INTERNATIONAL MONETARY FUND

IMF Country Report No. 12/99

BENIN

THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT

April 2012

In the context of the third review under the Extended Credit Facility Arrangement, the following documents have been released and are included in this package:

- *The staff report for the third review under the Extended Credit Facility Arrangement, prepared by a staff team of the IMF, following discussions that ended on January 23, 2012 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 March 12, 2012. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.*
- *A Supplement (Supplement I) on the Impacts of Twin External Shocks in 2012*
- *A Press Release summarizing the views of the staff appraisal contained in the staff report.*

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

Letter of Intent sent to the IMF by the authorities of Benin*
Technical Memorandum of Understanding*

*Also included in the Staff Report

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org Internet: http://www.imf.org

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

BENIN

THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT

March 12, 2012

KEY ISSUES

Political context and outlook. The re-election of the President and the re-gained majority in Parliament have provided a window of opportunity for reforms. After a moderate recovery in 2011, growth and inflation in 2012 are expected to be adversely affected by external spillover effects.

Program performance has been broadly satisfactory. All performance criteria and most quantitative targets were met, but progress in implementing structural reforms was mixed. The introduction of critical customs reforms met with strong initial resistance, leading to a sharp fall in customs revenue in the second half of 2011. Resistance to reforms complicated program implementation, but the authorities reacted decisively by reducing expenditure. A series of actions kept fiscal reforms on track and customs revenue started to pick up at the end of the year.

The key policy challenge is to address the underperformance of customs revenue. Normalizing operations at the Port of Cotonou and restoring customs revenue to normal levels will be important for reaching the program's fiscal targets, while protecting priority social spending and capital investment. Keeping the wage bill within the program's envelope and moving forward with the structural reform agenda also will be critical.

The financial system remains sound, but supervision needs to be strengthened. Banking system indicators are broadly satisfactory, but some small banks fail to comply with minimum capital requirements. Banks' loan portfolios are weak, highlighting the need to intensify supervision.

Approved By
Michael Atingi Ego and Thomas Dorsey

The mission comprised Mr. de Zamaróczy (head), Ms. Macario, Mr. Pani (all AFR) and Mr. Lonkeng Ngouana (INS). Mr. Farah, the IMF's resident representative, ably assisted the mission. Mr. Nguema-Affane (OED) attended key meetings. The discussions took place in Cotonou during January 9–23, 2012. The mission met with President Yayi, Prime Minister Koupaki, Minister of Development de Souza, Minister of Finance Mathys, other senior government officials, members of the National Assembly, and representatives of labor unions, the private sector, and the donor community. Benin accepted the IMF's quota and voice reforms.

CONTENTS

SELECTED ABBREVIATIONS 4

SPILLOVER EFFECTS AND OUTLOOK 5

A. Twin External Shocks Hinder Economic Growth 5

B. Program Performance Has Been Broadly Satisfactory 8

POLICY DISCUSSIONS 11

A. Strengthening Fiscal Policy 11

B. Reducing the Vulnerability of the Financial System 13

C. Accelerating the Structural Reform Agenda 15

RISKS TO THE PROGRAM 15

STAFF APPRAISAL 16

TABLES

1. Selected Economic and Financial Indicators, 2009–17 17

2a. Consolidated Central Government Operations, 2009–17 18

2b. Consolidated Central Government Operations, 2010–12 19

3. Consolidated Central Government Operations, 2009–17 20

4. Balance of Payments, 2009–17 21

5. Monetary Survey, 2009–17 22

6. Schedule of Disbursements Under the ECF Arrangement, 2010–13 23

7. Indicators of Capacity to Repay the IMF, 2011–23 24

8. Millennium Development Goals, 1990–2015 25

FIGURES

1. External Developments, 2007–11 ____ 7
2. Selected Fiscal Indicators, 2010–11 ____ 10

BOX

1. Civil Service Wage Agreement ____ 14

APPENDIX

I. Letter of Intent ____ 26
Attachment 1. Technical Memorandum of Understanding ____ 40

SELECTED ABBREVIATIONS

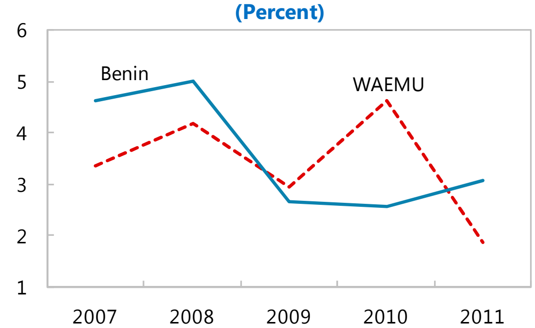
ASYCUDA	Automated System for Customs Data
AV	*Attestation de Vérification* (Inspection Certification)
BCEAO	*Banque Centrale des États de l'Afrique de l'Ouest* (Central Bank of West African States)
CFAF	*Communauté Financière Africaine Franc* (CFA Franc)
DGID	*Direction Générale des Impôts et des Domaines* (Tax Directorate)
DGDDI	*Direction Générale des Douanes et Droits Indirects* (Customs Directorate)
ECF	Extended Credit Facility
FAD	Fiscal Affairs Department, IMF
FNRB	*Fonds National des Retraites du Bénin* (National Pension Fund)
GDP	Gross Domestic Product
GPRS	Growth and Poverty Reduction Strategy
IMF	International Monetary Fund
LOI	Letter of Intent
MCM	Monetary and Capital Markets Department, IMF
MDG	Millennium Development Goals
MOF	Ministry of Finance
MTFP	*Ministère du Travail et de la Fonction Publique* (Ministry of Labor and Civil Service)
PIP	Public Investment Program
PVI	*Programme de Vérification des Importations* (Import Verification Program)
SDR	Special Drawing Rights
SIGRH	*Système Intégré de Gestion des Ressources Humaines* (Integrated Human Resource Management System)
TIN	Taxpayer Identification Number
TMU	Technical Memorandum of Understanding
TOFE	*Tableau des Opérations Financières de l'État* (Government's Flow-of-Funds Table)
WAEMU	West African Economic and Monetary Union

SPILLOVER EFFECTS AND OUTLOOK

A. Twin External Shocks Hinder Economic Growth

1. In early 2011, presidential and legislative elections opened a window of opportunity for long-awaited reforms. The Government took advantage of its improved political position to implement critical reforms, including long-anticipated customs reforms, legislation on corruption, and reforms in labor laws limiting strikes by essential civil servants, including customs officials.

Benin: Real GDP Growth
(Percent)

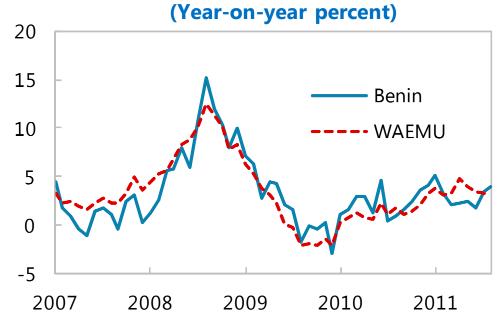


Sources: Beninese authorities; and IMF staff estimates.

2. A slowdown in port activity and, more recently, lower fuel subsidies in Nigeria, have dampened growth. Real growth in 2011 is estimated at about 3 percent, reflecting sluggish performance of commerce and the financial sector—partly because of disruptions at the Port of Cotonou. In 2012, growth is now projected to increase moderately to 3½ percent, as agriculture completes its recovery from the 2010 flooding and port operations return to normalcy. However, growth will be hindered by the reduction of fuel subsidies in Nigeria and, to a lesser extent, by the crisis in Europe. Supplement I (Impacts of Twin External Shocks) provides an estimate of the impact of these twin shocks in 2012.[1]

3. Inflation declined in 2011 but is projected to increase sharply in 2012 following the reduction in fuel subsidies in Nigeria. After a spike in 2010, caused by post-flood food prices, inflation remained below the 3 percent convergence criterion of the regional central bank (*Banque Centrale des États de l'Afrique de l'Ouest*—BCEAO). The reduction in fuel subsidies in Nigeria in January 2012, however, raised gasoline prices by about 50 percent, a surge that was immediately and fully passed through to Benin. As a result, monthly inflation in January increased by 5 percent, and average annual inflation in 2012 is now expected to reach 7 percent.

Benin: CPI Inflation
(Year-on-year percent)



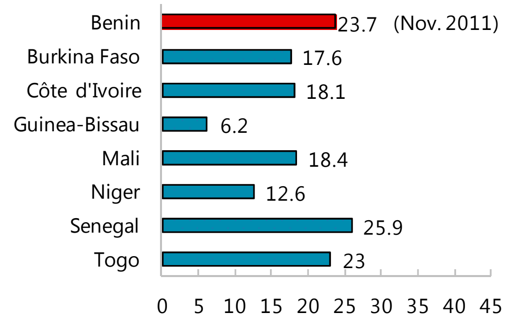
Sources: Beninese authorities; and IMF staff estimates.

[1] The euro area crisis is projected to lower growth in Benin by 0.2 percentage point of GDP in 2012. Accordingly, its impact on revenue collection is projected to be marginal (see Supplement I for details).

4. The external current account deficit widened somewhat in 2011. Stronger non-traditional exports were insufficient to offset the impact of higher international fuel prices and lower official transfers (Figure 1). Revised data suggest that cotton exports are expected to increase substantially in 2012. The improved outlook for cotton, along with a rise in non-traditional exports, would reduce the current account deficit, including grants, to some 6 percent of GDP in 2012. As a result, the overall balance of payments is expected to shift from a small deficit in 2011 to a small surplus in 2012. The authorities have continued to implement a prudent external borrowing policy centered on the mobilization of concessional grants and loans. The sole exception, a CFAF 4.6 billion non concessional loan to finance a road, was in line with program conditionality.

5. Credit to the private sector expanded less than expected in 2011, but is projected to rebound in 2012. After contracting ahead of the elections, credit to the private sector grew only slightly, mainly because of a slowdown in commercial activities. In 2012, however, it is projected to rebound in tandem with port operations. The ratio of private credit to GDP—although higher than in other countries of the West African Economic and Monetary Union (WAEMU)—remains low, signaling shallow financial intermediation.

Benin: Domestic Credit to Private Sector, 2010
(Percent of GDP)



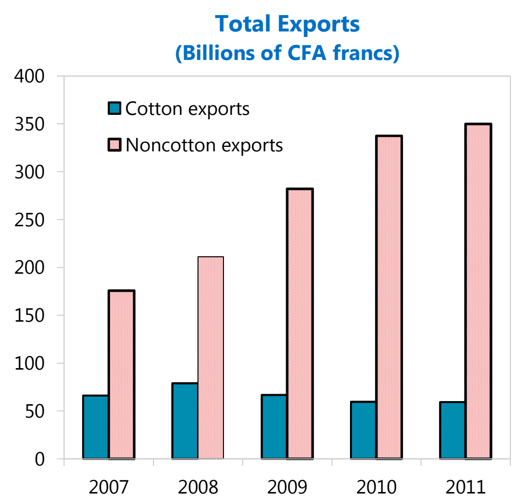
Sources: Beninese authorities; and IMF staff estimates.

6. Banks in Benin have been adversely affected by debt restructuring in Côte d'Ivoire. A restructuring of Côte d'Ivoire's sovereign debt, with reduced yields, weakened the profitability of Benin's commercial banks, which hold about 17 percent of Ivoirian government bonds. As long as the BCEAO accepts those bonds as collateral, however, liquidity should not be affected.

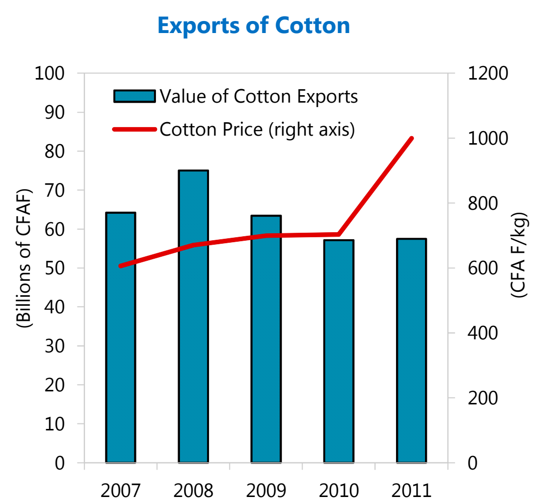
7. Over the medium term, growth is projected to recover and the fiscal outcome to strengthen (Text Table 1). Growth is expected to stabilize at about 4½–5 percent, driven by a robust performance at the Port of Cotonou, as reforms consolidate and ongoing investments yield results. Buttressed by the full implementation of reforms, customs revenue is projected to increase from its abnormally low level of 2011. Higher customs revenue will, in turn, improve the fiscal balance, leading to a basic primary surplus (excluding grants), while lower global oil prices will narrow the external current account deficit.

Figure 1. Benin: External Developments, 2007–11

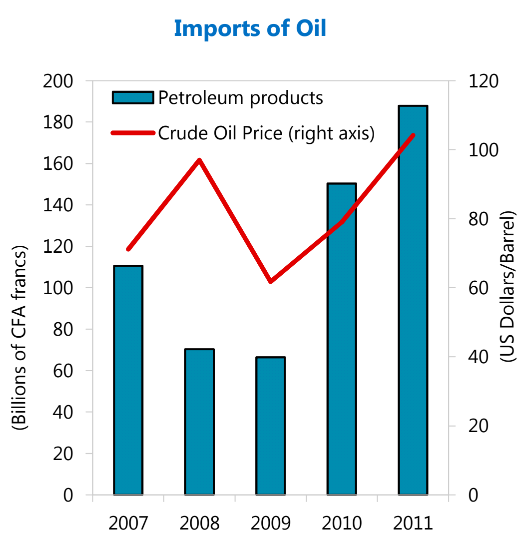
Subdued overall exports performance ...



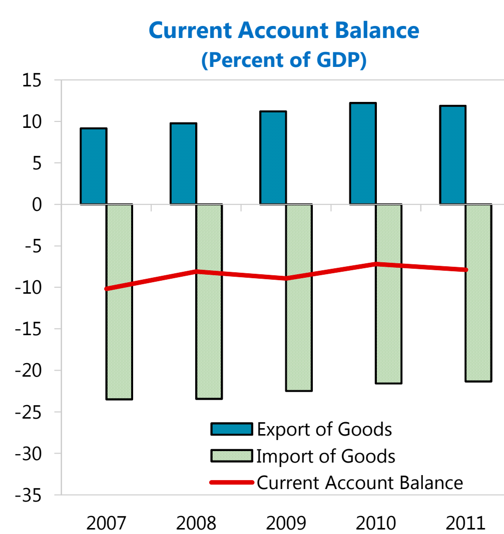
... held back by stagnant cotton exports ...



... and higher import bill...



... widened the current account deficit.



Sources: Beninese authorities; and IMF staff estimates.

Text Table 1. Benin: Medium-Term Macroeconomic Framework, 2010–17 [1]

	2010	2011	2012	2013	2014	2015	2016	2017
		Est.	Projections					
	(Percent of GDP, unless otherwise indicated)							
GDP at constant prices (percent change)	2.6	3.1	3.5	4.7	4.8	4.8	4.9	4.9
Inflation (average)	2.1	2.7	7.0	3.5	3.4	3.3	3.2	2.8
Overall fiscal balance (excluding grants)	-3.1	-4.3	-3.6	-3.0	-2.4	-2.0	-1.9	-1.8
Basic primary fiscal balance (excluding grants)	0.5	-0.1	0.2	0.8	1.3	1.6	1.7	1.7
External current account balance (excluding grants)	-8.1	-8.2	-7.0	-6.8	-5.9	-5.6	-5.5	-5.3

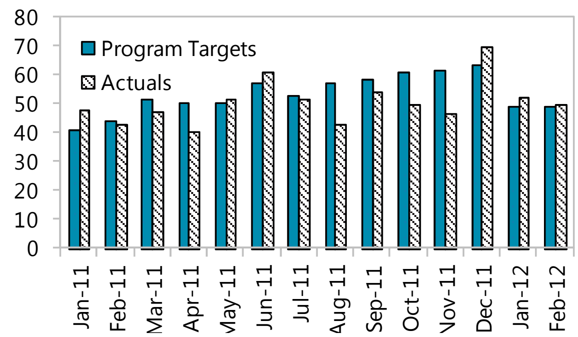
Sources: Beninese authorities; and IMF staff estimates and projections.

[1] The baseline scenario assumes oil subsidies in Nigeria remain at their current level over the medium term.

B. Program Performance Has Been Broadly Satisfactory

8. Resistance to reforms complicated program implementation. All performance criteria and all but two indicative targets for end-September 2011 were met (Text Table 2). A similar performance was achieved at end-December (Letter of Intent—LOI—Appendix I, ¶ 14-16). Reforms implemented in mid-2011 at the Port of Cotonou met with strong initial resistance, including strikes by customs officials and a diversion of trade toward other regional ports by importers (Figure 2). As a result, revenue fell sharply during August-November and the target on cumulative revenue was missed twice. Revenue collection recovered in December, and since then, monthly revenue targets have been met.[2] In response to the revenue shortfall, the authorities reined in expenditure and thus the performance criterion on the basic primary deficit was met. However, domestically financed investment was lower than planned (an undesirable result), and the target on priority social spending was missed twice.

Benin: Total Revenue, 2011-12
(Billions of CFA francs)



Sources: Beninese authorities; and IMF staff estimates.

[2] The monthly revenue targets were CFAF 63.7 billion in December, and CFAF 49.0 billion in January and February, respectively—targets included considerations of seasonality.

Text Table 2. Benin: Performance Criteria and Indicative Targets, 2011

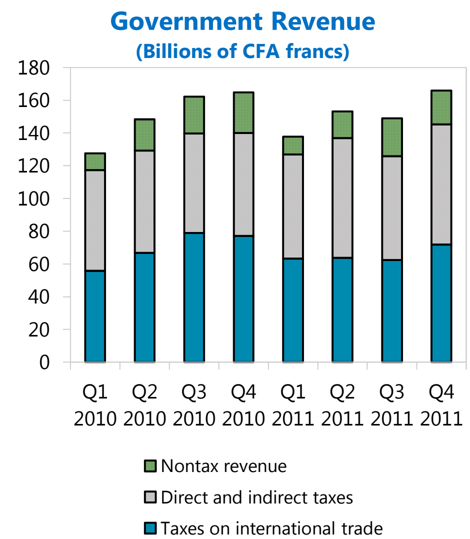
	2011	
	End-Sept. Performance Criteria	End-Dec. Indicative Targets
A. Quantitative performance criteria		
Net domestic financing of the government (ceiling)	Met	Met
Basic primary balance (excluding grants) (floor)	Met	Met
B. Continuous quantitative performance criteria (ceilings)		
Accumulation of external payments arrears	Met	Met
External nonconcessional debt contracted or guaranteed by government with maturities of 0–1 year	Met	Met
External nonconcessional debt contracted or guaranteed by government with maturities of more than one year	Met	Met
Accumulation of domestic payments arrears	Met	Met
C. Indicative targets		
Total revenue (floor)	Not met	Not met
Payment orders issued outside the expenditure chain (ceiling)	Met	Met
Priority social expenditure (floor)	Not met	Not met

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

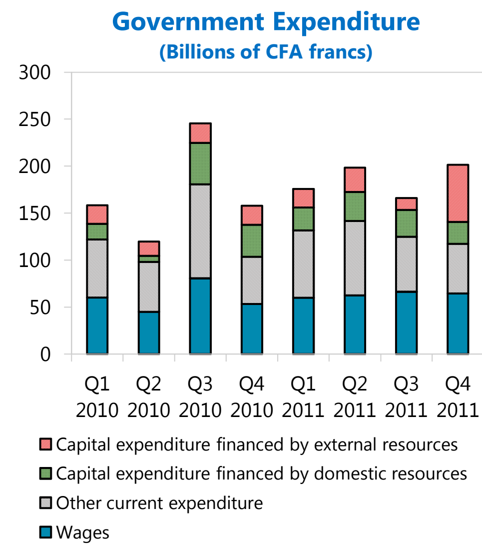
9. **Implementation of structural reforms has continued to be slow** (LOI ¶ 17 and LOI Table 2). Progress has been made in customs administration and import valuation with the reforms at the Port of Cotonou. Public financial management has been strengthened with the submission of a draft Organic Budget Law to the Supreme Court, the preparation of the 2010 budget execution accounts, the establishment of a joint customs-tax control unit, and steps to strengthen the regulatory framework for the energy sector. In January 2012, the authorities temporarily prohibited the inappropriate use of accelerated customs clearance procedures—this measure aims at closing a loophole in customs clearance procedures. However, the pace of reform has been slow in other areas, such as computerization in the customs and tax departments, and pension reform. The generalization of the taxpayer identification number is behind schedule. Civil service reform has continued to be beset by delays, as key studies were delayed and the setting up of a single computerized database for civil servants bogged down. In October, a World Bank mission provided a new road map for setting up the database and proposed a new approach, more aligned with the authorities' absorptive capacity. The World Bank intends to become a driving force in this reform.

Figure 2. Benin: Selected Fiscal Indicators, 2010–11

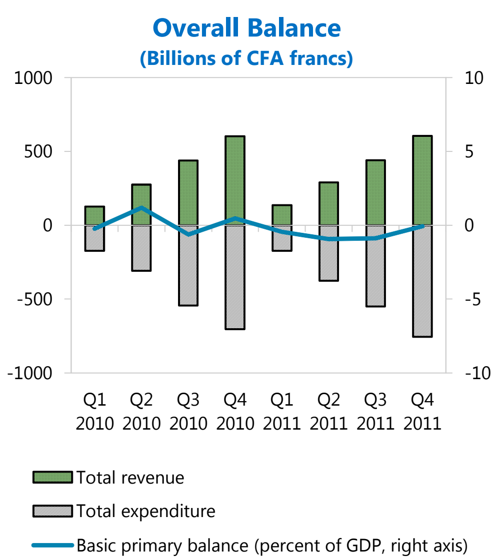
Total revenue stagnated, because of weak customs revenue,



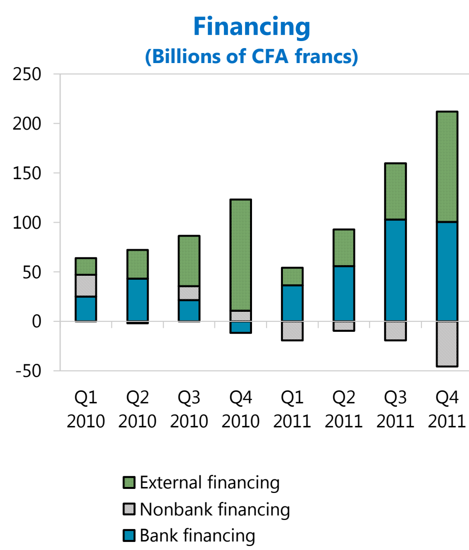
but the Government kept spending under control...



.....keeping the deficit broadly in check...



...financed with external and domestic sources.



Sources: Beninese authorities; and IMF staff estimates.

POLICY DISCUSSIONS

Discussions centered on how fiscal policy and the structural reform agenda may be strengthened to support the authorities' development strategy. In particular, discussions focused on addressing customs revenue underperformance, containing the wage bill, unbridling priority social spending, and accelerating the pace of structural reforms. The authorities confirmed their commitment to the objectives of the program.

A. Strengthening Fiscal Policy

Revenue

10. There was an agreement that restoring customs revenue performance was critical for fiscal sustainability. Customs reforms were implemented to boost revenue by reducing fraud, and to better align procedures with international practices. They included (i) a one-stop window at the Port of Cotonou; (ii) an enhanced import-value-verification program; and (iii) a customs-valuation system based on actual transactional values (which replaced previous "consensual" values). However, as noted, reforms met with strong resistance, and as a result, severe congestion[3] occurred in the Port of Cotonou, customs revenue declined, and the price of some basic staples increased. The authorities responded to the price increases by fully or partially reversing the move to transactional values for 14 products, that are a large share of total imports. Additional reforms included several tax policy and administration measures, and a reduction in tax exemptions, following the recommendations of IMF Fiscal Affairs Department (FAD) technical assistance.

- Staff welcomed the reforms and commended the authorities for their resolve, despite resistance. Staff stressed that the reforms were essential for increasing revenue and modernizing operations at the Port of Cotonou. Staff also noted, however, that the reversion to consensual values weakened the impact of the reforms and recommended a progressive return to transactional values. Staff also urged the authorities to promptly proceed with the planned streamlining of exemptions.

Authorities' views

- The authorities opined that revenue would recover in 2012 and that the partial use of consensual values was temporary. They reconfirmed their commitment to see the reforms fully through and expected the initial implementation difficulties to be resolved by early 2012, leading to a recovery in customs revenue. They acknowledged that the suspension of transactional values had narrowed the tax base, but committed to a gradual return to transactional values, once reforms are fully operational.

[3] Congestion was compounded by ongoing construction at the port.

Expenditure

11. The authorities reined in spending to meet performance criteria. Spending cuts included both current spending (wages, goods, services) and domestically financed capital spending. The elimination of a number of ghost employees, an audit of allowances and entitlements, and the postponement of some recruitment kept the wage bill below target (Box 1).

- Staff commended the authorities for the spending restraint, which allowed offsetting the revenue shortfall and reaching program targets. Staff noted, however, the downsides of maintaining such a strategy over the medium-term, in particular regarding capital investment and inclusive growth.

- Staff remained neutral in the dispute between the Government and civil service labor unions on the issue of teachers' exclusion from the August 5, 2011 wage agreement. However, staff urged the authorities to ensure that the wage bill remains within the program envelope, irrespective of the outcome of this dispute, and highlighted the danger that further and broader wage increases could crowd-out priority spending. Staff urged vigilance to prevent inflationary pressures from higher gasoline prices feeding into higher wages, which would turn a one-time shock into a permanently higher wage bill.

- Staff encouraged the authorities to move forward with the implementation of civil service reform. Staff emphasized the importance of this reform in underpinning a sustainable fiscal strategy to address the needs of the Beninese people by focusing on priority social spending and capital investment.

Authorities' views

- The authorities noted that teachers were excluded from the wage agreement because they had received a 25 percent salary increase on January 1, 2011, ahead of the remainder of the civil service, which was catching up through the August 5, 2011 wage agreement. The authorities reiterated their commitment to civil service reform. They noted that the new wage agreement will yield social peace for the next four years and is compatible with the wage bill planned under the program. They also emphasized their intention to move forward with civil service reform, with the support of the World Bank (LOI ¶ 17).

12. The indicative targets on priority social spending were missed in September and December. The authorities indicated that they had faced technical and administrative difficulties in the timely payment of those expenditures.

- Staff noted that strengthened monitoring, including setting monthly targets, and better communication with line ministries would be critical to achieving the social spending targets.

Authorities' views

- The authorities concurred and undertook enhancing the Ministry of Finance's enforcement capacity.

  The 2012 budget approved by the National Assembly is broadly consistent with the fiscal framework of the program. Staff welcomed the measures adopted in the budget, including the excise taxes on coffee and on higher-priced cars, and the elimination of full exemption on new enterprises. Staff noted, however, that several unwarranted exemptions remained and welcomed the authorities' plans to review these exemptions to streamline them.

13. The 2012 budget aims at promoting private sector-led growth, strengthening revenue, and prioritizing spending, according to program goals (LOI ¶ 21). The objectives include a significant increase in the revenue-to-GDP ratio to create fiscal space for public investment and social spending.

B. Reducing the Vulnerability of the Financial System

14. Although the financial sector is broadly stable, the loan portfolio is weak and some small banks are in a fragile position. Prudential indicators show that the banking sector has an overall capital-adequacy ratio above the prudential threshold of 8 percent, but 3 of the 13 commercial banks do not comply with minimum capital requirements (LOI ¶ 6). Loan concentration is high and non-performing loans represent 17 percent of total loans.[4]

- Staff emphasized the need to quickly resolve the situation of the banks that have not complied with capital requirements for a long period.

- Staff expressed concern about the high level of non-performing loans, which made the banking system vulnerable. To address the risks posed by the weak loan portfolio, staff recommended closer and more frequent supervision over risk management practices, lending standards, and taking appropriate measures to address emerging risks. Timely collection of prudential data and overall strengthening of supervision—including on-site inspections—to ensure compliance with regional norms are critical, as current practices suggest weak supervision.

[4] June 2011 data, the latest available.

Authorities' views

The authorities noted that financial sector legislation was strengthened with the approval of a law granting the BCEAO the powers to intervene in financial institutions with loans or assets over CFAF 2 billion (about US$4 million)—this was in line with an earlier IMF Monetary and Capital Markets Department (MCM) recommendation. They indicated that most banks had increased their capital following strengthened WAEMU guidelines.

- The authorities pointed out that the three distressed banks represented a small share (3 percent) of the banking system's assets, and therefore did not represent a systemic risk. They were considering steps to resolve the situation of a failed bank.[5]

- Staff welcomed these measures, while urging the authorities to intensify the supervision of the financial sector.[6] Staff underscored that this was critical given the turbulences in the euro area and possible financial ramifications in Benin.

[5] The potential cost of refunding deposits is estimated at two tenths of one percent of GDP.

[6] Bank supervision falls under the regional WAEMU Banking Commission. However, national monetary authorities may put pressure on the regional body to strengthen bank supervision in Benin.

Box 1. Benin: Civil Service Wage Agreement

On August 5, 2011, the Government reached an agreement with labor unions on an increase in the basic salaries of civil servants. This agreement was reached within the new national negotiation framework. The agreement plans no other wage increases before 2015. The authorities believe this agreement reduces the risk of an unsustainable spiraling of the wage bill. Its multi-year horizon will help eliminate labor disputes in the next few years.

The agreement provides a 25 percent nominal increase in the index (from its 2010 level) used to determine the basic salary of civil servants. In turn, the increase in basic salary will be reflected in a number of wage-related payments, such as pension contributions, housing and location allowances, and performance bonuses. This increase is retroactive to January 1, 2011, but its implementation is spread over four years. Ministry of Finance (MOF) staff received the full 25 percent increase in 2011 as an incentive to bolster revenue collection. Staff in other ministries, excluding teachers who had received an increase earlier, will receive salary increases as follows: 5 percent in 2012 and 2013, and 10 percent in 2014 (Box Table). The agreement also provides a 5 percent increase in 2011, but the timing of the payment of this increase remains to be determined through further negotiations.

The authorities estimate that the increase is consistent with program projections for the wage bill. In 2011, the additional cost (limited to MOF staff) was offset by administrative savings and the postponement of some recruitment. Indeed, the wage bill in 2011 was 6 percent below the program target.

Benin: Wage Bill, 2011–14

(In billions of CFA francs, unless otherwise indicated)

	2011	2012	2013	2014
	Est.	Projections		
Wage bill (program)	253.2	279.0	298.9	320.0
Of which:				
Impact of the August 5, 2012 wage agreement [1]	1.6	4.5	7.4	13.2
MOF staff	1.6	1.6	1.6	1.6
Other staff	0.0	2.9	5.8	11.7
Memorandum items:				
Salary increase granted by wage agreement (percent) [2]	5.0	5.0	5.0	10.0
Total wage bill (percent of GDP)	7.4	7.4	7.3	7.3

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

[1] Equivalent to the sum of the increase in the base salary plus the impact of the change in the index on a variety of payments and allowances (pensions, housing allowance, location allowance, performance bonuses). Excludes teachers.

[2] The timing and modalities for paying the increase in 2011 will be determined through additional negotiations. MOF staff received the full 25 percent increase in 2011.

C. Accelerating the Structural Reform Agenda

15. Staff welcomed long-awaited customs reforms, but noted that other areas of the reform agenda were lagging. Important structural measures behind schedule included the computerization of customs offices and of the civil service. Staff noted that civil service reform had now been incorporated into the World Bank's program with Benin. Staff also discussed new fiscal and financial sector structural measures going forward (LOI ¶ 26).

Authorities' views

- While acknowledging delays in structural reforms, the authorities noted that the delays were often linked to securing required technical or financial support from donors, and that some measures would require more time than initially thought.

16. The authorities reiterated their commitment to their 2011–15 growth and poverty reduction strategy. They noted that they had adopted procedures to fully execute the priority social spending measures included therein, which are consistent with the 2012 budget. Such measures aim at improving living standards and progressing toward the Millennium Development Goals, particularly in health, primary education, and water provision.

RISKS TO THE PROGRAM

Program implementation is confronted with serious domestic and external risks. The program's ambitious fiscal target for 2012 could be derailed by continued weaknesses in revenue collection. The rise in the price of informally imported gasoline from Nigeria and a possible global downturn could drain Benin's already strained resources.

17. Program implementation could be jeopardized by fiscal slippages. Continued resistance to reforms at customs would prolong revenue underperformance and endanger program implementation. Successful labor union demands for further wage increases or the extension of the coverage of the wage agreement in the civil service would threaten priority social spending and capital investment, and jeopardize fiscal sustainability. Additional delays in structural reforms would undermine the program and would put economic recovery at risk. Conversely, timely implementation of civil service reform would reduce the risk of program slippages. A wide diffusion of the benefits of higher customs revenue and of a broader fiscal space, underpinned by strong government leadership and decisive implementation of the reform program, would play a key role in mitigating risks.

18. Risks to the medium-term outlook are on the downside. Policy decisions in Nigeria on fuel subsidies and trade relations with Benin could imperil economic recovery. A weaker global environment would lower exports and remittances, and lead to a reduction in aid as donors confront fiscal constraints.

STAFF APPRAISAL

Although program implementation has been broadly on track, it has been beset by serious shortcomings, namely a significant underperformance in revenue collection and persistent delays in the implementation of structural reforms.

19. Growth is projected to continue on a modest upward trend in 2012, but will be buffeted by the spillover effects of twin external shocks. Growth is expected to rebound moderately, as agriculture fully recovers and operations at the Port of Cotonou normalize. However, the recovery will be stunted by higher gasoline prices, which will dampen domestic demand, and, to a lesser extent, by the ongoing global crisis.

20. Inflation in 2012 is expected to shoot up, but the WAEMU convergence criterion in the medium-term may still be within reach, if second-round inflationary pressures are contained. Because the full pass-through of higher fuel prices in Nigeria spurred inflation in Benin, the authorities need to remain vigilant to minimize subsequent inflationary pressures, in particular regarding wage increases, which could threaten priority social spending and capital investment.

21. Performance under the program has been broadly satisfactory, but the planned increase in revenue is critical for successful program implementation. Although the end-September performance criteria were met, the customs revenue underperformance must be addressed, and valuation at customs needs to gradually return to transactional values. The indicative targets on priority social spending were missed every quarter since their introduction last year. Meeting the program's future social spending goals will require careful monitoring and strong commitment. Decisions regarding wage policy should be adopted in the context of civil service reform, with the wage bill remaining within the planned envelope.

22. The authorities should accelerate the implementation of the structural reform agenda. When fully implemented, the structural measures included in the reform agenda will enhance revenue collection and fiscal sustainability, and foster greater private sector involvement in the energy sector—all underpinning higher growth.

23. The financial sector has been resilient, but supervision needs to be intensified and failing banks resolved. The high level of non-performing loans and banks failing to meet capital requirements are sources of concern. These concerns are compounded by the lack of up-to-date financial sector information and weak supervision at a time of greater risks for financial institutions. Authorities need to push for greater vigilance by the supervisory body to strengthen the soundness of banks.

24. Looking forward, program performance is vulnerable to weak customs revenue, wage slippages, and continued delays in the structural agenda. The authorities' steadfast commitment to following through with reforms, including strong reforms at customs and the Port of Cotonou, will be critical for economic success.

25. Staff supports the authorities' request to complete the third review under the Extended Credit Facility and to disburse the corresponding financial support.

Table 1. Benin: Selected Economic and Financial Indicators, 2009–17

	2009	2010	2011	2012	2013	2014	2015	2016	2017
			Est.	Projections					
	(Annual percentage change, unless otherwise indicated)								
National income									
GDP at current prices	4.7	4.5	6.0	9.2	8.3	8.0	7.9	7.9	7.7
GDP at constant prices	2.7	2.6	3.1	3.5	4.7	4.8	4.8	4.9	4.9
GDP deflator	2.0	1.8	2.8	5.6	3.4	3.1	2.9	2.9	2.7
Consumer price index (average)	2.2	2.1	2.7	7.0	3.5	3.4	3.3	3.2	2.8
Consumer price index (end of period)	-2.9	4.0	1.8	7.2	3.5	3.4	3.3	3.2	2.8
Central government finance									
Total revenue	-0.9	4.7	0.4	17.2	10.5	10.6	8.7	8.3	8.1
Expenditure and net lending	18.2	-13.2	7.5	12.0	7.2	7.2	6.8	7.6	7.7
Money and credit									
Net domestic assets [1]	7.1	5.2	9.5	8.4	7.4	4.7	3.6	3.0	2.5
Domestic credit [1]	12.5	4.4	10.4	8.4	7.4	4.7	3.6	3.0	2.5
Net claims on central government [1]	6.6	-0.9	6.9	1.2	0.5	-1.0	-1.9	-2.1	-2.3
Credit to the nongovernment sector [1]	5.9	5.3	3.5	7.3	6.9	5.8	5.6	5.1	4.7
Broad money (M2)	6.2	11.6	7.3	9.2	8.3	8.0	7.9	7.9	7.7
Velocity (GDP relative to average M2)	2.5	2.4	2.3	2.3	2.3	2.3	2.3	2.3	2.3
External sector (in terms of CFA francs)									
Exports of goods and services	-1.5	11.1	7.5	14.0	4.2	7.7	7.1	7.1	6.8
Imports of goods and services	1.0	1.3	5.9	7.8	5.1	4.6	6.4	7.3	6.9
Nominal effective exchange rate (minus = depreciation)	-1.6	-5.4	1.1	…	…	…	…	…	…
Real effective exchange rate (minus = depreciation)	-0.7	-6.5	-0.8	…	…	…	…	…	…
	(Percent of GDP, unless otherwise indicated)								
Basic ratios									
Gross investment	20.8	16.3	17.6	18.3	18.8	18.7	19.0	19.5	19.7
Government investment	9.7	5.5	6.6	6.8	6.7	6.6	6.5	6.5	6.7
Nongovernment investment	11.1	10.9	11.1	11.4	12.1	12.1	12.5	12.9	13.0
Gross domestic saving	7.5	4.9	6.6	8.3	9.0	9.7	10.3	10.7	11.0
Government saving	1.5	1.9	1.8	2.8	3.3	3.8	4.1	4.3	4.5
Nongovernment saving	6.0	3.0	4.8	5.6	5.7	5.9	6.2	6.5	6.6
Gross national saving	11.9	9.1	9.8	12.0	12.5	13.3	13.8	14.3	14.7
Central government finance									
Total revenue	18.5	18.6	17.6	18.9	19.3	19.7	19.9	19.9	20.0
Expenditure and net lending	26.0	21.6	21.9	22.5	22.3	22.1	21.9	21.8	21.8
Primary balance [2]	-7.0	-2.5	-3.9	-3.0	-2.4	-1.9	-1.5	-1.5	-1.5
Basic primary balance [3]	-4.0	0.5	-0.1	0.2	0.8	1.3	1.6	1.7	1.7
Overall fiscal deficit (payment order basis, excl. grants)	-7.5	-3.1	-4.3	-3.6	-3.0	-2.4	-2.0	-1.9	-1.8
Overall fiscal deficit (cash basis, excl. grants)	-9.3	-3.3	-4.9	-4.1	-3.4	-2.8	-2.4	-2.2	-2.1
Debt service (in percent of revenue)	4.3	5.6	5.4	6.3	5.9	5.8	5.5	5.0	5.1
Total government debt	27.3	30.0	31.0	29.8	28.7	27.3	26.1	24.8	22.8
External sector									
Balance of goods and services	-13.3	-11.4	-11.1	-9.9	-9.8	-9.0	-8.7	-8.7	-8.7
Current account balance (incl. grants)	-8.9	-7.2	-7.9	-6.2	-6.3	-5.4	-5.2	-5.1	-5.0
Current account balance (excl. grants)	-11.2	-8.1	-8.2	-7.0	-6.8	-5.9	-5.6	-5.5	-5.3
Overall balance of payments	-1.6	0.8	-1.5	0.6	0.6	1.6	2.0	2.2	2.4
Debt service-to-exports ratio	3.4	4.1	4.2	4.5	4.7	5.0	5.2	4.9	5.4
Debt-to-GDP ratio (post-MDRI)	15.5	17.9	17.6	17.8	18.0	17.8	17.8	17.7	16.6
Nominal GDP (billions of CFA francs)	3,109.4	3,248.2	3,442.2	3,760.6	4,071.5	4,397.1	4,744.5	5,119.3	5,515.3
CFA francs per US dollar (period average)	470.7	494.1	470.4	…	…	…	…	…	…
Population (millions)	9.4	9.6	9.9	10.2	10.5	10.8	11.1	11.4	11.7
Nominal GDP per capita (US dollars)	704.2	681.7	738.1	753.3	787.8	821.4	856.0	892.5	983.3

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

[1] Change in percent of beginning-of-period broad money.
[2] Total revenue minus current primary expenditure, capital expenditure, and net lending.
[3] Total revenue minus current primary expenditure and capital expenditure financed by domestic resources.

Table 2a. Benin: Consolidated Central Government Operations, 2009–17

	2009	2010	2011		2012		2013	2014	2015	2016	2017
			Proj.[1]	Est.	Proj.[1]	Rev. Proj.	Projections				
					(Billions of CFA francs)						
Total revenue	575.8	603.0	650.1	605.6	710.0	710.0	784.5	867.5	943.2	1,021.2	1,103.4
Tax revenue	500.4	525.9	578.0	534.7	632.2	631.4	704.2	779.2	846.8	917.6	992.2
Tax on international trade	259.3	278.4	304.0	261.2	334.5	334.0	370.5	414.5	448.8	484.7	522.2
Direct and indirect taxes	241.2	247.5	274.0	273.5	297.7	297.4	333.7	364.7	398.0	432.8	469.9
Nontax revenue	75.4	77.1	72.0	70.9	77.8	78.6	80.3	88.2	96.4	103.6	111.2
Total expenditure and net lending	809.0	702.2	801.0	754.7	843.9	845.4	906.3	971.7	1,037.3	1,116.2	1,202.1
Current expenditure	494.0	504.4	568.0	515.6	614.2	588.4	633.4	679.7	728.9	781.1	834.6
Current primary expenditure	478.4	486.7	534.6	500.7	580.1	565.8	610.4	657.7	707.9	761.1	816.4
Wage bill	225.9	238.7	270.0	253.2	279.0	279.0	298.9	320.0	342.2	365.5	388.9
Pensions and scholarships	39.8	43.6	53.0	48.7	56.8	56.8	62.5	68.8	75.5	82.6	90.2
Current transfers	110.0	114.1	107.1	109.5	123.0	127.0	137.5	148.5	160.2	172.9	186.3
Expenditure on goods and services	102.7	90.3	104.5	89.3	121.3	103.0	111.5	120.4	129.9	140.2	151.1
Interest	15.6	17.7	33.4	14.9	34.1	22.6	23.0	22.0	21.0	19.9	18.3
Internal debt	7.4	9.6	23.2	7.1	24.4	12.6	12.1	10.0	8.0	6.0	4.0
External debt	8.2	8.1	10.2	7.8	9.7	10.0	10.9	12.0	13.0	13.9	14.2
Capital expenditure and net lending	315.1	197.8	233.0	239.1	229.7	257.0	272.9	291.9	308.4	335.1	367.5
Capital expenditure	302.3	177.2	233.0	226.6	229.7	257.0	272.9	291.9	308.4	335.1	367.5
Financed by domestic resources	221.6	101.2	133.0	107.5	122.7	137.0	143.0	153.0	160.0	175.0	195.0
Financed by external resources	80.7	76.0	100.0	119.1	107.0	120.0	129.9	138.9	148.4	160.1	172.5
Net lending (minus = reimbursement)	12.7	20.6	0.0	12.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (payment order basis, excl. grants)	-233.2	-99.2	-151.0	-149.1	-134.0	-135.4	-121.8	-104.2	-94.1	-95.0	-98.8
Primary balance [2]	*-217.6*	*-81.5*	*-117.6*	*-134.2*	*-99.8*	*-112.8*	*-98.8*	*-82.2*	*-73.1*	*-75.1*	*-80.5*
Basic primary balance [3]	*-124.2*	*15.1*	*-17.6*	*-2.6*	*7.2*	*7.2*	*31.1*	*56.7*	*75.3*	*85.0*	*92.0*
Change in arrears	-28.3	-17.2	-17.4	-11.6	-17.4	-17.4	-17.4	-17.4	-17.4	-17.4	-17.4
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	-28.3	-17.2	-17.4	-11.6	-17.4	-17.4	-17.4	-17.4	-17.4	-17.4	-17.4
Float [4]	-26.8	9.5	0.0	-7.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis, excl. grants)	-288.3	-106.9	-168.4	-168.5	-151.4	-152.8	-139.2	-121.6	-111.5	-112.4	-116.2
Financing	288.6	111.2	168.4	166.2	151.4	152.8	139.2	121.6	111.5	112.4	116.2
Domestic financing	146.0	-1.2	57.3	54.7	47.5	15.7	1.6	-27.7	-49.0	-61.2	-65.3
Bank financing	80.5	-11.9	17.1	100.4	41.1	18.3	8.4	-19.2	-38.3	-44.8	-52.8
Net use of IMF resources	7.4	8.4	16.3	18.2	15.3	15.8	15.8	-3.0	-4.7	-6.2	-9.8
Disbursements	7.4	8.4	16.5	18.3	15.6	16.2	16.2	0.0	0.0	0.0	0.0
Repayments	0.0	0.0	-0.1	-0.1	-0.3	-0.3	-0.5	-3.0	-4.7	-6.2	-9.8
Other	73.0	-20.3	0.8	82.2	25.8	2.5	-7.4	-16.2	-33.6	-38.6	-42.9
Nonbank financing	65.5	10.7	40.1	-45.7	6.4	-2.6	-6.7	-8.5	-10.7	-16.4	-12.6
Privatization	17.9	17.5	10.0	0.0	10.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring	-12.9	-22.5	0.0	-30.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	60.6	15.7	30.1	-15.2	-3.6	-2.6	-6.7	-8.5	-10.7	-16.4	-12.6
External financing	142.6	112.4	111.1	111.5	103.9	137.1	137.6	149.3	160.5	173.6	181.5
Project financing	80.7	76.0	100.0	119.1	107.0	120.0	129.9	138.9	148.4	160.1	172.5
Grants	28.8	19.2	50.0	76.8	53.5	80.0	65.0	70.2	75.7	81.7	88.0
Loans	52.0	56.8	50.0	42.3	53.5	40.0	65.0	68.8	72.7	78.4	84.5
Amortization due	-9.4	-15.8	-22.7	-17.9	-24.0	-21.9	-23.2	-25.0	-26.2	-24.9	-29.4
Budgetary assistance	71.3	52.2	33.8	10.3	20.8	39.0	30.9	35.4	38.4	38.4	38.4
Grants	71.3	28.9	33.8	10.3	11.6	29.2	21.2	22.4	18.4	18.4	18.4
Loans	0.0	23.3	0.0	0.0	9.3	9.8	9.7	13.0	20.0	20.0	20.0
Statistical discrepancy	-0.3	-4.3	0.0	2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:											
GDP (billions of CFA francs)	3,109.4	3,248.2	3,478.6	3,442.2	3,723.5	3,760.6	4,071.5	4,397.1	4,744.5	5,119.3	5,515.3

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

[1] Country Report No. 11/243.
[2] Total revenue minus current primary expenditure, capital expenditure, and net lending.
[3] Total revenue minus current primary expenditure and capital expenditure financed by domestic resources.
[4] Net change in the stock of payment orders whose payment has been postponed to the following period, and balance of custodian accounts.

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

	2010	2011							2012					
	Year	Q1	Q2		Q3		Year		Q1		Q2	Q3	Year	
		Actual	Proj.[1]	Actual	Prog.[1]	Actual	Proj.[1]	Est.	Prog.[1]	Rev. Proj.	Proj.	Prog.	Proj.[1]	Rev. Proj.
	(Billions of CFA francs)													
Total revenue	603.0	137.7	295.0	290.9	464.2	439.8	650.1	605.6	148.3	148.3	331.3	515.0	710.0	710.0
Tax revenue	525.9	126.9	265.8	263.7	417.1	389.5	578.0	534.7	136.6	136.6	300.0	460.3	632.2	631.4
Tax on international trade	278.4	63.3	134.5	127.0	216.3	189.4	304.0	261.2	69.6	69.6	154.3	241.4	334.5	334.0
Direct and indirect taxes	247.5	63.6	131.4	136.7	200.8	200.0	274.0	273.5	67.0	67.0	145.7	218.9	297.7	297.4
Nontax revenue	77.1	10.8	29.2	27.2	47.1	50.3	72.0	70.9	11.7	11.7	31.3	54.7	77.8	78.6
Total expenditure and net lending	702.2	172.7	381.1	375.5	586.0	549.3	801.0	754.7	186.6	202.1	437.0	638.7	843.9	845.4
Current expenditure	504.4	131.6	295.4	273.2	452.7	397.9	568.0	515.6	149.8	138.3	293.0	441.7	614.2	588.4
Current primary expenditure	486.7	128.4	281.5	267.7	427.7	386.1	534.6	500.7	146.3	135.0	287.1	429.7	580.1	565.8
Wage bill	238.7	59.9	130.0	122.3	213.3	188.6	270.0	253.2	64.0	66.0	134.1	204.7	279.0	279.0
Pensions and scholarships	43.6	9.7	26.5	26.3	39.4	35.9	53.0	48.7	11.5	12.0	28.0	38.0	56.8	56.8
Current transfers	114.1	37.0	65.0	72.3	95.0	93.2	107.1	109.5	42.5	39.0	70.0	105.0	123.0	127.0
Expenditure on goods and services	90.3	21.8	60.0	46.8	80.0	68.4	104.5	89.3	28.3	18.0	55.0	82.0	121.3	103.0
Interest	17.7	3.2	13.9	5.5	25.0	11.8	33.4	14.9	3.5	3.3	5.9	12.0	34.1	22.6
Internal debt	9.6	1.7	8.5	2.1	18.1	6.2	23.2	7.1	1.9	0.8	0.9	4.5	24.4	12.6
External debt	8.1	1.5	5.4	3.4	6.9	5.6	10.2	7.8	1.6	2.5	5.0	7.5	9.7	10.0
Capital expenditure and net lending	197.8	41.1	85.7	102.3	133.3	151.3	233.0	239.1	36.9	63.8	144.0	197.0	229.7	257.0
Capital expenditure	177.2	44.3	85.7	101.1	133.3	142.4	233.0	226.6	36.9	63.8	144.0	197.0	229.7	257.0
Financed by domestic resources	101.2	24.4	50.0	55.4	85.0	84.1	133.0	107.5	22.5	33.8	84.0	107.0	122.7	137.0
Financed by external resources	76.0	19.9	35.7	45.7	46.3	58.3	100.0	119.1	14.3	30.0	60.0	90.0	107.0	120.0
Net lending (minus = reimbursement)	20.6	-3.2	0.0	1.2	0.0	9.0	0.0	12.5	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (payment order basis, excl. grants)	-99.2	-35.0	-86.1	-84.6	-121.8	-109.5	-151.0	-149.1	-38.3	-53.8	-105.7	-123.7	-134.0	-135.4
Primary balance [2]	*-81.5*	*-31.8*	*-72.2*	*-79.1*	*-96.8*	*-97.7*	*-117.6*	*-134.2*	*-34.8*	*-50.5*	*-99.8*	*-111.7*	*-99.8*	*-112.8*
Basic primary balance [3]	*15.1*	*-15.1*	*-36.5*	*-32.2*	*-48.5*	*-30.4*	*-17.6*	*-2.6*	*-20.5*	*-20.5*	*-39.8*	*-21.7*	*7.2*	*7.2*
Change in arrears	-17.2	-2.1	-11.4	-5.7	-14.4	-8.0	-17.4	-11.6	-2.1	-4.4	-8.7	-13.1	-17.4	-17.4
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	-17.2	-2.1	-11.4	-5.7	-14.4	-8.0	-17.4	-11.6	-2.1	-4.4	-8.7	-13.1	-17.4	-17.4
Float [4]	9.5	-0.2	-10.0	2.7	0.0	-8.0	0.0	-7.8	-20.0	-20.0	-10.0	0.0	0.0	0.0
Overall balance (cash basis, excl. grants)	-106.9	-37.3	-107.5	-87.6	-136.2	-125.5	-168.4	-168.5	-60.4	-78.1	-124.4	-136.7	-151.4	-152.8
Financing	111.2	34.8	107.5	83.3	136.2	140.4	168.4	166.2	60.4	78.1	124.4	136.7	151.4	152.8
Domestic financing	-1.2	17.2	72.1	46.3	79.7	83.5	57.3	54.7	48.7	39.0	60.7	48.6	47.5	15.7
Bank financing	-11.9	36.4	10.9	55.9	21.6	102.8	17.1	100.4	47.6	36.9	63.4	70.0	41.1	18.3
Net use of IMF resources	8.4	7.9	8.4	7.9	16.5	10.4	16.3	18.2	0.0	0.0	7.9	7.9	15.3	15.8
Disbursements	8.4	7.9	8.4	7.9	16.5	10.4	16.5	18.3	0.0	0.0	8.1	8.1	15.6	16.2
Repayments	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	0.0	0.0	-0.2	-0.2	-0.3	-0.3
Other	-20.3	28.5	2.5	48.0	5.2	92.4	0.8	82.2	47.6	36.9	55.5	62.1	25.8	2.5
Nonbank financing	10.7	-19.2	61.2	-9.6	58.1	-19.3	40.1	-45.7	1.1	2.1	-2.7	-21.4	6.4	-2.6
Privatization	17.5	0.0	0.0	0.0	4.4	0.0	10.0	0.0	0.0	0.0	0.0	0.0	10.0	0.0
Restructuring	-22.5	-4.4	0.0	-8.4	0.0	-15.1	0.0	-30.5	0.0	0.0	0.0	0.0	0.0	0.0
Other	15.7	-14.8	61.2	-1.2	53.7	-4.2	30.1	-15.2	1.1	2.1	-2.7	-21.4	-3.6	-2.6
External financing	112.4	17.6	35.5	37.0	56.5	56.9	111.1	111.5	11.7	39.1	63.6	88.2	103.9	137.1
Project financing	76.0	19.9	35.7	45.7	48.3	58.3	100.0	119.1	14.3	30.0	60.0	90.0	107.0	120.0
Grants	19.2	12.9	11.7	24.5	16.3	28.2	50.0	76.8	7.7	20.0	40.0	60.0	53.5	80.0
Loans	56.8	7.0	24.0	21.2	32.0	30.0	50.0	42.3	6.6	10.0	20.0	30.0	53.5	40.0
Amortization due	-15.8	-2.3	-11.2	-8.7	-14.8	-11.7	-22.7	-17.9	-2.6	-5.5	-11.0	-16.4	-24.0	-21.9
Budgetary assistance	52.2	0.0	11.0	0.0	23.0	10.3	33.8	10.3	0.0	14.6	14.6	14.6	20.8	39.0
Grants	28.9	0.0	11.0	0.0	23.0	10.3	33.8	10.3	0.0	14.6	14.6	14.6	11.6	29.2
Loans	23.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	9.3	9.8
Statistical discrepancy	-4.3	2.5	0.0	4.3	0.0	-14.9	0.0	2.3	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:														
GDP (billions of CFA francs, annual)	3,248.2	3,442.2	3,478.6	3,442.2	3,478.6	3,442.2	3,478.6	3,442.2	3,723.5	3,760.6	3,760.6	3,760.6	3,723.5	3,760.6

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

[1] Country Report No. 11/243.

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

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

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

Table 3. Benin: Consolidated Central Government Operations, 2009–17

	2009	2010	2011		2012	2013	2014	2015	2016	2017
			Proj.[1]	Est.	Projections					
	(Percent of GDP)									
Total revenue	18.5	18.6	18.7	17.6	18.9	19.3	19.7	19.9	19.9	20.0
Tax revenue	16.1	16.2	16.6	15.5	16.8	17.3	17.7	17.8	17.9	18.0
Tax on international trade	8.3	8.6	8.7	7.6	8.9	9.1	9.4	9.5	9.5	9.5
Direct and indirect taxes	7.8	7.6	7.9	7.9	7.9	8.2	8.3	8.4	8.5	8.5
Nontax revenue	2.4	2.4	2.1	2.1	2.1	2.0	2.0	2.0	2.0	2.0
Total expenditure and net lending	26.0	21.6	23.0	21.9	22.5	22.3	22.1	21.9	21.8	21.8
Current expenditures	15.9	15.5	16.3	15.0	15.6	15.6	15.5	15.4	15.3	15.1
Current primary expenditures	15.4	15.0	15.4	14.5	15.0	15.0	15.0	14.9	14.9	14.8
Wage bill	7.3	7.3	7.8	7.4	7.4	7.3	7.3	7.2	7.1	7.1
Pensions and scholarships	1.3	1.3	1.5	1.4	1.5	1.5	1.6	1.6	1.6	1.6
Current transfers	3.5	3.5	3.1	3.2	3.4	3.4	3.4	3.4	3.4	3.4
Expenditure on goods and services	3.3	2.8	3.0	2.6	2.7	2.7	2.7	2.7	2.7	2.7
Interest	0.5	0.5	1.0	0.4	0.6	0.6	0.5	0.4	0.4	0.3
Internal debt	0.2	0.3	0.7	0.2	0.3	0.3	0.2	0.2	0.1	0.1
External debt	0.3	0.2	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Capital expenditure and net lending	10.1	6.1	6.7	6.9	6.8	6.7	6.6	6.5	6.5	6.7
Capital expenditure	9.7	5.5	6.7	6.6	6.8	6.7	6.6	6.5	6.5	6.7
Financed by domestic resources	7.1	3.1	3.8	3.1	3.6	3.5	3.5	3.4	3.4	3.5
Financed by external resources	2.6	2.3	2.9	3.5	3.2	3.2	3.2	3.1	3.1	3.1
Net lending (minus = reimbursement)	0.4	0.6	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (payment order basis, excl. grants)	-7.5	-3.1	-4.3	-4.3	-3.6	-3.0	-2.4	-2.0	-1.9	-1.8
Primary balance [2]	*-7.0*	*-2.5*	*-3.4*	*-3.9*	*-3.0*	*-2.4*	*-1.9*	*-1.5*	*-1.5*	*-1.5*
Basic primary balance [3]	*-4.0*	*0.5*	*-0.5*	*-0.1*	*0.2*	*0.8*	*1.3*	*1.6*	*1.7*	*1.7*
Change in arrears	-0.9	-0.5	-0.5	-0.3	-0.5	-0.4	-0.4	-0.4	-0.3	-0.3
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	-0.9	-0.5	-0.5	-0.3	-0.5	-0.4	-0.4	-0.4	-0.3	-0.3
Float [4]	-0.9	0.3	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis, excl. grants)	-9.3	-3.3	-4.8	-4.9	-4.1	-3.4	-2.8	-2.4	-2.2	-2.1
Financing	9.3	3.4	4.8	4.8	4.1	3.4	2.8	2.4	2.2	2.1
Domestic financing	4.7	0.0	1.6	1.6	0.4	0.0	-0.6	-1.0	-1.2	-1.2
Bank financing	2.6	-0.4	0.5	2.9	0.5	0.2	-0.4	-0.8	-0.9	-1.0
Net use of IMF resources	0.2	0.3	0.5	0.5	0.4	0.4	-0.1	-0.1	-0.1	-0.2
Other	2.3	-0.6	0.0	2.4	0.1	-0.2	-0.4	-0.7	-0.8	-0.8
Nonbank financing	2.1	0.3	1.2	-1.3	-0.1	-0.2	-0.2	-0.2	-0.3	-0.2
Privatization	0.6	0.5	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring	-0.4	-0.7	0.0	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Other	1.9	0.5	0.9	-0.4	-0.1	-0.2	-0.2	-0.2	-0.3	-0.2
External financing	4.6	3.5	3.2	3.2	3.6	3.4	3.4	3.4	3.4	3.3
Project financing	2.6	2.3	2.9	3.5	3.2	3.2	3.2	3.1	3.1	3.1
Grants	0.9	0.6	1.4	2.2	2.1	1.6	1.6	1.6	1.6	1.6
Loans	1.7	1.7	1.4	1.2	1.1	1.6	1.6	1.5	1.5	1.5
Amortization due	-0.3	-0.5	-0.7	-0.5	-0.6	-0.6	-0.6	-0.6	-0.5	-0.5
Budgetary assistance	2.3	1.6	1.0	0.3	1.0	0.8	0.8	0.8	0.7	0.7
Grants	2.3	0.9	1.0	0.3	0.8	0.5	0.5	0.4	0.4	0.3
Loans	0.0	0.7	0.0	0.0	0.3	0.2	0.3	0.4	0.4	0.4
Statistical discrepancy	0.0	-0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Total revenue and grants	21.7	20.0	21.1	20.1	21.8	21.4	21.8	21.9	21.9	21.9
Revenue	18.5	18.6	18.7	17.6	18.9	19.3	19.7	19.9	19.9	20.0
Grants	3.2	1.5	2.4	2.5	2.9	2.1	2.1	2.0	2.0	1.9
Total loan disbursement	1.7	2.5	1.4	1.2	1.3	1.8	1.9	2.0	1.9	1.9
Overall balance incl. grants (payment order basis)	-4.3	-1.6	-1.9	-1.8	-0.7	-0.9	-0.3	0.0	0.1	0.1
GDP (billions of CFA francs)	3,109.4	3,248.2	3,478.6	3,442.2	3,760.6	4,071.5	4,397.1	4,744.5	5,119.3	5,515.3

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

[1] Country Report No. 11/243.
[2] Total revenue minus current primary expenditure, capital expenditure, and net lending.
[3] Total revenue minus current primary expenditure and capital expenditure financed by domestic resources.
[4] Net change in the stock of payment orders whose payment has been postponed to the following period, and balance of custodian accounts.

Table 4. Benin: Balance of Payments, 2009–17

	2009	2010	2011	2012	2013	2014	2015	2016	2017
			Est.	Projections					
				(Billions of CFA francs)					
Current account balance	-277.6	-233.6	-270.7	-234.8	-257.2	-238.6	-248.1	-261.7	-274.9
Excluding budgetary assistance grants	-348.8	-262.5	-281.0	-264.0	-278.4	-261.0	-266.5	-280.1	-293.3
Balance of goods and services	-414.2	-369.3	-381.8	-373.3	-398.8	-394.3	-414.1	-445.8	-477.4
Credit	519.9	577.4	620.5	707.0	736.7	793.7	850.2	910.4	972.3
Debit	-934.1	-946.7	-1002.2	-1,080.3	-1,135.5	-1,188.0	-1,264.4	-1,356.2	-1,449.7
Trade balance [1]	-351.0	-304.6	-325.9	-336.1	-371.7	-376.2	-400.4	-437.0	-474.9
Exports, f.o.b.	348.9	396.8	409.0	463.6	472.3	509.1	545.6	584.3	623.1
Cotton and textiles	66.5	59.4	59.2	105.3	81.9	83.9	82.4	78.7	72.6
Other	282.4	337.4	349.8	358.3	390.4	425.2	463.2	505.6	550.5
Imports, f.o.b.	-699.9	-701.4	-734.9	-799.7	-843.9	-885.3	-946.0	-1,021.3	-1,098.0
Petroleum products	-66.4	-150.3	-187.9	-192.6	-195.9	-199.4	-208.4	-217.0	-213.9
Other	-633.5	-551.1	-547.0	-607.2	-648.1	-685.9	-737.7	-804.4	-884.1
Services (net)	-63.2	-64.7	-55.9	-37.2	-27.1	-18.0	-13.7	-8.8	-2.5
Credit	171.0	180.6	211.4	243.4	264.5	284.6	304.6	326.1	349.2
Debit	-234.2	-245.2	-267.3	-280.6	-291.6	-302.7	-318.3	-334.9	-351.7
Income (net)	-15.5	-8.9	-8.6	-10.9	-11.8	-12.9	-14.0	-14.9	-15.3
Of which: interest due on central government debt	-8.2	-8.1	-7.8	-10.0	-10.9	-12.0	-13.0	-13.9	-14.2
Current transfers (net)	152.1	144.6	119.7	149.4	153.4	168.6	180.0	199.0	217.7
Unrequited private transfers	32.4	45.8	52.0	59.0	66.7	75.3	84.8	95.4	107.1
Public current transfers	119.7	98.8	67.7	90.4	86.7	93.3	95.2	103.6	110.6
Of which: budgetary assistance grants	71.3	28.9	10.3	29.2	21.2	22.4	18.4	18.4	18.4
Capital and financial account balance	187.6	240.3	218.6	257.3	281.5	308.9	342.8	376.2	406.6
Capital account balance	28.8	19.2	76.8	80.0	65.0	70.2	75.7	81.7	88.0
Financial account balance	158.8 [2]	221.1	141.8	177.3	216.5	238.8	267.1	294.6	318.6
Medium- and long-term public capital	46.6	68.3	28.4	31.9	55.4	60.7	70.5	77.6	79.1
Disbursements	56.0	84.1	46.3	53.8	78.7	85.8	96.7	102.4	108.5
Project Loans	56.0	60.8	46.3	44.0	69.0	72.8	76.7	82.4	88.5
Of which: Central government project loans	52.0	56.8	42.3	40.0	65.0	68.8	72.7	78.4	84.5
Budgetary assistance loans	0.0	23.3	0.0	9.8	9.7	13.0	20.0	20.0	20.0
Amortization due	-9.4	-15.8	-17.9	-21.9	-23.2	-25.0	-26.2	-24.9	-29.4
Foreign direct investment	48.7	65.9	55.9	63.6	72.1	81.6	92.0	103.6	116.4
Portfolio investment	37.6	24.4	45.0	35.0	38.2	41.4	44.7	48.2	52.1
Other medium- and long-term private capital	5.0	30.0	22.5	26.8	30.7	35.1	39.8	45.1	51.0
Deposit money banks	-40.2	-57.5	-20.0	10.0	10.0	10.0	10.0	10.0	10.0
SDR allocation	33.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term capital	27.8	90.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Errors and omissions	38.7	18.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-51.3	25.0	-52.1	22.5	24.3	70.4	94.7	114.5	131.6
Change in net foreign assets, BCEAO (- = increase)	51.3	-25.0	52.1	-22.5	-24.3	-70.4	-94.7	-114.5	-131.6
Of which: net use of IMF resources	7.4	8.4	18.2	15.8	15.8	-3.0	-4.7	-6.2	-8.8
Memorandum items:			(Percent of GDP, unless otherwise indicated)						
Net re-exports	3.5	3.5	3.5	3.6	3.7	3.7	3.7	3.8	3.8
Re-exports	7.4	7.5	7.7	7.7	7.7	7.8	7.9	8.0	8.1
Imports for re-exports	-3.9	-4.0	-4.2	-4.1	-4.1	-4.1	-4.2	-4.2	-4.3
Current account balance (incl. budgetary assistance grants)	-8.9	-7.2	-7.9	-6.2	-6.3	-5.4	-5.2	-5.1	-5.0
Current account balance (excl. budgetary assistance grants)	-11.2	-8.1	-8.2	-7.0	-6.8	-5.9	-5.6	-5.5	-5.3
Balance of goods and services	-13.3	-11.4	-11.1	-9.9	-9.8	-9.0	-8.7	-8.7	-8.7
Trade balance	-11.3	-9.4	-9.5	-8.9	-9.1	-8.6	-8.4	-8.5	-8.6
Exports	11.2	12.2	11.9	12.3	11.6	11.6	11.5	11.4	11.3
Imports	-22.5	-21.6	-21.4	-21.3	-20.7	-20.1	-19.9	-20.0	-19.9
Income and current transfers (net)	4.4	4.2	3.2	3.7	3.5	3.5	3.5	3.6	3.7
Capital account balance	0.9	0.6	2.2	2.1	1.6	1.6	1.6	1.6	1.6
Financial account balance	5.1	6.8	4.1	4.7	5.3	5.4	5.6	5.8	5.8
Overall balance	-1.6	0.8	-1.5	0.6	0.6	1.6	2.0	2.2	2.4
International price of cotton (Cotlook "A" Index, U.S. cents per lb.)	62.8	103.5	154.6	85.9	85.6	88.0	83.5	79.0	75.0
International price of oil (US dollars per barrel)	61.8	79.0	104.2	99.1	95.5	92.1	91.2	89.9	88.9
Gross official reserves (imputed reserves, billions of US dollars) [2]	1.2	1.2	1.1	1.2	1.3	1.4	1.6	1.8	2.1
(percent of broad money)	43.1	40.9	36.0	35.2	34.7	35.5	37.1	39.1	41.2
WAEMU gross official reserves (billions of US dollars)	13.6	12.9	…	…	…	…	…	…	…
(percent of broad money)	58.7	57.9	…	…	…	…	…	…	…
(months of WAEMU imports of GS) [3]	6.9	6.1	…	…	…	…	…	…	…
GDP (billions of CFA francs)	3,109.4	3,248.2	3,442.2	3,760.6	4,071.5	4,397.1	4,744.5	5,119.3	5,515.3

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

[1] Excludes re-exports and imports for re-export whose net balance is divided between services and public transfers.
[2] Includes the Special Drawing Rights allocation of SDR 44.75 million, equal to CFAF 33.3 billion, in August 2009.
[3] Months of future imports of goods and services.

Table 5. Benin: Monetary Survey, 2009–17

	2009	2010	2011							2012	2013	2014	2015	2016	2017
			Q1	Q2		Q3		Q4							
			Actual	Proj.[1]	Actual	Prog.[1]	Actual	Proj.[1]	Est.	Projections					
	(Billions of CFA francs)														
Net foreign assets	698.5	781.0	795.2	747.2	769.8	730.3	786.5	713.4	748.9	761.4	775.7	836.0	920.7	1,025.2	1,146.9
Central Bank of West African States (BCEAO)	526.3	551.3	549.4	532.5	495.9	523.1	469.5	513.8	499.2	521.8	546.0	616.4	711.1	825.6	957.2
Banks	172.1	229.6	245.8	214.6	273.8	207.1	317.1	199.6	249.6	239.6	229.6	219.6	209.6	199.6	189.6
Net domestic assets	597.5	665.2	694.8	760.9	729.0	808.1	755.5	855.3	802.2	933.2	1,059.0	1,145.4	1,217.2	1,281.6	1,338.4
Domestic credit	707.4	764.3	764.0	822.1	817.5	869.3	868.2	916.5	914.9	1,045.9	1,171.7	1,258.1	1,329.9	1,394.3	1,451.1
Net claims on central government	1.3	-10.6	26.0	59.5	45.9	5.3	92.8	31.8	89.8	108.1	116.4	97.3	59.0	14.1	-38.6
Credit to the nongovernment sector	706.1	774.9	738.0	762.6	771.7	863.9	775.5	884.6	825.2	937.8	1,055.2	1,160.8	1,271.0	1,380.2	1,489.7
Other items (net)	-109.9	-99.1	-69.1	-61.2	-88.6	-61.2	-112.7	-61.2	-112.7	-112.7	-112.7	-112.7	-112.7	-112.7	-112.7
Broad money (M2)	1,295.9	1,446.1	1,490.1	1,508.1	1,498.7	1,538.4	1,542.1	1,568.7	1,551.1	1,694.6	1,834.7	1,981.4	2,137.9	2,306.8	2,485.3
Currency	332.2	346.1	360.9	359.9	361.4	366.1	369.1	372.2	366.8	400.7	433.9	468.6	505.6	545.5	587.7
Bank deposits	954.9	1,090.9	1,120.4	1,139.5	1,129.0	1,163.6	1,164.4	1,187.7	1,175.7	1,285.3	1,392.2	1,504.3	1,623.8	1,752.7	1,889.0
Deposits with postal checking accounts	8.9	9.1	8.7	8.7	8.3	8.7	8.6	8.7	8.6	8.6	8.6	8.6	8.6	8.6	8.6
	(Change in percent of beginning-of-period broad money, unless otherwise indicated)														
Net foreign assets	-0.9	6.4	1.0	-2.3	-0.8	-3.5	0.4	-4.7	-2.2	0.8	0.8	3.3	4.3	4.9	5.3
Central Bank of West African States (BCEAO)	-4.2	1.9	-0.1	-1.3	-3.8	-1.9	-5.7	-2.6	-3.6	1.5	1.4	3.8	4.8	5.4	5.7
Banks	3.3	4.4	1.1	-1.0	3.1	-1.6	6.0	-2.1	1.4	-0.6	-0.6	-0.5	-0.5	-0.5	-0.4
Net domestic assets	7.1	5.2	2.1	6.5	4.4	9.8	6.2	13.0	9.5	8.4	7.4	4.7	3.6	3.0	2.5
Domestic credit	12.5	4.4	0.0	3.9	3.7	7.2	7.2	10.4	10.4	8.4	7.4	4.7	3.6	3.0	2.5
Net claims on central government	6.6	-0.9	2.5	4.8	3.9	1.0	7.1	2.8	6.9	1.2	0.5	-1.0	-1.9	-2.1	-2.3
Credit to the nongovernment sector	5.9	5.3	-2.6	-0.9	-0.2	6.2	0.0	7.6	3.5	7.3	6.9	5.8	5.6	5.1	4.7
Other items (net)	-5.3	0.8	2.1	2.6	0.7	2.6	-0.9	2.6	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Broad money (M2)	6.2	11.6	3.0	4.2	3.6	6.3	6.6	8.4	7.3	9.2	8.3	8.0	7.9	7.9	7.7
Currency	-2.0	1.1	1.0	0.9	1.1	1.3	1.6	1.7	1.4	2.2	2.0	1.9	1.9	1.9	1.8
Bank deposits	8.2	10.5	2.0	3.4	2.6	5.0	5.1	6.7	5.9	7.1	6.3	6.1	6.0	6.0	5.9
Deposits with postal checking accounts	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:															
Velocity of broad money	2.5	2.4	...	...	...	...	...	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Broad money as share of GDP	41.7	44.5	...	...	...	...	...	45.1	45.1	45.1	45.1	45.1	45.1	45.1	45.1
Credit to the nongovernment sector (year-on-year change in percent)	11.3	9.7	-4.8	-1.6	-0.4	11.5	0.1	14.2	6.5	13.6	12.5	10.0	9.5	8.6	7.9
Nominal GDP (billions of CFA francs, annual)	3,109.4	3,248.2	3,442.2	3,479.3	3,442.2	3,479.3	3,442.2	3,479.3	3,442.2	3,760.6	4,071.5	4,397.1	4,744.5	5,119.3	5,515.3
Nominal GDP growth (annual change in percent)	4.7	4.5	6.0	7.1	6.0	7.1	6.0	7.1	6.0	9.2	8.3	8.0	7.9	7.9	7.7

Sources: BCEAO; and IMF staff estimates and projections.

Note: ... = not available.

[1] Country Report No. 11/243.

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

Amount	Date Available	Conditions Necessary for Disbursement
SDR 10.62 million	June 28, 2010	Disbursed. The Executive Board approved the three-year arrangement on June 14, 2010.
SDR 10.61 million	December 31, 2010	Disbursed. The Executive Board concluded the first review on February 16, 2011.
SDR 10.61 million	June 1, 2011	Disbursed. The Executive Board concluded the second review on September 7, 2011.
SDR 10.61 million	December 1, 2011	Observance of performance criteria for September 30, 2011, and of the continuous performance criteria, and completion of the third review under the arrangement.
SDR 10.61 million	June 1, 2012	Observance of performance criteria for March 31, 2012, and of the continuous performance criteria, and completion of the fourth review under the arrangement.
SDR 10.61 million	December 1, 2012	Observance of performance criteria for September 30, 2012, and of the continuous performance criteria, and completion of the fifth review under the arrangement.
SDR 10.61 million	June 1, 2013	Observance of performance criteria for March 31, 2013, and of the continuous performance criteria, and completion of the sixth review under the arrangement.
SDR 74.28 million		Total amount.

Source: International Monetary Fund.

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

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
IMF obligations based on existing credit													
(millions of SDRs)													
Principal	0.0	0.4	0.6	3.9	6.0	8.0	10.9	10.7	7.4	5.3	3.2	0.0	0.0
Charges and interest	0.0	0.0	0.0	0.2	0.2	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0
IMF obligations based on existing and prospective drawings													
(millions of SDRs)													
Principal	0.0	0.4	0.6	3.9	6.0	8.0	13.0	18.1	15.9	13.8	11.7	5.3	1.1
Charges and interest [1]	0.0	0.0	0.0	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.0	0.0
Total obligations based on existing and prospective credit [2]													
Millions of SDRs	0.0	0.5	0.6	4.2	6.2	8.2	13.2	18.3	16.0	13.9	11.7	5.3	1.1
Billions of CFA francs	0.0	0.4	0.5	3.2	4.8	6.4	10.0	13.9	12.1	10.5	8.9	4.0	0.8
Percent of government revenue	0.0	0.0	0.1	0.4	0.5	0.6	0.9	1.2	0.9	0.7	0.6	0.2	0.0
Percent of exports of goods and services	0.0	0.0	0.1	0.4	0.6	0.7	1.0	1.3	1.0	0.8	0.6	0.3	0.0
Percent of debt service [3]	0.0	0.8	1.0	6.4	9.2	12.5	17.4	26.5	22.9	19.2	16.1	7.4	1.5
Percent of GDP	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.0	0.0
Percent of quota	0.0	0.7	1.0	6.8	10.0	13.2	21.3	29.6	25.9	22.4	18.9	8.6	1.7
Outstanding IMF credit [1]													
Millions of SDRs	56.4	77.2	97.8	93.9	87.9	79.9	66.9	48.8	32.9	19.1	7.4	2.1	1.1
Billions of CFA francs	41.9	58.9	74.9	72.3	68.0	62.2	50.7	36.9	24.9	14.5	5.6	1.6	0.8
Percent of government revenue	6.9	8.3	9.5	8.3	7.2	6.1	4.6	3.1	1.9	1.0	0.4	0.1	0.0
Percent of exports of goods and services	6.8	8.3	10.2	9.1	8.0	6.8	5.2	3.4	2.1	1.1	0.4	0.1	0.0
Percent of debt service [3]	127.8	131.2	160.5	143.8	130.7	121.5	87.9	70.5	46.9	26.5	10.2	2.9	1.4
Percent of GDP	1.2	1.6	1.8	1.6	1.4	1.2	0.9	0.6	0.4	0.2	0.1	0.0	0.0
Percent of quota	91.2	124.7	158.0	151.7	141.9	129.1	108.1	78.8	53.1	30.9	12.0	3.4	1.7
Net use of IMF credit (millions of SDRs)	21.2	20.8	20.6	-3.9	-6.0	-8.0	-13.0	-18.1	-15.9	-13.8	-11.7	-5.3	-1.1
Disbursements	21.2	21.2	21.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	0.0	0.4	0.6	3.9	6.0	8.0	13.0	18.1	15.9	13.8	11.7	5.3	1.1
Memorandum items:													
Nominal GDP (in billions of CFA francs)	3,442.2	3,760.6	4,071.5	4,397.1	4,744.5	5,119.3	5,515.3	5,993.2	6,512.5	7,076.8	7,690.0	8,356.4	9,080.4
Exports of goods and services (in billions of CFA francs)	620.5	707.0	736.7	793.7	850.2	910.4	972.3	1,074.4	1,187.2	1,311.9	1,449.6	1,601.8	1,770.0
Government revenue (in billions of CFA francs)	605.6	710.0	784.5	867.5	943.2	1,021.2	1,103.4	1,199.0	1,302.9	1,415.8	1,538.4	1,671.7	1,816.6
Debt service (billions of CFA francs) [3]	32.8	44.9	46.7	50.2	52.1	51.2	57.6	52.4	53.1	54.7	55.2	54.7	56.0

Sources: IMF staff estimates and projections.

[1] Charges of interest projections reflect temporary waiver of interest payments on concessional lending through 2012.

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

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

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

	1990	1995	2000	2005	2011	2015 Target
Goal 1. Eradicate extreme poverty and hunger						
Target: Halve between 1990 and 2015, the proportion of people whose income is less than one dollar a day.						
- Population below US$1 a day (percent)	57.0	...	...	47.3	40.8	26.7
- Population below minimum level of dietary energy consumption (percent)	...	29.0	...	...	...	...
Goal 2. Achieve universal primary education						
Target: Ensure that, by 2015, children will be able to complete a full course of primary schooling						
- Net primary enrollment ratio (percent of relevant age group)	41.0	60.0	...	87.0	90.3	100.0
- Percentage of cohort reaching grade 5	55.0	...	75.0	63.0	64.1	100.0
- Youth literacy rate (percent age 15–24)	64.0	...	...	45.3	65.5	100.0
Goal 3. Promote gender equality and empower women						
Target: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education by 2015						
- Ratio of girls to boys in primary school (percent)	51.0	...	69.0	80.0	85.0	100.0
- Ratio of girls to boys in secondary school (percent)	42.0	44.0	46.0	57.0	...	100.0
- Proportion of seats held by women in the national parliament (percent)	3.0	7.0	6.0	7.0	8.4	50.0
Goal 4. Reduce child mortality						
Target: Reduce by two-thirds between 1990 and 2015 the under-five mortality rate						
- Under-five mortality rate (per 1,000)	184.0	162.0	144.0	129.0	115.0	59.0
- Infant mortality rate (per 1,000 live births)	111.0	99.0	89.0	81.0	73.0	35.0
- Immunization against measles (percent of children under 12 months)	79.0	65.0	72.0	61.0	61.0	100.0
Goal 5. Improve maternal health						
Target: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio						
- Maternal mortality ratio (modeled estimate, per 100,000 live births)	790.0	690.0	560.0	460.0	397.0	125.0
Goal 6. Combat HIV/AIDS, malaria, and other diseases						
Target: Halt by 2015, and begin to reverse, the spread of HIV/AIDS						
- HIV/AIDS prevalence	0.1	0.8	1.3	1.3	2.0	< 2
Target: Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases						
- Incidence of tuberculosis (per 100,000)	77.0	80.0	85.0	89.0	34.0	...
Goal 7. Ensure environmental sustainability						
Target: Halve by 2015 proportion of people without access to safe drinking water						
- Access to improved water source (percent of population)	56.0	61.0	66.0	72.0	75.7	100.0
Goal 8. Develop a global partnership for development						
Target: In cooperation with the private sector, make available benefits of new technologies, especially information and communications						
- Mobile cellular subscriptions (per 100 people)	0.0	0.0	1.0	8.0	35.0	50.0

Source: Beninese authorities.

APPENDIX I—LETTER OF INTENT

REPUBLIC OF BENIN

....

MINISTRY OF ECONOMY AND FINANCE

....

The Minister

To :

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

Cotonou, March 9, 2012

Dear Ms. Lagarde:

1. I am pleased to inform you that the Government of Benin continues to implement its economic and financial program under the Extended Credit Facility (ECF) to achieve its growth and poverty reduction objectives. I wish to take the opportunity of the third review to take stock of program implementation in the second half of 2011 and to define the policies and reforms contemplated for 2012.

2. Despite the problems encountered in 2011, in particular in reaction to the introduction of certain major reforms, the implementation of our program was satisfactory. All the quantitative performance criteria for end-September 2011 were met. The medium-term economic framework is largely unchanged, but the global economic environment has deteriorated since the last review. Moreover, the drastic increase in the price of gasoline imported fraudulently from Nigeria will slow the recovery of the national economy. The Government nonetheless reaffirms its resolve to implement the policies and reforms described herein. Accordingly, it hereby requests conclusion of the third review under the ECF and the disbursement of the fourth ECF tranche of SDR 10.61 million.

I. Economic Developments and Program Implementation in 2011

A. Economic developments in 2011

3. There was a modest recovery in economic activity in 2011. Preliminary data indicate that the real GDP growth rate is estimated at 3.1 percent in 2011 compared to 2.6 percent in 2010. This recovery in economic activity was driven by a rebound in agriculture following the extraordinary floods of 2010, public works, transportation, and the energy sector. Inflation remained largely under control in 2011, standing at 2.7 percent at the end of the year, slightly below the convergence criterion of the West African Economic and Monetary Union (WAEMU).

4. The external current balance deteriorated somewhat in 2011 owing to the decline in public current transfers and the increase in petroleum product imports (driven in part by the increase in international prices), this despite the sound performance of nontraditional exports (cashew nuts). The current account deficit, excluding grants, thus widened to 8.2 percent of GDP compared to 8.1 percent in 2010. This deterioration in the current balance was partially offset by the improved balance of the capital account and portfolio investments, bringing the overall balance of payments deficit to 1.5 percent of GDP.

5. Money supply grew by 14.0 percent at end-November 2011, driven by credit to the private sector and to government. The net foreign assets of the banking system grew slightly.

6. Ten out of 13 banks complied with the decision of the WAEMU Council of Ministers to raise capital requirements. The regional and national authorities are exploring options concerning banks that fail to meet the requirement. A law regulating decentralized financial structures in Benin was adopted by the National Assembly on January 26, 2012. As a result of that law, the Central Bank of West African States (BCEAO) and the Bank Supervision Commission have legal authority to supervise directly certain decentralized financial structures, notably those with deposits or loans larger than CFAF 2 billion (about US$4 million).

7. The Government continued its prudent external indebtedness policy. Throughout 2011 and to the present day, the continuous performance criteria have been met. The Government intends to continue this prudent policy in the future, and will cover its external financing needs by means of grants and concessional borrowing, unless an exception is authorized.

B. Budget execution in 2011

8. Budget execution in 2011 was characterized by lower-than-projected revenue performance, attributable to the elections (which slowed revenue collection in the first half of the year), a diversion of goods traffic toward Niger, and the resistance of some users to the reforms introduced at the Autonomous Port of Cotonou and at the border customs posts. This shortfall, which in large measure is temporary, led to a strict control of public expenditure execution in order to meet the program targets for public finance consolidation.

Execution during the first three quarters

9. Major fiscal rehabilitation measures were continued throughout 2011. These included the implementation of two major reforms at customs, namely the introduction of the one-stop shop at the Port of Cotonou and the new generation Import Verification Program (PVI). The PVI includes: preshipment verification of goods intended for Benin; scanner inspection of goods offloaded within Beninese territory; electronic monitoring of goods in transit; support for the automated management of customs clearance warehouses and areas, export warehouses and areas, and container terminals; and the certification of the weights and values of goods imported by sea and overland. The anticipated effect is an increase in customs valuations and strengthened import verification procedures, which should be reflected in improved customs receipts in the medium term. The reforms will also make it possible to speed up the goods removal formalities at customs and to intensify efforts to combat fraud.

10. The customs reforms met with some resistance: importers were initially reticent because of customs valuations that were higher than those applied previously. There were strikes within customs and in the port. This situation triggered congestion of the Port of Cotonou and slowdowns at the Benin-Togo border (Hilla-Condji), because of the increased volume of imports offloaded in Lomé for destinations in Benin. In addition, to ease the social pressure associated with increases in the prices of mass consumer goods occasioned by the application of the PVI and some price speculation, the Government decided to implement temporarily a waiver system for 14 mass consumer items. All these events had a negative impact on revenue mobilization.

11. Consequently, budget execution was difficult at end-September 2011. Total revenue came to CFAF 439.8 billion, or 12.8 percent of GDP, falling below the program target of CFAF 464.2 billion. In order to maintain fiscal equilibrium and continue public finance consolidation, the Government had to limit expenditure execution and net lending to CFAF 549.3 billion, or 16.0 percent of GDP, compared to a forecast of CFAF 586.0 billion. Accordingly, the overall deficit on a cash basis was limited to CFAF 125.5 billion, equivalent to 3.6 percent of GDP, below program forecasts. However, the program performance criteria relating to the primary basic balance and the net domestic financing were met. The overall deficit was financed by external financing, disbursement of the third tranche under the ECF, and the use of government deposits with the banking system.

12. At end-September 2011, the components of fiscal revenue showed the following results: (i) customs receipts amounted to CFAF 189.4 billion, or 5.5 percent of GDP, short of the program target (CFAF 216.3 billion)—their low performance largely reflects the resistance to the reforms in the second half of the year, but was also affected by the climate of uncertainty in the run-up to the elections in March and April, and a diversion of traffic toward Niger (reflected in a drop in the volume of imports to Benin for re-export); (ii) tax collections came to CFAF 200.0 billion (5.8 percent of GDP), in keeping with the program target—this performance reflects the level of collections of the value-added tax (VAT) and property taxes, thanks to strengthened controls implemented by the tax administration and the general application of the taxpayer identification number (TIN) to major economic operators; and (iii) nontax revenue came to CFAF 50.3 billion (1.5 percent of GDP), exceeding the program target.

13. At end-September 2011, all primary current expenditure and domestically financed capital expenditure were held below their respective ceilings. Externally financed capital expenditure, in contrast, overshot the target level. It was not possible to meet the indicative benchmark for priority social expenditure. Indeed, payment orders issued under this heading amounted to only CFAF 73.6 billion, approximately 63 percent of the targeted amount.

14. In sum, all quantitative performance criteria were met at end-September 2011. The basic primary deficit amounted to CFAF 30.4 billion, above the program floor of CFAF 48.5 billion. The adjusted criterion for net domestic financing was also observed at a level of CFAF 83.5 billion, below the program's adjusted ceiling of CFAF 88.0 billion.

Execution during the fourth quarter

15. The fiscal consolidation continued during the fourth quarter of 2011. At end-December, total revenue amounted to CFAF 605.6 billion, or 17.6 percent of GDP, compared to a target of CFAF 650.1 billion. However, the measures taken during the fourth quarter to strengthen the collection of customs receipts (clearing port congestion by bringing the Allada logistical platform on stream; disseminating public information on the reforms targeting importers and private sector operators; improving the operations of the one-stop window) did bear fruit. The monthly target for December, CFAF 63.7 billion, was exceeded by CFAF 4.4 billion. Overall, customs revenue at end-year came to CFAF 261.2 billion, or 7.6 percent of GDP, compared to a target of CFAF 304.0 billion. Tax collections are estimated at CFAF 273.5 billion, or 7.9 percent of GDP, slightly below the target of CFAF 274.0 billion. Nontax revenue was about CFAF 70.9 billion, slightly below the annual objective of 72.0 billion, or 2.1 percent of GDP.

16. To preserve fiscal equilibrium, the Government had to contain expenditure at a level below program projections. At end-December, total expenditure and net lending amounted to CFAF 754.7 billion, or 21.9 percent of GDP, compared to a target of CFAF 801.0 billion. In particular, the wage bill was reined in and kept within its ceiling. Thanks to this effort, the overall fiscal deficit, on a cash basis and excluding grants, amounted to CFAF 168.5 billion, or 4.9 percent of GDP, below the program target. This deficit was financed by concessional external budgetary support and by the issuance of treasury bills and multiyear bonds on the regional financial market. At year's end, the quantitative benchmarks on the basic primary balance and on the net domestic financing were both met, but the benchmarks on total revenue and on priority social expenditure were not. However, the execution of such expenditure was speeded up in the fourth quarter, with the result that at the end of the year it came to CFAF 99 billion (compared to a target of CFAF 132.6 billion). The poor execution of social expenditure was associated with technical difficulties with monitoring on the part of the ministries responsible for the execution of such expenditure.

C. Implementation of structural reforms in 2011

17. Implementation of the reforms initiated in 2010-11 has had mixed results. Some of the reforms have experienced delays but should, for the most part, be implemented in the months ahead. The status of implementation of these benchmarks is as follows:

- the extension of ASYCUDA++ system to 12 additional border units, planned for end-August 2011, was completed at end-February 2012 because of the need to bring electrical hardware up to standards;

- the start of the development of a complete and integrated information system at the Directorate General of Taxes (DGID) will begin in March 2012 because of delays in the provision of technical assistance for this project; full development may require up to three years;

- the extension of the information system to all units at Directorate General of Customs (DGDDI), planned for end-August 2011, was completed at end-February 2012 for the same reason as mentioned for the first benchmark;

- the general extension of the TIN to all tax payers and to all units of the tax and customs administrations, planned for end-December 2011, will be completed at the latest by September 30, 2012; this postponement is linked to delays in finalizing the modalities of the grant agreement supporting the implementation of this benchmark;

- the generalization of the systematic use of the TIN by the DGDDI and the cessation of the use of nonspecific numbers in the ASYCUDA++ system, planned for end-December 2011, will be completed at the latest by September 30, 2012; this postponement was caused by the same reasons as noted for the previous benchmark;

- the preparatory work for the adoption of a civil service reform strategy by decision of the Council of Ministers made progress: the studies relating to the organizational and institutional audit of the ministry responsible for the civil service and to the status of reforms in the civil service were completed at end-November and end-December 2011, respectively; the report on the diagnostic phase of the study on the compensation system for government employees was delivered to the Government at end-December 2011; this report was validated at end-February 2012; finalization of the other components of the study will be completed by end-May 2012;

- the adoption by the Council of Ministers of a regulatory framework governing the energy sector occurred on January 11, 2012; this framework makes it possible to open power distribution to private operators and to introduce a regulatory authority and a system guaranteeing transparency in the electricity price-setting mechanism;

- the draft law governing pensions, based on the final report on the actuarial audit of the Benin National Retirement Fund (FNRB) met with opposition from social partners, and it was not possible to implement this measure by end-December 2011 as planned; after discussions with these partners held during the sessions of the Government-Labor Unions Civil Service Committee in December 2011 and January 2012, the Government decided that the issue will be considered by the permanent national committee for consultation and collective bargaining between the Government and labor unions in March 2012; thereafter, the draft law will be conveyed to the Government for submission to the National Assembly by end-May 2012;

- the draft Organic Law on Budget Law (LOLF) was submitted to the Supreme Court in December 2011 as scheduled;

- regarding the introduction of the Integrated Human Resource Management System (SIGRH), a technical assistance mission from the World Bank recommended, in October 2011, a gradual approach to introducing the system, together with an action plan; this approach differs from the one initially planned in the program, but constitutes a better fit with the absorptive capacity of Benin's administrations;

- the 2010 budget accounts were forwarded to the Chamber of Accounts of the Supreme Court in December 2011, as scheduled; and

- the joint Customs-Taxes Brigade was established by ministerial decree at end-December 2011, as scheduled.

II. Economic, Financial, and Structural Policies for 2012

18. The Government is determined to continue the implementation of its economic and financial program to achieve its macroeconomic stability and sustainable development objectives.

A. Macroeconomic framework

19. The Government's economic policy aims at supporting the return to strong and sustained private-sector-led growth. This choice will mandate a consolidation of the macroeconomic framework and strengthened structural measures. However, the impact of the sudden and considerable increase in the price of gasoline fraudulently imported from Nigeria and the growing sluggishness of the global economy will have a negative impact in 2012 on real household incomes, growth, and inflation. Accordingly, the growth rate in 2012 is expected to be only 3.5 percent. This rebound in activity would be driven by, among other things, the development of the agricultural sector, increased capacity at the Port of Cotonou, and the port's improved competitiveness.

20. The Government will continue to pursue prudent fiscal and monetary policies. However, owing to the external shocks referred to above, average inflation in 2012 could significantly exceed the WAEMU convergence criterion of 3 percent. The external current account deficit and the overall balance of payments are expected to improve in 2012 by comparison with 2011 as a result of the anticipated increase in cotton exports and external budgetary support.

B. Fiscal policy

21. Under the 2012 budget adopted by the National Assembly, the Government intends to speed up the pace of mobilizing budgetary revenue by continuing the structural reforms initiated and by new measures to be adopted, while continuing to pursue a prudent public expenditure policy. The 2012 budget, which is broadly consistent with the program objectives, aims at preserving the major financial equilibria. Total revenue is expected to reach 18.9 percent of GDP, and total expenditure and net lending would amount to 22.5 percent of GDP. The basic primary balance would come to 0.2 percent of GDP.

22. On the revenue side, the Government undertakes to contain the weaknesses observed in the implementation of the major reforms, namely the one-stop window and the PVI. The mobilization of customs revenue will be helped by the return to normal of conditions at the Port of Cotonou and the advantage gained by the extension of ASYCUDA++ to all customs units and their interconnection with the Directorate General of Customs. Tax revenue will also be bolstered by the increased forced collection efforts and the results of introducing the joint Customs-Taxes Brigade. Customs receipts are expected to increase by 28 percent to CFAF 334.0 billion and tax revenue by 10 percent to CFAF 297.4 billion. Nontax revenue is expected to amount to CFAF 78.6 billion, an amount comparable to that of the previous year.

23. Total expenditure and net lending should amount to CFAF 845.4 billion, or 22.5 percent of GDP, corresponding to increase of 0.6 percentage point of GDP over the 2011 level. The breakdown of expenditure in terms of GDP should remain broadly unchanged from 2011. To meet the objective for priority social expenditure, the authorities have introduced a mechanism for consultation with the ministries in the context of preparing and executing the 2012 Budget Law and will modify the management and monitoring process for such expenditure in order to meet the corresponding objectives. Monthly targets will be determined for each ministry concerned.

24. The Government has conducted a review of the works carried out under the current Public Investment Program (PIP) with a view to streamlining its management. It has identified the works that are ready to be definitively accepted in the amount of CFAF 35 billion and will move promptly to settle that amount. It therefore undertakes to pay at least CFAF 5 billion by March 9, 2012, to pay at least CFAF 10 billion by March 31, 2012, and to settle the balance by June 8, 2012.

25. The Government reached a wage agreement with the labor unions in August 2011. This agreement put an end to a prolonged period of strikes and projects a social truce for four years. The Government has undertaken increasing the wage scale for government employees by 25 percent over 2011–14. The staff of the Ministry of Economy and Finance received the total increase of 25 percent in 2011 in order to encourage them to step up the pace of revenue mobilization. For other staff, excluding teachers of primary, secondary, technical, and higher education, the rates of increase of the wage scale will be phased in as follows: 5 percent in 2012; 5 percent in 2013; and 10 percent in 2014; the catch-up for the increase for 2011 will be the subject of future negotiations. The total impact of the wage increase is about CFAF 5 billion in 2012. The Government remains committed to keeping the wage bill within the envelope of CFAF 279 billion, as planned under the 2012 budget.

C. Structural reforms

26. Our economic and financial program is and will be underpinned by additional structural measures during 2012. These include the following benchmarks:

- launching operation of the computerized transit module of the ASYCUDA++ system between the Port of Cotonou and all land-based border posts by end-March 2012;

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

- the measure on the introduction of the SIGRH will be implemented with assistance from the World Bank;[1]

- completing the pilot phase and the decision of the extension of the "Sunkwè" system (civil servants' database) to the Ministry of Labor and Civil Service (MTFP), at the latest by June 30, 2012; This measure will be implemented with assistance from the World Bank.

- blocking the following fields in the customs declaration (ASYCUDA++ system): TIN, the inspection certification number (AV), and the customs value corresponding to the AV, at the latest by June 30, 2012;

- including the PVI data to the one-stop window to facilitate systematic consistency checks between the certification and attestation functions during data processing within the one-stop window, at the latest by June 30, 2012; and

- closing a bank that lost its license in 2009 and that was put under provisional administration, at the latest by September 30, 2012.

III. Growth and Poverty Reduction Strategy

27. To continue the efforts to reduce poverty, the Priority Action Program under the Growth and Poverty Reduction Strategy (GPRS) for 2011–15 has been revised to maintain its consistency with the program budget. As noted above, steps have been taken to encourage the full execution of priority social expenditures. These included ensuring that priority expenditures are in conformity with the objectives of the GPRS 2011–15 and the availability of the major budget execution tools. The priority social expenditures selected are aimed at improving the population's living standards and achieving the Millennium Development Goals (MDGs), particularly in health, primary education, water, and sanitation.

IV. Conclusion

28. The Government believes the measures and policies described in this letter are appropriate for achieving the program objectives, and it reaffirms its commitment to take any additional

[1] The IMF is solely responsible for assessing compliance with the program conditionalities.

measures required to that end. It therefore requests conclusion of the third ECF review and the associated disbursement. The fifth review of the program is expected to be completed by end-March 2013, based on the observance of performance criteria on September 30, 2012.

29. Program monitoring will be based on the semi-annual performance criteria, quantitative targets, and structural benchmarks defined in Tables 1 and 2 attached to this letter. To facilitate program monitoring, the Government will regularly provide IMF staff with all the information required, as defined in the Technical Memorandum of Understanding (TMU), or any other additional information that it considers necessary or that the IMF staff requests.

30. The Government believes that the policies set forth in this letter are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. The Government will consult with the IMF on the adoption of these measures, and in advance of revisions to the policies contained in the letter, in accordance with the IMF's policies on such consultation. The Government authorizes the IMF to publish the staff report on the discussions of the third review of the program, as well as this letter of intent.

Sincerely yours,

/s/
Adidjatou A. Mathys
Minister of Economy and Finance

Table 1. Benin: Quantitative Performance Criteria and Indicative Targets, 2011–12
(Billions of CFA francs)

	June 30, 2011				Sept. 30, 2011				December 31, 2011				March 31, 2012	June 30, 2012	Sept. 30, 2012
	Indicative Targets				Performance Criteria				Indicative Targets				Performance Criteria	Indicative Targets	Performance Criteria
	Prog.[1]	Adj. Proj.[2]	Outturn		Prog.[1]	Adj. Proj.[2]	Outturn		Prog.[1]	Adj. Proj.[2]	Est.		Prog.[1]	Proj.	Prog.
A. Quantitative performance criteria[3]															
Net domestic financing of the government (ceiling)[4,5]	72.1	78.6	46.3	Met	79.7	88.0	83.5	Met	57.3	73.6	54.7	Met	48.7	60.7	48.6
Basic primary balance (excluding grants) (floor)	-36.5	-36.5	-32.2	Met	-48.5	-48.5	-30.4	Met	-17.6	-17.6	-2.6	Met	-20.5	-39.8	-21.7
Memorandum item : Budgetary assistance[6]	11.0	11.0	0.0		23.0	23.0	10.3		33.8	33.8	10.3		0.0	14.6	14.6
B. Continuous quantitative performance criteria (ceilings)															
Accumulation of external payments arrears	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0
External nonconcessional debt contracted or guaranteed by government with maturities of 0–1 year[7]	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0
External nonconcessional debt contracted or guaranteed by government with maturities of more than one year[7]	0.0	0.0	0.0	Met	25.0	25.0	0.0	Met	25.0	25.0	4.6	Met	25.0	25.0	25.0
Accumulation of domestic payments arrears	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0
C. Indicative targets[3]															
Total revenue (floor)	295.0	295.0	290.9	Not met	464.2	464.2	439.8	Not met	650.1	650.1	605.6	Not met	148.3	331.3	515.0
Payment orders issued outside the expenditure chain (ceiling)[8]	4.6	4.6	3.3	Met	7.5	7.5	4.4	Met	10.6	10.6	9.2	Met	2.5	4.6	7.5
Priority social expenditure (floor)	77.6	77.6	56.6	Not met	117.3	117.3	73.6	Not met	132.6	132.6	99.0	Not met	46.0	75.0	104.0

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

[1] Technical Memorandum of Understanding of the Second Review.
[2] The performance criterion on net domestic financing is automatically adjusted as indicated in Footnotes 4 and 5 (per Paragraph 8 of the Technical Memorandum of Understanding).
[3] The performance criteria and indicative targets are cumulative from the beginning of the calendar year.
[4] If the amount of disbursed external budgetary assistance net of external debt service obligations falls short of the program forecast, the ceiling on net domestic financing will be adjusted pro tanto, subject to limits specified in the Technical Memorandum of Understanding (Paragraph 8).
[5] If the amount of disbursed external budgetary assistance net of external debt service obligations exceeds the program forecast by more than CFAF 5 billion, the ceiling will be adjusted downward by the excess disbursement beyond CFAF 5 billion, unless it is used to absorb domestic arrears.
[6] Gross disbursements, not adjusted for debt service obligations.
[7] Debt is considered nonconcessional if the difference between the present value (PV) of the debt and its nominal value, as a percentage of the nominal value of the debt, is lower than 35 percent. The ceiling for this continuous performance criterion was raised with effect from the second program review.
[8] Exceptional payment procedures: stock of payment orders issued since the beginning of the calendar year and not yet regularized at each test date.

Table 2. Benin: Structural Benchmarks for 2010–13

Measure	Initial Date/ Revised Date	Objective	State of Execution
Measures implemented			
Extension of the ASYCUDA++ information system to 12 additional regional customs offices.	December 31, 2010/ August 31, 2011	Improve the collection of customs revenue to expand the fiscal space for infrastructure investment and poverty reduction measures.	Implemented in February 2012 (delayed).
Starting the development of a complete and integrated information system at the DGID.	December 31 2010/ March 31, 2012	Contain the decline in revenue by improving the performance of the tax and customs administrations.	Delayed. Scheduled to start in March 2012, but full development may take up to three years.
Extension of the information system of the customs department (DGDDI) to all units.	December 31, 2010/ August 31, 2011	Contain the decline in revenue by improving the performance of the tax and customs administrations.	Implemented in February 2012 (delayed).
Generalization of the TIN to all taxpayers and all the units of the tax and customs administrations.	December 31, 2010/ December 31, 2011/September 30, 2012	Contain the decline in revenue by improving the performance of the tax and customs administrations.	Delayed. The generalization of the TIN to all taxpayers and all the units of the tax and customs administration will be completed by end-September 2012.
Generalization of the systematic use of the TIN by the DGDDI and the abolition of the use of nonspecific identification numbers at the level of ASYCUDA++ (0000000000000 to 2999999999949).	December 31, 2010/ December 31, 2011/September 30, 2012	Contain the decline in revenue by improving the performance of the tax and customs administrations.	Delayed. The abolition of all nonspecific numbers within the ASYCUDA++ system will be completed by end-September 2012 with support from the AfDB.
Adoption by decision of the Council of Ministers of a strategy for the reform of the civil service.	June 30, 2011/May 31, 2012	Limit the expansion of the wage bill and maintain fiscal space for investments and priority social expenditures.	Delayed. The studies for the adoption by the Council of Ministers of a civil service reform strategy have made progress; the report on the diagnostic phase of the study on the remuneration system for civil servants was validated by end-February 2012; the other sections of the study will be completed by end-May 2012.
Adoption by decision of the Council of Ministers of a regulatory framework governing the energy sector that will formally sanction the opening of electricity distribution to private operators and the establishment of a regulatory authority and of a system that will guarantee transparency in the electricity price-setting mechanism.	June 30, 2011/ August 31, 2011	Maintain the financial viability of the electricity company (SBEE).	Implemented in January 2012 (delayed).
Presentation to the National Assembly of a draft law governing pensions, based on the final report of the actuarial audit of the national pension scheme (FNRB).	December 31, 2011/May 31, 2012	Contain the impact of the FRNB's deficit on public finances by strengthening its financial viability.	Delayed. The draft legislation will be sent to the government, for submission to the National Assembly by end-May 2012.
Submission to the Supreme Court of a draft Organic Budget Law (LOLF).	December 31, 2011	Enhance the management of public finances.	Implemented.

Table 2. Benin: Structural Benchmarks for 2010–13 (concluded)

Measure	Initial Date/ Revised Date	Objective	State of Execution
Finalization of the studies for the preparation of the terms of reference and the project document for the Integrated Human Resources Management System (SIGRH).	December 31, 2011	Improve the management of civil servants' compensation	Delayed. This measure will henceforth be followed by the World Bank.
Submission to the budget audit office (Chambre des Comptes) of the 2010 budget execution accounts.	December 31, 2011	Improve the transparency of public financial management.	Implemented.
Establishment of a joint Customs-Tax control unit.	December 31, 2011	Enhance revenue mobilization.	Implemented.
Measures to be implemented			
Operationalization of the computerized transit module of ASYCUDA++ between the Port of Cotonou and all land-based border posts.	March 31, 2012	Enhance revenue mobilization.	In progress.
Completion of a detailed review of all existing tax and customs exemption regimes, with a view to rationalizing them; the results of this review will be presented to the Council of Ministers.	June 30, 2012	Increase the efficiency and transparency of public finances, and broaden the tax base.	In progress.
Introduce the Integrated Human Resources Management System (SIGRH).	December 31, 2012	Improve the management of civil servants' compensation.	Delayed. This measure will be implemented with assistance from the World Bank.
New measures agreed during the 3rd review			
Completing the pilot phase and the decision of the extension of the "Sunkwe" system (civil servants' database) to the Ministry of Labor and Civil Service (MTFP).	June 30, 2012	Improve management of the compensation of civil servants.	In progress. This measure will be implemented with assistance from the World Bank.
Block the following fields in the customs declaration (ASYCUDA): Taxpayer Identification Number (TIN), inspection certification number (AV), and customs valuation corresponding to the AV.	June 30, 2012	Improve customs revenues.	In progress.
Including the PVI data to the one-stop window to facilitate systematic consistency checks, between the certification and attestation functions during data processing within the one-stop window.	June 30, 2012	Improve customs revenues.	In progress.
Closing a bank that lost its license in 2009 and was placed in provisional administration.	September 30, 2012	Strengthen the financial sector.	In progress.

Source: Beninese authorities.

ATTACHMENT 1. TECHNICAL MEMORANDUM OF UNDERSTANDING

March 9, 2012

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.

DEFINITIONS

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

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

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

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

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

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

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

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

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

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

QUANTITATIVE PERFORMANCE CRITERIA

A. Ceiling on Net Domestic Financing of the Government

Definitions

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

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

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

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

Adjustments

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

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

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

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

- The amounts of gross external budgetary assistance (cumulative since January 1 of the same year) projected in the program are: CFAF 0.0 billion at end-March 2012; CFAF 14.6 billion at end-June 2012; and CFAF 14.6 billion at end-September 2012.
- The amounts of external debt service obligations (cumulative since January 1 of the same year) projected in the program are: CFAF 4.2 billion at end-March 2012; CFAF 16.0 billion at end-June 2012; and CFAF 23.9 billion at end-September 2012.
- The amounts of settlement of domestic payments arrears (cumulative since January 1 of the same year) projected in the program are: CFAF 2.1 billion at end-March 2012; CFAF 8.7 billion at end-June 2012; and CFAF 13.1 billion at end-September 2012.
- The amounts of settlement of external payments arrears (cumulative since January 1 of the same year) projected in the program are: CFAF 0 billion at end-March 2012; CFAF 0 billion at end-June 2012; and CFAF 0 billion at end-September 2012.

Performance criteria and indicative targets

10. The ceiling on net domestic financing of the government (cumulative since January 1 of the same year) is set as follows: CFAF 48.7 billion at end-March 2012; CFAF 60.7 billion at end-June 2012; and CFAF 48.6 billion at end-September 2012. The ceiling is a performance criterion for end-March 2012 and end-September 2012, and an indicative target for end-June 2012.

B. Floor for Basic Primary Fiscal Balance

Definition

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

Performance criteria and indicative targets

12. The floor on the basic primary fiscal balance (cumulative since January 1 of the same year) is a balance of not less than: CFAF -20.5 billion at end-March 2012; CFAF -39.8 billion at end-June 2012; and CFAF -21.7 billion at end-September 2012. The floor is a performance criterion for end-March 2012 and end-September 2012, and an indicative target for end-June 2012.

C. Non-accumulation of New Domestic Payments Arrears by the Government

Definition

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

Continuous performance criterion

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

D. Non-accumulation of External Public Payments Arrears by the Government

Definition

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

Continuous performance criterion

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

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

Definition

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

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

Continuous performance criterion

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

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

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

Definition

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

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

Performance criterion

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

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

25. On December 31, 2011, Benin had no short-term external debt.

INDICATIVE TARGETS

A. Floor for Government Revenue

Definition

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

Indicative targets

27. The indicative targets for total government revenue (cumulative since January 1 of the same year) are set as follows: CFAF 148.3 billion at end-March 2012; CFAF 331.3 billion at end-June 2012; and CFAF 515.0 billion at end-September 2012.

B. Ceiling on Exceptional Payment Procedures

Definition

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

Indicative targets

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

C. Floor for priority social expenditures

30. Priority social expenditures are determined in line with the priority programs identified in the Growth and Poverty Reduction Strategy for 2011–15 (GPRS III). These expenditures consist of selected (nonwage) expenditures *inter alia* in the following sectors: health; energy and water; agriculture; youth, sports and leisure; family and national solidarity; education, microfinance and employment; and culture, literacy, and the promotion of national languages. Their execution is monitored on a payment-order basis during the program, through the integrated fiscal management system (SIGFiP).

Definition

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

Table 1. Priority Social Expenditure Categories

Budget code	Description
36	Ministry of Health
37	Ministry of Energy, Petroleum and Mineral Research, Water, and Development of Renewable Energy
38	Ministry of Culture, Literacy, Crafts and Tourism
39	Ministry of Agriculture, Livestock, and Fisheries
40	Ministry of Youth, Sports, and Leisure
41	Ministry of the Family, Social Affairs, National Solidarity, Disabled and Senior Citizens
44	Ministry of Higher Education and Scientific Research
49	Ministry of Microfinance and for the Employment of Youth and Women
62	Ministry of Maternal and Primary Education
63	Ministry of Secondary, Technical, and Professional Training, Reconversion and Inclusion of Youth

Indicative targets

32. The indicative targets for priority social expenditures (cumulative since January 1 of the same year) are set as follows: CFAF 46.0 billion at end-March 2012; CFAF 75.0 billion at end-June 2012; and CFAF 104.0 billion at end-September 2012.

INFORMATION FOR PROGRAM MONITORING

A. Data on Performance Criteria and Indicative Targets

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

Every month:

- copies of the contracts and data on any loan (terms and creditors) contracted or guaranteed by the government, in the first week after the end of the month;
- monthly consumer price index, within two weeks of the end of the month;
- the TOFE, including revenue, detailed data on net domestic financing of the government (bank and nonbank domestic financing, including the claims held by the nonbank private sector); and data on the basic primary fiscal balance, including data generated by the SIGFiP, within six weeks of the end of the month;
- data on the balance, accumulation, amount (stock), and repayment of public domestic and external payments arrears, including in the event that these arrears amount to zero, within six weeks of the end of the month; and
- the monetary survey, within eight weeks of the end of the month.

Every quarter:

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

B. Other information

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

Every month:

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

Every quarter:

- data on the implementation of the public investment program, including detailed information on sources of financing, within four weeks of the end of the quarter; and
- data on the stock of external debt, external debt service, the signing of external loans and disbursements of external loans, within twelve weeks of the end of the quarter.

On an *ad hoc* basis:

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

INTERNATIONAL MONETARY FUND

BENIN

THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT—IMPACTS OF TWIN EXTERNAL SHOCKS IN 2012

March 12, 2012

Prepared By The African Department

CONTENTS

CONTEXT 2

A. Recession in Europe 2

B. The Gasoline Market in Benin 2

CHANNELS FOR TRANSMITTING THE SHOCKS TO THE ECONOMY OF BENIN 4

A. Recession in Europe 4

B. Reduction of Subsidies in the Price of Gasoline 4

PROSPECTS FOR GROWTH IN BENIN IN 2012 5

INFLATION OUTLOOK IN BENIN IN 2012 5

A. The Reform in Nigeria and its Consequences for Benin 5

FISCAL EFFECTS IN 2012 7

A. Price of Gasoline at the Pump in Nigeria 7

B. Fiscal Effects in the Baseline Scenario 8

C. Fiscal Effects in the Alternate Scenarios 8

CONCLUSION 13

BENIN: IMPACTS OF TWIN EXTERNAL SHOCKS IN 2012

The euro area countries are facing a sovereign debt crisis that is a burden on their economic performance. In January 2012, the government of Nigeria lowered gasoline subsidies. This note examines the implications of these twin external shocks on growth, inflation, and fiscal revenue in Benin in 2012.[1]

CONTEXT

A. Recession in Europe

1. The global economic environment is gloomy. Global economic growth in 2012 was projected to be 4 percent, and growth in the euro area, the United States, and emerging and developing economies was projected to be 0.2 percent, 2 percent, and 6 percent, respectively. However, the difficulties of solving the sovereign debt crisis in the European countries and market concerns about the fiscal outlook in the United States have slowed the global economy's exit from the "great recession." Consequently, global economic growth was revised downward for 2012. The new projections predict a recession in the euro area, while economic growth would slow in the United States and the emerging and developing countries.

B. The Gasoline Market in Benin

2. The retail gasoline market in Benin is dominated by the informal sector. The proximity of Nigeria, where until the end of 2011 the Government heavily subsidized the price of gasoline at the pump, encouraged the development of the informal gasoline market. The gasoline, commonly called "kpayo," is smuggled in at low prices from Nigeria and is sold informally at a price well below the price filling gas stations charge.

3. It is difficult to measure the volume of informal sales of gasoline. According to estimates, it accounted for roughly 70 percent of total sales a few years ago. This figure has risen significantly in recent times, mainly owing to the increase in the official price of gasoline in Benin, whereas the price in Nigeria has remained practically unchanged. This price differential encouraged consumers to purchase more gasoline in the informal market, which is reflected in the latest estimates according to which official sales accounted for only 10 to 15 percent of total sales at end-2011. This trend has caused several oil companies to leave Benin, and many filling stations have closed as a result. According to current estimates, fewer than 100 stations are operating, compared to more than 400 a few years ago.

4. This situation has a number of implications for the economy of Benin:

[1] This note was prepared by Messrs. Pani, Farah, Lonkeng, and de Zamaróczy.

- **It deters investment and entrepreneurial activities** in the formal sector in favor of "rent seeking" in the informal sector. For a citizen of Benin who has amassed a certain amount of savings and who is willing to take risks, it is more profitable to engage in smuggling gasoline than to set up a business. This negatively affects growth, because informal gasoline imports do not produce any increase in productivity or additional demand for goods and services (at most, they encourage the growth of private transportation in urban settings).

- **It is a violation of the laws** on importing and distributing petroleum products. This infringement produces distortions and other negative effects in other business sectors.

- **It leads to a significant loss in government revenue.** Because no taxes or duties are collected on informal sales, the total cost of this tax avoidance can be estimated at between 1 and 2½ percent of GDP according to the assumptions that are used—see a detailed discussion below.

- **It fosters the excessive use of means of transportation and does not encourage fuel savings.** Beninese consumers are used to artificially low prices for fuel in the informal market and they do not know the real cost of the fuel they consume in terms of resources and money. Therefore, they are prone to use more transportation services than they would use under a "truth-in-pricing" system, because they, for example, purchase products shipped over long distances instead of local products. In addition, there is no incentive to use more efficient vehicles with smaller engines. The most visible aspect of these distortions may be the presence of many "zémidjans" (motorcycle-taxis) in urban areas.

- **It takes a heavy toll in terms of pollution and health.** Smuggled fuel is often impure and consuming this fuel causes substantial air pollution. Shipping and handling smuggled fuel leads to high health costs (e.g., cancer) and results in serious and even deadly accidents.

5. This situation generates a transfer from the government of Nigeria to the consumers of Benin. The government of Nigeria subsidizes the price of gasoline, and this subsidy is then transferred to Beninese consumers in proportion to their consumption of gasoline. However, this transfer is not warranted economically or socially. There are no benefits to the government of Nigeria for this transfer, while the financial benefits for Beninese consumers are obvious. Moreover, the principal beneficiaries are not the poor, who do not own vehicles and use private transportation only occasionally; rather, they are urban middle-class consumers.

CHANNELS FOR TRANSMITTING THE SHOCKS TO THE ECONOMY OF BENIN

A. Recession in Europe

6. The main channels for transmitting the slowdown in economic activity from the euro area to the economy of Benin are as follows:

- **Exports** to the euro area account for about 7 percent of total exports from Benin, which themselves account for roughly 12 percent of the Gross Domestic Product (GDP). The decline in economic activity in Europe and the slowdown in economic growth in emerging economies may therefore slightly lower exports from Benin.

- **Remittances from migrants**—a third of which come from the euro area—account for 1½ percent of GDP. Therefore, given the low exposure, the impact through this channel would be slight.

- **Foreign direct investment** (FDI) in Benin is estimated at 1½ percent of GDP, and less than half come from the euro area. Given this low exposure, the impact through this channel also would be slight.

- **Foreign aid:** the slowdown in economic growth in the world and the crisis in the euro area may generate a decline in commitments for foreign public assistance. Aid flows amounted to about 3.2 percent of GDP in 2010, and about 60 percent came from the euro area. Because public aid is decided mostly at the political level, it is not unreasonable to predict a certain stagnation or even a decline in this assistance given the fiscal difficulties the donor countries are experiencing.

B. Reduction of Subsidies in the Price of Gasoline

7. The informal gasoline market, fueled by Nigeria, is an essential share of total domestic consumption. As a result, an increase in gasoline prices in Nigeria spills over into the informal Beninese market through the following channels:

- **a drop in consumption** caused by the decline in real household income, which makes growth slow; and

- **an increase in prices** owing to the primary and secondary price effects.

PROSPECTS FOR GROWTH IN BENIN IN 2012

8. **A mild slowdown in the growth of real GDP in 2012.** The slowdown in global economic growth and the partial elimination of fuel subsidies in Nigeria may lower the rate of real GDP growth in Benin from the initial forecast of 4.3 percent to 3.5 percent. This downward revision of the forecast reflects:

- **A drop in exports, remittances, and FDI:** the combined effects of the slowdown in these macroeconomic aggregates could lower growth by 0.2 percentage points from the initial forecasts. However, this new forecast assumes that foreign aid to Benin will remain unchanged in 2012 because aid programs are decided in advance.

- **The higher price of gasoline** in the informal *kpayo* market, which represents between 85 and 90 percent of gasoline sales in Benin, would lower real GDP growth by 0.6 percentage point. This high price will induce a supply shock, which will result in a rise in production and transportation costs, inducing in turn a slowdown in economic growth. The sectors most affected by the increase in the price of gasoline are trade, transportation, tourism, restaurants, and the hospitality industry. In general, growth will also be bridled because of the downturn in real household income.[2]

9. **Risk:** the scenario above (a 0.8 percentage point combined reduction of growth) may be optimistic. A lack of firmness in solving the European sovereign debt crisis and heightened concerns over the medium-term fiscal outlook in the United States could further weaken prospects for global growth, which could have an additional adverse impact on Benin.

INFLATION OUTLOOK IN BENIN IN 2012

A. The Reform in Nigeria and its Consequences for Benin

10. **On January 2, 2012, the Nigerian government decided to end its policy of subsidizing the price of gasoline and to move to a truth-in-pricing system.** Consequently, the price of gasoline at the pump increased from 65 to 140 naira per liter (Table 1). This rise immediately caused an increase in the price of gasoline in the informal market in Benin, where prices temporarily exceeded the official price in the filling stations. This caused consumers to return to the formal market, resulting in long lines at the filling stations.

---

[2] Simulations conducted by IMF staff show that an increase in the price of fuel from US$107 to US$150 a barrel in 2011 (i.e., a 40 percent increase) would reduce growth by about 0.7 percentage point for oil-importing, low-income, sub-Saharan countries. For the same shock, end-period inflation would rise by 1.8 percentage point ("Regional Economic Perspectives for sub-Saharan Africa," IMF, April 2011, Box 1.3). However, these simulations are based on the fact that, usually, an increase in international prices is only partially passed through to local prices. This is not the case in Benin where the increase in the price of gasoline in Nigeria was passed through immediately and fully to the informal market.

Table 1: Nigeria. Gasoline Prices, 2011–12.

	2011	2012	2012
		Early Jan.	Mid-Jan.
Price per liter			
Naira	65	140	97
CFA francs	190	425	295
Memorandum item:			
CFA francs/naira	2.9	3.0	3.0

Source: IMF staff estimates.

11. In mid-January 2012, the government of Nigeria reached a compromise with the unions. The price of gasoline stabilized at 97 naira per liter, which is a 49 percent increase over the initial price.

12. The reform in Nigeria will produce various macroeconomic effects in Benin:

- **The first effect has been an immediate increase in the price of gasoline in the parallel market.** The prices of goods and services in which fuel accounts for a significant portion of production costs (transportation services and taxis) increased immediately as well. These increases were at first reflected by a rise in the general level of prices (immediate effect), followed by inflationary pressures as the initial increase spilled over into other prices.

- **The loss of transfers from Nigeria should affect the trade balance** through gasoline imports, combining two effects: a first effect linked to the increase in the price of gasoline, which would cause an increase in the value of imports, and a second effect which would translate into a reduction in the volume of imports.

- In the short term, the effects will be similar to the effects produced by a sudden deterioration in the terms of trade (which in fact has occurred): the loss in buying power will weaken domestic demand and thus growth.

- **In the medium term, changes in relative prices may lead to a reallocation of demand and supply between sectors.** Informal sales of gasoline could decline and private capital and energy could be directed toward new productive sectors, supporting growth and employment. These increases should lead to changes in relative prices and real exchange rates (which could result in a better productivity if non-tradable goods and services become cheaper than tradable goods and services). In terms of growth, the medium-term effects should be positive owing to more efficient resource allocation (capital, labor, entrepreneurial capacity) brought about by greater truth in prices.

13. Inflation will strongly increase in 2012. The decrease in the gasoline subsidy in Nigeria resulted in an immediate increase in the price of *kpayo*. This increase in the price of gasoline will have a direct impact on households and businesses that use *kpayo*, and an indirect impact because of higher transportation costs and the prices of other products for which transportation is a major share of the costs. The increase in the price of petroleum products should increase the general level of prices immediately by about 4 percent—the "first-round" effect, followed by additional inflation of roughly 1 percent—the "second-round" effect. These increases will be on top of the underlying 2 percent inflation, so that total annual inflation in 2012 in Benin should be around 7 percent (Table 2).

Table 2: Benin. Inflation Forecast, 2012.
(Percent)

	Price Increase	Weight in the Basket	Inflation
Gasoline	50.0	2.7	1.4
Transportation	20.0	14.0	2.8
Second-round effects			1.0
Additional inflation			*5.2*
Initial projection			2.0
Revised inflation			**7.2**

Source: Beninese authortiies; and IMF staff estimates.

14. Risk: a heavy depreciation in the value of the euro could increase the cost of fuel imports, thus generating additional inflationary pressures.

FISCAL EFFECTS IN 2012

A. Price of Gasoline at the Pump in Nigeria

15. The change in the price of gasoline in Nigeria in the short term remains uncertain. Initially, the Nigerian authorities fully eliminated the subsidies, effective January 2, 2012; this increased the price of gasoline at the pump from 65 to 140 naira per liter. Because of widespread opposition to the increase, in mid-January the Nigerian authorities reduced the price at the pump to 97 naira per liter; however, they also confirmed that their medium-term objective still was to completely eliminate subsidies. For the rest of 2012, a steady price of 97 naira per liter seems to be the most likely assumption.

16. Thus, we consider three possible scenarios for the price at the pump in Nigeria: (i) a baseline scenario, which calls for the continuation of the current price of 97 naira per liter; and two "alternate" scenarios:" (ii) a medium scenario, which calls for a subsequent reduction of subsidies and would result in a price at the pump of 120 naira per liter; and (iii) a truth-in-pricing scenario, which calls for the complete elimination of subsidies of the price of gasoline, which would result in a price at the pump of 140 naira per liter—which was the actual price between January 2 and mid-January 2012.

B. Fiscal Effects in the Baseline Scenario

17. In the baseline scenario, the fiscal effects of the rise in prices in Nigeria would be rather modest owing to the rigidity of the supply in the formal market. In this scenario, the purchase price of gasoline in Nigeria would increase from CFAF 190 to 295 per liter, which would enable the informal operators to continue offering a large discount compared to the official price (albeit smaller than the previous one) while maintaining a substantial profit margin (after paying for transportation and distribution). For example, the informal operators could continue to obtain a profit margin greater than 40 percent of the purchase price (albeit lower than the margin of about 60 percent that they obtained previously) by selling gasoline at a price of CFA francs 415 per liter, at a discount of about 27 percent compared to the official price. Under these conditions, it is unlikely that sales volumes in the formal market will increase significantly over 2011 volumes. Consequently, the volume of formal sales of gasoline—and thus their taxable value and tax revenue—would not change significantly compared to 2011.

C. Fiscal Effects in the Alternate Scenarios

Assumptions and estimates

18. To estimate the fiscal effects that would occur under the two alternate scenarios, we proceed in four stages: (i) we estimate how the total volume of sales of gasoline in Benin would respond to price changes; (ii) we estimate how the size of the formal market would then respond to the discount offered in the informal market; (iii) based on these estimates, we estimate the value of gasoline sales in the formal market in Benin; (iv) finally, we apply the ratios of taxes and revenue duties to the official sales to determine the amount of tax revenue that could be collected under each of the two scenarios.

Estimate of total sales of gasoline in Benin

19. To estimate the effect of the reform in Nigeria on total sales of gasoline in Benin, the following must first be established: (i) how the price of the gasoline offered in the informal market in Benin would change in the two scenarios; and (ii) how the demand for gasoline in Benin would change with the price offered in the informal market (assuming that the official price does not change).

20. Consumers respond to higher gasoline prices by lowering their consumption of gasoline. However, the size of this decrease will probably be rather modest, at least in the short term. Although consumers may reduce their use of transportation services, their needs cannot be compressed in the short term. The price elasticity of the demand for gasoline (in other words, the ratio between the percentage increase in the price at the pump and the percentage decrease in the volume of sales) is thus low. We consider two possible values for this arc elasticity: -0.2 and -0.4.[3] The higher the absolute value of the elasticity, the more consumers will respond to a price increase by lowering the volume of their purchases.

21. The discount offered in the informal market depends on the purchase price of gasoline in Nigeria. An increase in the purchase price forces the informal market operators to compress either the discount, or the profit margin, or both. In our estimates, in the medium scenario, the discount could go down to about 17 percent and leave a profit margin of 30 percent (Table 3); in the truth-in-pricing scenario, the discount would have to drop to 10 percent to leave a barely sufficient profit margin (20 percent) to maintain informal operators in business.

Table 3: Benin. Price at the Pump in the Informal Market, 2011–12

	2011	2012		
		Baseline Scenario	Medium Scenario	Truth-in-pricing Scenario
Price at the pump in Nigeria (naira per liter)	65	97	120	140
Percentage of increase compared to 2011	*0.0*	*49.2*	*84.6*	*115.4*
Price in CFA francs	*190.0*	*294.6*	*364.4*	*425.2*
Informal selling price in Benin (CFA francs per liter)	300.0	415.0	475.0	510.0
Percentage of increase compared to 2011	*0.0*	*38.3*	*58.3*	*70.0*
Discount on the official price	*47.4*	*27.2*	*16.7*	*10.5*
As a percentage of the official price	*52.6*	*72.8*	*83.3*	*89.5*
Profit margin from informal trade (CFA francs per liter)	110.0	120.4	110.6	84.8
As a percentage of the purchase price	*57.9*	*40.9*	*30.3*	*19.9*

Sources: Beninese authorities; and IMF staff estimates.

22. Depending on the elasticities selected, the impacts on the volumes of gasoline sold will be different. If the above-mentioned arc elasticity values are applied to gasoline sales in the informal market (assuming the sale price in the formal market does not change), the volume of total gasoline sales would fall by roughly 7–12 percent if the elasticity is -0.2, and by 13–24 percent if the elasticity is -0.4 (Table 4).

[3] Arc elasticity applies to cases such as this one, in which the price increase is large. If the percentage increase is modest, marginal elasticity is generally used. Arc elasticity is usually higher than marginal elasticity. In Mauritius, the marginal elasticity in the demand for gasoline in the short and long term has been estimated at -0.21 and -0.44, respectively (Sultan, R., 2010: "Short-Run and Long-Run Elasticity of Gasoline Demand in Mauritius: An ARDL Bonds Test Approach," Journal of Energy Trends in Economics and Management, 1 (2), pp. 90-95).

Table 4: Benin. Volume of Gasoline Sales, 2011–12

	2011	2012		
		Baseline Scenario	Medium Scenario	Truth-in-pricing Scenario
Informal selling price (CFA francs per liter)	300.0	415.0	475.0	510.0
Discount on the official price	*47.4*	*27.2*	*16.7*	*10.5*
Estimated volume of total sales (index: 2011 = 100)				
Elasticity = -0.2	100	93.5	90.1	88.1
Elasticity = -0.4	100	87.0	80.2	76.2
Estimated volume of total sales (millions of liters)				
Elasticity = -0.2	132.0	123.4	118.9	116.3
Elasticity = -0.4	132.0	114.8	105.8	100.6

Sources: Beninese authorities; and IMF staff estimates.

Size of the formal market

23. It can be assumed that the size of the informal market is a growing function of the discount offered in this market, and the reverse is true for the official market. If the price of fuel in the informal market is equal to the price in the formal market, it is reasonable to assume that the informal market will disappear in the long run.[4] As of end-2011, gasoline in the informal market was selling for CFAF 300 per liter, about 50 percent less than the official price at the pump, which remains at CFAF 570 francs per liter. We assume that a discount (i) of 30 percent is sufficient to maintain the share of the informal market (at the current level of 85 percent of the total sales volume); (ii) of 5 percent or less, leads to the elimination of the informal market in the short-to-medium term because there would be no significant incentive for consumers to purchase fuel in this market; (iii) between 5 and 30 percent, would make the share of the informal market follow a linear function of the discount (equal to zero with a 5 percent discount and to 85 percent when the discount is equal to 30 percent). The formal market evolves in the opposite direction; thus, the relative size of the formal market compared to total gasoline sales would increase from about

[4] If the reform in Nigeria continues until the subsidies for the price of gasoline are entirely eliminated, the formal supply of gasoline in Benin will eventually eliminate a sizeable portion of informal sales. Investments are already being considered for reopening closed filling stations. This change will take time, but it will eventually alter the fuel market in Benin. However, in the absence of effective control measures, the parallel market will not be completely eliminated because it offers a "convenience" service (proximity, sales can be made at nearly any time of day or night, flexible amounts, etc.).

15 percent in 2011 to roughly 60 percent in the medium scenario and to more than 80 percent in the truth-in-pricing scenario (Table 5).

Value of sales in the formal market

24. Sales in the formal market would increase significantly only under the most favorable assumptions. The value of sales in the formal market was estimated by multiplying the estimated volume of total sales (based on the purchase price in Nigeria and the elasticity of the demand for gasoline in Benin) by the relative size of the formal market and the official selling price. According to these estimates, the total value of formal sales would climb from about CFAF 13 billion in 2011 to

Table 5: Benin. Volume and Value of Gasoline Sales in the Formal Market, 2011–12

	2011	2012		
		Baseline Scenario	Medium Scenario	Truth-in-pricing Scenario
Informal selling price (CFA francs per liter)	300.0	415.0	475.0	510.0
Official selling price (CFA francs per liter)	570.0	570.0	570.0	570.0
Discount of the informal price on the official price (percent)	*47.4*	*27.2*	*16.7*	*10.5*
Share of the formal market (percent of total sales volume)	15.0	24.5	60.3	81.2
Estimated value of total sales (millions of liters)				
Elasticity = -0.2	132.0	123.4	118.9	116.3
Elasticity = -0.4	132.0	114.8	105.8	100.6
Estimated sales volume in the formal market (millions of liters)				
Elasticity = -0.2	19.8	30.3	71.7	94.4
Elasticity = -0.4	19.8	28.2	63.8	81.7
Estimated sales value in the formal market (billions of CFA francs)				
Elasticity = -0.2	12.8	17.3	40.9	53.8
Elasticity = -0.4	12.8	16.1	36.4	46.6

Sources: Beninese authorities; and IMF staff estimates.

between CFAF 35 and 55 billion in 2012, depending on the reform scenario and the elasticity of demand at the prices under consideration (Table 5). For example, in the truth-in-pricing scenario and with an elasticity of -0.2, total sales volume[5] would fall from 130 to 116 million liters; the relative size of the formal market would grow by 15 percent to 81 percent; thus, the volume of sales in the formal market would increase from 20 to 95 million liters (in other words, 81 percent of total sales of 116 million liters), and the value of sales in the formal market would rise from CFAF 13 to 54 billion (95 million liters at CFAF 570 per liter).

[5] The volume of total gasoline sales in Benin in 2011 was estimated by dividing the amount of gasoline sales in the formal market (about 20 million liters) by the relative size of the formal market (approximately 15 percent of total sales).

Tax revenue

25. The Government in Benin collects about CFAF 160 per liter on official gasoline sales. This revenue comes from various taxes—customs import duties, specific taxes, the VAT, and so forth; Table 6). Total revenue from official sales of gasoline is estimated at about CFAF 3.3 billion in 2011 (0.1 percent of GDP), without including other revenue collected from oil company business activities, such as taxes on turnover, wages, and so forth.[6]

Table 6: Benin. Tax Revenue from Gasoline Sales, 2011
(Billions of CFA francs)

Total revenue	3.3
Value-added tax (VAT)	2.3
Specific tax (TSPP)	0.4
Hydrocarbons tax (customs)	0.5
Other taxes and duties	0.1
Memorandum item:	
Estimated value of taxable gasoline sales	12.8

Source: Beninese authorities; and IMF staff estimates.

26. Assuming there is no change in tax policy, the increase in fiscal revenue would be proportional to the rise in the value of sales in the formal market. It would thus be between CFAF 6 billion (the equivalent of 0.1 percent of GDP in 2012) in the least favorable case (the medium scenario, with elasticity of -0.4) and CFAF 10 billion (0.3 percent of GDP) in the most favorable case (truth-in-pricing scenario, with elasticity of -0.2; Table 7).

[6] Total revenue collected on hydrocarbons in 2011 is estimated at roughly CFAF 20 billion; of that amount, 3.3 billion is from customs import duties; 2.8 billion is from the specific tax; and about 14 billion comes from the VAT. Since the value of formal gasoline sales in 2011 was CFA francs 12.8 billion, or about 1/6th of the value of total formal sales of fuel (which amounted to 81 billion), it can be estimated that the amount of revenue collected on gasoline was approximately CFAF 3.3 billion, or the equivalent of 1/6th of the total amount of CFAF 20 billion.

Table 7: Benin. Tax Revenue from Gasoline Sales, 2011–12

	Formal Market Sales		Tax Revenue	
	Billions of CFA Francs	As a Percentage of GDP	Billions of CFA Francs	As a Percentage of GDP
Situation in 2011 (estimate)	12.8	0.4	3.3	0.1
Situation expected in 2012				
Elasticity = -0.2				
Baseline scenario	17.3	0.5	4.4	0.1
Medium scenario	40.9	1.1	10.5	0.3
Truth-in-pricing scenario	53.8	1.4	13.8	0.4
Elasticity = -0.4				
Baseline scenario	16.1	0.4	4.1	0.1
Medium scenario	36.4	1.0	9.3	0.2
Truth in pricing scenario	46.6	1.2	11.9	0.3
Memorandum items:				
GDP (2011)	3,442.2	100.0	3,442.2	100.0
GDP (2012)	3,760.6	100.0	3,760.6	100.0

Source: Beninese authorities; and IMF staff estimates.

CONCLUSION

27. The combined effect of the twin external shocks in Benin would be a loss of 0.8 percentage point in growth in 2012. The direct effects of the recession in Europe on growth in Benin in 2012 would be marginal, because of the magnitude of trade links between Benin and emerging Asia. The effects of reducing subsidies for the price of gasoline in Nigeria would be slightly more important.

28. By contrast, the effects of reducing subsidies in Nigeria are significant in terms of inflation in Benin in 2012, because the level of inflation is expected to double compared to its level of the previous year. The effects on the level of fiscal revenue will continue to be modest in 2012 because the increase in prices in Nigeria will not significantly reduce the share of the informal gasoline market in 2012.

29. With this backdrop, the following may also be noted for Benin:

In 2012

- The effects of partially eliminating subsidies in Nigeria will cause a reduction of domestic demand brought about by lower household real income.

- The general level of prices increased suddenly in January with the transmission of the price increase to Benin, followed by inflationary pressures with the spilling over of the price increase to other sectors of the economy. If this rise does not lead to a general increase in wages, inflation will gradually return to its lower underlying trend, but the real exchange rate, and thus external competitiveness, will undergo a lasting—probably favorable—change.

In the medium term:

- If the Nigerian authorities completely eliminate gasoline price subsidies, the informal gasoline market in Benin may contract considerably. Such a change would generate major social costs, but it will also offer opportunities for increasing productivity, fighting corruption, promoting private investment, and creating productive activities that generate growth and employment in the formal sector.

- Under this same assumption, the value of formal sales of gasoline will increase significantly, producing an expansion of the taxable base and higher tax revenue that could range from 0.1 to 0.3 percent of GDP.

- To reenergize the formal hydrocarbons sales sector, it is important that the Beninese authorities strengthen the fight against fraud among the official distributors to bolster their credibility and in the informal market to check fraudulent imports.

INTERNATIONAL MONETARY FUND

BENIN

THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT—INFORMATIONAL ANNEX

March 12, 2012

Prepared By	The African Department (In consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND ____ 2

JOINT WORLD BANK-IMF WORK PROGRAM, 2011–12 ____ 8

STATISTICAL ISSUES ____ 9

RELATIONS WITH THE FUND

(As of February 29, 2012)

I. Membership Status: Joined: July 10, 1963		Article VIII
II. General Resources Account:	**SDR Million**	**%Quota**
Quota	61.90	100.00
Fund holdings of currency	59.67	96.40
Reserve Tranche Position	2.24	3.62
Notes Issuance		
Holdings Exchange Rate		
III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	59.17	100.00
Holdings	49.71	84.01
IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ECF Arrangements	56.35	91.03

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Jun 14, 2010	Sept.13, 2013	74.28	31.84
ECF [1/]	Aug 05, 2005	Jun 30, 2009	24.77	24.77
ECF [1/]	Jul 17, 2000	Mar 31, 2004	27.00	27.00

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

	Forthcoming				
	2012	2013	2014	2015	2016
Principal	0.35	0.62	3.93	6.02	7.96
Charges/Interest	0.01	0.01	0.15	0.14	0.12
Total	0.36	0.63	4.08	6.15	8.08

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

VII. Implementation of HIPC Initiative:

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

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

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

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

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

II. Debt Relief by Facility (SDR million)

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

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

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

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

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

IX. Implementation of Post-Catastrophe Debt Relief (PCDR):

Not Applicable.

X. Safeguards Assessments:

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

XI. Exchange Arrangement:

Benin is a member of the WAEMU and has no separate legal tender. The union's common currency, the CFA franc, is pegged to the Euro at a rate of CFAF 655.957 = EUR 1, consistent with the official conversions rate of the French franc to the Euro and the previous fixed rate of the CFA franc to the French franc of CFAF 100= F 1. Effective January 1, 2007, the exchange arrangement of the WAEMU countries has been reclassified to the category of conventional pegged arrangement from the category of exchange arrangement with no separate legal tender. The new classification is based on the behavior of the common currency, whereas the previous classification was based on the lack of a separate legal tender. The new classification thus only reflects a definitional change, and is not based on a judgment that there has been a substantive change in the exchange regime or other policies of the currency union or its members. The exchange system common to all member countries of the WAEMU is free of restrictions on payments and transfers for current international transactions subject to Fund jurisdiction.

XII. Article IV Consultations:

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

XIII. ROSC Assessment:

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 were able to monitor budget execution. The ROSC fiscal transparency module for Benin was circulated to the Board on June 6, 2002 (Country Report No. 02/217). In 2009, the World Bank conducted an Accounting and Auditing ROSC, for which the report was published on April 18, 2009.

XIV. Technical Assistance for the Last Five Years:

A. Headquarters

Department	Type of Assistance	Time of Delivery	Purpose
FAD	Technical assistance	June 16–30, 2008	Conducting a diagnostic of the tax system and preparing a tax policy reform.
FAD	Technical assistance	June 15–26, 2009	Assessing progress in modernizing the tax and customs administration and identifying reform priorities.
MCM	Technical assistance	September 10–24, 2010	Conducting a crisis resolution and financial systems vulnerability assessment.
FAD	Technical assistance	December 1–12, 2011	Improving the tax system and reviewing the modernization reforms of the tax and customs administrations.
MCM	Technical assistance	December 8–21, 2011	Conducting a diagnostic of the financial system.

B. AFRITAC West

Department	Type of Assistance	Time of Delivery	Purpose
FAD	Technical assistance	2007	Customs Administration
FAD	Technical assistance	2007	Public Expenditure Management
FAD	Technical assistance	2007, 2008	Tax Administration
FAD	Technical Assistance	2009	Public Expenditure Management
FAD	Technical Assistance	2010	Tax administration
FAD	Technical Assistance	2010	Customs Administration
FAD	Technical Assistance	2010	Tax administration
FAD	Technical assistance	2011	Customs Administration
FAD	Technical assistance	2011	Customs Administration (2)
FAD	Technical assistance	2011	Customs Administration (3)
FAD	Technical Assistance	2011	Tax Administration
FAD	Technical assistance	2011	Public Expenditure Management
FAD	Technical Assistance	2012	Public Expenditure Management
MCM	Technical assistance	2007	Bank Supervision and Regulation
MCM	Technical assistance	2007, 2008	Public Debt and Debt Sustainability
MCM	Technical assistance	2010	Public Debt and Debt Sustainability
MCM	Technical assistance	2010	Bank Supervision and Regulation

MCM	Technical assistance	2011	Public Debt and Debt Sustainability
STA	Technical assistance	2007, 2008	Multisector Statistics
STA	Technical assistance	2009	National Accounts Statistics
STA	Technical assistance	2008	Real Sector Statistics
STA	Technical Assistance	2009	National Accounts Statistics
STA	Technical assistance	2010	Government Finance Statistics
STA	Technical Assistance	2011	Government Finance Statistics
STA	Technical Assistance	2011	Real Sector Statistics
STA	Technical Assistance	2011	Real Sector Statistics (2)

XV. Resident Representative:

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

JOINT WORLD BANK-IMF WORK PROGRAM, 2011–12

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

STATISTICAL ISSUES

A. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings, but is broadly adequate for surveillance. Weaknesses exist in the areas of national accounts, public finance, monetary statistics, financial sector prudential indicators, and balance of payments.
Real sector statistics: Inadequate resources and weaknesses in data documentation and methodology hamper the accuracy and reliability of the national accounts. Efforts to address these shortcomings are ongoing. Benin participates in WAEMU's harmonization of statistical methodologies and in the GDDS project for AFRITAC West countries to implement the 1993 SNA. Progress has been slow and the accounts for a few years still need to be converted. The West AFRITAC missions in 2008, 2009, 2010 and 2011 sought to accelerate the process and support the compilation of the revised accounts. A statistical register and an industrial production index are being developed, but the implementation has been slower than expected. Consumer price data, measured using the WAEMU harmonized consumer price index, are adequate for surveillance. The methodology for the WAEMU harmonized consumer price index has been updated.
Government finance statistics: The quality of fiscal data is broadly adequate for surveillance, but has some shortcomings in coverage, periodicity, timeliness, and accessibility. The authorities report budgetary central government's "statement of sources and uses of cash" for publication in the Government Finance Statistics Yearbook, one year after the reference year. The October 2008 and July 2009 STA-GFS missions found that the authorities had yet to compile general government GFS to broaden coverage of nonmarket activities controlled by the government, disseminate the GFS within one quarter after the reference quarter, and present the other major GFS reports to facilitate linkages to other macroeconomic datasets (e.g., the balance sheet).
Monetary and financial statistics: Monetary and financial statistics, compiled and disseminated by the BCEAO, are broadly adequate and their institutional coverage is comprehensive, but timeliness of reporting is weak. Accuracy is somewhat hampered by the use of 1990 sorting coefficients to estimate cross border amounts of banknotes among BCEAO countries, which in turn, are used to estimate currency in circulation and to adjust the net foreign assets of each member country.
Balance of payments: External statistics are still affected by shortcomings that prevent an accurate and timely assessment of current account transactions and capital and financial flows. Recent improvements in applying the guidelines of the Balance of Payments Manual, Fifth Edition, have not solved the problem. In November 2004, a STA technical assistance mission noted that the human resources devoted to balance of payments statistics by the national agency of the BCEAO were inadequate, and highlighted a series of methodological problems including the use of untested hypotheses and reference bases, the limited coverage of direct investment, and shortcomings in the compilation of net external assets and international investment position. Balance of payments statistics are also disseminated with a lag of almost one year and the international investment position data with a lag of 18 months. Some progress has been achieved in the reconciliation of regional trade data with those of regional partners, and the compilation of trade statistics has been enhanced by the installation of the ASYCUDA++ customs computer

system in all main border customs houses, the port, the airport, and some regional offices. Further improvements will require the interconnection between the computer systems of the main customs departments and their integration with the other revenue collecting agencies. Progress is also needed in improving contacts with reporting bodies and enhancing the management of human and technical resources. Financial account data can be improved by extending the coverage of foreign assets of the private non-banking sector, expanding the surveys of residents' foreign assets, and using other data source, such as Bank of International Settlements (BIS) statistics. The BCEAO has updated the compilation of commercial bank data on payments involving nonresidents; however, these data are not used to produce annual balance of payments statistics. External debt data are broadly adequate for surveillance, but are comprehensive only for public and publicly guaranteed debt. Data are collected by the *Caisse Autonome d'Amortissement* (CAA), which is responsible for signing international loan agreements and servicing the government's external debt obligations. The CAA's database is fairly comprehensive and up-to-date, and contains accurate stock data, and produces projected debt-service flows on a loan-by-loan basis, but regular statements are not received from creditors.

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

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

Benin: Table of Common Indicators Required for Surveillance

(As of January 31, 2012)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]
Exchange Rates	Current	Current	D	D	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	10/11	1/12	M	M	M
Reserve/Base Money	10/11	1/12	M	M	M
Broad Money	10/11	1/12	M	M	M
Central Bank Balance Sheet	10/11	1/12	M	M	M
Consolidated Balance Sheet of the Banking System	10/11	1/12	M	M	M
Interest Rates[2]	12/10	1/11	M	M	M
Consumer Price Index	1/12	2/12	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	12/11	1/12	M	M	NA
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2010	4/11	A	A	NA
External Current Account Balance	2010	7/11	A	A	A
Exports and Imports of Goods and Services	2010	7/11	A	Q	A
GDP/GNP	2010	4/11	A	A	A
Gross External Debt	2010	4/11	A	I	A
International Investment Position[6]	2008	9/10	A	A	A

[1]Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability position vis-à-vis nonresidents.
[7] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 12/105
FOR IMMEDIATE RELEASE
March 27, 2012

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Third Review Under Benin's Extended Credit Facility Arrangement and Approves US$16.4 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the third review of Benin's economic performance under the program supported by an Extended Credit Facility (ECF) arrangement.[1/] The Board's decision, which was taken on a lapse-of-time basis and enters into effect today,[2/] enables the immediate disbursement of an amount equivalent to SDR 10.61million (about US$16.4 million), bringing total disbursements under the arrangement to an amount equivalent to SDR 42.45 million (about US$ 65.7 million).

The Executive Board approved Benin's three-year ECF arrangement for SDR 74.28 million (about US$115 million) on June 14, 2010 (see Press Release No. 10/243).

Growth is projected to continue on a modest upward trend in 2012, but will be adversely affected by external spillover effects from higher gasoline prices—because of the reduction of fuel subsidies in Nigeria that will dampen domestic demand—and, to a lesser extent, by the ongoing global crisis. Inflation is expected to increase sharply in 2012, but the West African Economic and Monetary Union (WAEMU) convergence criterion may still be within reach in the medium term, if second-round inflationary pressures are contained.

[1/] The Extended Credit Facility (ECF) has replaced the Poverty Reduction and Growth Facility (PRGF) as the Fund's main tool for medium-term financial support to low-income countries by providing a higher level of access to financing, more concessional terms, enhanced flexibility in program design features, and more focused streamlined conditionality. Financing under the ECF carries a zero interest rate, with a grace period of 5½ years, and a final maturity of 10 years (http://www.imf.org/external/np/exr/facts/ecf.htm). The Fund reviews the level of interest rates for all concessional facilities every two years.

[2/] The Executive Board takes decisions under its lapse-of-time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.

Performance under the program was broadly satisfactory during the third review period, and the end-September performance criteria were met. The revenue target, however, was missed because of an underperformance of customs revenue owing to resistance to customs reform. The authorities implemented measures to strengthen revenue performance, and customs revenue began to recover in December 2011. Sustaining the increase of customs revenue over the medium term is critical for implementing the authorities' program. The priority social spending target was also missed because of technical and administrative difficulties, indicating a need to intensify their monitoring.

Long-awaited customs reforms were introduced, but a stronger implementation of the structural reform agenda is needed, inter alia to enhance revenue collection and fiscal sustainability. The structural reform agenda includes further customs and tax reforms, civil service reform, and the promotion of greater private sector involvement in the energy sector—all of which would foster higher growth.

The authorities committed to maintaining the wage bill within the program envelope and to adopt wage policy decisions in the framework of civil service reform.

The financial sector has been resilient, but banks' loan portfolio deteriorated and a few small banks do not meet strengthened capital requirements. This highlights the need for greater vigilance by the supervisory body to strengthen the soundness of the banking system.