



# BENIN

January 2018

## 2017 ARTICLE IV CONSULTATION AND FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR MODIFICATIONS OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BENIN

In the context of the combined Article IV and request for an arrangement under the Extended Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its December 1, 2017, consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 1, 2017, following discussions that ended on October 11, 2017, 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 November 15, 2017.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Benin.

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

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

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

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FOR IMMEDIATE RELEASE  
December 1, 2017

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Washington, D.C. 20431 USA

### **IMF Executive Board Completes First Review Under the ECF and Approves US\$22.58 Million Disbursement for Benin**

The Executive Board of the International Monetary Fund (IMF) today completed the first review of the arrangement under the Extended Credit Facility (ECF) for Benin. Completion of the review enables the disbursement of SDR15.917 million (about US\$22.58 million), bringing total disbursements under the arrangement to SDR31.834 million (about US\$45.16 million). The Board also approved Benin's request to set program conditionality for 2018, and to modify the end-December 2017 performance criteria.

Benin's three-year arrangement for SDR111.42 million (about US\$158.1million or 90 percent of the country's quota at the time of approval of the arrangement), was approved on April 7, 2017 (see Press Release No.17/124 ). It aims at supporting the country's economic and financial reform program and focuses on raising living standards and preserving macroeconomic stability.

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

“The Benin authorities have been steadfast in implementing their ECF-supported program. A stable macroeconomic environment was maintained in 2016, despite negative regional spillovers. Continued implementation of the right mix of macroeconomic and structural policies is needed to preserve hard-won gains, address financial sector vulnerabilities, and contribute to meeting the regional fiscal convergence criteria. With poverty remaining a major challenge, accelerating spending on priority sectors and protecting the poorest segment of the population will be important.

“The authorities aim to further bolster domestic revenue mobilization and adhere to the programmed fiscal consolidation path, including by broadening the tax base and increasing the efficiency of public investment. The authorities also intend to maintain prudent debt

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“The authorities aim to further bolster domestic revenue mobilization and adhere to the programmed fiscal consolidation path, including by broadening the tax base and increasing the efficiency of public investment. The authorities also intend to maintain prudent debt management practices to smooth the long-term debt service profile and safeguard Benin’s classification as a country with a moderate risk of debt distress. Close monitoring of the debt of state-owned enterprises is also key to better assess contingent liabilities and preserve public debt sustainability.

“In the financial sector, accelerating the implementation of the new harmonized regional resolution framework and strengthening the supervisory body for microfinance institutions, as well as addressing the high level of nonperforming loans in the banking sector, are essential to minimize financial sector vulnerabilities.

“Sustained efforts are needed to improve the business environment and foster greater private sector participation in the economy, including removing bottlenecks to private-sector development and leveling the playing field for all investors. Greater efforts are also needed to strengthen governance and transparency.”



Press Release No.17/465  
FOR IMMEDIATE RELEASE  
December 8, 2017

International Monetary Fund  
Washington, D.C. 20431 USA

### **IMF Concludes 2017 Article IV Consultation with Benin**

On December 1, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation<sup>1</sup> with Benin.

Benin has shown mixed macroeconomic performance in 2016, with the economy weathering negative spillover stemming from a difficult external environment. Growth was about 4 percent, but a recovery is expected in 2017-18, owing to strong agricultural production, an increase in public investment, and a buoyant tertiary sector. Economic growth is accelerating and inflation remained negative in 2016 and through end-August 2017 but is forecasted to average 0.6 percent in 2017.

The medium-term outlook continues to show favorable signs, with high economic growth and low inflation. Cuts in recurrent spending have contributed to a smaller than programmed budget deficit of 6.0 percent of GDP in 2016 from 8.0 percent in 2015. The fiscal consolidation path foresees a further reduction of the deficit to 1.8 percent of GDP in 2019, below the West African Economic and Monetary Union convergence criterion of 3 percent of GDP.

Despite the favorable medium-term economic outlook, some challenges remain that need to be addressed going forward. These include prioritizing public expenditures to foster inclusive growth and to reduce poverty; accelerating the tax and customs administration reforms to mobilize more domestic resources; making public investment more efficient to sustain the expected growth over the medium term, addressing the rising burden of domestic debt service, and strengthening debt management to preserve public debt sustainability.

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

## Executive Board Assessment<sup>2</sup>

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for maintaining a stable macroeconomic environment despite negative regional spillovers in 2016. However, they noted that poverty remains a major challenge to reducing inequality and broadening support for the reform agenda. Directors, therefore, underscored the need to continue to steadfastly implement policies and structural reforms to preserve macroeconomic stability and foster inclusive growth.

Directors welcomed the strong performance in domestic revenue collection, which has contributed to better program outcomes in 2017. They encouraged the authorities to sustain these efforts to support their goal of increasing public investment and boosting poverty-reducing spending. Sustained implementation of ongoing tax and customs administration reforms will be essential for achieving the regional fiscal convergence criterion. Directors urged the authorities to pursue prudent debt management practices and monitor the debt of state-owned enterprises and potential fiscal risks linked to public-private partnership projects to preserve public debt sustainability. They also underscored the need to enhance public investment efficiency.

Directors welcomed the authorities' commitment to prioritize spending and allocate more resources to priority social sectors. They underscored the need to ensure that economic diversification takes hold and the benefits of growth reach more of the population. They encouraged the authorities to pursue the implementation of well-targeted measures to protect the most vulnerable segments of the population.

Directors underscored the need to improve the business environment to provide critical support for achieving the objectives of Benin's Economic Development Document. They encouraged the authorities to remove impediments that restrain the business environment, as well as fight corruption and strengthen governance and transparency to foster greater private sector participation in financing the Government's Action Program 2016-21. Directors also welcomed Benin's participation in the G20 Compact with Africa initiative.

Directors highlighted the importance of financial inclusion in supporting economic growth. They commended the progress made in removing key barriers to more efficient financial intermediation and the consolidation of information on microfinance institutions. They noted that further steps are needed to mitigate the stability risks arising from the large number of unauthorized microfinance institutions and address non-performing loans in the banking sector.

Directors encouraged the authorities to continue to address data gaps and further improve the quality and timeliness of economic statistics, including the revision of the national accounts.

It is expected that the next Article IV consultation with Benin will be held in accordance with the Executive Board decision on the consultation cycles for members with Fund arrangements.

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

**Table 1. Benin: Selected Economic and Financial Indicators, 2014-22**

	2014	2015	2016	2017	2018	2019	2020	2021	2022
			Est.	Program			Projections		
(Annual percentage change)									
National income									
GDP at current prices	6.1	2.2	3.7	6.0	8.4	9.1	9.6	10.0	8.9
GDP at constant prices	6.4	2.1	4.0	5.6	6.0	6.3	6.7	7.1	6.2
GDP deflator	-0.2	0.1	-0.3	0.4	2.3	2.6	2.7	2.8	2.0
Consumer price index (average)	-1.1	0.3	-0.8	0.6	2.5	2.8	2.8	2.8	2.8
Consumer price index (end of period)	-0.8	2.3	-2.7	2.8	2.2	3.2	2.5	3.1	2.6
Central government finance									
Total revenue	-1.9	5.0	-9.0	21.7	12.6	8.3	13.4	13.1	11.2
Expenditure and net lending	-3.7	35.5	-12.6	21.0	4.8	-2.8	5.5	6.1	6.2
External sector									
Exports of goods and services	8.3	15.9	-8.5	16.0	14.4	13.0	4.3	14.7	8.9
Imports of goods and services	16.4	-0.8	-5.0	18.7	8.4	8.3	5.4	10.7	7.0
Terms of trade (minus = deterioration)	1.0	2.1	1.7	0.4	-0.7	0.4	1.8	0.8	0.2
Nominal effective exchange rate (minus = depreciation)	n.a.	n.a.	...	...	...	...	...	...	...
Real effective exchange rate (minus = depreciation)	n.a.	n.a.	...	...	...	...	...	...	...
(Change in percent of beginning-of-period broad money)									
Money and credit									
Net domestic assets	8.7	-17.5	11.4	1.4	...	...	...	...	...
Domestic credit	0.7	-19.0	13.7	1.4	...	...	...	...	...
Net claims on central government	1.7	5.2	5.1	0.8	...	...	...	...	...
Credit to the nongovernment sector	-1.0	-24.2	8.6	0.5	...	...	...	...	...
Broad money (M2)	16.7	-10.4	0.3	7.8	...	...	...	...	...
(Percent of GDP, unless otherwise indicated)									
National accounts									
Gross investment	28.6	25.6	24.6	28.6	28.3	26.3	26.9	27.5	24.2
Government investment	5.2	7.7	5.9	9.3	8.6	6.3	5.9	5.5	5.3
Nongovernment investment <sup>1</sup>	23.4	17.9	18.7	19.2	19.7	20.1	21.0	22.0	18.9
Gross domestic saving	13.4	13.4	12.8	15.0	15.7	14.6	15.5	16.6	13.9
Government saving	2.0	-0.5	-0.7	1.8	2.5	2.6	3.6	4.4	5.1
Non-government saving	11.4	13.9	13.5	13.2	13.2	12.0	11.8	12.2	8.7
Gross national saving	20.0	17.4	17.2	19.4	20.1	19.4	20.4	21.2	18.5
Consumption	86.6	86.6	87.2	85.0	84.3	85.4	84.5	83.4	86.1
Government consumption	12.5	15.0	12.6	11.4	11.1	10.8	10.7	10.7	10.6
Non-government consumption	74.2	71.6	74.6	73.6	73.2	74.6	73.9	72.7	75.5
Central government finance									
Total revenue	16.3	16.7	14.7	16.8	17.5	17.4	18.0	18.5	18.9
Expenditure and net lending	19.1	25.3	21.4	24.4	23.6	21.0	20.2	19.5	19.0
Primary balance <sup>2</sup>	-2.4	-7.9	-5.5	-5.5	-3.8	-1.3	-0.1	0.9	1.5
Basic primary balance <sup>3</sup>	0.0	-4.2	-3.0	-2.4	0.1	2.4	3.1	3.5	4.3
Overall fiscal deficit (commitment basis, excl. grants)	-2.8	-8.6	-6.7	-7.5	-6.1	-3.6	-2.3	-1.0	-0.2
Overall fiscal deficit (commitment basis, incl. grants)	-1.9	-8.0	-6.0	-6.1	-4.5	-1.8	-0.6	0.0	0.8
Debt service (percent of revenue)	6.0	8.2	12.0	16.1	17.2	17.8	15.9	13.9	12.0
Total government debt	30.5	42.4	49.5	55.5	56.0	53.3	48.7	44.4	40.5
External sector									
Balance of goods and services	-15.2	-12.2	-11.7	-13.6	-12.6	-11.7	-11.5	-10.9	-10.4
Current account balance (incl. grants)	-8.6	-8.2	-7.4	-9.1	-8.2	-6.9	-6.5	-6.3	-5.7
Current account balance (excl. grants)	-8.8	-8.2	-7.5	-9.4	-8.7	-7.7	-7.2	-6.9	-6.3
Overall balance of payments	0.9	2.3	-6.4	1.6	3.8	6.7	6.5	6.5	6.7
Debt service-to-exports ratio	5.1	5.3	4.7	5.9	6.4	5.8	6.1	5.5	5.2
Nominal GDP (billions of CFA francs)	4,800	4,904	5,084	5,390	5,844	6,378	6,992	7,693	8,375
Nominal GDP (millions of US\$)	9,722.9	8,295.3	8,577.1	9,268.7	10,481.3	11,490.6	12,595.9	13,859.1	15,087.6
CFA francs per U.S. dollar (period average)	493.6	591.2	592.7	...	...	...	...	...	...
Total non-financial public sector debt (percent of GDP) <sup>4</sup>	...	...	49.7	55.6	56.2	53.3	48.9	44.6	40.6
Population (millions)	10.3	10.6	10.8	11.1	11.4	11.7	12.0	12.3	12.6
Nominal GDP per capita (U.S. dollars)	946	786	792	833	918	980	1047	1124	1193

Sources: Beninese authorities; IMF staff estimates and projections.

<sup>1</sup> Including off-budget investment implemented by non-financial public enterprises.

<sup>2</sup> Total revenue minus current primary expenditure, capital expenditure, and net lending.

<sup>3</sup> Total revenue minus current primary expenditure and capital expenditure financed by domestic resources.

<sup>4</sup> Data include projected central government debt and new non-financial public sector borrowing for infrastructure from 2016 onward as well as the nominal amount of government guarantees.



# BENIN

## STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION AND FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR MODIFICATIONS OF PERFORMANCE CRITERIA

November 15, 2017

### KEY ISSUES

**Context.** Upon assuming office in April 2016, the new government moved swiftly to address the deteriorating fiscal situation compounded by spillovers from Nigeria and requested Fund support under the Extended Credit Facility (ECF). On April 7, 2017, the IMF Executive Board approved an ECF Arrangement for Benin for an amount equivalent to SDR 111.42 million (about US\$151.03 million or 90 percent of Benin's quota) to support the country's economic and financial reform program.

**Program policies.** In furtherance of the broad objectives of the ECF-supported program, the policy recommendations are to:

- accelerate the reforms needed to broaden the tax base and enhance the efficiency of government spending;
- implement resolutely key supportive structural measures to increase the absorptive capacity and increase the efficiency of investment spending;
- strengthen public debt management and promote prudent borrowing policy; and
- promote private sector investment by strengthening institutions and improving the business environment.

**Outlook and risks.** The medium-term outlook continues to be favorable with high economic growth and low inflation. The economic recovery is strengthening driven by buoyant agricultural production, increased public investment, and a resilient tertiary sector. Cuts in recurrent spending in the context of the revised budget approved by parliament in July 2016 contributed to reducing the budget deficit (including grants) from 8.0 percent in 2015 to 6.0 percent of GDP in 2016. The draft 2018 budget reflects the stronger revenue performance of 2017 and calls for the timely implementation of the underpinning tax administration measures. Risks to the outlook include: (i) delayed recovery in Nigeria and attendant shocks; (ii) resistance to support the reform agenda; (iii) unforeseen contingent liabilities associated with SOEs and other government contracts; (iv) the volatility of cotton export prices; and (v) the potential non-



materialization of the efficiency gains expected from public investment and a limited private sector response (Annex II Risk Assessment Matrix).

**Staff views.** Staff supports the authorities' request for completion of the first review of the program under the ECF arrangement and the modifications of the performance criteria. Completion of this review will release a disbursement equivalent to SDR 15.917 million. The Memorandum of Economic and Financial Policies (MEFP) set out appropriate policies to pursue the program's objectives.

Approved By  
**Dominique Desruelle**  
**(AFR) and Daria**  
**Zakharova (SPR)**

Discussions on the 2017 Article IV Consultation and First Review under the Extended Credit Facility (ECF) Arrangement were held in Cotonou during September 13–27 and in Washington D.C. during October 10–11. The mission team comprised Messrs. Norbert Toé (head), Rodolfo Maino, and Ms. Aissatou Diallo (all AFR), and Mr. Mouhamadou Sy (FAD). Ms. Boukpassi (OED) participated in the mission. The mission met with President Talon, Mr. Abdoulaye Bio Tchane, Minister of State of Planning and Development; Mr. Romuald Wadagni, Minister of Economy and Finance; Mr. Alain Komaclo, BCEAO National Director, and senior economic and financial officials. The missions were assisted by Mr. Karim Barhoumi (Resident Representative), who has also participated in the discussions, and Mr. Joseph Houessou (Economist at the Res. Rep. Office). Mr. Andrea Coppola (World Bank) participated in some of the meetings. The mission met with representatives of the diplomatic community and the private sector.

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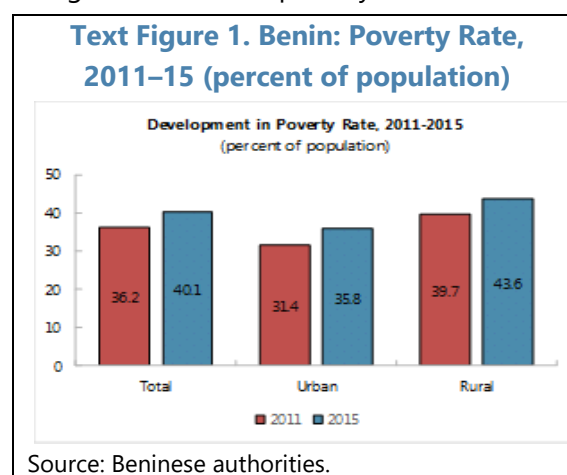
## BACKGROUND AND OUTLOOK: STRENGTHENING THE PILLARS FOR A STRUCTURAL TRANSFORMATION OF THE ECONOMY

**1. Inclusive growth has been elusive.** Following a decade of mediocre economic performance, growth over the last 3 years (2013–15) averaged 5.2 percent, closing the gap with the sub-Saharan Africa (SSA) average in per capita GDP growth (Box 1). However, this solid macroeconomic performance did not translate in a meaningful reduction in poverty, which remains a major challenge calling for a higher and more inclusive growth over the medium term (Text Figure 1). Low and stagnant productivity in the agriculture sector is the primary cause of the limited poverty reduction in rural areas.<sup>1</sup>

**2. The government is committed to structurally transform Benin's economy by scaling up investment and diversifying the economy.** On April 7, the Board approved the authorities' request for a three-year arrangement under the ECF. Executive Directors underscored the importance of adhering to policies that preserve macroeconomic stability and public debt sustainability. At the time of the 2017 IMF/World Bank Annual Meetings, Benin became a full participant in the G20 Compact with Africa (CWA) Initiative in the hope of bolstering private sector financing of the Government's Action Program (GAP), 2016–21.<sup>2</sup>

**3. The government's reform agenda suffered some setback but the authorities remained committed to it.** In April, a revision of the Constitution aimed at fostering transparency and accountability by public office holders did not pass. Also, little progress is being made with reforms of audit institutions. Nonetheless, the authorities are developing strategies to ensure that the reform program will continue unabated, reiterating their commitment to improve governance and transparency and strengthened accountability for public office holders.

**4. Implementation of past policy recommendations was broadly satisfactory** (Annex I). The authorities are making notable progress in consolidating the macroeconomic situation and advancing key structural reforms, including the need for improved fiscal policy management to broaden the fiscal space, preserve debt sustainability, and reduce macro-financial risks. However, the business environment continues to be challenging and financial deepening and inclusion are lagging.



<sup>1</sup> Nga Thi Viet Nguyen and Felipe F. Dizon's *The Geography of Welfare in Benin, Burkina Faso, Côte d'Ivoire, and Togo* shows that urban localities in Benin are concentrated mainly in the south, coinciding with the most favorable agroecological zone as well as coastal areas while the north remains poor with limited access to market.

<sup>2</sup> The GAP expects 61 percent of total financing to come from the private sector (about \$9.3 billion over 5 years).

### Box 1. Poverty

The evolution of household consumption between 2011 and 2015 shows that real per capita annual expenditure decreased from CFAF 226,440 to CFAF 223,402, a drop of, approximately, 1.3 percent. Growth in Benin has been the result of expanded acreages and increased labor effort rather than increases in productivity. The highly informal nature of the economy and low productivity—particularly, in the agricultural sector are the main causes of the lack of inclusiveness. Despite the drop of the overall non-monetary poverty in recent years, the data shows a high incidence of poverty in rural populations (north part of the country) compared with urban populations (concentrated in the south).

#### Benin: Spending per capita and poverty, 2011 vs.2015

	(CFA francs)					
	Spending per capita		Real spending*	Evolution of standard of living (Percent)	Non-monetary poverty (Percent of population)	
	2011	2015			2011	2015
Urban	327,234	336,099	315,029	-3,73	26.4	20.5
Rural	154,070	158,351	148,424	-3,66	32.9	36.0
Benin	226,440	238,343	223,402	-1,34	30.2	28.7

\* Spending per capita in 2015 deflated by 2011 prices

Source: INSAE

The survey and analysis conducted by the INSAE also found:

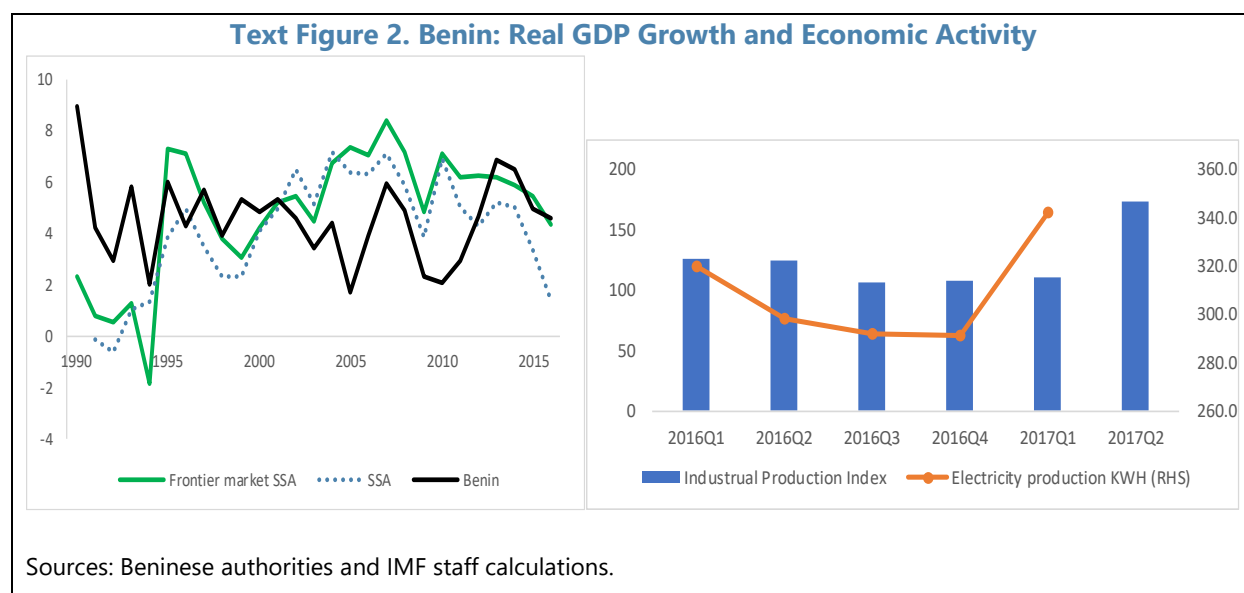
- Overall, poverty indicators deteriorated from 36.2 percent of population in 2011 to 40.1 percent in 2015, mainly explained by the contraction of consumer spending.
- Nonetheless, the proportion of people who consider themselves poor decreased across the board. In urban areas, it fell from 77 percent in 2011 to 66 percent in 2015 and in rural areas, the proportion was 67.2 percent in 2015 compared with 73 percent in 2011.
- Per the 2016 report titled: '*Human Development for Everyone*,' Benin ranked 167 out of 185 against 166 in 2015. At the regional level, Benin ranked 35<sup>th</sup> against 31<sup>th</sup> in 2015. Nonetheless, Benin's level of development has remained virtually unchanged, as its *Human Development Index* has risen from 0.480 in 2015 to 0.485 in 2016 below the average of 0.497 for countries in the low human development group and below the average of 0.523 for countries in SSA.
- Women experienced higher levels of (non-monetary) poverty than men. However, regarding monetary poverty, the analysis found that groups led by women are better off than those led by men (women heads of households generally enjoy sufficient economic autonomy, resulting in part from their marital status, household size and sectors of activity, and by the fact that women are benefiting from better access to credit). Individuals living in households headed by persons with at least primary education are less affected by monetary or non-monetary poverty.
- While the persistence of non-monetary poverty is explained by the lack of basic infrastructure, the increase in monetary poverty is rooted in: (i) the fall in per capita incomes in rural areas linked to a fall in yields; (ii) the structural weaknesses of the agricultural sector (climatic hazards, non-control of water, poor access to good seeds, lack of or weak extension services), and (iii) the expansion of the informal sector.

Source: *Note sur la pauvreté au Bénin en 2015*, Institute of Statistics and Economic Analysis (INSAE).

## RECENT DEVELOPMENTS

Economic growth is accelerating and inflation remains subdued. Budget execution is expected to be better than programmed while the current account would widen marginally on the back of import growth.

**5. GDP growth is recovering based on agriculture.** Benin achieved an economic growth rate of 4.0 percent in 2016; up from 2.1 percent in 2015 (Table 3 and Text Figure 2). Strong GDP growth in 2016 is mainly due to favorable weather conditions and better access to agricultural inputs. By contrast, the depreciation of the naira, coupled with the decline in 2016 of the activities related to cotton ginning, negatively impacted the secondary sector (2.6 percent growth in 2016 vs. 10.1 percent in 2015). Despite a difficult sub-regional context, the tertiary sector showed a 3.4 percent increase in value added compared to an initial forecast of 2.7 percent. Inflation turned negative in 2016 (-0.8 percent) after a moderate increase in 2015. Indicators of industrial and electricity production show a pickup in economic activity in recent months (Text Figure 2). As a result, growth for 2017 is expected to reach 5.6 percent with inflation turning positive at 0.6 percent.



**6. The fiscal outturn at end-June 2017 is in line with the program.** Total revenues amounted to CFAF 443.9 billion at end-June 2017, slightly above the target of CFAF 386.1 billion while the basic primary deficit was limited to CFAF 33.1 billion, well below the floor of CFAF 73.1 billion targeted under the program. Regarding priority social sectors, expenditure commitments were estimated at CFAF 55.6 billion, significantly below the target set for end-June (CFAF 85.0 billion). Similarly, investment spending was lagging, reflecting delays in validating sectorial ministries' annual work plans consistent with the GAP and the ECF-supported program. The stronger domestic revenue performance is expected to result in a lower-than-programmed fiscal deficit (including grants) of 6.1 percent of GDP in 2017 against a program projection of 7.9 percent.

**7. The current account deficit (including grants) is expected to remain elevated in 2017.**

After a brief improvement in 2016, it is projected to reach 9.1 percent of GDP, reflecting the investment scaling up in 2017 with imports of goods and services increasing by about 19 percent.

**8. Debt vulnerabilities remain moderate but need to be monitored closely.** Benin's updated debt sustainability analysis confirmed a moderate risk of debt distress (Annex VI)<sup>3</sup>. Total public debt increased in 2016, reflecting the government's strategy of using domestic financing for capital investment projects. Approximately 90 percent of public domestic liabilities consist of government securities issued on the regional financial market. Staff has recommended to the authorities to continue working with potential donors to mobilize more concessional financing.

**9. The financial sector is stable but vulnerability has intensified.** Although the capitalization of banks has increased, the persistently high level of non-performing loans indicates structural problems, limiting the role of commercial banks in financing the private sector (Table 11). The regulatory capital to risk-weighted assets of the banking system reached 10.0 percent at end-June 2017. The liquidity ratio (total loans/total deposits) is maintained at 78 percent. However, the high concentration of banks' loan portfolio is a source of concern. Non-performing loans to total loans stands at 20.3 percent of total credits at end-June 2017. The microfinance sector showed growth in loans and deposits, but progress in the closure of non-approved microfinance institutions remained limited.

## OUTLOOK AND RISKS

*The medium-term outlook is favorable and in line with original program assumptions. However, risks are on the downside (¶ 11).*

**10. Medium-term growth prospects are favorable.** Real GDP growth is projected to accelerate over the medium term on the back of: (i) continued strength in agricultural production; (ii) sustained investment, both public and private; and (iii) a rebound in the tertiary sector. Inflation is expected to remain below the WAEMU convergence rate of 3 percent. The fiscal deficit is programmed to fall below the WAEMU convergence criterion of 3 percent of GDP by 2019 following the significant increase in 2017. The external position is projected to improve with the overall balance shifting to a surplus starting in 2017. Based on available data at end-June 2017, the macroeconomic aggregates for 2017–18 were projected as follows:

- Growth would reach 6.0 percent in 2018 and average 6.6 percent over 2019–22, driven mainly by a good performance of the agricultural sector, the ongoing recovery of the Nigerian economy, the scale up in public investment, the resilience of the tertiary sector (transport and telecommunications, trade), and an uptake in private investment in response to expected improvement in infrastructure.

<sup>3</sup> This assessment is in line with the DSA conducted in April 2017.

- Inflation is projected to average 2.8 percent on average in 2018–22.
- The budget deficit (including grants) is expected to fall to 4.5 percent in 2018 and further to 1.8 percent of GDP in 2019.
- Monetary policy by the regional central bank (BCEAO) is expected to remain supportive, buttressing the programmed increase in credit to the private sector.<sup>4</sup>
- Non-financial public sector (NFPS) debt is projected to reach 56.2 percent of GDP in 2018 with a present value (PV) of 48.3 percent of GDP.
- After peaking in 2017, the external current account deficit (including grants) would decline to 8.2 percent of GDP in 2018 and average 6.4 percent of GDP for 2019–22 as investment and import growth.

**Text Table 1. Benin: Selected Economic and Financial Indicators—Baseline and Alternative Scenarios, 2017–22**

	2017	2018	2019	2020	2021	2022	2017	2018	2019	2020	2021	2022
	Baseline (Program)						Alternative (Projections)					
Real GDP	5.6	6.0	6.3	6.7	7.1	7.2	5.6	4.0	4.7	5.2	5.5	6.2
Consumer Price Index (average)	0.6	2.5	2.8	2.8	2.8	2.8	0.6	2.6	2.9	2.9	2.9	2.9
Public Investment <sup>*</sup>	9.3	8.6	6.3	5.9	5.5	5.3	9.3	8.7	6.5	6.1	5.6	5.3
Total Revenues	16.8	17.5	17.3	17.9	18.4	18.8	16.8	17.1	17.0	17.9	18.4	18.8
Fiscal Deficit (including grants)	-6.1	-4.5	-1.8	-0.6	0.0	0.8	-6.1	-5.6	-2.7	-1.6	-0.8	0.2
Basic Primary Balance	-2.6	0.1	2.4	3.1	3.5	4.2	-2.6	-0.7	2.1	2.7	3.3	4.1
Non-Financial Public Sector Debt	55.6	56.4	53.8	49.3	45.0	40.7	55.6	58.3	56.8	53.2	49.6	45.9
Current Account	-9.1	-8.4	-7.1	-6.6	-6.4	-5.8	-9.1	-8.0	-6.3	-5.9	-5.6	-5.2

Source: IMF staff estimates and projections.  
\*Same volume of investment in both scenarios.

**11. The external sector assessment does not raise immediate concerns, but highlights the need to boost competitiveness** (Annex III). It found that the real effective exchange rate is broadly consistent with fundamentals although competitiveness remains weak. The authorities agree with the assessment and are committed to advance structural reforms that would enhance the competitiveness of the economy.

**12. Risks.** Risks to the outlook include: (i) delayed recovery in Nigeria and attendant shocks; (ii) resistance from the NA to support the reform agenda; (iii) unforeseen contingent liabilities associated with SOEs and other government contracts; (iv) the volatility of cotton export prices; and (v) the potential non-materialization of the efficiency gains expected from public investment and a limited private sector response (Annex II Risk Assessment Matrix). An alternative scenario based on

<sup>4</sup> On September 6, 2017, the Monetary Policy Committee of the BCEAO kept unchanged its two key policy rates—the minimum rate for bids at liquidity auctions and the standing lending facility—at 2.5 and 4.5 percent, respectively.



lower growth stemming from the non-materialization of the efficiency gains expected from public investment shows a deterioration of key macroeconomic indicators over the medium term, calling for stronger domestic adjustment (Text Table 1).

### Authorities' Views

#### 13. The authorities broadly shared staff's views on the medium-term outlook and risks.

The authorities concurred with staff that a fiscal adjustment is needed to reduce debt and ensure continued macroeconomic stability and growth. They also agreed with the outlook for moderate inflation and that a strengthened fiscal stance will contribute to improve the external position. The authorities concurred with staff that private sector involvement is critical to consolidate the reform program.

## POLICY DISCUSSIONS

*Discussions focused on how to: (i) accelerate reforms to create fiscal space; (ii) preserve debt sustainability; (iii) diversify the economy and promote inclusive growth, and (iv) promote good governance and transparency.*

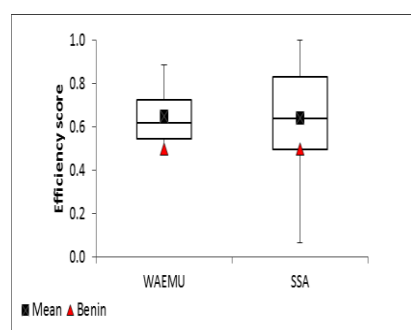
### A. Accelerating Reforms to Broaden the Tax Base and Enhance the Efficiency of Public Spending

#### Revenue mobilization

#### 14. Tax and customs administration reforms remain on track but need to be accelerated.

The priority given by the government to strengthen domestic revenue mobilization is beginning to bear fruit. Preliminary measures to facilitate the achievement of the programmed revenue target have been put in place. Total revenue is expected to increase by 21.7 percent in 2017 to reach CFAF 907.5 billion. However, the implementation of reforms aimed at modernizing the tax and customs administrations, improving their efficiency and strengthening their coordination must continue with vigor to sustain the improvement noted through end-June 2017 (Tables 5 and 6 and Box 3). Nonetheless, tax revenues remained at 13.5 percent of GDP in 2017, well below the 20 percent threshold set by the WAEMU.

**Text Figure 3. Benin: Indicators of efficiency of public investment**



Source: IMF Staff calculations.

## Authorities' views

**15. The authorities reaffirmed their commitment to implementing additional reforms to mobilize more resources.** In line with the development objectives set in the Economic Development Document (Box 2), the authorities will continue their efforts in tax and customs administration reforms to create additional fiscal space necessary for financing the PAG. To boost tax revenue collection, the authorities will seek: (i) improving human resources management within the tax administration; (ii) implementing a plan to improve tax compliance to mitigate risks that can potentially harm revenue and / or tax functions; and (iii) strengthening the implementation of transactional values within customs (MEFP ¶116). They are also accelerating reforms to integrate the electronic systems of the tax and customs administrations to enhance their efficiencies and strengthen coordination.

### Box 2. Economic Development Document (EDD), 2017–21

Benin's EDD for 2017-21 builds on the government's long-term economic and social programs (*Etudes Nationales de Perspectives a Long Terme—Benin Alafia 2025*) and on the achievements and implementation challenges of Benin's previous poverty reduction strategic documents (SCRIP), the Economic and Social Development Plan (PDES), 2012-15. The PDES recorded steady progress on several fronts, but challenges remain as regard to governance, lack of capacity, effective implementation of reforms, project management, domestic revenue mobilization, expenditure prioritization, agriculture modernization, and food security.

To address these challenges, the EDD aims first at further enhancing the macroeconomic environment to achieve inclusive growth through accelerated and sustained growth and meet the dual objective of improving incomes and job creation, while strengthening the foundations of sustainable development.

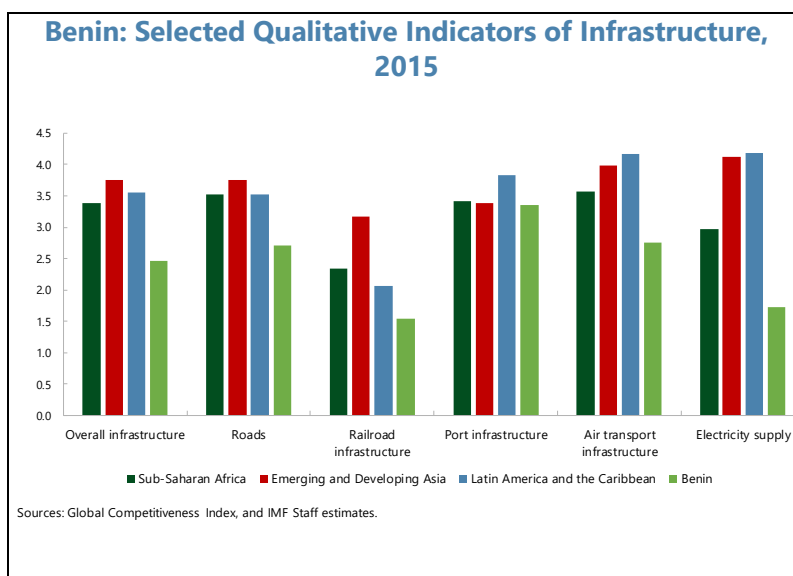
The EDD document recognizes that the average rate of growth during the SCRIP, 2011-15 (5.3 percent), was insufficient (against a target of 7.5 percent for 2015 percent) to contribute to a significant reduction of poverty and unemployment (*vis-à-vis* a demographic growth of 3.5 percent during the period). The EDD also acknowledges the seriousness of the poverty dynamics in Benin (described in more detail in Box 1). The EDD recognized four major development challenges: (i) increase economic competitiveness; (ii) reduce inequalities of access to basic services by the population; (iii) address and correct disparities among different economic zones, and (iv) improve the business environment. To support the achievement of macroeconomic objectives, the EDD sets sectoral and key reforms priorities: (i) strengthen the state of law; (ii) improve governance; (iii) maintain macroeconomic stability; (iv) improve economic growth, (v) strengthen the performance of education; (vi) reinforce social protection, and (vii) promote sustainable and durable economic development.

The principles underlying the EDD are in line with the pillars of the Government Action Program and previous PDEs. Nonetheless, further emphasis on improving public financial management and domestic resource mobilization and accelerating the implementation of the domestic food security could be advisable within the strategy. In addition, focusing on agribusiness to promote export diversification; enhancing public investment in priority infrastructures and in the social sectors; and attracting foreign direct investment to boost exports could also help to support inclusive growth.

### Box 3. Public Investment Efficiency

Benin is projected to increase public investment significantly to help close the its infrastructure gap. Benin’s infrastructure gap is relatively large and has been widely identified as a growth bottleneck. Nonetheless, Benin is lagging behind SSA average in electricity supply, paved road density and telecommunication infrastructure. Insufficient or inefficient infrastructure reduces the return to trade and economic activity and constrains growth. To close this gap, Benin is envisioning to significantly boost public capital expenditure in the medium term.

In addition to the infrastructure gap, Benin’s infrastructure is also perceived as being of relatively low quality, and investment efficiency appears low. According to the most recent *World Economic Forum’s* (WEF) Global Competitiveness, the quality of electricity supply, railroads and roads scored below SSA benchmark countries’ average. At a comparable level of real public capital stock, Benin’s overall infrastructure quality is perceived lower than that of regional peers.



The efficiency frontier approach (Selected Issues paper) assess the relative efficiency of Benin in translating public investment (inputs) into infrastructure (outputs). It shows that Benin’s public investment efficiency compares unfavorably with regional comparators with substantial scope to improve efficiency. Benin’s performance lags that of all comparator groups, with the magnitude of the inefficiency depending on the efficiency score index. Under three efficiency scores indexes, the results indicate that Benin could increase investment efficiency by 55 percent in average with the same amount of investment. Benin could improve public investment efficiency significantly by improving the quality of institution. This is borne out by the regression analysis suggesting that stronger institutions could reduce the public investment efficiency gap in Benin. Improving public investment efficiency, in turn, could help boost growth and speed up progress in realizing the development agenda.

### Investment efficiency

**16. The authorities’ reform agenda needs to focus on reducing the efficiency gap in public investment to buttress implementation of the GAP, 2016–21.** A preliminary analysis of available data on public investment management shows that the efficiency of public investment is relatively low in Benin (Text Figure 3) compared with benchmark countries. In addition, analytical work on investment efficiency shows that Benin’s infrastructure quantity and quality remain relatively low and that there is a need to improve certain public investment management (PIM) institutions that could reduce the efficiency gap. Poor selection criteria of public projects and non-transparent procurement processes contribute to inefficiency of public spending. Based on the findings of the SIP, staff recommended measures to address inefficiencies in public spending, including a robust planning system coordinated with budget preparation, effective state and local government coordination, and a comprehensive normative and institutional framework for public procurement.

## Authorities' views

**17. The authorities confirmed their commitment to improve the efficiency of public investment.** They welcomed the findings and key recommendations of the October 2017 IMF technical assistance (TA) mission assessing Benin's public investment management (PIMA) and expressed their commitment to draw on this to strengthen the planning and execution of public infrastructure projects, with a view to improve monitoring of commitments, conduct ex-post project evaluation, improve inter-ministerial coordination, and strengthen human capital. The authorities will seek to strengthen project selection with to enhance the procurement and execution processes with a view to ensure value for money.

## B. Preserving Long-Term Debt Sustainability

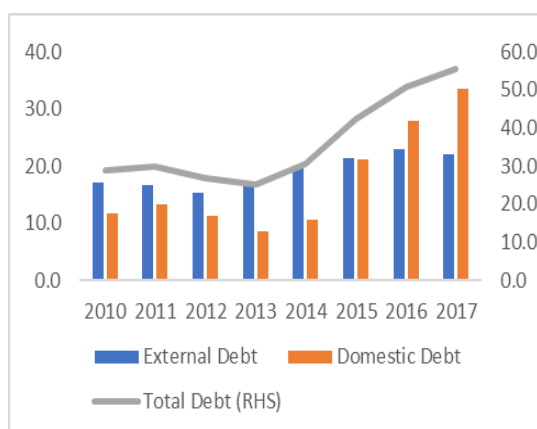
### Strengthen debt sustainability

**18. The rapid increase in domestic debt in recent years calls for strict adherence to the programmed fiscal consolidation path to preserve long-term debt sustainability.** The September 2017 DSA confirms a moderate risk of debt distress for Benin (Annex VI). However, domestic public debt increased from about 8.6 percent of GDP to 33.6 percent of GDP between 2013 and 2017 (Text Figure 4) to account for 60 percent of the total debt. Staff urged the authorities to remain steadfast in the implementation of the fiscal reforms to ensure that the programmed fiscal consolidation path is achieved to support the public debt anchor<sup>5</sup> and preserve long-term debt sustainability.

**19. Ongoing efforts to strengthen public debt management should be sustained.** The

government's increased reliance on the regional financial market to finance public investment projects has increased the present value (PV) of public debt to 48.4 percent of GDP in 2017. Staff encouraged the authorities to build on the recent improvement in the availability of information on public debt and the preparation of a medium-term debt management strategy with a view to optimizing recourse to the regional debt market.

**Text Figure 4. Benin: Total non-financial public sector debt 2010-2017 (in percent of GDP)**



Sources: Authorities' data and staff calculations.

<sup>5</sup> The anchor is defined as limiting the PV of NFPS debt to no more than 50 percent of GDP, consistent with a total NFPS debt ratio peaking at 56.2 percent of GDP in 2018. This ratio is below the estimated PV threshold of 56 percent of GDP, beyond which the risk of public debt distress is heightened for countries with moderate capacity like Benin.

**20. Further progress is needed to assess fiscal risks related to PPPs.** Staff welcomed the progresses made by the authorities on monitoring state-owned enterprises (SOEs). The authorities are collecting and are analyzing the financial statements and questionnaire responses of all 22 SOEs and 140 autonomous agencies to assess their indebtedness. However, the assessment of fiscal risks related to PPP projects remain an issue despite the creation of the unit in charge of PPP at the Ministry of Finance.

#### **Authorities' views**

**21. The authorities concurred with staff on the need to strengthen debt management.**

Given the importance of domestic debt, which includes regional borrowing with shorter maturities, higher interest rates, and lower grace periods, hence its higher weight on the stock of total debt, the authorities will favor concessional external borrowing and strengthen the debt management agency (MEFP 15). They will accelerate the transition to the treasury single account, improve the quality of its cash flows, and match short-term debt instruments with liquidity needs. Given the roll-over risks associated with the domestic debt, the authorities will seek longer maturity obligations when tapping the regional financial market.

### **C. Promoting Diversification, Inclusive Growth, and Financial Deepening**

**22. Economic diversification and development of the financial sector are essential to enhance the inclusiveness of growth.** Despite the agricultural sector's strong contribution to economic growth over recent years, Benin faces critical challenges regarding export diversification and domestic production. Based on cross-country experiences, the Selected Issue Paper (SIP) prepared by staff on: *Growth, Structural Transformation, and Export Diversification* shows the type of structural reforms and economic diversification that could contribute to boost and sustain growth in Benin. These reforms should:

- aim at improving infrastructure and trade networks, reducing barriers to entry for new products, deepening financial markets, fostering more efficient financial intermediation and access to markets, and investing in human capital (Box 4);
- reinforce Benin's relative good standing regarding the extent of foreign value added in its exports—traditionally referred to as backward integration (Text Figure 5),<sup>6</sup> and
- focus more on sectoral policies such as developing high value added agro-commodity crops, promoting agro-processing, and developing the tourism sector—efforts to improve education outcomes, bolster governance and transparency in regulation should complement these sectoral policies.

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<sup>6</sup> For this indicator, Benin is above the average of its comparators.

#### Box 4. Stages of Transformation and Diversification

Benin's economy remains poorly diversified and there has been some de-industrialization with the output share of manufacturing falling from 22 percent in 2000 to 12 percent in 2012. Today, agriculture employs around 70 percent of Benin's workforce and contributes approximately to 22 percent to its GDP. Benin is addressing de-industrialization with policies to boost value-added in agriculture and tourism. One of the pillars of the GAP is the structural transformation of the economy to create more value added in agriculture and tourism, both identified as key drivers of future growth. Specifically:

- Cross-cutting policies aimed at achieving efficiency gains in public investment, boosting private investment in energy and transport and strengthening education, skills, and human capital. Initiatives have been implemented to improve the business environment, although further progress in increasing access to electricity, facilitating paying taxes, and obtaining credit are needed.
- In the agricultural sector, the government has developed policies aimed at: (i) creating seven regional poles for agricultural development and promoting high value added sectors such as pineapples, cashew nuts, cotton, maize, cassava, and rice, (ii) evolving the processing industry through technological innovations, and (iii) boosting continental aquaculture.
- In the tourism sector, investment projects seek to: (i) build a tourist pole around Voodoo art, and (ii) recreate the historic city of Ouidah to make it the flagship destination of memorial tourism in Africa.

**23. To tackle inequalities and make growth more inclusive, the findings of the SIP point to the following recommendations:** (i) support urbanization policies to allow more people to take advantage of economies of scale and boost economic development, (ii) improve agricultural productivity via land tenure security, irrigation, and enhancing extension services to foster food security in rural areas, (iii) implement pro-poor fiscal transfers via inter-region transfers (for example, local governments in disadvantaged areas can use the fiscal transfers received from the central government to invest in health and education) and (iv) adopt cost-effective safety net programs such as e-vouchers and mobile transfers to protect the most vulnerable.

**24. Staff underscored the need to address weaknesses of the financial infrastructure and business environment to spur banks' lending to the private sector.** Although macroeconomic conditions in recent years have been favorable for financial stability, Benin's financial sector remains under-developed and vulnerable, limiting its ability to support credit to the private sector and, ultimately, economic growth. The large number of unauthorized microfinance institutions (MFIs) raises stability risks. A SIP reviewed the financial sector's contribution to sustainable economic growth, outlined stability concerns, and explored how to further improve financial inclusion.<sup>7</sup>

#### Authorities' views

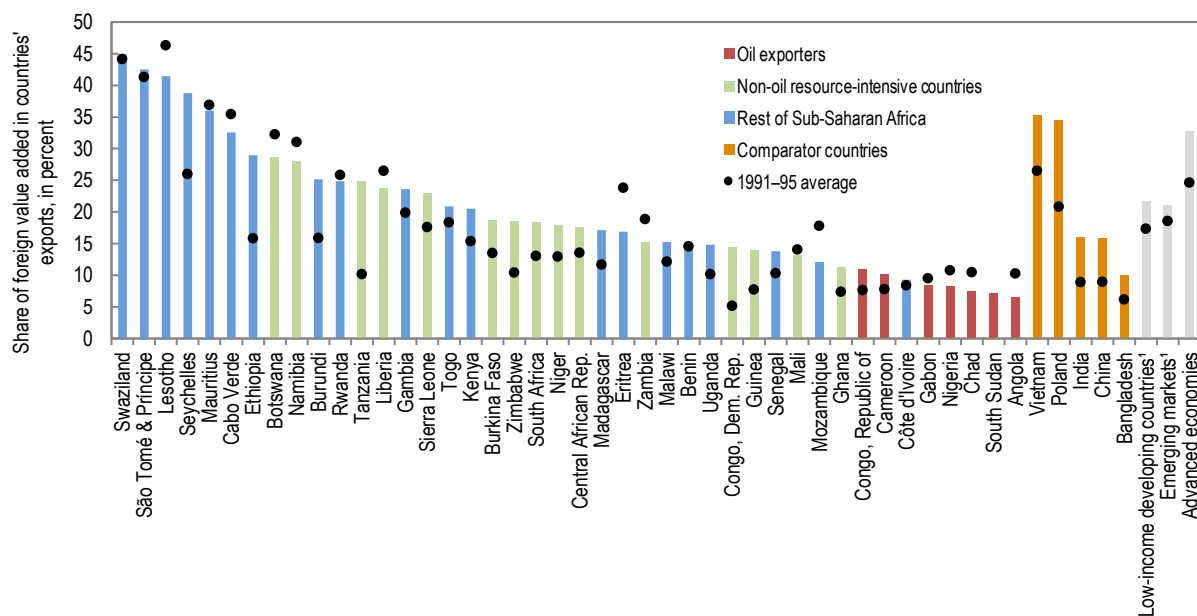
**25. The authorities recognized the urgency of promoting inclusive growth and reduce poverty.** They stressed that one of the key pillars of the GAP is to improve the living conditions of

<sup>7</sup> The SIP draws on the [2015 SIP on Macro financial Sector Issues](#).

the population and will consider the feasibility of staff recommendations and implement those that support that pillar. In the meantime, they indicated that they have adopted a flagship reform for the social protection of the poorest sector of the population. The reform known as the Insurance for Strengthening Human Capital (*Assurance pour le Renforcement du Capital Humain—ARCH*), will become operational in late 2017/early 2018 and includes universal medical coverage for the poorest segments of the population, food care, clean water and sanitation, and health care during early childhood years.

**26. The authorities agreed with the need to improve competitiveness by removing structural bottlenecks.** In this regard, they will undertake actions to achieve further progress on improving the business climate and developing human capital that could ease production constraints and improve the investment cycle. In particular, policy changes aimed at improving education and productivity could carry positive impacts on the informal economy. Overall export diversification and export volume increased slightly in recent years but production diversification could yield higher growth rates.

**Text Figure 5. Sub-Saharan Africa and Comparator Countries: Depth of Integration in Global Value Chains, Average 2008–12**



Source: Regional Economic Outlook, IMF African Department (April, 2015).

## Box 5. Redistributive Effects of Revenue and Expenditure Measures

### Fiscal Incidence and Inequality

A Selected Issues Paper provides an assessment of existing revenue and expenditure measures on inequality and poverty and incorporates most of the social spending portfolio (e.g., education and healthcare). Based on data availability, the assessment focuses on the redistributive impact of fiscal policies at a point in time and has allocated only health and education spending (on the expenditure side) and the VAT (on the revenue side). On the government revenue side, only VAT are included in the analysis (only data available for the evaluation).

The effect of redistributive fiscal policy on incomes is based on the comparison of two so-called “income concepts” excluding (i.e., pre-fiscal) and including (i.e., post-fiscal) fiscal policy measures. The analysis found that fiscal policy has had a redistributive effect in Benin. While VAT reduces inequality, it also contributes to an increase in the poverty headcount rate. The Gini coefficient for disposable income, is 0.43, one Gini point higher than the coefficient for final incomes, i.e., consumption expenditures minus indirect taxes and in-kind benefits from created by the public health and education systems (Figure). While inequality is marginally higher in urban areas compared to rural ones, fiscal policy is equally effective in both.

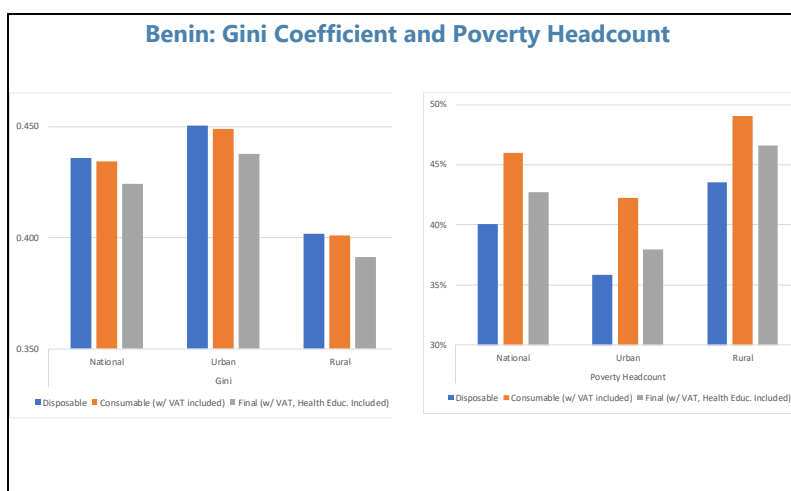
### Macro-Structural Policies and Inequality

Based on a dynamic general equilibrium framework developed by Fabrizio et al (2017),\* another Selected Issues Paper provides simulations of possible revenue and expenditure measures. A

comparison of simulation results of revenue mobilizations suggests that VAT is the least distortive alternative in terms of aggregate output. The analyzes centers on measures to mobilize domestic resources and provides two major results:

- The VAT reform results in higher income inequality in urban areas. In urban areas, poor households work in the non-tradable sector, which is informal, while richer households work in the manufacturing sector. The VAT reform reduces aggregate demand and the prices of non-tradable goods leading to a reduction on the income of the urban poor. The urban rich households observe an increase in income due to the increase in the investment in the economy, which leads to relative higher wage in the manufacturing sector.
- The VAT reform leads to lower income inequality in rural areas. The decrease of aggregate demand leads to a reduction of agricultural prices affecting rural households. The richest rural households are affected more, because they sell a largest share of their production, which leads to lower levels of income inequality in the sector.

\*Fabrizio, Stefania, David Furceri, Rodrigo Garcia-Verdu, Bin Grace li, Sandra V. Lizarazo, Marina Mendes Tavares, Futoshi Narita, and Adrian Peralta-Alva, 2017, *Macro-Structural Policies and Income Inequality in Low-Income Developing Countries*. SDN/17/01, January.





**27. The authorities also acknowledged the need to foster inclusive growth.** Drawing on the findings of two assessments on poverty prepared as background for the Article IV consultation, staff emphasized the redistributive effects of tax and spending policies and recommended to prioritize investment in rural areas.<sup>8</sup> The SIP found that: (i) value added taxation (VAT) can help raise significant revenue while reducing inequality, but can also adversely impact the very poor; (ii) health and education standings are more efficient than VAT at reducing inequality and positively impact the very poor, but need significant financing to achieve this goal; and (iii) the marginal effect of redistributive policies are larger in rural areas, given greater needs and similar impact. Based on these findings, staff underscored the importance of strengthening the VAT and use ensuing resources to finance health and education spending to rural low-income households. The authorities also acknowledged the need to foster inclusive growth (Box 5).

**28. The authorities agreed to take actions to improve financial deepening.** They will undertake electronic title registration, extend it to the whole country, and seek to improve the judicial system's capacity by extending training on commercial regulation and creating commercial courts and arbitration mechanisms. To strengthen the supervisory framework, the BCEAO and the regional banking commission (*Commission Bancaire*) are proceeding with the implementation of risk-based supervision. The authorities agreed on the need to speed up the implementation of the new harmonized regional resolution framework, strengthen the supervisory body for microfinance by increasing the number of supervisors, especially in rural areas, necessary for timely supervision and enforcement of regulations. They have also agreed to clean the microfinance sector by regularizing unauthorized MFIs.

## D. Strengthening the Business Environment by Promoting Good Governance

**29. A favorable business environment is critical for private sector-led growth.** The authorities initiated several reforms aimed at improving the business and investment climate to support the process of economic diversification and improve the still weakly inclusive character of growth (MEFP ¶16). Heavy reliance on private investment to help address the infrastructure gap and Benin's participation in the G20 CWA have heightened the importance of these reforms (MEFP ¶19). However, little progress is being made in: (i) strengthening audit institutions; (ii) addressing weaknesses in the doing business indicators; and (iii) addressing corruption and improving governance and transparency.

### Authorities' views

**30. The authorities will accelerate reform of audit institutions and strengthen the procurement system.** They agreed on the need to complete the plan for reforming the government's internal and external audit and create a truly independent and transparent audit

<sup>8</sup> The team has cooperated with the *Commitment to Equity Institute* to improve the understanding of how changes in fiscal policy would affect poverty and inequality.

system, including strengthening both internal and external audit. Furthermore, the authorities are planning to create a competitive procurement system, by reducing direct tendering and practicing best practice disclosure on procurement outcomes.

**31. Ongoing reforms are expected to improve the business climate.** Although Benin has continued to implement reforms, their ranking in the World Bank Doing Business Indicators has declined two positions in 2017. Benin ranks at 155 in 2017, with slight improvements on indicators covering the difficulty of starting a business, getting credit and protecting minority investors. The authorities plan to make progress regarding access to electricity, paying taxes, and enforcing contracts. Corruption has been identified in the 2017-2018 Global Competitiveness Index as one of the most problematic factor for doing business and some other third-party indicators suggest continued challenges for Benin.<sup>9</sup> Additional steps should be taken to decisively tackle corruption, including through continued efforts towards establishing an effective AML/CFT regime to help deter, detect and prosecute the laundering of acts of corruption.

**32. The authorities are committed to strengthen the AML/CFT and anticorruption frameworks.** On November 2, 2017, the authorities approved for submission to the National Assembly a bill on AML/CFT, which coalesce existing legislation on the fight against money laundering with that on combating the financing of terrorism (MEFP ¶16). The authorities will further strengthen the framework for combating corruption, improve transparency, and proceed with a coherent implementation of the legislative and regulatory framework for AML/CFT. They are also committed to implement a meaningful and enforceable asset declaration regime, which is an important building block to support anti-corruption efforts going forward. Benin's AML/CFT mutual evaluation, to be conducted in February 2019, should help guide efforts to address pending deficiencies in the implementation of the FATF standard.

## PROGRAM PERFORMANCE

### A. Program Implementation

**33. Program implementation is broadly satisfactory.** All the performance criteria at end-June 2017 were met (Table 1). Also, all structural benchmarks for end-June were met with good progress on the end-September and end-December ones (MEFP Table 2). The under-execution of social priority spending (CFAF 55.6 billion versus a target of CFAF 85.0 billion at end-June 2017) stemmed from delays in validating sectorial ministries' initiatives and other administrative hurdles. The authorities indicated that, as of September 21, spending on these sectors represented 88 percent of the target for end-September and that significant progress is being made to meet the indicative target for end-December (Table 1).

<sup>9</sup> The 2016 Mo Ibrahim Index report for Benin shows a slight improvement in overall governance in 2015 with the country placing 16<sup>th</sup> out of 54 countries, essentially, due to high scores in "Participation & Human Rights" and "Safety & Rule of Law."

## B. Economic Program for 2018

**34. The main objectives of the ECF-supported arrangement are to reduce the fiscal deficit and preserve debt sustainability, accelerate domestic revenue mobilization, improve the quality of spending, and strengthen institutions for private sector development.** Achievements of the program objectives are being supported by reforms to: (i) increase domestic revenue and make public spending more efficient, (ii) further strengthen debt management, and (iii) improve the business environment.

**35. The program envisages an acceleration of economic growth with inflation also accelerating modestly.** Real GDP growth is expected to accelerate to 6 percent in 2018, reaching 6.6 percent on average in 2019–22 (MEFP ¶15). The improvement in growth in the medium term is due to: (i) continuous improvement in agricultural production; (ii) the impact of private investments in the context of the GAP and; (iii) the recovery of the Nigerian economy. Inflation is expected to average 2 percent in 2018 and 2.2 percent in 2019–22, accelerating on an increase in food prices and the appreciation of Naira given the recovery in Nigerian economy. The external position is expected to strengthen gradually, driven by sustained growth in exports and a slowdown in imports due to slowing public investment. The current account balance is expected to improve to average 8.3 percent of GDP and 6.6 percent in 2018–22. The improvement of Benin's external position should enable it to contribute to the growth of the WAEMU region's international reserves.

**36. The draft budget for 2018 is consistent with the ECF-supported program with higher improved government revenues** (MEFP ¶21). Based on better-than-programmed revenue performance in 2017 (1.2 percentage points of GDP higher), the draft budget envisions higher domestic revenue and a slightly higher public investment (MEFP ¶22). As a result, the overall fiscal deficit (including grants) will decline to 4.5 percent of GDP compared to 6.4 percent of GDP. The Council of Ministers approved it on September 27 for submission to parliament (MEFP ¶15). The authorities reaffirmed their commitment to the medium-term fiscal consolidation path, which ensures alignment with the WAEMU's convergence criterion of 3 percent of GDP by 2019. They have identified measures to underpin the revenue projections (Text Table 2), including: (i) a strengthened fiscal control based on a better risk assessment and monitoring of big firms; (ii) implementation of penalties for tax delays; (iii) acceleration of tax litigation cases, (iv) improved tax compliance, (v) the cancellation of many VAT exemptions, and (vi) a reinforced coordination between tax and customs administration (MEFP ¶17 and 18). The increase in non-tax revenues stems from the non-renewal of tax exemptions benefiting cell phone companies; the collection of arrears; and other special taxes (electronic communications, road fees). Reaching understanding on a draft budget for 2018 consistent with the ECF-supported program was a prior action for completion of this review and it has been met.

**Text Table 2. Benin: Impact of Revenue Measures, 2018<sup>1</sup>**

	Billions of CFAF	Percent of GDP
Tax revenue		
Modernization of tax collection procedures	25.2	0.4
Strengthening audit procedures	10.0	0.2
Reorganization of the tax administration	0.5	0.0
Non-tax revenue		
Collected by Treasury	36.1	0.6
Collected by Debt Agency (CAA)	16.6	0.3
<b>Total</b>	<b>88</b>	<b>1.5</b>

Sources: Beninese authorities and IMF staff calculations.

1/Revenue gains compared to the original program for 2018.

**37. The program's emphasis on accelerating revenue mobilization and strengthening public financial management and governance and transparency will continue.** Staff stressed the importance of a timely implementation of the structural reforms contemplated under the program to sustain the progress achieved so far (Appendix Table 2). Staff urged the authorities to accelerate reforms of key SOEs that could be a source of fiscal risks, due to their quasi-fiscal activities and contingent liabilities.

### C. Financing Assurances, Capacity to Repay, and Safeguards

**38. The program is fully financed with firm commitments for next 12 months and good prospects for remainder of program.** Despite being originally hesitant, development partners—AfDB, European Union, and the World Bank—are encouraged by the prospects of the first review of the ECF-supported arrangement being completed. They have renewed their commitment to accelerate disbursement of budget support for 2017 and financial support for 2018–19 (grants and loans) enough to close the residual financing gap under the program, including support from China CFAF 26 billion). There are good prospects that there will be adequate financing for the remaining program period, given Benin's continued access to regional bond markets as well as donor support.

**39. A modification of the end-December 2017 PCs is proposed.** Based on a better revenue performance at end-June 2017 expected to carry over for the full year, staff is proposing a modification of three performance criteria for end-December 2017, namely: (i) the ceiling on net domestic financing of the government, (ii) the floor on the basic primary balance (excluding grants), and (iii) the floor on total revenue (Table 1).

**40. Capacity to repay the Fund is adequate.** Credit outstanding from the Fund, once all disbursements under the ECF arrangement are made, will be 109.7 percent of quota (SDR 135.82 million). Benin's capacity to repay the Fund remains sound (Table 10) as confirmed by its moderate risk of debt distress and favorable economic growth outlook.

**41. Safeguards assessment.** The 2013 assessment of the WAEMU regional central bank, BCEAO, found a continuing strong control environment. All recommendations from the assessment have been implemented. These included strengthening the external audit arrangements by appointment of an international firm with ISA experience for the audits of FY 2015–17, reinforcing the capacity of the audit committee with external expertise to oversee the audit and financial reporting processes, and adoption of IFRS starting with the financial year 2015. An update safeguards assessment is planned for 2017, in line with the four-year cycle for regional central banks.

## OTHER ISSUES

**42. Data Provision** Data provision has some shortcomings due to lack of capacity, but is broadly adequate for surveillance. Plans are being implemented to improve the quality and timeliness of economic data and to address data gaps with the help of IMF technical assistance—in particular, regarding balance of payments, international investment position, employment, and social indicators—building on their recent participation in the Enhanced General Data Dissemination System (e-GDDS). Weaknesses in public finance will also be addressed with a view to finalize a framework to implement the Government Financial Statistics Manual (GFSM) 2001/2014.

**43. Capacity Development.** Staff and the authorities agreed on technical assistance priorities under the capacity building framework. The Beninese authorities are determined to continue to build capacity for a successful implementation of the ECF-supported program. The authorities have reached understandings with staff on a comprehensive capacity building strategy. To support the authorities' policy priorities, IMF TA will put a special especial emphasis on revenue (tax and customs) administration and PFM, including management of public investment. TA will also aim at strengthening the authorities' capacity to address data weaknesses and gaps. Support to improve real sector statistics will also be expanded to support the authorities quest for building up national account statistics (Annex V).

## STAFF APPRAISAL

**44. The economy has been resilient.** Benin's economy weathered negative spillovers in 2016 and is poised to sustain high growth rates. Staff commends the authorities for their swift action in 2016 that cut recurrent spending, arrested the deteriorating fiscal position, and stabilized the macroeconomic situation. Prudent policies and sustained implementation of the authorities' reform agenda set out in the Economic Development Document 2017-21 have been instrumental in helping Benin maintain a positive macroeconomic environment and set the stage for continued economic growth with low inflation. Going forward, macroeconomic and structural policies should continue to aim at preserving external sustainability, addressing financial sector vulnerabilities, and contributing to the stability of the WAEMU region.

**45. However, the strong macroeconomic performance did not make a dent in poverty reduction.** The increase in poverty despite solid macroeconomic performance growth clearly points to non-inclusiveness of growth and the limited efficiency of public spending. Rising poverty remains a major challenge that the authorities need to address to reduce inequality and broaden support for the reform agenda. The authorities' commitment to prioritize spending and allocate more resources to priority social sectors are welcome steps that should improve social indicators. Government policies should ensure that economic diversification takes hold and the benefits of growth reach a large number of the population. To this end, the authorities are encouraged to pursue the implementation of well-targeted measures to protect the most vulnerable segments of the population.

**46. The need to bolster domestic revenue mobilization cannot be overemphasized.** This is paramount to the authorities' goal to increase public investment and boost poverty-reducing spending to address demands for better-living conditions in Benin. Staff welcomes the improvement in domestic revenue collection, which is on pace to exceed the programmed objective. To be sustained, the ongoing tax and customs administration reforms should be implemented steadfastly to broaden the tax base and improve compliance. The draft 2018 budget reflects the stronger revenue performance of 2017 and calls for the timely implementation of the underpinning tax administration measures.

**47. Adhering to the fiscal consolidation path is essential to ensure debt sustainability.** Achieving the debt anchor requires sustained efforts to meet the WAEMU's fiscal convergence criterion. Prudent debt management practices are needed to smooth the long-term debt service profile and safeguard Benin's classification of moderate risk of debt distress. It is particularly important to seek long maturity obligations when tapping the regional financial market. Close monitoring the debt of SOEs and fiscal risks associated with PPP projects is also critical to better assess contingent liabilities and preserve public debt sustainability.

**48. Improving the business environment is essential to support inclusive growth and the EDD's development strategies.** As private investment is being relied upon to finance the GAP, it is imperative to remove impediments that saddle the business environment; the more so given Benin's participation in the G20 CWA Initiative. Staff urges the authorities to redouble their efforts aimed at fighting corruption and strengthening governance and transparency to level the playing field necessary for the private sector to thrive.

**49. Efforts to address financial sector vulnerabilities should continue.** Staff is encouraged by the measures to remove key barriers to more efficient financial intermediation and the progress in implementing reforms to consolidate information on microfinance institutions. Sustained efforts are needed to lessen the stability risks stemming from the large number of unauthorized MFIs and address non-performing loans in the banking sector, which remain high despite a recent decline

**50. Gaps in the quality and timeliness of economic statistics need to be addressed.** Staff welcomes the authorities' efforts to improve national account statistics and their recent participation in the e-GDDS. Staff encourages the authorities to continue their plans to address data gaps and

further improve the quality and timeliness of economic data and upgrade the methodologies for data collection and dissemination processes, including the publication of the recently revised national accounts.

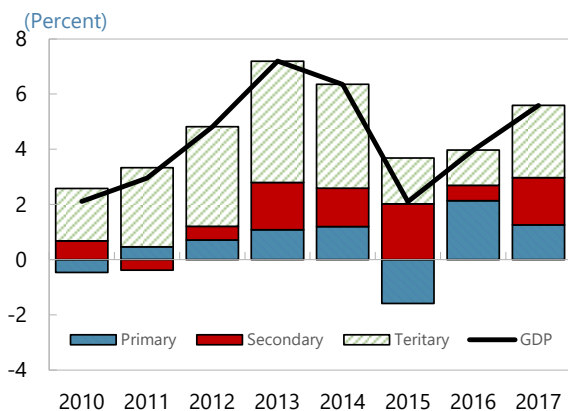
**51. Staff supports the authorities' request for completion of the first review of the program supported by the ECF, proposed modifications of performance criteria, and the authorities request to set performance criteria and structural benchmark for 2018.** Completion of this review will release a disbursement equivalent to SDR 15.917 million. The attached Letter of Intent and Memorandum of Economic and Financial Policies set out appropriate policies to pursue the program's objectives. The capacity to repay the Fund is adequate, and risks to program implementation are manageable.

**52. It is expected that the next Article IV consultation with Benin will be held in accordance with the Executive Board decision on the consultation cycles for members with Fund arrangements.**

**Figure 1. Benin: Recent Developments, 2010–17**

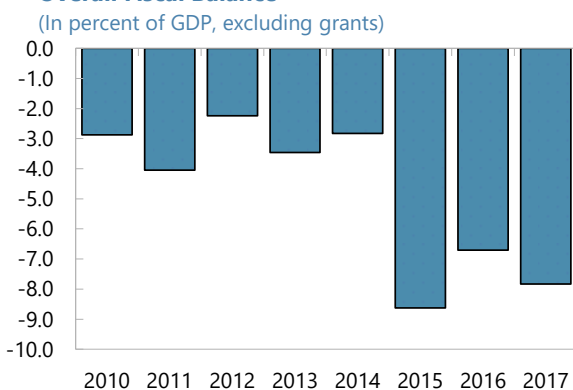
Growth has increased since 2015, pulled by agriculture and the tertiary sector...

**Contribution to GDP Growth**



The fiscal outcome is in line with the program...

**Overall Fiscal Balance**



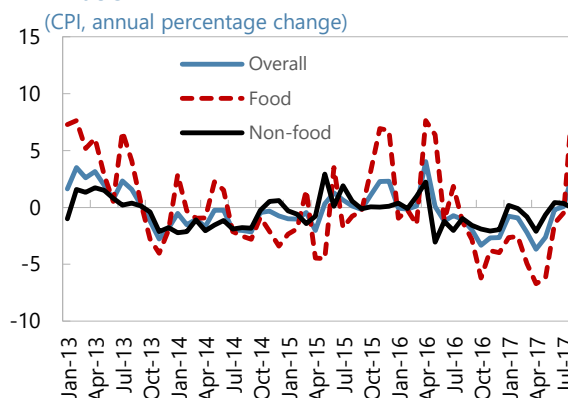
A large structural trade gap, exacerbated by recent spillovers from Nigeria...

**International Trade**



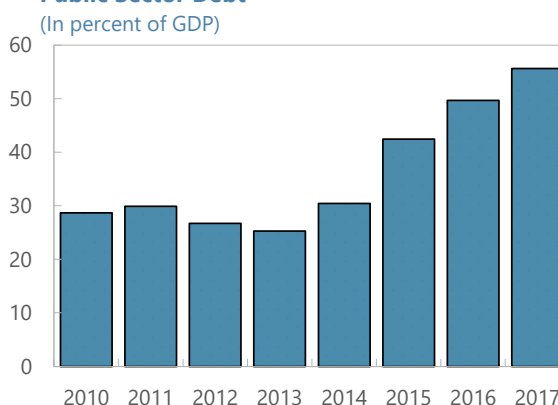
...while inflation remains subdued.

**Inflation**



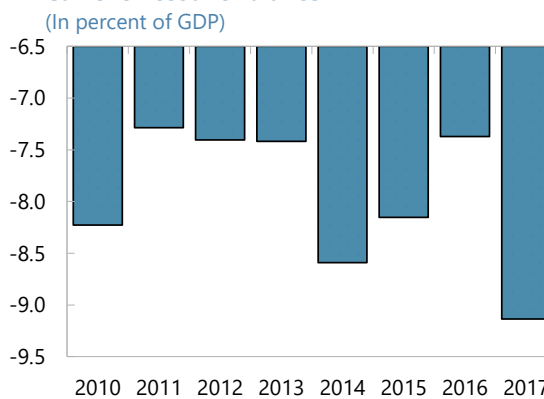
...while public debt increases.

**Public Sector Debt**



...lead to a further deterioration of the current account deficit.

**Current Account Balance**





**Figure 2. Benin: Fiscal Developments and Projections, 2012–19**

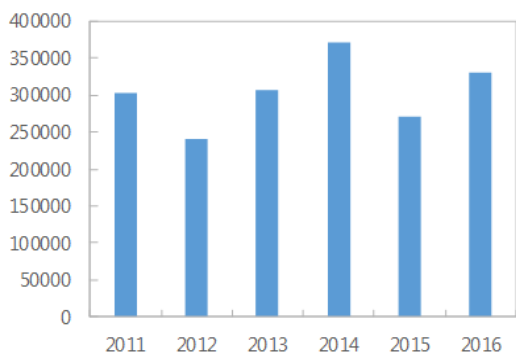


Source: authorities data and staff estimates

**Figure 3. Benin: Real and External Developments**

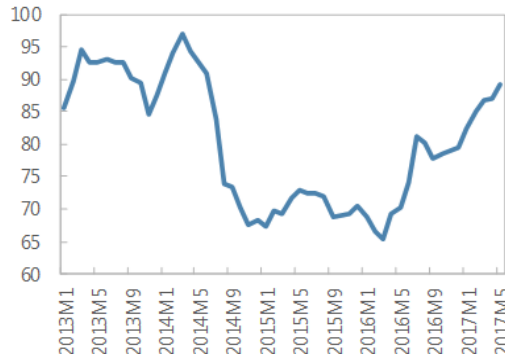
**Cotton Production**

(in tonnes)



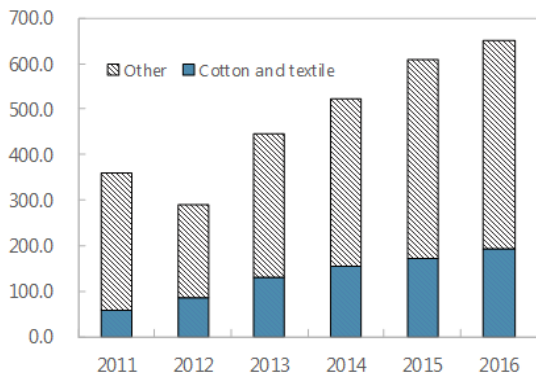
**International Cotton Prices,**

Jan. 2013-May. 2017



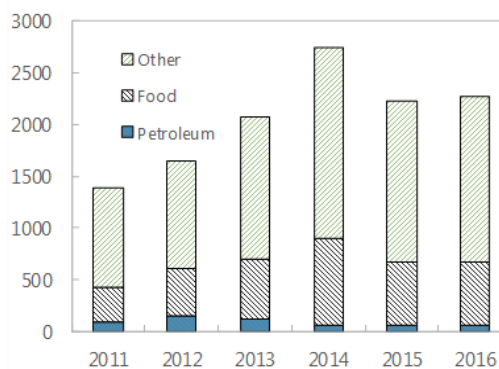
**Composition of Exports**

(Billions of CFAF)



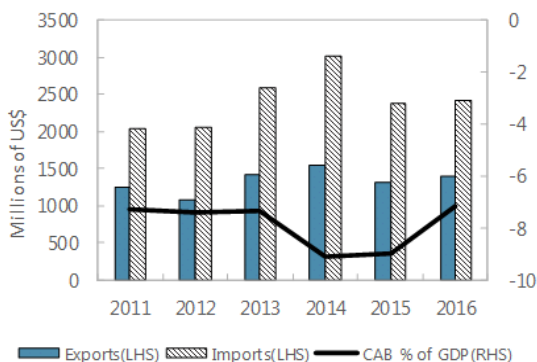
**Composition of Imports,**

(Billions of CFAF)



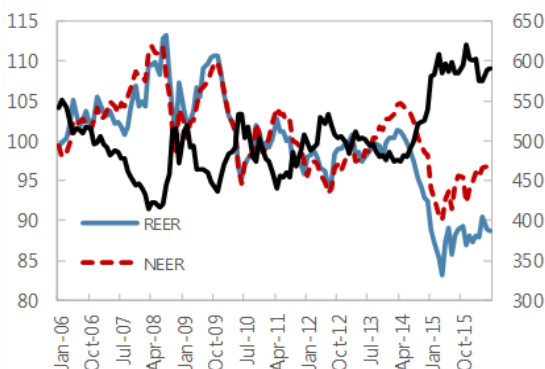
**Current Account Balance**

(percent of GDP)



**Exchange Rates**

Jan. 2006-Jun 2016



**Table 1. Benin: Status of Quantitative Performance Criteria and Indicative Targets and Proposed Modifications, 2017<sup>1</sup>**  
(Billions of CFA francs)

	March 31, 2017			June 30, 2017				September 30, 2017	December 31, 2017	
	Indicative Targets			Performance Criteria				Indicative Targets	Performance Criteria	
	Prog.	Prel.	Status	Prog.	Adjusted	Prel.	Status	Prog.	Prog.	Rev.
<b>A. Quantitative performance criteria<sup>2</sup></b>										
Net domestic financing of the government (ceiling) <sup>3,4, 5</sup>	70.1	38.1	Met	116.1	131.1	113.7	Met	183.9	177.7	183.7
Basic primary balance (excluding grants) (floor)	-64.7	8.8	Met	-73.1		-33.1	Met	-139.0	-171.3	-142.6
Total revenue (floor)	182.9	189.6	Met	386.1		443.9	Met	602.9	843.9	907.5
<b>B. Continuous quantitative performance criteria (ceilings)</b>										
Accumulation of external payments arrears	0.0	0.0	Met	0.0		0.0	Met	0.0	0.0	0.0
Ceiling on the present value of new external debt contracted or guaranteed by the government	402.8	-	Met	402.8		48.5	Met	402.8	402.8	402.8
Accumulation of domestic payments arrears	0.0	0.0	Met	0.0		0.0	Met	0.0	0.0	0.0
Contracts by the government for the prefinancing of public investments projects	0.0	0.0	Met	0.0		0.0	Met	0.0	0.0	0.0
<b>C. Memorandum Items<sup>2</sup></b>										
Priority social expenditure (floor)	36.3	3.6	Not Met	85.0		55.6	Not Met	125.0	160.0	160.0
Memorandum item: Budgetary assistance <sup>6</sup>	16.2	0.0	Not Met	16.2		0.0	Not Met	39.2	55.0	55.0

Sources: Beninese authorities; IMF staff estimates and projections.

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

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

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

<sup>4</sup> If the amount of disbursed external budgetary assistance net of external debt service obligations falls short of the program forecast, the ceiling on net domestic financing will be adjusted pro-rata, subject to limits specified in the TMU.

<sup>5</sup> If the amount of disbursed external budgetary assistance net of external debt service obligations exceeds the program forecast, the ceiling will be adjusted downward by the excess disbursement unless it is used to reduce domestic payment arrears.

<sup>6</sup> Gross disbursements, not adjusted for debt service obligations.

Table 2. Benin: Status of Structural Benchmarks for 2017\*

Measures	Dates	Rationale	Status
<b>Revenue administration</b>			
Have the Strategic Plan for the Tax Administration (POSAF) approved by the Ministry of Finance.	Prior action	Modernize the tax administration to increase domestic revenue mobilization.	Met
Integrate the Customs and Tax Administrations' computer systems to strengthen their coordination.	Prior action	Boost domestic revenue collection	Met
Agree upon a 2017 budget consistent with the ECF-supported program.	Prior action	Preserve fiscal sustainability.	Met
Review and quantify all tax expenditures and agree on a time-bound strategy to suppress all tax expenditures that are not in line with the WAEMU directives.	End-September 2017	Boost domestic revenue collection.	Met
<b>Public financial management</b>			
Put into place a framework for the preparation and monitoring of the government's cash flow plan.	End-June 2017	Ensure effective cash flow management.	Met
Prepare monthly plans for cash flow forecasts and quarterly comprehensive assessments of budget execution.	End-June 2017 (then on an ongoing basis)	Enhance the transparency, timeliness, and accuracy of budget information.	Met
Increase the transparency of procurement operations by publishing on the internet all basic information about procurement.	End-June 2017	Ensure the optimal utilization of resources and encourage competition in the private sector.	Met
Conduct a public expenditure review with World Bank assistance.	End-September 2017	Improve the quality of public expenditure.	Met
<b>Public investment</b>			
Establish a Unit responsible for the implementation of the GAP, notably the Flagship projects.	Prior action	Improve the outlook for growth and contribute to debt sustainability.	Met

**Table 2. Benin: Status of Structural Benchmarks for 2017 (concluded)**

Measures	Dates	Rationale	Status
Launch the Strategic Support Unit under the Ministry of Finance, which is responsible <i>inter alia</i> for evaluating the fiscal risks associated with public private partnerships.	End-June 2017	Promote transparency and reduce contingent liabilities.	Met
Develop a multi-year commitment framework for investment projects.	End-September 2017	Ensure the availability of information on stipulations and conditions to comply with the debt limit policy.	Met
<b>Debt management and sustainability</b>			
Extend the coverage, under the medium-term debt strategy, to the debt of state-owned enterprises, after completion of data collection on their financial condition and to contingent liabilities.	End-December 2017	Improve the capacity for active debt management and ensure debt sustainability.	Ongoing
<b>Reform of state-owned enterprises</b>			
Collect data on the debt of state-owned enterprises and adopt a monitoring mechanism.	End-September 2017	Ensure better monitoring of contingent liabilities and improve public debt management.	Ongoing
<b>Business climate and financial inclusion</b>			
Adopt implementing decrees for Laws No. 2001-37 and 2008-07, dealing with commercial courts.	Prior action	Improve governance and the business climate.	Met
Establish a credit bureau and make it operational.	End-December 2017	Improve the efficiency of the financial sector and intermediation.	Ongoing
*Including prior actions for the approval of the ECF arrangement.			

Table 3. Benin: Selected Economic and Financial Indicators, 2014–22

	2014	2015	2016	2017	2018	2019	2020	2021	2022
			Est.		Program			Projections	
(Annual percentage change)									
National income									
GDP at current prices	6.1	2.2	3.7	6.0	8.4	9.1	9.6	10.0	8.9
GDP at constant prices	6.4	2.1	4.0	5.6	6.0	6.3	6.7	7.1	6.2
GDP deflator	-0.2	0.1	-0.3	0.4	2.3	2.6	2.7	2.8	2.0
Consumer price index (average)	-1.1	0.3	-0.8	0.6	2.5	2.8	2.8	2.8	2.8
Consumer price index (end of period)	-0.8	2.3	-2.7	2.8	2.2	3.2	2.5	3.1	2.6
Central government finance									
Total revenue	-1.9	5.0	-9.0	21.7	12.6	8.3	13.4	13.1	11.2
Expenditure and net lending	-3.7	35.5	-12.6	21.0	4.8	-2.8	5.5	6.1	6.2
External sector									
Exports of goods and services	8.3	15.9	-8.5	16.0	14.4	13.0	4.3	14.7	8.9
Imports of goods and services	16.4	-0.8	-5.0	18.7	8.4	8.3	5.4	10.7	7.0
Terms of trade (minus = deterioration)	1.0	2.1	1.7	0.4	-0.7	0.4	1.8	0.8	0.2
Nominal effective exchange rate (minus = depreciation)	n.a.	n.a.	...	...	...	...	...	...	...
Real effective exchange rate (minus = depreciation)	n.a.	n.a.	...	...	...	...	...	...	...
(Change in percent of beginning-of-period broad money)									
Money and credit									
Net domestic assets	8.7	-17.5	11.4	1.4	...	...	...	...	...
Domestic credit	0.7	-19.0	13.7	1.4	...	...	...	...	...
Net claims on central government	1.7	5.2	5.1	0.8	...	...	...	...	...
Credit to the nongovernment sector	-1.0	-24.2	8.6	0.5	...	...	...	...	...
Broad money (M2)	16.7	-10.4	0.3	7.8	...	...	...	...	...
(Percent of GDP, unless otherwise indicated)									
National accounts									
Gross investment	28.6	25.6	24.6	28.6	28.3	26.3	26.9	27.5	24.2
Government investment	5.2	7.7	5.9	9.3	8.6	6.3	5.9	5.5	5.3
Nongovernment investment <sup>1</sup>	23.4	17.9	18.7	19.2	19.7	20.1	21.0	22.0	18.9
Gross domestic saving	13.4	13.4	12.8	15.0	15.7	14.6	15.5	16.6	13.9
Government saving	2.0	-0.5	-0.7	1.8	2.5	2.6	3.6	4.4	5.1
Non-government saving	11.4	13.9	13.5	13.2	13.2	12.0	11.8	12.2	8.7
Gross national saving	20.0	17.4	17.2	19.4	20.1	19.4	20.4	21.2	18.5
Consumption	86.6	86.6	87.2	85.0	84.3	85.4	84.5	83.4	86.1
Government consumption	12.5	15.0	12.6	11.4	11.1	10.8	10.7	10.7	10.6
Non-government consumption	74.2	71.6	74.6	73.6	73.2	74.6	73.9	72.7	75.5
Central government finance									
Total revenue	16.3	16.7	14.7	16.8	17.5	17.4	18.0	18.5	18.9
Expenditure and net lending	19.1	25.3	21.4	24.4	23.6	21.0	20.2	19.5	19.0
Primary balance <sup>2</sup>	-2.4	-7.9	-5.5	-5.5	-3.8	-1.3	-0.1	0.9	1.5
Basic primary balance <sup>3</sup>	0.0	-4.2	-3.0	-2.4	0.1	2.4	3.1	3.5	4.3
Overall fiscal deficit (commitment basis, excl. grants)	-2.8	-8.6	-6.7	-7.5	-6.1	-3.6	-2.3	-1.0	-0.2
Overall fiscal deficit (commitment basis, incl. grants)	-1.9	-8.0	-6.0	-6.1	-4.5	-1.8	-0.6	0.0	0.8
Debt service (percent of revenue)	6.0	8.2	12.0	16.1	17.2	17.8	15.9	13.9	12.0
Total government debt	30.5	42.4	49.5	55.5	56.0	53.3	48.7	44.4	40.5
External sector									
Balance of goods and services	-15.2	-12.2	-11.7	-13.6	-12.6	-11.7	-11.5	-10.9	-10.4
Current account balance (incl. grants)	-8.6	-8.2	-7.4	-9.1	-8.2	-6.9	-6.5	-6.3	-5.7
Current account balance (excl. grants)	-8.8	-8.2	-7.5	-9.4	-8.7	-7.7	-7.2	-6.9	-6.3
Overall balance of payments	0.9	2.3	-6.4	1.6	3.8	6.7	6.5	6.5	6.7
Debt service-to-exports ratio	5.1	5.3	4.7	5.9	6.4	5.8	6.1	5.5	5.2
Nominal GDP (billions of CFA francs)	4,800	4,904	5,084	5,390	5,844	6,378	6,992	7,693	8,375
Nominal GDP (millions of US\$)	9,722.9	8,295.3	8,577.1	9,268.7	10,481.3	11,490.6	12,595.9	13,859.1	15,087.6
CFA francs per U.S. dollar (period average)	493.6	591.2	592.7	...	...	...	...	...	...
Total non-financial public sector debt (percent of GDP) <sup>4</sup>	...	...	49.7	55.6	56.2	53.5	48.9	44.6	40.6
Population (millions)	10.3	10.6	10.8	11.1	11.4	11.7	12.0	12.3	12.6
Nominal GDP per capita (U.S. dollars)	946	786	792	833	918	980	1047	1124	1193

Sources: Beninese authorities; IMF staff estimates and projections.

<sup>1</sup> Including off-budget investment implemented by non-financial public enterprises.<sup>2</sup> Total revenue minus current primary expenditure, capital expenditure, and net lending.<sup>3</sup> Total revenue minus current primary expenditure and capital expenditure financed by domestic resources.<sup>4</sup> Data include projected central government debt and new non-financial public sector borrowing for infrastructure from 2016 onward as well as the nominal amount of government guarantees.

**Table 4. Benin: Consolidated Central Government Operations, 2014–22**  
(Billions of CFA francs)

	2014	2015	2016		2017	2018	2019	2017	2018	2019	2020	2021	2022	
	Act.		Budget	Rev. Budget <sup>1</sup>	Act.	EBS/17/25		New targets			Projections			
	(Billions of CFA francs)													
Total revenue	780.8	819.5	896.3	845.9	745.7	843.9	949.0	1076.0	907.5	1021.6	1106.6	1255.1	1422.1	1576.4
Tax revenue	701.2	713.1	792.4	742.0	641.1	739.3	835.2	950.1	735.9	855.2	957.3	1091.4	1242.0	1380.4
Tax on international trade	362.1	345.7	397.7	347.3	288.5	337.6	377.0	427.9	333.4	387.0	427.2	482.3	547.2	610.1
Direct and indirect taxes	339.1	367.4	394.7	394.7	352.6	401.7	458.2	522.3	402.5	468.2	530.1	609.2	694.8	770.2
Nontax revenue	79.5	106.4	103.9	103.9	104.6	104.6	113.7	125.8	171.6	166.4	149.3	163.7	180.1	196.0
Total expenditure and net lending	916.5	1242.3	1196.5	1105.9	1086.3	1351.7	1297.4	1309.7	1314.1	1377.6	1339.4	1412.5	1497.2	1589.7
Current expenditure	683.4	845.3	800.5	774.1	781.1	801.7	847.5	909.7	812.5	877.6	939.4	1000.4	1075.9	1145.8
Current primary expenditure	665.1	809.0	736.2	692.1	717.8	705.2	744.3	788.1	702.6	744.7	787.7	852.2	932.6	1011.2
Wage bill	317.4	343.4	331.4	340.7	353.8	363.1	378.0	406.5	363.1	378.3	404.1	443.0	487.4	530.6
Pensions and scholarships	67.5	75.0	83.1	83.1	78.4	88.9	93.9	99.1	88.9	93.9	100.0	106.4	113.3	120.3
Current transfers	176.4	249.5	202.6	174.1	185.5	158.5	170.0	172.0	155.9	170.0	172.0	187.4	205.0	222.1
<i>of which: subsidies to the cotton sector</i>	30.0	...	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Goods and services	103.9	141.1	119.1	94.2	100.1	94.7	102.5	110.5	94.7	102.5	111.6	115.4	127.0	138.2
Interest	18.3	36.3	64.3	82.0	63.3	96.5	103.1	121.6	109.9	132.9	151.7	148.2	143.2	134.6
Internal debt	8.1	20.3	40.2	58.9	51.4	77.6	78.6	91.3	91.2	107.6	127.2	121.4	115.1	104.3
External debt	10.3	16.0	24.1	23.1	11.9	18.8	24.5	30.3	18.7	25.3	24.4	26.8	28.1	30.2
Capital expenditure and net lending	233.1	397.0	396.0	331.9	305.2	550.0	449.9	400.0	501.6	500.0	400.0	412.1	421.4	443.9
Capital expenditure <sup>1</sup>	249.6	376.9	396.0	331.9	299.6	550.0	449.9	400.0	501.6	500.0	400.0	412.1	421.4	443.9
Financed by domestic resources	114.6	216.6	214.1	177.0	178.5	310.0	246.9	178.9	332.2	273.0	166.5	183.6	215.4	209.4
Financed by external resources	135.1	160.3	181.9	154.9	121.1	240.0	203.0	221.1	169.4	227.0	233.5	228.5	206.0	234.5
Net lending	-16.5	20.2	0.0	0.0	5.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment basis, incl. grants)	-91.8	-394.0	-209.2	-204.9	-306.0	-432.0	-237.4	-116.6	-330.7	-262.6	-113.5	-42.2	2.4	70.4
<i>Primary balance</i> <sup>2</sup>	-117.5	-386.6	-235.9	-178.0	-277.3	-411.3	-245.3	-112.1	-296.6	-223.1	-81.1	-9.2	68.0	121.3
<i>Basic primary balance</i> <sup>3</sup>	1.1	-206.1	-54.0	-23.1	-150.6	-171.3	-42.3	109.0	-127.3	3.9	152.4	219.3	274.0	355.8
Change in arrears	-2.4	-0.4	-10.0	-10.0	-1.4	-10.0	-10.0	-10.0	-5.0	-10.0	-10.0	-10.0	-10.0	-10.0
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	-2.4	-10.3	-10.0	-10.0	-1.4	-10.0	-10.0	-10.0	-5.0	-10.0	-10.0	-10.0	-10.0	-10.0
Overall balance (cash basis, incl. grants)	-122.2	-393.9	-219.2	-214.9	-306.6	-442.0	-247.4	-126.6	-335.7	-272.6	-123.5	-52.2	-7.6	60.4
Financing	166.2	422.8	310.2	270.0	341.3	441.2	308.6	178.0	411.5	376.6	224.6	122.5	85.2	23.2
Domestic financing	39.8	291.4	113.3	138.0	224.2	177.7	43.5	-104.8	168.4	118.8	-68.8	-159.9	-148.5	-234.7
Bank financing	33.6	121.4	77.7	91.2	158.0	56.0	-96.2	-256.3	17.3	145.1	-145.1	-243.6	-240.5	-334.9
Net use of IMF resources	5.1	-3.6	-6.6	-6.6	-5.1	-10.0	-12.5	-12.4	17.8	14.2	13.3	1.7	-9.1	-7.1
Disbursements	7.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	26.6	26.7	24.9	12.5	0.0	0.0
Repayments	-2.8	-3.6	-6.6	-6.6	-5.1	-10.0	-12.5	-12.4	-8.8	-12.5	-11.6	-10.8	-9.1	-7.1
Other	28.5	125.1	84.3	97.8	163.1	66.0	-83.7	-243.9	-0.5	130.9	-158.4	-245.2	-231.4	-327.8
Nonbank financing	6.1	170.0	86.0	46.8	66.2	121.7	139.7	151.5	151.1	-26.3	76.3	83.6	92.0	100.2
Privatization	0.0	0.0	100.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring	-8.7	-7.4	-10.2	-10.2	-7.1	-7.5	0.0	0.0	-7.5	-7.0	0.0	0.0	0.0	0.0
Other	14.8	177.4	-3.8	57.0	73.3	129.2	139.7	151.5	158.6	-19.3	76.3	83.6	92.0	100.2
External financing	126.5	131.4	146.5	132.0	117.0	263.5	265.1	282.8	243.1	257.7	293.4	282.4	233.7	258.0
Project financing	135.1	160.3	181.9	154.9	121.1	240.0	203.0	221.0	240.0	227.0	233.5	228.5	206.0	264.3
Grants	35.9	28.8	91.0	55.1	26.1	60.0	67.0	71.0	60.0	67.0	71.0	71.0	60.0	72.9
Loans	99.2	131.4	90.9	99.8	95.0	180.0	136.0	150.0	180.0	160.0	162.5	157.5	146.0	191.5
Amortization due	-26.6	-28.9	-47.1	-46.1	-24.3	-31.5	-23.8	-24.0	-51.9	-35.3	-33.5	-39.0	-42.7	-44.0
Budgetary assistance	18.0	0.0	11.7	23.2	20.2	55.0	85.8	85.8	55.0	66.0	93.4	92.9	70.4	67.5
<i>Financing gap</i>					0.0	76.6	49.8	65.7	0.0	-10.6	18.2	44.9	0.0	0.0
<i>Bilateral</i>									0.0	0.0	18.2	44.9	0.0	0.0
Nominal GDP	4,800	4,904	...	5,139	5,084	5,472	5,919	6,415	5,390	5,844	6,378	6,992	7,693	8,375
Central government debt	1,462	2,080	...	...	2,517	2,974	3,223	3,356	2,989	3,275	3,386	3,378	3,372	3,322
Domestic public debt	511	1,037	...	...	1,373	1,569	1,628	1,537	1,799	1,911	1,815	1,639	1,487	1,241
External public debt	951	1,044	...	...	1,143	1,405	1,594	1,818	1,190	1,365	1,570	1,738	1,884	2,081
Government guarantees					9.0	42.0	45.4	49.2	9.5	10.3	11.3	12.4	13.6	14.8
Nonfinancial public sector debt			...	...	2,526	3,016	3,268	3,405	2,998	3,286	3,397	3,390	3,385	3,336

Sources: Beninese authorities; IMF staff estimates and projections.

<sup>1</sup> Data include executed pre-financed projects.

<sup>2</sup> Total revenue minus current primary expenditure, capital expenditure, and net lending.

<sup>3</sup> Total revenue minus current primary expenditure and capital expenditure financed by domestic resources.

<sup>4</sup> As presented in the authorities' 2016 supplementary budget as of June 10, 2016.

**Table 5. Benin: Consolidated Central Government Operations, 2014–22**  
(Percent of GDP)

	2014	2015		2016		2017	2018	2019	2017	2018	2019	2020	2021	2022
		Prel.	Budget	Rev. Budget <sup>5</sup>	Est.	EBS/17/25			New targets			Projections		
(Percent of GDP)														
Total revenue	16.3	16.7	17.6	16.6	14.7	15.4	16.0	16.8	16.8	17.5	17.4	18.0	18.5	18.9
Tax revenue	14.6	14.5	15.6	14.6	12.6	13.5	14.1	14.8	13.7	14.6	15.0	15.6	16.1	16.5
Tax on international trade	7.5	7.0	7.8	6.8	5.7	6.2	6.4	6.7	6.2	6.6	6.7	6.9	7.1	7.3
Direct and indirect taxes	7.1	7.5	7.8	7.8	6.9	7.3	7.7	8.1	7.5	8.0	8.3	8.7	9.0	9.2
Nontax revenue	1.7	2.2	2.0	2.0	2.1	1.9	1.9	2.0	3.2	2.8	2.3	2.3	2.3	2.3
Total expenditure and net lending	19.1	25.3	23.5	21.8	21.4	24.7	21.9	20.4	24.4	23.6	21.0	20.2	19.5	19.0
Current expenditures	14.2	17.2	15.7	15.2	15.4	14.7	14.3	14.2	15.1	15.0	14.7	14.3	14.0	13.7
Current primary expenditures	13.9	16.5	14.5	13.6	14.1	12.9	12.6	12.3	13.0	12.7	12.4	12.2	12.1	12.1
Wage bill	6.6	7.0	6.5	6.7	7.0	6.6	6.4	6.3	6.7	6.5	6.3	6.3	6.3	6.3
Pensions and scholarships	1.4	1.5	1.6	1.6	1.5	1.6	1.6	1.5	1.6	1.6	1.6	1.5	1.5	1.4
Current transfers	3.7	5.1	4.0	3.4	3.6	2.9	2.9	2.7	2.9	2.9	2.7	2.7	2.7	2.7
Expenditure on goods and services	2.2	2.9	2.3	1.9	2.0	1.7	1.7	1.7	1.8	1.8	1.8	1.7	1.7	1.7
Interest	0.4	0.7	1.3	1.6	1.2	1.8	1.7	1.9	2.0	2.3	2.4	2.1	1.9	1.6
Internal debt	0.2	0.4	0.8	1.2	1.0	1.4	1.3	1.4	1.7	1.8	2.0	1.7	1.5	1.3
External debt	0.2	0.3	0.5	0.5	0.2	0.3	0.4	0.5	0.3	0.4	0.4	0.4	0.4	0.4
Capital expenditure and net lending	4.9	8.1	7.8	6.5	6.0	10.1	7.6	6.2	9.3	8.6	6.3	5.9	5.5	5.3
Capital expenditure	5.2	7.7	7.8	6.5	5.9	10.1	7.6	6.2	9.3	8.6	6.3	5.9	5.5	5.3
Financed by domestic resources	2.4	4.4	4.2	3.5	3.5	5.7	4.2	2.8	6.2	4.7	2.6	2.6	2.8	2.5
Financed by external resources	2.8	3.3	3.6	3.0	2.4	4.4	3.4	3.4	3.1	3.9	3.7	3.3	2.7	2.8
Net lending (minus = reimbursement)	-0.3	0.4	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment basis, incl. grants)	-1.9	-8.0	-4.1	-4.0	-6.0	-7.9	-4.0	-1.9	-6.1	-4.5	-1.8	-0.6	0.0	0.8
Primary balance <sup>1</sup>	-2.4	-7.9	-4.6	-3.5	-5.5	-7.5	-4.1	-1.7	-5.5	-3.8	-1.3	-0.1	0.9	1.5
Basic primary balance <sup>2</sup>	0.0	-4.2	-1.1	-0.5	-3.0	-3.1	-0.7	1.7	-2.4	0.1	2.4	3.1	3.5	4.3
Change in arrears	0.0	0.0	-0.2	-0.2	0.0	-0.2	-0.2	-0.2	-0.1	-0.2	-0.2	-0.1	-0.1	-0.1
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	0.0	-0.2	-0.2	-0.2	0.0	-0.2	-0.2	-0.2	-0.1	-0.2	-0.2	-0.1	-0.1	-0.1
Overall balance (cash basis, incl. grants)	-2.5	-8.0	-4.3	-4.2	-6.0	-8.1	-4.5	-2.3	-6.2	-4.7	-1.9	-0.8	-0.2	0.7
Financing	3.5	8.6	6.1	5.3	6.7	8.1	5.2	2.8	7.6	6.4	3.5	1.8	1.2	0.3
Domestic financing	0.8	5.9	2.2	2.7	4.4	3.2	0.7	-1.6	3.1	2.0	-1.1	-2.3	-1.9	-2.8
Bank financing	0.7	2.5	1.5	1.8	3.1	1.0	-1.6	-4.0	0.3	2.5	-2.3	-3.5	-3.1	-4.0
Net use of IMF resources	0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	0.3	0.2	0.2	0.0	-0.1	-0.1
Other	0.6	2.6	1.7	1.9	3.2	1.2	-1.4	-3.8	0.0	2.2	-2.5	-3.5	-2.9	-3.9
Nonbank financing	0.1	3.5	1.7	0.9	1.3	2.2	2.4	2.4	2.8	-0.4	1.2	1.2	1.2	1.2
Privatization	0.0	0.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0
Other	0.3	3.6	-0.1	1.1	1.4	2.4	2.4	2.4	2.9	-0.3	1.2	1.2	1.2	1.2
External financing	2.6	2.7	2.9	2.6	2.3	4.8	4.5	4.4	4.5	4.4	4.6	4.0	3.0	3.1
Project financing	2.8	3.3	3.6	3.0	2.4	4.4	3.4	3.4	4.5	3.9	3.7	3.3	2.7	3.2
Grants	0.7	0.6	1.8	1.1	0.5	1.1	1.1	1.1	1.1	1.1	1.1	1.0	0.8	0.9
Loans	2.1	2.7	1.8	1.9	1.9	3.3	2.3	2.3	3.3	2.7	2.5	2.3	1.9	2.3
Amortization due	-0.6	-0.6	-0.9	-0.9	-0.5	-0.6	-0.4	-0.4	-1.0	-0.6	-0.5	-0.6	-0.6	-0.5
Budgetary assistance	0.4	0.0	0.2	0.5	0.4	1.0	1.5	1.3	1.0	1.1	1.5	1.3	0.9	0.8
Financing gap				0.0	0.0	1.4	0.8	1.0	0.0	-0.2	0.3	0.6	0.0	0.0
Bilateral									0.0	0.0	0.4	0.8	0.0	0.0
Memorandum items:														
Total revenue and grants	17.2	17.3	19.5	15.2	16.8	17.9	18.5	18.2	19.1	19.2	19.6	19.2	19.7	19.7
Revenue	16.3	16.7	17.4	14.5	15.4	16.0	16.8	16.8	16.8	17.5	17.4	18.0	18.5	18.9
Grants	0.9	0.6	2.1	0.7	1.4	1.9	1.7	1.4	1.4	1.6	1.9	1.6	0.8	0.9
Total loan disbursement	2.3	2.7	1.9	2.1	4.0	3.0	3.0	4.1	3.4	3.3	2.9	1.9	1.9	2.3
Overall balance incl. grants (commitment basis)	-1.0	-7.4	-2.0	-5.3	-7.9	-4.0	-1.9	-4.7	-2.9	0.1	1.0	0.8	1.7	1.7
Total central government debt	30.5	42.4	...	...	49.5	54.3	54.4	52.3	55.5	56.0	53.3	48.7	44.4	40.5
Total nonfinancial public sector debt <sup>4</sup>				...	49.7	55.1	55.2	53.1	55.6	56.2	53.5	48.9	44.6	40.6
GDP (billions of CFA francs)	4,800	4,904	...	5,139	5,084	5,472	5,919	6,415	5,390	5,844	6,378	6,992	7,693	8,375

Sources: Beninese authorities; IMF staff estimates and projections.

<sup>1</sup> Total revenue minus current primary expenditure, capital expenditure, and net lending.

<sup>2</sup> Total revenue minus current primary expenditure and capital expenditure financed by domestic resources.

<sup>3</sup> Net change in the stock of payment orders whose payment has been postponed to the following period.

<sup>4</sup> Data include projected central government debt and new non-financial public sector borrowing for infrastructure from 2016 onward as well as the nominal amount of government guarantees.

<sup>5</sup> As presented in the authorities' revised 2016 budget as of June 10, 2016.



Table 6. Benin: Consolidated Central Government Operations, 2016–18

	2016		2017						2018			
	Year	Q1		Q2		Q3	Year		Q1	Q2	Q3	Year
		Est.	EBS/17/25	New target	EBS/17/25	New target	EBS/17/25	EBS/17/25				
	(Billions of CFA francs)											
Total revenue	745.7	182.9	189.6	386.1	443.9	602.9	843.9	907.5	204.8	445.5	707.1	1021.6
Tax revenue	641.1	161.5	160.9	338.9	337.4	527.5	739.3	735.9	187.7	395.6	612.4	855.2
Tax on international trade	288.5	70.1	69.4	143.6	141.8	239.1	337.6	333.4	80.4	164.7	274.2	387.0
Direct and indirect taxes	352.6	91.4	91.5	195.3	195.6	288.4	401.7	402.5	107.3	230.9	338.2	468.2
Nontax revenue	104.6	21.4	28.7	47.2	106.5	75.3	104.6	171.6	17.1	49.9	94.7	166.4
Total expenditure and net lending	1086.3	311.9	239.4	616.0	586.2	964.4	1351.7	1314.1	341.3	659.2	988.4	1377.6
Current expenditure	781.1	216.6	166.8	404.1	394.4	597.0	801.7	812.5	218.3	424.6	630.8	877.6
Current primary expenditure	717.8	202.5	148.4	365.4	348.3	540.6	705.2	702.6	198.5	364.2	537.7	744.7
Wage bill	353.8	106.9	88.0	192.7	163.1	282.7	363.1	363.1	102.2	193.5	264.0	378.3
Pensions and scholarships	78.4	23.7	19.2	44.4	40.2	68.3	88.9	88.9	25.2	54.2	78.5	93.9
Current transfers	185.5	49.3	23.1	86.7	80.8	128.0	158.5	155.9	49.6	70.6	127.4	170.0
<i>of which: subsidies to the cotton sector</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure on goods and services	100.1	22.6	18.4	41.6	64.2	61.6	94.7	94.7	21.5	45.9	67.9	102.5
Interest	63.3	14.1	18.3	38.7	46.1	56.3	96.5	109.9	19.8	60.3	93.1	132.9
Internal debt	51.4	10.3	15.0	29.3	37.7	43.2	77.6	91.2	15.5	48.7	75.8	107.6
External debt	11.9	3.7	3.4	9.3	8.4	13.2	18.8	18.7	4.3	11.6	17.2	25.3
Capital expenditure and net lending	305.2	95.3	72.6	211.9	191.7	367.5	550.0	501.6	123.0	234.6	357.6	500.0
Capital expenditure	299.6	95.3	69.1	211.9	189.1	367.5	550.0	501.6	123.0	234.6	357.6	500.0
Financed by domestic resources	178.5	45.1	32.3	93.8	128.7	201.3	310.0	332.2	75.9	128.8	189.7	273.0
Financed by external resources	121.1	50.2	36.8	118.1	60.4	166.2	240.0	169.4	47.0	105.9	167.9	227.0
Net lending (minus = reimbursement)	5.5	0.0	3.5	0.0	2.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment basis, incl. grants)	-306.0	-122.7	-42.3	-213.0	-121.7	-329.7	-432.0	-325.7	-123.2	-183.8	-236.7	-273.2
<i>Primary balance</i> <sup>1</sup>	-277.3	-114.9	-31.5	-191.2	-96.2	-305.2	-411.3	-296.6	-277.3	-276.3	-275.3	-223.1
<i>Basic primary balance</i> <sup>2</sup>	-150.6	-64.7	8.8	-73.1	-33.1	-139.0	-171.3	-127.3	-69.7	-47.5	-20.3	3.9
Change in arrears	-1.4	-2.5	-0.1	-5.0	-0.5	-7.5	-10.0	-5.0	-2.5	-5.0	-7.5	-10.0
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	-1.4	-2.5	-0.1	-5.0	-0.5	-7.5	-10.0	-5.0	-2.5	-5.0	-7.5	-10.0
Overall balance (cash basis, incl. grants)	-306.6	-125.2	-46.1	-218.0	-121.0	-337.2	-442.0	-330.7	-125.7	-188.8	-244.2	-283.2
Financing	341.3	131.5	53.6	234.9	141.6	369.1	441.2	411.5	139.0	218.7	288.8	366.0
Domestic financing	224.2	70.1	38.1	116.1	113.7	183.9	177.7	168.4	22.0	190.9	103.0	118.8
Bank financing	158.0	-50.6	-26.8	23.6	-89.5	47.4	56.0	17.3	42.4	145.8	106.5	145.1
Net use of IMF resources	-5.1	-3.9	-2.3	-4.3	9.3	-6.8	-10.0	17.8	-12.5	0.8	-12.5	14.2
Disbursements	0.0	0.0	0.0	0.0	13.3	0.0	0.0	26.6	0.0	13.3	0.0	26.7
Repayments	-5.1	-3.9	-2.3	-4.3	-4.0	-6.8	-10.0	-8.8	-12.5	-12.5	-12.5	-12.5
Other	163.1	-46.7	-24.4	27.9	-98.8	54.2	66.0	-0.5	163.1	-98.8	119.0	130.9
Nonbank financing	66.2	117.8	64.9	88.0	203.2	130.5	121.7	63.6	-20.5	45.0	-3.5	-26.3
Privatization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring	-7.1	-3.0	-6.7	-4.5	-6.9	-6.0	-7.5	-7.5	-2.0	-2.0	-4.0	-7.0
Other	73.3	120.8	71.7	92.5	210.1	136.5	129.2	71.1	-18.5	47.0	0.5	-19.3
External financing	117.0	61.3	15.5	118.8	27.8	185.2	263.5	243.1	117.0	27.8	185.8	247.1
Project financing	121.1	50.2	36.8	118.1	60.4	166.2	240.0	240.0	47.0	105.9	167.9	227.0
Grants	26.1	6.3	7.5	16.9	20.6	31.9	60.0	60.0	13.3	29.9	44.6	67.0
Loans	95.0	43.9	29.3	101.2	39.8	134.3	180.0	180.0	33.8	76.0	123.3	160.0
Amortization due	-24.3	-5.1	-21.4	-15.5	-32.5	-20.2	-31.5	-51.9	-5.3	-17.7	-21.7	-35.3
Budgetary assistance	20.2	16.2	0.0	16.2	0.0	39.2	55.0	55.0	22.6	22.6	39.6	55.4
Grants	8.5	0.0	0.0	0.0	0.0	0.0	15.8	15.8	0.0	0.0	0.0	15.8
Loans	11.6	16.2	0.0	16.2	0.0	39.2	39.2	39.2	22.6	22.6	39.6	39.6
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	76.6	0.0	0.0	0.0	0.0	6.8
Memorandum item:	34.6	6.3	7.5	16.9	20.6 #	31.9 #	75.8	75.8 0.0	13.3	29.9	44.6	82.8
GDP (billions of CFA francs, annual)	5084	5,472	5,390	5,472	5,390	5,472	5,472	5,390	5,844	5,844	5,844	5,844

Sources: Beninese authorities; IMF staff estimates and projections.

<sup>1</sup> Total revenue minus current primary expenditure, capital expenditure, and net lending.<sup>2</sup> Total revenue minus current primary expenditure and capital expenditure financed by domestic resources.

Table 7. Benin: Balance of Payments, 2012–22

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
					Est.	Program			Projections		
(Billions of CFA francs)											
Current account balance	-308.2	-335.6	-412.3	-399.8	-375.0	-492.5	-479.5	-441.2	-453.1	-482.5	-481.3
Excluding budgetary assistance grants	-339.8	-348.4	-420.5	-399.8	-383.5	-508.3	-505.9	-489.5	-501.4	-530.7	-529.6
Balance of goods and services	-497.4	-577.4	-728.9	-596.4	-597.3	-730.5	-735.5	-746.4	-801.1	-836.9	-868.1
Credit	551.0	701.7	760.2	880.8	806.3	935.1	1069.6	1209.1	1260.6	1446.4	1575.7
Debit	-1048.4	-1279.1	-1489.1	-1477.1	-1403.6	-1665.6	-1805.1	-1955.6	-2061.7	-2283.3	-2443.8
Trade balance <sup>1</sup>	-460.1	-455.5	-527.9	-366.3	-370.1	-443.8	-423.9	-405.3	-416.5	-396.7	-366.2
Exports, f.o.b.	289.5	447.6	523.6	719.5	632.1	748.1	875.1	1007.7	1057.1	1244.0	1391.6
Cotton and textiles	85.5	128.9	153.5	166.6	140.0	175.7	189.5	240.3	303.6	363.0	427.0
Other	204.0	318.7	370.1	552.9	492.1	572.5	685.6	767.5	753.5	881.0	964.6
Imports, f.o.b. <sup>2</sup>	-749.6	-903.1	-1051.5	-1085.8	-1002.2	-1191.9	-1299.0	-1413.0	-1473.6	-1640.6	-1757.8
Services (net)	-37.3	-121.8	-201.0	-230.1	-227.1	-286.7	-311.6	-341.1	-384.6	-440.2	-501.9
Credit	261.5	254.1	236.6	161.2	174.2	187.0	194.5	201.4	203.5	202.4	184.1
Debit	-298.7	-376.0	-437.7	-391.3	-401.3	-473.7	-506.1	-542.5	-588.2	-642.6	-686.0
Income (net)	-15.4	2.7	7.2	-0.1	1.9	-7.5	-17.3	-20.3	-21.1	-22.3	-24.5
Of which: interest due on central government debt	-10.6	-9.8	-10.3	-16.0	-11.9	-18.7	-25.3	-24.4	-26.9	-28.1	-30.3
Current transfers (net)	204.6	239.1	309.4	196.7	220.4	245.5	273.4	325.5	369.1	376.8	411.3
Unrequited private transfers	70.5	86.6	95.5	118.4	134.6	150.9	167.2	197.1	240.1	247.2	273.1
Public current transfers	134.1	152.6	214.0	78.3	85.8	94.5	106.2	128.4	129.0	129.6	138.2
Of which: budgetary assistance grants	31.5	12.8	8.2	0.0	8.5	15.8	26.4	48.3	48.3	48.3	48.3
Capital and financial account balance	125.9	198.3	274.8	392.6	278.9	579.8	700.1	867.4	909.7	986.1	1045.7
Capital account balance	43.4	28.1	35.9	28.8	26.1	60.0	67.0	71.0	75.2	79.7	84.5
Financial account balance	82.4	170.2	239.0	363.7	252.8	519.8	633.1	796.4	834.4	906.3	961.2
Medium- and long-term public capital	23.2	139.3	86.4	106.5	86.4	171.3	168.3	178.1	187.4	200.8	219.0
Disbursements	48.3	167.4	113.1	135.4	110.6	223.2	203.6	211.6	226.4	243.5	263.0
Project loans	48.3	130.2	103.2	135.4	99.0	184.0	164.0	166.5	181.3	198.4	217.9
Of which: central government project loans	44.3	126.2	99.2	131.4	95.0	180.0	160.0	162.5	157.5	146.0	191.5
Budgetary assistance loans	0.0	37.3	9.8	0.0	11.6	39.2	39.6	45.1	45.1	45.1	45.1
Amortization due	-25.0	-28.2	-26.6	-28.9	-24.3	-51.9	-35.3	-33.5	-39.0	-42.7	-44.0
Foreign direct investment	107.5	149.0	191.8	69.2	71.0	248.5	338.2	483.2	511.8	563.1	613.0
Portfolio investment	35.2	19.5	23.9	117.5	38.4	46.8	45.6	39.8	50.2	55.3	60.2
Other medium- and long-term private capital	74.6	-3.2	31.1	28.6	29.0	30.1	36.0	43.3	47.9	53.3	117.2
Deposit money banks	-175.7	-148.3	-117.4	-53.6	-43.5	-49.0	-49.0	-48.4	-43.8	-46.2	-46.2
Short-term capital <sup>2</sup>	17.7	13.9	23.1	217.1	71.6	72.2	93.9	100.4	80.9	80.1	69.8
Errors and omissions	74.4	104.4	181.9	121.6	-231.7	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-108.0	-32.8	44.4	114.4	-327.7	87.3	220.6	426.2	456.6	503.6	564.4
Change in net foreign assets, BCEAO (- = increase)	108.0	32.8	-44.4	-114.4	327.7	-87.3	-210.0	-444.4	-501.5	-503.6	-564.4
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	-10.6	18.2	44.9	0.0	0.0
(Percent of GDP, unless otherwise indicated)											
<i>Memorandum items:</i>											
Current account balance (incl. budgetary assistance grants)	-7.4	-7.4	-8.6	-8.2	-7.4	-9.1	-8.2	-6.9	-6.5	-6.3	-5.7
Current account balance (excl. budgetary assistance grants)	-8.2	-7.7	-8.8	-8.2	-7.5	-9.4	-8.7	-7.7	-7.2	-6.9	-6.3
Balance of goods and services	-12.0	-12.8	-15.2	-12.2	-11.7	-13.6	-12.6	-11.7	-11.5	-10.9	-10.4
Trade balance	-11.1	-10.1	-11.0	-7.5	-7.3	-8.2	-7.3	-6.4	-6.0	-5.2	-4.4
Exports	7.0	9.9	10.9	14.7	12.4	13.9	15.0	15.8	15.1	16.2	16.6
Imports	-18.0	-20.0	-21.9	-22.1	-19.7	-22.1	-22.2	-22.2	-21.1	-21.3	-21.0
Income and current transfers (net)	4.5	5.3	6.6	4.0	4.4	4.4	4.4	4.8	5.0	4.6	4.6
Capital account balance	1.0	0.6	0.7	0.6	0.5	1.1	1.1	1.1	1.1	1.0	1.0
Financial account balance	2.0	3.8	5.0	7.4	5.0	9.6	10.8	12.5	11.9	11.8	11.5
Overall balance	-2.6	-0.7	0.9	2.3	-6.4	1.6	3.8	6.7	6.5	6.5	6.7
International price of cotton (Cotlook "A" Index, U.S. cents a lb.)	89.2	90.4	83.1	70.4	74.2	82.8	79.2	79.3	78.1	78.1	78.1
International price of oil (U.S. dollars a barrel)	105.0	104.1	96.2	50.8	42.8	50.3	50.2	50.5	51.1	51.9	53.0
Gross official reserves (percent of broad money)	20.6	16.3	16.1	23.3	7.7	9.4	14.4	27.3	37.7	46.6	54.3
WAEMU gross official reserves (months of WAEMU imports of GS) <sup>2</sup>	5.1	4.5	4.8	5.1	4.1	3.9	4.3	4.5	4.7	5.2	6.1
GDP (billions of CFA francs)	4,162	4,524	4,800	4,904	5,084	5,390	5,844	6,378	6,992	7,693	8,375

Sources: Beninese authorities; IMF staff estimates and projections.

Note: ... = not available.

<sup>1</sup> Excludes re-exports and imports for re-export.<sup>2</sup> Projections for short-term capital include estimates to adjust for the trend in errors and omissions.

Table 8. Benin: Monetary Survey 2013–18

	2013	2014	2015	2016	2017	2018
		Act.		Est.	Program	
(Billions of CFA francs)						
Net foreign assets	952.3	1114.2	1282.2	1047.0	1183.4	1442.3
Central Bank of West African States (BCEAO)	257.8	302.3	416.6	88.9	176.3	386.3
Banks	694.5	812.0	865.5	958.1	1007.1	1056.0
Net domestic assets	1064.8	1239.3	826.6	1067.3	1095.9	1259.3
Domestic credit	1302.5	1316.5	869.6	1157.9	1186.5	1349.9
Net claims on central government	84.2	117.8	240.1	347.4	364.7	509.8
Credit to the nongovernment sector <sup>1</sup>	1218.3	1198.7	629.6	810.5	821.8	840.1
o/w: Credit to the private sector	1022.6	1084.3	1064.5	810.5	821.8	840.1
Other items (net)	-237.6	-77.2	-43.0	-90.6	-90.6	-90.6
Broad money (M2)	2017.1	2353.5	2108.8	2114.3	2279.2	2701.6
Currency	505.3	629.2	605.9	526.4	584.4	709.0
Bank deposits	1502.7	1715.9	1492.4	1577.5	1684.3	1982.2
Deposits with postal checking accounts	9.1	8.5	10.5	10.5	10.5	10.5
(Change in percent of beginning-of-period broad money, unless otherwise indicated)						
Net foreign assets	6.7	8.0	7.1	-11.2	6.4	11.4
Central Bank of West African States (BCEAO)	-1.9	2.2	4.9	-15.5	4.1	9.2
Banks	8.6	5.8	2.3	4.4	2.3	2.1
Net domestic assets	10.6	8.7	-17.5	11.4	1.4	7.2
Domestic credit	16.5	0.7	-19.0	13.7	1.4	7.2
Net claims on central government	0.9	1.7	5.2	5.1	0.8	6.4
Credit to the nongovernment sector <sup>1</sup>	15.6	-1.0	-24.2	8.6	0.5	0.8
Other items (net)	-5.9	8.0	1.5	-2.3	0.0	0.0
Broad money (M2)	17.3	16.7	-10.4	0.3	7.8	18.5
Currency	5.8	6.1	-1.0	-3.8	2.7	5.5
Bank deposits	11.2	10.6	-9.5	4.0	5.1	13.1
Deposits with postal checking accounts	0.2	0.0	0.1	0.0	0.0	0.0
<i>Memorandum items:</i>						
Velocity of broad money	2.4	2.2	2.2	2.4	2.5	2.3
Broad money as share of GDP	44.6	49.0	43.0	41.6	42.3	46.2
Credit to the nongovernment sector, <sup>1</sup> (year-on-year change in percent)	28.2	-1.6	-47.5	28.7	1.4	2.2
Credit to the private sector (year-on-year change in percent)	10.6	6.0	-1.8	-23.9	1.4	2.2
Nominal GDP (billions of CFA francs, annual)	4,524	4,800	4,904	5,084	5,390	5,844
Nominal GDP growth (annual change in percent)	8.7	6.1	2.2	3.7	6.0	8.4

Sources: BCEAO; IMF staff estimates and projections.

<sup>1</sup> Including credit to the private sector and to other non-financial public sector.

**Table 9. Benin: Schedule of Disbursements Under the ECF Arrangement**

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

Source: International Monetary Fund.

Table 10. Benin: Indicators of Capacity to Repay the Fund, 2017–31

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
<b>IMF obligations based on existing credit<sup>1</sup></b>															
(millions of SDRs)															
Principal	2.2	15.0	14.8	13.8	11.7	9.0	7.4	4.2	3.2	3.2	1.6	0.0	0.0	0.0	0.0
Charges and interest <sup>2</sup>	0.04	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17
<b>IMF obligations based on existing and prospective drawings</b>															
(millions of SDRs)															
Principal	2.2	15.0	14.8	13.8	11.7	9.0	12.2	17.0	22.3	22.3	20.7	14.3	6.4	0.0	0.0
Charges and interest	0.04	0.17	0.2	0.2	0.2	0.2	0.2	0.17	0.17	0.17	0.2	0.2	0.2	0.2	0.2
<b>Total obligations based on existing and prospective credit<sup>3</sup></b>															
(millions of SDRs)	2.2	15.1	15.0	14.0	11.8	9.2	12.4	17.2	22.5	22.5	20.9	14.5	6.5	0.2	0.2
Billions of CFA francs	1.8	11.9	11.7	10.9	9.3	7.2	9.7	13.4	17.6	17.6	16.3	11.4	5.1	0.1	0.1
Percent of government revenue	0.2	1.2	1.1	0.9	0.7	0.5	0.6	0.7	0.9	0.8	0.7	0.5	0.2	0.0	0.0
Percent of exports of goods and services	0.2	1.1	1.0	0.8	0.6	0.5	0.6	0.7	0.9	0.8	0.7	0.4	0.2	0.0	0.0
Percent of debt service	0.7	4.6	4.0	3.7	3.3	2.7	3.9	5.9	8.1	8.2	7.7	5.2	2.1	0.1	0.0
Percent of GDP	0.0	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.1	0.0	0.0	0.0
Percent of quota	12.2	12.1	11.3	9.5	7.4	10.0	12.5	16.8	18.1	16.8	11.7	n.a.	n.a.	0.0	n.a.
<b>Outstanding IMF credit<sup>3</sup></b>															
(millions of SDRs)	99.8	116.7	133.7	135.8	124.2	113.5	102.9	87.5	66.9	44.6	23.9	9.6	1.6	0.0	0.0
Billions of CFA francs	80.4	91.6	104.7	106.4	97.2	88.9	80.6	68.6	52.4	34.9	18.7	7.5	1.2	0.0	0.0
Percent of government revenue	8.9	9.0	9.5	8.5	6.8	5.6	4.6	3.6	2.7	1.6	0.8	0.3	0.0	0.0	0.0
Percent of exports of goods and services	8.6	8.6	8.7	8.0	6.7	5.6	4.7	3.7	2.6	1.6	0.8	0.3	0.0	0.0	0.0
Percent of debt service	33.2	35.3	36.1	36.1	34.1	32.8	32.1	30.0	24.0	16.3	8.8	3.5	0.5	0.0	0.0
Percent of GDP	1.5	1.6	1.6	1.5	1.3	1.1	0.9	0.7	0.5	0.3	0.2	0.1	0.0	0.0	0.0
Percent of quota	80.6	94.2	108.0	109.7	100.3	91.7	83.1	70.7	54.0	36.0	19.3	7.7	1.3	0.0	0.0
<b>Net use of IMF credit (millions of SDRs)</b>															
Disbursements (including prospective ones)	31.8	31.8	31.8	15.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	2.2	15.0	14.8	13.8	11.7	9.0	12.2	17.0	22.3	22.3	20.7	14.3	6.4	0.0	0.0
<b>Memorandum items:</b>															
Charges and interest, after assumed subsidies (millions of SDRs)	0.14	0.14	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	n.a.	n.a.	n.a.	n.a.
Nominal GDP (billions of CFA francs)	5,390	5,844	6,378	6,992	7,693	8,375	9,089	9,814	10,609	11,485	12,449	13,405	14,462	15,632	16,958
Exports of goods and services (billions of CFA francs)	935	1,070	1,209	1,325	1,458	1,588	1,723	1,860	2,011	2,177	2,360	2,541	2,742	2,963	3,215
Government revenue (billions of CFA francs)	908	1,022	1,107	1,255	1,420	1,579	1,736	1,880	1,950	2,123	2,315	2,508	2,722	2,960	3,232
Debt service (billions of CFA francs)	242	260	290	295	285	271	251	228	218	214	213	216	241	259	281
Net Foreign Assets Central Bank (billions of CFA francs)	176	386	831	912	1,001	1,100	1,207	1,326	1,456	1,598	1,755	1,927	2,116	2,323	2,551
CFA francs/SDR (period average)	805.3	785.4	783.2	783.2	783.2	783.2	783.2	783.2	783.2	783.2	783.2	783.2	783.2	783.2	783.2
Quota (millions of SDRs)	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8

Sources: IMF staff estimates and projections.

<sup>1</sup> Data are projections<sup>2</sup> On December 10, 2014 the IMF Executive Board extended through December 31, 2016, the interest waiver for concessional loans that was introduced on January 7, 2010. The following rates are assumed beyond 2016: projected interest charges between 2017 and 2018 are based on 0/0/0.25/0.25 percent per annum for the ECF, RCF, SCF, and ESF, respectively, and beyond 2018 0.25/0.25/0.5/0.25 percent per annum. The Executive Board will review the interest rates for all PRGT facilities by end-2016 and every two years thereafter.<sup>3</sup> Total debt service includes IMF repurchases and repayments.

Table 11. Benin: Financial Soundness Indicators 2011–17

	2011	2012	2013	2014	2015	2016	2017
	June						
(Percent unless otherwise indicated)							
Regulatory capital to risk-weighted assets	12.5	12.8	12.9	12.7	12.6	9.5	10.0
Core capital to risk-weighted assets <sup>1</sup>	11.7	11.9	11.8	11.2	10.5	7.6	8.6
Provisions to risk-weighted assets	10.7	10.8	10.3	10.7	11.7	15.6	19.8
Capital to total assets	7.3	7.3	7.2	6.7	5.7	3.8	4.4
Composition and quality of assets							
Total loans to total assets	55.2	55.0	55.9	54.6	53.1	39.3	56.1
Concentration: Credit to the 5 largest borrowers (in terms of total capital)	92.9	92.3	75.1	88.6	113.1	...	487.0
Credit by sector <sup>2</sup>							
Agriculture, Forestry, and Fishing	2.9	2.6	2.9	3.1	3.2	...	...
Extractive Industries	2.2	1.6	1.8	2.0	2.0	...	...
Manufacturing	18.8	18.2	17.0	17.9	17.2	...	...
Electricity, Water, and Gas	3.2	3.2	3.7	3.9	4.2	...	...
Buildings and Public Works	6.7	6.7	7.8	8.7	9.4	...	...
Commerce, Restaurants, and Hotels	32.3	34.7	33.5	31.1	31.5	...	...
Transportation and Communication	11.2	10.0	11.2	9.3	9.5	...	...
Financial and Business Services	5.5	6.1	6.0	6.5	6.6	...	...
Other Services	17.2	16.8	16.2	17.0	16.4	...	...
Non-Performing Loans (NPLs)							
Gross NPLs to Total loans <sup>3</sup>	15.9	16.0	15.5	14.4	14.4	21.4	20.3
Provisioning rate	64.2	63.4	61.0	62.8	62.8	63.2	66.3
Net NPLs to total loans	6.4	6.5	6.6	6.1	5.9	9.1	7.9
Net NPLs to capital	47.8	48.8	51.1	50.0	54.9	95.2	100.8
Earnings and profitability <sup>4</sup>							
Average cost of borrowed funds	2.4	2.5	2.8	2.4	2.4	...	...
Average interest rate on loans	9.7	9.8	10.7	9.1	2.4	...	...
Average interest margin <sup>5</sup>	7.3	7.3	7.9	6.7	6.4	...	...
After-tax return on average assets (ROA)	1.2	0.9	0.9	1.1	1.2	...	...
After-tax return on average equity (ROE)	13.7	10.1	11.5	15.5	16.4	...	...
Noninterest expenses/net banking income	61.6	61.0	60.7	58.6	58.6	...	...
Salaries and wages/net banking income	26.4	25.7	26.5	25.4	25.4	...	...
Liquidity							
Liquid assets to total assets	33.6	32.5	32.2	30.9	29.4	...	...
Liquid assets to total deposits	46.1	45.8	46.1	45.9	43.8	...	...
Total loans to total deposits	84.3	86.2	90.0	89.5	87.0	68.4	71.8
Total deposits to total liabilities	72.9	71.1	68.5	63.4	67.1	57.4	78.0
Demand deposits to total liabilities <sup>6</sup>	37.8	36.5	35.5	34.5	35.4	24.3	34.2
Term deposits to total liabilities	35.1	34.6	33.0	32.8	31.7	33.1	43.8

Source: BCEAO.

Note: ... = not available.

<sup>1</sup> Tier 1 Capital.<sup>2</sup> Identified sectors represent at least 80 percent of credit<sup>3</sup> The improvement of NPLs since 2014 includes the reduced exposure by several banks to a business group that encountered difficulties in 2012–14.<sup>4</sup> Some account elements available semi-annually.<sup>5</sup> Excluding taxes on banking operations.<sup>6</sup> Including savings accounts.

## Annex I. Implementation of Past IMF Recommendations

Implementation of past policy recommendations was broadly satisfactory. At the conclusion of the [2015 Article IV Consultation](#), Directors welcomed the authorities' plan to scale up infrastructure investment and stressed the need for gradual and prioritized approach, improved fiscal policy management to broaden the fiscal space, preserve debt sustainability, and reduce macro-financial risks. They also underscored the urgency to bolster the business environment and improve financial inclusion to foster inclusive growth.

### Benin: Summary of Past Fund Advice

Area	Specific Recommendation	Status
<b>Overall macroeconomic situation</b>	<ul style="list-style-type: none"> <li>Accelerate structural reforms to enhance the business environment and foster greater diversification.</li> </ul>	Good
	<ul style="list-style-type: none"> <li>Pursue prudent policies to preserve macroeconomic stability and make growth more inclusive.</li> </ul>	Moderate
<b>Fiscal Sector</b>	<ul style="list-style-type: none"> <li>Deepen customs and tax administration reforms to broaden the tax base and improve PFM.</li> </ul>	Moderate
	<ul style="list-style-type: none"> <li>Raise investments gradually to ensure their quality, preserve comfortable buffers against risks of debt distress and minimize financing risks.</li> </ul>	In progress
<b>Financial Sector</b>	<ul style="list-style-type: none"> <li>Accelerate the establishment of a credit bureau and reforming property titles to improve financial inclusion and support private investment.</li> </ul>	In progress
	<ul style="list-style-type: none"> <li>Faster progress in reducing the large number of unauthorized MFIs, as well as improving supervision is warranted to ensure that achievements in financial inclusion are not jeopardized.</li> </ul>	In progress
<b>Debt Management</b>	<ul style="list-style-type: none"> <li>Broaden the coverage of debt to include the debt of SOEs</li> </ul>	In progress
	<ul style="list-style-type: none"> <li>Reduce macro-financial risks associated with sovereign-bank linkages.</li> </ul>	Not implemented
<b>Foster private sector development</b>	<ul style="list-style-type: none"> <li>Implement judicial reforms to facilitate contract enforcement.</li> </ul>	In progress
<b>Data</b>	<ul style="list-style-type: none"> <li>Improve quality and timeliness of national accounts and fiscal data to better inform policy decisions.</li> </ul>	In progress

## Annex II. Risk Assessment Matrix<sup>1</sup>

Source of Risks	Relative Likelihood	Impact if Realized	Recommended Policy Response
<b>External Risks</b>			
Tighter global financial conditions.	<b>Medium</b>	<b>Medium</b>	<p>Improve business environment to support diversification.</p> <p>Diversify export output with more private sector involvement.</p>
		<p>Falling export demand and a further drop in cotton price may reduce revenue and net export, increasing fiscal risks.</p> <p>Tighter (or more volatile) global financial conditions could spur funding costs for the 2016–21 Government Action Plan.</p>	
Weaker-than-expected global growth.	<b>Medium</b>	<b>Medium</b>	<p>Consolidate fiscal buffers through domestic revenue mobilization and implement prudent public investment plans.</p>
		<p>Adverse impact on growth through less foreign direct investment inflows.</p>	
Adverse developments in Nigeria.	<b>Medium</b>	<b>High</b>	<p>Accelerate the structural transformation of the economy to lessen its dependency on Nigeria; improve the business environment to support private sector growth and diversification.</p>
		<p>Trade liberalization or adverse security situation reduces trade revenues, and growth; cutting subsidy can cause fuel price spikes.</p>	
<b>Domestic Risks</b>			
Non-materialization of the efficiency gains expected from public investment.	<b>Medium</b>	<b>High</b>	<p>Strengthen PIMA and improve the business environment, including by intensifying financial sector reforms.</p>
		<p>Growth will be affected and debt ratio might deteriorate</p>	
Intensification of financial sector risks.	<b>Low</b>	<b>Medium</b>	<p>Strengthen bank resolution and step up supervision and regulation of MFIs.</p>
		<p>A surge in non-performing loans could affect banking sector stability.</p>	
Rise in risk premia and the cost of debt at regional financial markets.	<b>Low</b>	<b>High</b>	<p>Rely predominantly on concessional financing; optimize debt portfolio, and reduce borrowing needs.</p> <p>Adjust investment level, if necessary.</p>
		<p>Higher costs of borrowing for government and business reduce economic activities.</p>	
Protracted uncertainty regarding institutional reforms.	<b>Medium</b>	<b>High</b>	<p>Build coalition of stakeholders to reinforce transparency, governance, and accountability, aligning them with international best practices. Strengthen the anti-corruption framework.</p>
		<p>Interruptions in the reform agenda, particularly, on reforms related to corruption, transparency, governance and accountability.</p>	

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



## Annex III. External Sector Assessment

*The external sector assessment does not raise immediate concerns, but highlights the need to boost competitiveness. It found that the real effective exchange rate is broadly consistent with fundamentals although competitiveness remains weak. Benin's current account deficit has improved in 2016 indicating significant export growth. However, this latter is projected to widen in 2017, reflecting scaling-up of investment. A gradual improvement of the current account deficit is expected from 2018 as investment and import growth stabilize.*

### A. Recent Developments of the Balance of Payments

**1. The current account deficit excluding grants has improved in 2016.** However, a widening of the current account is expected in 2017 due to the investment scaling up. From 2015 to 2016, the deficit of the current account narrowed from 8.2 percent of GDP to 7.5 percent of GDP. However, in 2017 the deficit is expected to widen and reach 9.4 percent of GDP. This evolution is mainly explained by higher imports of capital goods related to new investments. A gradual improvement of the current account deficit is expected from 2018 onwards as investment and import growth stabilize. By 2021, when the scaling-up of investment comes to an end, the current account deficit would narrow to 6.9 percent of GDP.

**2. The external financing is mainly comprised of concessional financing and foreign direct investment (FDI).** External financing of the current account deficit remained relatively stable over recent years. Short-term capital flows and medium- and long-term private loans were equivalent to 1 percent of GDP. Foreign direct investment inflows were equivalent to 1.5 of GDP in 2016 and are expected to reach 1.9 percent of GDP during 2017–21. Other capital flows, such as project loans, remained on average at 2.3 percent of GDP over the period 2014–2016 and are expected at 3 percent, on average during 2017–21.

**3. Gross international reserve coverage in the WAEMU dropped sharply in 2016 and debt risks remain contained despite an increase in public debt led by high fiscal deficits.** Gross international reserves coverage in WAEMU system declined substantially since 2010 when it stood at 6.6 month of imports, reserve coverage stabilized at around 4 ½ months of imports in 2013–14. In 2016, regional reserves in the WAEMU declined significantly by CFAF 1000 billion (about \$2 billion) to stabilize at 3.7 months of imports. At end 2016, gross reserves covered about 55 percent of narrow money and 74 percent of short-term debt. International reserves increased by \$2.7 billion in 2017, reaching 4.2 months of imports at end-September. Benin's gross external debt is at 22.5 percent of GDP in 2016 (below the average WEAMU countries).

## B. Exchange Rate Assessment

**1. The present external assessment of Benin has been undertaken using the EBA-lite methodology.**<sup>1</sup> The EBA-lite exchange rate assessment includes three approaches. The current account (CA) model and the index of the real exchange rate (IRER) are panel regression-based analyses of the CA and real exchange rate, while the third method, external sustainability (ES), is model-free and focused on sustainability analysis. The EBA makes distinction between descriptive understanding of the current accounts and real exchange rates and making normative evaluations:

$$\text{Actual CA} = \text{CA Gap} + (\text{Fitted CA-Policy Gap})$$

The term in parentheses is the current account norm and the CA Gap is the deviation of the actual current from the norm, i.e., the misalignment. The term Policy Gap is the change in the current account that results from a deviation of Benin's policies from its optimal level and also on account of the average policy misalignment to the rest of the world.

**Benin's REER is broadly consistent with fundamentals and desirable policy settings.** Driven mainly by its tight fiscal stance over the past years, Benin's policy gap is positive and the current account norm is set at -7.4 percent of GDP. The current account gap of 0.2 percent of GDP is broadly consistent with the REER—which is overvalued by 0.5 percent.<sup>2</sup> The current account gap of 0.2 percent is comprised within the interval of [-1 percent, 1 percent] while the REER gap of -0.5 percent is comprised within the interval of [-2 percent, 2 percent]. Therefore, the bottom line assessment is that the external position is broadly consistent with fundamentals and desirable policy settings. The current account (CA) model is the most reliable among the three. Its results are broadly consistent with those of the External Sector Assessment for the WAEMU made during the 2017 Article IV regional consultation. The IRER approach shows an overvaluation at 12 percent, while the ES approach indicates an undervaluation of 4.8 percent (Table 1).

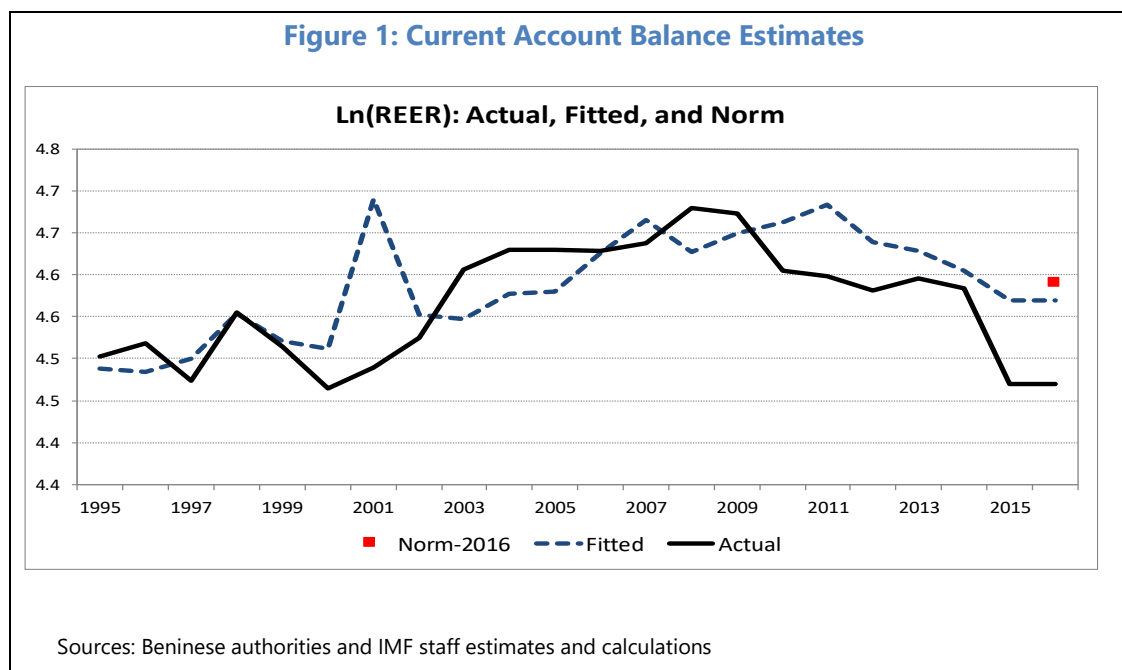
**Table 1. Benin: Exchange Rate Assessment (EBA-Lite)**

	CAP/GDP			REER
	Norm	Underlying	CA gap	
CA model	-7.4	-7.2	0.2	-0.5
IRER				-12
External Sustainability	-2.7	-5.1	-2.3	4.8
Source: IMF staff estimates				

<sup>1</sup> For technical background, please see the SPR/RES May 2, 2017.

<sup>2</sup> Benin's trade elasticity is estimated at -0.483.

Figure 1: Current Account Balance Estimates



## C. Structural Competitiveness

**2. The deterioration of survey-based competitiveness indicators—measuring institutional and policy factors—underlined the challenges on external competitiveness.** Ranked 122 out of 140 countries in the World Economic Forum’s (WEF) Global Competitiveness Report 2015–16, Benin is lagging other WAEMU countries such as Senegal and Ivory Coast (Table 2). Benin shows weakness in all subcategories, most notably macroeconomic environment, labor market efficiency, and financial sector development. In most categories, Benin scored below the sub-Saharan African average.<sup>3</sup> In the WEF Enabling Trade Index, Benin’s ranking deteriorated by 12 places compared to the previous assessment (Table 3). Survey participants list access to trade finance, difficulties in meeting requirements of buyers, and identification of markets for buyers as the most problematic factors for exporting (Figure 2). Burdensome procedures, tariff and non-tariff barriers and corruption at the border as listed as most severe obstacles to importing (Figure 4).

**3. The business climate has improved in Benin, but remains challenging.** Benin’s ranking increased by 4 places in the latest ranking of Doing Business indicators 2018 (151th position). This improvement reflects progress in trading across borders by a full dematerialization of all pre-clearance documents through an electronic platform at the port of Cotonou, in starting a business through introduction of a one-stop shop, and in issuing construction permits. Paying taxes, inefficient bureaucracy, corruption, and resolving disputes remain the main bottlenecks.

<sup>3</sup> Exceptions are the indicators for health and primary education, higher education and training, and the composite subcategory “basic requirements”.

**Table 2. Benin: Global Competitiveness Index 2016-17**

	Benin		Sub-Saharan Africa
	Rank (Out of 138)	Score (1-7)	(Average) Score (1-7)
<b>GCI 2016-17</b>	124	3.5	3.6
GCI 2015-16 (out of 140)	122	3.5	3.6
GCI 2014-15 (Benin excluded)	n/a	n/a	3.4
GCI 2013-14 (out of 148)	130	3.4	3.6
GCI 2012-13 (out of 144)	119	3.6	
<b>Basic requirements (60%)</b>	122	3.6	3.8
Institutions	95	3.5	3.7
Infrastructure	128	2.2	2.8
Macroeconomic environment	111	4.0	4.2
Health and primary education	116	4.6	4.3
<b>Efficiency enhancers (35%)</b>	125	3.3	3.4
Higher education and training	117	3.1	3.1
Goods market efficiency	126	3.7	4.0
Labor market efficiency	50	4.4	4.2
Financial sector development	106	3.5	3.6
Technological readiness	129	2.5	2.9
Market size	123	2.6	2.9
<b>Innovation and sophistication factors (5%)</b>	107	3.3	3.5
Business sophistication	116	3.4	3.1
Innovation	86	3.2	3.3

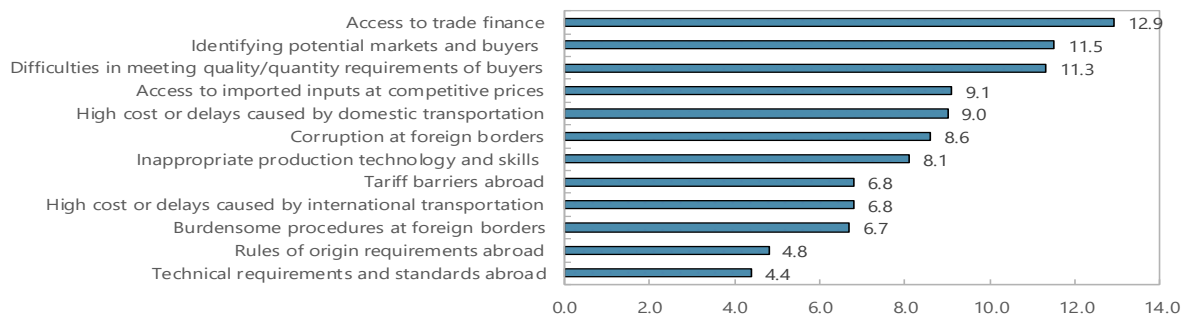
Source: World Economic Forum, The Global Competitiveness Report, 2016-17.

**Table 3. Benin: Enabling Trade Index, 2016**

	Rank (out of 136)	Score (1-7)
Composite Index	124	3.5
Subindex A: Market access	104	3.9
Domestic market access	116	3.8
Foreign market access	78	4.1
Subindex B: Border administration	122	3.3
Subindex C: Transport and communications infrastructure	123	2.8
Availability and quality of transport infrastructure	106	2.7
Availability and quality of transport services	120	3.2
Availability and use of ICTs	126	2.5
Subindex D: Business environment	101	3.9

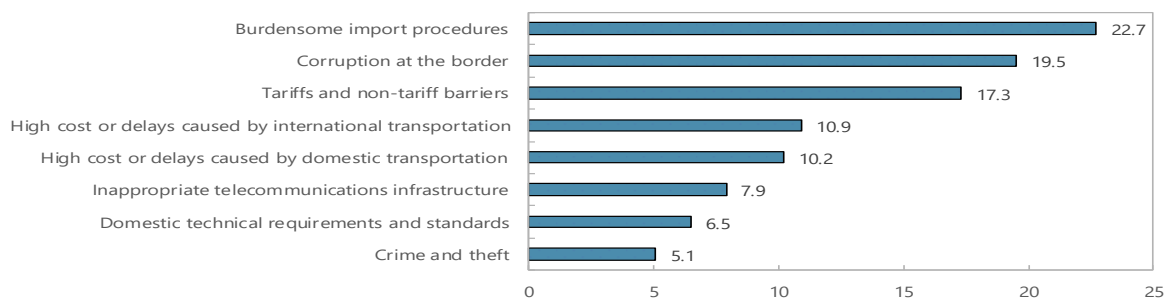
Source: World Economic Forum. The Global Enabling Trade Report, 2016.

**Figure 2. Most Problematic Factors for Exporting**  
(Percent of responses)



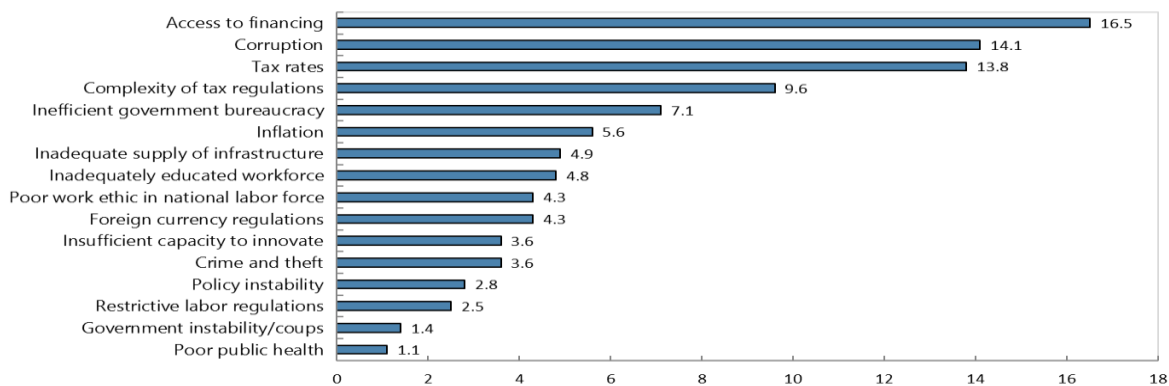
Source: World Economic Forum. Global Enabling Trade Report, 2016.

**Figure 3. Most Problematic Factors for Importing**  
(Percent of responses)



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

**Figure 4. Most Problematic Factors for Doing Business**  
(Percent of responses)



Source: World Economic Forum. Global Competitiveness Report, 2013–14

## Annex IV. Capacity Development Strategy for FY 2017

*The election in March 2016 of a new president determined to tackle long-standing problems with new vigor offers an opportunity for an enhanced technical assistance (TA) program with Benin. The authorities have agreed on an ECF-supported program with the Fund and, hence, they would like to successfully implement economic and financial programs discussed with the IMF for which TA could be critical. The capacity building program in Benin and the associated technical assistance delivery are intrinsically interweaved with surveillance priorities.*

### Overall Assessment of Capacity Development

**1. As a low income country, Benin faces capacity and institution building challenges, which are being addressed with tailored technical assistance.** Enhancing domestic revenue mobilization (revenue administration and tax policy) and improving budget preparation and execution will be essential to preserve debt sustainability in the longer term. These key priorities will also require reforms to strengthen economic governance (public finance management systems) and improve real sector statistics, government, and external sector statistics, including, oversight of public enterprises and other public entities.

**2. Program engagement has contributed in the past to build capacity in Benin.** However, there have been highs and lows regarding TA implementation. Key achievements include the following:

- Created a unique account for the treasury (2015), not yet fully implemented and operational
- Increased capacity to formulate economic and financial policies under the ECF program, including macroeconomic forecasts (2015—16)
- Enhanced production of budget execution data and reports (2015-16)
- Started reforms on customs administration, including risk management (2015-16)

**3. Current economic developments, including spillovers from Nigeria, are hampering the implementation of TA advise.** Furthermore, TA implementation is being compromised by data gaps (lack of relevant and timely indicators), including poor data management and data analysis.

### Forward Looking Priorities

**4. The TA strategy for Benin should focus on revenue and customs administration, PFM—focusing on budget execution—debt management, national accounts, tax policy, and enhancing the quality of macroeconomic data.** In particular,

- Public Investment Management (PIM), currently split into separate administrative units, needs to be streamlined to ensure capacity building and efficiency/transparency in investment project selections and monitoring.

- State-Owned Enterprises (SOEs) unit was recently created but oversight remains weak and still need to be strengthened and consolidated.
- Related to budget execution control and external audit including full implementation of the Court of Accounts, the internal audit and control methods need also to be strengthened by using professional standards and systematic risk-based approach.

**5. The turnover of senior officials and technical-level staff has compromised absorption capacity and TA delivery.** In addition, lack of appropriate infrastructure and institutional coordination—in particular, at customs and tax administrations—has impeded an effective technical delivery. For FY 2017, key priorities and objectives include:

PRIORITIES	OBJECTIVES
Tax Administration	Minimize tax expenditures and simplify taxes
Customs Administration	Improve management and governance
Public Financial Management	Strengthen budget execution and control
Statistics	National account: update base year and move to 2008 SNA; government finance: expand to general government; external statistics: improve current and financial account
Dissemination of statistics	Implement e-GDDS (completing expected end-February 2017)

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

### ***Authorities' Views***

**6. The authorities agree with the thrust of the capacity development strategy.** In particular, they consider that the strategy and objectives are appropriately formulated for the country and in line with the strategic orientations of the 2016-21 Government's Action Plan, announced by the authorities in 2016. Furthermore, considering the current absorption capacity of technical assistance, the authorities have recommended to adjust its volume and mid-term priorities appropriately to attain an efficient delivery.

## Annex V. Technical Assistance, 2015-17 Assessment

*Benin faces capacity and institution building challenges, which are being addressed with tailored technical assistance. The technical assistance being provided aims to increase domestic resource mobilization, strengthen public financial management, improve statistics, and, the national accounts. Moreover, technical assistance is focused on strengthening capacity building in the field. Benin's technical assistance from the Fund has been strategically focused on achieving structural reforms. Implementation of past TA recommendations was broadly satisfactory, while key structural reforms continued to lag due to low capacity to implement and business obstacles.*

Provider	Description	Results/Deliverables	Staff Appraisal
	e-GDDS Jean Galand, Brett Humburg, 2016-17)	Completed in 2017. The National Summary <a href="#">Data Page</a> (NSDP) was set up in March.	Economic statistics remain a priority with a special focus on strengthening balance of payments data and launching an enhanced general data dissemination system.
<b>STA</b>	High Frequency Indicators (Denis Gombert, expert. May 2017)	Good. The improvement in the response rate of firms to the survey questionnaires for the development of the Industrial Production Index (IPI) and the Industrial Production Price Index (IPPI). These new indices can serve as deflators for the calculation of GDP.	
	National Accounts Achille Pegoue and Pierre Couaillac. October 24–November 4, 2016	Good. The mission assisted with the implementation of the System of National Accounts, 2008 (2008 SNA) to help with the compilation of the 2014 financial account and the drafting of a methodological note to help the ownership of the work so far done by the West AFRITAC Regional Technical Assistance Center.	Delays in publication of National Accounts statistics are hampering economic analysis and macroeconomic forecasts. Problems regarding an adequate methodology for quarterly assessments of national accounts have yet to be implemented. Infrastructure and capacity weaknesses are further compromised by existing data gaps and the lack of timely and regular data collection of basic statistics.



Provider	Description	Results/Deliverables	Staff Appraisal
<b>MCM</b>	Medium-term debt management strategy (Oumar Dissou, August, 2017)	Trained officials on medium-term debt management strategies and on the implementation of the domestic borrowing program.	Debt sustainability is an anchor to the current ECF arrangement. Thus, it is essential that the Beninese authorities develop and implement sound debt management strategies. There is room for improvement regarding the data on the state guaranties.
<b>FAD</b>	Customs Reforms (Johanne Russell et Tadatsugu Toni Matsudaira, Japan)  PFM/PIMA (2016-17; PIMA to be conducted by FAD in 2017)	Completed in 2017. The mission presented a project for the integration of the two systems (SYDONIA with SGS). Goals were partially implemented due to the lack of coordination mechanism and follow up.  The PIMA report will estimate the efficiency of the country's public investment, outline the relative institutional strengths and weaknesses, and provide practical recommendations to enhance the efficiency and impact of public investment.	The lack of coordination between customs and tax administrations carry significant negative effects on the objective of strengthening revenue administration. Customs revenue underperformed during the first eight months of 2016 due to the Nigeria effect, reducing the ratio to 13.1 percent of GDP for the year. Staff estimates the unrealized tax potential at three percent of GDP.  There is still a lack of transparency regarding procurement process in public financial management. There is a need to enhance the analysis of data and fiscal information by computerizing the expenditure channels (all government transactions) and by preparing quarterly comprehensive assessments of budget execution, which could feed into the multi-year budgeting efforts already started by the authorities.

Provider	Description	Results/Deliverables	Staff Appraisal
	Revenue Administration—HR polices Nathalie Andre, expert, 2017)	The purpose of the activity was to gather data on HR policies and management in the tax administration in Benin. Insufficient.	Short-term technical assistance missions have yet to carry an impact on revenue mobilization/administration. With TA from FAD, the Tax Department has developed a Strategic Orientation Plan ( <i>Plan d'orientation stratégique de l'administration fiscale</i> —POSAF), which, however, remains to be fully implemented. Also, the introduction of risk management at the Customs Administration aimed at rationalizing controls has stalled. Tax arrears are yet to be reduced.
	Revenue Administration—revenue mobilization Rene Ossa, 2016-17.	A set of performance indicators designed to further improve fiscal operations.	
	Audits of big firms Sylvain Ngneba & Adrien Tocke, September 2016	Strengthening the audit of big firms with a view to Improve the taxpayer's level of tax compliance and the level of tax revenues.	This technical assistance will contribute to the authorities quest to improve tax compliance and, hence, it should be maintained.
AFRITAC CENTRAL	Customs administration: Multi-year project for automated risk management and control selectivity Serge Vera - Christopher Grigoriou (2013-17)	Mission completed but automated risk management is yet to be implemented.	Technical assistance is focused on two areas: (i) automated risk management (project finalization) and (ii) capacity building in the field of post-clearance audit (PCA). These two areas are very much connected to each other. The purpose of automated risk management is to improve the selectivity of inspections before release of goods and increase the number of green-circuit declarations (no control), and a key objective of PCA is to ensure the consistency and veracity of the declared elements that are collected on green-circuit declarations. The last FAD TA mission from September 26th to October 9th, 2017 also

Provider	Description	Results/Deliverables	Staff Appraisal
			emphasized the need to strengthen the PCA, stressing that the Benin authorities had taken steps to improve this important function.
	Monitoring and evaluation of the recommendations of the FAD's 2015 mission (February 13-24, 2017)	Mission completed and the analysis of the actions plan that has been established by the customs authorities based on the strategic plan 2016-2018, was implemented. Some recommendations aimed to strengthen the data intelligence and customs investigations have been provided.	Mission completed.
	Public finance statistics. Nicolas Kacou 2016	Completed. A strengthened classification for government's financial operations (TOFE) was produced, including metadata.	Mission completed.
	Strengthening Fiscal Operations at the National Directions of Taxes (DGI). Rénilde Bazahica 2016-17	Good. Identifying companies that present significant risks to income taxes and value added tax	This mission is critical for achieving one of the quantitative performance criteria.
	Fiscal Administration Jules Tapsoba Henry Tazartes 2016	Completed. Strengthening of registration and the broadening of the tax base.	Mission completed. The authorities will evaluate the need for a possible follow up.

Provider	Description	Results/Deliverables	Staff Appraisal
	Debt Administration Omar Dissou (May 2017)	Completed. Workshop (training) to assist the authorities in improving the quality of their debt sustainability analyzes.	Training completed. There is still a need to strengthen officials' capacity on the implementation of the domestic issuance plan, in particular, about relations with domestic investors.
	Macroeconomic Analysis Séverin Yves Kamgna Rolf Meier 2016-17	Good. Training staff at Directorate-General for Economic Affairs (DGAE) to strengthen the conduct of macroeconomic analysis and forecasting.	Capacity development to further strengthen the local capabilities regarding macroeconomic surveillance.
	National Account Statistics Achille Pegoue (2016-17)	Good. Implementing National Account System 2008 and quarterly accounts.	This technical assistance is critical to proceed with GDP re-basing and the extrapolation of series in the national accounts.
	Public Expenditure Management Abdoulahi Mfombouot 2016-17	Good. Preparing audits of the chain of expenditure, adapting budgetary and accounting information systems and setting a program mode execution guide.	This technical assistance is focused on critical elements of the chain of expenditures that will eventually support information for the national accounts.

## Annex VI. External and Public Debt Sustainability

*The rapid increase in domestic debt in recent years calls for strict adherence to the programmed fiscal consolidation path to preserve long-term debt sustainability. The September 2017 DSA confirms a moderate risk of debt distress for Benin.*

### A. Underlying Assumptions in the DSA

1. The assumptions in the baseline scenario are consistent with the medium-term macroeconomic framework underlying the program envisaged under the ECF arrangement. Key macroeconomic assumptions are as follows:
  - **Global environment.** The nominal exchange rate (FCFA/USD) is assumed to appreciate slightly by about 3 percent over the baseline horizon and stabilize in the medium and long term. The external demand from Benin's trading partners is projected to be stable.
  - **Growth impact.** Growth assumptions have remained roughly stable relative to the March 2017 DSA. Real GDP is expected to grow, on average, by 6.0 percent over the horizon 2017–19, supported by a good performance of the agricultural sector, the ongoing recovery of the Nigerian economy, the scale up in public investment, the resilience of the tertiary sector (transport and telecommunications, trade), and an uptake in private investment in response to expected improvement in infrastructure. Growth is expected to stabilize at 6.6 percent in 2020-2022.
  - **Inflation.** Capital goods will be partly imported, and the effect on non-tradable would be muted by high unemployment and labor mobility in WAEMU. Inflation is projected to average 2.8 percent on average in 2018–22, below the WAEMU convergence threshold of 3 percent.
  - **Fiscal impact.** Tax revenue is projected to increase from 12.6 percent of GDP in 2016 to 14.8 percent of GDP in 2019 as the expected reforms in tax policy and administration mature. The primary deficit rises temporarily with higher capital spending and then turn into a surplus in 2021.
  - **Current account impact.** As assumed in the March 2017 DSA, the current account deficit (including grants) is projected to peak in 2017, and would decline to 8.2 percent of GDP in 2018 and average 6.4 percent of GDP for 2019-22 as investment and import growth.
  - **Financing.** The increase of central government investments of 9 percent of GDP is financed by concessional resources but also domestic financing. Non-concessional PPG debt financing is also included. Also, the recent rise of FDI in construction, manufacturing, and services are projected to continue, in line with Benin's recent achievements in improving its *Doing Business indicators* (ranking increased by 4 places from 155<sup>th</sup> ranking in 2017 to 151<sup>th</sup> ranking in 2018).

### B. External Debt Sustainability Analysis

2. **The results of the external DSA show that Benin's debt dynamics are sustainable under the baseline scenario, facing a moderate risk of debt distress (Tables A1, A2 and Figure A1).** In the baseline, all debt indicators remain below their relevant policy-dependent thresholds. The present value (PV) of debt-to-GDP ratio, debt-to-exports ratio, debt-to-revenue ratio and debt service-to-exports ratio remain safely under the debt distress threshold under the baseline. The PV

of total PPG external debt is expected to rise from about 14.9 percent of GDP in 2017 to 15.8 percent of GDP on average for 2019–21, surging to 18.1 percent of GDP in 2037. The ratio would remain below the corresponding threshold of 40 percent of GDP throughout the projection period. Nonetheless, one indicator—the ratio of the PV of external debt to exports—exceeds its threshold in the case of an extreme shock to exports, while the debt-to-GDP ratio and all debt service indicators remain below thresholds. In the historical scenario, the ratios of the PV of debt-to-GDP plus remittances, PV of debt-to-exports plus remittances, and PV of debt-to-revenue show breaches to the thresholds. Thus, overall, Benin’s risk of external debt distress is assessed to be moderate.

## C. Public Debt Sustainability Analysis

**3. Total public (external and domestic) debt is projected to rise during the scaling up of public investment and decline afterwards** (Tables, A3 and Figure A2). The government’s increased reliance on the regional financial market to finance public investment projects has increased the present value (PV) of public debt to 48.4 percent of GDP in 2017 (against 46.7 percent in the march 2017 DSA). Domestic public debt increased from about 8.6 percent of GDP to 33.6 percent of GDP between 2013 and 2017 to account for 60 percent of the total debt. Staff urged the authorities to remain steadfast in the implementation of the fiscal reforms to ensure that the programmed fiscal consolidation path is achieved to support the public debt anchor and preserve long-term debt sustainability. The PV of debt-to-GDP ratio is projected to rise from 41.9 percent in 2016 to 48.3 percent in 2017 with the surge in investment and then decline steadily. The ratio remains consistently below the indicative benchmark of 56 percent, a level that research has linked to increased probability of debt distress. The debt level also remains below the WAEMU convergence criteria of 70 percent of GDP. In the most extreme shock scenario (Figure A2), the peak PV of debt-to-GDP ratio exceeds 50 percent but remains below the 56 percent threshold. Overall, the dynamics in total public debt are consistent with a moderate risk of debt distress.

**Table A1. Benin: External Debt Sustainability Framework, 2014–37 1/**  
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average <sup>6/</sup>	Standard Deviation <sup>6/</sup>	Projections						2017–2022			2023–2037		
	2014	2015	2016			2017	2018	2019	2020	2021	2022	Average	2027	2037	Average		
<b>External debt (nominal) 1/</b>	<b>19.8</b>	<b>21.3</b>	<b>22.5</b>			<b>22.1</b>	<b>23.5</b>	<b>24.9</b>	<b>25.2</b>	<b>24.8</b>	<b>24.9</b>				<b>26.9</b>	<b>26.8</b>	
<i>of which: public and publicly guaranteed (PPG)</i>	19.8	21.3	22.5			22.1	23.5	24.9	25.2	24.8	24.9				26.9	26.8	
Change in external debt	3.1	1.5	1.2			-0.4	1.5	1.4	0.2	-0.4	0.2				0.4	-0.4	
Identified net debt-creating flows	3.6	10.2	5.3			3.4	1.4	-1.9	-2.2	-2.5	-2.9				0.4	-0.4	
<b>Non-interest current account deficit</b>	<b>8.4</b>	<b>7.8</b>	<b>7.1</b>	<b>7.6</b>	<b>0.5</b>	<b>8.8</b>	<b>8.0</b>	<b>6.7</b>	<b>6.2</b>	<b>6.0</b>	<b>5.5</b>				<b>3.8</b>	<b>2.4</b>	3.7
Deficit in balance of goods and services	15.2	12.2	11.7			13.6	12.6	11.7	11.5	10.9	10.3				7.9	5.6	
Exports	15.8	18.0	15.9			17.3	18.3	19.0	18.0	18.8	18.7				23.4	28.0	
Imports	31.0	30.1	27.6			30.9	30.9	30.7	29.5	29.7	28.9				31.4	33.6	
Net current transfers (negative = inflow)	-6.4	-4.0	-4.3	-4.7	0.9	-4.6	-4.5	-4.9	-5.1	-4.8	-4.7				-3.7	-2.8	-3.5
<i>of which: official</i>	-4.5	-1.6	-1.7			-1.8	-1.6	-1.9	-1.7	-1.5	-1.5				-1.5	-1.5	
Other current account flows (negative = net inflow)	-0.4	-0.3	-0.3			-0.2	-0.1	-0.1	-0.1	-0.1	-0.1				-0.4	-0.5	
<b>Net FDI (negative = inflow)</b>	<b>-4.0</b>	<b>-1.4</b>	<b>-1.4</b>	<b>-2.5</b>	<b>1.1</b>	<b>-4.6</b>	<b>-5.8</b>	<b>-7.6</b>	<b>-7.3</b>	<b>-7.3</b>	<b>-7.3</b>				<b>-2.6</b>	<b>-2.0</b>	-2.2
<b>Endogenous debt dynamics 2/</b>	<b>-0.8</b>	<b>3.8</b>	<b>-0.5</b>			<b>-0.8</b>	<b>-0.8</b>	<b>-1.0</b>	<b>-1.1</b>	<b>-1.3</b>	<b>-1.0</b>				<b>-0.8</b>	<b>-0.8</b>	
Contribution from nominal interest rate	0.2	0.4	0.2			0.4	0.4	0.4	0.4	0.4	0.4				0.4	0.5	
Contribution from real GDP growth	-1.0	-0.5	-0.8			-1.2	-1.2	-1.4	-1.5	-1.6	-1.4				-1.2	-1.2	
Contribution from price and exchange rate changes	0.0	3.9	0.1			...	...	...	...	...	...				...	...	
<b>Residual (3-4) 3/</b>	<b>-0.5</b>	<b>-8.7</b>	<b>-4.1</b>			<b>-3.8</b>	<b>0.1</b>	<b>3.3</b>	<b>2.4</b>	<b>2.2</b>	<b>3.0</b>				<b>0.0</b>	<b>0.0</b>	
<i>of which: exceptional financing</i>	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0				0.0	0.0	
PV of external debt 4/	...	...	14.9			14.9	15.4	15.8	15.9	15.7	15.8				17.2	18.1	
In percent of exports	...	...	94.0			85.7	84.4	83.5	88.2	83.4	84.7				73.4	64.7	
<b>PV of PPG external debt</b>	<b>...</b>	<b>...</b>	<b>14.9</b>			<b>14.9</b>	<b>15.4</b>	<b>15.8</b>	<b>15.9</b>	<b>15.7</b>	<b>15.8</b>				<b>17.2</b>	<b>18.1</b>	
In percent of exports	...	...	94.0			85.7	84.4	83.5	88.2	83.4	84.7				73.4	64.7	
In percent of government revenues	...	...	101.7			88.3	88.3	91.4	88.8	85.1	84.0				89.4	91.8	
<b>Debt service-to-exports ratio (in percent)</b>	<b>5.1</b>	<b>5.3</b>	<b>4.7</b>			<b>5.5</b>	<b>6.0</b>	<b>5.8</b>	<b>6.1</b>	<b>5.5</b>	<b>5.2</b>				<b>4.1</b>	<b>4.5</b>	
<b>PPG debt service-to-exports ratio (in percent)</b>	<b>5.1</b>	<b>5.3</b>	<b>4.7</b>			<b>5.5</b>	<b>6.0</b>	<b>5.8</b>	<b>6.1</b>	<b>5.5</b>	<b>5.2</b>				<b>4.1</b>	<b>4.5</b>	
<b>PPG debt service-to-revenue ratio (in percent)</b>	<b>5.0</b>	<b>5.7</b>	<b>5.1</b>			<b>5.6</b>	<b>6.3</b>	<b>6.3</b>	<b>6.1</b>	<b>5.6</b>	<b>5.1</b>				<b>5.0</b>	<b>6.4</b>	
Total gross financing need (Billions of U.S. dollars)	0.5	0.6	0.6			0.5	0.3	0.0	0.0	0.0	-0.1				0.5	0.7	
Non-interest current account deficit that stabilizes debt ratio	5.3	6.4	5.9			9.2	6.5	5.3	6.0	6.4	5.3				3.4	2.8	
<b>Key macroeconomic assumptions</b>																	
Real GDP growth (in percent)	6.4	2.1	4.0	4.3	1.9	5.6	6.0	6.3	6.7	7.1	6.2	6.3	4.8	4.8	5.0		
GDP deflator in US dollar terms (change in percent)	-0.2	-16.4	-0.6	1.3	8.7	2.3	6.6	3.1	2.7	2.8	3.4	3.5	2.0	2.0	2.1		
Effective interest rate (percent) 5/	1.3	1.5	1.2	3.0	4.6	1.8	2.1	1.8	1.7	1.6	1.6	1.8	1.6	1.8	1.7		
Growth of exports of G&S (US dollar terms, in percent)	8.4	-3.3	-8.7	9.9	21.5	18.2	19.3	13.6	4.3	14.7	8.9	13.2	7.0	8.0	10.2		
Growth of imports of G&S (US dollar terms, in percent)	16.5	-17.2	-5.2	9.5	21.7	21.0	13.0	8.8	5.4	10.8	7.0	11.0	7.5	7.5	8.3		
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	44.9	44.6	44.4	44.8	45.2	45.4	44.9	39.5	34.9	38.0		
Government revenues (excluding grants, in percent of GDP)	16.3	16.7	14.7			16.8	17.5	17.3	17.9	18.4	18.8				19.2	19.7	19.4
Aid flows (in Billions of US dollars) 7/	0.1	0.0	0.1			0.1	0.1	0.2	0.2	0.1	0.2				0.1	0.1	
<i>of which: Grants</i>	0.1	0.0	0.1			0.1	0.1	0.2	0.2	0.1	0.2				0.1	0.1	
<i>of which: Concessional loans</i>	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0				0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			3.4	3.1	3.3	2.9	2.2	2.4				1.5	1.0	1.4
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			57.9	59.5	62.1	63.0	60.6	59.0				48.9	42.9	47.1
<i>Memorandum items:</i>																	
Nominal GDP (Billions of US dollars)	9.7	8.3	8.6			9.3	10.5	11.5	12.6	13.9	15.2				22.2	43.2	
Nominal dollar GDP growth	6.1	-14.7	3.4			8.1	13.1	9.6	9.6	10.0	9.8	10.0	6.9	6.9	7.2		
PV of PPG external debt (in Billions of US dollars)	...	...	1.2			1.4	1.6	1.8	2.0	2.2	2.4				3.8	7.8	
(Pvt-Pvt-1)/GDpt-1 (in percent)	...	...	...			2.5	2.0	1.9	1.6	1.4	1.7	1.8	1.5	1.1	1.4		
Gross workers' remittances (Billions of US dollars)	0.3	0.3	0.3			0.3	0.4	0.4	0.5	0.5	0.5				0.5	0.7	
PV of PPG external debt (in percent of GDP + remittances)	...	...	14.4			14.3	14.9	15.2	15.2	15.2	15.3				16.8	17.9	
PV of PPG external debt (in percent of exports + remittances)	...	...	77.2			71.0	70.4	69.5	71.1	70.4	71.4				66.4	61.4	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	3.9			4.5	5.0	4.8	4.9	4.7	4.4				3.7	4.3	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

4/ 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 A2. Benin: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2017–37**  
(In percent)

	Projections							
	2017	2018	2019	2020	2021	2022	2027	2037
<b>PV of debt-to GDP ratio</b>								
<b>Baseline</b>	15	15	16	16	16	16	17	18
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2017-2037 1/	15	18	23	28	32	37	48	61
A2. New public sector loans on less favorable terms in 2017-2037 2	15	16	18	19	19	20	24	30
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	15	16	17	17	17	17	19	20
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	15	19	24	24	23	23	23	20
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	15	18	20	20	20	20	22	23
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	15	19	24	24	23	23	23	20
B5. Combination of B1-B4 using one-half standard deviation shocks	15	23	36	35	34	34	33	27
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	15	22	22	22	22	22	24	25
<b>PV of debt-to-exports ratio</b>								
<b>Baseline</b>	86	84	84	88	83	85	73	65
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2017-2037 1/	86	100	122	153	170	195	204	215
A2. New public sector loans on less favorable terms in 2017-2037 2	86	90	94	103	101	106	103	105
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	86	85	84	88	84	85	73	65
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	86	137	218	226	211	210	169	125
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	86	85	84	88	84	85	73	65
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	86	103	126	131	122	121	97	72
B5. Combination of B1-B4 using one-half standard deviation shocks	86	136	211	217	201	199	155	106
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	86	85	84	88	84	85	73	65
<b>PV of debt-to-revenue ratio</b>								
<b>Baseline</b>	88	88	91	89	85	84	89	92
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2017-2037 1/	88	105	133	154	173	195	248	305
A2. New public sector loans on less favorable terms in 2017-2037 2	88	94	102	104	103	106	126	149
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	88	92	98	95	92	91	96	99
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	88	106	137	131	124	121	118	102
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	88	102	117	114	109	108	115	118
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	88	108	138	131	124	121	118	102
B5. Combination of B1-B4 using one-half standard deviation shocks	88	133	206	195	184	178	169	134
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	88	123	127	124	119	118	124	128

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.



**Table A3. Benin: Public Sector Debt Sustainability Framework,  
2014–37**  
(In percent of GDP, unless otherwise indicated)

	Actual			Average <sup>5/</sup>	Standard Deviation <sup>5/</sup>	Estimate						Projections			
	2014	2015	2016			2017	2018	2019	2020	2021	2022	2017-22 Average	2027	2037	2023-37 Average
<b>Public sector debt 1/</b>	30.5	42.4	49.5			55.6	56.2	53.5	48.9	44.6	40.6			33.6	33.5
<i>of which: foreign-currency denominated</i>	19.8	21.3	22.5			22.1	23.3	24.6	24.9	24.5	24.9			27.1	27.0
Change in public sector debt	5.2	12.0	7.1			6.1	0.6	-2.8	-4.6	-4.3	-4.0			0.4	-0.4
Identified debt-creating flows	2.2	10.0	5.2			1.1	0.1	-3.0	-4.1	-4.4	-4.5			-1.4	-0.7
Primary deficit	1.5	7.3	4.8	2.1	2.5	4.1	2.2	-0.6	-1.5	-1.9	-2.5	0.0		-0.4	0.3
Revenue and grants	17.2	17.3	15.3			18.2	19.1	19.2	19.6	19.5	19.9			19.9	20.2
<i>of which: grants</i>	0.9	0.6	0.7			1.4	1.6	1.9	1.6	1.0	1.0			0.5	0.3
Primary (noninterest) expenditure	18.7	24.6	20.1			22.3	21.3	18.6	18.1	17.6	17.4			19.5	20.5
Automatic debt dynamics	0.7	2.7	0.4			-3.0	-2.1	-2.4	-2.5	-2.6	-2.0			-1.1	-1.1
Contribution from interest rate/growth differential	-1.1	0.1	-0.3			-0.8	-2.0	-2.3	-2.5	-2.6	-2.0			-1.1	-1.1
<i>of which: contribution from average real interest rate</i>	0.4	0.7	1.4			1.9	1.1	1.0	0.8	0.7	0.6			0.4	0.5
<i>of which: contribution from real GDP growth</i>	-1.5	-0.6	-1.6			-2.6	-3.2	-3.4	-3.4	-3.2	-2.6			-1.5	-1.6
Contribution from real exchange rate depreciation	1.8	2.6	0.7			-2.2	-0.1	-0.1	0.0	0.0	0.0			...	...
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0
Residual, including asset changes	2.9	2.0	1.9			5.0	0.5	0.2	-0.5	0.1	0.5			1.8	0.3
<b>Other Sustainability Indicators</b>															
<b>PV of public sector debt</b>	...	...	41.9			48.4	48.3	44.7	39.9	35.8	31.7			23.8	24.8
<i>of which: foreign-currency denominated</i>	...	...	14.9			14.9	15.4	15.8	15.9	15.7	15.9			17.3	18.3
<i>of which: external</i>	...	...	14.9			14.9	15.4	15.8	15.9	15.7	15.9			17.3	18.3
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...			...	...
Gross financing need 2/	8.1	14.7	12.1			13.8	12.5	9.6	7.5	5.9	4.1			2.9	3.7
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	273.2			265.4	253.2	232.4	203.8	183.9	159.7			119.9	122.7
PV of public sector debt-to-revenue ratio (in percent)	...	...	285.9			287.6	276.4	257.5	222.5	194.0	168.1			122.9	124.5
<i>of which: external 3/</i>	...	...	101.7			88.3	88.3	91.2	88.6	85.0	84.5			89.4	91.9
Debt service-to-revenue and grants ratio (in percent) 4/	11.7	14.4	18.2			36.9	42.8	42.5	37.1	32.0	27.0			9.3	9.6
Debt service-to-revenue ratio (in percent) 4/	12.3	14.9	19.0			40.0	46.7	47.0	40.5	33.8	28.4			9.5	9.8
Primary deficit that stabilizes the debt-to-GDP ratio	-3.6	-4.7	-2.3			-2.0	1.6	2.2	3.0	2.4	1.5			-0.7	0.8
<b>Key macroeconomic and fiscal assumptions</b>															
Real GDP growth (in percent)	6.4	2.1	4.0	4.3	1.9	5.6	6.0	6.3	6.7	7.1	6.2	6.3	4.8	4.8	5.0
Average nominal interest rate on forex debt (in percent)	1.3	1.5	1.2	3.0	4.6	1.8	2.1	1.8	1.7	1.6	1.6	1.8	1.6	1.8	1.7
Average real interest rate on domestic debt (in percent)	2.3	3.9	5.3	0.9	3.7	6.2	3.6	3.9	3.8	4.2	4.4	4.4	8.8	8.8	8.1
Real exchange rate depreciation (in percent, + indicates depreciation)	11.1	13.4	3.2	2.6	7.9	-10.4	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	-0.2	0.1	-0.3	2.3	2.8	0.4	2.3	2.6	2.7	2.8	2.6	2.2	2.0	2.0	2.1
Growth of real primary spending (deflated by GDP deflator, in percent)	-3.4	34.2	-14.9	1.6	12.4	17.2	1.1	-7.0	3.6	4.2	4.8	4.0	10.0	4.8	6.2
Grant element of new external borrowing (in percent)	...	...	...	...	...	44.9	44.6	44.4	44.8	45.2	45.3	44.9	39.5	34.9	...

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate 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 A4. Benin: Sensitivity Analysis for Key Indicators of Public Debt  
2017–37**

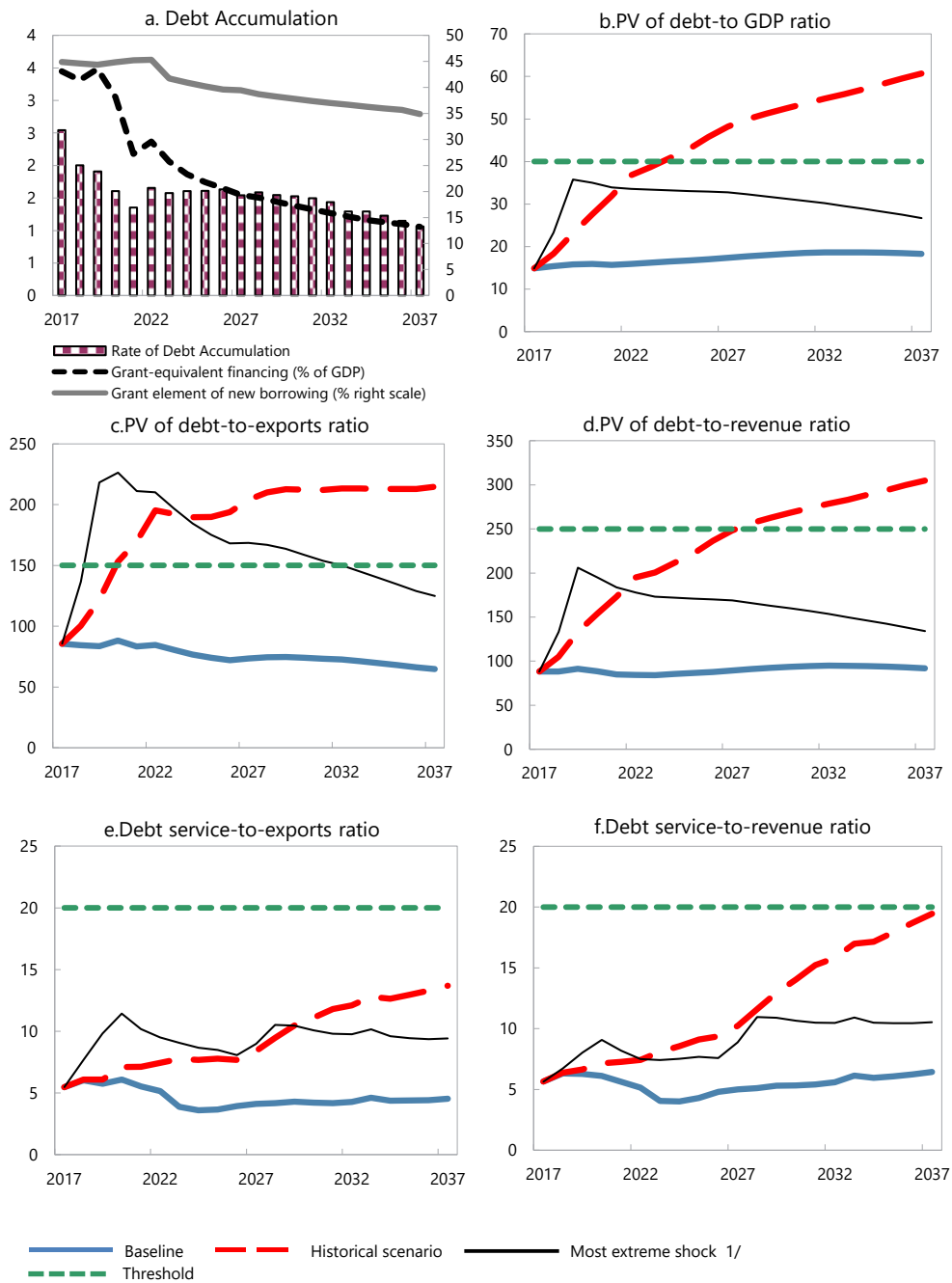
	Projections							
	2017	2018	2019	2020	2021	2022	2027	2037
<b>PV of Debt-to-GDP Ratio</b>								
<b>Baseline</b>	48	48	45	40	36	32	24	25
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	48	49	48	46	45	44	48	55
A2. Primary balance is unchanged from 2017	48	49	49	47	46	46	52	65
A3. Permanently lower GDP growth 1/	48	49	45	41	37	33	27	35
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	48	50	49	45	41	38	33	40
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	48	50	49	44	40	36	27	27
B3. Combination of B1-B2 using one half standard deviation shocks	48	50	50	46	42	38	32	37
B4. One-time 30 percent real depreciation in 2018	48	54	49	43	39	34	24	24
B5. 10 percent of GDP increase in other debt-creating flows in 2018	48	55	51	46	41	37	28	27
<b>PV of Debt-to-Revenue Ratio 2/</b>								
<b>Baseline</b>	265	253	232	204	184	160	120	123
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	265	257	248	235	232	222	241	269
A2. Primary balance is unchanged from 2017	265	259	254	241	239	232	264	322
A3. Permanently lower GDP growth 1/	265	254	235	207	189	166	136	175
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	265	263	254	228	211	188	164	197
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	265	261	257	226	205	180	137	133
B3. Combination of B1-B2 using one half standard deviation shocks	265	263	260	233	214	191	161	183
B4. One-time 30 percent real depreciation in 2018	265	282	255	222	199	172	122	120
B5. 10 percent of GDP increase in other debt-creating flows in 2018	265	286	263	232	211	185	141	136
<b>Debt Service-to-Revenue Ratio 2/</b>								
<b>Baseline</b>	37	43	42	37	32	27	9	10
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	37	43	44	39	35	31	13	19
A2. Primary balance is unchanged from 2017	37	43	43	38	33	29	13	20
A3. Permanently lower GDP growth 1/	37	43	43	38	33	28	10	12
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	37	44	45	40	35	29	11	13
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	37	43	43	38	33	28	10	10
B3. Combination of B1-B2 using one half standard deviation shocks	37	44	45	40	34	29	11	13
B4. One-time 30 percent real depreciation in 2018	37	44	45	40	34	29	12	13
B5. 10 percent of GDP increase in other debt-creating flows in 2018	37	43	43	38	33	28	10	11

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.

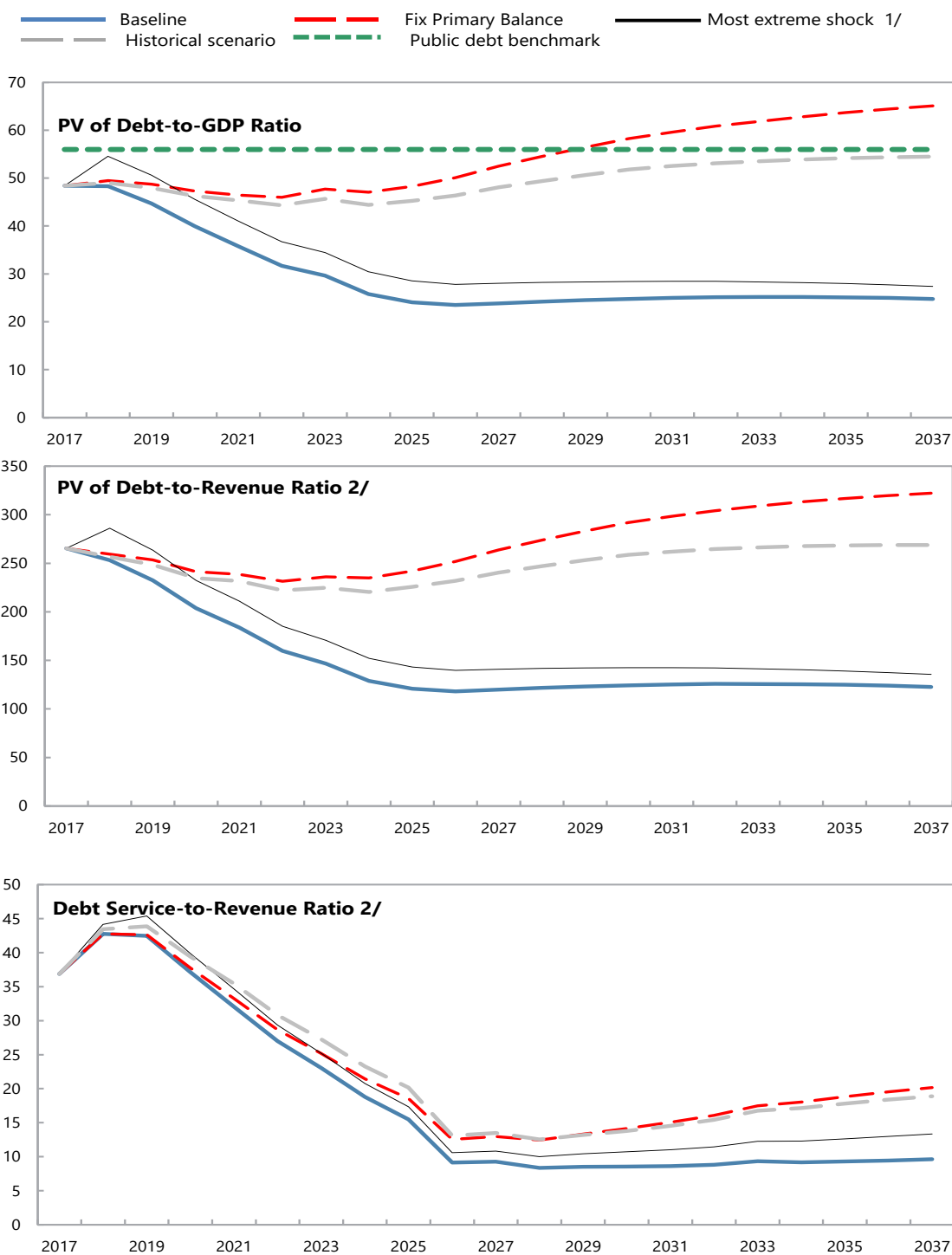
**Figure A1. Benin: Indicators of Public and Publicly Guaranteed External Debt, 2017–37 <sup>1/</sup>**



Sources: Country authorities; and staff estimates and projections.

<sup>1/</sup> The most extreme stress test is the test that yields the highest ratio on or before 2027. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a Combination shock

**Figure A2. Benin: Indicators of Public Debt Under Alternative Scenarios, 2017–37 <sup>1/</sup>**



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2027.

2/ Revenues are defined inclusive of grants.

## Appendix I. Letter of Intent

REPUBLIQUE DU BENIN

Fraternité-Justice-Travail

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**MINISTRY OF THE ECONOMY AND FINANCE**

**THE MINISTER**

Cotonou, November 14, 2017

Madame Christine Lagarde  
Managing Director  
International Monetary Fund  
700 19<sup>th</sup> Street, N.W.  
Washington, D.C. 20431  
USA

Dear Madame Managing Director:

Benin is returning to the strong and steady growth it had experienced during 2012-14 with an annual average rate of 6.1 percent in a stable macroeconomic environment before it dipped in 2015. In that year, the growth rate fell to 2.1 percent, reflecting essentially the negative impact of the Nigerian's recession. However, in 2016, the economy recovered strongly, growing by 4 percent in real terms. The depreciation of the naira (mainly on the parallel market), coupled with the good performance of the agricultural sector led to a fall in the general level of prices with the consumer price index (average) estimated at -0.8 percent in 2016 versus 0.3 percent in 2015. The execution of the Government's Action Program (GAP) for 2016-21, combined with the implementation of comprehensive structural reforms under our economic and financial program (2016-19) with the International Monetary Fund is helping to sustain this pace of growth in economic activity. Improvement in the international environment, particularly in Nigeria also contributed to the recovery, which has come with moderate inflation, a fiscal position that is under control, and a favorable trend in the balance of current transactions.

Based on preliminary available as of end of July 2017, we are projecting GDP growth rate at 5.6 percent in 2017. Because domestic prices accelerated in July, inflation is forecasted to turn positive, but remain below 1 percent at 0.6 percent. Reflecting essentially our better-than-programmed revenue performance, the budget deficit (including grants) is expected to be contained at 6.4 percent of GDP in 2017, lower than programmed (7.9 percent of GDP) and fall

further to 4 percent in 2018. The external current account deficit (including grants) will peak at 9.1 percent of GDP in 2017, reflecting investment-related imports but will decline to 8.4 percent in 2018 as investments stabilize.

The supplementary Memorandum of Economic and Financial Policies (MEFP), attached hereto, describes the progress made under the economic and financial program supported by the ECF arrangement, and presents the key objectives for 2018 and the medium term. The MEFP remains consistent and in line with the Economic Development Document 2017-21 submitted separately for information. Generally, our economic and financial program is off to a good start. As of end-June 2017, all performance criteria were met. All the structural benchmarks for end-June were implemented and those for the second half of 2017 are well ahead of schedule. In addition, several other key structural reforms have already been started.

We, therefore, request the completion of the first review under the ECF arrangement and the availability of the associated disbursement, we proposed modifications of performance criteria, and we request to set performance criteria and structural benchmarks for 2018. We also request modifications of the end-December 2017 performance criteria pertaining to: (i) the floor on total government revenues; (ii) the ceiling on net domestic financing; and (iii) the floor on the basic primary balance. These modifications became necessary to reflect the better domestic revenue performance expected for the full year.

The government believes that the policies contained in the attached MEFP are adequate to achieve the objectives of the ECF-supported program. To this end, it will take any further measures that may become appropriate for this purpose. The Government will consult the IMF on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with Fund policies on such consultations. The Government will provide the Fund with any information that may be necessary for monitoring the implementation of the program and the achievement of program objectives, as set out in the attached Technical Memorandum of Understanding. The government authorizes the IMF to publish and post this letter and its attachments on its website, along with the IMF staff report after completion of the Article IV consultation and the first review under the ECF arrangement by the IMF Executive Board.

Very truly yours,

\_\_\_\_\_/s/\_\_\_\_\_  
\_\_\_\_\_

Mr. Romuald Wadagni  
Minister of the Economy and Finance

Attachments (2):

- I. Memorandum of Economic and Financial Policies
- II. Technical Memorandum of Understanding

## Attachment I. Supplementary Memorandum of Economic and Financial Policies (MEFP) 2017–19

1. This memorandum updates the MEFP of March 2017, which supports the request of the Beninese Government for an Extended Credit Facility (ECF) program. The document reviews recent economic developments and describes policies that the government plans to implement for the remainder of 2017 and in 2018. These policies should allow Benin to build on the good macroeconomic performances and the fiscal consolidation undertaken since their arrival of the new government in April 2016.

### RECENT ECONOMIC DEVELOPMENTS

2. Benin has achieved a satisfactory economic growth in recent years, driven mainly by the stability of the domestic environment. The favorable international context combined with the stable domestic environment allowed the economic activity to grow at the pace of 6 percent on average over the period 2012-14; in a context of weak inflation. In 2015, the growth rate fell to 2.1 percent, reflecting essentially the negative impact of the Nigerian's recession. In 2016, the recovery of the Beninese economy is perceived through the strong GDP growth that was estimated at 4 percent. This performance was mainly driven by the exceptional harvests due to favorable weather conditions and better access to agricultural inputs. The activity of the secondary sector remained with the shy with a growth of its added-value assessed at 2.6 percent in 2016 against 10.1 percent in 2015; while the tertiary sector was resilient with a growth of its added-value established at 3.4 percent against an initial forecast of 2.7 percent. The figures available as of end of July 2017 allowed to project GDP growth rate at 5.6 percent in 2017. The depreciation of the naira (mainly on the parallel market), coupled with the good performance of the agricultural sector had involved a fall in the general level of prices. The consumer price index (average) is estimated at -0.8 percent in 2016 versus 0.3 percent in 2015. In 2017, inflation should be positive but weak, estimated at 0.6 percent.

3. Economic growth of Benin has not been inclusive and did not result in a reduction of poverty. The rise of GDP is not reflected on the level of poverty indicators. The last report of the National Institute of the Statistics and the Economic Analysis (INSAE), showed an increase in the proportion of the population living below the poverty line, which increased from 36.2 percent of the population in 2011 to 40.1 percent in 2015. The structural reforms that the government is committed to implement in the context of the ECF supported program aim, primarily, to reduce the level of poverty.

4. Following the big rise of the public expenditure over the period 2014-15, the new government undertook significant adjustments to reduce the budget deficit. The significant increase of public expenditure between 2014 and 2015—primarily due to the organization of the presidential elections in March 2016—induced the new government to submit a revised budget to the National Assembly (NA) in July 2016. This revised budget incorporated significant reductions of the current expenditure, lowering significantly the overall fiscal deficit (excluding grants) to 6.7 percent of GDP against 8.6 percent in 2015. In 2017, the improved mobilization of domestic resources combined

with a contraction of the current expenditure should allow to reach an overall fiscal deficit (excluding grants) of 7.8 percent, lower than the rate that of 9.3 percent, initially programmed.

**5.** Domestic public debt increased from about 8.6 percent of GDP to 33.6 percent of GDP between 2013 and 2017, to account for 60 percent of the total debt. The government's increased reliance on the regional financial market to finance public investment projects has increased the present value of debt for 2017. Against March 2017, the share of concessional external financing declined while non-concessional domestic debt has increased with the present value of the debt rising from 46.7 percent in 2016 to 48.4 percent in 2017.

**6.** Banks still face some structural bottlenecks that prevent their participation to the financing of the private sector. The still high level of the non-performing loans, in a context of a rise of banks' capitalization (the BCEAO had fixed a minimum level of capital of CFAF 10 billion, that all the banks are required to meet by the end of June 2017) indicates the presence of structural difficulties and limit the role of commercial banks in the financing of the private sector. The implementation of reforms to improve the business climate and accelerate the diversification of the Beninese economy should make it possible to increase its competitiveness and remove structural obstacles.

## **THE GOVERNMENT'S ACTION PROGRAM, 2016–21**

**7.** Following its election, the government adopted the Government's Action Program (GAP) for 2016–21. The GAP is centered around the consolidation of the democracy, the rule of law, and good governance; and the launch of the structural transformation of the economy to improve the living conditions of the population. The GAP is aimed at developing the potential for growth in value-added in agriculture and tourism (identified as the main potential sources of growth), while recognizing the importance of improving the quality of education and strengthening the basic social services and social protection. Furthermore, the Economic Development Document 2017-21, submitted separately for information, builds on the government's long term economic and social programs incorporated in the GAP.

**8.** In April 2017, the National Assembly rejected the project of amendment of the constitution, which aimed at: (i) strengthening the institutions, (ii) promoting good governance and transparency, (iii) anchoring the accountability's responsibility for officials and legislators. However, we are looking for alternative solutions that should accelerate the implementation of the reform program. In this regard, the creation in August 2017 of a new coalition at the National Assembly, aiming at supporting the reforms of the President, gives positive signals for the acceleration of the implementation of much needed reforms.

**9.** The participation of Benin in the G20 *Compact with Africa* (CWA) Initiative should bolster private sector financing of the GAP.



## IMPLEMENTATION OF THE 2017 PROGRAM

**10.** The implementation of the program is broadly satisfactory. All quantitative performance criteria (QPC) at end of June 2017, as well as the continuous performance criteria (CPC) (including those related to the prefinancing) were respected. The same conclusion is valid for the structural benchmarks. At the end of June 2017, QPCs are established as follow:

- *Net Domestic Financing (FINE)*, definite as the sum of net bank credit to the government, and net nonbank financing of the government, was established to 113.7 billion CFAF for an adjusted ceiling of 131.1 billion CFAF.
- The basic primary fiscal balance, defined as being equal to the difference between total fiscal revenue (tax and nontax) and basic primary fiscal expenditure (on a payment order basis), was estimated at 33.1 billion CFAF compared to a ceiling of 73.1 billion CFAF.
- *The total revenues* that refers to total government revenue include tax and nontax revenue as shown in the TOFE, but it excludes external grants, revenue of autonomous agencies, and privatization receipts. They were estimated at 443.9 billion CFAF against a floor of 386.1 billion CFAF reached.

**11.** A request of change of the quantitative criteria of December 2017 will be submitted to the board of directors. Indeed, as of end of June 2017 the level of the total revenues is projected higher than initially programmed (907.5 billion CFAF against an initial objective of CFAF 843.9 billion) as well as a deficit of the basic primary fiscal balance lower than that initially programmed (142.6 billion CFAF against an objective of 171.3 billion CFAF).

**12.** The prior action for the current review has been met and structural benchmarks are consistent with the timeline agreed in the context of the ECF arrangement. These measures include: (i) improvement of the transparency as regards of procurement; (ii) implementation of the Strategic Unit of support located at the Minister of Finance in charge of, inter alia, evaluating the budgetary risks related to the PPP; and (iii) adoption of a framework of multiannual commitments for the investment projects.

**13.** The implementation of the program presents however some challenges that we are determined to take up. The rejection by the Parliament in April 2017, of the amendment of the constitution complicated the implementation of some key structural reforms related to the improvement of the business environment, the promotion of good governance and transparency in the management of public finances.

## Structural reforms and policies

**14.** With regards to governance, important measures have been taken to reform the judicial system. These reforms are undertaken with the assistance of our technical and financial partners. A key step was the creation of commercial courts, provided for under Law No. 2001-37 of June 10, 2002, on the organization of the judicial system in the Republic of Benin, and the law containing amendments and additions to Law No. 2008-07 on the code of civil, commercial, social, and administrative procedure which was enacted in September 2016. These courts were operational in 2017 through: (i) the provision of buildings to house the Trade Court of Cotonou and the Trade Appeals Court of Porto Novo; (ii) the appointment of career and commercial court judges and the official installation of the courts in these two jurisdictions. The next steps being considered to improve economic governance relate to the preparation and submission to parliament a legislation that will strengthen the audit and control agencies (*Corps de contrôle*).

**15.** The government considers PPPs as essential for the financing of the GAP, 2016–21, given the constraints on budgetary resources. Indeed, 61% of the PAG is expected to be financed from the private sector. We recently established the legal framework for PPPs through the law No. 2016-24, which was adopted by the NA in October 2016. A revised Law was promulgated by the President of the Republic in June 2017, following a decision of the Constitutional Court that found the process leading to adoption by the NA as unconstitutional. Implementing decrees are being drafted. A PPP support unit (CAPP) has been created and is attached to the Presidency of the Republic. The unit is responsible for providing technical support at all stages of the PPP project process, including the price-performance review. A unit in charge of assessing fiscal risks related to PPP projects is already created at the Ministry of Economic and Finance.

**16.** We are strengthening the framework for combating corruption and proceeding with a coherent implementation of the legislative and regulatory framework for AML/CFT. Consistent with the government's commitment to implement a meaningful and enforceable asset declaration regime, the National Anti-Corruption Authority (ANLC) is working on adapting the law to (i) ensure sanctions for absence of asset declaration, (ii) require comprehensive declaration of assets owned and beneficially owned, in Benin and abroad, by the high-level official, their family members and close associates, and (iii) allow for online publication of the asset declarations. In addition, on November 2, 2017 the government approved for submission to the NA a bill on the fight against terrorism. The new law proceeds from the merger of the uniform law on the fight against money laundering with that on the fight against the financing of terrorism. The incoming law contains new measures such as: (i) the inclusion of specific measures to limit the use of cash in financial transactions; (ii) the inclusion of a component dealing with the fight against the financing of the proliferation of weapons of mass destruction, by taking into account the United Nations Security Council resolutions relating to the prevention, repression and interruption of the proliferation of weapons of mass destruction and its financing and (iii) the consistency of the measures relating to cross-border physical transport declarations of species with those of the Community Regulation on external financial relations, etc.

**17.** The Government undertook work to rebase the national accounts and to implement of the 2008 System of National Accounts (SNA 2008). This initiative will bring significant improvements in: (i) the updating of several basic data of national accounts that are decades old; (ii) the inclusion in the assessment of GDP of important activities that were not followed; (iii) a better consideration of currently poorly evaluated activities; and iv) the implementation of the recommendations of the 2008 National System of Accounts (SNA 2008). We expect to finalize the work with a mission from Afritac West at most by the end of 2017.

### **Debt management**

**18.** Significant efforts have been made to improve the availability of information on public debt. The website of the debt agency (CAA) has gone online; a statistical bulletin on public debt is published on a quarterly basis; an annual report on public debt management has been prepared; and (iv) a medium-term debt management strategy document was appended to the 2017 budget law. The next steps will be the strengthening of the medium-term debt management strategy document through the adding of a public debt ceiling as recommended by the Organic Law on Budget Laws. In addition, the monitoring of public debt aims to cover all the guarantees granted by the government and the debt of public enterprises. Therefore, a collect of comprehensive data on the debt of state-owned and the contingent liabilities enterprises is being undertaken. The next step will consist of finalizing the data collection; adopting a monitoring mechanism and extending the coverage, under the medium-term debt strategy, to the debt of state-owned enterprises.

### **Financial inclusion**

**19.** Together with the BCEAO, the government has a major role to play in order to ensure the stability and soundness of the financial system. We are therefore carrying out a number of structural reforms to this end. The Law on Credit Information Offices (BIC) was adopted by the National Assembly and promulgated by the President of the Republic on January 23, 2017. The adoption of this law means that Benin has established the legal framework required to launch BIC activities. Now, we are aiming at finalizing the establishment of a credit bureau and a policy framework for time-bound bank resolution. We are taking measures to facilitate the use of collateral to obtain bank loans. We will also work to promote the electronic registration of land titles, extending it to cover the entire country. The initiative contained in the amended 2016 budget law to eliminate registration fees has had the expected result and the number of land titles registered has increased. We believe that the microfinance sector is essential to promote access to the financial system for small business. With the aim of maintaining their viability and credibility, we will adopt a new regulatory framework for microfinance institutions strengthening their supervision.

## **PROGRAM FOR 2018**

**20.** The program aims at providing the foundations for an accelerated and inclusive growth in a frame of low inflation. In the same way, the acceleration of implementation's pace of the reforms should allow to: (i) mobilize more resources, (ii) increase the efficiency of the public expenditure

particularly investments, (iii) rise the part of the resources allocated to the social programs and (iv) improve the business environment. Macroeconomic framework envisages an acceleration of the real GDP growth in 2018, which should reach 6 percent, and 6.6 percent on average in 2019-22. The economic growth in the medium term will be primarily drawn by the good performance of the agricultural sector, the rise of the private sector investment and the positive effects resulting from the recovery of the Nigerian's economy. Inflation became positive and is accelerating since the end of July 2017 under the rise of foods' prices and the appreciation of the Naira caused by the recovery of Nigeria. Inflation is therefore projected to 2.5 percent on average in 2018 and 2.8 percent in 2019-22. The current account deficit should be reduced gradually, thanks to a sustained high growth of exports and a compression of the imports generated by the decrease of the public investments. The current account deficit should therefore reach 8.4 percent from the GDP in 2018 and 6.9 percent of the GDP on average over the period 2018-22. This reinforcement of the external position, should allow Benin to participate in the building of the international reserves within the WAEMU.

## A. Macro-budgetary framework for 2018

**21.** The Council of Ministers approved on September 27th the 2018 draft budget 2018 for submission to the Parliament. The budget deficit, excluding grants, is projected to improve, marginally, to 6.1 percent of GDP in 2018 compared with 7.8 percent expected for 2017. This improvement will be the result of the improved domestic revenues, building on the gains achieved in 2017 coupled with a slight increase in public investments compared to the program.<sup>1</sup> Government revenues would reach 17.5 percent of GDP in 2018 compared to 16 percent of GDP initially programmed. The pursuit of the fiscal consolidation should allow reducing the budget deficit, below the WAEMU convergence criteria of 3 percent of the GDP, in 2019. This macro-budgetary framework presents, however, some risks which could be mitigated by the acceleration of the structural transformation of the economy, the strengthening of the effectiveness of the management of the public investments, the improvement of the business climate, the promotion of the concessional borrowing compared to the domestic financing that is more expensive, the reinforcement of the fiscal gains through an better mobilization of domestic resources and a careful implementation of the public investment plans.

## B. Tax Policy

**22.** In order to mobilize more revenues, the 2018 budget law relies on the adoption of some measures such as the cancellation of some VAT exemptions which, coupled with the implementation of tax administration and customs reforms, should allow to garner additional resources. The measures being implemented include: (i) a strengthened fiscal control based on a better risk assessment and monitoring of big firms; (ii) implementation of penalties for tax delays; (iii) acceleration of tax litigation cases, (iv) improved tax compliance, (v) the cancellation of some VAT exemptions, and (v) a reinforced coordination between tax and customs administration to broaden the tax base. The increase in non-tax revenues stems from the non-renewal of tax exemptions

<sup>1</sup> This increase reflects a carry-over of projects slated for 2017.

benefiting cellphone companies; the collection of arrears; and other special taxes (electronic communications, road fees). The implementation of the measures will have a tangible impact on total revenues, which are expected to increase by 1.5 percent of GDP compared to the program.

**23.** Going forward, the government intends to reduce tax expenditure, by identifying and removing those that are no longer justified from an economic and social standpoint, or that do not have a legal basis. The 2018 budget law lays on the non-renewal of the exemptions enjoyed by the telecommunications companies with regard to GSM licensing. Moreover, a complete analysis of the tax expenditures is planned to take place before the end of the year 2017. That will allow to elaborate a strategy aiming at containing and rationalizing them.

### **C. Quantitative performance Criteria and structural benchmarks**

**24.** Quantitative performance criteria are proposed for end-June and end-December 2018 and indicative targets are proposed for end-March and end-September 2018 (Table 1) for the monitoring of the program agreed with the IMF. The prior action and the structural benchmarks, as well as their macroeconomic rationale, are described in Table 2. The prior action has been met. The second, third, and fourth program reviews are expected to be completed on or after April 30, 2018, October 31, 2018, and April 30, 2019, respectively.

**Table 1. Benin: Proposed Quantitative Performance Criteria and Indicative Targets, 2018<sup>1</sup>**  
(Billions of CFA francs)

	December 31, 2017		March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018
	Performance Criteria		Indicative Targets	Performance Criteria	Indicative Targets	Performance Criteria
	Prog.	Rev.	Prog.	Prog.	Prog.	Prog.
<b>A. Quantitative performance criteria<sup>2</sup></b>						
Net domestic financing of the government (ceiling) <sup>3,4,5</sup>	177.7	183.7	22.0	190.9	103.0	118.8
Basic primary balance (excluding grants) (floor)	-171.3	-142.6	-69.7	-47.5	-20.3	3.9
Total revenue (floor)	843.9	907.5	204.8	445.5	707.1	1021.6
<b>B. Continuous quantitative performance criteria (ceilings)</b>						
Accumulation of external payments arrears	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on the present value of new external debt contracted or guaranteed by the government	402.8	402.8	402.8	402.8	402.8	402.8
Accumulation of domestic payments arrears	0.0	0.0	0.0	0.0	0.0	0.0
Contracts by the government for the prefinancing of public investments projects	0.0	0.0	0.0	0.0	0.0	0.0
<b>C. Memorandum Items<sup>2</sup></b>						
Priority social expenditure (floor)	160.0	160.0	15.0	50.0	101.0	167.0
Memorandum item: Budgetary assistance <sup>6</sup>	55.0	55.0	22.6	22.6	39.6	55.4

Sources: Beninese authorities; IMF staff estimates and projections.

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

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

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

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

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

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

<sup>6</sup> Gross disbursements, not adjusted for debt service obligations.

**Table 2. Benin: Proposed Structural Benchmarks and Macroeconomic Rationale for 2018**

Measures	Dates	Rationale	Status
Agree upon a 2018 budget consistent with the ECF-supported program. (MEFP ¶21 and 22)	Prior action	Preserve fiscal sustainability.	Met
Limit the granting of special conventions outside the investment code to exceptional cases after decision by the Council of Ministers.	June 2018 (continuous thereafter)	Boost revenue collection.	
Implement the system of control of the effectiveness of the realization of the investments envisaged within the framework of approvals to the code of investments and approvals for the installation of special economic zones (MEFP ¶23).	December 2018	Fight fiscal fraud and rationalize exemptions.	
Implement a plan to strengthen tax compliance (MEFP ¶22).	June 2018	Increase fiscal revenues by improving tax compliance-risk management.	
<b>Public financial management</b>			
Prepare and adopt in the Council of Ministers a plan for the reorganization and professionalization of the administrative control bodies of the State (MEFP ¶14).	June 2018	Improve economic governance.	
Prepare monthly cash flow forecasting plans and comprehensive quarterly budget performance evaluations (MEFP ¶23).	June 2018	Increase transparency, timeliness and accuracy of budget information.	
<b>Financial inclusion</b>			
Establish a credit bureau and a policy framework for time-bound bank resolution (MEFP ¶19).	December 2018	Improve financial intermediation.	

**Table 2. Benin: Proposed Structural Benchmarks and Macroeconomic Rationale for 2018  
(Concluded)**

Measures	Dates	Rationale	Status
Adopt a new regulatory framework for microfinance institutions strengthening their supervision (MEFP ¶19).	December 2018	Promote financial inclusion	
<b>State-owned enterprises reform</b>			
Complete the data collection of SOEs' debt and operationalize the monitoring framework (MEFP ¶19).	September 2018	Better monitor contingent liabilities and improve public debt management.	
Set performance contracts with key SOEs (MEFP ¶19).	December 2018	Improve SOEs contribution to government revenues.	



## Attachment II. Technical Memorandum of Understanding

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.

### PROGRAM ASSUMPTIONS

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

CFAF/US\$	557.6
CFAF/euro	655.96
CFAF/SDR	785.4

### Definitions

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

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

(a) **Debt** is understood to mean a current, 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, and 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:

<sup>1</sup> Exchange rates are average for 2018 as of August 2017.

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) 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 10-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 10-year and 6-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 or serviced in CFA francs, unless it is contracted with another member state;

(d) External debt is defined as debt denominated in any currency other than the CFA franc and debt in CFA francs contracted with another member state.

## QUANTITATIVE PERFORMANCE CRITERIA

### A. Ceiling on Net Domestic Financing of the Government

#### **Definitions**

5. Net domestic financing (NDF) of the government is defined as the sum of (i) net bank credit to the government, defined below; and (ii) net nonbank financing of the government, including the proceeds of the sale of government assets, which includes proceeds from the divestiture of 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 BCEAO credit to the government, including any drawings on the CFA franc counterpart of the allocation of Special Drawing Rights (SDRs).

6. Net bank credit to the government is defined as the balance between the debts and claims of the government vis-à-vis the central bank and 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, subordinated debt (*obligations cautionnées*), and all deposits with the BCEAO and commercial banks of government owned entities, with the exception of industrial or commercial public agencies (EPIC) and government corporations, which are excluded from the calculation. Government debt to the banking system includes all debt to the central bank and the national commercial banks, including Treasury bills and other securitized debt.

7. 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.

8. Gross external budgetary assistance is defined as grants, loans, and non-earmarked debt relief operations (excluding project-related loans and grants, use of IMF resources, and debt relief under the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief 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.

#### **Performance Criteria and Indicative Targets**

9. The ceiling on net domestic financing of the government (cumulative since January 1 of the same year) is set as follows: CFAF 70.1 billion at End-March 2017; CFAF 116.1 billion at end-June 2017; CFAF 183.9 billion at end-September 2017; and CFAF 183.7 billion at end-December 2017. The

ceiling is a performance criterion for End-June and End-December 2017, and an indicative target for End-September 2017.

Also, the ceiling on net domestic financing of the government (cumulative since January 1 of the same year) is set as follows: CFAF 22 billion at End-March 2018; CFAF 190.9 billion at end-June 2018; CFAF 103.0 billion at end-September 2018; and CFAF 118.8 billion at end-December 2018. The ceiling is a performance criterion for End-June and End-December 2018, and an indicative target for End-September 2018.

### **Adjustments**

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

- If, at the end of a quarter, net external budgetary assistance exceeds the total projected amounts (cumulative since January 1 of the same year) by over CFAF 5 billion, the NDF ceiling will be lowered by an amount equivalent to this excess minus CFAF 5 billion.
- If at the end of a quarter, net external budgetary assistance falls short of the projected amounts (cumulative since January 1 of the same year), the NDF ceiling will be increased by an amount equivalent to this shortfall, within the following limits: the increase may not exceed CFAF 15 billion at End-June 2017 and CFAF 25 billion at End-December 2017. The same rule applies for 2018.

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

- The amounts of gross external budgetary assistance (cumulative since January 1 of the same year) projected in the program are CFAF 16.2 billion at End-March 2017; CFAF 16.2 billion at End-June 2017; CFAF 39.2 billion at End-September 2017; and CFAF 55.0 billion at End-December 2017.
- The amounts of gross external budgetary assistance (cumulative since January 1 of the same year) projected in the program are CFAF 22.6 billion at End-March 2018; CFAF 22.6 billion at End-June 2018; CFAF 39.6 billion at End-September 2018; and CFAF 55.4 billion at End-December 2018.
- The amounts of external debt service obligations (cumulative since January 1 of the same year) projected in the program are CFAF 8.8 billion at End-March 2017; CFAF 24.8 billion at End-June 2017; CFAF 32.4 billion at End-September 2017; and CFAF 70.6 billion at End-December 2017.
- The amounts of external debt service obligations (cumulative since January 1 of the same year) projected in the program are CFAF 9.7 billion at End-March 2018; CFAF 29.3 billion at

End-June 2018; CFAF 38.9 billion at End-September 2018; and CFAF 60.6 billion at End-December 2018.

## B. Floor for Basic Primary Fiscal Balance

### *Definition*

**12.** 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*

**13.** The floor on the basic primary fiscal balance (cumulative since January 1 of the same year) is a balance of not less than CFAF -64.7 billion at End-March 2017; CFAF -73.1 billion at End-June 2017; CFAF -139.0 billion at End-September 2017; and CFAF -142.6 billion at End-December 2017. The floor is a performance criterion for End-June and End-December 2017, and an indicative target for End-September 2017.

The floor on the basic primary fiscal balance (cumulative since January 1 of the same year) is a balance of not less than CFAF -69.7 billion at End-March 2018; CFAF -47.5 billion at End-June 2018; CFAF -20.3 billion at End-September 2018; and CFAF 3.9 billion at End-December 2018. The floor is a performance criterion for End-June and End-December 2018, and an indicative target for End-September 2018.

## C. Floor for Total Government Revenue

### *Definition*

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

### *Performance Criteria and Indicative Targets*

**15.** The floor on total government revenue (cumulative since January 1 of the same year) is set at an amount that is not less than CFAF 182.9 billion at End-March 2017; CFAF 386.1 billion at End-June 2017; CFAF 602.9 billion at End-September 2017; and CFAF 907.5 billion at End-December 2017. The floor is a performance criterion for End-June and End-December 2017, and an indicative target for End-September 2017.

Also, the floor on total government revenue (cumulative since January 1 of the same year) is set at an amount that is not less than CFAF 204.8 billion at End-March 2018; CFAF 445.5 billion at End-June 2018; CFAF 707.1 billion at End-September 2018; and CFAF 1021.6 billion at End-December 2018. The floor is a performance criterion for End-June and End-December 2018, and an indicative target for End-September 2018.

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

### ***Definition***

**16.** Domestic payments arrears are defined as domestic payments due but not paid after a 90-day grace period, unless the obligation specifies a longer grace period. The National Amortization Fund (CAA) and the Treasury record and update the data on the accumulation of domestic payments arrears, as well as their settlement.

### ***Continuous Performance Criterion***

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

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

### ***Definition***

**18.** External public payments arrears are defined as the sum of payments due, but not paid, by the government at the due date specified in the contract, taking into account any applicable grace period, on external debt of, or guaranteed by, the government.

**19.** 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.

## F. Present Value of New External Debt Contracted or Guaranteed

### **Definition**

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

**21.** The concept of “government” used for this performance criterion and for the performance criterion on the contracting or guaranteeing by the government of new external debt, includes the government, as defined in paragraph 2, local governments, and all public enterprises, including administrative public agencies (EPA), scientific and technical public agencies, professional public agencies, and enterprises jointly owned by the Beninese government with the governments of other countries.

**22.** Changes to the ceiling may be made (subject to approval by the IMF Executive Board) based on the results of the debt sustainability analysis prepared jointly by the staffs of the World Bank and the IMF. The performance criterion on the ceiling on the contracting or guaranteeing by the government of new external debt maturing in one year or more will be continuously monitored throughout the program.

## G. Ceiling on Pre-Financing Contracts for Public Investments

### **Definition**

**23.** Pre-financing contracts are defined as contracts pursuant to which the following steps are taken, normally concurrently: (i) the government entrusts a private entity with the responsibility for executing public works, financed by a loan to the entity from a commercial bank or group of commercial banks; (ii) the government, including, for the avoidance of doubt, the Minister of Finance, guarantees this loan and signs an unconditional and irrevocable agreement to replace the private entity to honor the full amount of principal and interest of the loan.

### **Continuous Performance Criterion**

**24.** The government undertakes to refrain from entering into any pre-financing contracts during the life of the program. This performance criterion with respect to pre-financing contracts for public investment will be continuously monitored throughout the program.

## INDICATIVE TARGETS

### A. Floor for Priority Social Expenditures

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

#### *Definition*

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

<b>Budget code</b>	<b>Description</b>
36	Ministry of Health
37	Ministry of Energy, Water, and Mines
39	Ministry of Agriculture, Livestock, and Fisheries
26	Ministry of Justice
31	Ministry of Labor, the Civil Service, and Social Affairs
44	Ministry of Higher Education and Scientific Research
62	Ministry of Nursery School and Primary School Education
63	Ministry of Secondary and Technical Education and Professional Training
34	Ministry of Living Standards and Sustainable Development

## INFORMATION FOR PROGRAM MONITORING

### B. Data on Performance Criteria and Indicative Targets

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

Every month:

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



- the TOFE, including revenue, detailed data on net domestic financing of the government (bank and nonbank domestic financing, including the claims held by the nonbank private sector); and data on the basic primary fiscal balance, including data generated by the integrated fiscal management system (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.

### C. Other Information

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

Every month:

- banking 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.



# BENIN

## STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION AND FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR MODIFICATIONS OF PERFORMANCE CRITERIA— INFORMATIONAL ANNEX

November 15, 2017

Prepared By

The African Department  
(In consultation with other departments)

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## RELATIONS WITH THE FUND

(As of September 30, 2015)

<b>I. Membership Status:</b> Joined: July 10, 1963		<u>Article VIII</u>
<b>II. General Resources Account:</b>	<b>SDR Million</b>	<b>%Quota</b>
<u>Quota</u>	123.80	100.00
<u>Fund Holdings of Currency</u>	105.86	85.51
<u>Reserve Tranche Position</u>	17.95	14.50
Notes Issuance		
Holdings Exchange Rate		
<b>III. SDR Department:</b>	<b>SDR Million</b>	<b>%Allocation</b>
<u>Net Cumulative Allocation</u>	59.17	100.00
<u>Holdings</u>	27.49	46.46
<b>IV. Outstanding Purchases and Loans:</b>	<b>SDR Million</b>	<b>%Quota</b>
ECF Arrangements	86.05	69.51

### V. Latest Financial Arrangements:

<u>Type</u>	<u>Date of Arrangement</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
ECF	Apr. 07, 2017	Apr. 06, 2020	111.42	15.92
ECF	Jun. 14, 2010	Jun. 03, 2014	74.28	74.28
ECF <sup>1/</sup>	Aug. 05, 2005	Jun. 30, 2009	24.77	24.77

### VI. Overdue Obligations and Projected Payments to Fund:<sup>2</sup>

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

	<u>Forthcoming</u>				
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Principal	2.17	14.95	14.82	13.79	11.67
Charges/Interest	<u>0.04</u>	<u>0.17</u>	<u>0.17</u>	<u>0.17</u>	<u>0.17</u>
Total	2.21	<u>15.12</u>	<u>14.99</u>	<u>13.97</u>	<u>11.84</u>

<sup>1</sup> Formerly PRGF.

<sup>2</sup> 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
I. Commitment of HIPC assistance	<u>Framework</u>
Decision point date	July 2000
Assistance committed	
by all creditors (US\$ million) <sup>1</sup>	265.00
Of which: IMF assistance (US\$ million)	24.30
(SDR equivalent in millions)	18.40
Completion point date	March 2003
I. 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 <sup>2</sup>	1.66
<b>Total disbursements</b>	<b>20.06</b>

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

<sup>2</sup> 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) <sup>1</sup>	36.06
Financed by: MDRI Trust	34.11
Remaining HIPC resources	1.95
II. Debt Relief by Facility (SDR million)	

Eligible Debt

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

<sup>1</sup> 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.

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

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

**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).

**Exchange Arrangement:**

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

**Article IV Consultations:**

The last completed Article IV consultation was completed on December 11, 2015 based on staff discussions with the authorities in Cotonou from August 31 to September 14, 2015 (ISCR/16/6).

**ROSC Assessment:**

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

**Technical Assistance for the Last Five Years:****A. Headquarters**

<b>Department</b>	<b>Type of Assistance</b>	<b>Time of Delivery</b>	<b>Purpose</b>
FAD	Technical assistance	April 2013	Assessing progress in customs administration modernization, reviewing a new customs reform concept and providing advice on the management of a comprehensive reform program.
FAD	Technical assistance	March 2014	Conducting a diagnostic of revenue administration.
FAD	Technical assistance	April 2014	Conducting a diagnostic of the expenditure chain with a focus on capital expenditure.
FAD	Technical assistance	September 2014	Following-up of previous recommendations and reviewing the mining taxation regime.
FAD	Technical assistance	June 2015	Advising the authorities on a reform strategy for overseeing public agencies and SOEs.
FAD	Technical assistance	September 2016	Audit of Big Firms
FAD	Technical assistance	January 2017	Customs administration.
FAD	Technical assistance	September 2017	Tax Expenditure Review
FAD	Technical assistance	October 2017	Public Investment Management Assessment
FAD	Technical assistance	September 2017	Improving Tax Compliance
STA	Technical assistance	October 2016	National Account Statistics
STA	Technical assistance	December 2016	Enhanced General Data Dissemination System
STA	Technical assistance	July 2017	External Sector Statistics

**B. Afritac West**

<b>Department</b>	<b>Type of Assistance</b>	<b>Time of Delivery</b>	<b>Purpose</b>
FAD	Technical assistance	2013	Customs Administration (3)
FAD	Technical assistance	2014	Tax Administration (2)
FAD	Technical assistance	2014	Public Financial Management (5)
FAD	Technical assistance	2014	Customs Administrations (3)
FAD	Technical assistance	2015	Customs Administrations (3)
FAD	Technical assistance	2015	Tax Administration (2)
FAD	Technical assistance	2015	Public Financial Management (3)

<b>Department</b>	<b>Type of Assistance</b>	<b>Time of Delivery</b>	<b>Purpose</b>
STA	Technical assistance	2016	Government Finance Statistics
STA	Technical assistance	2016	Real Sector Statistics (2)
STA	Technical assistance	2017	Real Sector Statistics (2)
STA	Technical assistance	2017	Government Finance Statistics
STA	Technical assistance	2017	Real Sector Statistics
STA	Technical assistance	2017	Government Finance Statistics
STA	Technical assistance	2015	Real Sector Statistics

**Resident Representative:**

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

## JOINT WORLD BANK-IMF WORK PROGRAM, 2015–16

Title	Products	Timing of Mission	Expected Delivery Date
<b>A. Mutual information on relevant work programs</b>			
Bank work program in the next 12 months	1. Budget Support 2. PFM/PPP/Governance Technical Assistance 3. Tax Study (covering Benin, Burkina, Côte d'Ivoire, and Togo)	February 2017 December 2017 Ongoing missions	October 2018 March 2018 June 2018
IMF work program in the next 12 months	1. Staff Visit 2. Second Review ECF supported program	December 2017 March 2017	
<b>B Requests for work program inputs</b>			
Fund request to Bank	Provide authorities with best practice guidance on public-private partnerships.		Ongoing
Bank request to Fund	Regular updates on macroeconomic performance and assessment letters for PRSC operations.		Ongoing
<b>C. Agreement on joint products and missions</b>			
Joint products in the next 12 months			



## STATISTICAL ISSUES

### Benin: STATISTICAL ISSUES

As of October, 2017

#### I. Assessment of Data Adequacy for Surveillance

**General:** Data provision has some shortcomings, but is broadly adequate for surveillance. Weaknesses exist due to lack of capacity in the areas of national accounts, public finance, monetary statistics, financial sector prudential indicators, and balance of payments. The authorities are addressing data weaknesses through technical assistance from the Fund.

**National Accounts:** Inadequate resources and weaknesses in data hamper the accuracy and reliability of the national accounts. Efforts to address these shortcomings are ongoing. Benin participated in WAEMU's harmonization of statistical methodologies and in the GDDS project for AFRITAC West countries to implement the 1993 SNA, and now intends to move to the 2008 SNA (by 2018). The West AFRITAC missions in 2011/15 sought to accelerate the process and support the compilation of the revised accounts, and assisted in rebasing the national accounts from 1985 to 2007.

**Price Statistics:** Consumer price data, measured using the WAEMU harmonized consumer price index, are adequate for surveillance. The methodology for the WAEMU harmonized consumer price index has been revised to be consistent with other WAEMU countries with the assistance of AFRISTAT. The current index covers the capital city only, but Benin is participating in a regional project aimed at extending the coverage of the CPI to the whole country.

**Government Finance Statistics:** The quality of fiscal data is broadly adequate for surveillance, but has some shortcomings in coverage, periodicity, timeliness, and accessibility. The authorities have not reported GFS data for publication in the Government Finance Statistics Yearbook since the 2013 reference year and do not report quarterly data for publication in the International Financial Statistics. Benin is working toward implementing the new TOFE directive based on the *Government Finance Statistics Manual 2001 (GFSM 2001)*. Currently this TOFE is produced on a trial basis along with the TOFE based GFSM 1986. The implementation of the new TOFE is under way. To that end, three tables are being prepared: i) TOFE based GFSM 2001, ii) Statement of sources and uses of cash, and ii) statement of public debt (at face value). The authorities are working as well to produce the TOFE using the Trial Balance as the source data. The authorities have yet to expand the coverage of the TOFE to include all the subsectors of the general government.

**Monetary and Financial Statistics:** Monetary and financial statistics (MFS), compiled and disseminated by the regional Central Bank of West African States (BCEAO), are broadly adequate. In August 2016, the BCEAO completed the migration of Guinea-Bissau's MFS to the standardized report forms (SRFs) for the central bank and other depository corporations..

**Financial sector surveillance:** The BCEAO has submitted financial soundness indicators (FSIs) for deposit takers to STA for review, and a 2018 mission will finalize FSI reporting.

**External sector statistics:** Benin reports balance of payments and international investment position (IIP) statistics to STA using the methodology of the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)* since 2011. The authorities have submitted 2013 balance of payments and IIP data for publication in the 2015 *Balance of Payments Statistics Yearbook (BOPSY)*.

However, despite the recent improvements in applying the guidelines of *BPM6*, external statistics are still affected by shortcomings that prevent an accurate and timely assessment of current account transactions and capital and financial flows. 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, the port, the airport, and some regional offices, which was further improved by the implementation of ASYCUDA World with some improved features. Effective implementation of ASYCUDA World would further enhance external trade statistics. However, the overall improvement depends largely on the sincerity of data that reporters provide and the integrity of customs officers as regards recording correct information. 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 central government public 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, but does not produce projections of debt-service flows on a loan-by-loan basis. Regular statements are not received from creditors.

## II. Data Standards and Quality

The country is an e-GDDS participant. However, most of its metadata, with the exception of the real sector and socio-demographic metadata, have not been updated since October 2002.

No data ROSC is available.

### Appendix I. Benin: Table of Common Indicators Required for Surveillance

	Date of latest observation	Date received	Frequency of Data <sup>7</sup>	Frequency of Reporting <sup>7</sup>	Frequency of Publication <sup>7</sup>
Exchange Rates	08/2017	09/2017	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	07/2017	10/2017	M	M	M
Reserve/Base Money	09/2017	10/2017	M	M	M
Broad Money	08/2017	09/2017	M	M	M
Central Bank Balance Sheet	08/2017	09/2017	M	M	M
Consolidated Balance Sheet of the Banking System	07/2017	09/2017	M	M	M
Interest Rates <sup>2</sup>	07/2017	09/2017	M	M	M
Consumer Price Index	08/2017	09/2017	M	M	M
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – General Government <sup>4</sup>	NA	NA	NA	NA	Not published
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – Central Government	06/2017	08/2017	M	M	NA
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	06/2017	08/2017	Q	Q	NA
External Current Account Balance	2015	08/2017	A	A	A
Exports and Imports of Goods and Services	2016	08/2017	A	A	A
GDP/GNP	2017	08/2017	A	A	A
Gross External Debt	NA	NA	A	I	NA
International Investment Position <sup>6</sup>	2015	07/2017	A	A	A

<sup>1</sup>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.

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

<sup>3</sup>Foreign, domestic bank, and domestic nonbank financing.

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

<sup>5</sup>Including currency and maturity composition.

<sup>6</sup>Includes external gross financial asset and liability positions vis-à-vis nonresidents.

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

**Statement by Mr. Sembene, Executive Director for Benin, Mr. Alle,  
Senior Advisor to the Executive Director and Mrs. Boukpassi,  
Advisor to the Executive Director  
December 1, 2017**

1. The Beninese authorities appreciate the productive policy dialogue with staff held in

the context of the 2017 Article IV Consultation and the first review under the Extended Credit Facility (ECF). They broadly agree with staff assessment and welcome the policy recommendations.

2. In recent years, the pace of economic growth in Benin remained significant on average, comparing favorably to that of many sub-Saharan African peers. Yet, poverty levels continued to be high amid improving economic performance. As part of the Government's Action Program (GAP) for 2016–21, the authorities have therefore embarked on an agenda aimed at promoting structural transformation, good governance, and the rule of law, and making significant inroads in poverty reduction. In support for the GAP, the ECF-supported program provides a solid framework for safeguarding macroeconomic stability and advancing structural reforms.

**Program Performance, and Outlook**

3. Performance under the ECF was strong with all end-June 2017 quantitative performance criteria (QPCs) and indicative targets observed. Illustrating the authorities' strong reform efforts, revenue mobilization exceeded program expectations as government total revenue exceeded the floor set at 386.1 billion FCFA to reach 443.9 billion CFAF. For 2017, total revenue is projected to be significantly larger than initially programmed under the program. Consequently, the overall fiscal deficit is expected to be around 6.1 percent of GDP in 2017, almost two percentage points of GDP lower than initial program projection. As a result of this better-than-expected performance, the Beninese authorities are requesting a modification of the following QPCs: (i) the floor on total government revenue; (ii) the ceiling on net domestic financing; and (iii) the floor on the basic primary balance. On the structural front, all benchmarks for end-June 2017 were also implemented, thus helping make important strides in public financial and investment management.

4. The authorities remain optimistic about the country's economic outlook. Real GDP growth is expected to stand at 6 percent in 2018 and remain high over the medium term, supported by continued dynamism in agricultural production, sustained public and private investments, and a rebound in the tertiary sector. The authorities' fiscal consolidation efforts are poised to help reduce the deficit to 1.8 percent of GDP, below the WAEMU convergence criterion of 3 percent of GDP by 2019. Inflation is projected to be kept below 3 percent on average and the external position is expected to improve with the overall balance registering a surplus starting this year. Notwithstanding this broadly positive outlook, the authorities remain aware of the downside risks highlighted in the staff report, including potential difficulties to garner support for the reform agenda, unanticipated fiscal risks, and unfavorable external conditions. They have restated their commitment to GAP implementation with a view to strengthening the resilience of the economy and consolidating macroeconomic gains.

#### **Policies for the remainder of 2017 and beyond**

5. Looking ahead, the Beninese authorities remain committed to taking steps needed to sustain high and inclusive growth, while preserving macroeconomic stability and debt sustainability. Over the medium-term, their policies will focus on boosting domestic revenue mobilization, improving public expenditure and financial management, safeguarding debt sustainability, and improving the business environment.

#### ***Strengthening revenue mobilization, public expenditure and financial management***

6. To create more fiscal space for GAP financing the authorities will pursue their efforts to further improve domestic revenue mobilization and public investment management. With the adoption of the Strategic Plan for the Tax Administration (POSAF) in February 2017, the seeds for improved cooperation between tax and customs administrations have been planted. Going forward, steps will be taken to secure this outcome, thereby expanding the tax base.

7. Ongoing tax policy reforms will be strengthened with new revenue measures included in the 2018 budget law, notably the strengthening of fiscal controls, the implementation of penalties for tax delays, and the cancellation of some VAT exemptions, and the expected non-renewal of tax exemptions on GSM licensing benefiting telecommunication companies. The authorities believe that these measures, together with tax and customs administration reforms should increase revenue by 1.5 percent of GDP compared to the original program for 2018. They are planning a comprehensive review of the tax expenditures, with the aim at streamlining them. This will help to identify and remove expenditures that are no longer justified from an economic and social standpoint or without legal basis.

8. Improving the efficiency of government spending ranks high on the authorities' agenda, as demonstrated by recent measures aimed at improving the overall governance

system and public financial management. The public expenditure review conducted with World Bank assistance also illustrates the authorities' commitment to improve the quality of public expenditure. Going forward, the authorities will refine public investment management by making good use of the recommendations from Fund technical assistance on Benin's Public Investment Management Assessment (PIMA). In particular, it is their intention to enhance coordination between investment planning and budget preparation, improve public procurement processes and infrastructure project selection, and enhance human capacity and the institutional framework.

9. The Beninese authorities are also committed to mobilizing private financing while monitoring fiscal risks to ensure fiscal sustainability. The private sector is called on to play a major role in the financing of the GAP. The authorities have prepared the ground work to facilitate recourse to Public-Private Partnerships (PPPs). The legal framework for PPPs established in October 2016 has been refined in June 2017. Two units have been created and tasked with providing technical support to PPPs projects (CAPPP) and assessing the fiscal risks related to PPPs respectively.

#### ***Preserving debt sustainability***

10. The authorities take good note of staff assessment that the updated 2017 September DSA confirms a moderate risk of debt distress for Benin despite the increase in domestic debt over the past years. They will work with development partners to secure timely disbursement of budget support with a view to reducing reliance on domestic and regional financing and thus containing pressures on domestic debt.

11. Going forward, they would like to reiterate their commitment to a prudent borrowing strategy. Part of their borrowing strategy will consist in seeking longer maturity obligations when tapping the regional financial market. Building on the significant progress made in strengthening debt management at the Treasury and the debt management agency (CAA), the authorities will focus on strengthening the medium-term debt strategy (MTDS), notably through the incorporation of a public debt ceiling in line with the budget framework law. Finally, contingent liabilities from SOEs and PPPs will be fully assessed and incorporated in the MTDS for a complete monitoring.

#### ***Fostering economic transformation***

12. Bolstering economic transformation to sustain long-term growth is one of the main pillars of the authorities' action plan. They have identified value-addition in the agricultural and the tourism sectors as a source of future growth. In this regard, the convergence of views between the authorities and staff is welcomed, as evidenced during the staff's presentation of the related Selected Issues Paper in Cotonou. To advance this transformation agenda, the

authorities have developed specific policies in the targeted sectors as well as cross-cutting policies aimed at boosting the economy.

13. In the agricultural sector, seven regional poles for agricultural development have been created and policies aim at promoting high value-added crops and enhancing the processing industry through technological innovations. In the tourism sector, investment projects have been planned around the country's specific tourist advantages including Voodoo art, and the historic city of Ouidah, which is set to become the flagship destination of memorial tourism in Africa. The business environment, the financial sector and human capital sector make the bulk of cross-cutting policies.

14. The authorities are cognizant that creating an enabling environment for the business sector will be key given the expected role of the private sector in the economic transformation agenda. They have initiated various reforms in that regard and progress thus far include a fast-track process to create a business and an improved access to credit. Ongoing efforts focus on accelerating reform of audit institutions, creating a more competitive procurement system, improving access to electricity, and combatting corruption. In this connection, strengthening the anti-corruption/money laundering and combatting the financing of terrorism (AML/CFT) framework is of particular importance for the authorities. A new bill on the fight against terrorism was submitted to the National Assembly earlier this month. These initiatives will be pursued together with the ongoing measures taken by the National Anti-Corruption Authority (ANLC) to strengthen the asset declaration framework.

15. The authorities are committed to making quick and significant progress on these fronts with the view to promoting private sector development, as envisaged under the GAP. Moreover, the reform of the judicial system accompanied by the setting-up of two commercial courts in 2017, will help further improve economic governance and transparency together with the capacity building on commercial regulation and the strengthening of the audit function and the procurement system. The authorities welcome Benin's participation in the G20 Compact with Africa Initiative, which is expected to help step up these reforms, stimulate private investment, and improve the economy's overall competitiveness.

16. The authorities are also taking steps to swiftly proceed to the structural reforms in the financial sector for more financial deepening and inclusion. Those include the implementation of the legal framework required to launch the activities of the Credit Bureau and the extension of the electronic registration of land titles to the entire country. They acknowledge that the stability and soundness of the financial sector—including the microfinance sector—is key to promoting financial inclusion and sending strong signals to domestic and foreign investors. To this end, they are working with the regional central bank (BCEAO) to strengthen the enforcement of the regulation, notably by harmonizing the regional resolution framework, strengthening the supervisory body and regularizing

unauthorized microfinance institutions. It is also noteworthy that BCEAO is proceeding with the implementation of risk-based supervision.

### *Advancing other structural reforms*

17. The authorities acknowledge the importance of reducing inequality and poverty by making growth more inclusive. In this regard, they will continue to invest in health, education, and other pro-poor sectors in line with the GAP priorities. They are in the process of refining the country's social protection and facilitating access of the poorest segments of the population to basic public services. In this endeavor, the recommendations made by staff in the Selected Issues Paper will provide valuable insights.

18. To help enhance policy decisions and address data gaps, the authorities will continue to improve the timeliness, quality and consistency of national accounts. Work is underway to rebase the national accounts and implement the 2008 System of National Accounts (SNA). In this endeavor, they welcome technical support provided by the Fund and other partners.

### **Conclusion**

19. Benin continues to implement steadfastly its economic and financial program with encouraging results. Growth has rebounded, while macroeconomic stability has been strengthened. The Beninese authorities are committed to stepping up efforts for addressing the challenges still facing the economy. They are confident that their GAP appropriately emphasizes the need to foster economic transformation, improve governance and make further inroads in poverty reduction. The ECF-supported program provides an additional framework to implement the policies needed to move towards the government's development goals.

20. Based on the good performance under the program and the authorities' commitment to pursue their reform efforts, we would appreciate Directors' support for the completion of the first review under the ECF arrangement and for the authorities' request for the modification of performance criteria.