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Benin: Second Review Under the Three-Year Arrangement Under the Extended Credit Facility and Request for a Waiver of the Nonobservances of a Continuous Performance Criterion — Staff Report; Staff Supplement; Press Release; and Statement by the Executive Director for Benin

In the context of the second review under the three-year arrangement under the Extended Credit Facility and request for a waiver of the nonobservances of a continuous performance criterion, the following documents have been released and are included in this package:

- The staff report for the second review under the three-year arrangement under the Extended Credit Facility and request for a waiver of the nonobservances of a continuous performance criterion, prepared by a staff team of the IMF, following discussions that ended on July 20, 2011 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 August 24, 2011. 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 Debt Sustainability Assessment

- A Press Release summarizing the views of the Executive Board as expressed during its September 7, 2011 discussion of the staff report that completed the request and/or review.

- 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*
Technical Memorandum of Understanding*

*Also included in the 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

Second Review Under the Three-Year Arrangement Under the Extended Credit Facility and Request for a Waiver of the Nonobservances of a Continuous Performance Criterion

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

Approved by Michael Atingi Ego and Thomas Dorsey

August 24, 2011

- **Extended Credit Facility (ECF) arrangement:** Benin's three-year arrangement under the ECF was approved on June 14, 2010, in the amount of SDR 74.28 million (120 percent of quota). The last Article IV Consultation was concluded on the same day. The First Review under the ECF was completed on February 16, 2011.
- **Discussions:** Cotonou, July 7–20, 2011. Staff met with President Yayi, Prime Minister Koupaki, Minister of Development de Souza, Minister of Finance Mathys, Minister of Energy Gbian, other senior government officials, members of the National Assembly, and representatives of labor unions, the donor community, and media.
- **Program review:** Program implementation has been broadly satisfactory; all performance criteria and all but one indicative targets at end-March were met. Since then, however, a performance criterion on debt concessionality has been missed twice. There were delays in the implementation of some structural reforms. Staff supports the authorities' requests for a waiver on external debt concessionality and completion of the review.
- **Mission team:** Messrs. de Zamaróczy, Lonkeng Ngouana, Pani (all AFR), and Ms. Teodoru (SEC); Mr. Farah (Resident Representative) and Mr. Houessou (Resident Representative Office). Mr. Nguema-Affane (OED) attended most meetings.

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Abbreviations

ASYCUDA	Automated System for Customs Data
BCEAO	*Banque Centrale des États de l'Afrique de l'Ouest* (Central Bank of West African States)
CFAF	*Communauté Financière Africaine Franc* (CFA Franc)
CPI	Consumer Price Index
DGID	*Direction Générale des Impôts et des Domaines* (Tax Directorate)
DGDDI	*Direction Générale des Douanes et Droits Indirects* (Customs Directorate)
DSA	Debt Sustainability Analysis
ECF	Extended Credit Facility
FNRB	*Fonds National des Retraites du Bénin* (National Pension Fund)
GDP	Gross Domestic Product
GPRS	Growth and Poverty Reduction Strategy
GSM	Global System for Mobile Communications
LOI	Letter of Intent
MCM	Monetary and Capital Markets Department, IMF
MDG	Millennium Development Goal
OCBN	*Organisation Commune Bénin-Niger des Chemins de Fer et des Transports* (Benin-Niger Joint Railways and Transportation Company)
PAP	Priority Action Program
SDR	Special Drawing Rights
SBEE	*Société Béninoise d'Énergie Électrique* (Electricity Company)
TIN	Taxpayer Identification Number
TMU	Technical Memorandum of Understanding
TOFE	*Tableau des Opérations Financières de l'État* (Budget Table)
WAEMU	West African Economic and Monetary Union

EXECUTIVE SUMMARY

After overcoming severe setbacks in 2010, economic recovery is expected to accelerate. Growth is projected to strengthen in 2011, led by a resumption of investment after elections in the spring of 2011, post-flood reconstruction, a rebound in agriculture, and growth in the region. Inflation is projected to remain below the regional convergence criterion of 3 percent.

Program implementation has been broadly satisfactory. The performance criteria on the basic primary deficit and net domestic financing were achieved with a margin at end-March 2011, but the program target on priority social expenditure was missed, amid restraint in expenditure execution. Cumulative revenue was in line with program objectives and the wage bill was below the program target. However, since March, the continuous performance criterion on external debt concessionality has been missed twice. The implementation of structural reforms has been mixed. The one-stop-window at the Port of Cotonou started at end-June as planned, but some other reforms have been slow.

Fiscal policy should remain prudent to preserve macroeconomic stability. Enhancing revenue mobilization in the second half of the year will be critical for generating fiscal space for priority spending. Strengthening public financial management, in line with the program's macroeconomic framework, and mobilizing external concessional assistance remain essential to consolidate recent gains in debt sustainability and strengthen resilience to shocks. Labor union demands for a sizable wage increase in the civil service could pose a serious risk to program implementation, reduce fiscal space, and compromise fiscal stability.

Important structural reforms will be introduced in 2011 and 2012. Proposed new reforms would reinforce the program by expanding the tax base and encouraging tax compliance, improving the transparency and accountability of public financial management, modernizing the civil service, and improving the efficiency of public enterprises.

Based on broadly satisfactory performance and strong policy commitments, staff supports the authorities' requests for a waiver for the nonobservances of the performance criterion on the concessionality of external debt in two instances and completion of the second review.

I. Recovery Strengthens Amid Challenges

1. **Elections in the spring of 2011 reinforced the incumbent government.** President Yayi was re-elected in March to a second five-year term and his alliance re-gained a majority in the National Assembly, providing a political window of opportunity for reform.

2. **After severe economic, political, and natural setbacks in 2010, Benin's economic growth is expected to accelerate in 2011.** Weak domestic demand and exceptional flooding limited GDP growth to 2.6 percent in 2010 (Figure 1). Growth remained weak in early 2011, because investments were kept on hold ahead of the elections. With confidence ushered in by the outcome of the elections, growth is projected to bounce back to 3.8 percent in 2011, driven by stronger public investment (including post-flood reconstruction), higher agricultural production, and growth in Nigeria.

3. **The post-flood public reconstruction needs are estimated at some 2 percent of GDP** (Text Table 1). They include the restoration of key public infrastructure, such as roads, irrigation systems, and public schools.[1] Reconstruction costs have been incorporated in public investment plans in 2011.

Text Table 1. Benin: Reconstruction Needs Following the 2010 Flooding
(Billions of CFA francs, unless otherwise indicated)

	Public	Private	Total	Percent of GDP
Productive sectors	0.0	7.3	7.3	0.2
Agriculture	0.0	0.5	0.5	0.0
Commerce	0.0	5.5	5.5	0.2
Tourism	0.0	1.3	1.3	0.0
Infrastructure	55.5	0.0	55.5	1.7
Transport	2.0	0.0	2.0	0.1
Water and sanitation	0.4	0.0	0.4	0.0
Irrigation and agriculture	53.1	0.0	53.1	1.6
Social sectors	7.0	8.5	15.5	0.5
Education	7.0	0.0	7.0	0.2
Housing	0.0	8.5	8.5	0.3
Total	62.5	15.8	78.3	2.4
Of which: covered by additional donor support:	26.7	0.0	26.7	0.8

Sources: Benin flooding, 2010: Post Disaster Needs Assessment, April 2011; and the World Bank.

4. **Inflation has remained low.** Average annual inflation was 2.1 percent in 2010. After shooting up in late 2010 because of high food prices driven by the loss of crops during the floods, inflation has subsided and is expected to decline in 2011 below the West African Economic and Monetary Union's (WAEMU) 3 percent convergence criterion. Because Benin is normally self-sufficient in food, the impact of higher international food prices has so far been moderate. Administrative pump prices of petroleum products remained constant between January and May 2011. The electricity tariff has remained unchanged since April 2010, because domestically produced electricity has been replaced with cheaper imports.[2]

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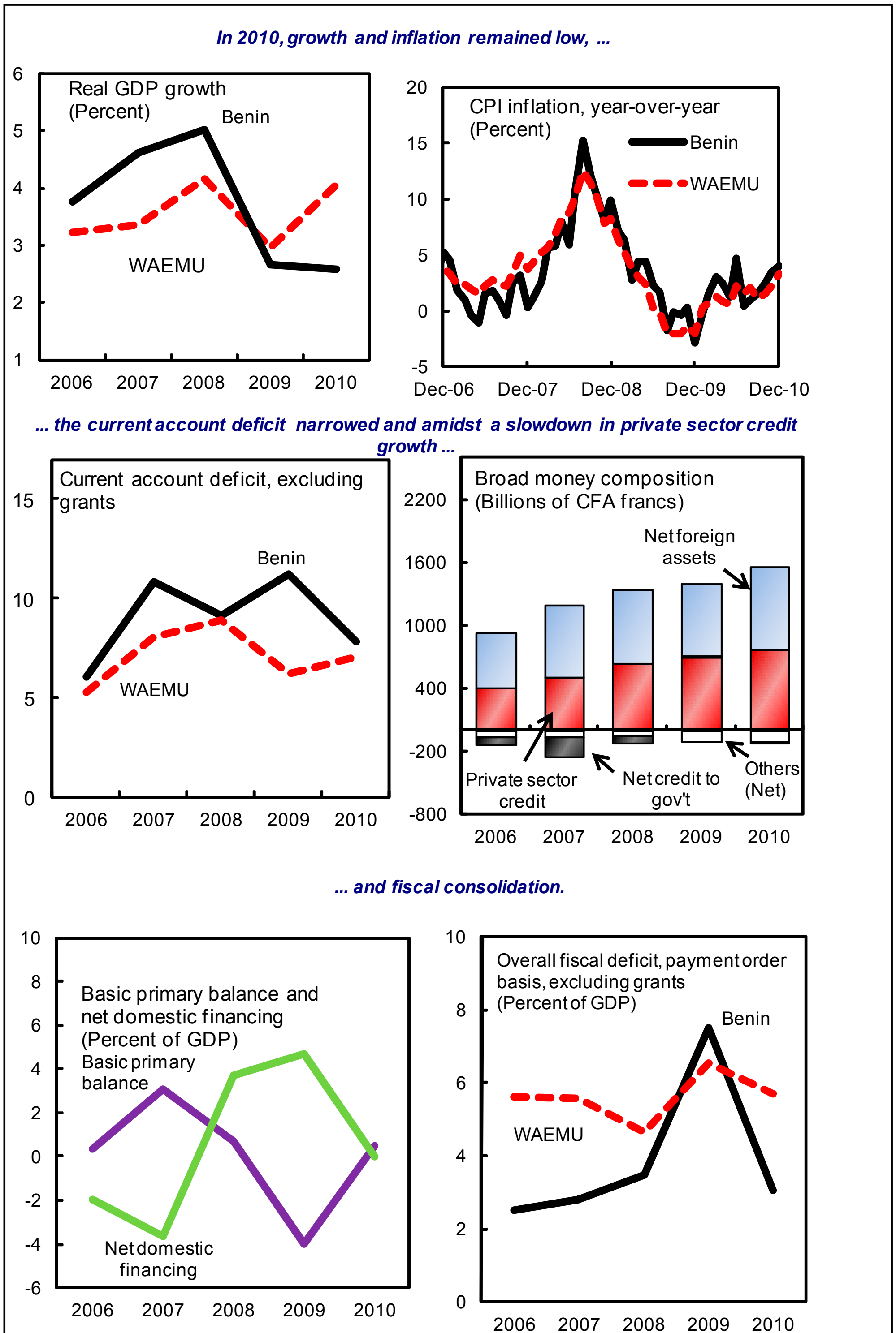
[1] Crop losses were partially compensated by exceptional external food aid.

[2] Unchanged administrative prices for petroleum products and electricity tariff have helped to keep inflation low. For petroleum products, this was achieved through a lowering of customs valuation in the face of rising international prices, meaning that higher import prices were mitigated by lower customs payments. Thus the total cost for importers has remained unchanged, allowing an unchanged pump price, but the government lost customs revenue. For electricity tariffs, domestic generation has been almost entirely replaced with imports from regional electricity producers whose prices have been cheaper than the cost of domestic production.

Figure 1. Benin: Macroeconomic Performance, 2006–10



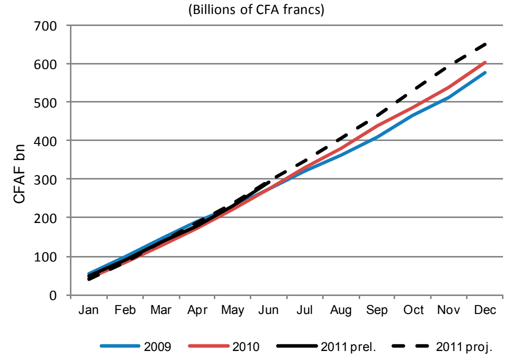
Sources: Beninese authorities; and IMF staff estimates.

5. **Tepid domestic demand and higher remittances improved the external current account balance in 2010.** The current account deficit, excluding grants, sharply narrowed to 7.8 percent of GDP, as the increase in the cost of fuel imports was more than offset by a decline in imports of intermediate goods and a rebound in remittances. The overall balance of payments posted a small surplus at the end of 2010 (0.8 percent of GDP). Recovery in investment is projected to bring on a widening of the current account deficit in 2011 by about one percentage point of GDP and a small overall balance of payments deficit. Broad money grew by about 12 percent in 2010, supported by an increase in credit to the private sector and by an accumulation of net foreign assets by commercial banks.[3] In the first quarter of 2011, domestic credit increase remained subdued, because an increase in credit to the government offset a decline in credit to the private sector ahead of the elections.

6. **Bank capitalization has improved, but financial sector soundness indicators are mixed.** Ten out of 13 commercial banks now comply with the new WAEMU capital requirements, but loan concentration and non-performing loans are high (around 19 percent), and compliance with other prudential regulations remains mixed. One commercial bank is under provisional administration and the authorities are exploring options. Reimbursements of depositors from recovered assets of last year's failed "Ponzi" schemes have continued, albeit on a limited scale, because of challenges in recovering assets.[4]

7. **After slippages in the first half of 2010, fiscal policy tightened**. Although annual revenue performance improved, it was below program expectations in 2010 (Figure 2). To offset the shortfall, government reined in expenditure despite weak economic conditions (Figure 3). Accordingly, the target for the primary fiscal balance at the end of 2010 was met with a margin, but the target for net domestic financing was missed narrowly. The conservative policy stance continued during the first quarter of 2011 (see below).

Figure 2. Benin: Cumulative Revenue, 2009-11
(Billions of CFA francs)



Sources: Beninese authorities; and IMF staff estimates and projections

8. **There has been a standoff between government and labor unions on wages in the public sector.** After protracted strikes, a 25 percent base salary increase was granted to civil servants of the Ministry of Finance in April, with an understanding that it would be gradually extended to other ministries if revenue performance improved (Box 1). However, this decision was later nullified by the Constitutional Court and a new round of negotiations has started.

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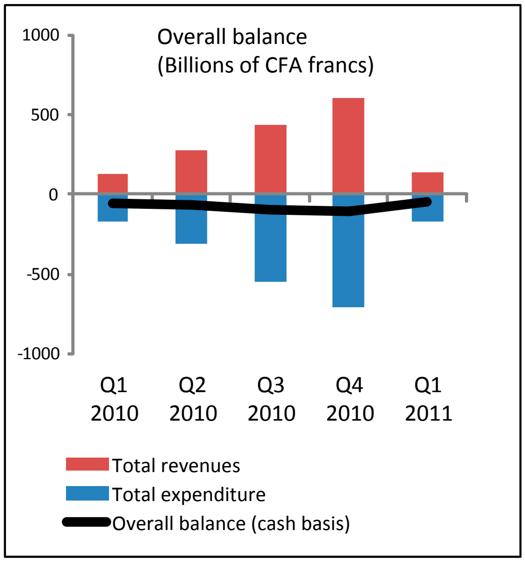
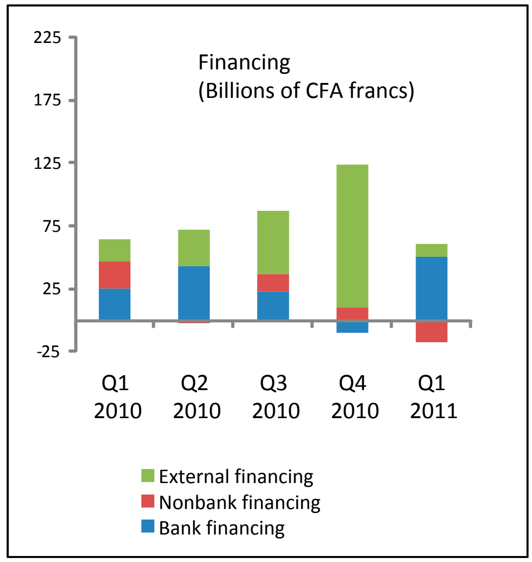
[3] This accumulation reflects increased inflows of workers' remittances and short-term capital in the form of commercial credit for imports.

[4] The government has maintained its earlier stance of not using public funds to refund depositors.

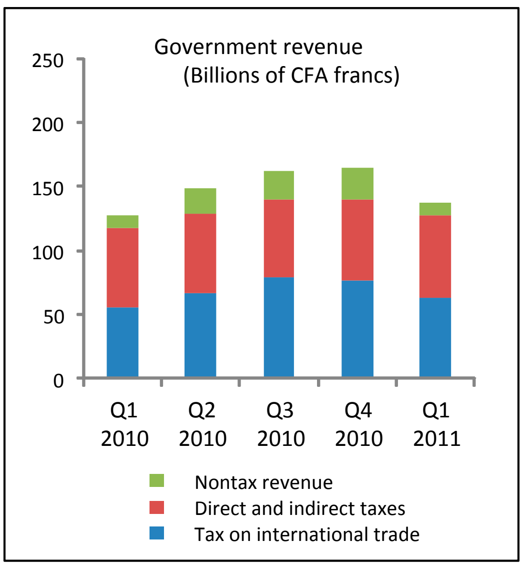
Figure 3. Benin: Selected Fiscal Indicators, 2010-11

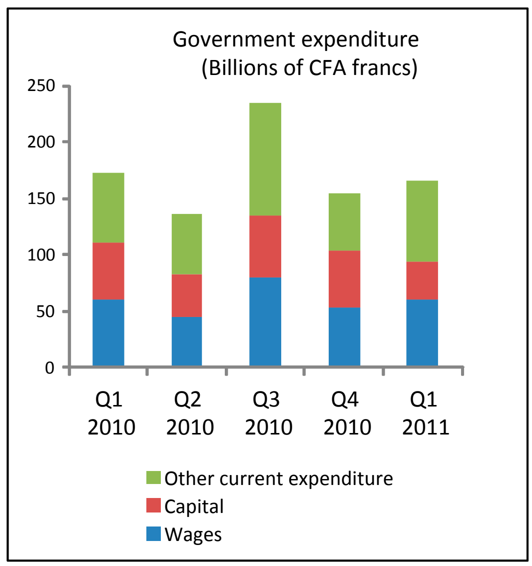
With good revenue performance, slow expenditure execution in the first quarter of 2011 narrowed the fiscal deficit, which mainly was domestically financed.





Further, the composition of revenue was in line with projections, and the wage bill remained under control.

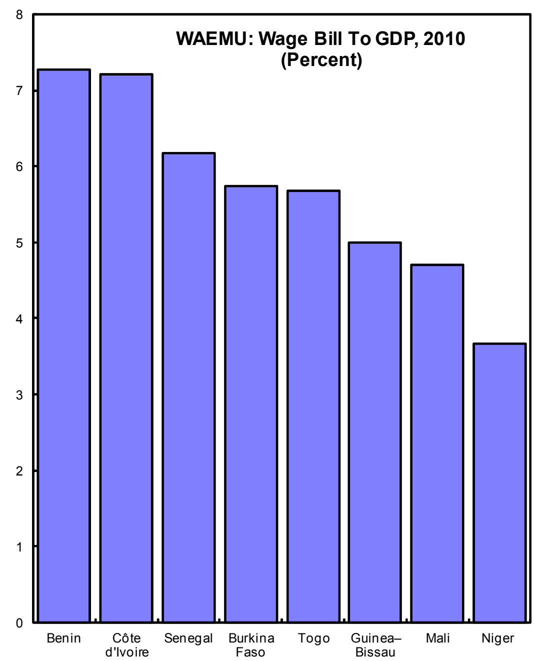


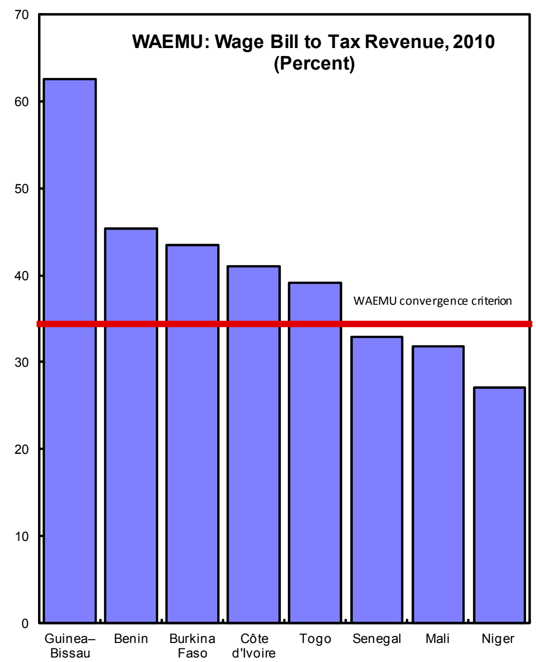


Sources: Beninese authorities; and IMF staff estimates.

Box 1. The Wage Bill

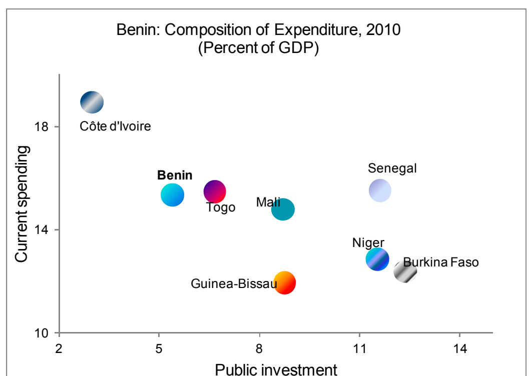
The public wage bill grew significantly in the recent past. In nominal terms, it increased by 83 percent over the last five years. In real terms, it increased by 55 percent (or by almost 2 percentage points of GDP) over the same period. In 2010, Benin's wage bill stood at 7.3 percent of GDP—the highest in the West African Economic and Monetary Union (WAEMU; Box Figure 1). The average wage per civil servant was eight times higher than the nominal GDP per capita. The wage bill absorbed some 45 percent of total tax revenue, well above the WAEMU convergence criterion of 35 percent (Box Figure 2).





Sources: Beninese authorities; and IMF staff estimates.

The size of the public wage bill distorts expenditure composition. Benin has one of the highest levels of current expenditure as a share of GDP (15.5 percent), but capital expenditure is one of the lowest in the region (5.4 percent; Box Figure 3).



Sources: Beninese authorities; and IMF staff estimates.

Continuation of rapid wage bill expansion could jeopardize fiscal sustainability. If the wage bill grew by 3 percent a year in real terms over the medium term, the fiscal balance would worsen by some 4 percent of GDP by 2015. If the wage bill grew at 15 percent a year in real terms (in line with the average of recent years), the fiscal balance would deteriorate by some 10 percent of GDP by 2015. If the basic salaries of all civil servants (i. e., excluding bonuses and other benefits) increased by 25 percent in nominal terms, as demanded by unions, the additional cost for the budget would amount to some CFAF 20-22 billion (equivalent to 0.6 percent of GDP), possibly compromising fiscal sustainability and crowding out priority spending. Thus, addressing the wage bill increase is critical to preserve program objectives and requires a comprehensive civil service reform.

II. PROGRAM TARGETS WERE LARGELY MET

Text Table 2. Benin: Quantitative Performance Criteria, 2011
(In billions of CFA francs)

	End-March			
	Program	Adjusted program	Prel.	
Basic primary balance (floor)	-46.4	-46.4	-15.1	Met
Net domestic financing (ceiling)	69.9	74.9	32.3	Met
Memorandum items:				
Revenue (floor) (indicative target)	136.6	136.6	137.7	Met
Priority social expenditure (indicative target)	45.3	45.3	36.2	Not met

Sources: Beninese authorities, and IMF staff estimates.

9. **All end-March 2011 quantitative targets were met, with one exception** (Text Table 2). The performance criteria on the basic primary deficit and on net domestic financing were met with a margin because current expenditure (including on wages) was lower than projected, partly reflecting a slowdown in public administration ahead of the elections. Customs revenue was on target, and domestic tax revenue exceeded target, offsetting a small shortfall in non-tax revenue. The indicative target on priority social expenditure was missed by 20 percent, amid the above-noted restraint in expenditure.[5]

10. **Since March, the continuous performance criterion on the concessionality of external debt has been missed twice.** The authorities contracted two external loans (totaling 0.6 percent of GDP) for infrastructure development, which narrowly missed the concessionality threshold, thereby missing twice the performance criterion on external loans with maturity of more than one year.[6] They mistakenly thought that those loans, incorporated in financing packages, could be considered as concessional. The authorities reminded their staff in charge of debt negotiation to consult with Fund staff early in the process to avoid this happening again.

11. **The implementation of structural reforms has been mixed.** The one-stop window at the Port of Cotonou was launched at end-June as scheduled. The adoption by the Council of Ministers of a new regulatory framework for the electricity sector, including a new and transparent tariff-setting system, is on track. Other reforms, however, have proceeded with delays. The ASYCUDA ++ customs software will be extended to ten new border posts behind schedule owing to technical delays (Letter of Intent (LOI) ¶ 18). The extension of the single tax identification number (TIN) has also been delayed because of slower-than-expected donor support. Most notably, the adoption of the strategy to reform the civil service has continued to be beset by slippages in the bidding process for two supporting studies, which will now be completed by the end of 2011.

III. POLICY DISCUSSIONS

12. **Discussions centered on the need to keep fiscal policy consistent with the macroeconomic framework and to strengthen the structural reform agenda** to support the authorities' growth and poverty reduction strategy (GPRS). In particular, discussions

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[5] This was the first time priority social spending became an indicative target under the program. The test period started on January 1, 2011.

[6] The two loans have a grant element of 31 percent and 32 percent, respectively.

focused on the issue of revenue mobilization, the wage bill, and the pace of structural reforms. The authorities confirmed their commitment to the program and to speeding up structural reforms.

Macroeconomic Policies

13. **The authorities plan to adhere to the program in 2011 as previously agreed.** They concurred that revenue collection needed to be further strengthened to create fiscal space for priority spending, and that achieving the ambitious end-year target will require a marked improvement in customs revenue collection (LOI ¶ 11—13, 22, and 25). They expect the set up of a one-stop window at the Port of Cotonou and the introduction of a new import valuation program will yield significant revenue in the latter part of the year. They also intend to enhance tax and customs administration by improving risk-based controls, extending the use of the TIN, and better monitoring transit trade.

14. **The authorities are committed to keeping the wage bill within the program envelope** (LOI ¶ 23). They emphasized that the 2011 wage bill will be maintained in line with the program in spite of strong union demands for wage increases. In addition, they will maintain a prudent wage policy keeping in mind the objectives of the program in 2012. Staff emphasized, and authorities concurred, that addressing the wage bill adequately in the medium term requires a civil service reform strategy.

15. **The draft 2012 budget will entail strong revenue mobilization and a rigorous prioritization of expenditure, consistent with the program** (LOI ¶ 24—26). The budget will aim at improving the basic primary balance by 0.7 percentage point of GDP through raising tax revenue by 0.4 percentage point of GDP and reducing expenditure by 0.3 percentage point of GDP. Public investment would remain above 6 percent of GDP, largely financed with external concessional assistance.

16. **The authorities intend to consolidate recent improvements in debt sustainability.** The updated Debt Sustainability Analysis (DSA) indicates low risk of debt distress for Benin.[7] This assessment hinges, however, on the timely implementation of the structural reform agenda and on continued external concessional assistance. The authorities concurred with this assessment, but requested increased flexibility in contracting external debt. They expressed disappointment that the program definition of external debt precluded the combination—in the form of integrated financing packages—of foreign currency denominated loans with CFA franc denominated highly concessional financing from WAEMU organizations to meet the concessionality requirement. Going forward, they requested that the debt ceiling on nonconcessional external loans with a maturity of more than one year and a grant element of more than 20 percent be raised to the equivalent of about 0.7 percent of the 2012 GDP. They argued that this would allow Benin to mobilize more resources to finance infrastructure projects in line with their GPRS while preserving debt sustainability.

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[7] Benin's debt distress risk assessment has improved since 2010—see explanation in paragraph 8 in the companion DSA.

Structural Policies

17. **The authorities launched their third GPRS for 2011-15 in March 2011** (LOI ¶ 28). The strategy's key objectives—improving living standards and placing Benin on the road to emerging market status—will be pursued by promoting private-sector activity to foster growth and employment. The strategy has two development scenarios, and is supported by a medium-term priority action program (PAP) and a system to monitor key indicators. The authorities shared the staff's preliminary assessment that the "central" scenario is highly ambitious and that policies should be based, for the time being, on the less ambitious "alternative" scenario. They are preparing a new version of the PAP which is aligned with available financial resources. Against this backdrop, the authorities' reform agenda focuses on tax and customs administration, public financial management, civil service reform, and the public and financial sectors.

18. **The authorities agreed on the need to streamline tax exemptions.** They will review existing tax exemptions by end-June 2012, and then develop an action plan to rationalize the number and types of tax exemptions (LOI ¶ 27).

19. **Public financial management will be strengthened.** Key reforms will improve budget preparation and execution and tighten external audit. In particular, the government will submit a draft organic budget law to the National Assembly and the public accounts of the 2010 budget to the budget audit office ("C*hambre des comptes*") by end-December 2011 (LOI ¶ 27).

20. **The authorities are committed to civil service reform.** As a first step, they agreed to rekindle the implementation of an integrated civil service information management system, including the setting up of a computerized database for all civil servants in 2012. Earlier preparatory efforts will be brought to fruition by commissioning two studies, to be completed before year end. The implementation of the system may require external concessional financing (LOI, ¶ 27).

21. **The authorities intend to increase the efficiency of public enterprises by enhancing the role of private partners.** To re-launch the privatization of *Bénin Télécoms*, the authorities are developing a new strategy to attract investors. After delays because of elections in Niger, the management of the Benin-Niger railway company will be outsourced. Following financial and operational restructuring, the electricity company is expected to post a small profit in 2011. Accordingly, since the company receives no public subsidies, the authorities do not intend to raise the electricity tariff at this stage, but will closely monitor the financial operations of the electricity company. They are also planning to implement a new regulatory framework, including a regulatory authority and a transparent electricity tariff mechanism.[8]

[8] Previously, electricity tariff adjustments were made in an ad hoc manner following financial losses. With the new regulatory framework, electricity tariffs will be determined based on an automatic formula which takes into account fuel prices, the exchange rate, inflation, and energy imports. The new formula aims at eliminating the need for government subsidies in the future.

22. **To strengthen the financial system, asset quality should be improved, prudential regulations systematically enforced, and the supervision of deposit-taking microfinance institutions intensified.** The authorities are taking measures to reduce non-performing loans and increase capitalization of three banks currently not complying with the new decision of the WAEMU Council of Ministers on capital requirements. They are also strengthening the regulation and supervision of microfinance institutions in the wake of the collapse of Ponzi schemes. A new law, which will strengthen the supervisory capacity of the Central Bank of West African States (BCEAO) and its intervention power over microfinance institutions with more than CFAF 2 billion (about US$4 million) in outstanding deposits or credits, has been forwarded to the National Assembly. Although some recommendations made in the September 2010 Monetary and Capital Markets (MCM) department's technical assistance report have been pursued (e.g., the law noted above), others remain unaddressed (e.g., increasing sanctions on illegal deposit-taking institutions, exchanging information on money laundering).

23. **The mission encouraged the authorities to reduce implicit subsidies to petroleum products.** The mission pointed to the distortions that wide-scale informal imports of petroleum products introduced to the detriment of the formal sector and government revenue. It recommended to reduce the scope of this informal trade. The mission noted that, in the case of progress on this front, generalized subsidies on prices could be replaced by targeted support to vulnerable groups if needed. The authorities agreed in principle, but noted that wide availability of cheap petroleum products informally imported from Nigeria constrained their capacity to pass international price increases through to the domestic market and warranted implicit subsidies (i.e., lower customs valuation) to keep formal intermediaries operating. Previous attempts at reining in the informal petroleum sector had not succeeded. The authorities noted, however, that ongoing efforts to strengthen border controls would help limit informal imports, and called for a regional approach to pricing petroleum products.

IV. Risks to the Program

24. **Program implementation could be hampered by fiscal risks.** Labor union demands for a sizable general increase in civil service wages pose a serious risk to program implementation. Accommodating these demands would erode the fiscal space for priority spending and widen the fiscal deficit. Another risk could arise from inability to deliver the contemplated improvement in revenue collection. The first risk would be lessened by the timely adoption of a civil service reform strategy, which could generate social consensus. Strong government leadership and decisive implementation of the program would mitigate the second risk.

V. Staff Appraisal

25. **After sluggish growth in 2010, the economic outlook has improved.** Growth in 2011 is expected to accelerate, supported by a rebound in agriculture, reconstruction after the floods, and growth in the region. Inflation should remain low, below the regional convergence criterion.

26. **Performance under the program has been broadly satisfactory, but maintaining a prudent fiscal policy stance remains critical.** Moving forward, revenue performance needs to be strengthened. Although the end-March revenue objective was met, the targeted revenue performance in the second half of the year calls for increased effort. Recently introduced measures, if properly implemented, can provide an important contribution, but additional improvements in tax and customs administration and a rationalization of tax exemptions are essential. Any future general wage increase in the public sector should be framed within a civil service reform strategy and kept consistent with financial resources.

27. **The government should take advantage of the window of opportunity provided by its parliamentary majority to accelerate the implementation of critical structural reforms.** These include modernizing the civil service, reforming public financial management in line with WAEMU directives, and strengthening public enterprises.

28. **The soundness of the financial system should be further strengthened. Improving** assets quality by increasing provisioning for nonperforming loans and reducing credit concentration are important. Strengthening the supervisory and intervention powers of the BCEAO is critical to prevent a re-emergence of illegal financial entities (e.g., Ponzi schemes).

29. **Program implementation could be hampered by a fast-growing public service wage bill and a shortfall in revenue collection.** The authorities' strong commitment to the program should mitigate these risks.

30. **Staff supports the authorities' requests for a waiver for nonobservances of a performance criterion in two instances and completion of the second review under the ECF.** Staff is of the opinion that the two nonconcessional loans contracted for infrastructure development represent only a minor deviation from the program because they add only a minimal increase to the outstanding external debt stock (0.4 percent), miss only narrowly the concessionality threshold, and resulted in corrective action among staff involved in debt negotiation. Staff also supports the authorities' request to raise the nonconcessional debt ceiling to about 0.7 percent of the 2012 GDP because the impact on the additional burden would be limited in an environment of low debt-distress risk; such debt would allow to finance additional priority infrastructure projects in line with the GPRS; and the safeguards noted in the LOI (¶ 17).

Table 1. Benin: Selected Economic and Financial Indicators, 2008–16

	2008	2009	2010	2011	2012	2013	2014	2015	2016
		Prel.	Est.	Projections					
	(Annual percentage change, unless otherwise indicated)								
National income									
GDP at current prices	12.6	4.7	4.5	7.1	7.0	7.6	7.7	7.8	7.8
GDP at constant prices	5.0	2.7	2.6	3.8	4.3	4.8	5.0	5.0	5.0
GDP deflator	7.2	2.0	1.9	3.4	2.7	2.7	2.7	2.6	2.7
Consumer price index (average)	8.0	2.2	2.1	2.8	3.0	3.0	3.0	3.0	3.0
Consumer price index (end of period)	9.9	-2.9	4.0	2.7	3.0	3.0	3.0	3.0	3.0
Central government finance									
Total revenue	6.1	-0.9	4.7	7.8	9.2	10.0	9.2	8.5	8.0
Expenditure and net lending	10.0	18.2	-13.2	13.6	5.8	6.5	6.5	6.5	7.1
Money and credit									
Net domestic assets [1]	25.5	7.1	5.3	13.0	9.8	8.8	7.3	6.4	5.6
Domestic credit [1]	24.3	12.5	4.5	10.4	9.8	8.8	7.3	6.4	5.6
Net claims on central government [1]	11.4	6.6	-0.8	2.8	2.6	0.7	-0.3	-1.0	-0.5
Credit to the nongovernment sector [1]	12.9	5.9	5.3	7.6	7.2	8.1	7.5	7.4	6.1
Broad money (M2)	28.8	6.2	11.7	8.4	7.0	7.6	7.7	7.8	7.8
Velocity (GDP relative to average M2)	2.7	2.5	2.4	2.3	2.3	2.3	2.3	2.3	2.3
External sector (in terms of CFA francs)									
Exports of goods and services	17.9	-1.5	12.8	3.6	9.1	6.1	7.4	8.0	7.4
Imports of goods and services	7.5	1.0	1.3	8.0	4.9	5.7	4.8	6.5	6.4
Nominal effective exchange rate (minus = depreciation)	2.3	-1.6	-5.4	…	…	…	…	…	…
Real effective exchange rate (minus = depreciation)	4.3	-0.8	-6.5	…	…	…	…	…	…
	(Percent of GDP, unless otherwise indicated)								
Basic ratios									
Gross investment	18.1	20.8	16.3	17.8	17.6	18.3	18.1	18.4	18.9
Government investment	5.9	9.7	5.5	6.7	6.2	6.2	6.0	5.9	6.0
Nongovernment investment	12.3	11.1	10.9	11.1	11.4	12.1	12.1	12.5	12.9
Gross domestic saving	4.8	7.5	5.2	5.8	6.6	7.6	8.1	8.7	9.5
Government saving	1.7	1.5	1.9	2.0	2.1	2.9	3.2	3.5	3.8
Nongovernment saving	3.1	6.0	3.3	3.8	4.5	4.7	4.9	5.2	5.8
Gross national saving	10.1	11.9	9.4	10.1	10.1	11.4	11.8	12.2	13.0
Central government finance									
Total revenue	19.6	18.5	18.6	18.7	19.1	19.5	19.8	19.9	19.9
Expenditure and net lending	23.0	26.0	21.6	22.9	22.7	22.4	22.2	21.9	21.8
Primary balance [2]	-3.1	-7.0	-2.5	-3.4	-2.7	-2.1	-1.6	-1.2	-1.1
Basic primary balance [3]	0.7	-4.0	0.5	-0.5	0.2	0.8	1.3	1.6	1.7
Overall fiscal deficit (payment order basis, excl. grants)	-3.5	-7.5	-3.1	-4.2	-3.6	-2.9	-2.4	-2.0	-1.8
Overall fiscal deficit (cash basis, excl. grants)	-7.5	-9.3	-3.3	-4.7	-4.1	-3.4	-2.8	-2.4	-2.2
Debt service (in percent of revenue)	3.2	4.3	5.6	8.0	8.3	7.7	8.0	7.9	7.7
Total government debt	26.9	28.3	31.1	30.7	30.4	30.1	29.1	28.2	27.2
External sector									
Balance of goods and services	-13.4	-13.3	-11.1	-11.9	-11.0	-10.7	-10.0	-9.7	-9.4
Current account balance (incl. grants)	-8.1	-8.9	-6.9	-7.7	-7.5	-7.0	-6.3	-6.2	-5.9
Current account balance (excl. grants)	-9.1	-11.2	-7.8	-8.8	-7.8	-7.5	-6.9	-6.6	-6.3
Overall balance of payments	1.6	-1.6	0.8	-1.1	-0.9	-0.2	0.4	0.8	1.1
Debt-service-to-exports ratio	2.5	3.4	4.1	5.0	5.4	5.4	5.2	4.9	4.5
Debt-to-GDP ratio (post-MDRI)	16.8	16.5	19.0	18.6	19.6	20.3	20.5	20.7	21.1
Nominal GDP (in billions of CFA francs)	2,970.5	3,109.4	3,248.2	3,479.3	3,723.5	4,006.6	4,316.9	4,651.4	5,012.5
CFA francs per US dollar (period average)	445.5	470.7	494.1	…	…	…	…	…	…
Population (in millions)	9.1	9.4	9.6	9.9	10.2	10.5	10.8	11.1	11.4
Nominal GDP per capita (in US dollars)	730.7	704.2	681.7	758.5	789.3	818.9	850.7	884.7	920.3

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

Note: … = not available.

[1] Change in percent of beginning-of-period broad money.

[2] Total revenue minus current primary expenditure, capital expenditure, and net lending.

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

Table 2a. Benin: Consolidated Central Government Operations, 2008–16

	2008	2009	2010	2011	2011	2012	2012	2013	2014	2015	2016
			Prel.	Proj.	Rev. Proj.	Proj.	Rev. Proj.	Projections			
	(Billions of CFA francs)										
Total revenue	581.3	575.8	603.0	650.1	650.0	709.9	710.0	781.0	852.8	925.1	999.5
Tax revenue	512.2	500.4	525.9	578.0	578.0	632.3	632.2	700.8	767.6	832.1	899.7
Tax on international trade	278.9	259.3	278.4	304.0	304.0	334.4	334.5	368.9	405.0	437.9	472.3
Direct and indirect taxes	233.3	241.2	247.5	274.0	273.9	297.9	297.7	331.9	362.6	394.2	427.4
Nontax revenue	69.1	75.4	77.1	72.0	72.0	77.6	77.8	80.2	85.2	93.0	99.8
Total expenditure and net lending	684.7	809.0	702.2	801.0	797.5	846.5	843.9	898.5	956.5	1,018.5	1,090.6
Current expenditure	465.1	494.0	504.4	568.0	564.5	617.0	614.2	648.7	696.7	743.4	790.6
Current primary expenditure	454.8	478.4	486.7	534.6	534.6	580.0	580.1	614.2	661.0	707.8	754.1
Wage bill	182.4	225.9	238.7	270.0	270.0	279.0	279.0	297.0	316.4	336.0	356.8
Pensions and scholarships	36.0	39.8	43.6	53.0	53.0	56.8	56.8	61.2	65.8	69.7	73.7
Current transfers	119.3	110.0	114.1	107.1	107.1	123.0	123.0	128.0	142.0	155.0	165.0
Expenditure on goods and services	117.0	102.7	90.3	104.5	104.5	121.2	121.3	128.0	136.8	147.1	158.6
Interest	10.3	15.6	17.7	33.4	29.9	37.0	34.1	34.5	35.6	35.6	36.5
Internal debt	5.6	7.4	9.6	23.2	22.3	26.9	24.4	23.2	23.2	22.9	22.5
External debt	4.8	8.2	8.1	10.2	7.6	10.1	9.7	11.3	12.4	12.6	14.0
Capital expenditure and net lending	219.5	315.1	197.8	233.0	233.0	229.5	229.7	249.8	259.9	275.1	300.1
Capital expenditure	174.7	302.3	177.2	233.0	233.0	229.5	229.7	249.8	259.9	275.1	300.1
Financed by domestic resources	105.3	221.6	101.2	133.0	133.0	122.7	122.7	134.6	137.1	144.1	158.9
Financed by external resources	69.4	80.7	76.0	100.0	100.0	106.8	107.0	115.2	122.8	131.0	141.2
Net lending (minus = reimbursement)	44.8	12.7	20.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (payment order basis, excl. grants)	-103.4	-233.2	-99.2	-151.0	-147.5	-136.6	-134.0	-117.5	-103.7	-93.4	-91.1
Primary balance [1]	*-93.1*	*-217.6*	*-81.5*	*-117.6*	*-117.6*	*-99.6*	*-99.8*	*-83.0*	*-68.1*	*-57.8*	*-54.7*
Basic primary balance [2]	*21.2*	*-124.2*	*15.1*	*-17.6*	*-17.6*	*7.2*	*7.2*	*32.1*	*54.7*	*73.2*	*86.5*
Change in arrears	-16.4	-28.3	-17.2	-17.4	-17.4	-15.0	-17.4	-17.4	-17.4	-17.4	-17.4
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)	-16.4	-28.3	-17.2	-17.4	-17.4	-15.0	-17.4	-17.4	-17.4	-17.4	-17.4
Float [3]	-102.8	-26.8	9.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis, excl. grants)	-222.6	-288.3	-106.9	-168.4	-164.9	-151.6	-151.4	-134.9	-121.1	-110.8	-108.5
Financing	219.2	288.6	112.6	168.4	165.0	151.6	151.4	134.9	121.1	110.7	108.6
Domestic financing	109.8	146.0	0.2	57.3	47.5	41.0	47.5	12.7	-8.7	-26.5	-37.2
Bank financing	128.5	80.5	-10.5	17.1	41.1	14.7	41.1	11.8	-4.7	-19.4	-10.1
Net use of IMF resources	8.4	7.4	8.4	16.3	15.5	16.2	15.3	15.2	-2.9	-4.5	-6.0
Disbursements	8.4	7.4	8.4	16.5	15.6	16.6	15.6	15.7	0.0	0.0	0.0
Repayments	0.0	0.0	0.0	-0.1	-0.1	-0.3	-0.3	-0.5	-2.9	-4.5	-6.0
Other	120.1	73.0	-18.9	0.8	25.6	-1.5	25.8	-3.4	-1.8	-14.9	-4.1
Nonbank financing	-18.7	65.5	10.7	40.1	6.5	26.3	6.4	0.8	-4.0	-7.1	-27.1
Privatization	4.7	17.9	17.5	10.0	0.0	10.0	10.0	0.0	0.0	0.0	0.0
Restructuring	-11.7	-12.9	-22.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	-11.8	60.6	15.7	30.1	6.5	16.3	-3.6	0.8	-4.0	-7.1	-27.1
External financing	109.3	142.6	112.4	111.1	117.5	110.6	103.9	122.2	129.8	137.2	145.7
Project financing	69.4	80.7	76.0	100.0	100.0	106.8	107.0	115.2	122.8	131.0	141.2
Grants	21.6	28.8	19.2	50.0	50.0	53.4	53.5	57.6	62.0	66.8	72.0
Loans	47.7	52.0	56.8	50.0	50.0	53.4	53.5	57.6	60.8	64.2	69.2
Amortization due	-8.3	-9.4	-15.8	-22.7	-21.7	-25.5	-24.0	-24.1	-28.4	-32.3	-33.9
Budgetary assistance	48.3	71.3	52.2	33.8	39.2	29.3	20.8	31.2	35.4	38.4	38.4
Grants	30.4	71.3	28.9	33.8	39.2	19.3	11.6	21.2	22.4	18.4	18.4
Loans	17.9	0.0	23.3	0.0	0.0	10.0	9.3	10.0	13.0	20.0	20.0
Statistical discrepancy	3.4	-0.3	-5.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
GDP (in billions of CFA francs)	2,970.5	3,109.4	3,248.2	3,478.6	3,479.3	3,714.6	3,723.5	4,006.6	4,316.9	4,651.4	5,012.5

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

[1] Total revenue minus current primary expenditure, capital expenditure, and net lending.
[2] Total revenue minus current primary expenditure and capital expenditure financed by domestic resources.
[3] Net change in the stock of payment orders whose payment has been postponed to the following period, and balance of custodian accounts.

Table 2b. Benin: Consolidated Central Government Operations, 2010–12

	2010	2011								2012	
		Q1		Q2		Q3		Year		Q1	Year
	Prel.	Prog.	Prel. Est.	Proj.	Prel. Est.	Prog.	Proj.	Proj.	Rev. Proj.	Prog.	Proj.
	(Billions of CFA francs)										
Total revenue	603.0	136.6	137.7	295.0	291.7	464.2	464.2	650.1	650.0	148.3	710.0
Tax revenue	525.9	123.2	126.9	265.8	265.2	417.1	417.1	578.0	578.0	136.6	632.2
Tax on international trade	278.4	63.1	63.3	134.5	129.4	216.3	216.3	304.0	304.0	69.6	334.5
Direct and indirect taxes	247.5	60.0	63.6	131.4	135.8	200.8	200.8	274.0	273.9	67.0	297.7
Nontax revenue	77.1	13.4	10.8	29.2	26.5	47.1	47.1	72.0	72.0	11.7	77.8
Total expenditure and net lending	702.2	212.4	166.2	381.1	379.9	586.0	593.5	801.0	797.5	186.6	843.9
Current expenditure	504.4	164.5	131.6	295.4	286.5	452.7	440.2	568.0	564.5	149.8	614.2
Current primary expenditure	486.7	158.0	128.4	281.5	277.5	427.7	419.4	534.6	534.6	146.3	580.1
Wage bill	238.7	70.0	59.9	130.0	125.0	213.3	205.0	270.0	270.0	64.0	279.0
Pensions and scholarships	43.6	13.0	9.7	26.5	26.5	39.4	39.4	53.0	53.0	11.5	56.8
Current transfers	114.1	40.0	37.0	65.0	76.0	95.0	95.0	107.1	107.1	42.5	123.0
Expenditure on goods and services	90.3	35.0	21.8	60.0	50.0	80.0	80.0	104.5	104.5	28.3	121.3
Interest	17.7	6.5	3.2	13.9	9.0	25.0	20.8	33.4	29.9	3.5	34.1
Internal debt	9.6	5.1	1.7	8.5	5.6	18.1	15.2	23.2	22.3	1.9	24.4
External debt	8.1	1.4	1.5	5.4	3.4	6.9	5.6	10.2	7.6	1.6	9.7
Capital expenditure and net lending	197.8	47.8	34.6	85.7	93.4	133.3	153.3	233.0	233.0	36.9	229.7
Capital expenditure	177.2	47.8	37.8	85.7	93.4	133.3	153.3	233.0	233.0	36.9	229.7
Financed by domestic resources	101.2	25.0	24.4	50.0	53.4	85.0	93.3	133.0	133.0	22.5	122.7
Financed by external resources	76.0	22.8	13.4	35.7	40.0	46.3	60.0	100.0	100.0	14.3	107.0
Net lending (minus = reimbursement)	20.6	0.0	-3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (payment order basis, excl. grants)	-99.2	-75.8	-28.5	-86.1	-88.2	-121.8	-129.3	-151.0	-147.5	-38.3	-134.0
Primary balance [1]	*-81.5*	*-69.2*	-25.3	*-72.2*	*-79.2*	*-96.8*	*-108.5*	*-117.6*	*-117.6*	*-34.8*	-99.8
Basic primary balance [2]	*15.1*	*-46.4*	-15.1	*-36.5*	*-39.2*	*-48.5*	*-48.5*	*-17.6*	*-17.6*	*-20.5*	7.2
Change in arrears	-17.2	-3.4	-2.1	-11.4	-11.4	-14.4	-14.4	-17.4	-17.4	-2.1	-17.4
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)	-17.2	-3.4	-2.1	-11.4	-11.4	-14.4	-14.4	-17.4	-17.4	-2.1	-17.4
Float [3]	9.5	-20.0	-12.6	-10.0	-10.0	0.0	0.0	0.0	0.0	-20.0	0.0
Overall balance (cash basis, excl. grants)	-106.9	-99.2	-43.2	-107.5	-109.6	-136.2	-143.7	-168.4	-164.9	-60.4	-151.4
Financing	112.6	99.2	43.2	107.5	109.6	136.2	143.7	168.4	165.0	60.4	151.4
Domestic financing	0.2	69.9	32.3	72.1	78.3	79.7	76.6	57.3	47.5	48.7	47.5
Bank financing	-10.5	55.6	50.0	10.9	68.8	21.6	14.6	17.1	41.1	47.6	41.1
Net use of IMF resources	8.4	8.4	7.9	8.4	7.9	16.5	15.6	16.3	15.5	0.0	15.3
Disbursements	8.4	8.4	7.9	8.4	7.9	16.5	15.6	16.5	15.6	0.0	15.6
Repayments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	0.0	-0.3
Other	-18.9	47.2	42.1	2.5	60.9	5.2	-1.0	0.8	25.6	47.6	25.8
Nonbank financing	10.7	14.4	-17.7	61.2	5.0	58.1	62.0	40.1	6.5	1.1	6.4
Privatization	17.5	0.0	0.0	0.0	0.0	4.4	0.0	10.0	0.0	0.0	10.0
Restructuring	-22.5	0.0	-2.0	0.0	-2.5	0.0	0.0	0.0	0.0	0.0	0.0
Other	15.7	14.4	-15.7	61.2	7.5	53.7	62.0	30.1	6.5	1.1	-3.6
External financing	112.4	29.2	11.1	35.5	31.3	56.5	67.1	111.1	117.5	11.7	103.9
Project financing	76.0	22.8	13.4	35.7	40.0	48.3	60.0	100.0	100.0	14.3	107.0
Grants	19.2	7.3	7.2	11.7	20.0	16.3	30.0	50.0	50.0	7.7	53.5
Loans	56.8	15.5	6.2	24.0	20.0	32.0	30.0	50.0	50.0	6.6	53.5
Amortization due	-15.8	-4.6	-2.3	-11.2	-8.7	-14.8	-12.5	-22.7	-21.7	-2.6	-24.0
Budgetary assistance	52.2	11.0	0.0	11.0	0.0	23.0	19.6	33.8	39.2	0.0	20.8
Grants	28.9	11.0	0.0	11.0	0.0	23.0	19.6	33.8	39.2	0.0	11.6
Loans	23.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	9.3
Statistical discrepancy	-5.7	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
GDP (in billions of CFA francs, annual)	3,248.2	3,478.6	3,479.3	3,478.6	3,479.3	3,478.6	3,479.3	3,478.6	3,479.3	3,723.5	3723.5

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

[1] Total revenue minus current primary expenditure, capital expenditure, and net lending.

[2] Total revenue minus current primary expenditure and capital expenditure financed by domestic resources.

[3] Net change in the stock of payment orders whose payment has been postponed to the following period, and balance of custodian accounts.

Table 3. Benin: Consolidated Central Government Operations, 2008–16

	2008	2009	2010	2011		2012	2013	2014	2015	2016
			Prel.	Proj.	Rev. Proj.	Projections				
					(Percent of GDP)					
Total revenue	19.6	18.5	18.6	18.7	18.7	19.1	19.5	19.8	19.9	19.9
Tax revenue	17.2	16.1	16.2	16.6	16.6	17.0	17.5	17.8	17.9	18.0
Tax on international trade	9.4	8.3	8.6	8.7	8.7	9.0	9.2	9.4	9.4	9.4
Direct and indirect taxes	7.9	7.8	7.6	7.9	7.9	8.0	8.3	8.4	8.5	8.5
Nontax revenue	2.3	2.4	2.4	2.1	2.1	2.1	2.0	2.0	2.0	2.0
Total expenditure and net lending	23.0	26.0	21.6	23.0	22.9	22.7	22.4	22.2	21.9	21.8
Current expenditures	15.7	15.9	15.5	16.3	16.2	16.5	16.2	16.1	16.0	15.8
Current primary expenditures	15.3	15.4	15.0	15.4	15.4	15.6	15.3	15.3	15.2	15.0
Wage bill	6.1	7.3	7.3	7.8	7.8	7.5	7.4	7.3	7.2	7.1
Pensions and scholarships	1.2	1.3	1.3	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Current transfers	4.0	3.5	3.5	3.1	3.1	3.3	3.2	3.3	3.3	3.3
Expenditure on goods and services	3.9	3.3	2.8	3.0	3.0	3.3	3.2	3.2	3.2	3.2
Interest	0.3	0.5	0.5	1.0	0.9	0.9	0.9	0.8	0.8	0.7
Internal debt	0.2	0.2	0.3	0.7	0.6	0.7	0.6	0.5	0.5	0.4
External debt	0.2	0.3	0.2	0.3	0.2	0.3	0.3	0.3	0.3	0.3
Capital expenditure and net lending	7.4	10.1	6.1	6.7	6.7	6.2	6.2	6.0	5.9	6.0
Capital expenditure	5.9	9.7	5.5	6.7	6.7	6.2	6.2	6.0	5.9	6.0
Financed by domestic resources	3.5	7.1	3.1	3.8	3.8	3.3	3.4	3.2	3.1	3.2
Financed by external resources	2.3	2.6	2.3	2.9	2.9	2.9	2.9	2.8	2.8	2.8
Net lending (minus = reimbursement)	1.5	0.4	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (payment order basis, excl. grants)	-3.5	-7.5	-3.1	-4.3	-4.2	-3.6	-2.9	-2.4	-2.0	-1.8
Primary balance [1]	*-3.1*	*-7.0*	*-2.5*	*-3.4*	*-3.4*	*-2.7*	*-2.1*	*-1.6*	*-1.2*	*-1.1*
Basic primary balance [2]	*0.7*	*-4.0*	*0.5*	*-0.5*	*-0.5*	*0.2*	*0.8*	*1.3*	*1.6*	*1.7*
Change in arrears	-0.6	-0.9	-0.5	-0.5	-0.5	-0.5	-0.4	-0.4	-0.4	-0.3
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	-0.6	-0.9	-0.5	-0.5	-0.5	-0.5	-0.4	-0.4	-0.4	-0.3
Float [3]	-3.5	-0.9	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis, excl. grants)	-7.5	-9.3	-3.3	-4.8	-4.7	-4.1	-3.4	-2.8	-2.4	-2.2
Financing	7.4	9.3	3.5	4.8	4.7	4.1	3.4	2.8	2.4	2.2
Domestic financing	3.7	4.7	0.0	1.6	1.4	1.3	0.3	-0.2	-0.6	-0.7
Bank financing	4.3	2.6	-0.3	0.5	1.2	1.1	0.3	-0.1	-0.4	-0.2
Net use of IMF resources	0.3	0.2	0.3	0.5	0.4	0.4	0.4	-0.1	-0.1	-0.1
Other	4.0	2.3	-0.6	0.0	0.7	0.7	-0.1	0.0	-0.3	-0.1
Nonbank financing	-0.6	2.1	0.3	1.2	0.2	0.2	0.0	-0.1	-0.2	-0.5
Privatization	0.2	0.6	0.5	0.3	0.0	0.3	0.0	0.0	0.0	0.0
Restructuring	-0.4	-0.4	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	-0.4	1.9	0.5	0.9	0.2	-0.1	0.0	-0.1	-0.2	-0.5
External financing	3.7	4.6	3.5	3.2	3.4	2.8	3.1	3.0	2.9	2.9
Project financing	2.3	2.6	2.3	2.9	2.9	2.9	2.9	2.8	2.8	2.8
Grants	0.7	0.9	0.6	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Loans	1.6	1.7	1.7	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Amortization due	-0.3	-0.3	-0.5	-0.7	-0.6	-0.6	-0.6	-0.7	-0.7	-0.7
Budgetary assistance	1.6	2.3	1.6	1.0	1.1	0.6	0.8	0.8	0.8	0.8
Grants	1.0	2.3	0.9	1.0	1.1	0.3	0.5	0.5	0.4	0.4
Loans	0.6	0.0	0.7	0.0	0.0	0.2	0.2	0.3	0.4	0.4
Statistical discrepancy	0.1	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Total revenue and grants	21.3	21.7	20.0	21.1	21.2	20.8	21.5	21.7	21.7	21.7
Revenue	19.6	18.5	18.6	18.7	18.7	19.1	19.5	19.8	19.9	19.9
Grants	1.8	3.2	1.5	2.4	2.6	1.7	2.0	2.0	1.8	1.8
Total loan disbursement	2.2	1.7	2.5	1.4	1.4	1.7	1.7	1.7	1.8	1.8
Overall balance incl. grants (payment order basis)	-1.7	-4.3	-1.6	-1.9	-1.7	-1.8	-1.0	-0.4	-0.2	0.0
GDP (in billions of CFA francs)	2,970.5	3,109.4	3,248.2	3,478.6	3,479.3	3,723.5	4,006.6	4,316.9	4,651.4	5,012.5

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

[1] Total revenue minus current primary expenditure, capital expenditure, and net lending.
[2] Total revenue minus current primary expenditure and capital expenditure financed by domestic resources.
[3] Net change in the stock of payment orders whose payment has been postponed to the following period, and balance of custodian accounts.

Table 4. Benin: Balance of Payments, 2008–16

	2008	2009	2010	2011	2012	2013	2014	2015	2016
			Est.	Projections					
	(Billions of CFA francs)								
Current account balance	-240.2	-277.6	-224.7	-266.3	-278.9	-279.0	-274.0	-286.4	-296.6
Excluding budgetary assistance grants	-270.7	-348.8	-253.6	-305.5	-290.5	-300.2	-296.4	-304.8	-315.0
Balance of goods and services	-397.1	-414.2	-360.4	-414.8	-409.8	-430.4	-432.6	-450.0	-470.1
Credit	527.9	519.9	586.3	607.5	662.6	703.1	754.9	815.2	875.7
Debit	-925.0	-934.1	-946.6	-1022.3	-1,072.4	-1,133.5	-1,187.5	-1,265.2	-1,345.7
Trade balance [1]	-406.4	-351.0	-295.7	-354.6	-370.4	-399.1	-410.3	-431.8	-458.0
Exports, f.o.b.	290.1	348.9	405.7	396.1	419.2	438.7	470.3	510.6	549.6
Cotton and textiles	78.9	66.5	59.4	88.4	103.9	95.3	89.6	84.6	80.5
Other	211.2	282.4	346.3	307.7	315.3	343.3	380.7	425.9	469.1
Imports, f.o.b.	-696.5	-699.9	-701.4	-750.8	-789.6	-837.7	-880.6	-942.4	-1,007.6
Of which: petroleum products	-70.3	-66.4	-79.6	-97.4	-104.4	-109.7	-111.3	-116.4	-122.0
Services (net)	9.3	-63.2	-64.7	-60.1	-39.4	-31.3	-22.2	-18.2	-12.0
Credit	237.8	171.0	180.6	211.4	243.4	264.5	284.6	304.6	326.1
Debit	-228.5	-234.2	-245.2	-271.5	-282.8	-295.8	-306.9	-322.8	-338.1
Income (net)	-5.1	-15.5	-8.9	-8.4	-10.5	-12.2	-13.3	-13.6	-15.0
Of which: interest due on central government debt	-4.8	-8.2	-8.1	-7.6	-9.7	-11.3	-12.4	-12.6	-14.0
Current transfers (net)	162.0	152.1	144.6	156.9	141.4	163.5	171.9	177.2	188.5
Unrequited private transfers	73.4	32.4	45.8	60.4	68.6	76.8	78.5	82.0	84.8
Public current transfers	88.6	119.7	98.8	96.5	72.8	86.7	93.4	95.3	103.7
Of which: budgetary assistance grants	30.4	71.3	28.9	39.2	11.6	21.2	22.4	18.4	18.4
Capital and financial account balance	271.2	187.6	238.3	228.8	245.2	269.3	292.8	323.1	352.4
Capital account balance	21.6	28.8	19.2	50.0	53.5	57.6	62.0	66.8	72.0
Financial account balance	249.5	158.8 [2]	219.1	178.8	191.7	211.7	230.8	256.2	280.4
Medium- and long-term public capital	66.4	46.6	68.3	32.3	42.8	47.5	49.4	55.9	59.3
Disbursements	74.7	56.0	84.1	54.0	66.8	71.6	77.8	88.2	93.2
Project Loans	56.8	56.0	60.8	54.0	57.5	61.6	64.8	68.2	73.2
Of which: Central government project loans	47.7	52.0	56.8	50.0	53.5	57.6	60.8	64.2	69.2
Budgetary assistance loans	17.9	0.0	23.3	0.0	9.3	10.0	13.0	20.0	20.0
Amortization due	-8.3	-9.4	-15.8	-21.7	-24.0	-24.1	-28.4	-32.3	-33.9
Foreign direct investment	77.8	48.7	58.2	54.5	70.5	79.7	90.0	101.3	113.7
Portfolio investment	9.4	37.6	30.1	29.5	31.6	33.8	36.4	39.2	42.2
Other medium- and long-term private capital	45.0	5.0	30.0	22.5	26.8	30.7	35.1	39.8	45.1
Deposit money banks	16.9	-40.2	-57.5	30.0	10.0	10.0	10.0	10.0	10.0
SDR allocation	0.0	33.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term capital	34.1	27.8	90.0	10.0	10.0	10.0	10.0	10.0	10.0
Errors and omissions	16.9	38.7	11.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	47.9	-51.3	25.0	-37.5	-33.7	-9.7	18.8	36.7	55.8
Financing	-47.9	51.3	-25.0	37.6	33.7	9.7	-18.8	-36.7	-55.8
Change in net foreign assets, BCEAO (- = increase)	-47.9	51.3	-25.0	37.6	33.7	9.7	-18.8	-36.7	-55.8
Of which: net use of Fund resources	8.4	7.4	8.4	15.5	15.3	15.2	-2.9	-4.5	-6.0
Memorandum items:			(Percent of GDP, unless otherwise indicated)						
Net re-exports	4.5	3.5	3.5	3.5	3.6	3.7	3.8	3.8	3.9
Re-exports	9.6	7.4	7.5	7.6	7.8	7.9	8.0	8.1	8.1
Imports for re-exports	-5.0	-3.9	-4.0	-4.1	-4.1	-4.1	-4.2	-4.2	-4.3
Current account balance (incl. budgetary assistance grants)	-8.1	-8.9	-6.9	-7.7	-7.5	-7.0	-6.3	-6.2	-5.9
Current account balance (excl. budgetary assistance grants)	-9.1	-11.2	-7.8	-8.8	-7.8	-7.5	-6.9	-6.6	-6.3
Balance of goods and services	-13.4	-13.3	-11.1	-11.9	-11.0	-10.7	-10.0	-9.7	-9.4
Trade balance	-13.7	-11.3	-9.1	-10.2	-9.9	-10.0	-9.5	-9.3	-9.1
Exports	9.8	11.2	12.5	11.4	11.3	10.9	10.9	11.0	11.0
Imports	-23.4	-22.5	-21.6	-21.6	-21.2	-20.9	-20.4	-20.3	-20.1
Income and current transfers (net)	5.3	4.4	4.2	4.3	3.5	3.8	3.7	3.5	3.5
Capital account balance	0.7	0.9	0.6	1.4	1.4	1.4	1.4	1.4	1.4
Financial account balance	8.4	5.1	6.7	5.1	5.1	5.3	5.3	5.5	5.6
Overall balance	1.6	-1.6	0.8	-1.1	-0.9	-0.2	0.4	0.8	1.1
Gross official reserves (imputed reserves, billions of US dollars) [2]	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.3	1.4
(percent of broad money)	49.0	43.1	40.9	36.3	32.8	30.8	29.4	28.8	29.0
WAEMU gross official reserves (billions of U.S dollars)	10.7	13.6	…	…	…	…	…	…	…
(percent of broad money)	55.0	58.7	…	…	…	…	…	…	…
(months of WAEMU imports of GS) [3]	6.1	6.9	…	…	…	…	…	…	…
GDP (in billions of CFA francs)	2,970.5	3,109.4	3,248.2	3,479.3	3,723.5	4,006.6	4,316.9	4,651.4	5,012.5

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

Note: … = not available.

[1] Excludes re-exports and imports for re-export whose net balance is divided between services and public transfers.

[2] Includes the Special Drawing Rights allocation of SDR 44.75 million, equal to CFAF 33.3 billion, in August 2009.

[3] Months of future imports of goods and services.

Table 5. Benin: Monetary Survey, 2008–16

	2008	2009	2010		2011				2012	2013	2014	2015	2016
					Q1	Q2	Q3	Q4					
			Proj.	Prel.	Prel.	Prel. Est.	Proj.	Proj.	Projections				
	(Billions of CFA francs)												
Net foreign assets	709.6	698.5	695.5	781.0	795.2	747.2	730.3	713.4	669.7	650.0	658.8	685.5	731.3
Central Bank of West African States (BCEAO)	577.6	526.3	503.4	551.3	549.4	532.5	523.1	513.8	480.0	470.3	489.1	525.8	581.6
Banks	132.0	172.1	192.1	229.6	245.8	214.6	207.1	199.6	189.6	179.6	169.6	159.6	149.6
Net domestic assets	510.4	597.5	652.7	666.5	706.2	760.9	808.1	855.3	1,009.1	1,156.4	1,287.5	1,411.6	1,528.6
Domestic credit	555.3	707.4	772.6	765.7	767.3	822.1	869.3	916.5	1,070.2	1,217.6	1,348.7	1,472.8	1,589.8
Net claims on central government	-79.2	1.3	-8.9	-9.2	40.8	59.5	5.3	31.8	72.9	84.7	80.0	60.6	50.5
Credit to the nongovernment sector	634.5	706.1	781.5	774.9	726.5	762.6	863.9	884.6	997.3	1,132.9	1,268.7	1,412.2	1,539.3
Other items (net)	-44.9	-109.9	-109.9	-99.1	-61.2	-61.2	-61.2	-61.2	-61.2	-61.2	-61.2	-61.2	-61.2
Broad money (M2)	1,220.0	1,295.9	1,358.3	1,447.5	1,501.4	1,508.1	1,538.4	1,568.7	1,678.7	1,806.4	1,946.3	2,097.1	2,259.9
Currency	356.8	332.2	348.1	347.5	368.3	359.9	366.1	372.2	398.4	428.6	461.8	497.6	536.3
Bank deposits	854.2	954.9	1,001.2	1,090.9	1,124.4	1,139.5	1,163.6	1,187.7	1,271.7	1,369.0	1,475.7	1,590.8	1,714.9
Deposits with postal checking accounts	8.9	8.9	9.0	9.1	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7
	(Change in percent of beginning-of-period broad money, unless otherwise indicated)												
Net foreign assets	3.3	-0.9	-0.2	6.4	1.0	-2.3	-3.5	-4.7	-2.8	-1.2	0.5	1.4	2.2
Central Bank of West African States (BCEAO)	5.1	-4.2	-1.8	1.9	-0.1	-1.3	-1.9	-2.6	-2.1	-0.6	1.0	1.9	2.7
Banks	-1.8	3.3	1.5	4.4	1.1	-1.0	-1.6	-2.1	-0.6	-0.6	-0.6	-0.5	-0.5
Net domestic assets	25.5	7.1	5.0	5.3	2.7	6.5	9.8	13.0	9.8	8.8	7.3	6.4	5.6
Domestic credit	24.3	12.5	5.0	4.5	0.1	3.9	7.2	10.4	9.8	8.8	7.3	6.4	5.6
Net claims on central government	11.4	6.6	-0.8	-0.8	3.5	4.8	1.0	2.8	2.6	0.7	-0.3	-1.0	-0.5
Credit to the nongovernment sector	12.9	5.9	5.8	5.3	-3.3	-0.9	6.2	7.6	7.2	8.1	7.5	7.4	6.1
Other items (net)	1.3	-5.3	0.0	0.8	2.6	2.6	2.6	2.6	0.0	0.0	0.0	0.0	0.0
Broad money (M2)	28.8	6.2	4.8	11.7	3.7	4.2	6.3	8.4	7.0	7.6	7.7	7.8	7.8
Currency	12.5	-2.0	1.2	1.2	1.4	0.9	1.3	1.7	1.7	1.8	1.8	1.8	1.8
Bank deposits	16.2	8.2	3.6	10.5	2.3	3.4	5.0	6.7	5.4	5.8	5.9	5.9	5.9
Deposits with postal checking accounts	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:													
Velocity of broad money	2.7	2.5	2.8	2.4	…	…	…	2.3	2.3	2.3	2.3	2.3	2.3
Broad money as share of GDP	41.1	41.7	41.3	44.6	…	…	…	45.1	45.1	45.1	45.1	45.1	45.1
Credit to the nongovernment sector (year-on-year change in percent)	23.9	11.3	10.7	9.7	-6.2	-1.6	11.5	14.2	12.7	13.6	12.0	11.3	9.0
Nominal GDP (in billions of CFA francs, annual)	2,970.5	3,109.4	3,248.2	3,248.2	3,479.3	3,479.3	3,479.3	3,479.3	3,723.5	4,006.6	4,316.9	4,651.4	5,012.5
Nominal GDP growth (annual change in percent)	12.6	4.7	4.5	4.5	7.1	7.1	7.1	7.1	7.0	7.6	7.7	7.8	7.8

Sources: BCEAO; and IMF staff estimates and projections.
Note: … = not available.

Table 6. Benin: Schedule of Disbursements Under the ECF Arrangement, 2010–13

Amount	Date Available	Conditions Necessary for Disbursement
SDR 10.62 million	June 28, 2010	Disbursed. The Executive Board approved the Three-Year Arrangement on June 14, 2010.
SDR 10.61 million	December 31, 2010	Disbursed. The Executive Board concluded the first review on February 16, 2011.
SDR 10.61 million	June 1, 2011	Observance of performance criteria for March 31, 2011 and of the continuous performance criteria, and completion of the second review under the arrangement.
SDR 10.61 million	December 1, 2011	Observance of performance criteria for September 30, 2011 and of the continuous performance criteria, and completion of the third review under the arrangement.
SDR 10.61 million	June 1, 2012	Observance of performance criteria for March 31, 2012 and of the continuous performance criteria, and completion of the fourth review under the arrangement.
SDR 10.61 million	December 1, 2012	Observance of performance criteria for September 30, 2012 and of the continuous performance criteria, and completion of the fifth review under the arrangement.
SDR 10.61 million	June 1, 2013	Observance of performance criteria for March 31, 2013 and of the continuous performance criteria, and completion of the sixth review under the arrangement.
SDR 74.28 million		Total amount.

Source: International Monetary Fund.

Table 7. Benin: Indicators of Capacity to Repay the IMF, 2011–23

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
IMF obligations based on existing credit													
(in millions of SDRs)													
Principal	0.2	0.4	0.6	3.9	6.0	8.0	8.8	8.6	5.3	3.2	1.1	0.0	0.0
Charges and interest	0.0	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
IMF obligations based on existing and prospective drawings													
(in millions of SDRs)													
Principal	0.2	0.4	0.6	3.9	6.0	8.0	11.9	16.0	15.9	13.8	11.7	7.4	3.2
Charges and interest [1]	0.1	0.2	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Total obligations based on existing and prospective credit [2]													
In millions of SDRs	0.2	0.7	0.9	4.2	6.3	8.2	12.2	16.2	16.0	13.9	11.8	7.5	3.2
In billions of CFA francs	0.2	0.5	0.7	3.1	4.7	6.2	9.1	12.1	12.0	10.4	8.8	5.6	2.4
In percent of government revenue	0.0	0.1	0.1	0.4	0.5	0.6	0.8	1.0	0.9	0.7	0.6	0.3	0.1
In percent of exports of goods and services	0.0	0.1	0.1	0.4	0.6	0.7	0.9	1.1	1.0	0.8	0.6	0.4	0.1
In percent of debt service [3]	0.3	0.8	1.1	4.7	6.5	8.0	20.6	24.0	22.7	19.1	16.0	10.0	4.2
In percent of GDP	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.0
In percent of quota	0.4	1.1	1.5	6.8	10.2	13.3	19.7	26.2	25.9	22.5	19.0	12.1	5.2
Outstanding IMF credit [1]													
In millions of SDRs	56.4	77.2	97.8	93.9	87.9	79.9	68.0	52.0	36.1	22.3	10.6	3.2	0.0
In billions of CFA francs	41.4	56.7	72.3	69.9	65.8	59.8	50.9	38.9	27.0	16.7	7.9	2.4	0.0
In percent of government revenue	6.4	8.0	9.3	8.2	7.1	6.0	4.7	3.3	2.1	1.2	0.5	0.1	0.0
In percent of exports of goods and services	6.8	8.6	10.3	9.3	8.1	6.8	5.3	3.6	2.3	1.3	0.6	0.1	0.0
In percent of debt service [3]	80.0	96.9	122.1	104.0	90.7	78.2	115.2	76.8	51.0	30.6	14.4	4.2	0.0
In percent of GDP	1.2	1.5	1.8	1.6	1.4	1.2	0.9	0.7	0.4	0.2	0.1	0.0	0.0
In percent of quota	91.2	124.7	158.0	151.7	142.0	129.1	109.8	83.9	58.3	36.0	17.1	5.1	0.0
Net use of IMF credit (millions of SDRs)	21.0	20.8	20.6	-3.9	-6.0	-8.0	-11.9	-16.0	-15.9	-13.8	-11.7	-7.4	-3.2
Disbursements	21.2	21.2	21.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	0.2	0.4	0.6	3.9	6.0	8.0	11.9	16.0	15.9	13.8	11.7	7.4	3.2
Memorandum items:													
Nominal GDP (in billions of CFA francs)	3,479.3	3,723.5	4,006.6	4,316.9	4,651.4	5,012.5	5,452.0	5,924.4	6,437.7	6,995.6	7,601.7	8,260.4	8,976.2
Exports of goods and services (in billions of CFA francs)	607.5	662.6	703.1	754.9	815.2	875.7	967.6	1,069.2	1,181.5	1,305.5	1,442.6	1,594.1	1,761.5
Government revenue (in billions of CFA francs)	650.0	710.0	781.0	852.8	925.1	999.5	1,087.1	1,181.3	1,283.7	1,394.9	1,515.8	1,647.2	1,789.9
Debt service (in billions of CFA francs) [3]	51.8	58.6	59.3	67.2	72.5	76.5	44.2	50.6	52.9	54.6	55.1	56.3	57.6

Sources: IMF staff estimates and projections.

[1] Charges of interest projections reflect temporary waiver of interest payments on concessional lending in 2010–11.

[2] Prospective drawings assume the full disbursement of ECF financial support according to the disbursement schedule of the new ECF arrangement approved in June 2010.

[3] Total public debt service, including IMF repurchases and repayments.

Table 8. Benin: Millennium Development Goals, 1990–2015

	1990	1995	2000	2005	2008	2015 Target
Goal 1. Eradicate extreme poverty and hunger						
Target: Halve between 1990 and 2015, the proportion of people whose income is less than one dollar a day.						
- Population below US$1 a day (percent)	57.0	...	...	47.3	...	28.0
- Population below minimum level of dietary energy consumption (percent)	...	29.0	...	...	...	14.6
Goal 2. Achieve universal primary education						
Target: Ensure that, by 2015, children will be able to complete a full course of primary schooling						
- Net primary enrollment ratio (percent of relevant age group)	41.0	60.0	…	87.0	93.0	100.0
- Percentage of cohort reaching grade 5	55.0	...	75.0	63.0	...	100.0
- Youth literacy rate (percent age 15–24)	64.0	...	...	45.3	53.3	...
Goal 3. Promote gender equality and empower women						
Target: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education by 2015						
- Ratio of girls to boys in primary school (percent)	51.0	…	69.0	80.0	87.0	100.0
- Ratio of girls to boys in secondary school (percent)	42.0	44.0	46.0	57.0	…	100.0
- Proportion of seats held by women in the national parliament (percent)	3.0	7.0	6.0	7.0	11.0	30.0
Goal 4. Reduce child mortality						
Target: Reduce by two-thirds between 1990 and 2015 the under-five mortality rate						
- Under-five mortality rate (per 1,000)	184.0	162.0	144.0	129.0	121.0	65.0
- Infant mortality rate (per 1,000 live births)	111.0	99.0	89.0	81.0	76.0	39.0
- Immunization against measles (percent of children under 12-months)	79.0	65.0	72.0	61.0	61.0	100.0
Goal 5. Improve maternal health						
Target: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio						
- Maternal mortality ratio (modeled estimate, per 100,000 live births)	790.0	690.0	560.0	460.0	410.0	125.0
Goal 6. Combat HIV/AIDS, malaria, and other diseases						
Target: Halt by 2015, and begin to reverse, the spread of HIV/AIDS						
- HIV/AIDS prevalence	0.1	0.8	1.3	1.3	1.2	1.9
Target: Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases						
- Incidence of tuberculosis (per 100,000)	77.0	80.0	85.0	89.0	92.0	…
Goal 7. Ensure environmental sustainability						
Target: Halve by 2015 proportion of people without access to safe drinking water						
- Access to improved water source (percent of population)	56.0	61.0	66.0	72.0	75.0	100.0
Goal 8. Develop a global partnership for development						
Target: In cooperation with the private sector, make available benefits of new technologies, especially information and communications						
- Mobile cellular subscitptions (per 100 people)	0.0	0.0	1.0	8.0	40.0	…

Sources: Beninese authorities and World Bank estimates and projections.

APPENDIX I—LETTER OF INTENT

Cotonou
August 16, 2011

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC 20431, USA

Dear Ms. Lagarde:

1. The government of Benin continues to implement its economic and financial program under the Enhanced Credit Facility (ECF) to achieve its growth and poverty reduction objectives. We take the opportunity of the second review to take stock of program implementation at end-March 2011, and to define the policies and reforms we intend to implement in 2011-12.

2. All quantitative performance criteria for end-March 2011 were met, despite the extraordinary floods in 2010. However, since then, the continuous criterion on the concessionality of external debt was not observed because of two slightly nonconcessional loans. The macroeconomic framework remains broadly unchanged and the government is committed to implementing the supporting policies and reforms, as described in this letter. In that context, we request a waiver for the nonobservances of the performance criterion on the concessionality of external debt, the conclusion of the second review under the ECF, and the disbursement of the third tranche of the ECF in the amount of SDR 10.61 million.

I. Economic Developments and Program Implementation in 2010 and in the First Quarter of 2011

A. Recent economic developments and outlook

3. Real GDP grew at 2.6 percent in 2010, falling short of the 3.2 percent target, and slightly down from the previous year (2.7 percent). This lower-than-expected level of economic activity was mainly due to a slowdown in domestic demand, driven by a decline in public investment. Economic activity is projected to recover in 2011, with a projected real growth rate of 3.8 percent, thanks to the expected recovery in agriculture following the 2010 floods, increased volume of public works, and a strong performance in trade and transport.

4. The 2010 floods damaged infrastructures, destroyed cash and food crops, and adversely affected agriculture, trade, and the informal sector. Infrastructure rehabilitation and medium-term flood-prevention measures should revive the significant contribution of these

sectors to growth. The government obtained a US$50 million loan (approximately 0.6 percent of GDP) from the World Bank to support the implementation of the Emergency Urban Environment Management Project (EUEMP). This project aims at upgrading infrastructure, mitigating the environmental damage caused by the floods in Cotonou, and helping Benin to deal more effectively with floods in the future. Supplemental financing from the World Bank's Poverty Reduction Support Credit (PRSC 6) should also help cover the increased expenditure requirements caused by the floods.

5. Inflation was kept under control in 2010, at 2.1 percent on average, well below the 3 percent convergence criterion of the West African Economic and Monetary Union (WAEMU). Although inflation is projected to pick up somewhat in 2011, it would remain below the WAEMU criterion.

6. The external current account deficit, excluding grants, narrowed in 2010 by about 3.4 percentage points of GDP compared to 2009, because of the growth of nontraditional exports and a rebound in transfers from migrants, and because the increase in the cost of imported petroleum products was more than offset by a decline in imports of intermediary products. The financial and capital account balance also improved in 2010. However, the current account deficit is projected to widen by 1.1 percentage point of GDP in 2011, as investment recovers.

7. Money supply grew by 11.7 percent in 2010, driven by the increase in foreign assets of banks and loans to the private sector. It expanded by 3.7 percent in the first quarter of 2011, as increased lending to the government more than offset a decline in credit to the private sector resulting from the slowdown in economic activity during the pre-election period. Money supply is expected to continue to expand throughout the year, driven by the expansion of credit to the private sector, as the economy recovers.

8. Ten out of 13 banks complied with the decision of the WAEMU Council of Ministers to raise capital requirements. Necessary steps will be taken to bring the capital of all banks in line with the regulation. One of the three banks that do not comply yet with the requirement is under temporary administration and the authorities are exploring options concerning its future. A draft law was submitted to the National Assembly to grant to the Central Bank of West African States (BCEAO) the right to supervise and intervene in decentralized financial structures with deposits or credits larger than CFAF 2 billion (about US$4 million).

B. Budget execution

9. Despite weak economic activity, measures were implemented in the second half of 2010 to improve fiscal performance. Revenue collection, however, fell short of the end-year target. To preserve fiscal balance, the government kept expenditure below program projections. The basic primary balance target was therefore largely met. Net domestic financing, however, was slightly above the program target. The overall budget deficit (on a cash basis, excluding grants) improved from 9.3 percent in 2009 to 3.3 percent in 2010 and was financed with external concessional budget support and the issuance of treasury bills.

10. Fiscal consolidation continued in the first quarter of 2011. Revenue and expenditure were broadly in line with the program projections, and the fiscal deficit was further reduced. Total revenue amounted to CFAF 137.7 billion (4.0 percent of GDP), compared to a target of CFAF 136.6 billion. Expenditure totaled CFAF 163.0 billion (4.7 percent of GDP), well below the program target of CFAF 212.4 billion.

11. Customs revenues amounted to CFAF 63.3 billion (1.8 percent of GDP) at end-March 2011, in line with the program target of CFAF 63.1 billion. The slowdown of imports and activities in the Port of Cotonou, because of elections in Benin, Niger, and Nigeria, and the unchanged customs value of imported petroleum products had a negative impact on customs revenue in the first semester of 2011. However, the end-December 2011 target of CFAF 304.0 billion (8.7 percent of GDP) is still within reach, given the measures we plan to implement (see below).

12. Domestic tax revenue of CFAF 63.6 billion (1.8 percent of GDP) exceeded the program target in the first quarter of 2011. This performance reflected buoyant value-added and property taxes, supported by improvements in tax administration and a tightening of controls. The strengthening of inspections and the extension of the single tax identification number (TIN) to large economic operators will continue to support the growth of domestic tax revenue in 2011 to meet the end-year target of CFAF 274.0 billion (7.9 percent of GDP).

13. Nontax revenue fell short of the end-March target, reaching CFAF 10.8 billion (0.3 percent of GDP) instead of the budgeted CFAF 13.4 billion. This shortfall was due to the delay in the collection of mobile phone license fees, but is unlikely to undermine the achievement of the CFAF 72.0 billion (2.1 percent of GDP) end-year target.

14. The slowdown in spending during the pre-election period enabled us to keep expenditure well below the program target in the first quarter of 2011. Total expenditure and net lending thus amounted to CFAF 166.2 billion (4.8 percent of GDP), compared to a target of CFAF 212.4 billion. All primary expenditure categories remained below the program objectives, except for transfers, which slightly exceeded their target.

15. The indicative benchmark on priority social expenditure at end-March could not be met. Commitments of social spending amounted to CFAF 36.2 billion, about 80 percent of the targeted amount, reflecting the slowdown in public activity during the pre-election period. The government is committed to making these expenditures a priority to meet the end-year target of CFAF 132.6 billion.

16. All quantitative performance criteria were met at end-March 2011. The basic primary deficit criterion was met with a wide margin (CFAF 15.1 billion compared to the CFAF 46.4 billion target), as was the criterion on net domestic financing, despite the postponement of World Bank assistance of CFAF 11 billion to the second semester. The overall budget deficit (cash basis, excluding grants) amounted to CFAF 43.2 billion in the first quarter of 2011, equivalent to 1.2 percent of GDP, well below the CFAF 99.2 billion projection. This performance reflects the government's cautious budget execution in the pre-

election period. The overall deficit was financed by the disbursement of the second tranche under the ECF and the drawdown of government deposits in the banking system.

17. Since end-March 2011, we contracted two slightly non-concessional external loans (totaling about 0.6 percent of GDP) with a maturity over one year for infrastructure development, that were deemed to provide a positive economic rate of return. We mistakenly thought that these loans, incorporated in financing packages, could be considered as concessional. Measures have been taken to consult with Fund staff early in the negotiation process to avoid such mistakes from happening again. We request that the zero ceiling on nonconcessional loans with maturity over one year and a grant element of at least 20 percent be raised as specified in the Technical Memorandum of Understanding (TMU). We are in the process of negotiating a relatively small and slightly nonconcessional loan for road construction, a project in line with our infrastructure development priority set out in our growth strategy for poverty reduction, with international development funds. Going forward, if the new ceiling on nonconcessional debt were to be reached, we would discuss this issue in future reviews.

C. Implementation of structural reforms

18. The implementation of structural reforms in 2010-11 encountered some small delays, but mostly should be remedied in the next few months:

- audit of the General Directorate of Taxes' (DGID) computerized system and adoption of an information technology master plan were completed as scheduled (benchmark for end-June 2011);

- integration of all customs and Port of Cotonou agents in a one-stop window was achieved at end-June 2011, as scheduled; tests for the import component are underway and the export component is being finalized;

- extension of ASYCUDA++ to 12 customs units is underway for the remaining 10 units; because some supplies were blocked in Côte d'Ivoire, the project should be completed with a slight delay (end-August instead of the end-June 2011 benchmark);

- development of a complete and integrated information system at the DGID is in progress with the assistance of the Canadian Aid Agency (CIDA) and is scheduled to start in October 2011 (benchmark for end-June 2011) but its completion may take up to three years;

- modernization of the Customs Directorate's computerized system, already operational for six main units, is under way for the other units, and will be completed by end-August 2011, with a small delay compared to the end-June 2011 benchmark, because of the holding up of supplies in Côte d'Ivoire;

- extension of the TIN to large operators is operational and it is currently being extended to small operators; the extension is supported by the African Development Bank (AfDB) and will be completed by end-December 2011, as planned;

- civil service reform strategy had to be postponed (end-June 2011 benchmark) because preparatory work needs to be completed first (see paragraph 27);

- adoption by the Council of Ministers of a regulatory framework for the energy sector and the establishment of a regulatory authority and a price-setting mechanism are proceeding with support from the French Development Agency (AFD); this measure is, however, subject to a small delay and will be completed by end-August 2011(benchmark for end-June);

- the draft law governing pensions, based on the final actuarial audit of the Benin National Retirement Fund (FNRB), is being finalized and will be submitted to the National Assembly by December 2011, as planned;

- opening to the private sector capital of *Bénin Télécoms* was not achieved because the financial offer received from the initial bidder was too low; a new sectoral strategy is being prepared with support of the World Bank; and

- outsourcing the management concession of the Benin-Niger railroad network has been lagging because of elections in Niger.

II. Economic and Financial Policies and Structural Reforms for the Remainder of 2011 and for 2012

19. The government will continue to implement its economic and financial program to achieve its macroeconomic stability and sustainable development objectives.

A. Macroeconomic framework

20. The government's economic policies aim at supporting the return to strong and sustained private-sector-led growth. Key elements are the consolidation of the macroeconomic framework and the implementation of structural measures. Accordingly, growth is expected to increase to 4.3 percent in 2012. This rebound in economic activity would be driven, among other things, by the development of agriculture, increased capacity at the Port of Cotonou, and associated competitiveness gains.

21. We will continue to pursue prudent fiscal and monetary policies to keep average inflation in 2012 below the WAEMU convergence criterion of 3 percent. Credit to the private sector will increase in view of the reduction of bank financing of the government. The external current account deficit in 2012, excluding grants, is expected to remain practically at the same level as in 2011.

B. Fiscal policy

22. For the remainder of 2011, the government is committed to containing the basic primary deficit for the year as whole below the program limit (CFAF 17.6 billion, 0.5 percent of GDP). This will be achieved by catching up on the shortfall in customs revenue at end-May 2011, mainly through (i) recovery of imports following a sluggish election period; (ii) establishment of the one-stop window at the Port of Cotonou; and (iii) a new import verification program.

23. As part of its collective bargaining policy, the government is discussing salary increases with the labor unions in the civil service, but is committed to keeping the 2011 wage bill within the budgeted CFAF 270 billion envelop.

24. For 2012, the government will prepare a budget which continues to ensure fiscal sustainability. Total revenue is expected to reach 19.1 percent of GDP, while total expenditure would amount to 22.7 percent of GDP. The basic primary balance is targeted to record a small surplus at 0.2 percent of GDP.

25. Customs revenue should increase by 10 percent to CFAF 334.5 billion in 2012, inter alia because of the (i) entry into service of the one-stop window at the Port of Cotonou and the Port's increased capacity; (ii) implementation of a new-generation import verification program, which monitors transit trade and fights fraud through electronic monitoring of transit; (iii) purchase of scanners at the Port; (iv) benefit from extending ASYCUDA++ to all customs units and their inter-connection with Tax Directorate (DGDDI); and (v) strengthening of anti-fraud measures. Tax revenue should also grow by 8.7 percent to CFAF 297.7 billion, supported by several measures, including the expansion of the TIN to all taxpayers. Nontax revenues are expected to reach CFAF 77.8 billion, about the same level as the year before.

26. Total expenditure and net lending are projected to amount to CFAF 843.9 billion (22.7 percent of GDP) in 2012, an increase of 5.8 percent compared with 2011. The breakdown of expenditure should remain broadly unchanged from 2011. We plan to keep the wage bill within the program envelop of CFAF 279 billion in 2012.

C. Structural reforms

27. Our financial and economic program will be underpinned by additional structural measures during 2011-12. These include:

- submission to the Supreme Court of the draft Organic Budget Law (*Loi Organique relative aux Lois de Finances*) by December 31, 2011;

- finalization of two studies (related to the remuneration system in the civil service and the reform of the civil service) and preparation of the terms of reference and the project document for the Integrated Human Resources Management System (SIGRH) by December 31, 2011; the organizational and institutional audit of the Ministry in charge of the Civil Service is under way; these outputs will provide important inputs for the formulation of a civil service reform strategy;

- submission to the budget audit office (*Chambre des Comptes*) of the 2010 budget execution accounts by December 31, 2011;

- establishment of a joint Customs-Tax control unit by December 31 2011;

- operationalization of the computerized transit module of ASYCUDA++ between the Port of Cotonou and all land-based border posts by March 31, 2012;

- completion of a detailed review of all existing tax and customs exemptions with a view to rationalizing them; the results of this review will be presented to the Council of Ministers by June 30, 2012; and

- establishment of the Integrated Human Resources Management System (SIGRH) by December 31, 2012.[1]

III. Growth and Poverty Reduction Strategy

28. As part of its continued efforts to reduce poverty, the government prepared a third Growth and Poverty Reduction Strategy (GPRS III) for 2011-15. The strategy is the outcome of a broad participatory process that included representatives of public administration, the private sector, and civil society, from preparation to final validation. Its implementation is based on the Priority Action Program (PAP). The strategy aims at improving the population's living standards and achieving the Millennium Development Goals (MDGs), particularly in the areas of health, primary education, water, and sanitation. The macroeconomic framework of the GPRS III was based on two scenarios: a scenario consistent with the macroeconomic framework supported by the ECF, and a second scenario implemented if additional resources became available. The latter scenario foresees an acceleration in real growth to 7.5 percent over the medium term and significant progress toward reaching selected MDGs.

IV. Conclusion

29. The government believes the measures and policies described in this letter are appropriate for achieving the program objectives, and reaffirms its commitment to take any required additional measure. The government therefore requests a waiver for the nonobservances of the performance criterion on non-concessional external borrowing, the conclusion of the second ECF review, and the associated disbursement. The fourth review of

[1] The government will seek possible external concessional financing for the implementation of this project.

the program will be completed by end-September 2012, based on the observance of performance criteria on March 31, 2012.

30. Program monitoring will be based on the performance criteria, quantitative targets, and structural benchmarks defined in Tables 1 and 2 attached to this document. To facilitate the monitoring of the program, the government will regularly provide IMF staff with all the information required, as defined in the TMU, or any other additional information that it considers necessary or that the IMF staff requests.

31. The government will consult with the IMF on its own initiative or at the request of the Managing Director before adopting any additional measure or changing any of the measures included in this letter of intent to achieve program objectives. The government authorizes the IMF to publish the staff report on the discussions for the second review of the program, as well as this letter of intent.

Sincerely yours,

/s/

Adidjatou A. Mathys
Minister of the Economy and Finance

Table 1. Benin: Quantitative Performance Criteria and Indicative Targets, 2010–12
(Billions of CFA francs)

	Dec. 31, 2010	March 31, 2011				June 30, 2011	Sept. 30, 2011	Dec. 31, 2011	March 31, 2012
	Indicative Targets	Performance Criteria				Indicative Targets	Performance Criteria	Indicative Targets	Performance Criteria
	Rev. Prel.	Prog.	Adj. Prog.[1]	Prel. Est.		Proj.	Prog.	Proj.	Prog.
A. Quantitative performance criteria [2]									
Net domestic financing of the government (ceiling) [3,4]	0.2	69.9	74.9	32.3	Met	72.1	79.7	57.3	48.7
Basic primary balance (excuding grants) (floor)	15.1	-46.4	-46.4	-15.1	Met	-36.5	-48.5	-17.6	-20.5
Memorandum item : Budgetary assistance [5]	52.2	11.0	11.0	0.0		11.0	23.0	33.8	0.0
B. Continuous quantitative performance criteria (ceilings)									
Accumulation of external payments arrears	0.0	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0
External nonconcessional debt contracted or guaranteed by government with maturities of 0–1 year [6]	0.0	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0
External nonconcessional debt contracted or guaranteed by government with maturities of more than one year [6]	0.0	0.0	0.0	0.0	Met	0.0	25.0	25.0	25.0
Accumulation of domestic payments arrears	0.0	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0
C. Indicative Targets [2]									
Total revenue (floor)	603.0	136.6	136.6	137.7	Met	295.0	464.2	650.1	148.3
Payment orders issued outside the expenditure chain (ceiling) [7]	8.6	2.5	2.5	1.3	Met	4.6	7.5	10.6	2.5
Priority social expenditure (floor)	…	45.3	45.3	36.2	Not met	77.6	117.3	132.6	46.0

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

[1] The performance criterion on net domestic financing is automatically adjusted as indicated in Footnote 3 (per Paragraph 8 of the Technical Memorandum of Understanding).

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

[3] If the amount of disbursed external budgetary assistance net of external debt service obligations falls short of the program forecast, the ceiling on net domestic financing will be adjusted pro tanto, subject to limits specified in the Technical Memorandum of Understanding (Paragraph 8).

[4] If the amount of disbursed external budgetary assistance net of external debt service obligations exceeds the program forecast by 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.

[5] Gross disbursements, not adjusted for debt service obligations.

[6] Debt is considered nonconcessional if the difference between the present value (PV) of the debt and its nominal value, as a percentage of the nominal value of the debt, is lower than 35 percent. The ceiling for this continuous performance criterion will be raised with effect from the second program review.

[7] Exceptional payment procedures: stock of payment orders issued since the beginning of the calendar year and not yet regularized at each test date.

Table 2 Benin: Structural Benchmarks for 2010–12

Measures implemented	Initial Date/Revised Date	Rationale	State of Execution
Measures implemented			
(i) Adoption of an information technology (IT) master plan for the tax department (DGID) (after its audit to generalize the Tax Identification Number, TIN); (ii) the modernization of the information system of the customs department (DGDDI).	June 30, 2011	The authorities aim to contain the decline in revenue by improving the performance of the tax and customs administration.	Implemented.
Implementation of the integration and federation of all the customs and Port of Cotonou agents in a one-stop window.	June 30, 2011	The authorities aim to contain the decline in revenue by improving the performance of the tax and customs	Implemented.
Measures to be implemented			
Extension of the ASYCUDA++ information system to 12 additional regional customs offices.	December 31, 2010/ August 31, 2011	The authorities aim to improve the collection of customs revenue to expand the fiscal space for infrastructure investment and measures to reduce poverty.	Delayed. The extension to two additional border posts was achieved at end-October 2010. The extension to the remaining offices will be achieved by end-August 2011.
Starting of the development of a complete and integrated information system at the DGID.	December 31, 2010/ December 31, 2013	The authorities aim to contain the decline in revenue by improving the performance of the tax and customs administration.	Delayed. In progress with the assistance of the Canadian Aid Agency (CIDA). Scheduled to start in October 2011, but may take up to three years.
Extension of the information system of the customs department (DGDDI) to all units.	December 31, 2010/ August 31, 2011	The authorities aim to contain the decline in revenue by improving the performance of the tax and customs administration.	Delayed. To be completed by end-August 2011.
Generalization of the TIN to all taxpayers and all the units of the tax and customs administration.	December 31, 2010/ December 31, 2011	The authorities aim to contain the decline in revenue by improving the performance of the tax and customs administration.	Delayed. The generalization is already effective for large taxpayers. The generalization to small operators, with support from the African Development Bank (AfDB), will become effective by December 2011.
Generalization of the systematic use of the TIN by the DGDDI and the abolition of the use of nonspecific identification numbers at the level of ASYCUDA++ (0000000000000 and 2999999999949).	December 31, 2010/ December 31, 2011	The authorities aim to contain the decline in revenue by improving the performance of the tax and customs administration.	Delayed. The use of the identification numbers (0000000000000 and 2999999999949) has already been abolished, but the abolition of all nonspecific numbers within the ASYCUDA++ system will be achieved by December 2011.
Adoption by decision of the Council of Ministers of a strategy for the reform of the civil service.[1]	June 30, 2011/ To be determined	The authorities aim to limit the expansion of the wage bill and to maintain fiscal space for infrastructure investment and measures to reduce poverty.	Delayed. This effort is pursued with the support of technical and financial partners. Two preliminary studies on the remuneration system and civil service reform are underway and will be completed by end-December 2011 (see below).
Adoption by decision of the Council of Ministers of a regulatory framework governing the energy sector that will formally sanction the opening of electricity distribution to private investors and the establishment of a regulatory authority and of a system that will guarantee transparency in the electricity price-setting mechanism.	June 30, 2011/ August 31, 2011	The authorities aim to maintain the financial viability of the electricity company (SBEE).	Delayed. This effort is pursued with support from the French Development Agency (AFD) and will be completed by end-August 2011.
Presentation to the National Assembly of a draft law governing pensions (based on the final report on the actuarial audit of the national pension scheme, FNRB).	December 31, 2011	The authorities aim to contain the impact of FRNB's deficit on public finances by strengthening its financial viability.	In progress.
New measures agreed during the 2nd review			
Submission to the Supreme Court of a draft Organic Budget Law (LOLF).	December 31, 2011	Enhance the management of public finances.	
Finalization of the studies for the preparation of the terms of reference and the project document for the Integrated Human Resources Management System (SIGRH).	December 31, 2011	Improve the management of civil servants' compensation.	
Submission to the budget audit office (Chambres des Comptes) of the 2010 budget execution accounts.	December 31, 2011	Increase the transparency of public financial management.	
Establishment of a joint Customs-Tax control unit.	December 31, 2011	Enhance revenue mobilization.	
Operationalization of the computerized transit module of ASYCUDA++ between the Port of Cotonou and all land-based border posts.	March 31, 2012	Enhance revenue mobilization.	
Completion of a detailed review of all existing tax and customs exemption regimes, with a view to rationalizing them; the results of this review will be presented to the Council of Ministers.	June 30, 2012	Increase efficiency and transparency of public finances, and broaden the tax base.	
Establishment of the Integrated Human Resources Management System (SIGRH).	December 31, 2012	Improve the management of civil servants' compensation.	

[1] Before adoption of a strategy for civil service reform, two studies and the establishment of the SIGRH need to be completed, therefore the initial structural benchmark had to be postponed.

APPENDIX I—ATTACHMENT I

TECHNICAL MEMORANDUM OF UNDERSTANDING

August 16, 2011

1. This technical memorandum of understanding ("the Memorandum") defines the quantitative performance criteria and benchmarks, and structural benchmarks for the Republic of Benin's program supported by the Extended Credit Facility (ECF). It also sets out the frequency and deadlines for data reporting to the staff of the International Monetary Fund (IMF) for program monitoring purposes.

I. DEFINITIONS

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

3. The definitions of "debt" and "concessional borrowing" for the purposes of this Memorandum are set out in point 9 of IMF Executive Board Decision No. 6230-(79/140), as subsequently amended, including by Executive Board Decision No. 14416-(09/91), effective December 1, 2009:

(a) For the purposes of this Memorandum, debt is understood to mean a direct, that is, not contingent, liability, created under a contractual agreement through the provision of value in the form of assets (including currency) or services, which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

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

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

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

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

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

(b) A loan is considered concessional if, on the date on which the contract became effective, the ratio of the present value of the loan, based on the reference interest rates, to the nominal value of the loan is less than 65 percent (that is, the grant element of the loan is at least equal to 35 percent of its nominal value). The present value of the loan will be calculated by discounting future payments of interest and principal using the commercial interest reference rates (CIRRs) established by the Organization for Economic Cooperation and Development (OECD). Specifically, the ten-year average of CIRRs reported by the OECD will be used for loans with maturities longer than 15 years, while the six-month average of CIRRs will be used for loans with shorter maturities. To both the ten-year and six-month averages of the reference rate, the margin for different repayment periods will be added, as established by the OECD (0.75 percent for repayment periods of less than 15 years; 1.00 percent for repayment periods of 15–19 years; 1.15 percent for repayment periods of 20–29 years; and 1.25 percent for repayment periods of 30 years or more).

(c) "Domestic debt" is defined as debt denominated in CFA francs, while "external debt" is defined as debt denominated in any currency other than the CFA franc.

II. QUANTITATIVE PERFORMANCE CRITERIA

A. Ceiling on Net Domestic Financing of the Government

Definitions

4. Net domestic financing of the government is defined as the sum of: (i) net bank credit to the government, defined below; and (ii) net nonbank financing of the government, including the proceeds of the sale of government assets, which includes proceeds from the divestiture of parts of public enterprises, that is, privatizations, Treasury bills, and other securitized obligations issued by the government and listed in CFA francs on the WAEMU regional financial market, and any Central Bank of West African States (*Banque centrale des États de l'Afrique de l'Ouest*,

BCEAO) credit to the government, including any drawings on the CFA franc counterpart of the allocation of Special Drawing Rights (SDRs).

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

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

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

Adjustments

8. The ceiling on net domestic financing (NDF) of the government will be adjusted if net external budgetary assistance exceeds or falls short of the program projections indicated in paragraph 9:

- If, at the end of a quarter, net external budgetary assistance exceeds the total projected amounts (cumulative since January 1 of the same year) by over CFAF 5 billion, the NDF ceiling will be lowered by an amount equivalent to this excess minus CFAF 5 billion. However, if the excess is entirely or partly allocated to the settlement of domestic arrears above and beyond the program objective specified in paragraph 9, the NDF ceiling will be lowered by an amount equal to the excess net external budgetary assistance compared with program targets, minus the sum of (a) CFAF 5 billion and (b) the excess repayment of domestic arrears compared with program targets.

- If at the end of a quarter, net external budgetary assistance falls short of the projected amounts (cumulative since January 1 of the same year), the NDF ceiling will be increased by an amount equivalent to this shortfall, within the following limits: the increase may not exceed CFAF 10 billion at end-June 2011; CFAF 20 billion at end-September 2011; CFAF 35 billion at end-December 2011; and CFAF 5 billion at end-March 2012.

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

- The amounts of gross external budgetary assistance (cumulative since January 1 of the same year) projected in the program are: CFAF 11.0 billion at end-June 2011; CFAF 23.0 billion at end-September 2011; CFAF 33.8 billion at end-December 2011; and CFAF 0.0 billion at end-March 2012.

- The amounts of external debt service obligations (cumulative since January 1 of the same year) projected in the program are: CFAF 16.6 billion at end-June 2011; CFAF 21.7 billion at end-September 2011; CFAF 32.9 billion at end-December 2011; and CFAF 4.2 billion at end-March 2012.

- The amounts of settlement of domestic payments arrears (cumulative since January 1 of the same year) projected in the program are: CFAF 11.4 billion at end-June 2011; CFAF 14.4 billion at end-September 2011; CFAF 17.4 billion at end-December 2011; and CFAF 2.1 billion at end-March 2012.

- The amounts of settlement of external payments arrears (cumulative since January 1 of the same year) projected in the program are: CFAF 0 billion at end-June 2011; CFAF 0 billion at end-September 2011; CFAF 0 billion at end-December 2011; and CFAF 0 billion at end-March 2012.

Performance criteria and indicative targets

10. The ceiling on net domestic financing of the government (cumulative since January 1 of the same year) is set as follows: CFAF 72.1 billion at end-June 2011; CFAF 79.7 billion at end-September 2011; CFAF 57.3 billion at end-December 2011; and CFAF 48.7 billion at end-March 2012. The ceiling is a performance criterion for end-September 2011 and end-March 2012, and an indicative target for end-June 2011 and end-December 2011.

B. Floor for Basic Primary Fiscal Balance

Definition

11. The basic primary fiscal balance is defined as being equal to the difference between total fiscal revenue (tax and nontax) and basic primary fiscal expenditure (on a payment-order basis). Basic primary fiscal expenditure is defined as fiscal (current plus capital) expenditure minus (a) the payments of interest on domestic and external debt; and (b) capital expenditure financed

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

Performance criteria and indicative targets

12. The floor on the basic primary fiscal balance (cumulative since January 1 of the same year) is a balance of not less than: CFAF-36.5 billion at end-June 2011; CFAF -48.5 billion at end-September 2011; CFAF -17.6 billion at end-December 2011; and CFAF -20.5 billion at end-March 2012. The floor is a performance criterion for end-September 2011 and end-March 2012, and an indicative target for end-June 2011 and end-December 2011.

C. Nonaccumulation of New Domestic Payments Arrears by the Government

Definition

13. Domestic payments arrears are defined as domestic payments due but not paid after a 90-day grace period, unless the obligation specifies a longer grace period. The National Amortization Fund (*Caisse Autonome d'Amortissement*, CAA) and the Treasury record and update the data on the accumulation of domestic payments arrears, as well as their settlement. The definitions of debt provided in paragraph 3a, of domestic debt in paragraph 3c, and of government in paragraph 2 apply here.

Continuous performance criterion

14. The government undertakes not to accumulate any new domestic payments arrears. The nonaccumulation of new domestic payments arrears will be continuously monitored throughout the program.

D. Nonaccumulation of External Public Payments Arrears

Definition

15. External public payments arrears are defined as the sum of payments due, but not paid, by the government at the due date specified in the contract, on external debt of, or guaranteed by, the government. The definitions of debt provided in paragraph 3a, of external debt in paragraph 3c, and of government in paragraph 2 apply here.

Continuous performance criterion

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

E. Ceiling on the Contracting or Guaranteeing by the Government of New Nonconcessional External Debt Maturing in a Year or More

Definition

17. This performance criterion applies not only to debt as defined in paragraph 3a, but also to commitments contracted or guaranteed by the government (as defined in paragraph 18) (including lease-purchase contracts) for which no value has been received. This criterion also applies to private sector debt guaranteed by the government, which constitutes a contingent liability of the government. As indicated in paragraph 3c, external debt excludes Treasury bills and bonds issued in CFA francs on the WAEMU regional market. The definition of nonconcessional debt in paragraph 3b applies here.

18. The concept of "government" used for this performance criterion and for the performance criterion on the contracting or guaranteeing by the government of new short-term external debt, includes the government, as defined in paragraph 2, local governments, and all public enterprises, including administrative public agencies (*établissements publics à caractère administratif*), scientific and technical public agencies, professional public agencies, and enterprises jointly owned by the Beninese government with the governments of other countries.

Continuous performance criterion

19. No nonconcessional external borrowing, with a grant element of at least 20 percent, will be contracted or guaranteed by the government in excess of the equivalent of CFAF 25 billion for the remainder of the program. Changes to this ceiling may be made (subject to approval by the IMF Executive Board) for specific investment projects whose financial viability and profitability have been evaluated and approved by a recognized institution, and on condition that the loan does not seriously exacerbate debt vulnerabilities according to the debt sustainability analysis prepared jointly by the staffs of the World Bank and the IMF.

20. The government also undertakes not to contract or guarantee any external debt during the implementation of the program without first having determined its concessionality with IMF staff.

F. Ceiling on the Contracting or Guaranteeing by the Government of New Nonconcessional Short-Term External Debt

Definition

21. The definitions in paragraphs 17 and 18 also apply to this performance criterion.

22. Short-term external debt is debt with a contractual term of less than one year. Import- and export-related loans, Treasury bills issued in CFA francs on the WAEMU regional market, normal short-term supplier credits, and debt relief operations are not covered by this performance criterion.

Performance criterion

23. The government undertakes not to contract or guarantee short-term nonconcessional external debt.

24. The government also undertakes not to contract or guarantee any short-term external debt during the implementation of the program without first having determined its concessionality with IMF staff.

25. On June 30, 2011, Benin had no short-term external debt.

III. Indicative Targets

A. Floor for Government Revenue

Definition

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

Indicative targets

27. The indicative targets for total government revenue (cumulative since January 1 of the same year) are set as follows: CFAF 295.0 billion at end-June 2011; CFAF 464.2 billion at end-September 2011; CFAF 650.1 billion at end-December 2011; and CFAF 148.3 billion at end-March 2012.

B. Ceiling on Exceptional Payment Procedures

Definition

28. Exceptional payment procedures (*ordres de paiement hors de la chaîne de dépenses*) are defined as expenditures of a budgetary nature that are not executed following the stages of expenditure commitment (*engagement*) and validation (*liquidation*) before the payment order (*ordonnancement*) is issued, and that have not been regularized on the test date.

Indicative targets

29. The government undertakes to limit total expenditures (cumulative since January 1 of the same year) effected by exceptional payment procedures to a ceiling of: CFAF 4.6 billion at end-June 2011; CFAF 7.5 billion at end-September 2011; CFAF 10.6 billion at end-December 2011; and CFAF 2.5 billion at end-March 2012.

C. Floor for priority social expenditures

30. Priority social expenditures are determined in line with the priority programs identified in the Growth and Poverty Reduction Strategy for 2011-15 (GPRS III). These expenditures consist of selected (nonwage) expenditures in the following sectors: health; energy and water;

agriculture; youth, sports and leisure; family and national solidarity; education, microfinance and employment; and culture, literacy, and the promotion of national languages. Their execution is monitored on a payment-order basis during the program, through the integrated fiscal management system (SIGFiP).

Definition

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

Table 1. Priority Social Expenditure Categories

Budget code	Description
36 and 64	Ministry of Health
37	Ministry of Energy and Water
39	Ministry of Agriculture, Livestock, and Fisheries
40	Ministry of Youth, Sports, and Leisure
41	Ministry of the Family and National Solidarity
44	Ministry of Higher Education and Scientific Research
49	Ministry of Microfinance and for the Employment of Youth and Women
62	Ministry of Maternal and Primary Education
63	Ministry of Secondary, Technical, and Professional Education
68	Ministry of Culture, Literacy, and for the Promotion of National Languages

Indicative targets

32. The indicative targets for priority social expenditures (cumulative since January 1 of the same year) are set as follows: CFAF 77.6 billion at end-June 2011; CFAF 117.3 billion at end-September 2011; CFAF 132.6 billion at end-December 2011; and CFAF 46.0 billion at end-March 2012.

IV. Structural Benchmarks

33. The following measures will serve as structural benchmarks under the program:

- extension of the ASYCUDA++ information system to 10 additional regional customs offices by August 31, 2011;

- starting of the development of a complete and integrated information system at the tax department (*Direction Générale des Impôts et des Domaines,* DGID) by October 31, 2011;

- extension of the information system of the customs department (*Direction Générale des Douanes et des Impôts Indirects*, DGDDI) to all units, by August 31, 2011;

- generalization of the TIN to all taxpayers and to all units of the tax and customs administrations, by December 31, 2011;

- generalization of the systematic use of the tax identification number (TIN) by the DGDDI and the abolition of the use of nonspecific identification numbers at the level of ASYCUDA++ (0000000000000 and 299999999949) by December 31, 2011;

- completion of two studies (on the remuneration system in the civil service and civil service reform) by December 31, 2011 to support the adoption by decision of the Council of Ministers of a strategy for the reform of the civil service;

- adoption by decision of the Council of Ministers of a regulatory framework governing the energy sector that will formally sanction the opening of electricity distribution to private investors and the establishment of a regulatory authority and of a system that will guarantee transparency in the electricity price-setting mechanism by August 31, 2011;

- presentation to the National Assembly of a draft law governing pensions (based on the final report on the actuarial audit of the national pension scheme, FNRB) by December 31, 2011;

- submission to the Supreme Court of the draft Organic Budget Law (Loi Organique de la Loi des Finances) by December 31, 2011;

- finalization of the studies for the preparation of the terms of reference and the project document for the Integrated Human Resources Management System (SIGRH) by December 31, 2011;

- submission to the budget audit office (*Chambre des Comptes*) of the 2010 budget execution accounts by December 31, 2011;

- establishment of a joint Customs-Tax control unit by December 31, 2011;

- operationalization of the computerized transit module of ASYCUDA++ between the Port of Cotonou and all land-based border posts by March 31, 2012;

- completion of a detailed review of all existing tax and customs exemptions with a view to rationalizing them; the results of this review will be presented to the Council of Ministers by June 30, 2012; and

- establishment of the SIGRH by December 31, 2012.

V. Information for Program Monitoring

A. Data on Performance Criteria and Indicative Targets

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

Every month:

- copies of the contracts and data on any loan (terms and creditors) contracted or guaranteed by the government, in the first week after the end of the month;

- monthly consumer price index, within two weeks of the end of the month;

- the TOFE, including revenue, detailed data on net domestic financing of the government (bank and nonbank domestic financing, including the claims held by the nonbank private sector); and data on the basic primary fiscal balance, including data generated by the SIGFiP, within six weeks of the end of the month;

- data on the balance, accumulation, amount (stock), and repayment of public domestic and external payments arrears, including in the event that these arrears amount to zero, within six weeks of the end of the month; and

- the monetary survey, within eight weeks of the end of the month.

Every quarter:

- data pertaining to the amount of exceptional payment procedures or other exceptional measures, within six weeks of the end of the quarter; and

- data pertaining to priority social expenditures, within six weeks of the end of the quarter.

B. Other information

35. The government will provide Fund staff with the following data:

Every month:

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

Every quarter:

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

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

On an *ad hoc* basis:

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

INTERNATONAL MONETARY FUND

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

BENIN

Joint IMF/World Bank Debt Sustainability Analysis 2011[1]

Prepared by the Staffs of the International Monetary Fund (IMF) and

the International Development Association (IDA)

Approved by Michael Atingi Ego and Thomas Dorsey (IMF) and
Jeffrey Lewis and Marcelo Giugale (IDA)

August 24, 2011

This debt sustainability analysis (DSA) suggests that Benin's risk of debt distress is low. Under baseline projections, all external debt indicators remain below their respective thresholds over the long run. This assessment rests however on the assumption that macroeconomic policies remain prudent, structural reforms are promptly implemented and effectively enhance growth and competitiveness, and that the fiscal deficit continues to be financed largely with external concessional assistance. Under stress test conditions reflecting the past value and variability of key macroeconomic variables, debt sustainability indicators would worsen but would remain below sustainability thresholds.

[1] Prepared by IMF and IDA staff in collaboration with the Beninese authorities and staff of the African Development Bank. The fiscal year for Benin is January 1–December 31. The previous DSA update was performed in May 2010 (IMF Country Report No. 10/195).

I. Introduction

1. **This DSA uses the debt sustainability framework for low-income countries.** Debt sustainability is assessed in relation to country-specific, policy-dependent thresholds for debt stock and debt service burden. On the basis of the Country Policy and Institutional Assessment (CPIA) rating, Benin is classified as a medium performer in terms of policies;[2] accordingly, the sustainability thresholds for the net present value (PV) of external debt for Benin are set at 40 percent of GDP, 150 percent of exports, and 250 percent of revenue, respectively, while the sustainability thresholds for external debt service are set at 20 percent of exports and 30 percent of revenue, respectively.[3] This DSA is conducted on a gross basis.

II. Background

2. **Benin's external debt remains at a comfortable level, after undergoing a significant reduction in 2003 under the Highly Indebted Poor Countries (HIPC) initiative and in 2006 under the Multilateral Debt Reduction Initiative (MDRI).**[4] At the end of 2010, Benin's external debt amounted to about $1.3 billion, equivalent to 19 percent of GDP, mostly consisting of official concessional loans; 83 percent of this debt was owed to multilateral creditors, including outstanding credit to the IMF for SDR 35.4 million, and 17 percent was owed to bilateral creditors.[5]

3. **Domestic debt represented about 20 percent of total public debt at end-2010.** The stock of domestic debt at end-2010 amounted to 12.1 percent of GDP, including securitized wage arrears for 3.2 percent of GDP, that are being repaid according to a specified multi-year schedule, as well as treasury bills and central bank-secured bonds issued on the regional debt market on nonconcessional terms. These issues have been increasing since 2006, reflecting the expansion of the regional debt market and fiscal slippages in 2009 and 2010, but are expected to decrease as a share of GDP in the medium term in line with the authorities' prudent borrowing strategy.

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[2] The quality of data underlying the DSA remains uneven. The DSA is based primarily on data provided by the public debt management department of the Ministry of Finance of Benin (*Caisse Autonome d'Amortissement*). Data on private external debt are not available. In 2010, West AFRITAC (West Africa Technical Assistance Center) provided technical assistance to improve debt data management.

[3] Benin's CPIA rating for 2007–09 was 3.54; a rating between 3.25 and 3.75 corresponds to a medium performance (as opposed to weak or strong performance).

[4] As a result of these initiatives, Benin's external debt stock declined from 43 percent of GDP at end-2002 to 11 percent of GDP at end-2006.

[5] Since no data on private external debt are available, overall external debt stock is here equal to the public or publicly guaranteed external debt.

4. **The stock of debt increased by 2.8 percentage points of GDP in 2010, reflecting the mobilization of external concessional loans to finance the budget.** New concessional loans amounted to $160 million, including budget support from the World Bank for about $30 million under the sixth Poverty Reduction Support Credit (PRSC 6) and loans earmarked to finance the Public Investment Program for about $115 million. These loans, together with foreign direct investment of $120 million and external grants of $100 million, contributed to finance the external current account deficit, which narrowed to $450 million, equivalent to 6.9 percent of GDP, driven by improvements in the balance of goods and services.

5. **Benin's risk of debt distress was classified as moderate in the previous DSA in May 2010.**[6] Under the baseline scenario, all external debt indicators were projected to remain below their indicative thresholds over the long run. However, it was noted that debt ratios moved rapidly toward the thresholds, or breached them, under less favorable scenarios.

III. Underlying Assumptions

6. **This DSA is based on the same macroeconomic and policy assumptions as those used in the previous DSA, with slight adjustments reflecting updated medium-term projections and a more prudent assessment of the long-term growth prospects** (Table 1; Box 1). As in the previous DSA, baseline projections assume that (i) key structural reforms aimed at enhancing competitiveness and growth would be adopted over the medium term; (ii) the authorities would proceed with their plans to improve public infrastructure; (iii) fiscal policy would remain prudent, to maintain macroeconomic stability; and (iv) concessional assistance from external official donors would continue to be available to finance the budget deficit and public investment. However, long-term projections of real GDP growth and of the non-interest external current account balance have been adjusted to take account of the risk that recent increases in petroleum and commodity prices may be permanent and could have an adverse impact on Benin's economy, and that structural reforms may be introduced at a slower pace than previously expected. Real GDP growth is now expected to increase to an annual rate of 5 percent over the medium to long term (compared with 6 percent in the previous DSA), the non-interest current account deficit is projected to remain at about 5.5 percent of GDP in the long term (compared with 5.3 percent in the previous DSA), and average annual inflation is projected to rise to 3 percent in the long run (compared with 2.5 percent in the previous DSA); revenue is projected (more prudently, consistently with the recent experience) to stabilize at about 22 percent of GDP, and, in response, the primary fiscal deficit is projected to stay at 1.25 percent of GDP in the long

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[6] IMF Country Report No. 10/195.

term. Compared with the previous DSA, medium-term projections have been revised in line with recent updates in the medium-term macroeconomic framework.[7]

Table 1. Benin: Key Long-Term Assumptions (2017-31)
(In percent, unless otherwise indicated)

Parameter	Current DSA	Previous DSA
Real GDP growth	*5.0*	*6.0*
Inflation	*3.0*	*2.5*
Annual devaluation of the CFA franc vis-à-vis the dollar	0.5	0.5
Primary balance (in percent of GDP)	-1.3	-1.0
Revenue (in percent of GDP)	*22.0*	*25.0*
Grants (in percent of GDP)	*2.0*	*2.8*
Noninterest external current account balance (in percent of GDP)	*-5.5*	*-5.3*
Transfers (in percent of GDP)	*4.0*	*6.0*
Growth in remittances	9.0	9.0
Foreign direct investment (in percent of GDP)	2.1	2.1
Interest on domestic debt	*5.5*	*5.0*

7. **After the slippages of 2009, fiscal policy has been brought to a more sustainable footing.** The primary deficit, including grants, which improved from 3.8 percent of GDP in 2009 to 1.0 percent of GDP in 2010, is expected to turn into a surplus of 0.6 percent of GDP by 2016, as a result of structural reforms aimed at strengthening revenue mobilization and improving public financial management.

[7] Discussed in the companion IMF country report on the second review under the Extended Credit Facility (ECF) arrangement.

Box 1. Macroeconomic Assumptions

Medium term (2011–16): The projections are consistent with the macroeconomic framework of the Second Review under the ECF Arrangement and reflect a recovery after the crisis, as well as fiscal policies aimed at maintaining macroeconomic stability, protecting vulnerable groups, and enhancing investment in public infrastructure. A key assumption is that concessional financing from external donors would continue to be available throughout the projection period. The analysis also assumes the implementation of structural reforms aimed at increasing efficiency and competitiveness and improving the business climate. As a result, after slowing down to 2.6-2.7 percent in 2009–10, real GDP growth is projected to record a long-term sustainable level of 5 percent, while fiscal prudence and the anchor of the fixed exchange rate peg are expected to keep inflation at 3 percent. The primary fiscal deficit is projected to turn into a surplus of 0.6 percent of GDP by 2016, reflecting improvements in public fiscal management and efforts to contain recurrent expenditures. The noninterest external current account deficit is expected to widen in 2011 and 2012 and then to narrow to about 5 ½ percent of GDP by 2016, as fiscal adjustment dampens demand for imports.

Long term (2017–31): 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 5 percent in line with its long-term potential.
- **Inflation** would remain at about 3 percent.
- **The primary fiscal deficit** would stabilize at about 1¼ percent of GDP, following improvements in revenue collection and continued efforts to contain nonpriority recurrent expenditures, in particular the wage bill.
- **The noninterest external current account deficit** would remain at about 5 ½ percent of GDP, reflecting a growing demand for imports supported by foreign direct investment and workers' remittances and only partly compensated by growing exports.
- Improved infrastructure and a more favorable business climate would attract net **foreign direct investment** equivalent to about 2 percent of GDP per year.
- Reflecting continued support from donors for Benin's infrastructural development and reform efforts, gross financing needs are assumed to be largely covered by external official grants and concessional loans.
- Over the medium and long term, the DSA assumes that the authorities will continue to benefit from concessional borrowing mainly from multilateral donors, with a grant element equivalent to about 33 percent.
- Reflecting the authorities' commitment to a prudent borrowing strategy and the regular repayment of outstanding securitized wage arrears, government domestic debt is expected to decrease from 12 percent of GDP at end-2010 to 4 percent of GDP in 2031.
- The annual real interest rate on domestic debt is projected at 2.5 percent.

IV. Debt Sustainability Assessment

A. General Assessment and Debt Distress Classification

8. **Benin is at a low risk of debt distress.** The improvement compared with the previous DSA (when the risk of debt distress was considered moderate) stems from the better-than-expected export performance in 2010, stemming from a transitory increase in international cotton prices and from a more persistent improvement in nontraditional exports.[8] As a result, all external debt and debt service ratios, including the PV of debt-to-GDP ratio, remain well below the policy-dependent thresholds throughout the projection period, both under baseline assumptions and under standard stress tests (Figure 1). Debt service, in particular, is projected to remain low in percent of exports and revenue, confirming that borrowing on concessional terms enhances Benin's capacity to honor its debt obligations.[9]

9. **This assessment depends nevertheless on a set of favorable assumptions on growth, fiscal consolidation, and the availability of external non-debt and concessional financing.** Although this scenario is considered realistic under the program, less favorable developments, such as delays in achieving a higher sustainable rate of growth, a less prolonged willingness of external donors to provide concessional funds, or weaker inflows of investment and remittances, could significantly weaken sustainability. The 2010 debt sustainability analysis concluded, on the basis of standard stress tests based on a more volatile reference period, that Benin had a moderate risk of debt distress.[10] The current assessment seems consistent with Benin's improved debt and economic situation, but the comparison with the 2010 assessment highlights the fact that debt sustainability can worsen significantly even as a result of comparatively modest deterioration in macroeconomic developments.

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[8] These changes compared to earlier projections have been incorporated in the medium-term export projections. The improvement in exports compared with the 2010 DSA projections is less prominent when measured in dollar terms (6.5 percent) than in CFA francs (18.3 percent), as the 5 percent depreciation of the CFA franc vis-à-vis the dollar in 2010 was not anticipated in the 2010 DSA projections, which assumed instead a 5 percent appreciation. A fraction of exports of goods and services, however, is accounted for by re-exports, which is a potential risk factor.

[9] The assessment, however, does include a one-time slightly nonconcessional loan in the amount of $10 million (0.13 percent of GDP) in 2012, reflecting the authorities' current commitments.

[10] In the 2010 DSA, the rate of PV to exports crossed its policy-based threshold and remained about 5 percentage points above it for four years under stress test assumptions that export growth in 2011 and 2012 would be equal to the average of the past ten years minus one standard deviation. In the current DSA, exports remain below the threshold even under this scenario, as average export growth was stronger, and its variance lower, in the ten years to 2010 than it was from 2000 to 2009.

10. **Most notably, the current assessment critically depends on a prompt implementation of the authorities' program of prudent macroeconomic policies and efficiency-enhancing structural reforms.** These policies will be essential to promote growth, expand exports, attract foreign direct investments, and contain the fiscal deficit, thus improving long-term debt dynamics. It is also critical that the authorities continue to cover their financing needs primarily with external concessional assistance**.**

11. **The authorities concur with the overall conclusions of the DSA, which is in line with their own debt sustainability analysis.** The authorities have confirmed their commitment to a prudent borrowing strategy centered on an ongoing mobilization of grants and concessional external loans, with limited borrowing on nonconcessional terms on the regional market to cover short-term budget financing needs. The authorities have however underlined that limited borrowing on slightly nonconcessional terms might be necessary to finance infrastructural projects with a high rate of return for which concessional funds are not readily available. The authorities also intend to preserve fiscal and debt sustainability by pursuing a prudent policy of medium-term fiscal consolidation.

B. External Debt

12. **Under baseline assumptions, the external debt-to-GDP ratio stabilizes at about 20 percent of GDP, slightly above current levels** (Figure 1). The PV of external debt is projected to increase moderately, from 13 percent of GDP and 70 percent of revenue in 2010 to about 15 percent of GDP and 72 percent of revenue by 2031, also reflecting a decline in the average grant element of new loans associated with a gradual reduction in the availability of concessional financing. In proportion of exports, the PV of debt is projected to decline below current levels after peaking at 83 percent in 2018. Debt service payments are projected not to exceed 5 ½ percent of exports and revenue, and to decline as a share of both in the long term (Table 2).

13. **External vulnerability indicators worsen only slightly under standard stress test conditions.** The most significant risks would occur if key macroeconomic parameters remained at their average level of the past ten years;[11] in this case, the PV of debt would continue to increase to about 25 percent of GDP and 130 percent of revenue by 2031, and would stabilize at about 110 percent of exports after 2020 (Table 3; Figure 1), remaining, however, within the sustainability thresholds. The ratios of debt service to exports and to revenue would remain well below their respective thresholds under all standard stress tests. It should be noted that all stress tests assume a continued availability of concessional financing.

[11] Specifically, it is assumed that real GDP would grow by 3.9 percent per year, that the GDP deflator in U.S. dollar terms would increase by 6.9 percent per year, that the noninterest external current account deficit would stay at 7.7 percent of GDP, and that net foreign direct investment (FDI) inflows would amount to 1.8 percent of GDP throughout the projection period.

C. Public Debt

14. **Public debt indicators are projected to improve in the medium term with the repayment of securitized wage arrears and continued reliance on external concessional assistance to finance the deficit** (Figure 2). The stock of total public debt is projected to decline from 31 percent of GDP in 2010 to about 25 percent of GDP by 2024, and its PV is projected to decline, from about 25 percent of GDP and 135 percent of revenue in 2010 to about 20 percent of GDP and 90 percent of revenue in 2031. Public debt service is projected to decline significantly as a share of revenue, from 17 percent in 2011 to less than 10 percent in 2013 to about 5 percent in 2017, reflecting the gradual repayment of the remaining stock of securitized wage arrears and a net reduction in the stock of debt issued on nonconcessional terms in the regional market (Table 4).

15. **Stress tests show a somewhat less favorable development.** Under the most extreme shock scenario (which would occur if real GDP growth and the primary fiscal balance remained at the average level of 2001-10[12]), the PV of debt-to-GDP ratio would stabilize at about 25 percent, while the debt-to-revenue ratio would peak at 121 percent in 2016 and then decline to about 117 percent of GDP by 2031. Under another standard stress test scenario, under which real GDP growth in 2012 and 2013 would be equal to its historical average minus one standard deviation,[13] the PV of debt would stabilize at 24 percent of GDP and about 110 percent of revenue; a similar outcome would occur if both real GDP growth and the primary fiscal balance in 2012 and 2013 were equal to their historical average minus one-half their standard deviations (Table 5; Figure 2).[14] The stress tests show, predictably, a high sensitivity of debt indicators to lower GDP growth. A prompt and effective implementation of structural reforms aimed at increasing growth and competitiveness thus appears critical to maintain debt sustainability.

[12] 3.9 percent and 1.6 percent of GDP, respectively.

[13] 2.7 percent.

[14] 3.3 percent and 2.6 percent of GDP, respectively.

Table 2: External Debt Sustainability Framework, Baseline Scenario, 2008-2031 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2008	2009	2010			2011	2012	2013	2014	2015	2016	2011-2016 Average	2021	2031	2017-2031 Average
External debt (nominal) 1/	**16.8**	**16.5**	**19.0**			**18.6**	**19.6**	**20.3**	**20.5**	**20.7**	**21.1**		**22.0**	**20.3**	
o/w public and publicly guaranteed (PPG)	16.8	16.5	19.0			18.6	19.6	20.3	20.5	20.7	21.1		22.0	20.3	
Change in external debt	5.1	-0.3	2.5			-0.4	1.0	0.7	0.1	0.3	0.3		-0.2	-0.1	
Identified net debt-creating flows	...	7.5	5.2			5.5	4.9	4.1	3.3	3.0	2.7		2.8	2.8	
Non-interest current account deficit	**...**	**8.7**	**6.7**	**7.7**	**1.4**	**7.4**	**7.2**	**6.6**	**6.1**	**6.0**	**5.7**		**5.6**	**5.5**	5.6
Deficit in balance of goods and services	13.4	13.3	11.1			11.9	11.0	10.7	10.0	9.7	9.4		9.5	9.6	
Exports	17.8	16.7	18.0			17.5	17.8	17.5	17.5	17.5	17.5		19.5	24.1	
Imports	31.1	30.0	29.1			29.4	28.8	28.3	27.5	27.2	26.8		29.0	33.7	
Net current transfers (negative = inflow)	-5.5	-4.9	-4.5	-5.4	0.9	-4.5	-3.8	-4.1	-4.0	-3.8	-3.8		-3.8	-4.0	-3.9
o/w official	-3.0	-3.8	-3.0			-2.8	-2.0	-2.2	-2.2	-2.0	-2.1		-2.1	-2.1	
Other current account flows (negative = net inflow)	...	0.2	0.0			0.0	0.0	0.0	0.0	0.1	0.1		0.0	0.0	
Net FDI (negative = inflow)	**-2.6**	**-1.6**	**-1.8**	**-1.8**	**1.2**	**-1.6**	**-1.9**	**-2.0**	**-2.1**	**-2.2**	**-2.3**		**-2.1**	**-2.1**	-2.1
Endogenous debt dynamics 2/	**...**	**0.4**	**0.3**			**-0.4**	**-0.4**	**-0.6**	**-0.7**	**-0.7**	**-0.8**		**-0.7**	**-0.6**	
Contribution from nominal interest rate	...	0.3	0.2			0.3	0.3	0.3	0.3	0.2	0.2		0.3	0.3	
Contribution from real GDP growth	-0.5	-0.5	-0.4			-0.6	-0.7	-0.9	-0.9	-1.0	-1.0		-1.0	-0.9	
Contribution from price and exchange rate changes	-1.6	0.6	0.5			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**...**	**-7.9**	**-2.7**			**-5.9**	**-3.8**	**-3.4**	**-3.2**	**-2.8**	**-2.4**		**-3.1**	**-2.9**	
o/w exceptional financing	...	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	13.0			12.7	13.2	13.5	13.5	13.8	14.1		15.4	14.6	
In percent of exports	...	...	72.1			72.6	74.0	76.7	77.5	78.6	80.8		79.1	60.6	
PV of PPG external debt	**...**	**...**	**13.0**			**12.7**	**13.2**	**13.5**	**13.5**	**13.8**	**14.1**		**15.4**	**14.6**	
In percent of exports	**...**	**...**	**72.1**			**72.6**	**74.0**	**76.7**	**77.5**	**78.6**	**80.8**		**79.1**	**60.6**	
In percent of government revenues	**...**	**...**	**70.1**			**67.9**	**69.1**	**69.1**	**68.6**	**69.3**	**70.8**		**76.1**	**72.3**	
Debt service-to-exports ratio (in percent)	**...**	**3.4**	**4.1**			**5.0**	**5.4**	**5.4**	**5.2**	**4.9**	**4.5**		**3.9**	**3.1**	
PPG debt service-to-exports ratio (in percent)	**...**	**3.4**	**4.1**			**5.0**	**5.1**	**5.1**	**4.9**	**4.8**	**4.4**		**3.9**	**3.1**	
PPG debt service-to-revenue ratio (in percent)	**...**	**3.1**	**4.0**			**4.7**	**4.8**	**4.6**	**4.4**	**4.3**	**3.9**		**3.7**	**3.7**	
Total gross financing need (Millions of U.S. dollars)	383.4	506.2	368.9			504.7	502.8	479.4	449.3	453.3	444.4		662.7	1413.3	
Non-interest current account deficit that stabilizes debt ratio	...	9.0	4.2			7.8	6.2	5.9	5.9	5.7	5.4		5.8	5.6	
Key macroeconomic assumptions															
Real GDP growth (in percent)	5.0	2.7	2.6	3.9	1.2	3.8	4.3	4.8	5.0	5.0	5.0	4.6	5.0	5.0	5.0
GDP deflator in US dollar terms (change in percent)	15.3	-3.5	-3.0	6.9	8.2	10.2	2.6	1.7	1.7	1.8	1.9	3.3	3.0	3.0	3.0
Effective interest rate (percent) 5/	...	1.7	1.4	1.6	0.2	1.5	1.8	1.8	1.4	1.1	1.0	1.4	1.7	1.8	1.5
Growth of exports of G&S (US dollar terms, in percent)	26.9	-6.8	7.4	13.4	17.2	10.7	9.0	5.2	6.4	7.1	6.6	7.5	10.5	10.5	10.5
Growth of imports of G&S (US dollar terms, in percent)	15.7	-4.4	-3.5	13.1	18.1	15.3	4.9	4.8	3.8	5.7	5.6	6.7	9.8	9.8	9.8
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	33.6	39.8	41.1	37.1	35.1	34.0	36.8	33.3	32.1	32.8
Government revenues (excluding grants, in percent of GDP)	19.6	18.5	18.6			18.7	19.1	19.5	19.8	19.9	19.9		20.2	20.2	20.2
Aid flows (in Millions of US dollars) 7/	116.9	212.5	97.4			257.6	248.6	286.5	259.9	253.2	262.1		352.1	683.8	
o/w Grants	116.9	212.5	97.4			192.7	140.6	168.7	179.2	179.5	189.0		279.0	610.7	
o/w Concessional loans	0.0	0.0	0.0			64.8	108.0	117.8	80.7	73.7	73.1		73.1	73.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			3.5	2.8	3.0	2.7	2.6	2.6		2.4	2.4	2.5
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			65.5	63.5	66.7	67.6	64.4	63.3		66.1	65.8	65.0
Memorandum items:															
Nominal GDP (Millions of US dollars)	6668.4	6605.9	6574.2			7519.8	8044.1	8579.1	9162.5	9795.3	10474.7		15497.9	33926.5	
Nominal dollar GDP growth	21.1	-0.9	-0.5			14.4	7.0	6.7	6.8	6.9	6.9	8.1	8.2	8.2	8.2
PV of PPG external debt (in Millions of US dollars)			851.9			959.5	1055.4	1150.4	1236.9	1344.9	1473.7		2375.4	4937.9	
(PVt-PVt-1)/GDPt-1 (in percent)						1.6	1.3	1.2	1.0	1.2	1.3	1.3	1.1	1.1	1.3
Gross workers' remittances (Millions of US dollars)	200.7	123.0	140.7			164.3	181.5	197.0	201.5	209.0	215.7		331.9	785.8	
PV of PPG external debt (in percent of GDP + remittances)	...	...	12.7			12.4	12.9	13.2	13.3	13.5	13.8		15.1	14.3	
PV of PPG external debt (in percent of exports + remittances)	...	...	64.4			64.5	65.7	67.8	68.8	70.1	72.3		71.2	55.3	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	3.6			4.5	4.5	4.5	4.4	4.3	4.0		3.5	2.8	

Sources: Country authorities; and staff estimates and projections.

1/ Includes debt denominated in CFA francs toward regional multilateral creditors.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that PV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
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 3.Benin: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2011-2031
(In percent)

	Projections							
	2011	2012	2013	2014	2015	2016	**2021**	2031
PV of debt-to GDP ratio								
Baseline	13	13	13	14	14	14	**15**	15
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	13	13	14	15	16	17	**23**	26
A2. New public sector loans on less favorable terms in 2011-2031 2	13	14	15	16	16	17	**21**	23
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	13	13	14	14	14	15	**16**	15
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	13	15	17	17	17	17	**18**	16
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	13	14	14	14	15	15	**16**	16
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	13	13	14	14	15	15	**16**	15
B5. Combination of B1-B4 using one-half standard deviation shocks	13	13	14	14	14	15	**16**	15
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	13	19	19	19	19	20	**22**	21
PV of debt-to-exports ratio								
Baseline	73	74	77	77	79	81	**79**	61
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	73	73	78	83	90	98	**116**	109
A2. New public sector loans on less favorable terms in 2011-2031 2	73	79	86	89	94	100	**110**	96
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	73	74	76	77	78	81	**79**	60
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	73	93	121	121	121	123	**114**	80
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	73	74	76	77	78	81	**79**	60
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	73	76	82	82	83	85	**82**	61
B5. Combination of B1-B4 using one-half standard deviation shocks	73	77	83	84	85	87	**84**	64
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	73	74	76	77	78	81	**79**	60
PV of debt-to-revenue ratio								
Baseline	68	69	69	69	69	71	**76**	72
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	68	69	70	74	79	86	**112**	130
A2. New public sector loans on less favorable terms in 2011-2031 2	68	74	77	79	83	87	**106**	114
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	68	70	71	71	71	73	**79**	75
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	68	76	88	86	86	87	**89**	77
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	68	72	74	73	74	76	**81**	77
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	68	71	73	73	73	75	**79**	73
B5. Combination of B1-B4 using one-half standard deviation shocks	68	70	73	72	72	74	**79**	74
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	68	97	97	97	98	100	**107**	102

Table 3 (contd.) Benin: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2011-2031
(In percent)

	Projections							
	2011	2012	2013	2014	2015	2016	**2021**	2031
Debt service-to-exports ratio								
Baseline	5	5	5	5	5	4	**4**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	5	5	5	5	4	4	**4**	4
A2. New public sector loans on less favorable terms in 2011-2031 2	5	5	5	5	5	5	**5**	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	5	5	5	5	5	4	**4**	3
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	5	6	7	7	7	6	**5**	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	5	5	5	5	5	4	**4**	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	5	5	5	5	5	5	**4**	3
B5. Combination of B1-B4 using one-half standard deviation shocks	5	5	5	5	5	5	**4**	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	5	5	5	5	5	4	**4**	3
Debt service-to-revenue ratio								
Baseline	5	5	5	4	4	4	**4**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	5	5	4	4	4	4	**4**	5
A2. New public sector loans on less favorable terms in 2011-2031 2	5	5	5	5	5	4	**5**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	5	5	5	5	4	4	**4**	4
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	5	5	5	5	5	4	**4**	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	5	5	5	5	5	4	**4**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	5	5	5	4	4	4	**4**	4
B5. Combination of B1-B4 using one-half standard deviation shocks	5	5	5	4	4	4	**4**	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	5	7	6	6	6	6	**5**	5
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	32	32	32	32	32	32	**32**	32

Sources: Country authorities; and staff estimates and projections.

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 4. Benin: Public Sector Debt Sustainability Framework, Baseline Scenario, 2008-2031
(In percent of GDP, unless otherwise indicated)

	Actual					Estimate					Projections				
	2008	2009	2010	Average 5/	Standard Deviation 5/	2011	2012	2013	2014	2015	2016	2011-16 Average	2021	2031	2017-31 Average
Public sector debt 1/	26.9	28.3	31.1			30.7	30.4	30.1	29.1	28.2	27.2		26.1	24.0	
o/w external	16.8	16.5	19.0			18.6	19.6	20.3	20.5	20.7	21.1		22.0	20.3	
Change in public sector debt	5.8	1.4	2.8			-0.4	-0.3	-0.4	-1.0	-0.8	-1.0		-0.3	-0.2	
Identified debt-creating flows	0.1	1.4	1.5			-1.7	-0.2	-1.0	-1.6	-1.8	-1.9		-0.2	-0.1	
Primary deficit	1.4	3.8	1.0	1.6	1.9	0.8	0.9	0.1	-0.3	-0.5	-0.6	0.1	1.3	1.3	1.3
Revenue and grants	21.3	21.7	20.0			21.2	20.8	21.5	21.7	21.7	21.7		22.0	22.0	
of which: grants	1.8	3.2	1.5			2.6	1.7	2.0	2.0	1.8	1.8		1.8	1.8	
Primary (noninterest) expenditure	22.7	25.5	21.1			22.0	21.8	21.6	21.4	21.2	21.1		23.3	23.3	
Automatic debt dynamics	-1.2	-1.8	1.0			-2.5	-0.9	-1.1	-1.2	-1.2	-1.3		-1.5	-1.3	
Contribution from interest rate/growth differential	-2.8	0.2	0.1			-2.3	-1.1	-1.1	-1.2	-1.2	-1.3		-1.5	-1.3	
of which: contribution from average real interest rate	-1.7	0.9	0.8			-1.2	0.2	0.3	0.2	0.1	0.1		-0.2	-0.2	
of which: contribution from real GDP growth	-1.0	-0.7	-0.7			-1.1	-1.3	-1.4	-1.4	-1.4	-1.3		-1.3	-1.2	
Contribution from real exchange rate depreciation	1.6	-2.0	0.9			-0.2	0.2	0.0	0.0	0.0	0.0		...	...	
Other identified debt-creating flows	-0.2	-0.6	-0.5			0.0	-0.3	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-0.2	-0.6	-0.5			0.0	-0.3	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	5.8	0.0	1.3			1.3	0.0	0.6	0.6	0.9	0.8		-0.1	-0.1	
Other Sustainability Indicators															
PV of public sector debt	...	...	25.1			24.8	24.0	23.2	22.1	21.3	20.2		19.5	18.3	
o/w foreign-currency denominated	...	...	13.0			12.7	13.2	13.5	13.5	13.8	14.1		15.4	14.6	
o/w external	...	...	13.0			12.7	13.2	13.5	13.5	13.8	14.1		15.4	14.6	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of public sector debt-to-revenue and grants ratio (in percent)	…	…	125.2			116.8	115.3	108.0	101.9	97.9	93.0		88.5	83.1	
PV of public sector debt-to-revenue ratio (in percent)	…	…	135.2			132.8	125.9	118.9	112.0	106.9	101.4		96.4	90.5	
o/w external 3/	…	…	70.1			67.9	69.1	69.1	68.6	69.3	70.8		76.1	72.3	
Debt service-to-revenue and grants ratio (in percent) 4/	6.3	6.0	7.2			15.1	11.8	8.8	9.4	8.8	8.1		4.4	4.2	
Debt service-to-revenue ratio (in percent) 4/	6.9	7.1	7.8			17.2	12.9	9.7	10.3	9.7	8.9		4.8	4.6	
Primary deficit that stabilizes the debt-to-GDP ratio	-4.5	2.3	-1.7			1.2	1.2	0.5	0.7	0.3	0.4		1.5	1.4	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	5.0	2.7	2.6	3.9	1.2	3.8	4.3	4.8	5.0	5.0	5.0	4.6	5.0	5.0	5.0
Average nominal interest rate on forex debt (in percent)	1.5	1.7	1.4	2.9	4.7	1.5	1.5	1.5	1.2	1.0	0.9	1.3	1.7	1.8	1.5
Average real interest rate on domestic debt (in percent)	-4.6	0.5	0.8	-1.1	3.0	2.4	3.1	3.0	3.2	3.5	3.7	3.2	1.9	1.9	1.9
Real exchange rate depreciation (in percent, + indicates depreciation)	16.2	-11.7	5.2	0.6	10.1	-1.0	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	7.2	2.0	1.8	2.8	1.9	3.2	2.6	2.7	2.6	2.6	2.6	2.7	3.5	3.5	3.5
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	0.2	-0.2	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	…	…	33.6	39.8	41.1	37.1	35.1	34.0	36.8	33.3	32.1	...

Sources: Country authorities; and staff estimates and projections.

1/ Indicates coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.

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/ Revenues excluding grants.

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

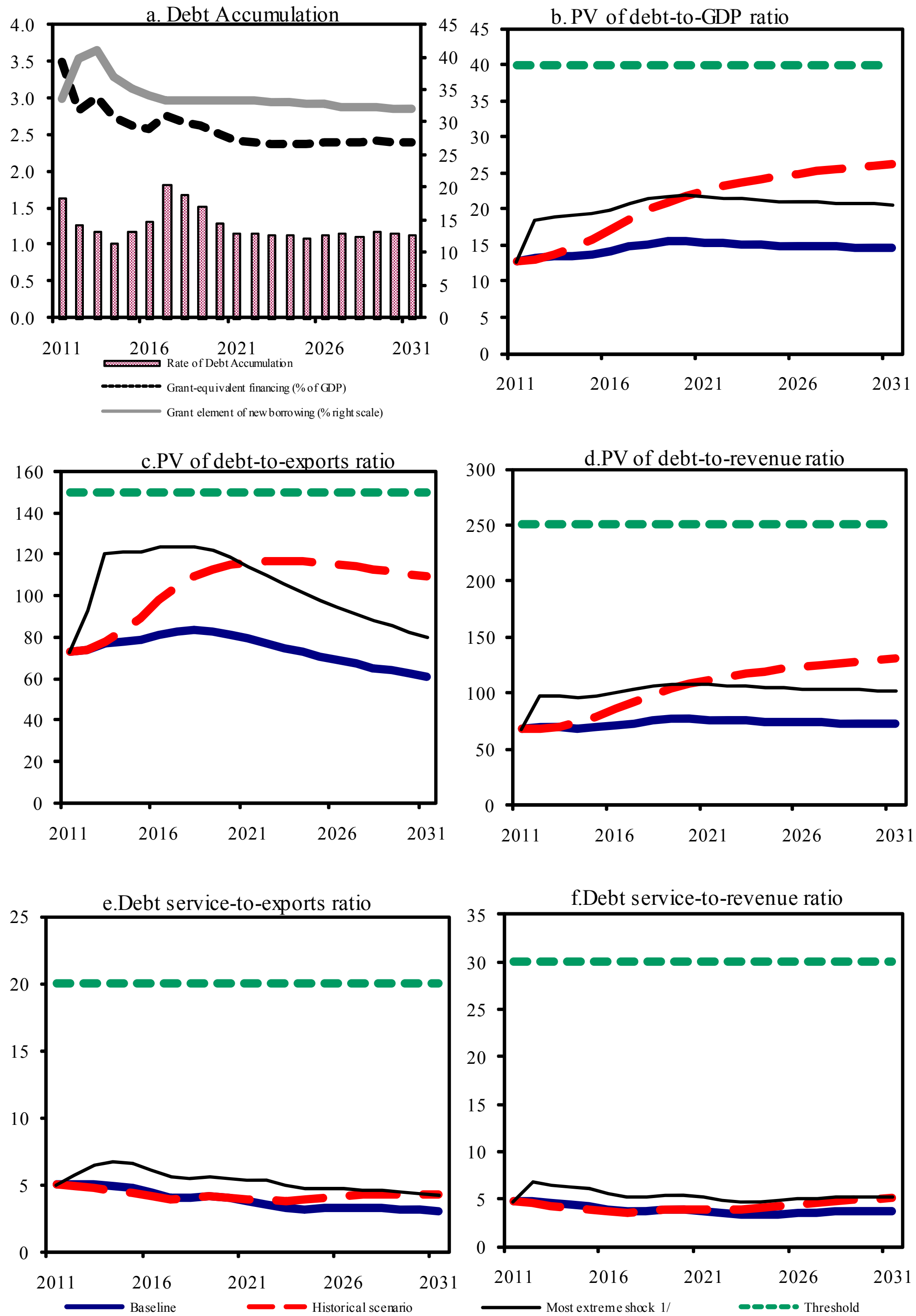
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 5. Benin: Sensitivity Analysis for Key Indicators of Public Debt 2011-2031

	Projections							
	2011	2012	2013	2014	2015	2016	2021	2031
PV of Debt-to-GDP Ratio								
Baseline	25	24	23	22	21	20	19	18
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	25	25	25	25	26	27	26	26
A2. Primary balance is unchanged from 2011	25	24	24	23	23	23	20	16
A3. Permanently lower GDP growth 1/	25	24	23	22	22	21	22	24
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	25	25	25	24	24	23	24	24
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	25	26	27	26	25	24	22	20
B3. Combination of B1-B2 using one half standard deviation shocks	25	25	26	26	25	24	24	23
B4. One-time 30 percent real depreciation in 2012	25	29	27	26	25	23	21	19
B5. 10 percent of GDP increase in other debt-creating flows in 2012	25	31	30	28	27	26	23	20
PV of Debt-to-Revenue Ratio 2/								
Baseline	117	115	108	102	98	93	89	83
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	117	118	116	116	119	121	119	117
A2. Primary balance is unchanged from 2011	117	115	110	107	107	106	91	74
A3. Permanently lower GDP growth 1/	117	116	109	103	100	96	98	110
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	117	118	114	110	108	105	107	111
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	117	124	127	119	114	109	100	89
B3. Combination of B1-B2 using one half standard deviation shocks	117	122	123	117	114	110	108	105
B4. One-time 30 percent real depreciation in 2012	117	139	128	119	113	106	94	84
B5. 10 percent of GDP increase in other debt-creating flows in 2012	117	148	138	130	124	118	107	93
Debt Service-to-Revenue Ratio 2/								
Baseline	15	12	9	9	9	8	4	4
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	15	12	9	10	9	8	5	5
A2. Primary balance is unchanged from 2011	15	12	9	9	9	8	4	4
A3. Permanently lower GDP growth 1/	15	12	9	9	9	8	4	4
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	15	12	9	10	9	8	5	4
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	15	12	9	9	9	8	4	4
B3. Combination of B1-B2 using one half standard deviation shocks	15	12	9	10	9	8	4	4
B4. One-time 30 percent real depreciation in 2012	15	13	11	11	11	10	6	6
B5. 10 percent of GDP increase in other debt-creating flows in 2012	15	12	9	9	9	8	4	4

Sources: Country authorities; and 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.

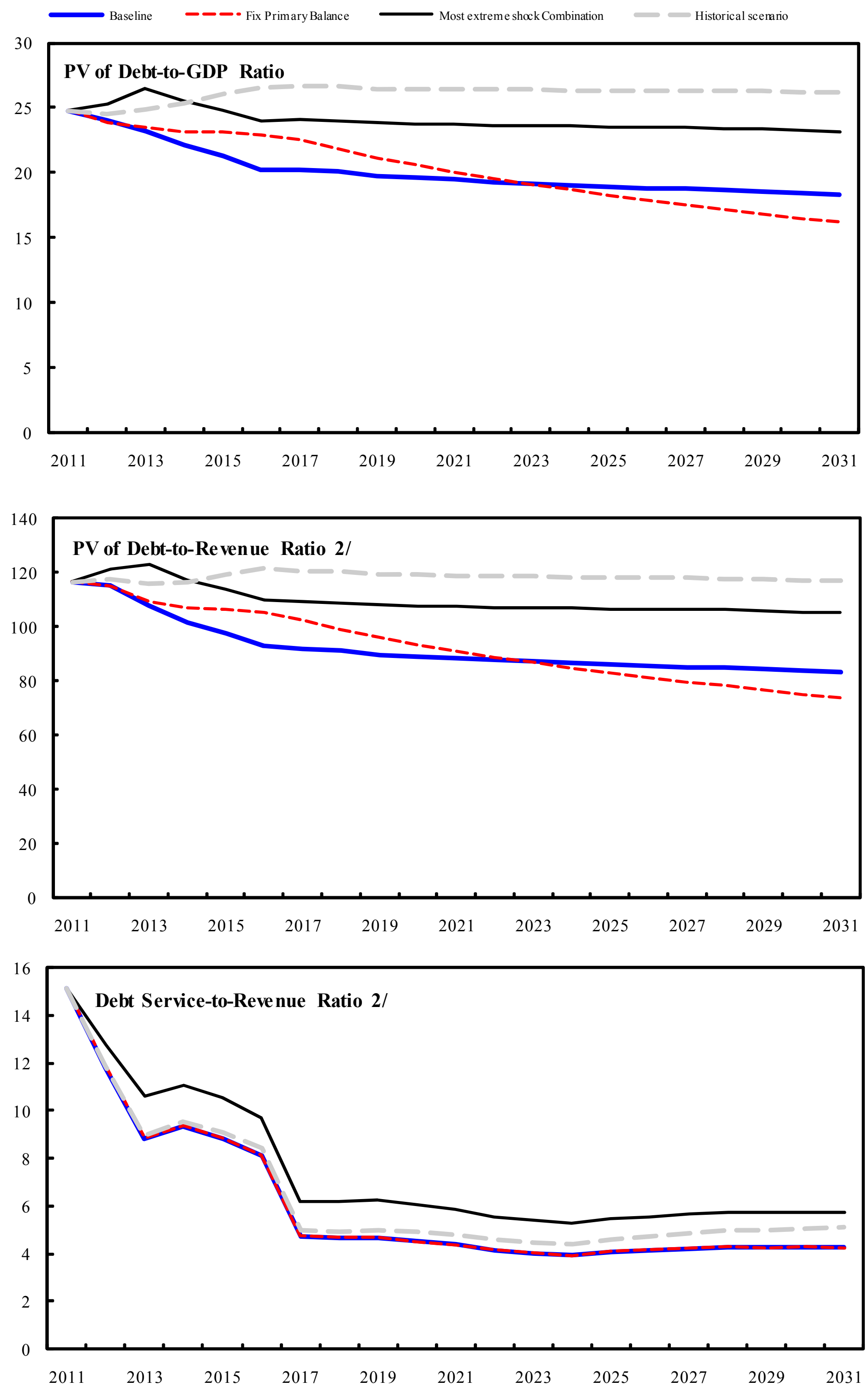
Figure 1. Benin: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2011-2031 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2021. 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 figure f. to a One-time depreciation shock

Figure 2.Benin: Indicators of Public Debt Under Alternative Scenarios, 2011-2031 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2021.
2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

BENIN

Second Review Under the Three-Year Arrangement Under the Extended Credit Facility and Request for a Waiver of the Nonobservances of a Continuous Performance Criterion—Informational Annex

Prepared by the African Department

August 24, 2011

Contents Page

I. Relations with the Fund

(As of June 30, 2011)

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 Tranche Position	2.19	3.53
Notes Issuance		
Holdings Exchange Rate		

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	59.17	100.00
Holdings	49.73	84.05

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ECF Arrangements	45.91	74.17

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Jun 14, 2010	Jun 13, 2013	74.28	21.23
ECF [1/]	Aug 05, 2005	Jun 30, 2009	24.77	24.77
ECF [1/]	Jul 17, 2000	Mar 31, 2004	27.00	27.00

VI. Projected Payments to Fund [2/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2011	2012	2013	2014	2015
Principal	0.09	0.44	0.62	3.93	6.02
Charges/Interest	0.03	0.17	0.17	0.16	0.15
Total	0.11	0.61	0.78	4.09	6.16

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

VII. Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	July 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	March 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**	**PRGT**	**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. Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable.

X. Safeguards Assessments:

The Central Bank of West African States (BCEAO) is a common central bank of the countries of the West African Economic and Monetary Union (WAEMU). The most recent safeguards assessment of the BCEAO was completed on March 1, 2010. The 2010 update assessment found that the BCEAO continues to have controls in place at the operational level. The overall governance framework should nonetheless be strengthened by the addition of an audit committee to ensure that the Board of Directors exercises appropriate oversight over the control structure, including the audit mechanisms and financial statements. The Institutional Reform of the WAMU and the BCEAO completed after the approval of the safeguards report stipulated creation of the Audit Committee, which should now start working. Efforts to implement fully the International Financial Reporting Standards reporting framework should also be pursued.

XI. Exchange Arrangement:

Benin is a member of the 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. 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 WAEMU is free of restrictions on payments and transfers for current international transactions subject to Fund jurisdiction.

XII. Article IV Consultations:

The last Article IV consultation discussions were held in Cotonou during March 10–26, 2010. The staff report (Country Report No. 10/195; 5/27/10) and selected issues paper were discussed by the Executive Board, and the 2010 Article IV consultation concluded, on June 14, 2010.

XIII. 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). In 2009, the World Bank conducted an Accounting and Auditing ROSC, for which the report was published on April 18, 2009.

XIV. Technical Assistance for the Last Five Years:

A. Headquarters

Department	Type of Assistance	Time of Delivery	Purpose
LEG	Technical assistance	April 24–26, 2006	Providing in-depth training on the AML/CFT framework.
FAD	Technical assistance	October 10–23, 2006	Reviewing the status of implementation of reforms to modernize the tax and customs administrations.
FAD	Technical assistance	October 30–November 13, 2006	Conducting a public financial management diagnostic and preparing a reform plan.
FAD	Technical assistance	June 16–30, 2008	Conducting a diagnostic of the tax system and preparing a tax policy reform.
FAD	Technical assistance	June 15–26, 2009	Assessing progress in modernizing the tax and customs administration and identifying reform priorities.
MCM	Technical assistance	September 10–24, 2010	Conducting a crisis resolution and financial systems vulnerability assessment.

B. AFRITAC WEST

Department	Type of Assistance	Time of Delivery	Purpose
FAD	Technical assistance	2006, 2007	Customs Administration
FAD	Technical assistance	2006, 2007	Public Expenditure Management
FAD	Technical assistance	2006, 2007, 2008	Tax Administration
FAD	Technical Assistance	2009	Public Expenditure Management
FAD	Technical Assistance	2010	Tax administration
FAD	Technical Assistance	2010	Customs Administration
FAD	Technical Assistance	2010	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
STA	Technical Assistance	2009	National Accounts Statistics
STA	Technical assistance	2010	Government Finance Statistics
MCM	Technical assistance	2010	Public Debt and Debt Sustainability
MCM	Technical assistance	2010	Bank Supervision and Regulation
FAD	Technical assistance	2011	Customs Administration
FAD	Technical Assistance	2011	Tax Administration

FAD	Technical assistance	2011	Public Expenditure Management
STA	Technical Assistance	2011	Real Sector Statistics

XV. Resident Representative:

Mr. Farah assumed his position in Cotonou as Resident Representative on June 20, 2011.

II. Joint World Bank-IMF Work Program, 2011–12

Title	Products	Provisional timing of mission	Expected delivery date
A. Mutual information on relevant work programs			
Bank work program in next 12 months	1. Poverty/Gender Assessment 2. PRSC-7 3. Debt Management Performance Assessment (DeMPA) 4. Review of Central Financial Agencies 5. The Political Economy of Public Finances in Benin		June/July 2012 November 2011 September 2011 September 2011 October 2011
IMF work program in next 12 months	1. Second ECF review 2. Third ECF review	July 2011 January 2012	September 2011 March 2012
B. Requests for work program inputs			
Fund request to Bank	Draft technical assistance report on establishing an energy regulatory framework		September 2011
Bank request to Fund	Regular updates on macroeconomic performance and assessment letters for PRSC operations		Ongoing
C. Agreement on joint products and missions			
Joint products in the next 12 months	JSAN on new GPRS-III Debt Sustainability Analysis	July 2011 July 2011	September 2011 September 2011

III. Statistical Issues
A. Assessment of Data Adequacy for Surveillance
General: 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.
Real sector statistics: Inadequate resources and weaknesses in data documentation and 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*. Progress has been slow and the accounts for a few years still need to be converted. The West AFRITAC missions in 2008, 2009, and 2010 sought to accelerate the process and support the compilation of the revised accounts. A statistical register and an industrial production index are being developed, but the implementation has been slower than expected. Consumer price data, measured using the WAEMU harmonized consumer price index, are adequate for surveillance. The methodology for the WAEMU harmonized consumer price index has been updated.
Government finance statistics: The quality of fiscal data is broadly adequate for surveillance, but has some shortcomings in coverage, periodicity, timeliness, and accessibility. The authorities report budgetary central government's "statement of sources and uses of cash" for publication in the *Government Finance Statistics Yearbook*, one year after the reference year. The October 2008 and July 2009 STA-GFS missions found that the authorities had yet to compile general government GFS to broaden coverage of nonmarket activities controlled by the government, disseminate the GFS within one quarter after the reference quarter, and present the other major GFS reports to facilitate linkages to other macroeconomic datasets (e.g., the balance sheet).
Monetary and financial statistics: 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.
Balance of payments: 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 almost one year and the international investment position data with a lag of 18 months. Some progress has 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 collecting agencies. Progress is also needed in improving contacts with reporting bodies and enhancing the management of 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 Bank of International Settlements (BIS) statistics. The BCEAO has updated the compilation of commercial bank data on payments involving nonresidents; however these data are not used to produce annual balance of payments statistics. External debt data are broadly adequate for surveillance, but are comprehensive only for public and publicly guaranteed debt. Data are collected by the *Caisse Autonome d'Amortissement* (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 creditors.

B. Data Standards and Quality	
Benin commenced its participation in the General Data Dissemination System (GDDS) in 2001; but has since then not updated much of its metadata.	An FAD mission conducted the fiscal module of a Report on Observance of Standards and Codes (ROSC) in May 2001.

C. Reporting to STA
Standardized Report Forms (in line with the *Monetary and Financial Statistical Manual)* are still not regularly used to report monetary data to the IMF. Annual data for balance of payments and international investment position are reported to STA with a lag of about one and a half years.

Benin: Table of Common Indicators Required for Surveillance
(As of July 31, 2011)

	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]	4/11	7/11	M	M	M
Reserve/Base Money	4/11	7/11	M	M	M
Broad Money	4/11	7/11	M	M	M
Central Bank Balance Sheet	4/11	7/11	M	M	M
Consolidated Balance Sheet of the Banking System	4/11	7/11	M	M	M
Interest Rates[2]	12/10	1/11	M	M	M
Consumer Price Index	5/11	7/11	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	5/11	7/11	M	M	NA
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2010	4/11	A	A	NA
External Current Account Balance	2010	7/11	A	A	A

Exports and Imports of Goods and Services	2010	7/11	A	Q	A
GDP/GNP	2010	4/11	A	A	A
Gross External Debt	2010	4/11	A	I	A
International Investment Position[6]	2008	9/10	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).

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

Washington, D.C. 20431 USA
International Monetary Fund

Press Release No.11/326
FOR IMMEDIATE RELEASE
September 7, 2011

IMF Executive Board Completes Second Review Under the Extended Credit Facility for Benin and Approves US$16.9 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Benin's economic performance under the program supported by the Extended credit Facility (ECF). The approval will enable the immediate disbursement in an amount equivalent to SDR 10.61 million (US$16.9 million), bringing total disbursements under the program to an amount equivalent to SDR 31.84 million (US$50.6 million).

In completing the review, the Executive Board granted a waiver for nonobservances of the performance criterion on the concessionality of external debt. The three-year ECF arrangement for Benin was approved on June 14, 2010 (see Press Release No. 10/243) in an amount equivalent to SDR 74.28 million (about US$118 million).

Following the Executive Board's discussion on Benin, Mr. Min Zhu, Deputy Managing Director and Acting Chair, issued the following statement:

"After overcoming setbacks and a natural catastrophe in 2010, economic recovery is expected to accelerate in 2011. Growth is expected to strengthen to close to 4 percent, led by a resumption of investment and post-flood reconstruction, a rebound in agriculture, and growth in the region. Inflation is projected to remain subdued.

"Program implementation has been broadly satisfactory during the second program review period. All end-March 2011 quantitative targets were met, with the exception of the floor on priority social spending, which was missed amid restraint in expenditure execution. The implementation of the structural reforms has been mixed. Since March, the continuous performance criterion on nonconcessional external debt has been missed. The authorities are taking measures to strengthen performance in these areas.

"A prudent fiscal policy remains essential to preserve macroeconomic stability. Enhancing revenue mobilization in the second half of the year will be critical for generating fiscal space for priority spending. Strengthening public financial management and mobilizing external concessional assistance remain key to consolidate recent gains in debt sustainability and strengthen resilience to shocks.

“The authorities are committed to keeping the wage bill within the program envelope in 2011. This policy would be conducted within the framework of a comprehensive civil service reform.

“Important structural reforms will be introduced in the remainder of 2011 and 2012. The envisaged new reforms would reinforce the program by expanding the tax base and encouraging tax compliance, and improving the efficiency of public enterprises,” Mr. Zhu added.

Statement by Mr. Assimaidou, Executive Director for Benin
September 7, 2011

On behalf of my Beninese authorities, I would like to express my appreciation to Management and staff for the productive discussions with the authorities in Cotonou and Washington. The staff report reflects well the substance of those exchanges and the elements of the program going forward.

Benin held presidential and legislative elections in March and April 2011 respectively. The incumbent president was reelected for a second and last term, and his coalition obtained the majority at the National Assembly. As the President indicated to staff and management during meetings in Cotonou and Washington, the outcome of the elections is considered as a clear and strong mandate to pursue the reforms initiated during the first term and to make further inroads in the development of the country.

I. Recent developments and performance under the ECF

Last year was marked by a lower-than-expected output growth at 2.6 percent due mainly to exceptional flooding that occurred in the second half of 2010 and affected many sectors including agriculture. Economic activity was sluggish in the first quarter of 2011 before the elections. This was reflected in a contraction of credit to the private sector by 3.3 percent during that quarter. Inflation declined from the highs reached in the last quarter of 2010 in the wake of the flooding. The balance of payments improved in 2010 owing to an increase in remittances and a decline in imports of intermediate goods.

Fiscal consolidation continued in the first quarter of 2011. As a result, the fiscal deficit at end-March 2011 was below the program objective. On the one hand, this outcome reflected a better revenue performance due to an improvement in tax administration and a tightening of controls. On the other hand, expenditure was kept below the program target during the pre-election period.

Implementation of **fiscal reforms**, with the assistance of development partners, is also advancing well, albeit with some technical delays due to factors such as the events in Cote d'Ivoire and delays in external assistance disbursement. It is worth noting that the one-stop window at the Port of Cotonou was launched at end-June 2011 as planned and the import verification program started in July 2011. The audit of the tax administration computerized system and the adoption of an information technology master plan were also completed as scheduled at end-June 2011. The modernization and the extension of the customs administration is progressing well.

In the **financial sector**, bank capitalization has improved with 10 out of the 13 banks complying with the decision of the WAEMU Council of Ministers to raise capital requirements. Necessary steps were taken to bring the capital of all banks in line with existing regulation. In an effort to prevent the resurgence of Ponzi schemes in the microfinance sector, a draft law was submitted to the National Assembly to grant the Central Bank of West African States (BCEAO) the right to supervise and intervene in decentralized structures with deposits or credits larger than CFAF 2 billion.

As regard **public enterprises**, it is noteworthy that the financial situation of the electricity company, SBEE, has significantly improved thanks to better management of the company. The company is expected to post a small profit in 2011 without tariff adjustment. The outsourcing of the management of Benin-Niger railroad network has been lagging because of elections in Niger. The privatization of the telecom company, Benin Telecoms, could not be concluded as the financial offer received from the selected bidder was too low. Despite this setback, the privatization process has enabled the restoration of a sound bookkeeping and strengthened its management. They are preparing a new sectoral strategy with the support of the World Bank.

Overall, despite a more sluggish than expected economic activity, my authorities managed to keep the program on track and **performance under the program** was satisfactory with all quantitative performance criteria largely met at end-March 2011.

In order to finance development projects in the country, my authorities contracted from two international financial institutions two slightly **non-concessional loans** which they combined with financial assistance from regional organizations to meet the concessionality requirement under the program. However, as the assistance from the regional organizations is denominated in CFA francs, it was considered as domestic financing, and hence was excluded from the assessment of the concessionality of the two external financing packages. As a result, the continuous performance criterion on nonconcessional loans was not technically met. Measures have been taken to consult with Fund staff early in the negotiation process to avoid this from happening again. In light of these measures, my authorities are requesting a waiver for the nonobservances of the abovementioned performance criterion.

Given Benin's low risk of debt distress, as shown in the debt sustainability analysis, and to increase flexibility in the financing of the public investment program in the medium term, my authorities request that the zero-ceiling on nonconcessional loans with maturity over one year and a grant element of at least 20 percent be raised, as specified in paragraph 19 of the Technical Memorandum of Understanding. Such a change will enable them to secure slightly non concessional loans in support of the implementation of the public investment program while preserving debt sustainability. Going forward, if the new ceiling on nonconcessional debt were to be reached, they will discuss the issue in future reviews.

II. Policies for the remainder of 2011 and for 2012

My authorities will continue to implement prudent policies aimed at supporting the return to strong and sustained private sector-led growth, through notably the consolidation of the macroeconomic framework and the implementation of structural reforms. This will be undertaken consistently with the updated growth and poverty reduction strategy for 2011-2015, which aims at improving the population's living standards and achieving the Millennium Development Goals (MDGs), and gives greater consideration to such critical development issues as the employment of youth and women, opening up agricultural production zones, and fostering rural economic growth. My authorities welcome staff's comments on the strategy and the risks to its successful implementation. They agree that, given the actual resources constraints, the alternative scenario, which is aligned with the ECF, should be used as the main reference for policy decisions and the Priority Action Program (PAP), which is supporting the strategy, should be adjusted accordingly.

Looking forward, Benin's **outlook** is favorable. Now that the elections are over in Benin and neighboring countries, my authorities expect economic activity to rebound in the second half of 2011. Output growth is projected to reach 3.8 percent in 2011 and 4.2 percent in 2012 driven by stronger public investment including post-flood reconstruction, higher agricultural production, and increased capacity at the Port of Cotonou following the completion of infrastructural and operational reforms. The external current account deficit is projected to widen as imports would increase with the economic rebound.

The regional central bank will continue to monitor closely inflationary trends and conduct a **monetary policy** consistent with the objective of price stability. Although inflation is projected to pick up somewhat in 2011, it would remain below the 3-percent convergence criterion of the West African Economic and Monetary Union (WAEMU). Money supply growth is expected to accelerate by end-2011, in line with the projected increase in the credit to private sector.

My authorities will continue **fiscal consolidation** efforts as committed, in order to preserve fiscal and debt sustainability and achieve the program objectives. On the revenue side, revenue collection is expected to improve further by end-2011, following the establishment of the one-stop window at the Port of Cotonou and the launching of new import verification program. On the expenditure side, following the Constitutional Court's ruling in May 2011 to nullify a wage increase to civil servants of the Ministry of Finance on the ground that it was discriminatory to the other civil servants, my authorities are resolved to keep the wage bill within the program envelope in 2011 and 2012, while pursuing negotiations with the labor unions on a sustainable wage policy.

My authorities will conduct this process within the framework of a **comprehensive civil service reform** for which a strategy will be developed following the completion of the preparatory work which includes (i) the finalization of two studies on the remuneration system and the reform of the civil service, (ii) the preparation of the terms of reference and the document project for the Integrated Human Resources Management System (SIGRH); and (iii) the completion of an organizational and institutional audit of the Ministry in charge of the Civil Service. This work is undertaken with the assistance from Denmark and The Netherlands.

As a complement to the **fiscal reforms** underway that are scheduled to be completed by mid-2012, my authorities will establish a joint Customs-Tax Control Unit all before year-end. In addition, a detailed review of all existing tax and customs exemptions aimed to rationalizing them will be carried out by June 30, 2012. Public financial management will continue to be strengthened with the submission to the Supreme Court of the draft Organic Budget Law and the submission to the budget audit office of the 2010 budget execution accounts by year-end.

On **petroleum prices**, as clearly explained in the staff report, a full pass-through of the international petroleum prices to domestic markets is constrained by the wide availability of cheap petroleum products informally imported from Nigeria. My authorities have taken measures to strengthen border controls to limit illegal imports. However, as this phenomenon is spreading to other countries, they are of the view that a regional approach is needed for its resolution.

Structural reforms in the public enterprise, telecoms and energy sector will be pursued. In particular, a regulatory framework for the energy sector, prepared with the assistance of the French Development Agency (AFD), that will permit the establishment of a regulatory authority and a transparent price-setting mechanism has been finalized and should be adopted by the Council of Ministers in the coming weeks.

Conclusion

Performance under the ECF at end-March 2011 has been satisfactory despite difficult circumstances. Going forward, my authorities remain committed to pursuing the implementation of sound macroeconomic policies and structural reforms aimed at achieving the objectives of the program. Continued support from donors will be determinant to the success of the program. In light of the program performance and the continued commitment to the program, I would appreciate the Executive Board's support for the completion of the second review under the ECF and the request for a waiver of non-observance of a PC.