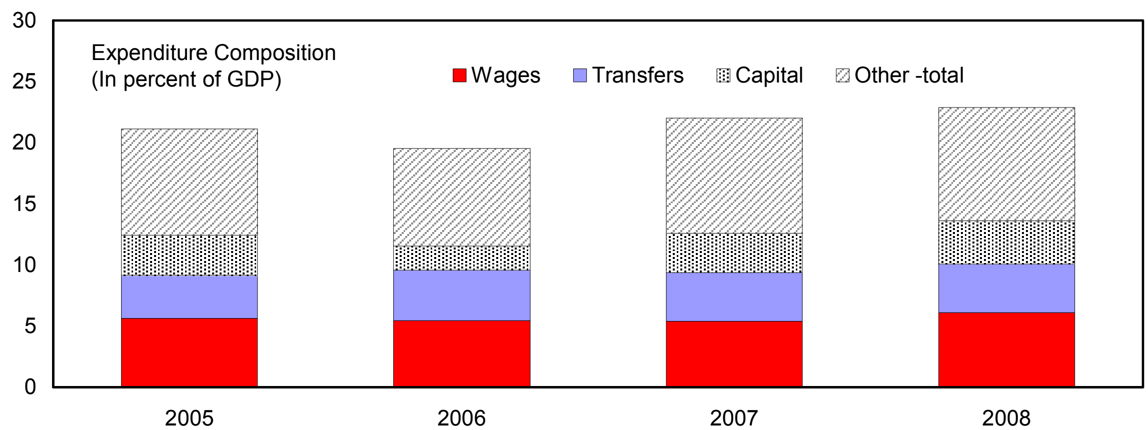
6. **All quantitative performance criteria under the program at end-2008 were met, except one**. A shortfall in donor assistance, the authorities' efforts to reduce the float, and their decision to provide emergency financial assistance to the electricity company, led to a breach of the end-December 2008 quantitative performance criterion on net domestic financing by CFAF 113.8 billion (3.8 percent of GDP). This led to a corresponding reduction in government deposits with the banking system. As remedial actions, the authorities will be increasing electricity tariffs by an average of 13 percent in June 2009, and are undertaking a financial audit to inform future reforms (MEFP ¶ 34). The continuous performance criteria on the nonaccumulation of external arrears continue to be met. The indicative target on the wage bill was missed, as the authorities provided higher wages and bonuses to civil servants, partly in response to the food and fuel crisis

Figure 4. Benin: Selected Fiscal Indicators, 2005–08

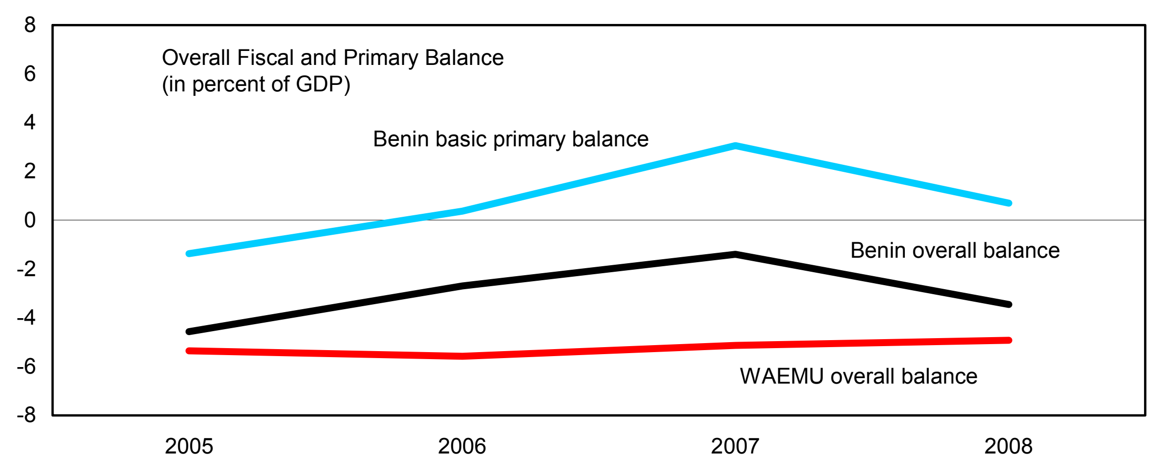
Notwithstanding continued revenue improvements...



… Government spending continued to increase in 2008, driven by higher spending on wages and domestically-financed infrastructure investment...



… leading to a smaller basic primary surplus and larger overall deficit.



Sources: Beninese authorities and Fund staff estimates.

7. **The structural reform agenda is moving forward with some delays**. Three out of six structural reform benchmarks have now been completed, including the completion of a cotton reform strategy (MEFP ¶ 12–18). The strategy to reform the civil service pension system has been delayed by the completion of the audit of the pension system in April 2009. The authorities are in the process of extending the ASYCUDA system to regional customs offices and adopt a strategic information system at the income tax department. The authorities expect to complete these benchmarks by end-2009 at the latest.

8. **During the last four years of the PRGF arrangement, performance has been relatively satisfactory (Box 1).** On the macroeconomic side, the authorities have successfully increased GDP growth to 5 percent, supported by continued fiscal consolidation. On the structural side, however, there have been significant slippages, mainly arising from the authorities' difficulty to muster the necessary domestic political consensus.

IV. Policy Discussions

9. **The policy challenges for Benin are to:**

- Minimize the adverse impact of the global economic crisis over the next two years; and
- Accelerate structural reforms to lay the foundation for higher growth in the medium term.

A. Impact of the Global Economic Crisis

10. **The crisis has already reached Benin**.[1] Between September 2008 and March 2009, international prices of Benin's main export, cotton, fell by 32 percent in dollar terms (Figure 5). Banks reported that workers' remittances were down 30 percent in the first quarter of 2009. During the same period, customs revenue collections were 18.4 percent lower than programmed, reflecting the slowdown of activity in Nigeria and the depreciation of the naira in late 2008. As a result, the government was forced to reduce its deposits at commercial banks by CFAF 60 billion (1.9 percent of GDP), further straining liquidity in the banking system. In turn, commercial banks continued to make significant use of the weekly liquidity window at the regional central bank. Lack of liquidity could potentially compromise the government's capacity to issue domestic debt on the regional debt market at nonconcessional terms.

[1] During the mission, staff presented and discussed with the authorities one paper on the negative impact of the global economic crisis and another on debt management strategies (both are available at http://www-intranet.imf.org/departments/AFR/countries/Benin/default.aspx).

Box 1. Performance Under the Current PRGF Arrangement

Supported by prudent fiscal policies, Benin has experienced moderate inflation and a pick-up in economic growth under the current PRGF arrangement, thus reversing the declining trend in growth in the first half of this decade. Benin continued, under the PRGF–supported program, to make significant progress in macroeconomic stabilization (Text Table 1). The authorities implemented sound macroeconomic policies, including a strong fiscal consolidation, aided by debt relief received under the enhanced HIPC Initiative and MDRI (Text Table 2). As a result, growth accelerated steadily since 2006. The implementation of the reform agenda, however, has been mixed, notwithstanding an acceleration in the second half of 2008. The main reforms that remain to be implemented concern: (i) the restructuring of public utilities (especially electricity and telecommunications), in order to expand service capacity, reduce production costs, and improve competitiveness; (ii) the implementation of the new medium-term strategy of public financial management, in order to strengthen administrative capacity and effectively use the available fiscal space to sustain growth and alleviate poverty; and (iii) a comprehensive reform of the civil service, in order to improve the functioning of public services, contain the public wage bill, and preserve the financial viability of the civil service pension fund.

Table 1. Benin: Macroeconomic Performance Under the Program, 2005-08

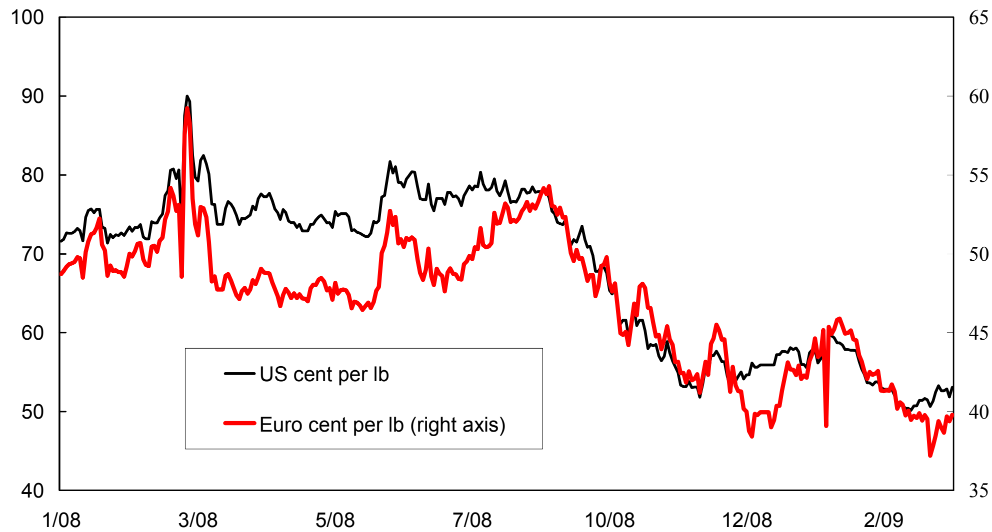
	2005		2006		2007		2008	
	Prog.	Actual	Prog.	Actual	Prog.	Actual	Prog.	Actual
	Annual change in percent, unless otherwise indicated							
National income								
GDP at constant prices	3.9	2.9	4.5	3.8	4.5	4.6	5.3	5.0
Consumer price index (average)	2.5	5.4	3.0	3.8	2.5	1.3	2.9	8.0
	In percent of GDP, unless otherwise indicated							
Central government finance								
Revenue	17.4	16.5	16.5	15.3	17.2	16.8	18.4	17.1
Expenditure and net lending	22.6	19.6	21.5	19.5	21.7	22.0	22.8	22.9
Basic balance (narrowly defined)	-0.9	0.1	0.9	0.4	0.0	3.1	0.5	0.8
Overall fiscal deficit (payment order basis, excl. grants)	-5.3	-3.1	-5.0	-2.7	-4.5	-1.4	-4.4	-3.4
Overall fiscal deficit (cash basis, excluding grants)	-6.1	-3.8	-5.2	-2.3	-6.1	-0.8	-5.1	-6.4
External sector								
Trade balance	-11.3	-10.4	-9.7	-10.4	-9.8	-13.4	-11.4	-12.9
Current account balance (including grants)	-8.7	-6.9	-7.0	-5.7	-6.3	-9.9	-6.9	-8.3
Current account balance (excluding grants)	-8.2	-7.4	-7.0	-6.4	-6.1	-10.6	-7.5	-9.1
Overall balance of payments	-1.7	3.0	-1.3	4.7	-0.6	3.2	0.7	1.6
Debt-service to exports ratio	6.1	6.1	5.4	5.7	4.9	4.4	8.2	5.1
Debt-to-GDP (post MDRI)	34.1	37.0	12.7	11.5	11.0	12.5	13.4	12.6

Table 2. Benin: Performance Under the Program, 2005-09

	Board Approval of Arrangement	First Review	Second Review	Third Review	Fourth Review	Fifth Review	Sixth Review
Prior Actions							
Program	4	3	2	none	none	none	none
Observed	4	3	2	none	none	none	none
Quantitative Performance Criteria							
Program	none	6	6	6	6	6	6
Observed	none	4	6	6	6	4	5
Quantitative Indicative Targets							
Program	none	2	2	2	2	2	2
Observed	none	none	2	2	2	1	1
Structural Performance Criteria							
Program	none	3	2	1	none	none	none
Observed	none	none	none	none	none	none	none
Structural Benchmarks							
Program	none	5	7	1	4	1	6
Observed	none	2	none	none	2	1	3

Sources: Country authorities and IMF staff estimates and projections

Figure 5. International Cotton Prices, 1/08 - 3/09
(Cents per pound)



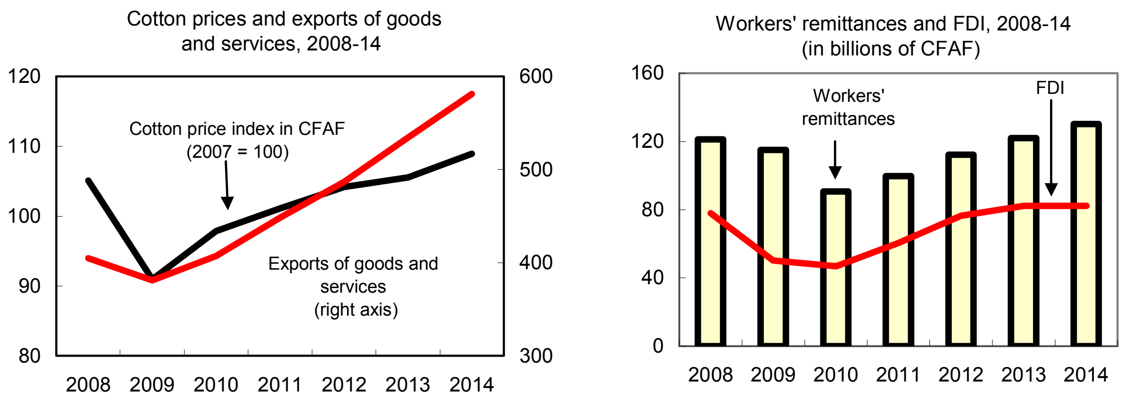
Source: Bloomberg.

11. **Growth and fiscal revenue will continue to come under pressure (Figure 6)**. Real GDP growth is projected to drop to 3.8 and 3.0 percent in 2009 and 2010, respectively, as global demand for Benin's exports declines, trade relations with Nigeria weaken, and inflows of workers' remittances and foreign direct investment fall, widening the external current account deficit. Lower food and commodity prices will reduce customs revenue, while the slowdown in economic activity will reduce direct and indirect taxation.

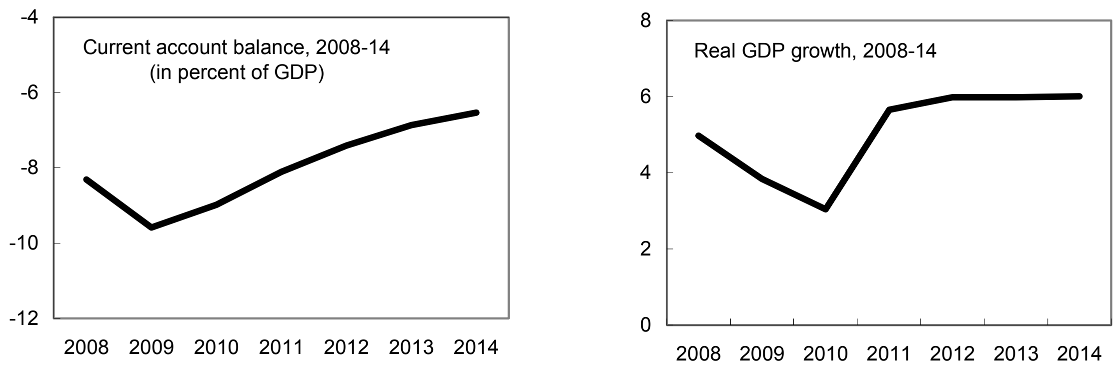
12. **The impact of the crisis is expected to be temporary.** With the expected recovery in the global economy in the second half of 2010, and prompted by continued structural reforms to improve competitiveness, investments in infrastructure, and a more efficient public administration, real GDP growth could recover to its potential of 6 percent by 2012. Inflation would remain below 3 percent, and the current account deficit (excluding grants) would narrow to 7.1 percent of GDP by 2014, reflecting increasing exports and remittances. Ongoing inflows of public and private capital would help keep reserves above 5 months of imports of goods and services.

Figure 6. Benin: Impact of the Crisis and Medium -Term Outlook

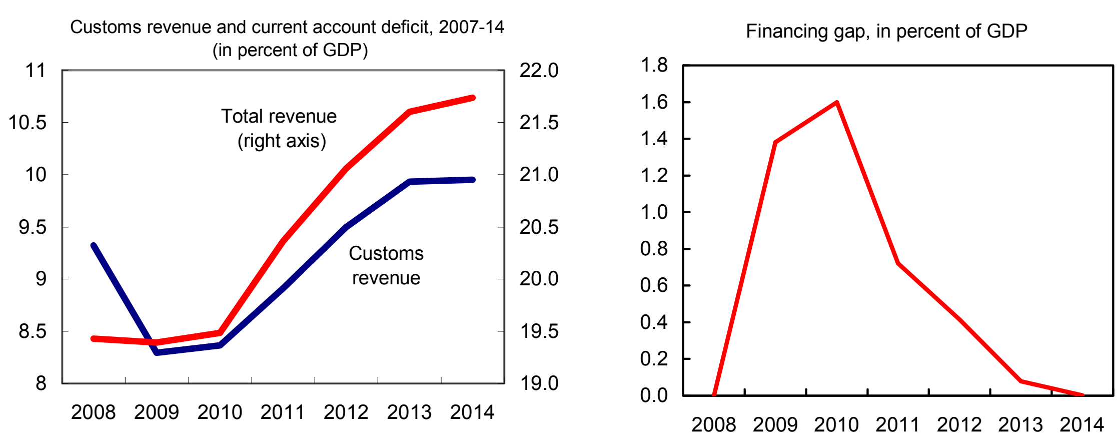
In 2009-10, the global crisis will weaken export demand and cotton prices, reduce inflows of remittances and FDI...



... thus widening the current account deficit, and slowing down growth...



...which will reduce government revenue, and lead to large financing gaps.



Sources: Beninese authorities and Fund staff estimates and projections.

B. Policy Response

13. **The authorities intend to tackle the crisis by allowing automatic fiscal stabilizers to work and increasing social safety nets** (MEFP ¶ 22–26). For 2009, this implies keeping to the overall spending envelope agreed under the program, except for additional discretionary outlays on social safety nets amounting to 0.7 percent of GDP. These outlays would: (i) provide access to basic health services for targeted segments of the population, (ii) increase resources for labor intensive public projects, and (iii) give transfers to small farmers to transition from cotton to more profitable crops.[2] Additional fiscal easing would be applied in 2010. Given the expected shortfall in revenues, the basic primary balance would turn into deficit in 2009 and 2010, and the overall fiscal deficit (excluding grants) would widen to 5.9 percent of GDP in 2009 and 6.1 percent of GDP in 2010 (Figure 7). With limited absorptive and administrative capacity, a larger fiscal expansion could compromise macroeconomic stability and fiscal and debt sustainability, with only limited benefits for growth.

14. **The fiscal expansion would generate a financing gap of CFAF 44.3 billion (1.4 percent of GDP) in 2009**. The authorities are confident that they will be able to mobilize the additional external assistance from the Fund, the EU, the World Bank, and other donors to close the financing gap. Pending availability of additional financing and to reduce the risk that the tight treasury situation might force the re-emergence of domestic payments arrears, the authorities are delaying 2–3 percent of GDP in nonpriority spending to the second half of 2009. If the additional external financing falls short of the estimated financing gap, the authorities would be forced to cancel or postpone outlays.

15. **Although the risk of debt distress remains moderate, the authorities should continue to pursue a prudent borrowing policy**. According to the updated Joint IMF-World Bank DSA, all debt indicators remain below the indicative policy-dependent thresholds under the baseline scenario. Benin, however, remains vulnerable to adverse economic developments and external shocks. In particular, lower growth over the medium- to long-term could jeopardize debt sustainability. The authorities therefore intend to accelerate structural reforms and contract new external financing only in the form of grants and highly concessional loans (MEFP ¶ 32).

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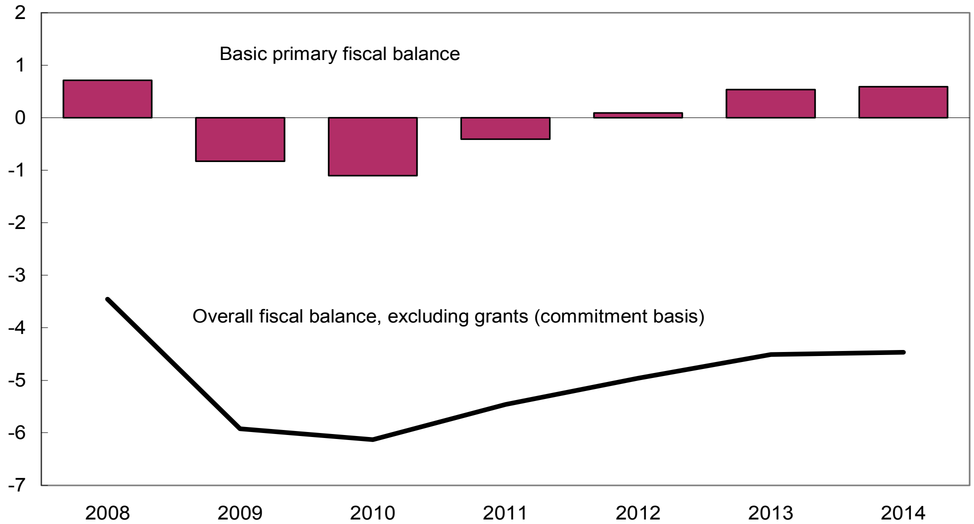
[2] Food production has recently become more profitable than cotton. Accordingly, the mission advised the authorities to shift from implicit subsidies to the cotton sector to a generalized support to agriculture.

Figure 7. Benin: Basic Primary Fiscal Balance and Overall Fiscal Deficit, 2008-14
(Percent of GDP)



Sources: Beninese authorities and Fund staff estimates and projections.

16. **A more accommodating monetary policy and stronger banking supervision could help mitigate the crisis**. While monetary policy is conducted at the regional level, staff raised the option of easing the reserve requirements for Benin, which at 15 percent are the highest in the region. The financial sector also needs to be strengthened by improving adherence to prudential regulations and more effective banking supervision (MEFP ¶ 27–30), especially as the economic crisis is likely to worsen the quality of the loan portfolio. Staff encouraged the authorities to undertake a national FSAP.

C. Structural Reforms

17. **Accelerating structural reforms will be essential to limit the impact of the crisis and speed up the recovery.** The authorities intend to implement: (i) further improvements in tax administration (MEFP ¶ 23–25) and expenditure management (MEFP ¶ 26, 33), and (ii) a comprehensive reform of the civil service. This will be critical to increase revenue, contain further increases in the wage bill, improve the provision of public services, and ensure the financial sustainability of the pension system. State-owned utilities (electricity, telecommunications) and the port will also be restructured and divested in order to improve the delivery of service and enhance their financial viability (MEFP ¶ 34–35). Other reforms will improve land tenure, judicial systems, and access to higher quality financial services.

D. Augmentation of Access and New PRGF

18. **The authorities are requesting an augmentation of access for SDR 9.29 million (15 percent of the quota) to help alleviate the current financing shortfall.**[3] The augmentation is justified by the adverse impact of the global economic crisis, which is putting pressure on public finances and could result in a protracted balance of payments need. The augmentation would cover 17 percent of the total financing gap of CFAF 44.3 billion in 2009. There are indications that the remainder could be covered by additional financial assistance from a new PRGF arrangement in the second half of 2009, the World Bank, the European Union, and multilateral and bilateral donors.

19. **Benin's capacity to repay the Fund is sound**. Under the proposed augmented access, debt service to the Fund would rise to SDR 5.08 million in 2015, equivalent to 0.5 percent of exports of goods and services and 0.3 percent of annual government revenue.

20. **The authorities have reiterated their intention to request a new PRGF arrangement in the second half of 2009, in support of their efforts to mitigate the fallout of the global financial crisis and lay the foundations for higher sustainable growth**. The arrangement, that would cover the period 2009-12, would aim at a recovery of growth to 6 percent by the end of the arrangement, limit inflation below 3 percent, maintain fiscal and debt sustainability, and implement structural reforms to enhance competitiveness. The program is also expected to facilitate the mobilization of concessional external financing, which would help mitigate the impact of the crisis.

E. Risks to the Program

21. **Risks to the program are moderate and mainly stem from the global economic crisis.** A stronger or more prolonged global downturn, or adverse economic developments in Nigeria, could result in lower growth and additional strains on public finances. A slowdown in structural reform implementation could also postpone the recovery. Delays or shortfalls in the provision of external concessional assistance from donors could also hurt investment and growth, and result in the re-emergence of domestic arrears. The relatively good performance under the current PRGF arrangement confirms the authorities' commitment to prudent macroeconomic policies. The run-up the 2011 general elections will challenge government perseverance of this policy stance.

[3] PRGF resources in the CFA franc zone are onlent by the regional central bank to national governments to finance the central government budget. The government of Benin cannot use its gross international reserves to finance its financing gap unless it has counterpart deposits in domestic currency at the regional central bank.

Table 1. Benin: Selected Economic and Financial Indicators, 2006–14

	2006	2007	2008		2009		2010	2011	2012	2013	2014
		Est.	Prog.	Prel. Est.	Prog.	Rev. Proj.	Projections				
	(Annual changes in percent, unless otherwise indicated)										
National income											
GDP at current prices	7.0	7.4	12.3	12.5	10.6	7.1	6.2	8.7	8.8	8.8	8.8
GDP at constant prices	3.8	4.6	5.1	5.0	5.7	3.8	3.0	5.7	6.0	6.0	6.0
GDP deflator	3.1	2.6	6.9	7.2	4.6	3.2	3.0	2.8	2.7	2.7	2.7
Consumer price index (average)	3.8	1.3	8.8	8.0	6.5	4.0	2.8	2.8	2.8	2.8	2.8
Consumer price index (end of period)	5.3	0.3	13.1	9.9	3.7	3.5	3.3	2.8	2.8	2.8	2.8
Production of cotton (in '000 of tons) 1/	240.6	268.6	237.9	244.6	268.3	268.3	302.6	335.2	371.4	411.4	455.8
Central government finance											
Revenue	8.7	31.4	5.5	6.1	13.6	6.9	6.7	13.6	12.5	11.6	9.5
Expenditure and net lending	-1.1	21.0	19.3	17.0	13.6	18.5	7.4	9.5	9.6	9.2	9.2
Money and credit											
Net domestic assets 2/	-4.1	-0.9	17.8	26.1	15.4	10.1	7.8	9.5	7.9	7.3	7.0
Domestic credit 2/	-2.6	-3.4	17.8	26.5	15.4	10.1	7.8	9.5	7.9	7.3	7.0
Net claims on central government 2/	-7.3	-16.4	-0.5	11.4	0.1	1.1	0.6	-0.4	-0.8	-0.8	-0.7
Credit to the nongovernment sector 2/	4.6	13.0	18.3	15.1	15.3	9.0	7.2	9.9	8.7	8.1	7.7
Broad money	16.5	17.7	14.1	29.3	12.0	7.1	6.2	8.7	8.8	8.8	8.8
Velocity (GDP relative to average M2)	3.3	3.0	2.9	2.9	2.9	3.0	3.0	3.0	3.0	3.0	3.0
External sector (in terms of CFA francs)											
Exports, f.o.b.	-18.3	73.0	19.1	-1.8	7.6	-1.6	6.6	11.1	10.6	10.8	11.1
Imports, f.o.b.	6.8	50.8	32.2	4.4	1.6	4.9	2.7	6.5	6.4	7.5	7.4
Export volume	6.9	10.6	9.5	13.7	6.6	-6.2	8.2	8.1	8.1	8.1	8.1
Import volume	4.4	12.8	5.2	5.1	6.3	4.2	4.1	8.3	8.5	8.5	8.5
Terms of trade (minus = deterioration)	-7.8	-29.7	-13.5	11.6	5.5	1.1	4.5	4.8	4.5	3.7	3.2
Nominal effective exchange rate (minus = depreciation)	-0.3	2.6	...	1.6	...	...	...	...	...	...	...
Real effective exchange rate (minus = depreciation)	1.1	0.9	...	4.7	...	...	...	...	...	...	...
	(In percent of GDP, unless otherwise indicated)										
Basic ratios											
Gross investment	18.1	21.4	23.1	20.8	23.9	24.5	24.9	25.4	25.7	26.0	26.3
Government investment	4.6	7.5	8.2	5.8	8.8	9.4	9.5	9.9	10.2	10.5	10.7
Private sector investment	13.6	13.9	15.0	14.9	15.1	15.1	15.4	15.6	15.5	15.5	15.6
Gross domestic saving	6.8	6.1	8.0	7.2	10.6	10.5	11.8	13.1	13.9	14.6	15.4
Government saving	2.4	4.8	5.8	3.4	5.8	6.3	7.8	9.1	7.9	6.4	6.7
Nongovernment saving	4.4	1.3	2.3	3.8	4.8	4.2	4.0	4.0	6.0	8.2	8.7
Gross national saving	12.4	11.5	13.5	12.6	15.8	14.8	15.8	17.3	18.3	19.1	19.7
Central government finance											
Revenue	16.8	20.6	19.3	19.4	19.8	19.4	19.5	20.4	21.1	21.6	21.7
Expenditure and net lending	19.5	22.0	23.3	22.9	24.0	25.3	25.6	25.8	26.0	26.1	26.2
Primary balance 3/	-2.3	-1.2	-3.6	-3.1	-3.8	-5.5	-5.8	-5.1	-4.6	-4.2	-4.1
Basic primary balance 4/	0.4	3.1	0.7	0.7	0.6	-0.8	-1.1	-0.4	0.1	0.5	0.6
Overall fiscal deficit (payment order basis, excl. grants)	-2.7	-1.4	-4.0	-3.5	-4.1	-5.9	-6.1	-5.5	-5.0	-4.5	-4.5
Overall fiscal deficit (cash basis, excluding grants)	-2.3	-2.0	-5.4	-7.3	-5.1	-6.7	-6.8	-6.0	-5.2	-4.9	-4.7
Debt service (after debt relief) in percent of revenue 5/	3.6	0.9	3.1	2.3	2.7	2.6	2.4	2.7	2.8	2.7	3.0
External sector											
Trade balance	-10.4	-13.4	-14.3	-13.0	-12.8	-13.2	-12.5	-11.9	-11.4	-11.0	-10.6
Current account balance (including grants)	-5.7	-9.9	-9.6	-8.2	-8.2	-9.7	-9.1	-8.2	-7.5	-6.9	-6.6
Current account balance (excluding grants)	-6.4	-10.6	-10.4	-9.2	-8.8	-10.3	-9.7	-8.8	-8.0	-7.5	-7.1
Overall balance of payments	4.7	3.6	-1.2	1.6	-1.3	-2.5	-2.2	-1.0	0.0	0.5	0.7
Debt-service to exports ratio 5/	5.4	1.4	5.1	3.4	4.7	4.6	4.3	4.7	4.9	4.8	4.7
Debt-to-GDP (post MDRI)	11.5	13.2	12.6	14.6	13.6	17.8	20.4	21.5	22.2	22.9	23.4
Gross reserves in months of imports 6/	6.5	7.5	7.9	7.9	7.2	7.2	6.5	6.0	5.8	5.7	5.5
Nominal GDP (in billions of CFA francs)	2,475.8	2,658.1	2,991.4	2,991.5	3,309.2	3,204.7	3,401.8	3,696.5	4,022.1	4,376.7	4,763.8
CFA francs per U.S. dollar (period average)	522.4	478.6	...	445.7	...	...	...	...	...	...	...
Population (midyear, in millions)	7.6	7.9	8.1	8.1	8.4	8.4	8.6	8.9	9.2	9.5	9.8

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

1/ Cotton production for T-1/T season. Production of cotton seed in crop year T-1/T affects agricultural production in year T-1, while industry, services, and exports of ginned cotton in year T.

2/ In percent of broad money at the beginning of the period.

3/ Total revenue minus all expenditure, excluding interest due.

4/ Total revenue minus all expenditure, excluding foreign-financed capital expenditure and interest due.

5/ The 2006 data incorporate the MDRI resources for the IMF, IDA and AfDF in stock operations.

6/ Months of prospective import of goods and services.

Table 2 . Benin: Consolidated Central Government Operations, 2006–14

	2006	2007	2008		2009		2010	2011	2012	2013	2014
		Est.	Prog.	Prel. Est.	Prog.	Rev. Proj.			Projections		
					(In billions of CFA francs)						
Total revenue	416.9	548.0	578.0	581.3	656.7	621.5	662.8	752.7	847.1	945.6	1,035.6
Tax revenue	378.8	446.7	511.0	512.2	578.6	538.0	579.1	665.0	752.7	843.9	926.0
Tax on international trade	207.4	250.1	287.7	278.9	328.0	265.8	284.6	329.3	382.0	434.6	474.0
Direct and indirect taxes	171.4	196.6	223.3	233.3	250.7	272.2	294.6	335.7	370.6	409.2	451.9
Nontax revenue	38.1	101.3	67.0	69.1	78.0	83.4	83.7	87.6	94.4	101.7	109.6
Total expenditure and net lending	483.8	585.3	698.1	684.7	793.2	811.3	871.4	954.5	1,046.5	1,143.1	1,248.6
Current expenditures	369.2	386.7	453.8	465.1	501.7	511.4	546.8	589.7	635.5	684.9	737.2
Current primary expenditures	359.2	381.6	441.9	454.8	490.1	498.9	535.9	577.0	621.7	670.0	720.4
Wages	135.0	143.1	171.7	182.4	190.2	193.4	208.1	220.6	233.8	247.8	262.7
Pensions and scholarships	29.3	34.3	40.2	36.0	47.3	46.6	50.5	55.0	59.9	65.3	69.3
Transfers and current expenditures	194.9	204.3	230.0	236.4	252.6	258.9	277.4	301.4	327.9	356.8	388.4
Current transfers	102.2	106.1	116.2	119.3	121.8	122.4	129.9	141.2	153.6	167.2	181.9
Other current expenditure	92.7	98.1	113.7	117.0	130.8	136.5	147.4	160.2	174.3	189.7	206.5
Interest	10.1	5.1	11.9	10.3	11.6	12.5	10.9	12.7	13.9	14.9	16.8
Internal debt	0.2	0.0	5.6	5.6	5.6	5.6	4.7	3.9	3.1	2.3	2.3
External debt	9.9	5.0	6.4	4.8	6.0	6.9	6.1	8.8	10.7	12.6	14.5
Capital expenditures and net lending	114.6	198.6	244.3	219.5	291.5	299.9	324.6	364.8	411.0	458.2	511.3
Investment	113.4	198.4	244.3	174.7	291.5	299.9	324.6	364.8	411.0	458.2	511.3
Financed by domestic resources	48.6	85.2	114.3	105.3	147.7	149.0	164.5	190.8	221.7	252.3	287.1
Financed by external resources	64.8	113.2	130.0	69.4	143.8	150.8	160.1	173.9	189.3	206.0	224.2
Net lending (minus = reimbursement)	1.2	0.2	0.0	44.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (payment order basis, excl. grants)	-66.9	-37.3	-120.1	-103.4	-136.6	-189.8	-208.6	-201.8	-199.5	-197.5	-212.9
Basic primary balance 1/	9.2	81.1	21.8	21.2	18.9	-26.5	-37.7	-15.1	3.6	23.3	28.1
Primary balance	-56.8	-32.2	-108.2	-93.1	-124.9	-177.3	-197.8	-189.1	-185.6	-182.7	-196.1
Change in arrears	-15.0	-30.9	-15.0	-16.4	-15.0	-20.0	-15.0	-15.0	-15.0	-15.0	-15.0
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	-15.0	-30.9	-15.0	-16.4	-15.0	-20.0	-15.0	-15.0	-15.0	-15.0	-15.0
Payments during complementary period/float 2/	25.8	15.0	-27.2	-99.0	-15.9	-3.6	-6.6	-3.9	4.7	-2.7	2.4
Overall balance (cash basis, excl. grants)	-56.1	-53.2	-162.3	-218.8	-167.5	-213.4	-230.2	-220.7	-209.8	-215.2	-225.5
Financing	56.1	61.9	162.3	218.8	160.0	169.1	175.8	194.0	193.1	211.8	225.4
Domestic financing	-48.4	-95.8	-12.3	109.4	-7.6	-8.6	-5.2	-2.9	-20.5	-20.3	-26.3
Bank financing	-50.1	-131.7	-5.1	128.1	0.6	13.9	7.5	-5.1	-12.8	-16.1	-22.1
Nonbank financing	1.7	35.9	-7.2	-18.7	-8.2	-22.4	-12.7	2.3	-7.7	-4.2	-4.2
Privatization	0.0	4.1	0.0	4.7	10.3	5.3	5.0	20.0	10.0	0.0	0.0
Restructuring	-5.7	0.7	-6.0	-11.7	-5.0	-10.0	0.0	0.0	0.0	0.0	0.0
Other	7.5	31.1	-1.2	-11.8	-13.5	-17.7	-17.7	-17.7	-17.7	-4.2	-4.2
External financing	104.5	157.8	174.6	109.3	167.6	177.7	181.1	196.9	213.6	232.1	251.7
Project financing	64.8	113.2	130.0	69.4	143.8	150.8	160.1	173.9	189.3	206.0	224.2
Grants	37.6	60.6	68.1	21.6	75.3	80.6	85.6	93.0	101.2	110.1	119.8
Loans	27.2	52.6	62.0	47.7	68.6	70.2	74.5	81.0	88.1	95.9	104.3
Amortization due	-548.5	0.0	-11.7	-8.3	-11.8	-9.0	-9.9	-10.0	-8.6	-6.7	-5.4
Program aid	18.1	44.6	56.2	48.3	35.6	35.9	30.9	32.9	32.9	32.9	32.9
Grants	18.1	18.3	22.8	30.4	22.6	20.9	20.9	22.9	22.9	22.9	22.9
Loans	0.0	26.3	33.4	17.9	13.0	15.0	10.0	10.0	10.0	10.0	10.0
Debt relief obtained	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
MDRI grants	570.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	-8.7	0.0	0.0	7.5	44.3	54.4	26.7	16.7	3.4	0.1
Memorandum items:					(In percent of GDP, unless otherwise indicated)						
Total grants and revenue	19.1	23.6	22.4	21.2	22.8	22.6	22.6	23.5	24.1	24.6	24.7
Grants	2.2	3.0	3.0	1.7	3.0	3.2	3.1	3.1	3.1	3.0	3.0
Revenue	16.8	20.6	19.3	19.4	19.8	19.4	19.5	20.4	21.1	21.6	21.7
Total expenditure	19.5	22.0	23.3	22.9	24.0	25.3	25.6	25.8	26.0	26.1	26.2
Of which: wage bill	5.5	5.4	5.7	6.1	5.7	6.0	6.1	6.0	5.8	5.7	5.5
Of which: Capital expenditure	4.6	7.5	8.2	5.8	8.8	9.4	9.5	9.9	10.2	10.5	10.7
Overall balance (payment order basis, excl. grants)	-2.7	-1.4	-4.0	-3.5	-4.1	-5.9	-6.1	-5.5	-5.0	-4.5	-4.5
Overall balance (payment order basis, incl. grants)	-0.5	1.6	-1.0	-1.7	-1.2	-2.8	-3.0	-2.3	-1.9	-1.5	-1.5
Primary balance	-2.3	-1.2	-3.6	-3.1	-3.8	-5.5	-5.8	-5.1	-4.6	-4.2	-4.1
Basic primary balance 1/	0.4	3.1	0.7	0.7	0.6	-0.8	-1.1	-0.4	0.1	0.5	0.6
Current balance	1.9	6.1	4.2	3.9	4.7	3.4	3.4	4.4	5.3	6.0	6.3
GDP (in billions of CFA francs)	2,475.8	2,658.1	2,991.4	2,991.5	3,309.2	3,204.7	3,401.8	3,696.5	4,022.1	4,376.7	4,763.8

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

1/ Total revenue minus all expenditure, excluding foreign-financed capital expenditure and interest due.

2/ Payment orders carried over to the following fiscal year.

Table 3 . Benin: Consolidated Central Government Operations, 2006–14
(Percent of GDP)

	2006	2007	2008		2009		2010	2011	2012	2013	2014
		Est.	Prog.	Prel. Est.	Prog.	Rev. Proj.			Projections		
Total revenue	16.8	20.6	19.3	19.4	19.8	19.4	19.5	20.4	21.1	21.6	21.7
Tax revenue	15.3	16.8	17.1	17.1	17.5	16.8	17.0	18.0	18.7	19.3	19.4
Tax on international trade	8.4	9.4	9.6	9.3	9.9	8.3	8.4	8.9	9.5	9.9	10.0
Direct and indirect taxes	6.9	7.4	7.5	7.8	7.6	8.5	8.7	9.1	9.2	9.3	9.5
Nontax revenue	1.5	3.8	2.2	2.3	2.4	2.6	2.5	2.4	2.3	2.3	2.3
Total expenditure and net lending	19.5	22.0	23.3	22.9	24.0	25.3	25.6	25.8	26.0	26.1	26.2
Current expenditures	14.9	14.5	15.2	15.5	15.2	16.0	16.1	16.0	15.8	15.6	15.5
Current primary expenditures	14.5	14.4	14.8	15.2	14.8	15.6	15.8	15.6	15.5	15.3	15.1
Wages	5.5	5.4	5.7	6.1	5.7	6.0	6.1	6.0	5.8	5.7	5.5
Pensions and scholarships	1.2	1.3	1.3	1.2	1.4	1.5	1.5	1.5	1.5	1.5	1.5
Transfers and current expenditures	7.9	7.7	7.7	7.9	7.6	8.1	8.2	8.2	8.2	8.2	8.2
Current transfers	4.1	4.0	3.9	4.0	3.7	3.8	3.8	3.8	3.8	3.8	3.8
Other current expenditure	3.7	3.7	3.8	3.9	4.0	4.3	4.3	4.3	4.3	4.3	4.3
Interest	0.4	0.2	0.4	0.3	0.4	0.4	0.3	0.3	0.3	0.3	0.4
Internal debt	0.0	0.0	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.0
External debt	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3
Capital expenditures and net lending	4.6	7.5	8.2	7.3	8.8	9.4	9.5	9.9	10.2	10.5	10.7
Investment	4.6	7.5	8.2	5.8	8.8	9.4	9.5	9.9	10.2	10.5	10.7
Financed by domestic resources	2.0	3.2	3.8	3.5	4.5	4.7	4.8	5.2	5.5	5.8	6.0
Financed by external resources	2.6	4.3	4.3	2.3	4.3	4.7	4.7	4.7	4.7	4.7	4.7
Net lending (minus = reimbursement)	0.0	0.0	0.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (payment order basis, excl. grants)	-2.7	-1.4	-4.0	-3.5	-4.1	-5.9	-6.1	-5.5	-5.0	-4.5	-4.5
Basic primary balance 1/	0.4	3.1	0.7	0.7	0.6	-0.8	-1.1	-0.4	0.1	0.5	0.6
Primary balance	-2.3	-1.2	-3.6	-3.1	-3.8	-5.5	-5.8	-5.1	-4.6	-4.2	-4.1
Change in arrears	-0.6	-1.2	-0.5	-0.5	-0.5	-0.6	-0.4	-0.4	-0.4	-0.3	-0.3
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	-0.6	-1.2	-0.5	-0.5	-0.5	-0.6	-0.4	-0.4	-0.4	-0.3	-0.3
Payments during complementary period/float 2/	1.0	0.6	-0.9	-3.3	-0.5	-0.1	-0.2	-0.1	0.1	-0.1	0.1
Overall balance (cash basis, excl. grants)	-2.3	-2.0	-5.4	-7.3	-5.1	-6.7	-6.8	-6.0	-5.2	-4.9	-4.7
Financing	2.3	2.3	5.4	7.3	4.8	5.3	5.2	5.2	4.8	4.8	4.7
Domestic financing	-2.0	-3.6	-0.4	3.7	-0.2	-0.3	-0.2	-0.1	-0.5	-0.5	-0.6
Bank financing	-2.0	-5.0	-0.2	4.3	0.0	0.4	0.2	-0.1	-0.3	-0.4	-0.5
Nonbank financing	0.1	1.3	-0.2	-0.6	-0.2	-0.7	-0.4	0.1	-0.2	-0.1	-0.1
Privatization	0.0	0.2	0.0	0.2	0.3	0.2	0.1	0.5	0.2	0.0	0.0
Restructuring	-0.2	0.0	-0.2	-0.4	-0.2	-0.3	0.0	0.0	0.0	0.0	0.0
Other	0.3	1.2	0.0	-0.4	-0.4	-0.6	-0.5	-0.5	-0.4	-0.1	-0.1
External financing	4.2	5.9	5.8	3.7	5.1	5.5	5.3	5.3	5.3	5.3	5.3
Project financing	2.6	4.3	4.3	2.3	4.3	4.7	4.7	4.7	4.7	4.7	4.7
Grants	1.5	2.3	2.3	0.7	2.3	2.5	2.5	2.5	2.5	2.5	2.5
Loans	1.1	2.0	2.1	1.6	2.1	2.2	2.2	2.2	2.2	2.2	2.2
Amortization due	-22.2	0.0	-0.4	-0.3	-0.4	-0.3	-0.3	-0.3	-0.2	-0.2	-0.1
Program aid	0.7	1.7	1.9	1.6	1.1	1.1	0.9	0.9	0.8	0.8	0.7
Grants	0.7	0.7	0.8	1.0	0.7	0.7	0.6	0.6	0.6	0.5	0.5
Loans	0.0	1.0	1.1	0.6	0.4	0.5	0.3	0.3	0.2	0.2	0.2
Debt relief obtained	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
MDRI grants	23.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	-0.3	0.0	0.0	0.2	1.4	1.6	0.7	0.4	0.1	0.0

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

1/ Total revenue minus all expenditure, excluding foreign-financed capital expenditure and interest due.
2/ Payment orders carried over to the following fiscal year.

Table 4. Benin: Balance of Payments, 2006–14

	2006	2007	2008		2009		2010	2011	2012	2013	2014
		Prel.	Prog.	Prel. Est.	Prog.	Rev. Proj.	Projections				
	(In billions of CFA francs)										
Trade balance 1/	-257.3	-357.1	-328.9	-388.0	-348.9	-422.4	-424.5	-440.6	-457.0	-481.0	-504.0
Exports, f.o.b.	139.8	241.8	187.5	237.4	212.8	233.7	249.2	276.8	306.3	339.3	377.0
Cotton and textiles	56.1	66.2	72.3	76.3	88.6	67.2	75.4	84.6	89.3	98.0	108.2
Other 2/	83.7	175.6	115.2	161.1	124.2	166.5	173.7	192.2	217.0	241.3	268.8
Imports, f.o.b.	-397.1	-598.9	-516.4	-625.4	-561.7	-656.1	-673.7	-717.4	-763.3	-820.3	-881.0
Of which: petroleum products	-69.1	-108.0	-154.4	-116.9	-158.6	-58.4	-57.1	-60.0	-63.5	-67.2	-71.2
Services (net)	-23.5	-50.2	-24.0	-19.2	-16.6	-27.8	-22.5	-16.6	-19.7	-17.0	-21.1
Credit	141.3	189.6	170.2	218.7	183.1	201.5	214.8	235.3	247.4	265.9	278.6
Debit	-164.8	-239.8	-194.1	-237.9	-198.7	-229.3	-237.3	-251.9	-267.1	-282.9	-299.7
Income (net)	-15.4	-4.3	-14.6	-5.4	-16.4	-11.5	-14.9	-17.9	-20.4	-23.7	-28.9
Of which: interest due on government debt	-9.9	-5.0	-6.0	-4.8	-6.2	-6.9	-6.1	-8.8	-10.7	-12.6	-14.5
Current transfers (net)	154.9	148.7	167.3	166.8	179.7	151.0	151.8	172.0	195.1	216.9	236.2
Unrequited private transfers	79.2	73.5	87.4	74.4	94.9	65.4	62.6	71.8	85.4	94.9	102.9
Public current transfers	75.7	75.2	79.8	92.4	84.8	85.6	89.2	100.2	109.8	122.0	133.3
Of which: program grants	18.1	18.3	15.9	30.4	22.6	20.9	20.9	22.9	22.9	22.9	22.9
Current account balance	-141.3	-262.9	-200.2	-245.9	-202.3	-310.7	-310.1	-303.1	-302.0	-304.8	-317.8
Current account balance (excl. program grants)	-159.3	-281.2	-216.1	-276.3	-224.9	-331.6	-331.0	-326.0	-324.9	-327.7	-340.7
Capital account balance	607.8	60.6	68.8	21.6	76.1	80.6	85.6	93.0	101.2	110.1	119.8
Official project grants 3/	37.6	60.6	68.8	21.6	76.1	80.6	85.6	93.0	101.2	110.1	119.8
Financial account (net)	-350.7	297.0	151.4	270.8	146.2	148.6	148.7	170.9	198.1	216.1	229.3
Medium- and long-term public capital	-517.4	82.9	82.4	66.4	70.6	80.2	78.6	85.0	93.5	103.1	113.0
Disbursements	31.1	82.9	94.9	74.7	83.3	89.2	88.5	95.0	102.1	109.9	118.3
Loans	31.1	56.6	70.2	56.8	70.3	74.2	78.5	85.0	92.1	99.9	108.3
Of which: Central gvt project loans	27.2	52.6	61.1	47.7	66.3	70.2	74.5	81.0	88.1	95.9	104.3
Program loans	0.0	26.3	24.7	17.9	13.0	15.0	10.0	10.0	10.0	10.0	10.0
Amortization due	-548.5	0.0	-12.5	-8.3	-12.7	-9.0	-9.9	-10.0	-8.6	-6.7	-5.4
Foreign direct investment	…	125.3	…	77.8	…	50.2	46.9	60.4	76.5	82.1	82.3
Medium- and long-term private capital	68.4	31.6	68.9	48.7	75.5	28.2	23.2	25.5	28.1	30.9	34.0
Deposit money banks	26.5	-63.6	0.0	16.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term capital	26.6	50.8	0.0	90.6	0.0	-9.9	0.0	0.0	0.0	0.0	0.0
Errors and omissions	45.1	70.0	0.0	-29.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	115.8	94.7	20.0	46.5	20.0	-81.5	-75.8	-39.1	-2.7	21.4	31.3
Financing	-115.8	-86.0	-20.0	-46.5	-20.0	36.6	21.4	12.4	-14.0	-24.8	-31.4
Chge in net foreign assets (- = increase)	-115.8	-86.0	-20.0	-46.5	-20.0	36.6	21.4	12.3	-14.3	-25.2	-33.5
Debt relief obtained	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	-8.7	0.0	0.0	0.0	44.3	54.4	26.7	16.7	3.4	0.1
Memorandum items:	(In percent of GDP, unless otherwise indicated)										
Net reexports	4.6	4.3	4.7	4.4	4.7	4.3	4.3	4.1	4.0	3.9	3.8
Reexports	10.0	9.8	10.2	9.3	10.2	9.2	9.2	8.9	8.6	8.3	8.1
Imports for reexports	-5.3	-5.5	-5.5	-4.9	-5.4	-4.9	-4.9	-4.8	-4.6	-4.5	-4.3
Current account balance (incl. program grants)	-5.7	-9.9	-6.9	-8.2	-6.5	-9.7	-9.1	-8.2	-7.5	-7.0	-6.7
Current account balance (excl. program grants)	-6.4	-10.6	-7.5	-9.2	-7.2	-10.3	-9.7	-8.8	-8.1	-7.5	-7.2
Trade balance	-10.4	-13.4	-11.4	-13.0	-11.2	-13.2	-12.5	-11.9	-11.4	-11.0	-10.6
Exports	5.6	9.1	6.5	7.9	6.8	7.3	7.3	7.5	7.6	7.8	7.9
Imports	-16.0	-22.5	-17.9	-20.9	-18.0	-20.5	-19.8	-19.4	-19.0	-18.7	-18.5
Services and income (net)	-1.6	-2.1	-1.3	-0.8	-1.1	-1.2	-1.1	-0.9	-1.0	-0.9	-1.0
Current transfers (net)	6.3	5.6	5.8	5.6	5.8	4.7	4.5	4.7	4.9	5.0	5.0
Capital account balance	24.5	2.3	2.4	0.7	2.4	2.5	2.5	2.5	2.5	2.5	2.5
Financial account balance	-14.2	11.2	5.3	9.1	4.7	4.6	4.4	4.6	4.9	4.9	4.8
Overall balance	4.7	3.6	0.7	1.6	0.6	-2.5	-2.2	-1.1	-0.1	0.5	0.7
Gross reserves in months of imports 4/	6.5	7.5	7.9	7.9	7.2	7.2	6.5	6.0	5.7	5.6	5.4
GDP (in billions of CFA francs)	2,475.8	2,658.1	2,880.7	2,991.5	3,124.8	3,204.7	3,401.8	3,696.5	4,022.1	4,376.7	4,763.8

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

1/ Excluding reexports and imports for reexports, net balance of which is allocated between services and public transfers.
2/ The authorities have revised their methodology for estimating regional exports, starting with 2007 data.
3/ Official capital grants from the United States (MCA) of the amount of US $ 307 millions will be disbursed over the period 2006-2011.
4/ Months of prospective imports of goods and services.

Table 5. Benin: Monetary Survey, 2006–09

	2006	2007	2008			2009	
	Dec.	Dec.	June	December		Prog.	Rev. Proj.
		Prel.	Prel.	Prog.	Prel. Est.		
	(In billions of CFA francs)						
Net foreign assets	529.0	678.6	736.8	696.7	708.2	607.1	671.6
Central Bank of West African States (BCEAO)	443.8	529.7	545.4	547.9	576.2	458.3	539.6
Banks	85.2	148.8	191.3	148.8	132.0	148.8	132.0
Net domestic assets	276.1	268.9	327.1	332.1	516.6	603.4	640.5
Domestic credit	337.8	310.4	383.7	371.7	561.1	644.8	685.0
Net claims on central government	-70.9	-202.6	-162.9	-205.2	-95.0	-207.1	-81.1
Credit to the nongovernment sector	408.7	512.9	546.5	576.9	656.1	851.9	766.1
Other items (net)	-61.8	-41.5	-56.6	-39.6	-44.5	-41.5	-44.5
Broad money (M2)	805.1	947.4	1,063.9	1,028.8	1,224.8	1,210.5	1,312.1
Currency	254.2	238.9	286.4	258.4	361.6	296.8	387.3
Bank deposits	541.7	700.9	768.5	760.3	854.3	906.1	915.9
Deposits with postal checking accounts	9.2	7.6	9.0	10.1	8.9	7.6	8.9
	(Change in percent of beginning-of-period broad money, unless otherwise indicated)						
Net foreign assets	20.6	18.6	6.1	2.1	3.1	-3.4	-3.0
Net domestic assets	-4.1	-0.9	6.1	6.2	26.1	15.4	10.1
Domestic credit	-2.6	-3.4	7.7	6.2	26.5	15.4	10.1
Net claims on government	-7.3	-16.4	4.2	-0.5	11.4	0.1	1.1
Credit to nongovernment sector	4.6	13.0	3.5	6.7	15.1	15.3	9.0
Broad money	16.5	17.7	12.3	8.3	29.3	12.0	7.1
Credit to the nongovernment sector							
(annual change in percent: year-on-year)	8.5	25.5	21.8	12.5	27.9	24.1	16.8
Memorandum items							
Velocity of broad money	3.3	3.0	3.0	2.9	2.9	2.9	2.9
Broad money as share of GDP	32.5	35.6	35.6	35.7	40.9	36.6	40.9
Nominal GDP (in billions of CFA francs)	2,475.8	2,658.1	2,991.5	2,880.7	2,991.5	3,309.2	3,204.7
Nominal GDP growth (annual change in percent)	7.0	7.4	12.5	8.1	12.5	10.6	7.1

Sources: BCEAO; and IMF staff estimates and projections.

Table 6. Benin: Proposed Schedule of Disbursements Under
the PRGF Arrangement, 2005-2009

Amount	Disbursement Date	Conditions Necessary For Disbursement 1/
SDR 0.88 million	August 12, 2005	Executive Board approval of the three-year Arrangement.
SDR 0.88 million	December 12, 2006	Observance of performance criteria for September 30, 2005, completion of the first review under the arrangement.
SDR 0.88 million	June 29, 2007	Observance of performance criteria for December 31, 2006, completion of the second review under the arrangement.
SDR 0.88 million	January 22, 2008	Observance of performance criteria for June 30, 2007, completion of the third review under the arrangement.
SDR 10.17 million	June 3, 2008	Observance of performance criteria for December 31, 2007, completion of the fourth review under the arrangement.
SDR 0.88 million	December 15, 2008	Observance of performance criteria for June 30, 2008, completion of the fifth review under the arrangement.
SDR 10.2 million	June 24, 2009	Observance of performance criteria for December 31, 2008, completion of the sixth review under the arrangement.

Source: International Monetary Fund.

1/ Other than the generally applicable conditions under the PRGF arrangement, including the performance clause on the exchange and trade system.

Table 7. Benin: Indicators of Capacity to Repay the Fund, 2009-19 1/

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Fund obligations based on existing credit											
(in millions of SDRs)											
Principal	0.0	0.0	0.2	0.4	0.6	2.9	2.9	2.7	2.5	2.3	0.0
Charges and interest	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Fund obligations based on existing and prospective drawings											
(in millions of SDRs)											
Principal	0.0	0.0	0.2	0.4	0.6	3.9	5.0	4.8	4.5	4.3	1.0
Charges and interest	0.1	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.0
Total obligations based on existing and prospective credit											
In millions of SDRs	0.1	0.2	0.3	0.6	0.8	4.1	5.1	4.9	4.6	4.4	1.1
In billions of CFA francs	0.1	0.1	0.3	0.4	0.6	3.0	3.7	3.6	3.4	3.3	0.8
In percent of government revenue	0.0	0.0	0.0	0.1	0.1	0.3	0.3	0.3	0.2	0.2	0.0
In percent of exports of goods and services	0.0	0.0	0.0	0.1	0.1	0.5	0.5	0.4	0.4	0.3	0.1
In percent of debt service 2/	0.1	0.1	0.3	0.4	0.5	2.5	2.8	2.5	2.1	1.9	0.4
In percent of GDP	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0
In percent of quota	0.2	0.3	0.5	1.0	1.3	6.6	8.2	7.9	7.4	7.1	1.7
Outstanding Fund credit 2/											
In millions of SDRs	24.8	24.8	24.6	24.2	23.5	19.6	14.7	9.9	5.4	1.0	0.0
In billions of CFA francs	17.4	18.4	18.1	17.8	17.3	14.4	10.8	7.3	4.0	0.8	0.0
In percent of government revenue	2.8	2.8	2.4	2.1	1.8	1.4	0.9	0.6	0.3	0.0	0.0
In percent of exports of goods and services	4.0	4.0	3.5	3.2	2.9	2.2	1.5	0.9	0.4	0.1	0.0
In percent of debt service 2/	21.2	21.1	19.1	17.2	15.4	11.8	8.1	5.0	2.5	0.4	0.0
In percent of GDP	0.5	0.5	0.5	0.4	0.4	0.3	0.2	0.1	0.1	0.0	0.0
In percent of quota	40.0	40.0	39.7	39.0	38.0	31.7	23.7	15.9	8.7	1.6	0.0
Net use of Fund credit (millions of SDRs)	16.4	12.4	12.2	11.9	-0.6	-3.9	-5.0	-4.8	-4.5	-4.3	-1.0
Disbursements	16.4	12.4	12.4	12.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and Repurchases	0.0	0.0	0.2	0.4	0.6	3.9	5.0	4.8	4.5	4.3	1.0
Memorandum items:											
Nominal GDP (in billions of CFA francs)	3,204.7	3,401.8	3,696.5	4,022.1	4,376.7	4,763.8	5,201.1	5,678.6	6,199.9	6,769.0	7,390.4
Exports of goods and services (in billions of CFA francs)	436.2	465.1	513.3	555.0	606.7	657.2	727.2	804.7	890.6	985.7	1,091.1
Government revenue (in billions of CFA francs)	621.5	662.8	752.7	847.1	945.6	1,035.6	1,201.7	1,312.0	1,432.4	1,563.9	1,707.5
Debt service (in billions of CFA francs) 2/	82.3	87.3	94.9	103.3	112.4	122.3	133.5	145.8	159.2	173.8	189.8
CFA francs/SDR (period average)	704.2	742.5	737.8	736.2	736.0	736.7	738.2	739.7	741.3	742.9	744.6

Sources: IMF staff estimates and projections.

1/ Assumes a PRGF augmentation of 15 percent of quota (SDR 9.29 million).

2/ Total debt service includes IMF repurchases and repayments.

APPENDIX I—LETTER OF INTENT

Cotonou, June 8, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Strauss-Kahn:

1. I am pleased to inform you that, during the second half of 2008, tangible progress has been made in implementing the macroeconomic policies and structural reforms under the program supported by the IMF through the Poverty Reduction and Growth Facility (PRGF), despite the shocks related to the rise in food, fuel, and construction material prices. During this period, all end-December 2008 quantitative performance criteria were met with the exception of domestic financing of the government, which was breached owing to the government's decision to clear outstanding Treasury payment orders accumulated in 2007 and to provide financial assistance to the electricity company (SBEE) to ensure the supply of electricity. To find a solution to the problems of the electricity company, electricity tariffs will be increased by an average 13 percent in June 2009, and the government will perform a financial audit of the electricity company (SBEE) in the fourth quarter of 2009, with the support of development partners. In light of these remedial measures, the government requests a waiver for the nonobservance of this performance criterion and the completion of the sixth review of the program supported by the PRGF arrangement.

2. Among the quantitative indicators, the wage bill exceeded the target, essentially owing to the government's decision to preserve social peace in the face of union wage demands. It granted various benefits, bonuses, and allowances, and recruited public employees in the key sectors of education and health.

3. Of the structural benchmarks, the audit of electronic public expenditure systems, the strategy for comprehensive reform of the cotton sector, and the action plan for improving the public financial management system were completed.

4. I would also like to present the measures that the government has planned for 2009. The fallout from the international crisis on our economy will result in a marked slowdown in the economic growth achieved during the past three years, with real GDP growth of about 4.0 percent in 2009. The inflation rate, which was 8.0 percent at end-December 2008, should move closer to the 3.0 percent level established within the framework of the multilateral surveillance of the WAEMU. In the interest of stepping up

growth and more effectively reducing poverty, the government intends to maintain a prudent macroeconomic policy stance and accelerate implementation of its structural reform program. The government hopes to continue to benefit from financial and technical support from the IMF, including the possibility of a new arrangement following the expiration of the current arrangement in August 2009.

5. Benin will be seriously affected by the international economic crisis over the next two years. Economic growth will weaken as a result of the decline in global demand, falling commodity prices, and diminishing remittances from Beninese migrant workers. This situation has already decreased customs revenue and commercial bank liquidity in the first quarter of 2009. The government is committed to mitigating the adverse effects of the crisis while maintaining the planned level of budgetary expenditure in the 2009 budget. This would increase the level of additional necessary financing for 2009. The financing gap would be CFAF 44 billion according to the latest Fund staff estimates. We are in the process of mobilizing additional budgetary assistance from our development partners to bridge this gap. Given the situation, we wish to request an augmentation of access of SDR 9.29 million (15 percent of our quota) as part of this program review.

6. The government feels certain that the measures and policies described in this memorandum are adequate to achieve the objectives of the program. It is determined to take any further measures that may prove necessary for this purpose. The government will consult with the IMF, either at its own initiative or whenever the Managing Director of the IMF requests such consultation, before adopting any additional measures or changing any of the measures discussed in this memorandum.

7. The government authorizes the IMF to publish its staff report and the attached memorandum on economic and financial policies relating to the sixth review of the program.

Sincerely,

/s/

Soulé Mana LAWANI

BENIN

APPENDIX I—ATTACHMENT I

Memorandum on Economic and Financial Policies for 2009

I. INTRODUCTION

1. **The strengthening of economic activity continued in 2008.** The real GDP growth rate stood at 5.0 percent, against a projection of 5.1 percent. This growth can be attributed to the demand on the Nigerian market, strong food production with the implementation of the Emergency Food Security Program, and the expansion of construction activities. However, the growth rate remained below the minimum required for achieving the Millennium Development Goals.

2. **In 2008, the increase in consumer product prices accelerated as international food and fuel prices rose.** The average inflation rate trended upwards, driven by food and fuel, rising to 8 percent compared with 1.3 percent in 2007 and accentuating the deterioration in the inflation differential between Benin and its trading partners. As a result, inflation remained above the 3 percent threshold required under the WAEMU convergence pact.

3. **The external current account balance improved despite the negative effect of the deterioration in the terms of trade**. The external current account deficit excluding grants is estimated at 9.2 percent of GDP in 2008, compared with 10.6 percent in 2007. This improvement can be attributed to increased volumes of cotton exports and the expansion of transit trade; at the same time, the rise in food and fuel prices resulted in a rise in imports. With the improvement in the current account, and in spite of dwindling foreign direct investment and inflows of public capital, official exchange reserves increased to almost 8 months of prospective imports of goods and services.

II. MACROECONOMIC POLICY IN 2008

4. **Fiscal consolidation continued despite the slippage during the first half year owing to expenditure on major works projects (Table 1)**. Overall, revenue and expenditure were in line with program objectives. Total revenue stood at CFAF 581.3 billion in 2008, or 19.5 percent of GDP, compared with a projection of CFAF 578.0 billion (19.4 percent of GDP). Customs revenue shortfalls were largely offset by a significant increase in domestic tax revenues.

5. **Customs revenues were below the program target, standing at** CFAF 278.9 billion in 2008, or 9.3 percent of GDP, a shortfall of 0.3 percent of GDP. This slight shortfall observed despite market-based prices resulted essentially from the decline in

import prices in the fourth quarter of 2008. In contrast, compared to 2007, customs revenues increased substantially by about 11.5 percent. This result is attributable to the strong performance of revenues from goods under customs escort; anti-fraud efforts, specifically the simplification of customs clearance procedures; and the increased administrative capacity of the customs services, particularly owing to the expansion of ASYCUDA++ to seven workstations, limiting the shortfall against the target in 2008.

6. **Domestic tax revenues were higher than program targets.** Domestic revenues totaled CFAF 233.3 billion in 2008, or approximately 7.8 percent of GDP compared with a projected 7.5 percent, an increase of 18.7 percent over the previous year. This performance by the General Directorate of Taxes and Government Property (DGID) is attributable essentially to the domestic tax on industrial and commercial profits (AIB) and the domestic VAT. The strong performance of tax collections reflects the improvement in tax administration, the enhancement of control measures, and sound management of the corporate profit tax (BIC). The authorities thus improved the rational management of staffing levels, strengthened the IT capacity of inspectors, and streamlined the portfolios of the Large Taxpayer Unit (DGE) and the Medium-Sized Enterprise Tax Centers (CIMEs).

7. **Efforts to control expenditure undertaken in the second half of 2008 were continued and made it possible to keep expenditure below the target for 2008**. Total expenditure stood at CFAF 684.7 billion, or 22.9 percent of GDP, compared with a targeted 23.3 percent of GDP and a realization of 22.0 percent in 2007. However, there were primary expenditure overruns in the use of resources allocated to purchases of goods and services, to transfers, and to the wage bill. These overruns are explained by expenditure in support of: (i) the national power company (SBEE) to ensure the availability of electrical power; and (ii) capital and modernization projects in Cotonou and many other localities in the interior. The wage bill target was also exceeded owing to (i) the increase in the various benefits, bonuses, and allowances paid to workers to maintain social peace; and (ii) the recruitment of public employees in the key sectors of education and health. In contrast, domestically financed capital expenditure remained below target.

8. **The overall fiscal deficit (cash basis excluding grants) deepened in 2008,** amounting to CFAF 218.8 billion, or 7.3 percent of GDP (1.9 percentage points off target), as outstanding 2007 balances and advances to the SBEE were cleared. This deficit was financed in part from disbursements of budgetary support under the World Bank's 2007 PRSC IV program (CFAF 17.9 billion) and aid granted by France (CFAF 3.6 billion), Denmark (CFAF 1.7 billion), the European Union (CFAF 16.6 billion), Swiss Cooperation (CFAF 0.6 billion), KFW-Germany (CFAF 1.3 billion), and the Netherlands (CFAF 6.6 billion). The balance was financed by a drawing on government deposits with the banking system of about CFAF 120 billion and a portion of the resources from the privatization of SONAPRA's industrial tools division (CFAF 4.7 billion). The issuance of Treasury bonds and bills in the amount of CFAF 58.1 billion made it possible to replenish a

portion of the government's deposits. Wage arrears to permanent public employees were cleared by issuing commercial paper (CFAF 54 billion, 20 billion of which was discounted by the local banks).

9. **All end-December 2008 quantitative performance criteria were met, with the exception of net domestic financing of the government**. Despite measures taken to regulate expenditure during the second half of the year, government deposits were not replenished. They were used to clear outstanding balances accumulated in 2007 and to grant considerable advances to the SBEE to guarantee the supply of electrical power. Among the quantitative indicators, the wage bill was overrun owing to the government's decision to keep social peace in the face of union wage demands.

10. **The monetary situation was characterized by a strengthening of foreign assets and sharp growth of domestic credit, which led to a rapid expansion of the money supply by 29.3 percent, a rate that outstripped nominal GDP growth**. The government's net position with the banking system was substantially eroded owing to drawings on government deposits to finance infrastructure projects and the issuance of Treasury bills in June and September 2008. At the same time, the average quality of bank credit declined slightly between December 2007 and December 2008; the rate of nonperforming loans rose from 8.9 percent to 9.6 percent. The BCEAO maintained a required reserve ratio of 15 percent, the highest level in the WAEMU. On August 16, 2008, it also raised its key intervention rates (the repo rate and discount rate) by a half (1/2) percentage point, to 4.75 percent and 6.75 percent, respectively.

11. **In the area of microfinance policy in 2008,** the Ministry responsible for microfinance and youth employment released more than CFAF 10 billion in microcredits for the very poor (MCPP) and approximately CFAF 6 billion for the National Fund for the Promotion of Youth Employment and Enterprise (FNPEEJ). The latter program created 602 projects in 2008, generating more than 3,000 jobs.

III. IMPLEMENTATION OF STRUCTURAL REFORMS IN 2008

12. **Progress in the implementation of structural reforms was mixed (Table 2)**. The end-December structural benchmarks for the audit of the information management system of public expenditure and the action plan to improve the public financial management system were met. Progress is being made on the structural benchmark relating to the reform of the civil service pension fund (FNRB). The audit of the electronic public expenditure management systems (SIGFIP, ASTER, and WMONEY) commissioned by the government has been completed. The final report was made available in late December 2008. The medium-term strategy to strengthen public financial management was adopted by the government in March 2009. With respect to the strategy to improve the financial position of

the FNRB, a study by external consultants was launched on January 19, 2009 and the consultants submitted their final report in April 2009.

13. **The government has engaged with all participants in the cotton sector and the development partners to prepare an overall strategy for reform of the cotton sector**. The government has continued to reform the sector by transferring SONAPRA's industrial tools division to the new semipublic company SODECO, created in September 2008. The cotton sector has thus reached a new stage at which the objectives for its revitalization and effective contribution to Benin's development require the clarification and redistribution of roles, strengthening of the cotton interprofessional organization, and unequivocal accountability of each stakeholder. Thus the government once again demonstrated its commitment to honor its undertakings regarding the reform of the cotton sector by signing an agreement with the cotton interprofessional organization (AIC) on January 7, 2009.

14. **The government intends to protect the efficiency of the system for the supply of agricultural inputs**, also as part of the implementation of a policy to promote private sector activity. In this context, a shareholders' agreement was signed in December 2008 between the government, SOPIDI (company of importers and distributors of agricultural inputs), and local banks. The government's aim in creating this purchasing pool, in partnership with private operators, is to give Benin the means to provide itself with access to the appropriate quantity of high-quality agricultural inputs in time and at competitive prices, in support of the government's agricultural diversification and promotion policy.

15. **In addition, the Beninese government has withdrawn from Continental Bank-Benin**. In September 2008, the government selected Nigeria's United Bank for Africa (UBA) PLC as the successful bidder for the block of shares held by the Beninese government, SONACOP, and the West African Development Bank (WADB), i.e., 56.4 percent of the share capital of Continental Bank-Benin valued at CFAF 15 billion.

16. **In its reform of telecommunications, the government has opted to strategically open up the capital of Benin Telecoms SA to the private sector**. The consortium, whose assistance will be sought, will have the task of assisting the government in preparing, organizing and carrying out the operation to open up the share capital of Benin Telecoms SA to the private sector. The process has the support of the World Bank's Competitiveness and Integrated Growth Opportunity Project (CIGOP). An international call for bids was issued and the Linkstone Capital Consortium was selected.

17. **As part of the upgrade of the port facilities to improve the competitiveness of the Port of Cotonou (PAC)**, the government has planned the construction of two new terminals to accommodate large capacity container ships with financing from the U.S. Millennium Challenge Account (MCA). The International Finance Corporation (IFC) was asked to handle the licensing process. The related contract for services was signed on November 4, 2008.

18. **The work to install the Information System for the One-Stop Shop for Foreign Trade (SIGUCE) has made substantial progress** with the recruitment of an IT expert to carry out the preliminary study and concept study of the PAC and SIGUCE. Validation of the preliminary study led to the drafting of terms of reference for computerizing the PAC and SIGUCE. The government has also completed the assessment study of the customs system. The conclusions of the study reiterate the importance of quickly installing the one-stop stop at the Port of Cotonou.

IV. Economic and Financial Policies for 2009

A. Macroeconomic Framework

19. **The government's economic policy is aimed at keeping the national economy on a path of strong, sustainable growth focusing on the revitalization of the private sector**. This path will require consolidation of the macroeconomic framework and acceleration of the structural reforms in an international context of declining global demand and dwindling migrant remittances. In light of these external constraints, the outlook for the economy is not very promising; indeed the real GDP growth rate is projected to be 3-4 percent in 2009. This lower-than-anticipated level of economic activity reflects the impact of the international financial crisis on exports (including reexports) and tax revenue. Inflation, which was 8 percent in 2008, should come close to the 3-percent level required under the WAEMU convergence criteria in 2009. The drop in inflation reflects declining international food and energy prices, the increase in food production, and prudent management of domestic demand. The slowdown in cotton exports and transit trade, as well as the increase in imports and the decline in migrant remittances, is expected to raise the external current account deficit to a projected 10.3 percent of GDP in 2009, as compared with 9.2 percent in 2008.

20. **The market-based pricing policy remains at the heart of the government's fiscal consolidation policy.** The government's intention is to ease the impact of fluctuations in international prices for mass consumption products by continuing to implement programs that favor the expansion of domestic supply and production of consumer goods, particularly food products. Technical and financial support from the development partners would be essential for this.

21. **The uncertainty resulting from the persistence of the financial crisis will create serious risks for the economy in 2009**. In the short term, these risks are related to the decline in tax revenue, decreasing external financing (particularly migrants' remittances and FDI), and slowing domestic demand in Benin's trading partners, particularly Nigeria, which is feeling the full brunt of the international financial crisis.

B. Fiscal Policy in 2009

22. **In 2009, the government's policy is aimed at consolidating the achievements in macroeconomic stability by strengthening its capacity to regulate and control expenditure in the face of a persistent slowdown in the global economy**. Total public revenue and expenditure should reach 19.4 percent and 25.3 percent of GDP, respectively. The basic primary balance should register a deficit of CFAF 26.5 billion, or 0.8 percent of GDP. The overall fiscal balance (payment order basis, excluding grants) should deteriorate from the 2008 level to CFAF 189.8 billion, equivalent to 5.9 percent of GDP. This is explained by the downside risks for customs revenue posed by to declining demand in Nigeria, Benin's main trading partner. The government will continue to build basic infrastructure and improve living conditions for the very poor without jeopardizing its fiscal consolidation efforts. The deficit will be financed with the proceeds of the sale of the government's shares in Continental Bank and expected budgetary support from the European Union (EU), World Bank (WB), African Development Bank (AfDB), France, the Netherlands, Denmark, and other bilateral partners. Domestically financed expenditure on public investment should continue to rise, from 3.5 percent of GDP in 2008 to 4.7 percent in 2009.

23. **Fiscal revenue should recover to CFAF 621.5 billion and the tax burden should amount to 16.8 percent of GDP, compared with 17.1 percent in 2008**. This result reflects: (i) the government's decision to reduce some tax rates[4]; (ii) weaker economic growth as a result of the international crisis; and (iii) the declining profitability of businesses. The negative impact of the crisis will be mitigated by the improved performance of the tax agencies, particularly through continuing efforts to combat fraud, measures to expand the domestic tax base, and gradual implementation of the single tax identification number (TIN). On the taxation side, the government intends to increase revenues by: (i) strengthening the partnership between the private sector and the government; and (ii) creating new Small and Medium-sized Enterprise Tax Centers (CIPEs and CIMEs). On the customs side, the authorities have continued to: (i) simplify and expedite customs declaration and clearance procedures; and (ii) expand ASYCUDA++ to twelve additional workstations in the regional customs directorates.

24. **The collection of nontax revenue should increase significantly** owing to the inventory and centralization of revenue collected by various nonfinancial structures within the government, the payment of the mobile telephone license fees, and the tracking of revenues from the loading tax.

[4] The BIC and BNC rates were reduced by about 10 percentage points.

25. **Enhancement of the IT systems of the financial agencies will continue in an effort to improve their performance.** In this context, the government will have the DGID's IT system audited and prepare an IT master plan during the fourth quarter of 2009, including the creation of an IT directorate and a communications unit. Furthermore, to improve anti-fraud efforts, the interface between ASYCUDA++ and other software will be pursued; the computerized customs warehouse will begin to operate; and all the regional customs directorates will be computerized in 2009.

26. **Total expenditure and net lending should reach CFAF 811.3 billion in 2009, an increase of 2.4 percent of GDP.** This reflects the government's commitment to increasing growth and improving the living standards of the population. The wage bill should stand at CFAF 193.4 billion, or 6.0 percent of GDP, in line with human resource needs. The fiscal contribution to investment should reach 4.7 percent of GDP in 2009. Overall, capital expenditure should continue to rise to CFAF 299.9 billion, or about 9.4 percent of GDP. In addition, control of public expenditure should be improved by (i) streamlining compliance controls on expenditure commitments; (ii) continuing the reform of the public procurement system; and (iii) emphasizing a program approach to budget execution by the ministries.

C. Money and Credit

27. **The BCEAO's monetary policy will remain in line with the objective of price stability and maintenance of adequate official exchange reserves for the zone**. Broad money should expand by 7.1 percent in 2009 reflecting a significant improvement in the government's net credit position, which will be partially offset by a slight reduction in net foreign assets. Under these conditions credit to the private sector could rise by almost 9 percent.

28. **The BCEAO's key intervention instrument remains its interest rate policy (repo and discount rates)**, which will depend on the impact of the financial crisis on the economies of countries in the zone. The BCEAO will closely monitor inflationary trends and the official exchange reserves and will use the reserve ratio to enhance the effectiveness of its monetary policy if necessary.

29. **The various inspection missions to the banks by the Banking Commission underscore the need to take a number of corrective measures**. Improvements are expected in the areas of corporate governance, information systems, risk management, loan classification, and recording of unrealized loan losses. The authorities intend to enhance banking supervision to improve compliance with prudential ratios and will also endeavor to apply the regulatory framework to the microfinance sector.

30. **As part of the government's microfinance policy** in 2009, particular emphasis will be placed on consolidating the sector with support from the Millennium Challenge Account

(MCA) by: (i) enhancing supervision and (ii) increasing public awareness of the application of the laws governing the sector. To this end, 19 new officers hired by the Civil Service Ministry will be assigned to the unit that supervises decentralized financial structures to supplement the existing team of seven professionals. This will increase the frequency of on-site supervision of MFIs.

D. Balance of Payments and External Debt

31. **The external current account deficit, excluding grants, should increase to 10.3 percent of GDP in 2009, compared with 9.2 percent in 2008**, essentially reflecting the decline in the prices and volume of cotton exports (following the poor 2008/09 harvest), the slump in transit trade (associated with slower growth in Nigeria), and the reduction in migrant workers' remittances. At the same time, imports will continue to increase, propelled by the demand for intermediate and capital goods for public investment projects, despite the fall in food and fuel prices. A reduction in foreign financial flows could lead to a contraction in the financial account surplus and the overall surplus. The BCEAO's reserves should reach 7.2 months of coverage of imports for the following year.

32. **The government applies a prudent borrowing policy.** To protect public debt sustainability, the government has adopted the WAEMU borrowing reference framework, which allows it to limit borrowing levels each year based on the debt ceiling defined in the "national debt strategy."[5] The government gives assurances that new external financing will be only in the form of grants or highly concessional loans and that it does not jeopardize debt sustainability.

E. Structural Policies

33. **The improvement in public financial management will continue in 2009**. An organizational audit of the expenditure chain was started in June and will be completed by end-2009. As part of the strategy to improve the financial position of the civil service pension fund (FNRB), the government will adopt an FNRB reform strategy to ensure the fund's long-term financial sustainability. The recommendations and action plan from the audit of the SIGFIP, ASTER and WMONEY IT systems will form the basis for improving expenditure management. More specifically, the three systems will be integrated by end-April 2010. The partnership between the private sector and the tax administration will have to be further strengthened to enhance the business climate.

34. **As a solution to the energy crisis and to ensure the general competitiveness of the economy, a strategy to reform the energy sector will be implemented with a view to**

[5] A Public Debt Strategy Paper for 2009 is attached to the 2009 Budget Law.

consolidating the SBEE's financial position, increasing capacity, reducing production costs, and improving service quality. To that end, user rates will be increased in June 2009 by about CFAF 12/Kwh.[6] Moreover, the government will proceed to perform a financial audit of the SBEE in the fourth quarter of 2009, with the support of the technical and financial partners. This audit will seek to identify the causes of the financial difficulties that required large advances from the budget in 2008, as well as more appropriate measures to prevent these problems from arising in the future. The new vision for the energy sector will also include the establishment of an asset management company and a privately–owned distribution company. The strategic approaches to make this new vision a reality are being prepared with the commission established by the WAEMU to find long-term solutions to the energy crisis. A consulting firm will assist the government in implementing this reform.

35. **Significant progress has been made in privatizing the telecommunications sector.** Linkstone Capital, the investment banking firm recruited, should facilitate the process of opening up the capital of Benin Telecoms SA. The competitiveness of the port will be further strengthened with the implementation of the one-stop-shop and the construction of two new terminals. Based on the terms of reference for computerizing the Autonomous Port of Cotonou (APC) and for SIGUCE, and the customs system assessment study, the government will proceed to set up the one-stop-shop by end-December 2009. With respect to the Port, the government has also decided to use the services of the IFC, whose mission will be to: (i) lay out the structure of the licensing process for building the new wharves; and (ii) conduct a strategic review of the commercial activities of the APC to provide the government with recommendations for a suitable level of private sector involvement and the terms of a more appropriate regulatory framework. A notice of prequalification inviting tenders for construction licenses to build the terminals at the Port was issued in March 2009.

F. Poverty Reduction and Growth Strategy Paper (PRGSP 2007-2009)

36. **As the PRGSP will expire at the end of 2009, the government plans to prepare a new strategy by the end of the year**. The new strategy should build on the achievements of the previous strategies by emphasizing new development concerns and new directions expressed by the grass roots populations and adopted by the government through the various sectoral strategies. To this end, the government intends to strengthen the participatory process through the total and inclusive involvement of all stakeholders in all stages of the process. The new strategy should also address development issues and sectoral and local strategies, which have not been dealt with in depth until now. These issues include the youth and women's employment policy, the problem of social welfare, and the solidarity that could, if

[6] This represents an increase of between 12.6 and 14.0 percent for households, 13.6 percent for businesses, and 12.3 percent for public entities.

necessary, be targeted in a special program complementary to the strategy. Similarly, the organization of rural areas, agricultural diversification, and issues relating to climate change and trade, in the context of economic partnership agreements, could also be covered by programs.

G. Program Monitoring

37. **Program monitoring will be based on quarterly structural and quantitative benchmarks and performance criteria** (Tables 1 and 2). The authorities will report the data necessary for program monitoring to the IMF, in accordance with the Technical Memorandum of Understanding of the fifth review of the PRGF-supported program. During the program period, the authorities will not introduce restrictions on payments and transfers for current international transactions or tighten any such restrictions without first consulting the Fund; introduce or modify multiple currency practices; conclude bilateral payments agreements not compatible with Article VIII of the IMF's Articles of Agreement; or introduce or intensify restrictions on imports for balance of payments purposes.

Table 1. Benin: Quantitative Performance Criteria and Indicative Targets for the Period December 2008–December 2009
(In billions of CFA francs)

	End-December 2008 performance criteria			End March 2009 indicative targets			End-June 2009 indicative targets	End-September 2009 indicative targets	End-December 2009 indicative targets
	Prog.	Adj. Prog.	Est.	Prog.	Adj. Prog.	Prel.	Prog.	Prog.	Prog.
A. Quantitative Performance Criteria and Indicative Targets 1/ (Cumulative since end-December) 1/									
Net domestic financing of the government 2/ 3/	-12.3	-4.4	109.4	-3.0	…	…	-17.7	-9.0	-8.6
Basic primary balance (excluding grants)	14.7	14.7	21.2	42.8	…	…	27.2	-10.5	-24.6
Accumulation of domestic payments arrears 4/	0.0	0.0	0.0	0.0	…	…	0.0	0.0	0.0
Memorandum Item: Budgetary assistance	56.2	48.3	48.3	2.5	…	…	15.3	54.7	80.2
B. Continuous quantitative performance criteria									
Accumulation of external payments arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External debt contracted or guaranteed by government with maturities of 0-1 year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonconcesional external contracted or guaranteed with maturities of one year or more	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
C. Indicative Targets (Cumulative from beginning of calendar year) (Cumulative since end-December)									
Total revenue	530.1	530.1	581.3	162.4	…	…	306.7	416.1	621.5
Wage bill	171.1	171.1	182.4	40.6	…	…	83.8	134.9	193.4

1/ The targets and performance criteria are cumulative from the beginning of calendar year
2/ The ceiling on domestic financing will be adjusted pro tanto if the amount of disbursed budgetary assistance falls short of the program forecast
3/ If external budgetary assistance exceeds the amount projected in excess of more than CFAF 5 billion, the ceiling will be adjusted downward by the excess disbursement beyond CFAF 5 billion, unless it is used to absorb domestic arrears.
4/ This performance criterion is monitored on a continuous basis.

Table 2. Benin: Structural Benchmarks for 2008–09

Measures	Date	Rationale	Status
Completion of a new (global) reform strategy of the cotton sector	End-December 2008	The government intends to Improve the efficiency of the cotton sector by strengthening the use of targeted subsidies and encouraging diversification to other crops.	Completed with delay
Completion of a strategy to improve public finance management.	End-December 2008	The government intends to strengthen the quality of spending in order to improve its impact on growth and poverty reduction.	Completed with delay
Audit of public finance information management systems (SIGFIP, ASTER and WMONEY)	End-December 2008	The government intends to strengthen public finance management in order to improve the impact of spending on growth and poverty reduction.	Completed
Completion of a strategy to reform the civil service pension fund (FNRB)	End-December 2008	The government intends to reduce the impact of the deficit of the FRNB on public finances by by strengthening its financial sustainability.	Delayed
Extension of ASYCUDA ++ to twelve (12) additional posts (regional customs units/offices).	End-March 2009	The government intends to improve customs collections in order to expand the fiscal space for investment in infrastructure and poverty-reducing measures.	Delayed
Adoption of a strategic information system at the DGID[1], after an audit in order to operationalize the single taxpayer identification function	End-March 2009	The government intends to improve income tax collections in order to expand the fiscal space for investment in infrastructure and poverty-reducing measures.	Delayed

1/ Direction Générale des Impôts et des Domaines.

INTERNATONAL MONETARY FUND

INTERNATIONAL DEVELOPMENT ASSOCIATION

BENIN

Joint IMF/World Bank Debt Sustainability Analysis 2009[1]

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

Approved by Michael Atingi Ego and Anthony Boote (IMF) and
Carlos Aberto Braga and Sudhir Shetty (IDA)

June 11, 2009

This update of the joint Bank-Fund debt sustainability analysis (DSA) confirms that Benin's risk of debt distress remains moderate. Under baseline projections, all external debt indicators remain below their indicative thresholds over the long run. However, debt ratios move rapidly toward the thresholds or breach them under less favorable scenarios. In particular, debt vulnerabilities would increase if the negative impact of the global crisis (on growth, exports, and fiscal revenue) turned out to be stronger than projected, or in the absence of structural reforms aimed at enhancing competitiveness. The prompt implementation of these reforms is therefore critical. Benin should continue to finance its fiscal deficit primarily through external grants and highly concessional loans.

[1] Prepared by IMF and IDA staff in collaboration with the Beninese authorities and in consultation with the staff of the African Development Bank. The analysis updates the 2008 DSA (IMF Country Report for Benin 08/374, available at http://www.imf.org/external/country/BEN/index.htm). This DSA is conducted on a gross basis as no data on Benin's claims on nonresidents is available.

I. Introduction

1. This analysis updates the DSA performed In November 2008 (IMF Country Report No. 08/374; IDA/SecM 2008-0707), to take account of the negative impact of the global economic crisis on Benin. The crisis is expected to reduce growth in 2009 and 2010, weaken demand for exports and trade with Nigeria, and reduce inflows of remittances and foreign direct investments. The associated revenue shortfall and the use of automatic fiscal stabilizers to mitigate the impact of the crisis are expected to result in a financing gap of about CFAF 100 billion over two years, which is expected to be covered with highly concessional external financing.

II. Methodology

2. **This DSA uses the debt sustainability framework for low-income countries.**[2] Debt sustainability is assessed in relation to policy-dependent thresholds for debt stock and debt service burden indicators . The policy-dependent thresholds depend on the average of the rating of the Country Policy and Institutional Assessment (CPIA) index for 2005–07. According to this rating, Benin is classified as a medium performer in terms of the quality of policies and institutions.[3]

3. **Except for the estimated impact of the crisis in 2009–10, this DSA maintains the main macroeconomic and policy assumptions used in the previous DSA (Box 1)**. In particular, the baseline projections are anchored on the assumptions that: (i) key structural reforms aimed at enhancing competitiveness and growth (most notably through the restructuring of the energy and telecommunication sector) would be adopted over the medium term; (ii) the authorities would proceed with their plans to improve public infrastructure; and (iii) fiscal policy would aim at maintaining macroeconomic stability. Under these conditions, real GDP growth is expected to recover after the crisis period 2009–10 to a sustainable annual rate of 6 percent from 2012 onwards, consistent with the assumptions of the World Bank 2008 Country Economic Memorandum (CEM).

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[2] This DSA follows the IMF and World Bank Staff Guidance Note on the Application of the Joint Fund-Bank Debt Sustainability Framework for Low-Income Countries, October 9, 2008 (available at http://www.imf.org/external/np/exr/facts/jdsf.htm and http://go.worldbank.org/JBKAT4BH40).

[3] Benin's CPIA average index for the period 2005-07 was 3.6. A rating between 3.25 and 3.75 reflects medium performance; a rating above 3.75 corresponds to strong performance, and a rating below 3.25 corresponds to weak policy performance. Medium performance implies the following external debt sustainability thresholds: a net present value (NPV)-to-GDP ratio of 40 percent, and NPV of debt-to-exports ratio of 150 percent, an NPV of debt-to-revenue ratio of 250 percent; a debt service-to-exports ratio of 20 percent and a debt service-to-revenue ratio of 30 percent.

4. **The global economic crisis is projected to slow down growth and put pressure on fiscal accounts in 2009 and 2010**. Real GDP growth is projected to drop to 3.8 and 3.0 percent in 2009 and 2010, respectively, as global demand for Benin's exports declines, trade relations with Nigeria weaken, and inflows of workers' remittances and foreign direct investment fall; as a result, the external current account deficit is projected to widen to 10.3 percent of GDP in 2009 and to 9.7 percent of GDP in 2010. Lower food and commodity prices will reduce customs revenue, while the slowdown in economic activity will reduce direct and indirect taxation.

Box 1. Macroeconomic Assumptions

Medium term (2009–14): The projections are consistent with the macroeconomic framework of the sixth PRGF review and reflect: (i) the **impact of the crisis**, and (ii) **fiscal policies** aimed at maintaining macroeconomic stability, protecting vulnerable groups, and enhancing investment in public infrastructure. It also assumes the implementation of **structural reforms** aimed at increasing efficiency and competitiveness and improving the business climate. Consequently, after slowing down to 3–4 percent in 2009–10, real GDP growth is projected to go back to its long-term sustainable level of 6 percent, while fiscal prudence and the anchor of the fixed exchange rate peg gradually are expected to reduce inflation to 3 percent. After the initial fiscal expansion to mitigate the impact of the crisis, the primary deficit would be reduced to about 1 percent of GDP by 2014, reflecting improvements in public fiscal management and efforts to contain recurrent expenditures. The current account deficit is expected to narrow to 7 percent of GDP by 2014, as export receipts recover.

Long term (2015–29): long-term projections reflect the impact of the structural reforms implemented in previous periods and the continuation of policies aimed at maintaining macroeconomic stability. Under these assumptions:

- **Real GDP growth** would average 6 percent;
- **Inflation** would remain at or below 3 percent;
- The **primary fiscal deficit** would stabilize at about 1 percent of GDP, following improvements in revenue collection (to above 20 percent of GDP, excluding grants) and continued efforts to contain nonpriority recurrent expenditures;
- The **current account deficit** would remain at about 5 percent of GDP, reflecting growing imports associated with economic expansion and foreign direct investment (FDI), as well as continuing inflows of remittances;
- Improved infrastructure and a more favorable business climate would attract net **foreign direct investment** averaging about 1 percent of GDP annually.
- Reflecting donors' support for Benin's infrastructural development and reform efforts, about one half of total gross financing needs are assumed to be covered by **external grants**.

5. **The impact of the crisis is however expected to be temporary.** With the expected recovery in the global economy in the second half of 2010, and prompted by continued structural reforms to improve competitiveness, investments in infrastructure, and a more efficient public administration, real GDP growth could recover to its full potential of 6 percent by 2012. Inflation would remain below 3 percent, and the current account deficit (excluding grants) would narrow to 7.1 percent of GDP by 2014, reflecting increasing exports and remittances. Ongoing inflows of public and private capital would help keep reserves above 5 months of imports of goods and services. Long-term downside risks associated with weaker reform efforts or a slower global recovery are captured in an alternative "no reform" scenario.

6. **A key assumption is that, in support of the implementation of the above-mentioned reforms, concessional financing from external donors would continue to be available throughout the projection period.** In particular, sufficient concessional funds would be available to fill the financing gaps in 2009 and 2010, permitting the use of automatic fiscal stabilizers to contain the impact of the crisis without compromising debt sustainability. Moreover, the average grant element on new external financing is assumed to remain at about 35 percent in the long term.

III. Background

7. **Following debt relief under the HIPC and MDRI initiative, Benin's external debt remains at comfortable levels**. Benin reached the completion point under the Enhanced HIPC initiative in 2003, and benefited from further debt relief under the MDRI initiative in 2006. As a result, Benin's external debt stock declined from 47.7 percent of GDP at end-2002 to 14.6 percent of GDP at end-2008. In line with this reduction, external debt service was reduced from 2.2 percent of GDP to less than 0.6 percent over the same period.

8. **Government borrowing from the regional market increased significantly since 2006**. Outstanding regional government debt at end-2008 amounted to 4.3 percent of GDP. Net government borrowing in the regional market averaged 3.5 percent of GDP in 2007–08 and is expected to increase somewhat in the future, reflecting the authorities' interest in promoting the expansion of this market. Nevertheless, as borrowing conditions on this market are nonconcessional and the authorities are committed to a prudent borrowing strategy, it is assumed that—as has been the case in the past—borrowing from the regional market will continue to cover only a small fraction of overall financing needs, that will be primarily met with highly concessional external financing.

IV. Assessment of External Debt Sustainability

9. **Under baseline assumptions, all external debt and debt service ratios remain below the policy-dependent thresholds throughout the projection period (Figure 1).** The

NPV of external debt is projected to stabilize at 15 percent of GDP in the long run, and debt service payments would remain below 8 percent of exports; the NPV of debt-to-exports ratio would remain well below the threshold of 150 percent and decline after 2014.

10. **Alternative scenarios and stress test indicates that Benin's external debt situation would worsen substantially in the event of shocks.** If exports in 2010–11 were to grow at one standard deviation below the historical average, the NPV of debt-to-exports ratio would rise well above the sustainability threshold in the medium term, peaking at 200 percent in 2014, before declining in the long run. If new public sector borrowing were obtained on less favorable terms, the NPV of debt-to-exports ratio would constantly increase over time and cross the sustainability threshold, but only after 2026.

11. **The risk of debt distress would increase markedly in the absence of structural reforms, particularly in the long run**. Under a "no reform scenario" characterized by real GDP growth rates, export growth rates, and primary fiscal deficits close to historical averages,[4] the NPV of debt-to-exports ratio would cross the sustainability threshold in 2018 and continue to increase thereafter. This scenario could also materialize if the global economic crisis were to have a permanent impact on Benin.

V. Assessment of Public Debt Sustainability

12. **Public debt indicators are projected to worsen markedly over time but would stabilize in the long run (Figure 2)**. While no explicit thresholds are defined for these indicators, the NPV of government debt would double in proportion to GDP (from 12 percent in 2008 to 24 percent in 2029) and to revenue and grants (from 54 percent in 2008 to 104 percent by 2029), while public debt service would increase from 7 percent of revenue and grants in 2008 to about 16 percent in 2029.

13. **Stress tests highlight increased vulnerabilities under less favorable conditions**. If the primary fiscal balance were maintained at the level projected for 2009, the NPV of public debt would rise to 38 percent of GDP and 166 percent of revenue by 2029, raising concerns about the sustainability of public debt. Under a no-reform scenario (with key variables at their historical average), the NPV of public debt would rise to 28 percent of GDP and 121 percent of revenue and grants by 2029.

14. **Public debt indicators would worsen under an alternative financing scenario**. If the share of government financing needs covered by borrowing in the regional market were 20 percentage points larger than in the baseline (under unchanged fiscal deficit projections),[5]

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[4] This scenario is described in more detail in IMF Country Report No. 08/374; IDA/SecM2008-0707.

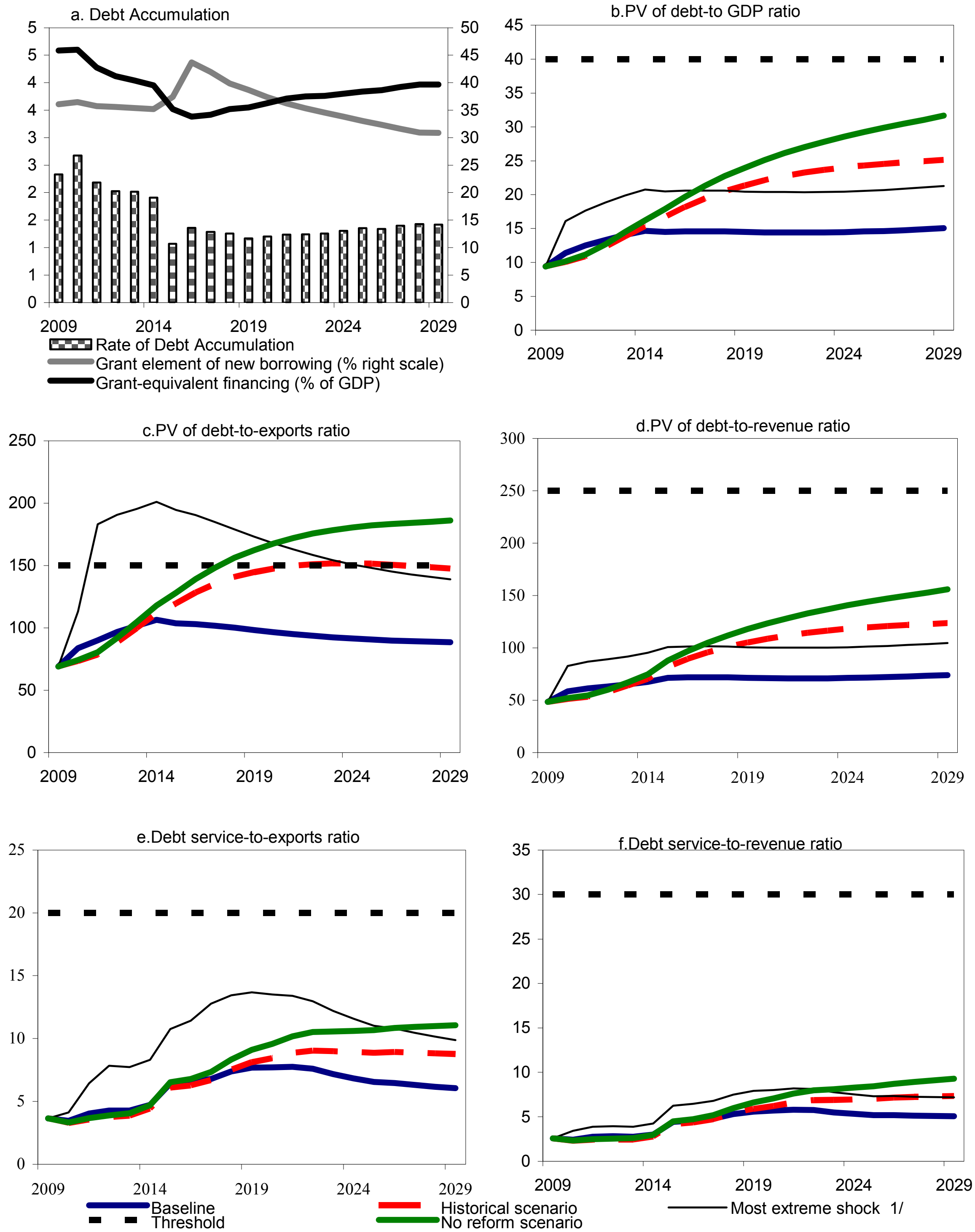
[5] This scenario is described in more detail in IMF Country Report No. 08/374; IDA/SecM2008-0707.

government debt would rise to 32 percent of GDP by 2029, the NPV of government debt would rise to 113 percent of revenue and grants; most notably, public debt service would rise to 22 percent of GDP. These results reconfirm the ones in the previous DSA about the need for a prudent borrowing policy to limit the net issuance of nonconcessional domestic debt in the regional market to less than 0.5 percent of GDP annually.

VI. Conclusions

15. **Altogether, this DSA confirms that Benin faces a moderate risk of debt distress and underlines the importance of proceeding with the structural reform agenda.** In particular, the impact of the global economic crisis is not expected to significantly worsen the outlook for debt sustainability, provided the authorities stick to highly concessional financing to close the financing gaps. The prompt implementation of structural reforms will be critical to enhance growth, expand exports, attract foreign direct investments and contain the fiscal deficit, thus improving long-term debt dynamics. The authorities should also continue to cover their financing needs primarily with highly concessional external assistance. In the absence of such assistance, the government should consider reducing nonpriority public spending.

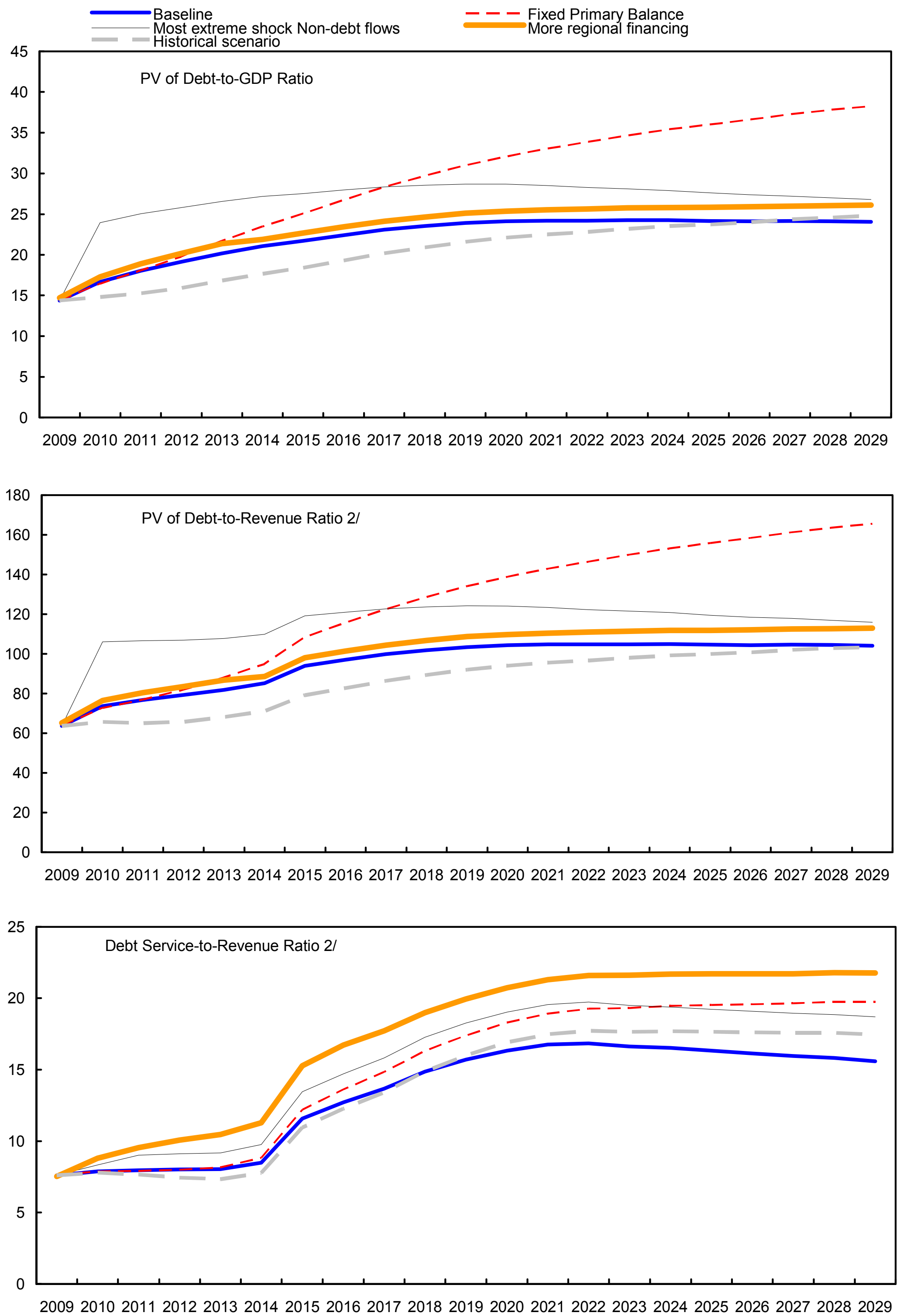
Figure 1. Benin: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2009-2029 1/



Source: Staff projections and simulations.

1/ The most extreme stress test is the test that yields the highest ratio in 2019. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in picture f. to a One-time depreciation shock

Figure 2. Benin: Indicators of Public Debt Under Alternative Scenarios, 2009-2029 1/



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

1/ The most extreme stress test is the test that yields the highest ratio in 2019.

2/ Revenues are defined inclusive of grants.

Table 1a.: External Debt Sustainability Framework, Baseline Scenario, 2006-2029 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average	Standard Deviation	Projections									
	2006	2007	2008			2009	2010	2011	2012	2013	2014	2009-2014 Average	2019	2029	2015-2029 Average
External debt (nominal) 1/	**12.2**	**13.2**	**14.6**			**17.8**	**20.4**	**21.5**	**22.3**	**22.9**	**23.4**		**21.8**	**23.4**	
o/w public and publicly guaranteed (PPG)	11.5	12.6	14.1			17.4	20.2	21.4	22.2	22.9	23.4		21.8	23.4	
Change in external debt	-26.6	1.0	1.4			3.2	2.6	1.1	0.7	0.6	0.5		-0.2	0.3	
Identified net debt-creating flows	1.8	3.4	3.3			7.6	7.2	5.5	4.4	3.9	3.7		3.1	3.7	
Non-interest current account deficit	**5.3**	**9.7**	**8.0**	**7.0**	**1.4**	**9.4**	**8.9**	**7.9**	**7.2**	**6.7**	**6.4**		**5.1**	**5.1**	5.1
Deficit in balance of goods and services	11.3	15.3	13.6			14.0	13.1	12.4	11.9	11.4	11.0		11.9	14.0	
Exports 2/	11.4	16.2	16.2			13.6	13.6	13.9	13.8	13.8	13.8		14.7	17.0	
Imports	22.7	31.6	29.8			27.6	26.8	26.2	25.6	25.2	24.8		26.6	31.0	
Net current transfers (negative = inflow)	-6.3	-5.6	-5.6	-5.8	0.5	-4.7	-4.5	-4.7	-4.9	-5.0	-5.0		-6.2	-6.2	-6.2
o/w official	-3.1	-2.8	-3.1			-2.7	-2.6	-2.7	-2.7	-2.8	-2.8		-3.1	-3.7	
Other current account flows (negative = net inflow)	0.2	-0.1	0.0			0.1	0.2	0.2	0.2	0.2	0.3		-0.6	-2.7	
Net FDI (negative = inflow)	**-1.2**	**-4.7**	**-2.6**	**-0.8**	**1.6**	**-1.6**	**-1.4**	**-1.6**	**-1.9**	**-1.9**	**-1.7**		**-1.2**	**-0.6**	-1.0
Endogenous debt dynamics 3/	**-2.4**	**-1.6**	**-2.1**			**-0.3**	**-0.3**	**-0.8**	**-0.9**	**-0.9**	**-1.0**		**-0.8**	**-0.9**	-0.9
Contribution from nominal interest rate	0.4	0.2	0.2			0.3	0.2	0.3	0.3	0.3	0.3		0.4	0.4	
Contribution from real GDP growth	-1.4	-0.5	-0.5			-0.6	-0.5	-1.1	-1.2	-1.2	-1.3		-1.2	-1.3	
Contribution from price and exchange rate changes	-1.5	-1.3	-1.7			…	…	…	…	…	…		…	…	
Residual (3-4) 4/	**-28.4**	**-2.4**	**-2.0**			**-4.4**	**-4.6**	**-4.4**	**-3.7**	**-3.2**	**-3.2**		**-3.3**	**-3.3**	-3.3
o/w exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 5/	...	...	7.1			9.8	11.7	12.7	13.4	14.1	14.7		14.5	15.0	
In percent of exports 2/	...	...	43.7			72.0	85.6	91.5	97.3	101.8	106.7		98.4	88.5	
PV of PPG external debt	**...**	**...**	**6.6**			**9.4**	**11.4**	**12.5**	**13.3**	**14.1**	**14.7**		**14.5**	**15.0**	
In percent of exports 2/	**...**	**...**	**41.0**			**69.3**	**83.7**	**90.3**	**96.8**	**101.8**	**106.7**		**98.4**	**88.5**	
In percent of government revenues	**...**	**...**	**34.2**			**48.5**	**58.6**	**61.4**	**63.3**	**65.1**	**67.6**		**71.4**	**74.1**	
Debt service-to-exports ratio (in percent) 2/	**198.7**	**1.4**	**3.4**			**4.6**	**4.3**	**4.7**	**4.9**	**4.8**	**4.8**		**7.7**	**6.1**	
PPG debt service-to-exports ratio (in percent) 2/	**198.7**	**1.2**	**2.7**			**3.7**	**3.5**	**4.0**	**4.3**	**4.3**	**4.7**		**7.7**	**6.1**	
PPG debt service-to-revenue ratio (in percent)	**133.9**	**0.9**	**2.3**			**2.6**	**2.4**	**2.7**	**2.8**	**2.7**	**3.0**		**5.6**	**5.1**	
Total gross financing need (Billions of U.S. dollars)	1.3	0.3	0.4			0.5	0.5	0.5	0.5	0.5	0.5		0.7	1.9	
Non-interest current account deficit that stabilizes debt ratio	31.9	8.7	6.7			6.2	6.3	6.8	6.5	6.0	5.8		5.4	4.8	
Key macroeconomic assumptions															
Real GDP growth (in percent)	3.8	4.6	5.0	4.4	1.0	3.8	3.0	5.7	6.0	6.0	6.0	5.1	6.0	6.0	6.0
GDP deflator in US dollar terms (change in percent)	3.9	12.0	15.1	6.2	9.3	-8.2	2.7	2.9	2.9	2.9	2.6	1.0	2.5	2.4	2.5
Effective interest rate (percent) 6/	1.2	2.2	1.7	1.4	0.4	1.8	1.2	1.4	1.4	1.4	1.5	1.4	1.8	1.7	1.7
Growth of exports of G&S (US dollar terms, in percent) 2/	-5.3	67.5	20.7	12.3	23.2	-20.1	6.3	10.5	8.4	9.6	8.3	3.8	10.2	10.2	10.2
Growth of imports of G&S (US dollar terms, in percent)	9.5	62.9	14.3	13.4	20.2	-11.7	2.5	6.5	6.6	7.3	7.0	3.0	10.3	10.3	10.3
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	36.1	36.5	35.8	35.6	35.4	35.2	35.7	38.7	30.8	35.8
Government revenues (excluding grants, in percent of GDP)	16.8	20.6	19.4			19.4	19.5	20.4	21.1	21.6	21.7		20.3	20.3	20.3
Aid flows (in Billions of US dollars) 7/	0.2	0.3	0.3			0.4	0.4	0.4	0.5	0.5	0.5		0.4	0.9	
o/w Grants	0.1	0.2	0.1			0.2	0.2	0.2	0.2	0.3	0.3		0.4	0.9	
o/w Concessional loans	0.1	0.2	0.2			0.2	0.2	0.2	0.2	0.2	0.2		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			4.6	4.6	4.3	4.1	4.0	4.0		3.5	4.0	3.7
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			64.6	64.3	67.7	68.7	68.8	69.2		75.0	60.3	69.5
Memorandum items:															
Nominal GDP (Billions of US dollars)	4.7	5.6	6.7			6.4	6.8	7.4	8.0	8.8	9.5		14.5	33.1	
Nominal dollar GDP growth	7.8	17.2	20.8			-4.6	5.8	8.8	9.1	9.1	8.8	**6.1**	8.7	8.6	8.7
PV of PPG external debt (in Billions of US dollars)			0.4			0.6	0.8	0.9	1.1	1.2	1.4		2.1	5.0	
(PVt-PVt-1)/GDPt-1 (in percent)						2.3	2.7	2.2	2.0	2.0	1.9	2.2	1.2	1.4	1.3

Source: Staff simulations.

1/ Includes both public and private sector external debt.
3/ Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.
4/ Residuals include changes in gross foreign assets, disbursements of capital grants, valuation adjustments, and, for projections, contribution from price and exchange rate changes. Projected values reflect the assumptions of the DSA performed in November (IMF Country Report No. 08/374; IDA/SecM2008-0707).
5/ Assumes that PV of private sector debt is equivalent to its face value.
6/ Current-year interest payments divided by previous period debt stock.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 1b.Benin: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009-2029
(In percent)

	Projections							
	2009	2010	2011	2012	2013	2014	**2019**	2029
PV of debt-to GDP ratio								
Baseline	9	11	13	13	14	15	**14**	15
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	9	10	11	12	14	15	**21**	25
A2. New public sector loans on less favorable terms in 2009-2029 2	9	12	14	16	17	18	**19**	28
A3. No-reform scenario	9	10	11	13	14	16	**24**	32
A4. Larger financing on the regional market	9	10	11	11	12	12	**11**	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	9	11	13	14	14	15	**15**	15
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	9	13	17	18	18	19	**17**	16
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	9	12	14	15	16	17	**16**	17
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	9	12	15	15	16	17	**16**	15
B5. Combination of B1-B4 using one-half standard deviation shocks	9	12	16	16	17	18	**17**	16
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	9	16	18	19	20	21	**20**	21
PV of debt-to-exports ratio								
Baseline	69	84	90	97	102	107	**98**	89
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	69	73	78	88	99	111	**144**	147
A2. New public sector loans on less favorable terms in 2009-2029 2	69	91	104	115	125	134	**130**	164
A3. No-reform scenario	69	74	80	92	104	117	**162**	185
A4. Larger financing on the regional market	65	75	79	83	85	87	**77**	64
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	69	84	90	97	102	107	**98**	89
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	69	114	183	191	196	202	**173**	139
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	69	84	90	97	102	107	**98**	89
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	69	91	106	112	116	120	**107**	91
B5. Combination of B1-B4 using one-half standard deviation shocks	69	94	126	133	138	143	**126**	106
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	69	84	90	97	102	107	**98**	89
PV of debt-to-revenue ratio								
Baseline	49	59	61	63	65	68	**71**	74
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	49	51	53	58	64	70	**105**	123
A2. New public sector loans on less favorable terms in 2009-2029 2	49	64	71	75	80	85	**94**	138
A3. No-reform scenario	49	52	55	60	67	74	**118**	155
A4. Larger financing on the regional market	45	52	54	54	55	55	**56**	54
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	49	58	63	64	66	69	**73**	75
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	49	67	84	84	85	86	**85**	79
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	49	62	69	71	73	76	**80**	84
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	49	63	72	73	74	76	**78**	76
B5. Combination of B1-B4 using one-half standard deviation shocks	49	62	77	78	79	81	**82**	79
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	49	83	87	89	92	95	**101**	105

Table 1b.Benin: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009-2029 (continued)
(In percent)

Debt service-to-exports ratio

Baseline	4	3	4	4	4	5	**8**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	4	3	4	4	4	4	**8**	9
A2. New public sector loans on less favorable terms in 2009-2029 2	4	3	4	4	4	5	**8**	10
A3. No-reform scenario	4	3	4	4	4	5	**9**	11
A4. Larger financing on the regional market	4	3	4	4	4	4	**6**	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	4	3	4	4	4	5	**8**	6
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	4	4	6	8	8	8	**14**	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	4	3	4	4	4	5	**8**	6
B4. Net non-debt creating flow s at historical average minus one standard deviation in 2010-2011 4/	4	3	4	5	5	5	**8**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	4	4	5	6	6	6	**10**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	4	3	4	4	4	5	**8**	6

Debt service-to-revenue ratio

Baseline	3	2	3	3	3	3	**6**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	3	2	2	2	2	3	**6**	7
A2. New public sector loans on less favorable terms in 2009-2029 2	3	2	3	3	3	3	**6**	8
A3. No-reform scenario	3	2	2	3	3	3	**7**	9
A4. Larger financing on the regional market	2	2	3	2	2	3	**5**	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	3	2	3	3	3	3	**6**	5
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	3	2	3	3	3	4	**7**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	3	3	3	3	3	3	**6**	6
B4. Net non-debt creating flow s at historical average minus one standard deviation in 2010-2011 4/	3	2	3	3	3	3	**6**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	3	2	3	3	3	3	**6**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	3	3	4	4	4	4	**8**	7
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	29	29	29	29	29	29	**29**	29

Source: Staff projections and simulations.

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

Table 2a.Benin: Public Sector Debt Sustainability Framework, Baseline Scenario, 2006-2029
(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Estimate				Projections					
	2006	2007	2008			2009	2010	2011	2012	2013	2014	2009-14 Average	2019	2029	2015-29 Average
Public sector debt 1/	12.4	15.5	18.4			22.4	25.4	26.9	28.0	29.0	29.8		31.2	32.4	
o/w foreign-currency denominated	11.5	12.6	14.1			17.4	20.2	21.4	22.2	22.9	23.4		21.8	23.4	
Change in public sector debt	-27.9	3.1	3.0			3.9	3.0	1.5	1.1	1.0	0.8		0.2	0.1	
Identified debt-creating flows	-5.9	-3.4	0.8			2.1	1.7	0.3	-0.4	-0.8	-0.9		-1.0	-1.1	
Primary deficit	0.0	-1.8	1.4	0.4	1.5	2.4	2.7	2.0	1.5	1.1	1.1	1.8	0.7	0.7	0.8
Revenue and grants	19.1	23.6	21.2			22.6	22.6	23.5	24.1	24.6	24.7		23.1	23.1	23.1
of which: grants	2.2	3.0	1.7			3.2	3.1	3.1	3.1	3.0	3.0		2.8	2.8	2.8
Primary (noninterest) expenditure	19.1	21.8	22.5			24.9	25.3	25.5	25.7	25.8	25.9		23.8	23.8	23.9
Automatic debt dynamics	-6.0	-1.7	-0.6			-0.3	-1.0	-1.7	-1.9	-2.0	-2.0		-1.7	-1.8	
Contribution from interest rate/growth differential	-2.2	-0.7	-0.8			-0.6	-0.5	-1.3	-1.6	-1.8	-1.9		-1.6	-1.7	
of which: contribution from average real interest rate	-0.8	-0.1	-0.1			0.1	0.1	0.1	-0.1	-0.2	-0.2		0.2	0.1	
of which: contribution from real GDP growth	-1.5	-0.6	-0.7			-0.7	-0.7	-1.4	-1.5	-1.6	-1.6		-1.8	-1.8	
Contribution from real exchange rate depreciation	-3.7	-1.0	0.2			0.3	-0.4	-0.5	-0.3	-0.2	-0.1		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes 2/	-22.0	6.5	2.2			1.8	1.3	1.2	1.4	1.8	1.7		1.2	1.2	1.2
Other Sustainability Indicators															
PV of public sector debt	0.9	2.9	11.5			14.4	16.7	18.0	19.1	20.2	21.1		23.9	24.0	
o/w foreign-currency denominated	0.0	0.0	7.2			9.4	11.4	12.5	13.3	14.1	14.7		14.5	15.1	
o/w external	...	...	7.2			9.4	11.4	12.5	13.3	14.1	14.7		14.5	15.1	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 3/	22.6	-1.6	2.8			4.1	4.5	3.9	3.5	3.1	3.2		4.4	4.3	
PV of public sector debt-to-revenue and grants ratio (in percent)	4.9	12.4	54.2			63.7	73.7	76.7	79.2	81.9	85.2		103.4	104.1	
PV of public sector debt-to-revenue ratio (in percent)	5.5	14.2	59.0			74.1	85.5	88.5	90.8	93.4	96.9		117.7	118.4	
o/w external 4/	…	…	36.9			48.6	58.6	61.4	63.2	65.1	67.6		71.4	74.1	
Debt service-to-revenue and grants ratio (in percent) 5/	118.2	0.8	6.8			7.6	7.9	8.0	8.0	8.0	8.5		15.7	15.6	
Debt service-to-revenue ratio (in percent) 5/	134.0	0.9	7.4			8.8	9.1	9.2	9.2	9.2	9.7		17.9	17.7	
Primary deficit that stabilizes the debt-to-GDP ratio	28.0	-4.8	-1.6			-1.6	-0.4	0.5	0.4	0.1	0.3		0.5	0.6	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	3.8	4.6	5.0	4.4	1.0	3.8	3.0	5.7	6.0	6.0	6.0	5.1	6.0	6.0	6.0
Average nominal interest rate on forex debt (in percent)	1.2	1.9	1.5	1.3	0.3	1.6	1.1	1.3	1.4	1.4	1.4	1.4	1.8	1.7	1.7
Average real interest rate on domestic debt (in percent)	-2.5	-2.5	-1.4	1.4	3.4	1.1	0.0	-0.6	-1.1	-1.6	-1.8	-0.7	2.3	2.1	2.2
Real exchange rate depreciation (in percent, + indicates depreciation)	-10.1	-9.3	2.0	-5.2	9.1	1.9	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	3.1	2.6	7.2	3.0	2.1	3.2	3.0	2.8	2.7	2.7	2.7	2.8	3.0	3.0	3.0
Growth of real primary spending (deflated by GDP deflator, in percent)	0.0	0.2	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	…	…	36.1	36.5	35.8	35.6	35.4	35.2	35.7	38.7	30.8	...

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

1/ Gross debt of the central government.

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

3/ Residuals include the net accumulation of government deposits at banks. Projected values reflect the assumptions of the DSA performed in November (IMF Country Report No. 08/374; IDA/SecM2008-0707), incorporating an accumulation of deposits associated with the growth in nominal current expenditure.

4/ Revenues excluding grants.

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

Table 2b.Benin: Sensitivity Analysis for Key Indicators of Public Debt 2009-2029

		Projections						
	2009	2010	2011	2012	2013	2014	2019	2029
PV of Debt-to-GDP Ratio								
Baseline	14	17	18	19	20	21	24	24
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	14	15	15	16	17	18	22	25
A2. Primary balance is unchanged from 2009	14	16	18	20	22	23	31	38
A3. Permanently lower GDP growth 1/	14	17	18	19	21	22	26	30
A4. Alternative Scenario : more financing on the regional market	15	17	19	20	21	22	25	26
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	14	17	19	20	21	22	26	28
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	14	16	17	19	20	21	24	24
B3. Combination of B1-B2 using one half standard deviation shocks	14	15	17	18	19	20	24	25
B4. One-time 30 percent real depreciation in 2010	14	20	21	21	22	23	25	23
B5. 10 percent of GDP increase in other debt-creating flows in 2010	14	24	25	26	27	27	29	27
PV of Debt-to-Revenue Ratio 2/								
Baseline	64	74	77	79	82	85	103	104
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	64	66	65	66	68	71	92	103
A2. Primary balance is unchanged from 2009	64	73	77	82	88	95	134	166
A3. Permanently lower GDP growth 1/	64	74	77	80	84	88	112	130
A4. Alternative Scenario : more financing on the regional market	65	76	80	84	87	89	109	113
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	64	73	79	83	86	91	114	121
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	64	71	74	77	80	83	102	103
B3. Combination of B1-B2 using one half standard deviation shocks	64	68	70	74	77	82	103	109
B4. One-time 30 percent real depreciation in 2010	64	89	89	89	90	91	107	101
B5. 10 percent of GDP increase in other debt-creating flows in 2010	64	106	107	107	108	110	124	116
Debt Service-to-Revenue Ratio 2/								
Baseline	8	8	8	8	8	8	16	16
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	8	8	8	7	7	8	16	17
A2. Primary balance is unchanged from 2009	8	8	8	8	8	9	17	20
A3. Permanently lower GDP growth 1/	8	8	8	8	8	9	16	18
A4. Alternative Scenario : more financing on the regional market	8	9	10	10	10	11	20	22
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	8	8	8	8	8	9	16	17
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	8	8	8	8	8	8	16	15
B3. Combination of B1-B2 using one half standard deviation shocks	8	8	8	8	8	8	16	16
B4. One-time 30 percent real depreciation in 2010	8	8	9	9	9	10	18	19
B5. 10 percent of GDP increase in other debt-creating flows in 2010	8	8	9	10	10	10	17	17

Sources: Country authorities; and Fund staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

BENIN

Sixth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Nonobservance of Performance Criterion and Augmentation of Access

Informational Annex

Prepared by the African Department

June 11, 2009

Contents | Page

I. Relations with the Fund

(As of April 30, 2009)

I. Membership Status: Joined: July 10, 1963; Article VIII

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	61.90	100.00
Fund holdings of currency	59.72	96.48
Reserve Position	2.19	3.53
Holdings Exchange Rate		

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	9.41	100.00
Holdings	0.02	0.23

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
PRGF Arrangements	14.57	23.54

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Aug 05, 2005	Aug 04, 2009	15.48	14.57
PRGF	Jul 17, 2000	Mar 31, 2004	27.00	27.00
PRGF	Aug 28, 1996	Jul 16, 2000	27.18	16.31

VI. Projected Payments to Fund [1/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2009	2010	2011	2012	2013
Principal			0.18	0.44	0.62
Charges/Interest	0.10	0.11	0.11	0.11	0.11
Total	0.10	0.11	0.29	0.55	0.72

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

VII. Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	Jul 2000
Assistance committed by all creditors (US$ Million) [1/]	265.00
Of which: IMF assistance (US$ million)	24.30
(SDR equivalent in millions)	18.40
Completion point date	Mar 2003
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	18.40
Interim assistance	11.04
Completion point balance	7.36
Additional disbursement of interest income [2/]	1.66
Total disbursements	20.06

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

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

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

I. MDRI-eligible debt (SDR Million)[1/]	36.06
Financed by: MDRI Trust	34.11
Remaining HIPC resources	1.95

II. Debt Relief by Facility (SDR Million)

	Eligible Debt		
Delivery Date	**GRA**	**PRGF**	**Total**
January 2006	N/A	36.06	36.06

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

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

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

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

IX. Safeguards Assessments:

The Central Bank of West African States (BCEAO) is the common central bank of the countries of the West African Economic and Monetary Union, which includes Benin. The most recent safeguards assessment of the BCEAO was completed on November 4, 2005. The assessment indicated progress has been made in strengthening the bank's safeguards framework since the 2002 assessment and identified some areas where further steps would help solidify it.

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

The results of continuous safeguards monitoring indicate that while certain vulnerabilities remain in internal control systems and legal structure, there has been some progress in other areas, including through: (i) improving the external audit process by adopting a multi-year audit program; (ii) establishing an audit committee; (iii) expanding disclosures on financial positions of WAEMU countries with the Fund in the notes to the annual financial statements; and (iv) further strengthening of the effectiveness of the internal audit function.

X. Exchange Arrangement:

Benin is a member of the West African Economic and Monetary Union (WAEMU) and has no separate legal tender. The union's common currency, the CFA franc, is pegged to the Euro at a rate of CFAF 655.957 = EUR 1, consistent with the official conversions rate of the French franc to the Euro and the previous fixed rate of the CFA franc to the French franc of

CFAF 100= F 1. On April 28, 2006, the rate of the CFA franc in terms of SDR was CFAF 769.68 = SDR 1.0. Effective January 1, 2007, the exchange arrangement of the WAEMU countries has been reclassified to the category of conventional pegged arrangement from the category of exchange arrangement with no separate legal tender. The new classification is based on the behavior of the common currency, whereas the previous classification was based on the lack of a separate legal tender. The new classification thus only reflects a definitional change, and is not based on a judgment that there has been a substantive change in the exchange regime or other policies of the currency union or its members. The exchange system common to all member countries of the WAMU is free of restrictions on payments and transfers for current international transactions subject to Fund jurisdiction.

XI. Article IV Consultations:

The last Article IV consultation discussions were held in Cotonou during March 3–17, 2008. The staff report (Country Report No. 08/230; 5/30/08) and selected issues paper were discussed by the Executive Board, and the 2008 Article IV consultation concluded, on June 16, 2008.

XII. ROSC Assessment:

An FAD mission conducted the fiscal module of a Report on Observance of Standards and Codes (ROSC) in May 2001. The mission recommended the adoption of a three-year action plan containing measures to improve expenditure management. The mission also identified a list of actions to be taken quickly to ensure that the authorities were able to monitor budget execution. The ROSC fiscal transparency module for Benin was circulated to the Board on June 6, 2002 (Country Report No. 02/217).

XIII. Technical Assistance for the last five years

A. Headquarters

Department	Type of Assistance	Time of Delivery	Purpose
FAD	Technical assistance	August 23–September 3, 2003	Evaluating public expenditure management reforms and monitoring capacity of poverty- reducing expenditures.
FAD	Technical assistance	October 22–November 5, 2003	Evaluating the implementation of the action plan to strengthen domestic revenue and customs administrations
STA	Technical assistance	November 11–24, 2004	Assessing the quality of balance of payment statistics.
LEG	Technical assistance	April 24–26, 2006	Providing in-depth training on the AML/CFT framework
FAD	Technical assistance	October 10–23, 2006	Review of status of implementation of reforms to modernize the tax and customs administrations
FAD	Technical assistance	October 30–November 13, 2006	PFM diagnostic and preparation of a reform action plan
FAD	Technical assistance	June 16–30, 2008	Diagnostic of the Tax System and preparation of a tax policy reform.

B. AFRITAC West

FAD	Technical assistance	2006, 2007	Customs Administration
FAD	Technical assistance	2006, 2007	Public Expenditure Management
FAD	Technical assistance	2006, 2007, 2008	Tax Administration
MCM	Technical assistance	2006, 2007	Bank Supervision and Regulation
MCM	Technical assistance	2007, 2008	Public Debt and Debt Sustainability
STA	Technical assistance	2006	Government Finance Statistics
STA	Technical assistance	2007, 2008	Multisector Statistics
STA	Technical assistance	2006, 2009	National Accounts Statistics
STA	Technical assistance	2006, 2008	Real Sector Statistics

XIV. Resident Representative:

Mr. Yao has been the Resident Representative since September 26, 2005.

II. Joint World Bank-IMF Work Program, 2009–10

Title	Products	Provisional timing of mission	Expected delivery date
A. Mutual information on relevant work programs			
Bank work program in next 12 months	1. Public Expenditure Review	July 2009	June 2010
	2. Poverty Assessment	July 2009	June 2010
	3. PRSC VI	June 2009	December 2009
	4. Energy Services		June 2009
IMF work program in next 12 months	1. Sixth PRGF review	March/April 2009	June 2009
	2. Discussion on a possible successor arrangement to the PRGF	September 2009	December 2009
	3. First Review of the new PRGF	March 2010	June 2010
B. Requests for work program inputs			
Fund request to Bank	Public Expenditure Review		December 2010
Bank request to Fund	Review of the tax regime and conditions for a business friendly tax system		October 2009
C. Agreement on joint products and missions			
Joint products in next 12 months	DSA		June 2009
	FSAP		December 2009

III. Statistical Issues

1. Data provision has some shortcomings, but is broadly adequate for surveillance. Weaknesses exist in the areas of national accounts, public finance, monetary statistics, and balance of payments. Benin has participated in the General Data Dissemination System (GDDS) since 2001.

Real sector statistics

2. Inadequate resources and weaknesses in methodology hamper the accuracy and reliability of the national accounts. Efforts to address these shortcomings are ongoing. Benin participates in WAEMU's harmonization of statistical methodologies and in the GDDS project for AFRITAC West countries to implement the *1993 SNA*. A statistical register and an industrial production index are being developed, but implementation is not advancing as expected and the August 2008 West AFRITAC mission discussed with the authorities the necessary steps to accelerate the compilation of the revised accounts and disseminate them by end-2008.

3. Consumer price data, measured using the WAEMU harmonized consumer price index, are adequate for surveillance.

Government finance statistics

4. The quality of fiscal data is broadly adequate for surveillance, but their institutional coverage is inadequate. Data provided for publication in the 2006, 2007, and 2008 (forthcoming) issues of the *Government Finance Statistics Yearbook* are limited to the "Budgetary Central Government," covering only the principal ministries and some of the other units of central government. Data on general government is not available.

Monetary and financial statistics

5. Monetary and financial statistics, compiled and disseminated by the regional Central Bank of West African States (BCEAO), are broadly adequate and their institutional coverage is comprehensive. Accuracy is somewhat hampered by the use of 1990 sorting coefficients to estimate cross border amounts of banknotes among BCEAO countries, which in turn, are used to estimate currency in circulation and to adjust the net foreign assets of each member country. Standardized Report Forms (in line to *Monetary and Financial Statistical Manual (MFSM)*) are still not regularly used to report monetary data to STA.

Balance of payments

6. External statistics are still affected by shortcomings that prevent an accurate and timely assessment of current account transactions and capital and financial flows. Recent

improvements in applying the guidelines of the *Balance of Payments Manual, Fifth Edition* have not solved the problem. In November 2004, a STA technical assistance mission noted that the human resources devoted to balance of payments statistics by the national agency of the BCEAO were inadequate, and highlighted a series of methodological problems including the use of untested hypotheses and reference bases, the limited coverage of direct investment, and shortcomings in the compilation of net external assets and international investment position. Balance of payments statistics are also disseminated with a lag of more than one year and the international investment position data with a lag of 18-month. Some progress has recently been achieved in the reconciliation of regional trade data with those of regional partners, and the compilation of trade statistics has been enhanced by the installation of the ASYCUDA customs computer system in all main border customs houses and of ASYCUDA ++ in the port, airport, and some regional offices. Further improvements will require the interconnection between the computer systems of the main customs departments and their integration with the other revenue agencies. Progress is also needed in improving contacts with reporting bodies, enhancing human and technical resources. Financial account data can be improved by extending the coverage of foreign assets of the private non banking sector, expanding the surveys of residents' foreign assets, and using other data source such as BIS statistics. The organization of an annual survey of foreign direct investment transactions is still at a very preliminary stage. The BCEAO has recently updated the compilation of commercial bank data on payments involving nonresidents; however these data are not used to produce annual balance of payments estimates.

7. External debt data are broadly adequate for surveillance. Data are collected by the Caisse Autonome d'Amortissements (CAA), which is responsible for signing international loan agreements and servicing the government's external debt obligations. The CAA's database is fairly comprehensive and up-to-date, and contains accurate stock data, and produces projected debt-service flows on a loan-by-loan basis, but regular statements are not received from all creditors.

Poverty data

8. Major methodological weaknesses remain regarding poverty data. In particular, the methodology used in household surveys raises concerns about the treatment of the nonfood expenditure share in the calculation of the poverty line, the division of the country into 12 agro-ecological zones, and the comparability of poverty statistics across urban and rural areas and across time. The authorities are implementing an action plan to address these methodological issues. The authorities have completed a modular survey of household living conditions to update the poverty profile in the context of the preparation of the second PRSP.

Benin: Table of Common Indicators Required for Surveillance

(As of May 18, 2009)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]
Exchange Rates	Current	Current	D	D	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	12/08	3/09	M	M	M
Reserve/Base Money	12/08	3/09	M	M	M
Broad Money	12/08	3/09	M	M	M
Central Bank Balance Sheet	12/08	3/09	M	M	M
Consolidated Balance Sheet of the Banking System	12/08	3/09	M	M	M
Interest Rates[2]	1/09	2/09	M	M	M
Consumer Price Index	3/09	4/09	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	12/08	3/09	M	M	NA
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2007	3/09	A	A	NA
External Current Account Balance	2007	3/09	A	A	A
Exports and Imports of Goods and Services	2007	3/09	A	Q	A
GDP/GNP	2008	3/09	A	A	A
Gross External Debt	2007	3/09	A	I	A
International Investment Position[6]	2007	3/09	A	A	A

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

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

[3] Foreign domestic bank and domestic nonbank financing.

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

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability position vis-à-vis nonresidents.

[7] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

Statement by the IMF Staff Representative
June 24, 2009

This statement provides information that has become available since the staff report was issued. The new information does not alter the thrust of the staff appraisal.

1. **A government reshuffling took place in mid-June.** Mr. Idriss Daouda, former national director for Benin of the Central Bank of West African States (BCEAO), was nominated to succeed Finance Minister Lawani on June 12. The new Minister of Finance has sent a letter to the Managing Director on June 22 reaffirming the government's commitment to implementing the entirety of the economic reforms under the program supported by the PRGF arrangement.

2. **On June 9, the BCEAO reduced policy intervention rates and reserve requirements in order to stimulate growth in the context of the global economic crisis.** The repo and discount rates were reduced by 50 basis points each to 4.25 and 6.25 percent, respectively. In line with staff advice, the reserve requirement ratio for Benin was lowered by 6 percentage points to 9 percent.

3. **On June 10, the government set minimum producer prices for cotton and subsidized fertilizers for the 2009/10 agricultural campaign.** The minimum guaranteed producer price for premium cotton will be increased by 10 francs to 190 CFAF per kilo, compared with the 200 8/09 campaign. Following staff advice, the authorities have unified the fertilizer subsidy for all agricultural products in order to avoid distortions between the cotton sector and other agricultural production. The overall cost of the fertilizer subsidy is estimated by the authorities at CFAF 7 billion, in line with the budgeted amount.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 09/234
FOR IMMEDIATE RELEASE
June 24, 2009

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Sixth PRGF Review for Benin and Approves Increase of Financial Support by US$14.4 Million

The Executive Board of the International Monetary Fund (IMF) today completed the sixth review of Benin's economic performance under a program supported by the Poverty Reduction and Growth Facility (PRGF), and approved an augmentation of an amount equivalent to SDR 9.29 million (about US$14.42 million) to a total of SDR 24.77 million (about US$38.44 million). The decisions will allow for disbursement of the final SDR 10.20 million (US$15.83 million) under the arrangement.

The Executive Board also granted a waiver for Benin's non-observance of the program's end-December 2008 performance criterion on net domestic financing, which resulted in unforeseen net lending to the state-owned electricity company in response to high oil prices. The authorities have taken remedial actions, including plans to increase electricity tariffs and undertake a financial audit of the electricity company.

A three-year PRGF arrangement for Benin was approved on August 5, 2005 (see Press Release No. 05/190), and subsequently extended to August 4, 2009. In June 2008 it was augmented by SDR 9.29 million (about US$14.42 million) in order to help the country deal with rising food and oil prices.

Following the Executive Board's discussion on Armenia, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, stated:

"Benin's economic performance continued to strengthen in 2008. Real GDP growth reached 5 percent—the highest rate since 2005—average annual inflation remained below the program target, and the basic primary fiscal balance continued to be in surplus, reflecting strong domestic tax effort and tight control on spending. The larger-than-expected net domestic financing reflected the clearance of outstanding payment orders and unforeseen advances to the national electricity company. The authorities have taken remedial actions, including a decision to undertake a financial audit of the electricity company.

"The economic outlook for 2009 and 2010 is expected to deteriorate, as a result of the global economic crisis. Although prudent policies and lower commodity prices should reduce inflation, economic growth and fiscal revenue are expected to come under significant pressure. The authorities' policy response of allowing automatic fiscal stabilizers to work is appropriate. For 2009, the overall spending envelope will be maintained, except for additional discretionary outlays on social safety nets. The recent decision by the regional central bank (BCEAO) to reduce the policy interest rates and Benin's reserve requirements will help ease liquidity conditions, thereby mitigating the economic slowdown.

"Accelerating the implementation of structural reforms remains essential to enhance Benin's external competitiveness, increase resilience to exogenous shocks, and contribute to higher sustainable growth over the medium term. The adoption of a comprehensive strategy for the cotton sector and the implementation of the public financial management action plan are welcome steps. The authorities also intend to privatize Benin Telecom, restructure the electricity company, streamline procedures and improve capacity at the Port of Cotonou, and strengthen the judicial system, land tenure, and financial supervision.

"The authorities' fiscal policy response to the crisis is projected to result in significant financing gaps in 2009 and 2010, requiring additional budget support from the donor community. The Fund has increased its financial support to Benin, and calls on the donor community to make similar contributions in order to close the remaining financing gaps. The authorities remain committed to a prudent borrowing policy, including refraining from contracting new nonconcessional external loans, with a view to ensuring long-term debt sustainability."

The PRGF is the IMF's low-interest lending facility for low-income countries. PRGF-supported programs are underpinned by comprehensive country-owned poverty reduction strategies.

Statement by Laurean Rutayisire, Executive Director for Benin
June 24, 2009

On behalf of my Beninese authorities, I would like to express my appreciation to staff for the constructive policy dialogue held in the context of the sixth review of the three year arrangement under the PRGF-supported program. I also wish to convey to management and Executive Board my authorities' appreciation of their support to Fund's continued involvement in Benin. Reflecting their broad agreement with the staff's analysis and policy recommendations, my authorities have consented to the publication of the letter of intent, as well as the staff report.

Benin's economic performance under the PRGF-supported program has been strong in 2008, confirming the satisfactory performance under the PRGF arrangement recorded over the last four years. All quantitative performance criteria were met, except one for which appropriate remedial actions have been taken. My authorities have also allowed full pass-through of international food and fuel prices on July 2008. Despite the rising effects of this policy decision on prices, average inflation, which was already one of the lowest in WAEMU region, remained below the program target. In line with their intention to make the country an emerging economy, my authorities have embarked since 2006 on a comprehensive reform agenda on various fronts, including public finance, public enterprises and business environment. They have, in this regard, put in place a comprehensive strategy for cotton sector and implemented the public finance management action plan. Moreover, most structural benchmark reforms have been completed, though some with delay. Furthermore, external current account deficit improved and the level of gross official reserves was the highest among the WAEMU member countries in 2008.

My authorities are well aware of the challenges ahead, in particular the need to design an appropriate policy response to the shocks stemming from global economic downturn. They are fully convinced that this global economic downswing impact could weaken the macroeconomic outlook over the medium-term. This is why; my authorities have put in place four-pronged strategies aiming at increasing the resilience of Beninese economy to exogenous shocks while putting it on the path of broad-based growth. First, they have allowed the use of automatic fiscal stabilizers with the view to sustain domestic demand given the downward economic cycle projected for 2009 and 2010. Secondly, they have focused their efforts on the improvement of Benin's economy competitiveness. To that end, they intend to move forward with the privatization of Benin Telecom, the restructuring of Electricity Company, and the strengthening of judicial system, land tenure, financial services, and port capacity. Third, my authorities are requesting an augmentation of access of 15 percent of quota to help mitigate the impact of global economic crisis. At the same time, they are envisaging a successor PRGF program, which will be designed at the end of the current program to support the authorities' efforts to cope with the negative effects of the current economic crisis. Finally, to mobilize additional resource aiming at covering the financing gap resulting from the fiscal response to mitigate the impact of these shocks, my authorities are strengthening their partnerships with development partners, including World Bank, European Union, and other multilateral donors.

In view of the overall satisfactory program performance and the commitments made for the period ahead, I request, on behalf of my Beninese authorities, the Board's support for the completion of the sixth review under the PRGF, the waiver for nonobservance of the quantitative performance criteria, and the augmentation of access of 15 percent of the quota.

I. Recent Economic Developments

Although below the needed level to meet the MDGs requirements, the GDP growth rate rose to 5 percent in 2008, the highest level reached since 2001. This performance reflects a sustained demand emanated from neighboring Nigeria, an expansion of construction activities and a significant rebound of food production. The strong increase in agriculture production attests the success in implementing the authorities' emergency food security program. At 1.3 percent in 2007, average inflation went up to 8 percent in 2008, far beyond the WAEMU convergence criterion of 3 percent. The decision taken by the authorities in July 2008 allowing the full pass-through of international food and fuel prices has contributed to anchor the inflation expectations in Benin. When the prices started to decline in the last quarter of 2008, this policy has been very effective in helping easing inflationary pressures.

Progress has been made on the external front. Owing to strong cotton exports, as well as the expansion of trade transit towards neighboring Nigeria, the current account deficit improved by 1.4 percent of GDP in 2008. Accordingly, foreign exchange reserves came up to 8 months of imports, the more comfortable level achieved since 2004.

Turning to the public finance, the authorities have continued to pursue fiscal consolidation in 2008. Efforts made by the authorities enabled to keep the expenditure below the target, while revenue collection was in line with the program objectives. While exerting a strict control over expenditure, my Beninese authorities have focused their efforts towards domestic tax revenue mobilization. As a result, the revenue collected was much higher than the program target.

The monetary situation posted an expansion of money supply, driven by foreign asset increases, and a strong growth of domestic credit. Most of the credit distributed to the economy went to private sector. As regards the deterioration of the quality of credit noted between 2007 and 2008, appropriate steps have been taken by the monetary authorities.

Indeed, they have raised the central bank key rates, while maintaining reserve ratio at 15 percent, the highest level among WAEMU member countries.

II. Policy Discussions

1. Impact of the Global Economic Crisis and Policy Response

The global economic downturn hit Beninese economy through three main transmission channels identified by my authorities. First, a significant drop of Beninese main export, cotton, due to a sharp fall of international prices estimated at 32 percent between September 2008 and March 2009. The second negative effects were felt by custom administration, whose revenue collection efforts were constrained by a contraction of demand from neighboring Nigeria, also reached by global economic crisis. The revenue collected during the aforementioned period was 18.4 percent lower than projected. The last impact was reported by local banks stating that workers' remittances transferred through banking system channel decreased by 30 percent in the first quarter of 2009. In terms of medium-term outlook, the real GDP is projected to decrease from 5 percent in 2008 to 3.8 percent in 2009 and 3 percent in 2010.

With continued efforts to improve the business climate, increase investments in infrastructures, and strengthen structural reforms, my authorities expect that real GDP growth could recover its potential of 6 percent by 2012. They intend to tackle the crisis by a combination of automatic fiscal stabilizers, and discretionary increases in social expenditures. My authorities will, in order to bridge the resulting financing gap, seek additional external assistance from various partners.

2. Fiscal Policy

The objective of fiscal policy for 2009 is to pursue fiscal consolidation in order to maintain macroeconomic stability. In particular, they envisage to put in place a set of measures, including streamlining of compliance controls on expenditure commitments, pursuit of reforms of public procurement system, and promotion of program approach to budget execution by the ministries. My authorities are also committed to pursue a prudent borrowing policy.

Measures aiming at combating fraud, expanding the domestic tax base, and implementing gradually single tax identification numbers will also be implemented in order to mobilize revenue. The authorities will also seek to increase revenues by reinforcing partnerships between private sector and the government and create new small and medium-sized enterprise tax centers. On the custom side, efforts will be directed towards simplification and expedition of customs declaration and clearance procedures and expansion of automated system of custom administration (ASYCUDA) to additional workstations in the regional customs directorates.

3. Structural Reforms

Accelerating structural reforms is one of the authorities' strategies in their response to the global economic crisis. They intend to remove as soon as possible major impediments to growth and build a broad-based economy, less reliant on cotton production. The measures to be taken are focused on the improvement of land tenure, judicial systems, and access to financial services.

In the energy **sector,** priority will be given to the consolidation of the financial position of the company operating in the sector, the SBEE; notably reduction of production costs, improvement of service quality, and strengthening of SBEE's capacity. Similar efforts to improve delivery of service and enhance the viability of other state-owned companies are also envisaged.

4. Monetary Policy and Financial Sector Reforms

Monetary policy will continue to be conducted at the regional level with the objective of containing inflation and maintaining adequate level of reserves. Credit to the economy is expected to grow rapidly by almost 9 percent in line with the authorities' objective of building a broad- based economy.

In order to comply with the recommendations made by the Banking Commission, the authorities intend to enhance banking supervision by improving compliance with prudential ratios and encourage implementation of regulatory framework for microfinance sector. Particular emphasis will be placed on consolidating the sector.

III. Conclusion

Given the authorities' successful implementation of the PRGF-supported program, despite exogenous shocks and negative spillovers from the global economic crisis, I will appreciate Board's support for the completion of the sixth review under the PRGF, waiver for nonobservance of the quantitative performance criteria, and augmentation of access of 15 percent of the quota.