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BENIN

July 2022

2022 ARTICLE IV CONSULTATION AND REQUESTS FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; STAFF STATEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BENIN

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

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 8, 2022, following discussions that ended on April 22, 2022, with the officials of Benin on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on June 28, 2022.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the Internal Development Association.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for Benin.

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

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PRESS RELEASE

PR 22/241

IMF Executive Board Approves US$638 million Extended Fund Facility and Extended Credit Facility for Benin and Concludes 2022 Article IV Consultation

FOR IMMEDIATE RELEASE

- IMF Board approves 42-month arrangements under the EFF and ECF for Benin (US$638 million) to help address pressing financing needs, support the country's National Development Plan (2018–25) centered on achieving Sustainable Development Goals (SDGs), and catalyze donor support.
- Revenue mobilization—the cornerstone of the authorities' reform agenda—will, together with better spending prioritization and improved efficiency, help create the much-needed fiscal space to support Benin's significant development and security needs while preserving debt sustainability.
- A steadfast implementation of the recently adopted action plan for Anti Money Laundering/Combating the Financing of Terrorism and further strengthening the rule of law and governance will consolidate the foundations of sustained private sector-led growth that benefits all Beninese.

Washington, DC: On July 8, 2022, the Executive Board of the International Monetary Fund approved 42-month arrangements under the Extended Fund Facility (EFF) and the Extended Credit Facility (ECF) for Benin in the amount of SDR 484.058 million (equivalent of 391 percent of quota or about US$638 million). The program seeks to help address pressing financing needs (related to security, COVID-19 scars, and the war in Ukraine), support the implementation of the country's National Development Plan centered on achieving Sustainable Development Goals (SDGs) and catalyze donor support. The new program is the first case under High Combined Credit Exposure (HCCE) since the IMF adopted the policy in 2020 to support member countries experiencing exceptional balance of payment needs and with institutional capacity to implement a program in amounts exceeding the normal combined access limit for a blended EFF/ECF arrangement.

The Executive Board's decision enables an immediate disbursement of SDR 108.3 million (US$143 million), which the Beninese authorities intend to use for budget support. The Executive Board today also concluded the 2022 Article IV consultation with Benin.

Benin embarked, five years ago, on a journey to modernize its economy and improve the wellbeing of its people. Significant progress in macroeconomic management and budget transparency boosted investor confidence and culminated in the sovereign's access to the international capital market in 2019. The government has pursued its reform agenda through the COVID-19 pandemic, including digitalization of the tax system and landmark institutional reforms.

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

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Washington, DC 20431
USA

“Benin faces significant headwinds from a deteriorating security situation at its northern border, COVID-19-induced scars, the war in Ukraine, as well as significant climate risks, which could erode hard-won economic gains in recent years. The government has requested a new Fund-supported program to meet pressing financing needs, help catalyze further external financing, and anchor the country’s National Development Plan centered on achieving the SDGs.

“Building on Benin’s established track record in fiscal responsibility, the program is calibrated flexibly to accommodate large spending needs in the near term; it then pivots to revenue-based fiscal consolidation starting in 2023 to ensure medium-term debt sustainability. The authorities should also gradually substitute generalized fossil fuel subsidies with more targeted and cost-effective measures to protect the vulnerable. The anticipated completion of the social registry will strengthen social safety nets and help deliver targeted social assistance to the vulnerable in times of hardship.

“Revenue mobilization, the cornerstone of the authorities’ reform program, is centered on streamlining tax expenditure in the near term and will continue expanding the tax base and improving the overall efficiency of the tax system over the medium term, informed by the pending homegrown medium-term revenue mobilization strategy. This, together with improved spending efficiency and prioritization, will create much-needed fiscal space to meet Benin’s significant development and security needs while preserving debt sustainability.

“A steadfast implementation of the recently adopted AML/CFT action plan and further strengthening the rule of law and governance would foster a more broad-based, private sector-led, and inclusive growth. Continued vigilance in the banking sector and further efforts to promote financial inclusion will also be needed.

“Considering Benin’s relatively large level of income inequality, the authorities’ Fund-supported EFF/ECF is rightly focused on “development with a human face” through enhanced access to basic public services and improved state presence in vulnerable areas, consistent with the authorities’ “civilian approach” to mitigating security risks. Ongoing efforts to enhance resilience to climate change are also important. Achieving these ambitious goals will require continued commitment to clearly communicated reforms and strong technical and financial support from Benin’s development partners to complement large and front-loaded Fund support.”

Executive Board Assessment[1]

Benin: Selected Economic Indicators
(Percent of GDP unless otherwise indicated)

	2021	2022	2023
		Proj.	
National Income and Prices			
Real GDP growth (%)	7.2	5.7	6.2
Inflation, average (%)	1.7	5.0	1.8
Central Government Finance			
Total revenue	13.2	13.4	13.9
of which: Tax revenue	*11.0*	*11.5*	*12.0*
Total expenditure and net lending	19.9	19.8	19.3
Overall balance (commitment basis, including grants)	-5.7	-5.5	-4.3
Basic primary balance (payment order basis)[1]	-1.5	-1.1	-0.5
Money and Credit			
Credit to the private sector (% change)	9.2	5.6	10.3
Broad money (M2) (% change)	16.4	10.8	7.3
Public Debt (End Period)			
Total public debt	49.9	51.6	52.0
External public debt	36.5	37.5	37.6
Domestic public debt	13.5	14.1	14.4
External Sector			
Current account balance, including official transfers	-4.4	-6.2	-5.7
Terms of trade (minus = deterioration) (%)	-6.2	-2.7	-2.3

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

[1] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing-up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

INTERNATIONAL MONETARY FUND

BENIN

June 28, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION AND REQUESTS FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY

EXECUTIVE SUMMARY

Context. The Beninese government embarked, five years ago, on an ambitious reform agenda ("Revealing Benin"*)* to revive the economy and improve the wellbeing of the people. Economic activity accelerated prior to the COVID-19 pandemic, with sound macroeconomic management and enhanced budget transparency culminating in access to international capital markets in 2019 and issuance of the first-ever SDG bond by an African sovereign last year. However, today, Benin faces significant headwinds from a deteriorating security situation at its northern borders, pandemic-induced scars, and higher cost of living amidst the war in Ukraine, which could impact hard-won macroeconomic gains and cause hardship. The authorities have requested a Fund-supported program to meet pressing financing needs, preserve macroeconomic stability, and anchor the country's National Development Plan centered on achieving the Sustainable Development Goals (SDGs).

Program objectives. Building on Benin's established track record in fiscal responsibility, the program is calibrated flexibly to absorb shocks in the near-term; it pivots to revenue-based fiscal consolidation starting next year to create fiscal space to support significant development and security-related needs while preserving debt sustainability. Key program pillars include: (1) boosting revenue mobilization and improving spending efficiency; (2) enhancing social protection and equitable access to basic public services; and (3) reinforcing PFM, the rule of law, the AML/CFT and governance frameworks to support inclusive private sector-led growth.

Program modalities. Staff propose 42-month Extended Fund Facility (EFF) and Extended Credit Facility (ECF) arrangements of 391 percent of quota or SDR 484.058 million, with front-loaded access. The proposed access level is above the combined cumulative normal access limit, triggering the High-Combined Credit Exposure (HCCE)

procedure—the first such case since the adoption of the HCCE policy in 2020. Staff assess that Benin meets all three required criteria for HCCE.

Article IV consultation. The Article IV discussions, which also informed program design and objectives, focused on: addressing vulnerabilities related to Benin's transit-centered "entrepot" growth model through economic diversification and an enabling business environment to expand the formal private sector; and limiting pandemic scars in the financial system.

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

Discussions were held via videoconferences (during March 23–25, 2022) and in person (during April 4–13, 2022 in Cotonou and April 19–22 in Washington D.C.). The mission comprised Mr. Lonkeng (head), Mr. Zouhar (Resident Representative), Ms. Daly, Messrs. Amidzic and Bennouna, and Ms. Polo (all AFR), Mr. Ramarozatovo (FAD), and Mr. Houessou (local economist). Mr. El Khoury and Ms. Thomas (both LEG) and Ms. Feruglio (FAD) joined discussions virtually. Messrs. N'Sonde and Varela (OED) attended the meetings in person. The mission was supported by Mses. Ndome-Yandun (HQ) and Nononsi (local office). The mission met with Senior Minister of Economy and Finance Wadagni, Senior Minister of Development and Coordination of the Governmental Action Bio Tchané, President Talon's Special Advisor Dagnon, National Director of the BCEAO (the regional central bank) Assilamehoo, Director of the Military Cabinet of the President General Bada, Ministry of Social Affairs and Microfinance, Abidjan-based WAMU Banking Commission, other senior government officials, the civil society, the business community and various donors, including representatives of the African Development Bank, the World Food Programme and the World Bank.

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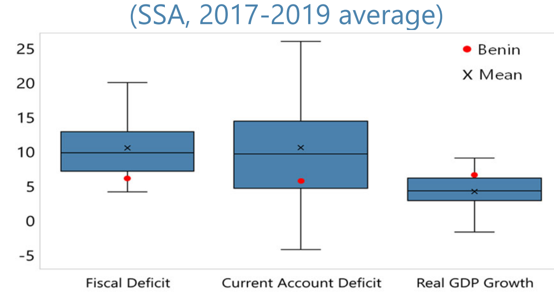
CONTEXT

1. **Benin made significant strides in macroeconomic management in the three years preceding the COVID-19 pandemic** (Text Figure 1). The reforms were anchored by the Government Action Program (2016–21) and supported by an ECF arrangement (2017–20). The authorities consolidated public finances and enhanced public financial management while boosting public investment, with significant advances in public debt management and budget transparency. These achievements contributed to strengthening Benin's credibility, culminating in the country's first Eurobond issuance in 2019. Despite gaps in private sector development, recommendations from the 2019 Article IV were broadly implemented (Annex II).

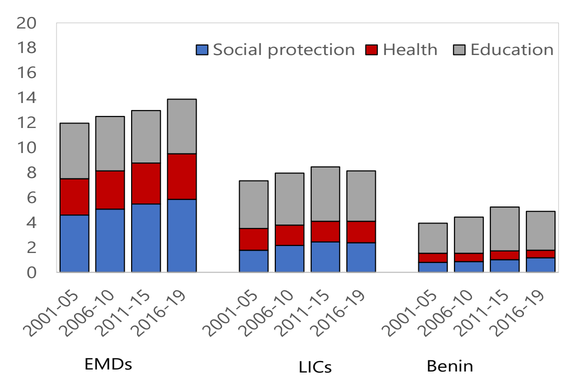
Text Figure 1. Benin: Distribution of Selected Economic Indicators
(SSA, 2017-2019 average)



Source: IMF staff calculations.
The boxplots indicate, from top to bottom, the maximum, the 75th percentile, the median, the 25th percentile, and minimum values.

2. **Pre-existing social challenges, pandemic scars, a fragile domestic security situation at Benin's northern borders and higher cost of living amidst the war in Ukraine risk further eroding hard-won macroeconomic gains.** Even before COVID-19, Benin recorded one of the highest levels of income inequality in the region (Text Figure 3). Progress towards SDGs has been uneven—Benin ranked 155 out of 165 countries in the *2021 Sustainable Development Report*. The pandemic and the impact of the war in Ukraine are exacerbating socio-economic challenges amid historically low social spending levels (Text Figure 2). Intensified terrorist threats from the Sahel region have spilled over to northern Benin, a region that has traditionally lagged in access to basic public services and social outcomes.

Text Figure 2. Benin: Social Spending
(percent of GDP)



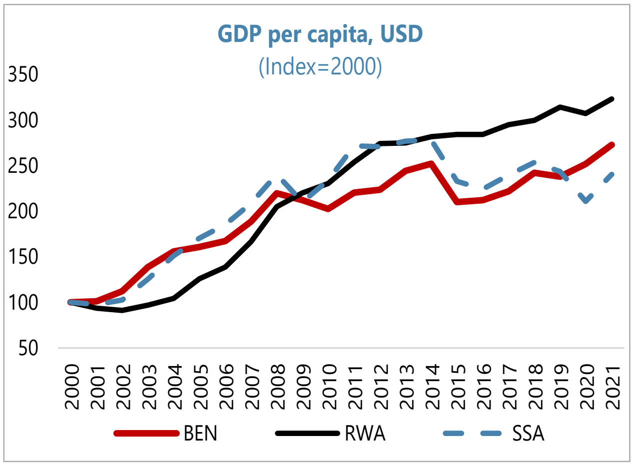
Source: World Economic Outlook, World Development Indicators.
*Latest available data is used for social protection for the 2016–19 episode.

3. **The authorities have requested a Fund-supported program to meet urgent financing needs and support the implementation of Benin's National Development Plan (PND; 2018–25) to pursue development with a "human face."** The PND puts emphasis on SDGs—Benin developed an innovative SDG bond framework (Annex VI) and issued the first-ever SDG bond by an African sovereign in July 2021 (€500 million). In addition to helping Benin meet pressing financing needs, and building on the updated Government Action Program (PAG; 2021–

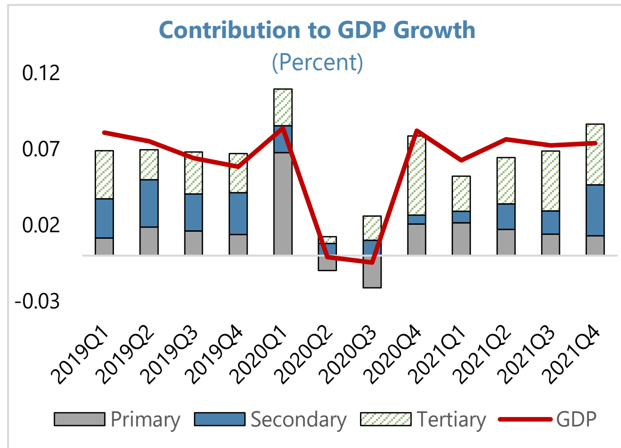
26), the new Fund-supported program seeks to help (1) boost revenue mobilization and improve spending efficiency; (2) enhance social protection and equitable access to basic public services; and (3) reinforce PFM, AML/CFT, governance and anti-corruption frameworks to lay the institutional foundations for sustained private sector-led growth that benefits all Beninese.

Text Figure 3. Benin: Recent Socio-Economic Developments

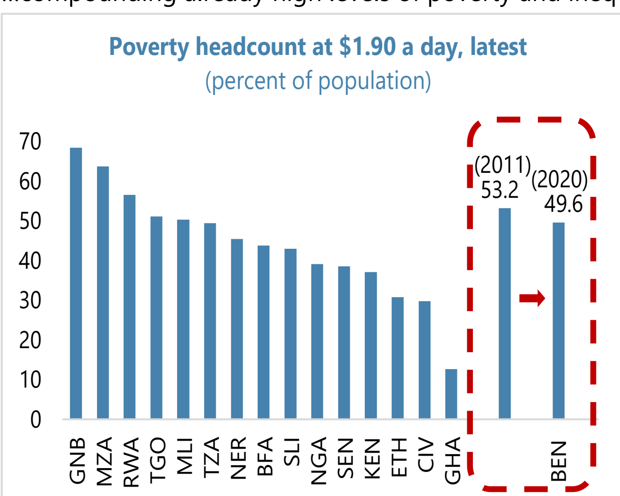
The 2008–09 global financial crisis and the 2014 global oil shock significantly slowed income growth…

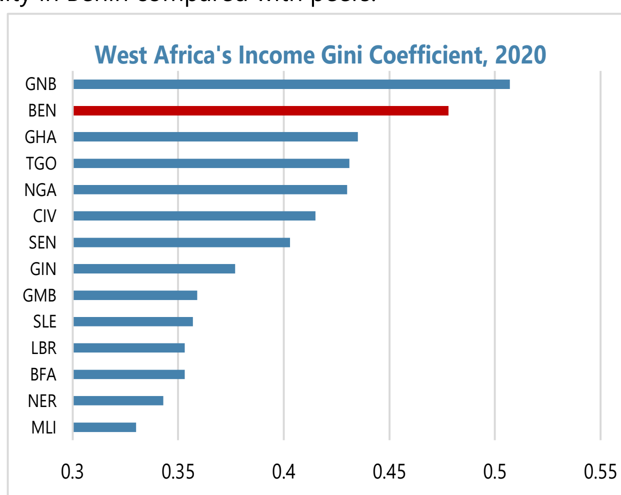


The COVID-19 pandemic doubled down at its height…



…compounding already high levels of poverty and inequality in Benin compared with peers.





Sources: World Economic Outlook, World Development Indicators, Human Development Index, and IMF staff calculations.

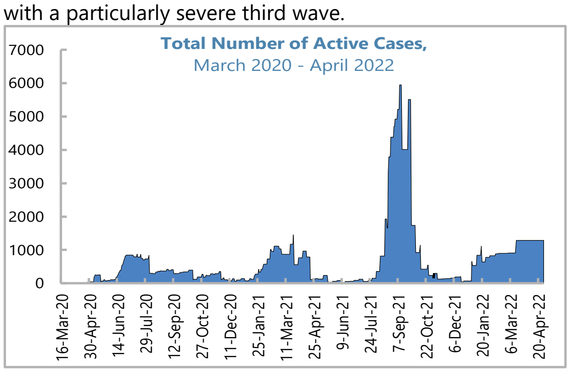
4. The proposed EFF-ECF arrangements are designed to mitigate risks to the program through inclusive policies. Risks can emanate from expenditure pressures, heavily frontloaded access, and social discontent amidst higher cost of living. The authorities' demonstrated (and continued) commitment to reform, including under the 2017–20 ECF, the premium associated with market signaling, and the strong involvement of the civil society in the budget process in Benin are important additional safeguards. The program also features a robust CD component to support reform implementation (Annex IX).

RECENT DEVELOPMENTS

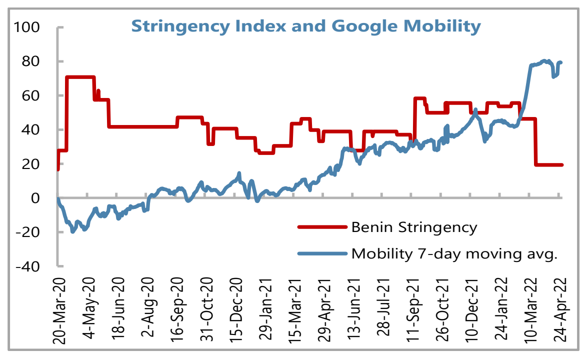
5. COVID-19 infections have abated but the vaccination rate, while on the rise, remains relatively low. About 21 percent of the population (2.7million persons) were fully vaccinated as of end-April 2022, above WAEMU and SSA averages (Text Figure 4). Meeting the government's goal to vaccinate 60 percent of the targeted population (12-year-old and above) by end-2022 will require exceptional efforts to secure additional vaccine doses and alleviate hesitancy.

Text Figure 4. Benin: COVID-19 Developments in Perspective

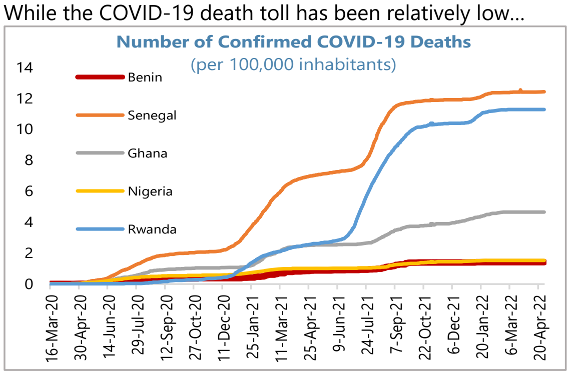
Benin has experienced four waves of Covid-19 infections, with a particularly severe third wave.



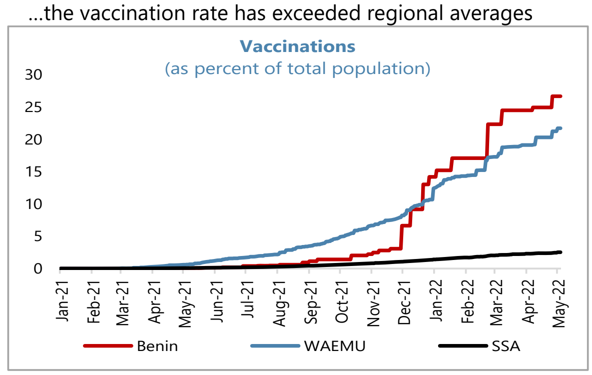
Mobility restrictions have been progressively lifted.



While the COVID-19 death toll has been relatively low...



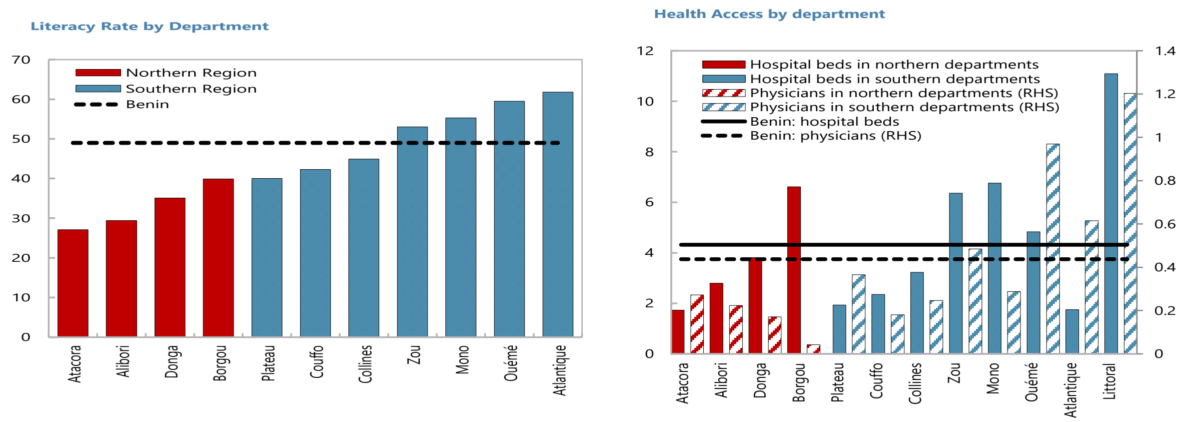
...the vaccination rate has exceeded regional averages



Sources: World Economic Outlook, University of Oxford, Google Mobility, Beninese Ministry of Health.

6. Benin has been increasingly subject to cross-border attacks along its northern borders in recent months. As feared, the intensification and expansion of activity of extremist armed groups in the region has spilled over to Benin. Poor access to basic public services and widespread poverty in Benin's northern region (Text Figure 5) could exacerbate the security situation.

Text Figure 5. Benin: Regional Disparities in Benin: Literacy Rate and Access to Health Services (as of 2019)

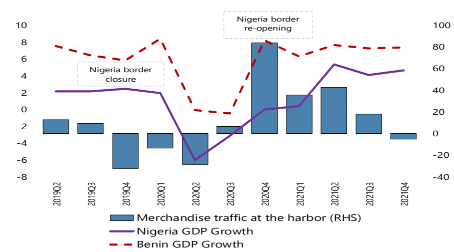


Sources: Beninese authorities, World Health Organization, and IMF staff calculations.

7. **While the Beninese economy continued to show resilience in 2021, the recovery has remained fragile and highly dependent on transit trade with Nigeria.**

- **Real GDP growth** is estimated at 7.2 percent (y/y) in 2021, driven by a ramp-up in public investment and booming Port activity as transit trade resumed with the re-opening of the Nigeria border (Text Figure 6). Continued scale-up of cotton production allowed Benin to consolidate its position as the lead cotton producer in West Africa.

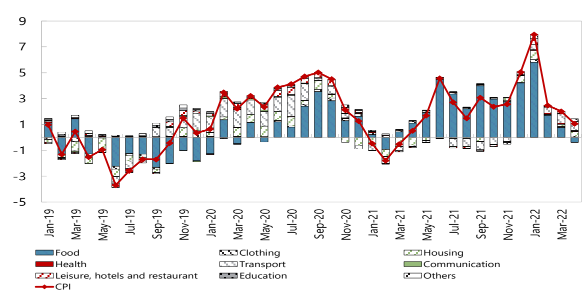
Text Figure 6. Nigeria Border Re-opening, Port Traffic and Economic Recovery in Benin (y/y)



Sources: Beninese authorities and IMF staff calculations.

- **Inflation** rebounded in the first quarter of 2022 to 4.1 percent (y/y) (from 1.7 percent in 2021), mainly driven by food prices (7.4 percent), reflecting pandemic-related supply chain disruptions, higher demand from neighboring countries, and soaring international food and energy prices amidst geopolitical tensions (Text Figure 7). The authorities recently adopted a set of measures to contain food and energy prices (Box 4).

Text Figure 7. Benin: Evolution of Inflation (January 2019-March 2022, y/y)

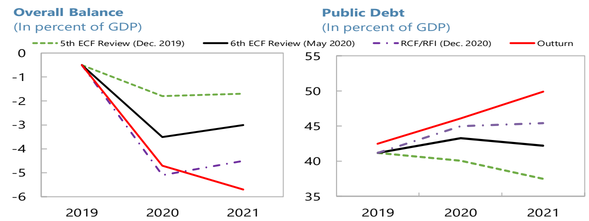


Sources: Beninese authorities and IMF staff calculations.

- The **current account deficit** widened to an estimated 4.4 percent of GDP in 2021, due to increased imports, driven by higher oil and food prices and the pick-up in public investment, not offset by stronger cotton exports. The larger current account deficit was financed by a surge in portfolio inflows, reflecting Benin's large Eurobond issuances (Annex IV).

8. **Moreover, the war in Ukraine is compounding pre-existing socio-economic challenges**. Although Benin's direct trade exposure to Russia and Ukraine is relatively small, the spike in international oil, food and fertilizer prices and supply chain disruptions related to the war in Ukraine are widening the current account deficit. In addition, the deterioration in terms of trade is negatively affecting households' real income, contributing to food insecurity. Higher import prices have also exacerbated inflationary pressures, especially food-related, at the onset of the war (Text Figure 7). Meanwhile, normalization of monetary conditions in advanced economies is exerting pressure on bond spreads for frontier markets sovereigns.

Text Figure 8. Benin: Overall Balance and Debt: Forecasts vs. Outturn
(2020–21)



Sources: Beninese authorities and IMF staff calculations.

9. **Fiscal deficit and debit widened significantly in 2020 and 2021,** consistently exceeding earlier expectations as the pandemic persisted (Text Figure 8). The overall deficit was 4.7 percent of GDP in 2020, an expansion of 2.9 ppts of GDP compared with the pre-pandemic forecast, driven mostly by COVID-19-related spending and a counter-cyclical infrastructure push (Text Table 1). Although domestic tax collection exceeded expectations, thanks to pre-pandemic revenue mobilization reforms and corporate income taxes based on the previous year's profits, international trade taxes were lower than expected due to the Nigeria border closure. Faced with a protracted pandemic in 2021, the authorities expanded the fiscal deficit further by 1.2 ppts of GDP to 5.7 percent of GDP (compared with an original target of 4.5 percent of GDP). The expansion helped extend pandemic-related spending and boost infrastructure further (CFAF 289 billion) (Text Table 1), along with new security-related outlays. Domestic taxes were buoyed by an extraordinary arrears collection (CFAF 14 billion or 0.15 percent of GDP) while the re-opening of the Nigeria border in December 2020 contained shortfalls in international trade taxes.

Text Table 1. Benin: Tax and Spending: Pre-Pandemic Forecasts vs. Outturns (in billion CFAF)

	2020			2021		
	Forecast	Outturn	Difference	Forecast	Outturn	Difference
Tax Revenue						
International tax trade	444	332	-112	455	397	-58
Direct and indirect taxes	586	616	30	600	685	85
Expenditure						
Current primary	807	919	112	861	925	64
Capital	500	622	122	514	803	289
Overall Balance	-161	-426	-265	-168	-562	-394

Source: Beninese Ministry of Economy and Finance and IMF staff calculation

10. The fiscal expansion in 2020-21 was supported by market and official financing (Text Table 2). Benin was the first SSA country to return to international capital markets since the onset of COVID-19, raising €1 billion in Eurobonds in January 2021, partly to retire more expensive and shorter maturity debt (Annex VI). The country also benefited from substantial support from the international community, including Fund emergency financing and the SDR allocation (Box 1).

Text Table 2. Benin: Financing Sources

(in percent of GDP)

Total Financing, Net	**4.2**	**5.6**
Domestic Financing, Net	**1.7**	**-3.9**
Regional bond market	-0.8	-4.4
Local commercial banks	-0.6	-0.4
BOAD[1]	1.3	0.0
IMF (central bank onlending)	1.9	1.0
of which: ECF	*0.8*	*0.0*
of which: RCF/RFI	*1.1*	*0.0*
of which: SRD allocation	*0.0*	*1.0*
External Financing, Net	**2.4**	**9.5**
Multilateral (excl. IMF)	1.3	1.0
Bilateral	0.2	0.9
Commercial	0.9	-0.3
Eurobond	0.0	7.9

[1]BOAD treated as domestic financing before 2022.

Box 1. Use of SDR Allocation

The IMF general SDR allocation of August 2021 was equivalent to around 1.0 percent of GDP for Benin (Text Table 1). The BCEAO, the fiscal agent of WAEMU member countries, on-lent the equivalent CFAF amount (95 billion) to Benin (recorded as domestic debt)[1]. The authorities reportedly channeled the funds to additional spending on security, health, and their flagship school feeding program in 2021 (Text Table 1).

Text Table 1. Benin: SDR Allocation Use

	In billion CFAF
Security-support measures	**35.0**
Hiring/training of security personnel	5.0
Construction of support facilities in border areas (including police stations, schools, health and youth centers)	30.0
School Feeding Program	**21.2**
World Food Program (school feeding expenses)	19.6
Emergency program supplying drinking-water to schools	1.6
Health-support measures	**38.8**
Medical supplies and equipment, ambulance services, and medical storage facilities	38.8
Total	**95.0**

Source: Beninese authorities and staff calculations

1/ The on-lending was subject to a 20-year maturity (with possibility of rollover) at a fixed interest rate of 0.05 percent.

OUTLOOK AND RISKS

The baseline macroeconomic outlook remains cautiously favorable (Text Table 3). The negative terms of trade shock and reduction in global demand amidst the war in Ukraine are expected to take a toll on growth in 2022, now forecasted at 5.7 percent. Over the medium-term, growth would converge to its potential of 6 percent (Box 2). Inflation is expected to rise to 5 percent in 2022, driven by the sharp increase in global food and oil prices, before stabilizing at 2 percent, consistent with the peg to the euro. The current account deficit would widen to 6.2 percent of GDP in 2022, driven by high-import content government spending to mitigate security-related risks and negative terms of trade shocks persisting through 2024; it is expected to hover around 4 percent of GDP over the medium term.

Text Table 3. Benin: Key Macroeconomic Indicators

(Percent of GDP, unless otherwise indicated)

	Avrg 2017-19	2020	2021	2022	2023	2024	2025	2026	2027
		Est.	Est.	Projections					
Real GDP (percent change)	6.4	3.8	7.2	5.7	6.2	6.0	6.0	6.0	6.0
CPI inflation, average (percent)	0.6	3.0	1.7	5.0	1.8	2.0	2.0	2.0	2.0
Overall balance (commitment basis, incl grants)	-2.6	-4.7	-5.7	-5.5	-4.3	-2.9	-2.9	-2.9	-2.9
Tax revenue	10.2	10.5	11.0	11.5	12.0	12.5	13.0	13.3	13.6
Primary expenditure	9.3	10.2	9.4	9.6	9.5	9.7	9.8	9.9	10.4
Current account balance	-4.2	-1.7	-4.4	-6.2	-5.7	-4.6	-5.0	-4.5	-4.1
Public debt	41.1	46.1	49.9	51.6	52.0	50.7	49.2	47.9	46.9

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

11. The balance of risks to the outlook is tilted to the downside.

- On the downside, heightened contagion of regional security risks could undermine investor confidence and instill a wait-and-see attitude. Further purchasing power erosion from increases in food, energy and transport costs as the risk of “geoeconomic fragmentation” rises could fuel social discontent. In addition, growth remains dependent on developments in Nigeria and the pace of deployment of vaccines and could also be impacted by unexpected shifts in the COVID-19 pandemic (Annex III and **SIP-III**). A sharp rise in global risk premia as monetary policy normalizes in advanced economies and as the war in Ukraine persists, could increase rollover risks in the medium term. Benin is also vulnerable to climate change shocks (Annex VIII).

- On the upside, a stronger-than-expected recovery in global merchandise trade would further boost activity at the Port of Cotonou. Completion of large infrastructure projects—amid greater private sector participation—could further unlock Benin’s growth potential.

Authorities’ Views

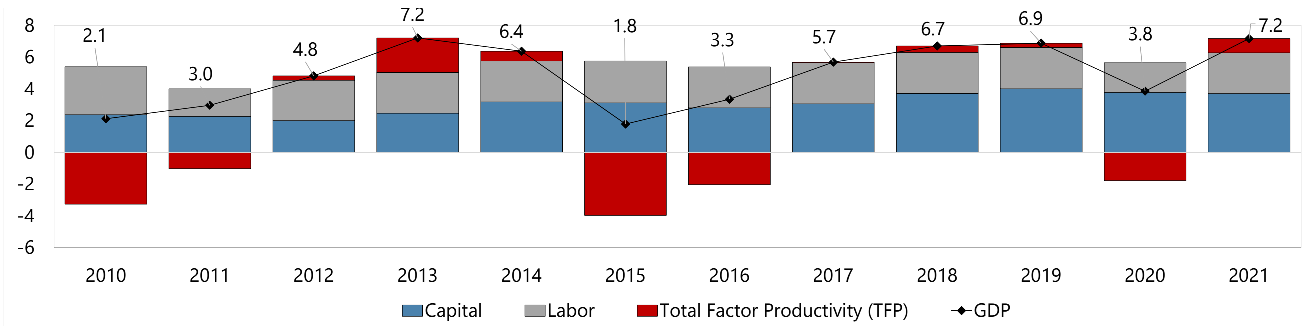
12. While concurring with staff’s baseline growth forecasts, the authorities see a higher upside to medium-term growth. They expect higher efficiency in agriculture and dividends from ongoing industrial drive, considering their plans to i) enhance the yield of main staple food products through improved access to high-quality seeds and instilling best farming practices through the *Conseil Agricole*; ii) consolidate Benin’s position as Africa’s lead cotton producer; and iii) leverage the SEZ to accelerate the move up the value chain and promote export diversification. Furthermore, the authorities expect that the completion of ongoing and planned infrastructure projects would catalyze additional private investment and boost growth over the medium term beyond baseline forecasts. They are of the view that inflation could be potentially lower in 2022 owing to their anticipation of a favorable harvest and the government's recent policy measures to contain the surge in food and energy prices (Box 4).

Box 2. Estimating Benin's Potential Growth[1/]

A growth accounting exercise reveals a sustained historical contribution of labor and capital to growth in Benin and a highly volatile contribution of Total Factor Productivity (TFP). Using historical data for output and production factors and assuming a Cobb Douglas production function, we computed the contribution to growth of changes in labor (augmented with education attainment) and the capital stock, with TFP's obtained as residuals (text Figure 1).[/2] Computations suggest that growth in Benin over the past decade was mostly driven by production factors, with the contribution of human capital accumulation at 2.6 ppts on average per year, slightly lower than the contribution of physical capital accumulation—both from public and private investment flows—at 3 ppts.

Benin Growth Decomposition

(Percent, 2010-2021)



Benin's potential growth is estimated at 6 percent for 2023–26. The estimation uses public and private investment dynamics envisaged under the program, and the historical average of human capital contribution to growth observed between 2015–2018. It also assumes the average TFP contribution observed during 2017–19 (0.4 ppt), which leads to a potential growth estimate of 6 percent. Estimates using alternative paths for future TFP growth (50th and 75th percentiles, and average TFP contribution recorded over 2009–19) fall in the 5.7–6.3 percent range. We further assume that growth will settle at 5.5 percent in the long run (2027 and beyond).

The potential growth estimate is in line with estimates obtained using the HP filter and the trend output approach. These methods place growth in the 5.5–6.4 percent range. They suggest that Benin is currently below potential, with the output gap closing only in 2023.

1/ Prepared by Hicham Bennouna (AFR).
2/ $Y = AK^{\alpha}(LH)^{1-\alpha}$ where Y is real GDP, A is total factor productivity, K is the stock of physical capital computed using the perpetual inventory method, L is labor force, $H = (1.07)^{s}$ is human capital with s representing the average number of years of schooling from Barro and Lee (2010), and α is the income share of capital calibrated at 0.3 as is standard in the literature.

POLICY DISCUSSIONS

Program discussions centered on addressing Benin's large human capital and infrastructure gaps in a fiscally sustainable manner. In the near-term, the program will help meet pressing financing needs, anchor the authorities' fiscal reform, and support their efforts towards an inclusive private sector-led economic recovery. Reforms envisaged under the program built on the discussions under *the Article IV consultation, including the vulnerability of Benin's transit-centered "entrepot" growth model to economic developments in Nigeria.*

A. Maintaining Macroeconomic Stability and Preserving Debt Sustainability

13. Fiscal policy under the program is calibrated flexibly to accommodate urgent spending needs in the near-term while emphasizing revenue-based consolidation over the medium term, with due account for Benin's debt carrying capacity. While providing room to accommodate urgent and unanticipated spending needs in 2022 (¶18-20), the fiscal program is calibrated to ensure convergence to an overall fiscal balance of 3 percent of GDP by 2024 (the current WAEMU convergence criterion), with an interest-to-tax revenue cap of 19 percent as a guide. This corresponds to a reduction in the overall fiscal balance of 2.8 ppts of GDP in the first 3 years of the program (2022–24), with a reduction of 2.1 ppts in the primary balance. The targeted reduction is deemed realistic based on Benin's fiscal performance pre-pandemic (Figure 2) and the unwinding of COVID-19-related spending as the pandemic wanes (Text Table 4). This would help contain public debt and distress levels and preserve debt sustainability. It would also maintain the interest-to-tax revenue ratio below the critical cut-off of 19 percent (Annex V) to provide enough room for borrowing while accounting for Benin's debt carrying capacity. Benin is assessed to be at moderate risk of external debt distress with limited space to absorb shocks (see DSA).

Credible Medium-Term Fiscal Consolidation

14. Medium-Term fiscal consolidation will be tilted toward revenues to increase Benin's low tax-to-GDP ratio.

- The envisaged increase in tax revenues represents 1.9 out of the 2.8 ppts of GDP in total adjustment over the program, reflecting Benin's relatively low-tax-to GDP ratio (**SIP-II on revenue mobilization**) and large development needs (**SIP–I on public spending for inclusive growth**).

- Considering the findings in **SIP–I**, public expenditures increase above their pre-pandemic levels under the program. This will be achieved through stronger domestic revenue mobilization, spending reprioritization, including to create room for socio-economic spending under the authorities "civilian-based" security plan (Box 3), efficiency gains in public investment, and unwinding of COVID-19 spending (Text Table 4). Significant savings in the interest bill (0.7 ppt of GDP) are also expected over the medium-term, on account of the authorities' active debt management (Annex VI).

Text Table 4. Benin: Contributions to Fiscal Consolidation, 2020–25
(Percent of GDP)

	2020	2021	2022	2023	2024	2025	Cumulative Pre-Covid-2025[1]	Cumulative 2022-25
Total Overall Adjustment	**-4.2**	**-1.0**	**0.2**	**1.2**	**1.4**	**0.0**	**-0.3**	**2.8**
Total Revenues and Grants	**0.3**	**-0.2**	**0.1**	**0.8**	**0.5**	**0.4**	**2.0**	**1.7**
Planned Tax Reform	0.0	0.0	0.5	0.5	0.5	0.5	2.8	1.9
Grants	0.6	-0.8	-0.1	0.3	-0.1	-0.1	0.1	0.0
Other	-0.2	0.5	-0.2	0.0	0.0	0.0	-0.9	-0.2
Expenditure	**-4.5**	**-0.8**	**0.1**	**0.5**	**0.9**	**-0.4**	**-2.5**	**1.1**
Security-risk package	0.0	0.0	-0.9	0.2	0.2	0.2	-0.3	-0.3
Current expenditure	0.0	0.0	-0.4	0.1	0.1	0.1	-0.2	-0.1
Capital expenditure	0.0	0.0	-0.5	0.1	0.1	0.1	0.0	-0.2
Covid spending[2]	-1.1	0.6	0.1	0.4	0.0	0.0	0.0	0.5
Transfers	-0.1	0.1	-0.1	0.2	0.0	0.0	0.0	0.1
Capital expenditure	-0.6	0.4	0.1	0.1	0.0	0.0	0.0	0.2
Other current expenditure	-0.4	0.2	0.1	0.0	0.0	0.0	0.0	0.2
War in Ukraine policy response	0.0	0.0	-0.3	0.3	0.0	0.0	0.0	0.0
Wage revaluation	0.0	0.0	-0.1	-0.1	0.0	0.0	-0.2	-0.2
Interest payments	-0.4	-0.3	0.4	0.4	-0.1	0.0	0.0	0.7
Other spending	-3.0	-1.1	0.9	-0.4	0.8	-0.6	0.4	0.6
Current expenditure	-0.6	0.5	0.7	-0.2	-0.2	-0.2	0.4	-0.1
Capital expenditure	-2.4	-1.6	0.3	-0.2	1.0	-0.4	0.0	0.7
Memo Item								
Additional policy measures in response to the war in Ukraine[3]			-0.5					

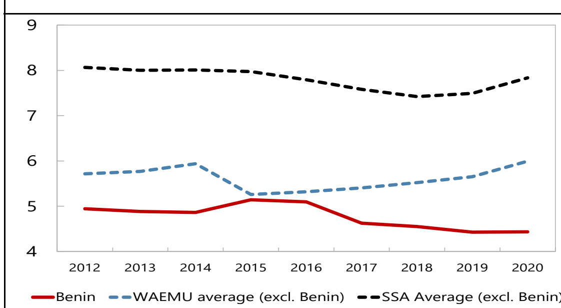
1/Average annual adjustment and contributions for 2017-19.
2/Excludes below the line measures totaling 0.6 ppt of GDP over 2020-22.
3/For targeted policy measures in response to war in Ukraine, contingent on mobilizing additional external budget support.

Source: Beninese authorities and staff calculations.

15. The fiscal adjustment will accommodate wage bill costs from hiring in health and security, and salary revaluation, while preserving sustainability.

- Salary and employment controls since 2016 have placed the wage bill on a downward trajectory and well-below peers in percent of national income (Text Figure 9). Acknowledging the unions' outcries over purchasing power erosion, the President announced earlier this year the government's intention to conduct a "revalorization" of public sector salaries and increase the national minimum wage (unchanged since 2014). While the government, unions, and the private sector have recently converged on a 30 percent increase in the minimum wage (to CFAF 52,000/month or about US$1,100/year), discussions on salary increases for public sector employees are still ongoing.

Text Figure 9. Benin: Wage Bill Compared with WAEMU and SSA Peers
(in percent of Gross National Income)



Source: Beninese Authorities and IMF staff estimates

Box 3. The Authorities' Civilian Approach to Security Risks

The authorities have developed a strategy for mitigating security risks, centered on a civilian approach. The plan (CFAF 662.3 billion or about 6 percent of GDP over 2022–26) seeks to increase state presence (and effectiveness) in communities at risk and improve the living conditions of populations in those areas. This seeks to help prevent social-economic conditions that could lead to discontent among the vulnerable and/or youth recruitment by terrorist groups.

The plan is centered on three pillars: (i) identifying vulnerable areas; (ii) assessing and meeting the needs of populations in these areas; and (iii) promoting social cohesion between local communities. Initiatives under the plan include enhanced intelligence, acquisition of military equipment, rehabilitation of farm roads and support to farmers, construction of police stations, access to water and combating youth unemployment through microcredit schemes and the promotion of agriculture. Spending under the plan therefore covers three types of measures: security, economic, and social (Text Table 1), which are partially accommodated within the overall spending envelop under the EFF-ECF arrangements.

Text Table 1. Authorities' National Security-Risk Strategy 2022-26[1]
(Billions of CFAF)

Security	156.9
Repair and Maintenance of Rural Roads	123.1
Microcredit to promote income-generating activities	38.3
Promotion of agriculture	91.5
Village water supply	181.1
Livestock and migration management	71.34
Total	**662.3**

1/ Reflects spending under the authorities' medium-term security plan.

- In addition to the pending revaluation of salaries of public sector employees, new hiring in health (1,700 in 2023) and in security and armed forces (4,000 on average per year over 2022–26) to meet personnel shortage will permanently increase the wage bill (by about 0.1 ppt of GDP from 2023 after personnel training this year). These costs are partly offset by permanent savings from the recent closure of 19 Beninese embassies and consulates around the world, continued wage bill control, including strict replacement rule for retirees, and ongoing efforts to clean-up the payroll.

- The authorities will evaluate their ongoing wage bill reform efforts, including with planned IMF technical assistance, to ensure that public compensation remains sustainable and identify measures to ensure equity over the medium term.

16. Benin will maintain a prudent borrowing strategy. The authorities' borrowing plan focuses on preserving debt sustainability, mitigating refinancing risks, and containing borrowing costs (MEFP ¶12). In this connection, they will prioritize concessional resources from multilateral donor partners to keep the interest-to-tax revenue ratio in check (Annex V).

Short-Term Flexibility: Delaying the Fiscal Consolidation to 2023 Amid Urgent Needs

17. The fiscal adjustment envisaged in the original 2022 budget will be paused to accommodate urgent spending needs, consistent with the program's overall fiscal strategy (¶14). The overall balance target of 4.5 percent of GDP in the original 2022 budget would have implied primary spending cuts to the tune of 1.1 ppt of GDP. However, several major events outside the authorities' control occurred since the budget was originally adopted by Parliament in December 2021, including spillovers from regional security risks, lingering COVID-19, and purchasing power erosion amid the war in Ukraine. These unanticipated developments call for some short-term flexibility, building on Benin's established track record in fiscal responsibility and the moderate risk of debt distress.

18. The envisaged fiscal deficit for 2022 is therefore close to its 2021 level. Considering new spending pressures, maintaining the fiscal deficit unchanged from 2021 to 2022 while meeting urgent expenditure needs and protecting priority social spending will require preserving the yields from the tax package that was part of the original budget (0.5 ppt of GDP) and important expenditure reprioritization compared to 2021 allocations (Text Table 4).

19. The authorities will issue a supplementary budget (MEFP ¶15) targeting an overall deficit of 5.5 percent of GDP to reflect new developments.

- The deviation from the original budget (Table 2–3) is mainly driven by an increase in expenditure to meet immediate needs, including mitigation of security risks, hiring in the health sector, and salary increases to partly offset cumulative purchasing power erosion in recent years (¶16).

Text Table 5. Benin: Estimated Yields from the 2022 Tax Package

	in bn CFAF	in percent of GDP
Tax policy measures	***40.8***	***0.4***
Streamlining tax exemptions (rice, motorcycles, water/electricity, etc.)	5.9	0.1
Better valuation of imported goods at Customs	6.7	0.1
PIT reform and synthetic business tax	8.7	0.1
Tax on goods and services (including excises, tax on gambling, etc.)	13.4	0.1
International trade taxes (ECOWAS common external tariff)	6.1	0.1
Administrative measures (tax arrears, digitalization, etc.)	***12.8***	***0.1***
Total	**53.6**	**0.5**

Sources: Benin's Tax Directorate and Customs Administration

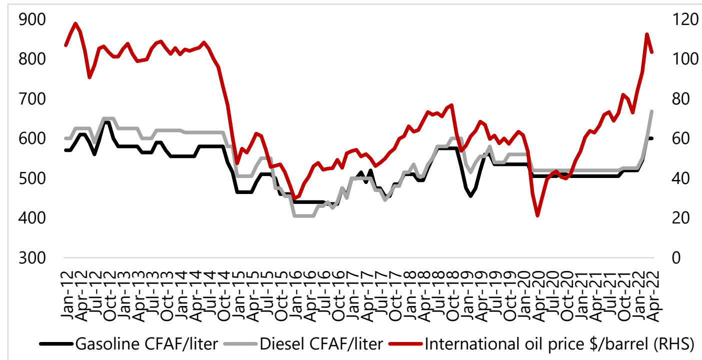
- Security-related spending is based on the authorities' security plan (Box 3). The plan involves frontloaded outlays in 2022–23 (mostly to enhance state presence and effectiveness in vulnerable areas) and permanent hiring costs to fill the shortage of agents in police and armed forces.

20. Heightened uncertainty surrounding the scope and duration of the war in Ukraine has complicated the authorities' policy calibration.

- Faced with the urgency to act to limit hardship from high food and energy prices, the authorities adopted on March 23 a first wave of mostly non-targeted measures (initially applicable through June 2022), including a temporary freeze on fuel prices at the pump (Text Figure 10), a subsidy on basic food products (rice, flour, and vegetable oil), an export ban on selected agricultural products and a rebate on freight costs. Although fuel subsidies are untargeted, they can temporarily limit the impact of the price shock on vulnerable groups in the absence of well-developed safety nets.

- The authorities are now pivoting to more targeted and cost-effective support measures. In this context, they further increased diesel pump prices on April 20, bringing the cumulative hikes since the beginning of the year to 28 percent. Staff estimate the resulting fiscal savings (compared with a zero passthrough scenario) at about 0.4 percent of GDP (Box 4). The authorities plan to subsidize fertilizers for the 2022/23 agricultural campaign (about 0.3 ppt of GDP) to help curb the upward trend in food insecurity since the onset of COVID-19. The policy measures adopted in response to the war in Ukraine under the program will be unwound in 2023. Considering the pump price hikes so far this year (Box 4) and projected international oil price trend, the increase in fuel subsidies related to the war in Ukraine is expected to dissipate in 2023.

Text Figure 10. Benin: International Oil Prices and Fuel Prices at the Pump (2012-2022)



Source: Beninese Authorities and IMF staff estimates

- Conditional on securing additional concessional budget support, the primary fiscal deficit target for end-December 2022 will be relaxed by up to an additional 0.5 ppt of GDP (for a resulting overall deficit of 6.0 ppt of GDP) to accommodate targeted policy measures in response to the war in Ukraine (TMU ¶7). Such a move would not jeopardize the medium-term fiscal strategy, as planned interventions would be one-off in nature and easily reversible. The additional spending would be supported by existing robust PFM practices.

Authorities' Views

21. The authorities agree with designing fiscal adjustment around meeting urgent needs in the near term and ensuring credible fiscal consolidation in the medium term. They remain committed to converging to WAEMU norms and maintaining debt sustainability. They've indicated that their policy response in relation to the war in Ukraine will be contingent on the scope and duration of the war, within the parameters of their Fund-supported program.

B. Boosting Revenue Mobilization, Strengthening PFM, and Improving Spending Efficiency

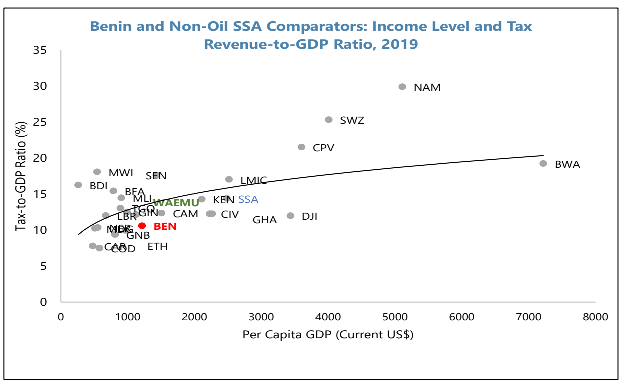
22. Financing Benin's large spending needs requires sustained efforts in domestic revenue mobilization.

- Staff's tax potential analysis suggests that Benin's tax gap vis-à-vis peer WAEMU countries rose to about 3 percent of GDP during 2015–19 (Text Figure 11; **SIP–II**). The authorities will develop a medium-term revenue mobilization strategy (MTRS) (proposed ***Structural Benchmark for end-September 2023***) to improve tax collection. Evidence based on historical episodes of revenue mobilization reforms in Benin (1990–2021) suggests that revenue administration reforms are more effective when coupled with tax policy reforms. Increasing Benin's tax-to-GDP ratio would require expanding the tax base and streamlining tax expenditures that are not proxy-means tested, coupled with consistent improvements in revenue administration (**SIP-II**). The MTRS should also entail improved coordination between Tax Administration and Customs, including through better information sharing.

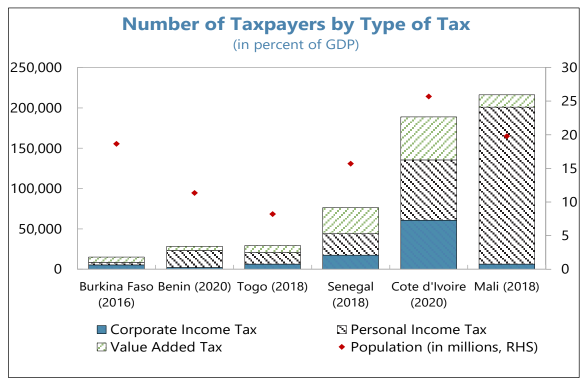
- A detailed report on 2021 tax expenditures will be annexed to the 2023 draft budget law submitted to Parliament, and a strategy for rationalizing them over 2023–25 will be developed (proposed ***Structural Benchmark for end-November 2022***). Removing tax expenditures should take into account possible distributional implications, including mechanism to compensate the vulnerable.

Text Figure 11. Benin: Relative Tax Performance

Benin's tax-to-GDP ratio is relatively low compared with its current level of development…



…reflecting a weak domestic tax base



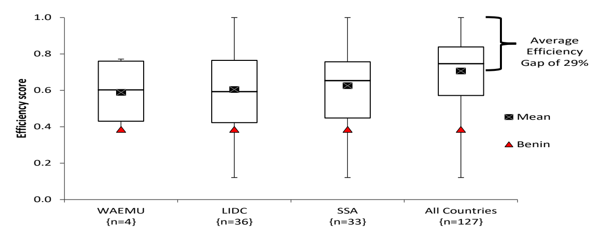
Source: Beninese Authorities and IMF staff estimates

23. A number of PFM improvements will be critical to strengthen transparency and spending efficiency.

- Notwithstanding strong performance in several areas under the IMF's 2021 Fiscal Transparency Evaluation (FTE), improvements are needed in fiscal risk management in Benin. The authorities will prepare a statement containing a quantitative analysis of fiscal risks in all key areas as part of the 2024 draft budget law documentation (proposed ***Structural Benchmark for end-October 2023***). Close monitoring of contingent liabilities from credit guarantee schemes and enhancing information disclosure on PPPs will also be important for managing fiscal risks (MEFP ¶21).

- Improving public investment management will support the authorities' ongoing infrastructure push and generate efficiency savings. Despite progress noted in the 2019 PIMA, public investment efficiency still lags peers (Text Figure 12). The authorities will publish all the criteria for the appraisal and selection of major investment projects, along with feasibility studies (proposed ***Structural Benchmark for end-December 2023***).

Text Figure 12. Benin: Efficiency in Public Expenditure vis-à-vis Peers



Source: IMF's Public Investment Management Assessment (PIMA; 2019)

- Getting energy prices right over time would generate efficiency savings, ensure the sustainability of the public electricity company, and limit fiscal risks. The government introduced in early 2020 a reform of the electricity tariff that entailed a cumulative 15 percent tariff hikes during 2020–21. However, the reform was paused due to the COVID-19 shock (with the related subsidies explicitly reported as COVID-19 supportive measures). Recognizing the regressive and inefficient nature of energy subsidies, the authorities will develop a timetable for aligning electricity prices with costs. They also intend to modernize their fuel pricing mechanism (MEFP ¶14).

24. Security spending will be supported by existing robust PFM practices, including budget formulation and execution, and control and oversight. Security spending will be subject to standard PFM processes, including public investment management practices. Spending under the authorities' security plan will be transparently reflected in the budget, programmed under the budget of the Ministries of the Interior and Public Security and Defense, in line with the authorities' move to program-based budgeting this year. Distinct procurement codes and exceptional procurement procedures are currently in place for selected security equipment such as small arms and IT. Military payroll is digitalized through payroll IT system, and security personnel is paid directly into their bank accounts. Security spending is subject to audits by the Audit Court; the Ministry of Defense also recently completed an internal audit report on small arms. The authorities will maintain and re-enforce existing PFM safeguards around security spending as needed.

Authorities' Views

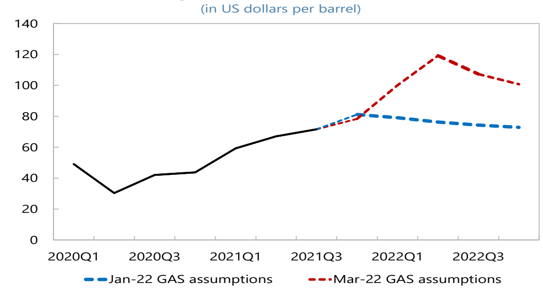
25. The authorities consider revenue mobilization the cornerstone of their reform program. They are committed to implementing policies to rationalize tax expenditures and broaden the tax base. They emphasize their considerable progress in the areas of transparency and PFM in recent years and intend to continue improving the efficiency and targeting of expenditures. While the authorities acknowledge the budgetary cost of fuel subsidies, they point to the critical role of diesel in transport in Benin (and implications for inflation), especially given the country's heavy dependence on transit trade (***SIP-III on formal and informal economic ties with Nigeria***), and the positive socio-economic spillovers from trucks transport activity. They note that removing subsidies on diesel also put tax revenue at risk due to the potential shift to informal markets (smuggling has so far been limited to gasoline).

Box 4. Partial Passthrough and Fuel Subsidies Associated with the War in Ukraine[1/]

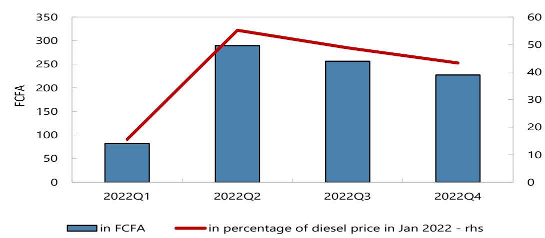
As of end-April 2022, the Beninese authorities had passed more than half of the expected annual increase in international oil prices related to geo-political tensions onto consumers. While this partial passthrough generates an additional estimated fuel subsidy bill of 0.32 percent of GDP in 2022 (compared with a full passthrough scenario), it represents an estimated saving of 0.42 ppt of GDP to Benin compared with a scenario of zero passthrough.

A comparison of WEO oil price forecasts between January and March 2022 suggests that the war in Ukraine led to a spike in international oil prices by 50 percent in 2022:Q1, with an expected 38 percent upward revision in 2022 as a whole (Figure 1). A full passthrough of the oil price shock would have entailed a peak increase in the pump price of diesel and gasoline of 55 and 35 percent respectively in Q2, based on the current official pricing formula in Benin (Figure 2).[2/] While fully passing through the shock onto consumers would have exacerbated inflationary pressures keeping pump prices unchanged would have entailed an estimated 0.74 percent of GDP cost to the budget in 2022 (with the cost persisting beyond 2022, given that subsidies tend to be hard-to-reverse).

Box 4. Figure 1. International Oil Prices
(in US dollars per barrel)



Box 4. Figure 2: The FPT price increase induced by the war in Ukraine



Faced with this trade-off, the Beninese authorities adjusted diesel and gasoline prices in February and early March 2022 for a cumulative 14.3 percent and 15.4 percent respectively. They then announced, on March 23, a freeze of fuel pump prices until end-June 2022 as part of their first wave of measures to contain the socio-economic fallout from the war in Ukraine.[3/] However, with subsequent increases in international prices, the government reversed its previous decision and hiked diesel pump prices by 11 percent on April 20. The latter decision took the cumulative diesel pump price adjustment to date in 2022 to about 28 percent, allowing Benin to absorb more than half of the international oil price shock in 2022 under current WEO assumptions—the partial passthrough implies fiscal savings to the tune of 0.42 ppt of GDP compared to a no passthrough scenario and entails a cost of 0.32 ppt of GDP to the budget compared to a full passthrough scenario (Table 1).

Table 1: Estimated Cost of Fuel Subsidies Induced by Geopolitical Tensions
(CFAF, unless otherwise noted)

	Q1	Q2	Q3	Q4	2022
Without price adjustment					
Subsidies related to crisis	2803	28377	25000	22051	78232
In percent of GDP	0.03%	0.27%	0.24%	0.21%	0.74%
After price adjustment - 1st wave					
Subsidies related to crisis	192	20436	17059	14110	51798
In percent of GDP	0.0%	0.19%	0.16%	0.13%	0.49%
After price adjustment - 2nd wave					
Subsidies related to crisis	192	15835	10435	7486	35365
In percent of GDP	0.0%	0.15%	0.10%	0.07%	0.32%

1st wave: increase in February and March 2022 of diesel and gasoline prices by a cumulative 14.3 percent and 15.4 percent.
2nd wave: increase in April 2022 of diesel price by 11 percent.

Box 4. Partial Passthrough and Fuel Subsidies Associated with the War in Ukraine
(Concluded)

Because of this partial passthrough and pre-existing fuel subsidies, fuel subsidies remain important (though still limited given that household gasoline consumption is mostly satisfied through smuggled gasoline from Nigeria). Mindful of their high budgetary cost, the authorities plan to modernize the fuel pricing mechanism going forward, with the view to reducing volatility in pump prices while safeguarding much-needed budgetary resources (MEFP ¶14). They will communicate such changes clearly and consider schemes for compensating the vulnerable.

1/ Prepared by Younes Zouhar and Joseph Houessou.
2/ By design, the prevailing pricing mechanism (dating back to 2004) would exacerbate volatility as monthly changes in international oil prices are passed to pump prices only when the pricing formula implies an adjustment above/below +/- 4 percent.
3/The government also resorted to a reduction of the margins of oil distribution companies.

C. Promoting Inclusion

Supporting SDGs

26. Large gaps have persisted in Benin's human capital and basic infrastructure despite robust economic growth in recent years. Social spending has historically been low in Benin both in absolute and relative terms (Text Figure 2). As a result, social outcomes have been weak (**SIP–I**), as evidenced by low access to basic public services (such as drinking water, electricity, and sanitation) and above 40 percent of the population estimated to be facing food insecurity at end-April 2022 (WFP Heatmap[1]). IMF staff estimates (SDN 19/03 and WP/19/270) that financing needs to reach SDGs by 2030 in the selected areas of human capital development (health and education) and physical infrastructure (roads, electricity and water and sanitation) amount to 21 percent of GDP (Text Figure 13), in line with the authorities' own estimates.

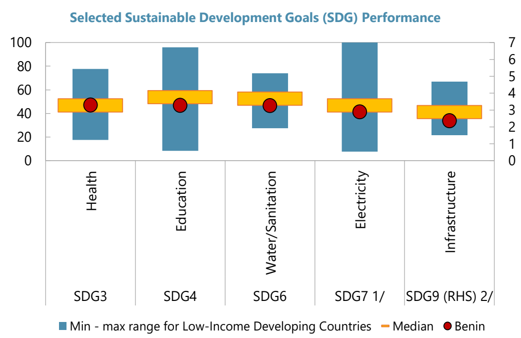
27. Adapting to climate change is also an imperative for Benin (Annex VIII). The country ranked as the 12th most vulnerable country to climate shocks and the 57th least ready to address their consequences in a sample of 192 countries according to the 2019 Notre Dame Global Adaptation Initiative (ND-GAIN). The authorities have developed a National Policy for the Management of Climatic Changes, including adaptation and mitigation.

28. Against this backdrop, a holistic, fiscally sustainable approach to development financing is needed. Given Benin's median age of 19 years and the ongoing demographic transition, spending efficiently on education and health today would help harness the demographic dividend. Alleviating existing regional disparities will also be critical for enhancing state effectiveness in vulnerable areas, in line with the authorities' "civilian approach" to tackling security risks. The recently developed IMF tool for analyzing SDGs financing (IMF 2021) illustrates socio-economic gains from more ambitious revenue mobilization and greater private sector participation. However, while those ambitious policies would mitigate the pandemic-induced

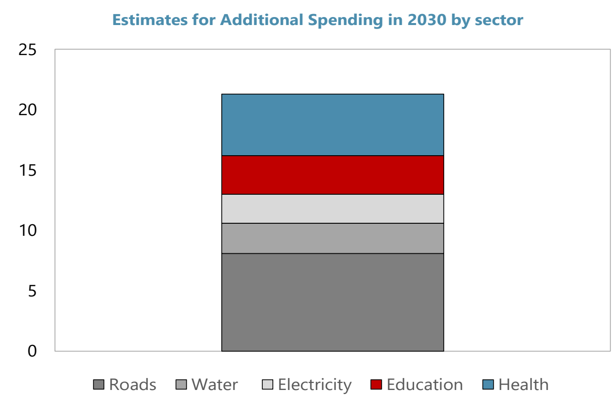
[1] https://hungermap.wfp.org/

scars, Benin, like many other developing countries, is unlikely to meet its SDG goals by 2030. Staff simulations suggest that raising the tax-to-GDP to 25 percent of GDP by 2029, combined with realistic spending reallocation to SDG-related programs, could help meet the SDG goals by 2040.

Text Figure 13. Benin: Relative Performance Along Selected SDGs and Estimated Spending Gaps



Source: IMF staff calculations using Sachs, J., Schmidt-Traub, G., Kroll, C., Lafortune, G., Fuller, G. (2019): Sustainable Development Report 2019. New York: Bertelsmann Stiftung and Sustainable Development Solutions Network (SDSN).
1/ Indicator: Access to electricity (percentage of population).
2/ Indicator: Quality of Infrastructure.



Source: Sy and Prady (2019), based on Gaspar et al. (2019)

Strengthening Social Protection

29. Spending on social protection remains relatively low in Benin, reflecting a combination of limited social safety nets and the authorities' policy preferences.

- Spending on social protection programs averaged 1.1 percent of GDP per year during 2018–21, less than half the average level among LICs—Text Figure 2. Cash transfers were limited even during COVID-19, due to challenges in targeting vulnerable households and the authorities' concerns about the effectiveness of unconditional cash transfers (¶31).

- The authorities are gradually and concurrently implementing the four components of their flagship social protection program ARCH (*Assurance pour le Renforcement du Capital Humain*): health insurance, vocational training and entrepreneurship, microcredit, and retirement (Annex VII). They made health insurance compulsory in February 2021 and plan to subsidize it for 5.1 million poor and extremely poor (over 40 percent of total population) by end-2023. Nevertheless, further progress on targeting is needed. The authorities estimate the total cost of the program at CFAF 183.8 billion (about 1.8 percent of GDP) over 2021–26, of which 10 percent is planned to be covered by the budget and the remainder by development partners.

- The authorities are also in the process of expanding the coverage of the national school feeding program (administered jointly with the World Food Programme) to all primary schools across Benin. This would facilitate feeding nearly 1.3 million students by end-2023, a doubling from 2021.

30. Completing the social registry will support a more efficient targeting of social assistance. In this regard, the authorities will (1) finalize the community validations of vulnerable households identified during the first cycle of proxy-mean test surveys (mass registration) in at least 70 of the 77 communes, and (2) publish the aggregate social registry results at the commune level on an easily accessible government website (proposed ***Structural Benchmark for end-July 2022***).

Authorities' Views

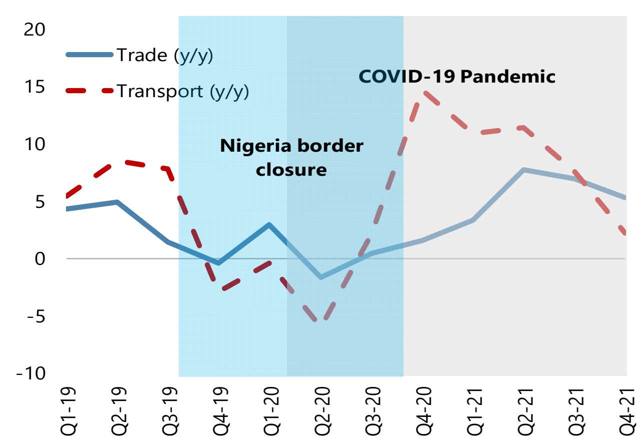
31. While the authorities are committed to inclusion and protecting the vulnerable (MEFP ¶23), they are concerned about the effectiveness of unconditional cash transfers. They cite possible leakages and the fact that they are not incentive-compatible. They favor schemes that facilitate the transition back to work, though they might take some time and have re-iterated that ensuring access to good-quality basic public services is a more modern way of fighting poverty.

D. Modernizing the Economy and Fostering Private Sector Development

Supporting Private Investment and Economic Transformation

32. Sustaining growth requires diversifying the Beninese economy towards higher value-added products and sectors. The Beninese economy relies significantly on cotton and low value-added transit trade with Nigeria, with re-exports accounting for more than 40 percent of Benin's imports. The recent border closure by Nigeria has further highlighted the limits of Benin's transit-centered 'entrepot' growth model (Text Figure 14; **SIP-III**). The planned improvements in logistics at the Port of Cotonou, including the construction of a new terminal and increased reliance on containerized transit, would limit congestion and enhance competitiveness. This, together with continued leveraging of digital solutions to modernize customs and tax administration procedures, will help harness the vast trade opportunities with Nigeria and reap the benefits of regional integration. Diversifying away from the Nigeria-dependent transit model overtime would require fostering a business environment that levels the playing field among market participants.

Text Figure 14. Benin: Dependence on Nigeria



Source: Beninese authorities and staff calculation.

33. Promoting an enabling business environment will help attract FDI and accelerate the transition from public investment-driven to private sector-led growth. While staff assess Benin's external position to be broadly in line with the level implied by fundamentals and desirable policies, important structural bottlenecks remain (Annex IV). Promoting domestic investment and attracting FDI will require enhanced access to electricity, better access to finance, and continued digitalization of government services to strengthen the regulatory environment and promote the formalization of the economy. Diversification of the industrial sector—currently largely dominated by cotton ginning and processing of some food products—and improved productivity in services by leveraging logistics and ICT, would support growth over the medium term. Tapping private sector financing for development, including through a prudent use of PPPs and partake in the new SEZ would support economic activity. The development of the SEZ should carefully account for revenue leakage and guards against over-burdening tax administration.

Authorities' Views

34. The authorities broadly concur with staff's external sector assessment, though they underline a number of important qualifications. They note that (1) the application of EBA-Lite at individual country-level in the WAEMU monetary union could lead to biases as the policy variable related to changes in NFA misses assets that are not broken down by country (such as monetary gold); (2) heightened uncertainty surrounding the scope and duration of the war in Ukraine and COVID-19 scars would tend to weaken the link between prices and external adjustment as supply chain disruptions take hold; (3) forecasts of oil imports are limited by the scarcity of data on consumption volume of informally imported fuel. They also expect that about half of the cost of projects under the PAG (2021–26) can be financed via PPPs. They see the new SEZ as transformative for Benin, given the strong prospects for private investment and job creation.

Re-Enforcing Governance and Transparency and Strengthening the AML/CFT Framework

35. The systematic publication of beneficial ownership (BO) information for public procurement contracts and the audit of COVID spending will consolidate recent progress in public procurement. While BO information for COVID-19 related contracts (as well as the validation of delivery) is published,[2] it is not yet supported by an adequate legal basis. The authorities will adopt into law a secondary regulation requiring procurement agencies to collect BO information for companies awarded public procurement contracts above CFAF 10 million (proposed ***Structural Benchmark for end-June 2022***) and commence the regular publication of this information on a government website (proposed ***Structural Benchmark for end-September 2022***). The Audit Court has undertaken an independent audit of COVID-19-related spending and

[2] Portail des marchés publics du Bénin (marches-publics.bj)

published[3] the results on an easily accessible government website, meeting the related ***Prior Action*** for the new program.[4] Staff will follow up on the findings of the audit as needed.

36. Re-enforcing governance and the rule of law will foster trust in public institutions. These, including reducing vulnerabilities to corruption, are the first pillar of the authorities' 2021–26 PAG. The authorities will conduct and publish a governance diagnostic (proposed ***Structural Benchmark for end-February 2023***) with Fund technical support. Following the assessment, the authorities, together with staff, will identify key recommendations to be included as program conditionality from the Second Review.

37. Benin has initiated an extensive reform program to correct deficiencies in its Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) framework. The 2021 Mutual Evaluation Report by the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) identified deficiencies in the effectiveness of Benin's AML/CFT Framework. In the absence of sustained action to address these deficiencies, Benin risks being grey listed by the Financial Action Task Force (FATF). In this regard, to strengthen the AML/CFT framework, the authorities have prepared a detailed action plan. The Council of Ministers is expected to adopt two Ministerial decrees to strengthen AML/CFT risk-based supervision and implementation of a targeted financial sanctions regime, in line with relevant UN Security Council Resolutions related to terrorism, terrorism financing, and proliferation financing (proposed ***Structural Benchmark for end-June 2022***).

E. Limiting Pandemic Scars in the Financial Sector

38. While the banking system appears to have weathered the crisis so far, supervisory authorities are committed to continued vigilance to limit pandemic scars. The banking system remains well-capitalized, with broadly successful, albeit ongoing, transition to Basel II/III reforms. Notwithstanding the generally downward trend in the banking sector's NPLs—from 17.7 percent in 2019 to 14.9 percent in June 2021 (Figure 4)—two small banks, accounting for less than 5 percent of total banking sector's assets, failed to meet the regulatory capital minimum at end-December 2021. Staff confirmed with the Abidjan-based WAMU Banking Commission that the two banks do not pose financial stability risks; there is a plan to bring them back to conformity with prudential norms. Staff underscored the need for enhanced monitoring of sectoral fragilities, including the potential impact of the expiration (in December 2021) of the BCEAO's loan repayment deferral and the relatively high credit concentration among a small number of clients.

39. Despite a sound banking system, access to finance remains a major impediment to private sector development in Benin, especially among SMEs. The authorities have put in

[3] https://finances.bj/type_document/finances-publiques/

[4] The publication of BO information for COVID-19-related contracts and the independent audit of COVID-19 spending (and its publication) were RCF/RFI commitments.

place various schemes to promote SME financing as part of their COVID-19 response plan, but their effectiveness is yet to be assessed. They have also authorized *La Poste du Benin* to provide banking services, leveraging its extensive nationwide network to facilitate access to financial services; they are committed to ensuring that its operations are adequately supervised. To promote access to finance, the authorities will transpose the WAEMU's regional financial inclusion strategy (adopted by the WAEMU Council of Ministers in 2016) at the national level and design a comprehensive financial inclusion strategy for Benin (***Structural Benchmark for end-March 2023***) (MEFP ¶31).

40. Measures to alleviate constraints to access to finance should also account for structural vulnerabilities of microfinance institutions (MFIs) and the risk they may pose to Benin's financial system. The wide reach of microfinance institutions, while good for inclusion, subjects them to asymmetry of information, compounding inadequate reporting systems. The authorities have made some progress in formalizing nonviable MFIs and improving the portfolio quality of the sector's lending—NPLs declined from 8.5 percent in end-December 2017 to 6.1 percent in end-December 2021. The mission recommended that governance and risk management practices, and formalization of MFIs be accounted for in the design of the national financial inclusion strategy.

Authorities' Views

41. The authorities are committed to further strengthening the resilience of the financial sector. They noted that the financial system appeared to have weathered the COVID-19 pandemic well. Nevertheless, they will remain vigilant in monitoring banking sector fragilities while striving to enhance access to and use of financial services, including through *La Poste*. They also indicated their intention to finalize the steps outlined by the WAMU Banking Commission to ensure all Benin's banks are adequately capitalized. Regarding MFIs, the authorities emphasized their vital role for financial inclusion and noted that action plans are in place to further address the sector's vulnerabilities.

PROGRAM MODALITIES

42. Staff supports the authorities' request for a 42-month blended EFF-ECF arrangements with High Combined Credit Exposure (HCCE).

- **Program type and duration.** The authorities have requested a long duration program to support the implementation of Benin's PND 2018–25. In addition to providing the needed time to implement far-reaching reforms (e.g., building on the upcoming governance diagnostic), aligning the duration of the program to the PND facilitates communication around policies and reforms under the program. The program would end just before the next presidential elections, scheduled for early 2026. Benin is a "presumed blender" based on its GNI, meaning that it is expected to access Fund support through a combination of PRGT and GRA resources (in a 1:2 ratio), thus the proposed blended EFF-ECF arrangements.

- **Financing needs.** External financing needs after factoring in a Eurobond issuance in 2025 are estimated to total an estimated CFAF 755 billion over 2022–25, of which CFAF 359 billion would be financed through budget support from MDBs and donors. Residual financing needs, to be filled by the envisaged Fund-supported program are estimated to total CFAF 396 billion over 2022–25. These needs would be heavily frontloaded in 2022–2023, given near-term BOP pressures, including from higher global food and oil prices related to the war in Ukraine; they will continue well into the medium-term, given the need to gradually reduce the heavy reliance on smuggled fuel products from Nigeria (**SIP-III**), and slack in export growth due to the plateauing of cotton production after nearly tripling from 2015. The program assumes robust financing from the regional domestic bond market (about CFAF 430 billion per year from 2022 to 2024), part of which could be substituted by external bond issuances should market conditions allow, and providing that this is consistent with debt sustainability and the interest-to-tax revenue operational guide.

- **Access level and phasing of disbursements and purchases.** Staff propose access of SDR 484.058 million or 391 percent of quota—SDR 161.349 million or 130.33 percent of quota from the ECF (PRGT) and SDR 322.709 million or 260.67 percent of quota from the EFF (GRA). Considering Benin's outstanding credit to the Fund (254.4 percent of quota), the proposed access level is above the combined normal cumulative access limit, triggering the HCCE procedure. Large and front-loaded disbursements and purchases (Table 12) would be used entirely for budget support, to cover budget needs closely intertwined with balance of payments needs generated by the impact of the war in Ukraine, the significant terms of trade shock expected to persist through 2024 and imports related to urgent spending to mitigate security risks. These current account pressures are coupled with likely constrained international and regional market financing amid tighter global conditions. While high in percent of quota, the proposed access is 3.6 percent of Benin's 2022 nominal GDP for a 3½-year arrangement, close to the average size of typically shorter normal access UCT-quality programs over the past few years. Moreover, the call on PRGT resources is limited (two-thirds of program financing comes from GRA), with access remaining within normal annual and cumulative PRGT's access limits of 145/435 percent of quota throughout the program. The fact that Benin repays about 115 percent of quota to the Fund on existing obligations over the life of the program reduces Fund's net exposure by program end.

- **Financing assurances and burden sharing.** The program is fully financed over the next twelve months with good prospects of financing for the remainder of the arrangements. The program will benefit from strong technical and financial support from other Benin's development partners. For 2022, US$177 million (out of the US$698 million financing package expected from the World Bank, the European Union, and the African Development Bank for the year) will take the form of budget support, with continued support in the coming years (this includes World Bank's funding of Benin's vaccination program in the amount of US$27 million this year). While the Fund is expected to cover about 52 percent of the external and fiscal financing gaps over the program period under the baseline, there is significant upside to budget support this year, which the program captures through an adjustor for an additional US$92 million at end-December 2022 (¶20). If the adjustor kicks in, which is likely in light of progress in talks between Benin and its development partners, Fund's burden share over the program would fall below 50 percent. The Fund's burden share averages 61 percent in the first 18 months of the program (56 percent if the adjustor kicks in), reflecting front-loaded disbursements due to immediate BoP needs; it declines significantly to an average of 36 percent in the last two years of the program as the Fund-supported program catalyzes MDBs and donor support (Table 8).

43. Benin meets the three HCCE criteria in staff's assessment (Annex I). A program under normal access limits would leave urgent needs unmet, undermining the fragile economic recovery, potentially triggering a reduction in international reserves and a sharp fiscal adjustment. It would also preclude enhanced state presence in vulnerable areas, with possible serious social and security implications.

44. Benin's capacity to repay the Fund is expected to remain adequate and conditional on successful implementation of the reform agenda and absence of major shocks. Total obligations based on existing and prospective credit will peak at 0.47 percent of GDP (2.9 percent of total revenues excluding grants and 2.1 percent of exports) in 2029. While total Fund credit outstanding as a share of GDP and quota is well above the median of PRGT UCT-quality arrangements (peaking at 4.7 percent of GDP in 2023 and 549.8 percent of quota in 2024), both metrics gradually converge to the sample median. Overall debt service is expected to remain elevated for the next decade (at around 2 percent of GDP and 14 percent of revenues excluding grants), with peaks in 2026 and 2030. Benin's debt service projections would be improved by sustained revenue mobilization under the program. The program's macro framework is built on conservative assumptions, but a deterioration of the security situation, a climate-related shock, or the materialization of other major risks, could undermine the authorities' fiscal consolidation efforts and constraint capacity to repay. Remaining risks would be mitigated by leveraging the Fund's catalytic financing role. Given that Benin is a member of WAEMU and pools its reserves at the BCEAO, its capacity to repay the Fund is also affected by the capacity to repay of the other countries in the monetary union.

45. Safeguards assessment. The 2018 safeguards assessment found that the BCEAO has maintained a strong control culture and progress, and the last outstanding recommendation, related to strengthening risk management, has been implemented. In line with the safeguards policy's four-year cycle for regional central banks, an update assessment of the BCEAO is due in 2022. Moreover, given the expectation that at least 25 percent of the funds will be directed toward budget financing under the HCCE, the authorities have committed to a fiscal safeguards review (FSR) by the First Review.

46. The program will be monitored through semi-annual quantitative criteria and structural conditionality (Tables 10 11a–b). QPCs on the basic primary balance of the central government and net domestic financing will help monitor convergence towards the WAEMU norm. An indicative target (IT) on tax revenue will support the authorities' revenue mobilization effort and preserve the quality of adjustment. The program includes a PC on the PV of newly contracted external public and publicly guaranteed debt (in line with the IMF's Debt Limits Policy), calibrated to avoid tipping into a high-risk of external debt distress. An IT on priority social spending is set to reflect the core program objective of improving socio-economic outcomes, building on the authorities' social spending plans and taking into consideration data availability, timeliness, and measurability. Continuous PCs on external and domestic arrears are also included. Structural conditionality is aligned to the program's main objectives and supported by Fund TA (¶49). Table 10b identifies SBs for program reviews, with other important reforms envisaged by the authorities reflected in the MEFP.

47. Contingency planning. The program is subject to risks, including higher than anticipated security outlays, a more protracted COVID-19 pandemic (affecting revenues and spending) and social discontent. In the event of higher-than-anticipated spending pressures, the authorities will identify additional adjustment efforts or reprioritize spending. These could include implementing additional tax measures or slowing the execution of non-priority domestically financed projects. In the event of financing shortfalls in the medium-term, the authorities would seek recourse to regional or commercial financing provided costs are consistent with maintaining debt sustainability; they would adjust otherwise.

48. Data provision and capacity development (CD). Data provision is broadly adequate for surveillance and program review. However, further bolstering institutional capacity would help enhance policy design as well as depth and timeliness of data provision. The program will be supported by a comprehensive Capacity Development (CD) program, centered on improving statistics, governance, transparency (including BO reporting in procurement), enhancing revenue mobilization, wage bill management, and PFM (Annex IX). Fund TA will be complemented by technical support from other IFIs and donors in several areas, including the World Bank in strengthening social safety nets and human capital development, and the World Food Program in the national school feeding program.

STAFF APPRAISAL

49. Benin made significant strides in macroeconomic management over the past five years, but both domestic and external shocks risk eroding hard-won economic gains. Scars from the COVID-19 pandemic, a deteriorating security situation at Benin's northern borders and higher cost of living due to the food and oil price shocks amid the war in Ukraine, are exacerbating pre-existing social vulnerabilities. These headwinds require urgent policy action to prevent hard-to-revert socio-economic hardship.

50. Against this backdrop, and recognizing Benin's solid track record in managing public finances, fiscal policy can be calibrated flexibly to accommodate near-term pressing needs. This includes postponing the fiscal adjustment planned in the original 2022 budget to provide spending room to mitigate security risks and contain the impact of the war in Ukraine. However, safeguarding the expected yields (half percentage point of GDP) from the package of tax policy and administrative measures in the 2022 budget will be critical to partly absorb the unanticipated spending. Moreover, the authorities should continue refining their policy response to the socio-economic implications from the war in Ukraine, including by substituting generalized subsidies for better targeted and cost-effective measures to support the population. It would also be important to ensure transparency around needed security-related spending.

51. Pivoting to revenue-based fiscal consolidation from next year will be essential to unlock Benin's tax potential and create fiscal space for large development needs while preserving debt sustainability. Benin is currently assessed as having a moderate risk of debt distress. The authorities planned Medium-Term Revenue Strategy (MTRS) should aim to expand the tax base, streamline tax expenditures, and improve the overall efficiency of the tax system, including by maintaining the digitalization drive. The authorities should quantify their ongoing wage bill reform efforts to ensure that public compensation remains sustainable despite pressures from hiring in health, police and armed forces and the pending salary revalorization for public sector employees.

52. Continued efforts to improve public financial management will be critical to strengthen transparency and spending efficiency. Staff encourage the authorities to enhance transparency in fiscal risk management by publishing a quantitative analysis of Benin's fiscal risks. Further improvements in public investment management will support the infrastructure push and generate efficiency savings, including by mandating the publication of appraisal and selection criteria, and feasibility studies for major projects.

53. Enhancing governance and transparency and strengthening the AML/CFT framework will bolster the institutional foundations of private sector-led inclusive growth. The systematic publication of beneficial ownership (BO) information for public procurement contracts will consolidate progress in public procurement transparency in recent years. The authorities' planned governance diagnostic, supported by the Fund, will help identify key measures to reinforce governance and the rule of law. Staff encourage the authorities to pursue their extensive reform program to correct identified deficiencies in Benin's AML/CFT framework, including by adopting legislation to strengthen risk-based supervision and implement a targeted financial sanctions regime.

54. Promoting inclusion will require a holistic, fiscally sustainable approach to development and enhanced social protection. Alleviating existing regional disparities will be critical for realizing Benin's development objectives. In this context, planned improved access to basic public services in areas vulnerable to security-related risks is welcome, in line with the authorities' "civilian approach" to tackling security threats. Finalizing the social registry will contribute to strengthening social safety nets for better targeting of social protection going forward.

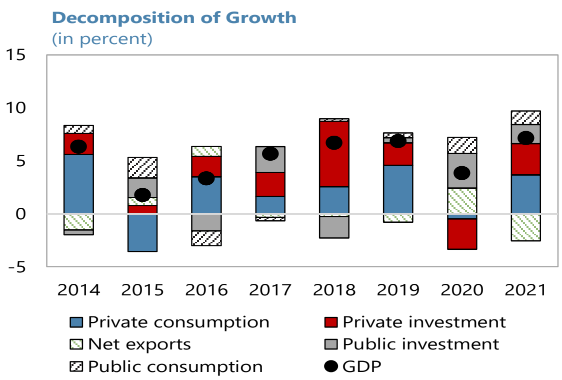
55. Sustainable, private sector-led growth will require diversifying the economy by supporting private investment and economic transformation. Benin's external position is assessed to be in line with fundamentals and desirable policies. Continued improvements in the competitiveness of the Port of Cotonou will help harness further trade opportunities. This should be accompanied by measures to improve the overall business environment and promote private investment for a gradual shift away from the Nigeria-dependent transit-centered economic growth model. This could be achieved by leveraging digital solutions, improving access to public services and finance, and leveling the playing field among all participants to the Special Economic Zone. A robust PPP framework could foster private sector participation in development financing and partake in SEZ. At the same time, it will be important to monitor the cost-effectiveness of SEZ fiscal incentives, guard against over-burdening tax administration, and monitor PPP-related risks closely.

56. While the banking system appears to be weathering the multiple shocks so far, continued vigilance by supervisory authorities is needed to limit crises scars. Staff encourages the authorities to press ahead with reforms to maintain banking sector stability and follow-up closely on the WAMU Banking Commission's recommendations for bringing the two small under-capitalized banks back to conformity with regulatory norms. Access to finance could be enhanced by implementing a national financial inclusion strategy and consolidating the MFI sector by closing nonviable institution.

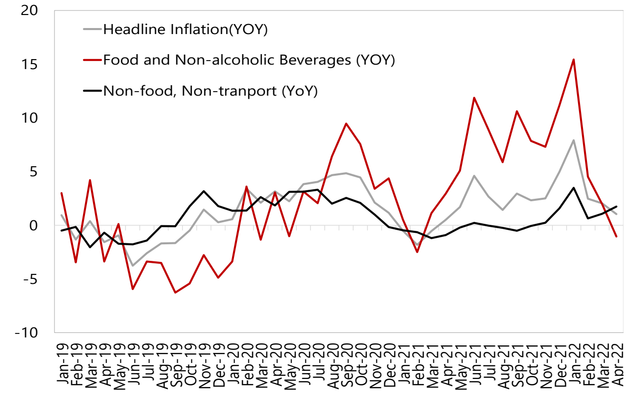
57. Against this backdrop, staff support the authorities' request for EFF-ECF supported arrangements under High Credit Combined Exposure to meet urgent financing needs and support the implementation of Benin's National Development Plan. The program should catalyze financing from Benin's development partners and would be bolstered by a comprehensive capacity development program towards far-reaching reforms.

Figure 1. Benin: Recent Developments, 2012–22

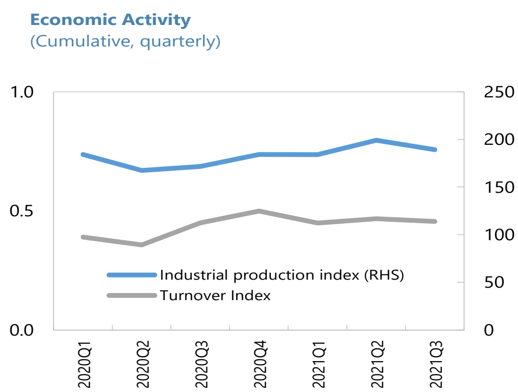
A ramp up in public investment helped offset the collapse in private demand in 2020, notably private investment.



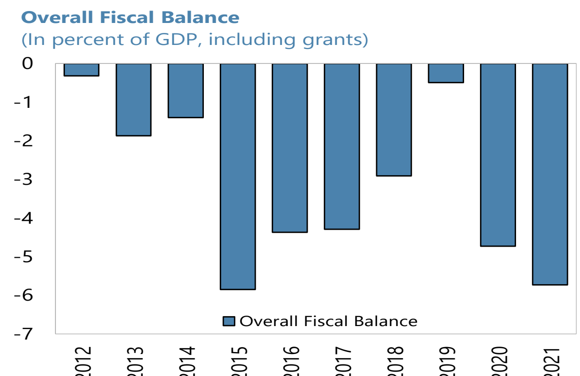
Food prices inflation rose significantly in 2021 and early 2022, but non-food inflation remained subdued, suggesting remaining slack in the economy.



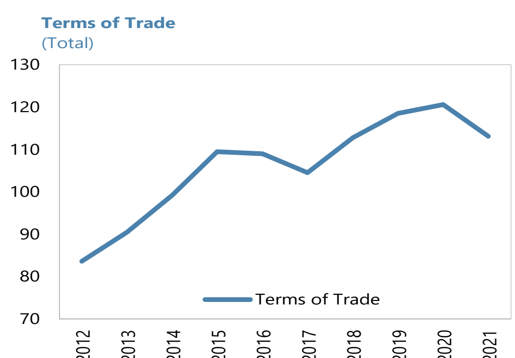
High frequency indicators have been stable in recent quarters



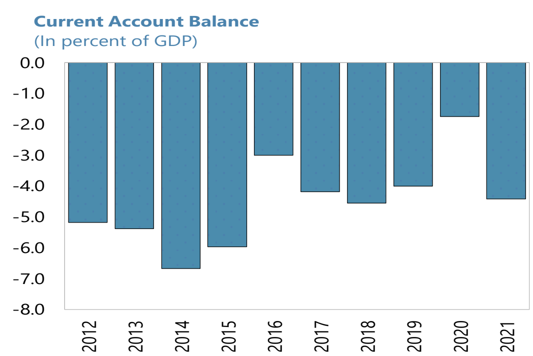
The fiscal deficit widened further in 2021 amid a protracted COVID-19



Terms of trade deteriorated in 2021…



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

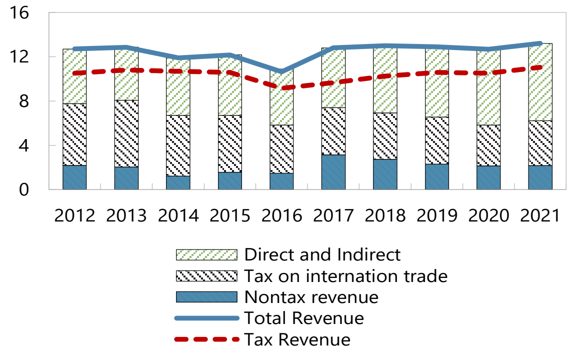


Source: Beninese authorities and IMF staff projections.

Figure 2. Benin: Fiscal Developments, 2012–21

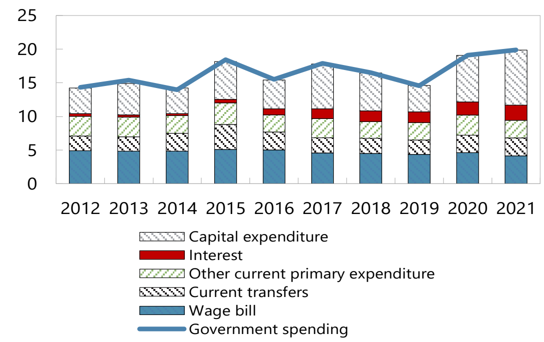
Direct and indirect taxes were resilient to COVID-19 while the Nigeria border closure took a toll on international trade taxes.

Revenue
(percent of GDP)



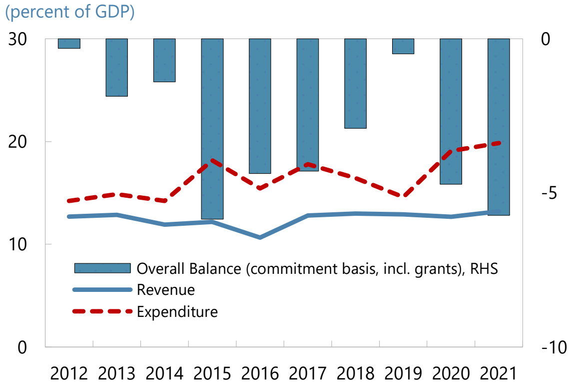
Current and capital expenditure increased, respectively to meet pandemic-related needs and close the country's infrastructure gap...

Expenditure
(percent of GDP)



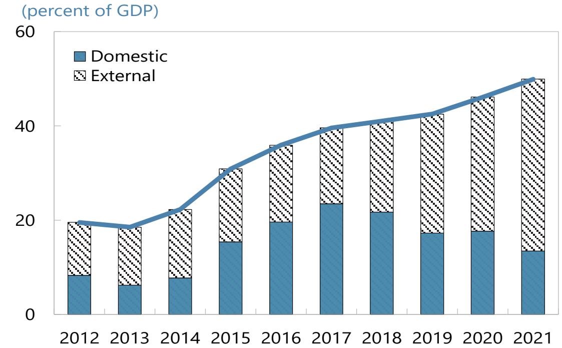
...further widening the fiscal deficit in 2021...

Overall fiscal deficit
(percent of GDP)



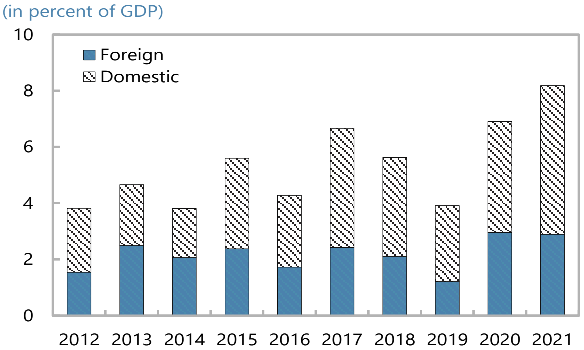
...and leading to increases in government debt.

Total Government Debt
(percent of GDP)



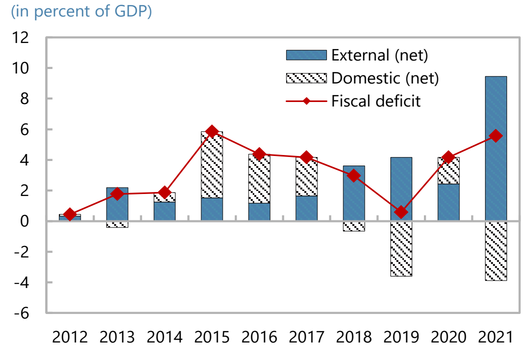
The increase in capital expenditure in 2021 was mostly domestically financed...

Capital Expenditure by Financing Source
(in percent of GDP)



...while deficits were mostly externally financed, including emergency assistance and large Eurobond issuances.

Financing of the Fiscal Deficit
(in percent of GDP)

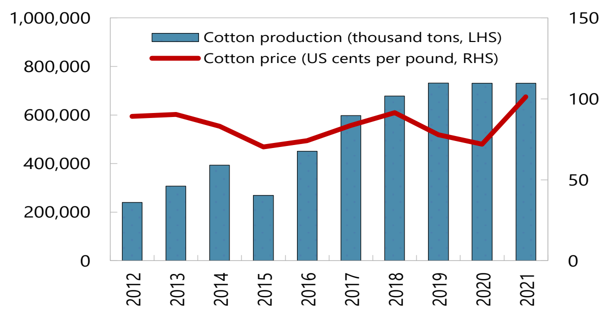


Source: Beninese authorities and IMF staff projections.

Figure 3. Benin: Real and External Sector Developments, 2006–21

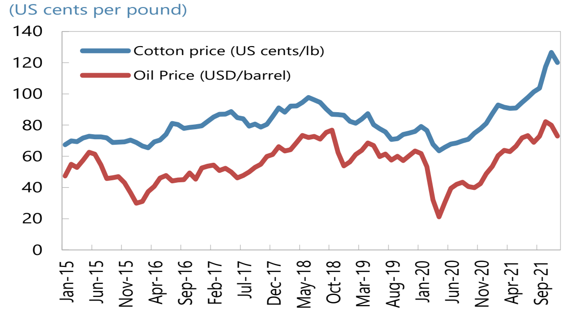
Cotton production has plateaued after exceptional growth in recent years…

Cotton Production and Price



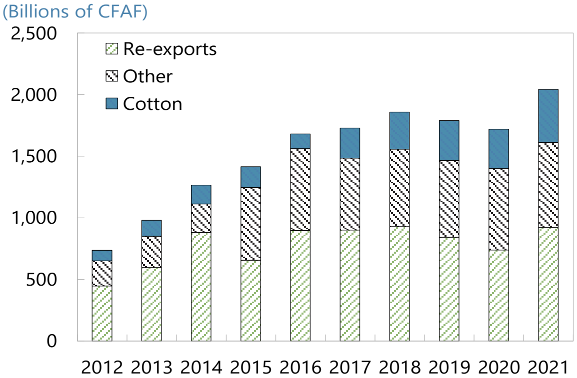
…with the international price of cotton rising to highest levels in years…

International Cotton and Oil Prices
(US cents per pound)



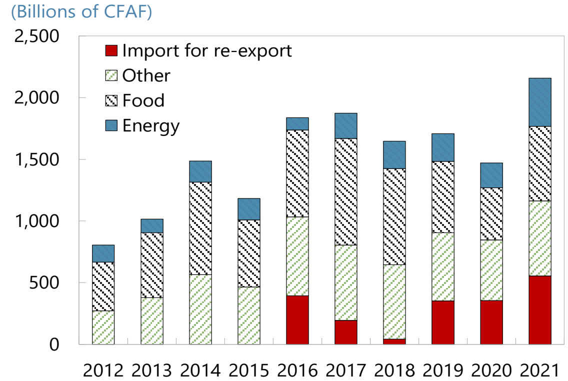
…boosting cotton exports

Composition of Exports
(Billions of CFAF)



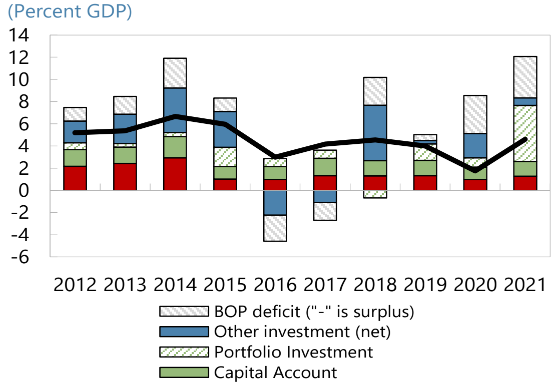
Imports are estimated to have increased in 2021, partly reflecting high food and energy prices…

Composition of Imports
(Billions of CFAF)



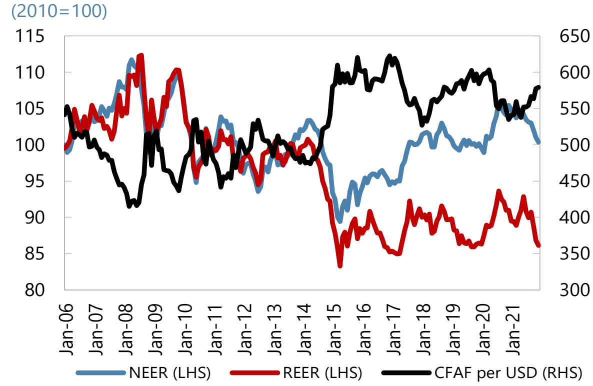
…widening the current account deficit in 2021 compared to 2020 when mobility restrictions and supply chain disruptions limited imports.

Financing Sources
(Percent GDP)



The CFA franc depreciated against the US dollar in 2021, after the post-COVID appreciation bout.

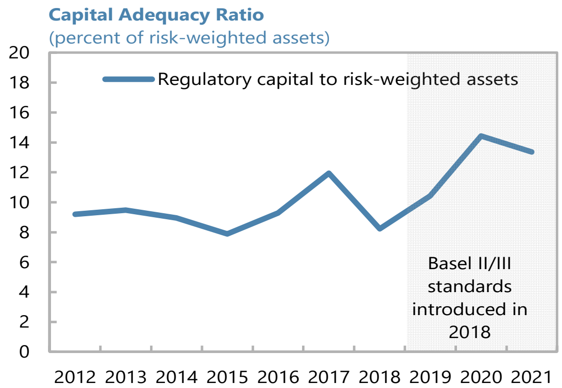
Exchange Rates
(2010=100)



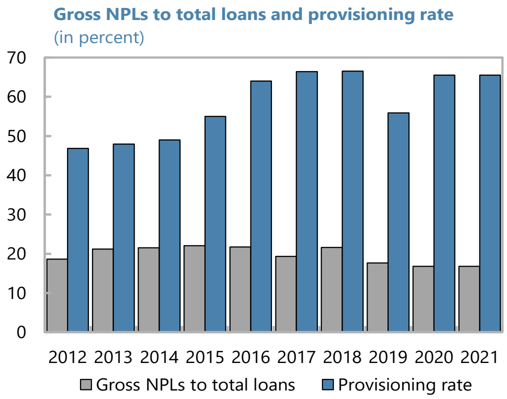
Source: Beninese authorities and IMF staff projections.

Figure 4. Benin: Financial Sector Developments, 2004–21

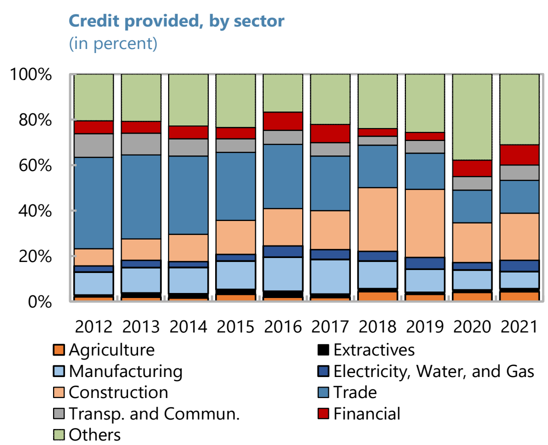
The banking system remains well capitalized (although two small banks are undercapitalized)



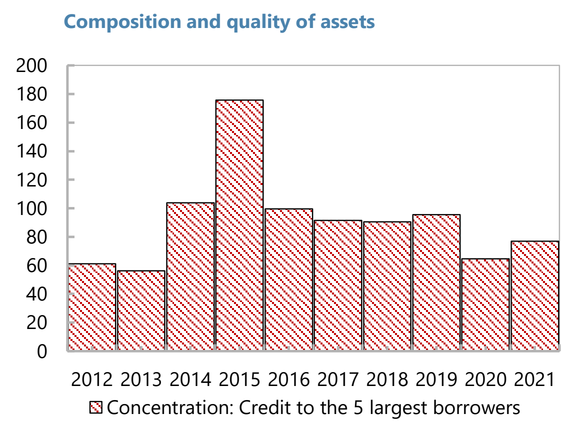
The credit portfolio quality doesn't seem to have deteriorated during the pandemic, with provisioning remained high.



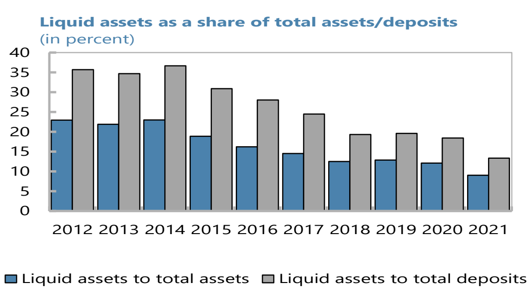
After shrinking in 2020, lending to the construction sector started to recover in 2021.



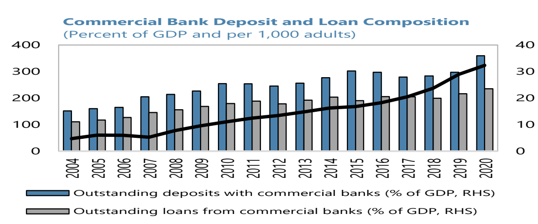
The sector's lending concentration remained elevated in 2021...



...and liquidity ratios continue to trend downward



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



Source: Beninese authorities and IMF staff projections.

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

	2019	2020	2021		2022		2023	2024	2025	2026	2027
	Est.		RCF/RFI	Proj.	RCF/RFI	Proj.	Projections				
National Income and Prices					(annual percent change)						
Real GDP per capita	3.9	1.0	…	4.2	…	2.8	3.3	3.1	3.1	3.1	3.1
Real GDP	6.9	3.8	5.0	7.2	6.0	5.7	6.2	6.0	6.0	6.0	6.0
Nominal GDP	6.5	6.8	6.5	8.9	7.9	10.8	7.3	7.5	8.1	8.1	8.1
GDP deflator	-0.3	2.9	1.4	1.6	1.8	4.9	1.0	1.5	2.0	2.0	2.0
Consumer price index (average)	-0.9	3.0	2.0	1.7	2.0	5.0	1.8	2.0	2.0	2.0	2.0
Consumer price index (end of period)	0.3	1.2	2.0	1.7	2.0	5.0	1.8	2.0	2.0	2.0	2.0
External Sector											
Terms of trade (minus = deterioration)	5.1	1.8	-2.5	-6.2	-0.6	-2.7	-2.3	-0.8	1.4	1.0	0.6
Real effective exchange rate (minus = deterioration)	-3.1	3.7	…	-0.697	…	…	…	…	…	…	…
Money and Credit											
Credit to the private sector	11.9	-5.7	4.2	9.2	9.4	5.6	10.3	14.3	…	…	…
Broad money (M2)	6.0	17.3	6.5	16.4	7.9	10.8	7.3	7.5	…	…	…
					(percent of GDP, unless otherwise indicated)						
Central Government Finance											
Total revenue	12.9	12.7	11.6	13.2	12.1	13.4	13.9	14.4	14.9	15.3	15.7
of which: Tax revenue	*10.6*	*10.5*	9.7	*11.0*	10.2	*11.5*	*12.0*	*12.5*	*13.0*	*13.3*	*13.6*
Grants	1.2	1.7	1.2	0.9	1.0	0.8	1.1	1.1	1.0	1.0	0.9
Total expenditure and net lending	14.6	19.1	17.2	19.9	16.1	19.8	19.3	18.4	18.8	19.1	19.5
Overall balance (commitment basis, including grants)	-0.5	-4.7	-4.5	-5.7	-3.0	-5.5	-4.3	-2.9	-2.9	-2.9	-2.9
Overall balance (cash basis, including grants)	-0.6	-4.2	-4.7	-5.6	-3.2	-5.6	-4.4	-3.0	-3.0	-3.0	-3.0
Domestic financing, net	-3.6	1.7	3.8	-3.9	2.0	1.8	1.3	0.8	-1.1	1.3	1.0
External financing, net	4.2	2.4	0.9	9.5	1.1	2.2	2.0	1.7	3.8	1.6	2.0
External Sector											
Balance of goods and services	-5.0	-2.8	-4.5	-4.7	-4.6	-6.9	-6.4	-5.4	-5.7	-5.3	-5.0
Exports of goods and services	24.9	22.4	21.7	24.0	23.3	25.3	23.9	23.0	22.8	22.6	22.4
Imports of goods and services	-29.9	-25.1	-26.2	-28.7	-27.9	-32.2	-30.3	-28.5	-28.5	-27.9	-27.5
Current account balance, including official transfers	-4.0	-1.7	-3.9	-4.4	-4.1	-6.2	-5.7	-4.6	-5.0	-4.5	-4.1
Overall balance of payments	0.5	3.4	-0.3	3.7	0.1	-1.6	-1.1	-0.4	1.3	-0.3	0.5
Public Debt (End Period)											
Total public debt	41.2	46.1	45.4	49.9	44.5	51.6	52.0	50.7	49.2	47.9	46.9
External public debt	25.3	28.4	24.7	36.5	24.5	37.5	37.6	36.8	37.8	36.2	34.7
Domestic public debt	16.0	17.7	20.7	13.5	20.0	14.1	14.4	13.9	11.3	11.8	12.2
Memorandum Items											
Nominal GDP (CFAF billions)	8,432	9,009	9383.8	9,810	10128.2	10,873	11,670	12,545	13,561	14,664	15,851
Nominal GDP (US$ billions)	14.4	15.7	17.6	17.7	…	…	…	…	…	…	…
Nominal GDP per capita (US$)	1,218.3	1,290.5	1408.7	1,417.4	…	…	…	…	…	…	…
US$ exchange rate (average)	585.9	574.8	533.4	554.2	…	…	…	…	…	…	…
International price of cotton (Cotlook "A" Index, U.S. cents a lb.)	77.9	71.9	72.2	101.2	72.2	127.7	101.7	88.5	88.5	88.5	88.5
International price of oil (U.S. dollars a barrel)	61.4	41.3	46.7	69.1	48.1	106.8	92.6	84.2	78.5	74.7	72.5

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

Table 2. Benin: Consolidated Central Government Operations, 2019–27[1]
(in billions of CFA francs)

	2019	2020	2021		2022			2023	2024	2025	2026	2027
		Est.	RCF/RFI	Est.	RCF/RFI	Budget Law	Proj.	Projections				
Total Revenue and Grants	**1,185.7**	**1,296.3**	**1,195.2**	**1,387.7**	**1,323.4**	**1,518.4**	**1,550.5**	**1,752.2**	**1,940.0**	**2,151.5**	**2,377.7**	**2,625.7**
Total revenue	1,088.0	1,142.1	1,086.7	1,295.7	1,223.5	1,430.1	1,458.5	1,623.8	1,808.3	2,022.6	2,238.4	2,483.1
Tax revenue	893.3	947.8	907.0	1,082.3	1,029.6	1,217.0	1,245.4	1,395.0	1,562.4	1,756.8	1,950.9	2,156.5
Tax on international trade	358.0	331.5	344.7	397.4	392.3	490.0	464.8	528.0	592.7	667.9	744.2	828.2
Direct and indirect taxes	535.3	616.3	562.3	684.9	637.2	727.0	780.6	867.0	969.7	1,088.9	1,206.8	1,328.3
Nontax revenue	194.8	194.2	179.7	213.4	194.0	213.1	213.1	228.8	245.9	265.9	287.5	326.6
Grants	97.7	154.2	108.5	92.0	99.9	88.3	92.0	128.4	131.7	128.8	139.3	142.7
Project grants	66.8	46.9	74.4	54.6	84.2	72.6	54.6	81.7	81.5	88.1	95.3	95.1
Budgetary grants	30.8	107.3	34.1	37.4	15.7	15.7	37.4	46.7	50.2	40.7	44.0	47.6
Total Expenditure and Net Lending	**1,227.3**	**1,719.9**	**1,617.5**	**1,949.4**	**1,627.3**	**1,999.304**	**2,153.7**	**2,254.0**	**2,303.8**	**2,544.7**	**2,803.0**	**3,085.4**
Current expenditure	900.8	1,095.6	1,155.5	1,145.1	1,123.2	1,173.9	1,248.2	1,291.4	1,415.3	1,538.1	1,680.5	1,883.2
Current primary expenditure	766.2	919.4	934.7	925.2	919.3	968.9	1,043.3	1,114.2	1,214.2	1,325.8	1,450.6	1,643.8
Wage bill[2]	369.7	416.5	411.6	407.8	448.2	426.8	473.8	522.5	569.0	620.4	656.8	710.0
Pensions and scholarships	90.5	92.9	111.0	90.5	121.1	113.0	116.2	120.4	125.6	129.8	130.6	201.1
Current transfers	180.9	233.0	238.1	259.2	219.1	249.6	257.9	282.7	316.4	355.6	413.9	463.2
Expenditure on goods and services	125.1	176.9	174.0	167.6	131.0	179.5	195.3	188.6	203.2	220.0	249.3	269.5
Interest	134.6	176.3	220.8	219.9	203.8	204.9	204.9	177.2	201.2	212.3	230.0	239.4
Domestic debt	106.8	105.7	141.0	153.1	152.9	110.8	103.9	75.6	91.9	97.7	92.5	97.1
External debt	27.8	70.6	79.8	66.8	51.0	94.2	101.1	101.6	109.2	114.6	137.5	142.4
Capital expenditure	330.4	622.4	462.0	802.6	504.1	825.4	905.5	962.6	888.5	1,006.7	1,122.4	1,202.2
Financed by domestic resources	228.3	356.4	241.0	519.0	260.2	530.1	539.7	572.8	475.8	560.5	660.5	710.8
Financed by external resources[3]	102.1	266.0	221.0	283.7	243.9	295.3	365.8	389.8	412.7	446.2	461.9	491.4
Net lending	-3.9	1.8	0.0	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance (Commitment Basis, Incl. Grants)	**-41.6**	**-423.6**	**-422.3**	**-561.7**	**-303.8**	**-480.9**	**-603.1**	**-501.8**	**-363.8**	**-393.3**	**-425.3**	**-459.7**
Primary balance[4]	-4.6	-401.5	-310.0	-433.8	-199.9	-364.2	-490.2	-452.9	-294.4	-309.8	-334.6	-362.9
Basic primary balance[5]	93.5	-133.7	-89.0	-148.5	44.0	-68.9	-124.4	-63.2	118.4	136.3	127.3	128.5
Change in arrears	0.0	0.0	-16.4	0.0	-16.4	0.0	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	0.0	0.0	-16.4	0.0	-16.4	0.0	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0
of which: net change in arrears stock	*19.1*	*0.0*	*-6.4*	*0.0*	*-6.4*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	0.0
Float	-7.3	48.7	0.0	15.3	0.0	-2.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance (Cash Basis, Incl. Grants)	**-48.9**	**-374.9**	**-438.6**	**-546.4**	**-320.2**	**-483.3**	**-613.1**	**-511.8**	**-373.8**	**-403.3**	**-435.3**	**-469.7**
Financing	**48.9**	**374.9**	**438.6**	**546.4**	**320.2**	**483.3**	**435.5**	**387.2**	**323.0**	**360.5**	**435.3**	**469.7**
Domestic financing	-302.9	156.4	356.9	-380.8	204.4	331.5	194.7	151.2	106.1	-148.2	197.3	159.1
Bank financing	-14.0	259.4	178.3	-123.4	143.7	49.0	115.1	63.7	12.0	-250.0	87.3	40.2
Net use of IMF resources	14.5	168.1	-5.7	94.2	-6.9	-7.3	-5.7	-8.7	-44.8	-56.5	-41.6	-60.8
Disbursements	*25.7*	*171.3*	*0.0*	*94.2*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Repayments	*-11.2*	*-3.2*	*-5.7*	*0.0*	*-6.9*	*-7.3*	*-5.7*	*-8.7*	*-44.8*	*-56.5*	*-41.6*	*-60.8*
Other[6]	-6.8	91.2	184.0	-217.6	150.5	56.3	120.8	72.3	56.8	-193.4	128.9	101.0
Nonbank and regional financing[7]	-310.6	-103.0	178.6	-257.4	60.8	282.5	79.5	87.5	94.1	101.7	110.0	118.9
External financing	351.9	218.5	81.7	927.3	115.8	151.8	240.8	236.0	216.9	508.7	238.0	310.6
Project financing[3]	35.2	219.1	146.6	229.0	159.7	222.7	311.1	308.1	331.2	358.0	366.6	396.3
Budgetary assistance	33.3	49.9	29.5	28.2	38.9	39.0	50.6	40.7	42.8	33.9	36.7	39.6
Eurobond issuance	325.0	0.0	0.0	983.9	0.0	0.0	0.0	0.0	0.0	283.6	0.0	0.0
Amortization due	-41.7	-50.5	-94.4	-313.9	-82.8	-110.0	-121.0	-112.8	-157.0	-166.8	-165.3	-125.3
Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0	177.7	124.6	50.8	42.8	0.0	0.0
Prop. IMF ECF/EFF							177.7	124.6	50.8	42.8		
Nominal GDP	8,432	9,009	9,384	9,810	10,128	10,781	10,873	11,670	12,545	13,561	14,664	15,851

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

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

[2]Projections from 2022 include financing from BOAD.

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

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

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

[6]Includes financing by Beninese banks.

[7]Includes financing by regional commercial banks.

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

(in percent of GDP)

	2019	2020	2021	2021	2022	2022	2022	2023	2024	2025	2026	2027
		Est.	RCF/RFI	Est.	RCF/RFI	Budget Law	Proj.	Projections				
Total Revenue and Grants	**14.1**	**14.4**	**12.7**	**14.1**	**13.1**	**14.1**	**14.3**	**15.0**	**15.5**	**15.9**	**16.2**	**16.6**
Total revenue	12.9	12.7	11.6	13.2	12.1	13.3	13.4	13.9	14.4	14.9	15.3	15.7
Tax revenue	10.6	10.5	9.7	11.0	10.2	11.3	11.5	12.0	12.5	13.0	13.3	13.6
Tax on international trade	4.2	3.7	3.7	4.1	3.9	4.5	4.3	4.5	4.7	4.9	5.1	5.2
Direct and indirect taxes	6.3	6.8	6.0	7.0	6.3	6.7	7.2	7.4	7.7	8.0	8.2	8.4
Nontax revenue	2.3	2.2	1.9	2.2	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.1
Grants	1.2	1.7	1.2	0.9	1.0	0.8	0.8	1.1	1.1	1.0	1.0	0.9
Project grants	0.8	0.5	0.8	0.6	0.8	0.7	0.5	0.7	0.7	0.7	0.7	0.6
Budgetary grants	0.4	1.2	0.4	0.4	0.2	0.1	0.3	0.4	0.4	0.3	0.3	0.3
Total Expenditure and Net Lending	**14.6**	**19.1**	**17.2**	**19.9**	**16.1**	**18.5**	**19.8**	**19.3**	**18.4**	**18.8**	**19.1**	**19.5**
Current expenditure	10.7	12.2	12.3	11.7	11.1	10.9	11.5	11.1	11.3	11.3	11.5	11.9
Current primary expenditure	9.1	10.2	10.0	9.4	9.1	9.0	9.6	9.5	9.7	9.8	9.9	10.4
Wage bill[2]	4.4	4.6	4.4	4.2	4.4	4.0	4.4	4.5	4.5	4.6	4.5	4.5
Pensions and scholarships	1.1	1.0	1.2	0.9	1.2	1.0	1.1	1.0	1.0	1.0	0.9	1.3
Current transfers	2.1	2.6	2.5	2.6	2.2	2.3	2.4	2.4	2.5	2.6	2.8	2.9
Expenditure on goods and services	1.5	2.0	1.9	1.7	1.3	1.7	1.8	1.6	1.6	1.6	1.7	1.7
Interest	1.6	2.0	2.4	2.2	2.0	1.9	1.9	1.5	1.6	1.6	1.6	1.5
Domestic debt	1.3	1.2	1.5	1.6	1.5	1.0	1.0	0.6	0.7	0.7	0.6	0.6
External debt	0.3	0.8	0.9	0.7	0.5	0.9	0.9	0.9	0.9	0.8	0.9	0.9
Capital expenditure	3.9	6.9	4.9	8.2	5.0	7.7	8.3	8.2	7.1	7.4	7.7	7.6
Financed by domestic resources	2.7	4.0	2.6	5.3	2.6	4.9	5.0	4.9	3.8	4.1	4.5	4.5
Financed by external resources[3]	1.2	3.0	2.4	2.9	2.4	2.7	3.4	3.3	3.3	3.3	3.2	3.1
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance (Commitment Basis, Incl. Grants)	**-0.5**	**-4.7**	**-4.5**	**-5.7**	**-3.0**	**-4.5**	**-5.5**	**-4.3**	**-2.9**	**-2.9**	**-2.9**	**-2.9**
Primary balance [4]	-0.1	-4.5	-3.3	-4.4	-2.0	-3.4	-4.5	-3.9	-2.3	-2.3	-2.3	-2.3
Basic primary balance [5]	1.1	-1.5	-0.9	-1.5	0.4	-0.6	-1.1	-0.5	0.9	1.0	0.9	0.8
Change in arrears	0.0	0.0	-0.2	0.0	-0.2	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	0.0	0.0	-0.2	0.0	-0.2	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
of which: net change in arrears stock	*0.2*	*0.0*	*-0.1*	*0.0*	*-0.1*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	0.0
Float	-0.1	0.5	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance (Cash Basis, Incl. Grants)	**-0.6**	**-4.2**	**-4.7**	**-5.6**	**-3.2**	**-4.5**	**-5.6**	**-4.4**	**-3.0**	**-3.0**	**-3.0**	**-3.0**
Financing	**0.6**	**4.2**	**4.7**	**5.6**	**3.2**	**4.5**	**4.0**	**3.3**	**2.6**	**2.7**	**3.0**	**3.0**
Domestic financing	-3.6	1.7	3.8	-3.9	2.0	3.1	1.8	1.3	0.8	-1.1	1.3	1.0
Bank financing	-0.2	2.9	1.9	-1.3	1.4	0.5	1.1	0.5	0.1	-1.8	0.6	0.3
Net use of IMF resources	0.2	1.9	-0.1	1.0	-0.1	-0.1	-0.1	-0.1	-0.4	-0.4	-0.3	-0.4
Disbursements	0.3	1.9	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	-0.1	0.0	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.4	-0.4	-0.3	-0.4
Other [6]	-0.1	1.0	2.0	-2.2	1.5	0.5	1.1	0.6	0.5	-1.4	0.9	0.6
Nonbank and regional financing [7]	-3.7	-1.1	1.9	-2.6	0.6	2.6	0.7	0.8	0.8	0.7	0.7	0.8
External financing	4.2	2.4	0.9	9.5	1.1	1.4	2.2	2.0	1.7	3.8	1.6	2.0
Project financing[3]	0.4	2.4	1.6	2.3	1.6	2.1	2.9	2.6	2.6	2.6	2.5	2.5
Budgetary assistance	0.4	0.6	0.3	0.3	0.4	0.4	0.5	0.3	0.3	0.3	0.3	0.3
Eurobond issuance	3.9	0.0	0.0	10.0	0.0	0.0	0.0	0.0	0.0	2.1	0.0	0.0
Amortization due	-0.5	-0.6	-1.0	-3.2	-0.8	-1.0	-1.1	-1.0	-1.3	-1.2	-1.1	-0.8
Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0	1.6	1.1	0.4	0.3	0.0	0.0
Prop. IMF ECF/EFF							1.6	1.1	0.4	0.3		
Nominal GDP	8,432	9,009	9,384	9,810	10,128	10,781	10,873	11,670	12,545	13,561	14,664	15,851
Memo Items												
Interest-to-tax revenue ratio (percent)	15	19	24	20	20	17	16	13	13	12	12	11
Wage bill to tax ratio (percent)	41	44	45	38	44	35	38	37	36	35	34	33

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

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

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

[3]Projections from 2022 include financing from BOAD.

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

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

[6] Includes financing by Beninese banks.

[7] Includes financing by regional commercial banks.

Table 4. Benin: Quarterly Consolidated Central Government Operations, 2022–23
(Billion CFAF)

	Cumulative							
	2022				2023			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Proj							
Total revenue and grants	**316.8**	**714.5**	**1,057.0**	**1,550.5**	**386.1**	**824.7**	**1,208.4**	**1,752.2**
Total revenue	305.2	688.2	1,024.9	1,458.5	368.8	785.3	1,160.4	1,623.8
Tax revenue	267.7	593.8	885.5	1,245.4	328.5	684.0	1,010.8	1,395.0
Nontax revenue	37.5	94.4	139.4	213.1	40.3	101.3	149.6	228.8
Grants	11.6	26.4	32.1	92.0	17.3	39.5	48.0	128.4
Project grants	11.6	26.4	32.1	54.6	17.3	39.5	48.0	81.7
Budgetary grants	0.0	0.0	0.0	37.4	0.0	0.0	0.0	46.7
Total expenditure and net lending	**573.2**	**1,143.5**	**1,651.7**	**2,153.7**	**537.5**	**1,138.1**	**1,690.4**	**2,254.0**
Current expenditure	334.7	636.4	943.5	1,248.2	286.7	602.5	943.5	1,291.4
Current primary expenditure	232.3	481.4	761.1	1,043.3	249.5	517.0	816.8	1,114.2
Wage bill	109.0	243.1	352.5	473.8	120.2	268.0	388.7	522.5
Pensions and scholarships	18.4	43.8	72.0	116.2	19.0	45.4	74.6	120.4
Current transfers	68.1	121.2	218.7	257.9	74.6	132.9	239.7	282.7
Expenditure on goods and services[1]	36.9	73.3	117.8	195.3	35.6	70.7	113.7	188.6
Interest	102.4	155.0	182.5	204.9	37.2	85.5	126.6	177.2
Domestic debt	31.4	74.7	90.6	103.9	12.2	33.0	51.9	75.6
External debt	71.0	80.4	91.9	101.1	25.0	52.5	74.7	101.6
Capital expenditure	238.5	507.2	708.2	905.5	250.8	535.6	746.9	962.6
Financed by domestic resources	123.1	282.3	414.5	539.7	130.6	299.6	439.9	572.8
Financed by external resources	115.5	224.9	293.7	365.8	120.2	236.0	307.0	389.8
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment basis, incl. grants)	**-256.4**	**-429.0**	**-594.7**	**-603.1**	**-151.4**	**-313.4**	**-482.0**	**-501.8**
Primary balance [1]	-165.6	-300.3	-444.4	-490.2	-131.5	-267.3	-403.4	-452.9
Basic primary balance [2]	-50.2	-75.4	-150.7	-124.4	-11.3	-31.3	-96.4	-63.2
Change in arrears	-2.5	-5.0	-7.5	-10.0	-2.5	-5.0	-7.5	-10.0
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	-2.5	-5.0	-7.5	-10.0	-2.5	-5.0	-7.5	-10.0
Float	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis, incl. grants)	**-258.9**	**-434.0**	**-602.2**	**-613.1**	**-153.9**	**-318.4**	**-489.5**	**-511.8**
Financing	**258.9**	**434.0**	**513.4**	**435.5**	**153.9**	**233.5**	**404.6**	**387.2**
Domestic financing	177.2	285.3	333.8	194.7	60.9	76.5	202.4	151.2
Bank financing	177.2	265.4	294.1	135.0	39.0	32.8	136.8	63.7
Net use of IMF resources	-1.4	-2.8	-4.2	-5.7	-2.2	-4.3	-6.5	-8.7
Disbursements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	-1.4	-2.8	-4.2	-5.7	-2.2	-4.3	-6.5	-8.7
Other [3]	178.7	268.2	298.3	140.7	41.2	37.1	143.3	72.3
Nonbank and regional financing [4]	0.0	19.9	39.8	59.7	21.9	43.8	65.6	87.5
External financing	81.7	148.7	179.5	240.8	93.0	157.0	202.2	236.0
Project financing	103.9	198.5	261.6	311.1	102.9	196.6	259.0	308.1
Budgetary assistance	11.3	11.3	11.3	50.6	9.1	9.1	9.1	40.7
Amortization due	-33.5	-61.1	-93.4	-121.0	-19.0	-48.6	-65.9	-112.8
Financing Gap	0.0	0.0	-88.8	-177.7	0.0	-84.8	-84.8	-124.6
Prop. IMF ECF/EFF	0.0	0.0	88.8	177.7	0.0	84.8	84.8	124.6

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

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

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

[3]Includes financing by Beninese banks.

[4]Includes financing by regional commercial banks.

Table 5. Benin: Balance of Payments, 2019–27
(in billions of CFA francs)

	2019	2020	2021		2022		2023	2024	2025	2026	2027
			RCF/RFI	Proj.	RCF/RFI	Proj.	Projections				
Current account balance	**-337.3**	**-157.3**	**-369.9**	**-433.1**	**-411.0**	**-679.1**	**-662.5**	**-583.1**	**-672.9**	**-665.7**	**-654.3**
Current account balance (excl. grants)	-368.1	-264.6	-404.0	-470.5	-426.7	-716.5	-709.2	-633.3	-713.6	-709.7	-701.9
Trade balance[1]	-260.4	-89.7	-269.1	-252.6	-285.2	-516.5	-499.0	-410.1	-477.2	-460.9	-451.0
Exports, f.o.b.[1]	1,790.9	1,720.5	1,749.9	2,043.4	2,042.4	2,407.9	2,417.4	2,494.1	2,660.7	2,849.6	3,059.1
Of which: re-exports	*841.3*	*739.1*	*700.0*	*924.3*	*900.0*	*942.9*	*1,040.7*	*1,139.7*	*1,247.1*	*1,367.8*	*1,498.6*
Of which: cotton	*325.5*	*319.3*	*358.3*	*430.8*	*351.2*	*598.9*	*487.9*	*434.4*	*446.7*	*460.6*	*476.4*
Imports, f.o.b.[1]	-2,051.4	-1,810.2	-2,019.0	-2,296.0	-2,327.6	-2,924.3	-2,916.4	-2,904.2	-3,137.9	-3,310.6	-3,510.1
Of which: fuel	*-223.6*	*-202.2*	*-186.0*	*-390.3*	*-185.1*	*-662.5*	*-610.1*	*-587.3*	*-580.4*	*-585.1*	*-604.1*
Services (net)	-162.4	-160.5	-153.5	-212.9	-177.2	-236.0	-253.3	-272.3	-294.3	-318.3	-344.0
Income (net)	-41.5	-69.7	-44.2	-71.9	-47.7	-48.2	-52.5	-59.1	-64.6	-69.6	-64.8
Current transfers (net)	127.1	162.6	96.9	104.3	99.2	121.5	142.3	158.4	163.3	183.1	205.5
Private transfers	77.6	55.0	62.8	66.9	83.5	84.1	95.6	108.2	122.6	139.1	157.9
Public transfers	49.4	107.6	34.1	37.4	15.7	37.4	46.7	50.2	40.7	44.0	47.6
Capital account balance	**116.3**	**100.5**	**89.4**	**116.5**	**99.2**	**101.3**	**131.8**	**135.4**	**146.3**	**158.2**	**163.1**
Financial account balance (+=inflow)	**262.6**	**361.8**	**248.2**	**675.8**	**321.5**	**402.1**	**407.7**	**399.5**	**704.0**	**461.9**	**567.4**
Direct investment	112.0	87.6	93.4	119.1	110.9	125.9	133.7	141.8	150.3	174.4	202.2
Portfolio investment	125.0	76.4	65.5	488.4	70.7	0.0	0.0	0.0	283.6	0.0	0.0
Medium- and long-term public capital	168.4	324.3	81.7	-56.6	115.8	240.8	236.0	216.9	225.1	238.0	310.6
Project loans	35.2	219.1	146.6	229.0	159.7	311.1	308.1	331.2	358.0	366.6	396.3
Budgetary assistance loans	33.3	49.9	29.5	28.2	38.9	50.6	40.7	42.8	33.9	36.7	39.6
Amortization due	-41.7	-50.5	-94.4	-313.9	-82.8	-121.0	-112.8	-157.0	-166.8	-165.3	-125.3
Other Medium- and long-term private capital	-142.7	-126.5	7.6	125.0	24.2	35.4	38.0	40.9	45.0	49.6	54.6
Errors and omissions	3.9	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**45.6**	**306.9**	**-32.4**	**359.2**	**9.8**	**-175.7**	**-123.0**	**-48.2**	**177.5**	**-45.5**	**76.2**
Change in net foreign assets, BCEAO ('-' = increase)	**-45.6**	**-306.9**	**32.4**	**-359.2**	**-9.8**	**-2.0**	**-1.6**	**-2.6**	**-220.3**	**45.5**	**-76.2**
Change in gross foreign assets, BCEAO	-60.1	-475.1	34.7	-461.2	-2.9	3.7	7.0	42.2	-163.7	87.2	-15.4
Use of IMF resources, net	-14.5	-168.1	5.7	-94.2	6.9	5.7	8.7	44.8	56.5	41.6	60.8
Debt relief[2]	0.0	0.0	-3.3	-7.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing Gap						**177.7**	**124.6**	**50.8**	**42.8**	**0.0**	**0.0**
Prop. IMF EFF/ECF						177.7	124.6	50.8	42.8		
	(Percent of GDP, unless otherwise indicated)										
Current account balance	**-4.0**	**-1.7**	**-3.9**	**-4.4**	**-4.1**	**-6.2**	**-5.7**	**-4.6**	**-5.0**	**-4.5**	**-4.1**
Trade balance of goods[1]	-3.1	-1.0	-2.9	-2.6	-2.8	-4.8	-4.3	-3.3	-3.5	-3.1	-2.8
Exports, f.o.b.[1]	*21.2*	*19.1*	*18.6*	*20.8*	*20.2*	*22.1*	*20.7*	*19.9*	*19.6*	*19.4*	*19.3*
Imports, f.o.b.[1]	*-24.3*	*-20.1*	*-21.5*	*-23.4*	*-23.0*	*-26.9*	*-25.0*	*-23.2*	*-23.1*	*-22.6*	*-22.1*
Services	-1.9	-1.8	-1.6	-2.2	-1.8	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2
Income	-0.5	-0.8	-0.5	-0.7	-0.5	-0.4	-0.4	-0.5	-0.5	-0.5	-0.4
Current transfers	1.5	1.8	1.0	1.1	1.0	1.1	1.2	1.3	1.2	1.2	1.3
Capital account	1.4	1.1	1.0	1.2	1.0	0.9	1.1	1.1	1.1	1.1	1.0
Financial account	3.1	4.0	2.6	6.9	3.2	3.7	3.5	3.2	5.2	3.1	3.6
Overall balance	**0.5**	**3.4**	**-0.3**	**3.7**	**0.1**	**-1.6**	**-1.1**	**-0.4**	**1.3**	**-0.3**	**0.5**
Memorandum items:											
International price of cotton (Cotlook "A" Index, U.S. cents a lb.)	77.9	71.9	72.2	101.2	72.2	127.7	101.7	88.5	88.5	88.5	88.5
International price of oil (U.S. dollars a barrel)	61.4	41.3	46.7	69.1	48.1	106.8	92.6	84.2	78.5	74.7	72.5
Nominal GDP (CFAF billion)	8,432	9,009	9,384	9,810	10,128	10,873	11,670	12,545	13,561	14,664	15,851

Sources: Beninese authorities; IMF staff estimates and projections.

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

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

Table 6. Benin: Monetary Survey, 2019–24

	2019	2020		2021		2022	2023	2024
		RCF/RFI	Proj.	RCF/RFI	Proj.	Proj.	Proj.	Proj.
	(CFAF billion)							
Net foreign assets	**1233.1**	**1254.0**	**1549.3**	**1067.3**	**2124.4**	**2132.1**	**2142.4**	**2189.8**
Central Bank of West African States (BCEAO)	314.4	335.3	269.8	178.6	131.4	-38.7	-153.1	-156.4
Banks	918.7	918.7	1279.5	888.7	1993.1	2170.8	2295.4	2346.2
Net domestic assets	**1108.9**	**1158.0**	**1198.6**	**1539.0**	**1075.3**	**1414.3**	**1664.0**	**1902.0**
Domestic credit	1449.9	1544.2	1720.9	1738.9	1712.8	1797.8	1964.6	2218.9
Net claims on central government	-200.6	-138.9	58.8	62.5	-64.6	-64.6	-64.6	-64.6
Credit to the nongovernment sector[1]	1650.5	1683.1	1662.1	1676.4	1777.4	1862.4	2029.3	2283.6
Of which: Credit to the private sector	1485.0	1517.6	1399.7	1510.9	1528.9	1614.0	1780.8	2035.1
Other items[2]	341.0	386.2	522.3	199.9	637.5	383.5	300.6	316.9
Broad money (M2)	**2342.0**	**2412.1**	**2747.9**	**2606.3**	**3199.7**	**3546.4**	**3806.4**	**4091.9**
Currency	569.4	566.1	713.7	633.6	757.7	839.8	901.4	969.0
Bank deposits	878.4	914.7	1040.5	977.5	1393.8	1544.8	1658.1	1782.4
Other deposits	894.2	931.3	993.8	995.1	1048.2	1161.8	1246.9	1340.5
	(Change, in percent of beginning-of-period broad money)							
Net foreign assets	**2.2**	**0.9**	**13.5**	**-1.2**	**20.9**	**0.2**	**0.3**	**1.2**
Central Bank of West African States (BCEAO)	-5.0	0.9	-1.9	1.6	-5.0	-5.3	-3.2	-0.1
Banks	7.1	0.0	15.4	-2.9	26.0	5.6	3.5	1.3
Net domestic assets	**3.9**	**4.1**	**3.8**	**7.7**	**-4.5**	**10.6**	**7.0**	**6.3**
Domestic credit	-4.6	4.1	11.6	10.0	-0.3	2.7	4.7	6.7
Net claims on central government	-14.4	2.7	11.1	7.5	-4.5	0.0	0.0	0.0
Credit to the nongovernment sector	9.9	1.4	0.5	2.5	4.2	2.7	4.7	6.7
Other items	-8.4	-0.7	7.7	2.3	4.2	-7.9	-2.3	0.4
Broad money (M2)	**6.0**	**4.2**	**17.3**	**6.5**	**16.4**	**10.8**	**7.3**	**7.5**
Currency	2.2	1.0	6.2	1.6	1.6	2.6	1.7	1.8
Bank deposits	2.8	1.6	6.9	2.4	12.9	4.7	3.2	3.3
Other deposits	1.0	1.6	4.3	2.5	2.0	3.5	2.4	2.5
Memorandum items:								
Velocity of broad money	3.7	3.7	3.5	3.7	3.3	3.2	3.2	3.2
Broad money (percent of GDP)	27.8	27.5	30.5	27.8	32.6	32.6	32.6	32.6
Credit to the private sector (annual percentage change)	11.9	2.2	-5.7	4.2	9.2	5.6	10.3	14.3
Nominal GDP (CFAF billion)	8,432	8,784	9,009	9,384	9,810	10,873	11,670	12,545
Nominal GDP growth (annual percentage change)	6.5	4.2	6.8	6.5	8.9	10.8	7.3	7.5

Sources: BCEAO; IMF staff estimates and projections.

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

[2] Including deposits excluded from broad money, securities other than shares excluded from broad money, loans, financial derivatives, insurance technical reserves, and shares and other equity.

Table 7. Benin: Financial Stability Indicators, 2012–21

	2012 Dec.	2013 Dec.	2014 Dec.	2015 Dec.	2016 Dec.	2017 Dec.	2018 [1] Dec.	2019 June	2019 Dec.	2020 June	2020 Dec.	2021 June
Regulatory capital to risk-weighted assets	9.2	9.5	9.0	7.9	9.3	11.9	8.2	9.6	10.4	10.0	14.4	13.4
Core capital to risk-weighted assets	7.9	7.2	7.1	5.2	7.4	10.2	7.2	8.7	9.7	9.3	13.6	12.6
Provisions to risk-weighted assets	8.6	11.4	12.1	15.6	16.0	16.4	12.6	11.1	10.3	11.4	11.3	10.1
Capital to total assets	4.8	4.5	4.0	2.7	3.7	4.7	5.1	5.6	5.4	4.7	6.7	6.4
Composition and quality of assets												
Total loans to total assets	47.4	47.7	46.1	39.0	39.6	43.5	46.1	47.5	48.5	45.3	42.5	40.9
Concentration: Credit to the 5 largest borrowers	61.1	56.3	103.9	175.7	99.6	91.6	90.4	99.6	95.5	94.9	64.6	76.9
Credit by sector [2]												
Agriculture, Forestry, and Fishing	2.1	2.0	1.6	3.2	1.9	1.8	4.4	2.6	3.1	3.6	4.0	4.3
Extractive Industries	0.7	1.7	1.8	2.1	2.6	1.5	1.2	1.0	0.9	1.4	1.1	1.4
Manufacturing	10.1	11.2	11.7	12.5	15.0	15.2	12.2	11.0	10.2	10.5	8.7	7.5
Electricity, Water, and Gas	2.8	3.3	2.5	3.0	5.0	4.4	4.3	5.2	5.2	4.8	3.2	4.9
Buildings and Public Works	7.5	9.4	12.0	14.9	16.3	17.0	27.9	28.8	30.0	27.7	17.6	20.7
Commerce, Restaurants, and Hotels	40.2	36.9	34.4	29.9	28.2	24.1	18.7	18.7	15.9	15.3	14.3	14.4
Transportation and Communication	10.3	9.6	7.5	6.0	6.2	5.9	3.9	5.0	5.6	6.3	6.0	6.7
Financial and Business Services	5.7	5.2	5.6	4.9	7.9	8.0	3.4	3.3	3.5	5.9	7.2	9.0
Other Services	20.6	20.8	22.8	23.5	16.7	22.1	23.9	24.4	25.7	24.5	37.8	31.0
Non-Performing Loans (NPLs)												
Gross NPLs to Total loans	18.6	21.2	21.5	22.1	21.8	19.4	21.6	20.2	17.7	16.4	16.8	14.9
Provisioning rate	46.8	48.0	49.0	55.0	64.0	66.4	66.5	59.0	55.9	64.6	65.5	70.9
Net NPLs to total loans	10.8	12.3	12.3	11.3	9.1	7.5	8.5	9.4	8.6	6.5	6.5	4.8
Net NPLs to capital	106.2	130.9	140.8	161.2	96.9	69.2	77.2	80.0	77.8	62.4	41.4	31.0
Earnings and profitability												
Average cost of borrowed funds	3.3	3.3	3.1	3.1	3.2	3.0	3.2	…	2.4	…	1.4	…
Average interest rate on loans	9.5	9.1	8.4	8.3	7.8	7.4	7.5	…	6.4	…	6.8	…
Average interest margin[3]	6.2	5.8	5.3	5.2	4.6	4.3	4.3	…	4.0	…	5.4	…
After-tax return on average assets (ROA)	0.0	0.4	0.9	0.3	0.0	0.0	0.1	…	0.5	…	0.6	…
After-tax return on average equity (ROE)	-0.6	5.6	14.4	4.9	0.5	0.4	1.9	…	7.0	…	7.6	…
Noninterest expenses/net banking income	68.9	69.9	60.9	63.7	73.2	76.9	74.8	…	78.5	…	67.0	…
Salaries and wages/net banking income	28.4	29.8	26.2	27.5	32.3	33.9	32.4	…	32.9	…	27.6	…
Liquidity												
Liquid assets to total assets	22.9	21.9	23.0	18.9	16.2	14.5	12.5	11.7	12.8	11.5	12.1	9.0
Liquid assets to total deposits	35.7	34.7	36.7	30.9	28.0	24.4	19.3	16.8	19.6	18.0	18.4	13.3
Total loans to total deposits	80.7	84.1	82.2	72.6	79.4	84.4	83.4	77.9	82.3	79.5	72.9	67.7
Total deposits to total liabilities	64.3	63.1	62.7	61.1	57.9	59.2	64.6	69.3	65.4	63.7	65.5	67.6
Demand deposits to total liabilities[4]	27.4	26.9	26.6	25.9	24.4	26.3	29.4	31.3	28.5	27.0	30.0	29.5
Term deposits to total liabilities	36.8	36.2	36.1	35.2	33.5	32.9	35.1	38.0	36.9	36.7	35.5	38.0

Source: BCEAO.

Note: … = not available.

[1] The first year of data reporting in accordance with Basel II/III and Revised Chart of Accounts (Interim Data)

[2] Credits reported to the Central Risk Office

[3] Excluding taxes on banking operations.

[4] Including savings accounts.

Table 8. Benin: External Financing Requirements and Sources, 2021–25

	2021	2022	2023	2024	2025	Cumulative 2022-25
		Projections				Projection
	(CFAF billion, unless otherwise indicated)					
1. Gross financing requirements	**1,238**	**839**	**824**	**793**	**1,101**	**3,557**
Current account balance (excl. grants)	471	717	709	633	714	2,773
Debt Amortization (excl. regional market securities/IMF)	314	121	113	157	167	558
IMF Repurchases/repayments	0	6	9	45	57	116
Change in NFA (excl. IMF) ("+" = increase)	453	-4	-7	-42	164	111
Errors and Omissions	0	0	0	0	0	0
2. Available financing	**1,078**	**558**	**612**	**649**	**983**	**2,802**
Foreign direct investment (net)	119	126	134	142	150	552
Other net flows [1]	675	82	88	95	387	652
of which: Eurobond	*984*	*0*	*0*	*0*	*284*	284
Project (official external)	284	350	390	413	446	1,599
Grants	*55*	*55*	*82*	*82*	*88*	306
Loans	*229*	*295*	*308*	*331*	*358*	1,293
3. Financing Gap (1-2)	**160**	**282**	**212**	**144**	**117**	**755**
Budget support (Multilateral)	66	88	87	93	75	343
Grants	*37*	*37*	*47*	*50*	*41*	*175*
Loans	*28*	*51*	*41*	*43*	*34*	*168*
Vaccination Support (WB)		16	*0*	*0*	*0*	*16*
Exceptional Financing	94	178	125	51	43	396
IMF (SDR)	94	0	0	0	0	0
IMF Prop ECF/EFF	0	178	125	51	43	396

Source: Beninese authorities; IMF staff estimates and projections

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

Table 9. Benin: Capacity to Repay the Fund, 2022–34[1]

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
IMF obligations based on existing credit (millions of SDRs)													
Principal	4.8	10.6	55.1	69.6	45.7	45.7	37.8	33.0	17.5	0.0	0.0	0.0	0.0
Charges and interest[2]	0.8	1.6	1.4	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total obligations based on existing and prospective credit													
Principal													
Millions of SDRs	4.8	10.6	55.1	69.6	45.7	72.6	96.7	108.0	100.9	86.1	86.1	43.0	17.7
Billions of CFA francs	3.9	8.7	44.8	56.5	37.2	59.0	78.6	87.8	82.0	69.9	69.9	35.0	14.4
Percent of government revenue	0.3	0.5	2.5	2.8	1.7	2.4	2.8	2.9	2.4	1.8	1.7	0.7	0.3
Percent of exports of goods and services	0.1	0.3	1.6	1.8	1.1	1.6	2.0	2.1	1.8	1.4	1.3	0.6	0.2
Percent of GDP	0.0	0.1	0.4	0.4	0.3	0.4	0.5	0.5	0.4	0.3	0.3	0.1	0.1
Percent of quota	3.9	8.6	44.5	56.2	36.9	58.7	78.1	87.3	81.5	69.5	69.5	34.8	14.3
Charges and interest													
Millions of SDRs	1.9	5.3	8.3	8.3	8.0	7.7	6.9	4.8	3.5	2.5	1.5	0.7	0.2
Billions of CFA francs	1.6	4.4	6.8	6.7	6.5	6.3	5.6	3.9	2.9	2.0	1.2	0.5	0.2
Outstanding IMF credit													
Millions of SDRs	531.6	673.3	680.7	663.8	618.0	545.4	448.8	340.7	239.9	153.8	67.7	24.7	7.0
Billions of CFA francs	436.1	550.8	554.3	539.5	502.0	443.3	364.7	276.9	194.9	125.0	55.1	20.1	5.7
Percent of government revenue	29.9	33.9	30.7	26.7	22.4	17.9	13.1	9.0	5.7	3.3	1.3	0.4	0.1
Percent of exports of goods and services	15.9	19.8	19.2	17.5	15.0	12.3	9.4	6.6	4.3	2.5	1.0	0.4	0.1
Percent of GDP	4.0	4.7	4.4	4.0	3.4	2.8	2.1	1.5	1.0	0.6	0.2	0.1	0.0
Percent of quota	429.4	543.9	549.8	536.2	499.2	440.5	362.5	275.2	193.7	124.2	54.7	20.0	5.7
Net use of IMF credit (millions of SDRs)	211.8	141.8	7.3	-16.9	-45.7	-72.6	-96.7	-108.0	-100.9	-86.1	-86.1	-43.0	-17.7
Disbursements (including prospective ones)	216.6	152.4	62.4	52.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	4.8	10.6	55.1	69.6	45.7	72.6	96.7	108.0	100.9	86.1	86.1	43.0	17.7
Memorandum items:													
Nominal GDP (billions of CFA francs)	10,873	11,670	12,545	13,561	14,664	15,851	17,131	18,510	19,996	21,597	23,321	25,180	27,182
Exports of goods and services (billions of CFA francs)	2,750	2,785	2,889	3,087	3,338	3,609	3,900	4,214	4,552	4,917	5,309	5,732	6,188
Government revenue (billions of CFA francs)	1,459	1,624	1,808	2,023	2,238	2,483	2,776	3,073	3,420	3,802	4,222	4,685	5,193
CFAF/SDR (period average)	820	818	814	813	812	813	813	813	813	813	813	813	813
Quota (millions of SDRs)	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8

Sources: IMF staff estimates and projections.

[1] Data are projections

[2] On May 24, 2019, the IMF Executive Board approved a modified interest rate setting mechanism which effectively sets interest rates to zero on ECF and SCF through June 2021 and possibly longer. The Board also decided to extend zero interest rate on ESF until end June 2021 while interest rate on RCF was set to zero in July 2015. Based on these decisions and current projections of the SDR rate, the following interest rates are assumed beyond June 2021: 0/0/0/0 percent per annum for the ECF, SCF, RCF and ESF, respectively. The Executive Board will review the interest rates on concessional lending by end-June 2021 and every two years thereafter.

Table 10. Benin: Quantitative Performance Criteria and Indicative Targets, 2021–2023[1]

	December 31, 2021	June 30, 2022	September 30, 2022	December 31, 2022	March 31, 2023	June 30, 2023
	Est.	Performance Criteria	Indicative Target	Performance Criteria	Indicative target	Indicative target
		Prog.	Prog.	Prog.	Prog.	Prog.
A. Quantitative performance criteria[2]						
Basic primary balance (floor)[3]	-148.5	-77.3	-154.4	-127.6	-11.6	-32.1
Net domestic financing (ceiling)[4]	-380.8	290	431	377	62	164
B. Continuous quantitative performance criteria (ceilings)						
Accumulation of external payments arrears	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of domestic payments arrears	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on the present value of new external debt contracted or guaranteed by the government[5]	1,016.0	620	620	620	620	620
C. Indicative Targets[2]						
Tax revenue (floor)	1,082.3	578.9	876.7	1,232.9	325.2	677.1
Priority social expenditure (floor)[6]	150.0	46.2	92.5	149.1	16.4	50.9

Sources: Beninese authorities; IMF staff estimates and projections.

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

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

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

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

[5]Annual for 2022. The debt limit for 2023 will be revised in line with the authorites' borrowing plan and and updated DSA.

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

Table 11a. Benin: Prior Action

Reform area	Structural conditionality	Objective
Transparency	The Audit Court will undertake an independent audit of COVID-19-related spending and publish the results on an easily accessible government website.	Improve expenditure control, including COVID-related, and accountability

Table 11b. Benin: Structural Benchmarks, 2022–23

Reform area	Structural benchmark	Due date
Governance and Transparency	Adopt into law a secondary regulation requiring procurement agencies to collect BO information for companies awarded public procurement contracts above CFAF 10 million.	End-June 2022
	Publish on a regular basis the BO information for companies awarded public procurement contracts above CFAF 10 million on an easily accessible government website.	End-September 2022
	Conduct and publish a governance diagnostic.	End-February 2023
AML/CFT	Adoption by the Council of Ministers of (i) a Ministerial Decree designating the National Committee for the Coordination of Activities in the Area of AML/CFT (CNCA) as the AML/CFT supervisor for designated non-financial businesses and professions (DNFBPs) and setting out its powers and responsibilities to undertake risk-based supervision of the sector in line with FATF Recommendation 28; (ii) Ministerial decree to implement a targeted financial sanctions regime to comply with relevant United Nations Security Council resolutions related to terrorism and terrorism financing and proliferation financing in line with the recommendations (6 and 7) of the FATF and empowering the Consultative Committee on Administrative Freezing (CCGA) to effectively implement this regime.	End-June 2022
Revenue Mobilization	Develop a strategy for rationalizing tax expenditures over 2023–25 (a detailed report on 2021 tax expenditures will be annexed to the draft budget law submitted to Parliament).	End-November 2022
	Develop a medium-term revenue mobilization strategy (MTRS).	End-September 2023

Table 11b. Benin: Structural Benchmarks (2022–23) Concluded

Reform area	Structural benchmark	Due date
Social Safety Nets	Finalize the community validations of vulnerable households identified through the first cycle of proxy-mean test surveys (mass registration) in at least 70 of the 77 communes; and publish social registry results at the commune level on an easily accessibly government website.	End-July 2022
Public Financial Management	Prepare a statement containing a quantitative analysis of fiscal risks in all key areas, including macroeconomic risks, public enterprises, debt management, contingent liabilities, natural disasters, pension and social securities, as part of the 2024 draft budget law documentation.	End-October 2023
	Publish all the criteria for the appraisal and selection of major investment projects, along with feasibility studies.	End-December 2023
Financial Inclusion	Transpose the WAEMU's regional financial inclusion strategy (adopted by the WAEMU Council of Ministers in 2016) at the national level and design a comprehensive financial inclusion strategy for Benin.	End-March 2023

Table 12. Benin: Proposed Schedule of Reviews Under the ECF-EFF Arrangement

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

Sources: IMF Staff Estimates

1/Benin's quota is 123.8 million SDR.

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

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

Benin faces several sources of BOP pressures:

- First, the current account is projected to widen in 2022–23, due to higher import bill from the sharp increase in global oil and food prices (Box 4) and the need to gradually reduce reliance on smuggled fuel products from Nigeria (**SIP-III**). In addition, although cotton prices are expected to remain elevated over the medium-term (albeit well-below their 2022 level), this would not be enough to offset the impact on exports from the plateauing cotton production after nearly tripling in volume between 2015-20.
- On the financing side, FDI flows (although increasing) are expected to cover only a fraction of the ongoing infrastructure push. Moreover, the ongoing tightening in global financial conditions may constrain Benin's ability to tap international capital markets at terms consistent with the program's interest-to-revenue guide and debt sustainability (Annex V).

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

Benin is projected to remain at moderate risk of debt distress despite having limited space to absorb shocks (DSA). Moreover, the fact that the SDR rate on GRA resources would still likely remain relatively low even as monetary conditions tighten in countries that constitute the SDR basket, and expected higher concessional financing amid the expected Fund catalytic role would further improve Benin's debt profile.

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

Benin has strong institutional capacity to implement a large Fund-supported program, given its solid track record of policy implementation as demonstrated by the "very satisfactory" performance under the previous ECF (2017–20). The authorities have also consistently implemented past TA recommendations and enjoy good traction with the donor community. The country was assessed above SSA peers in several areas under the 2021 FAD Fiscal Transparency Evaluation. There is demonstrated commitment to reform (and resolve to maintain it), with robust involvement of the civil society, including in the budget process, as additional safeguard. Strong upfront conditionality in governance, transparency and AML/CFT, and the authorities' permanent tax package this year (½ ppt of GDP) set the program on strong footing.

Annex II. Status of Implementation of Key Recommendations from 2019 Article IV Consultations

Key Recommendations	Status of implementation
Advance revenue mobilization efforts to create budgetary space for development programs	• Important reforms of tax and customs administrations were implemented, including the introduction of e-services for medium and large enterprises, one-stop-shop for investors and electronic single window for foreign trade, mobile tax payment, e-VAT invoicing machines, and improved bancarization of tax payments. • Pre-pandemic revenue mobilization reforms, including digitalization, ensured resilience of tax collection during the COVID-19 pandemic: domestic taxes consistently exceeded expectations, increasing from 6.3 percent of GDP in 2019 to 7 percent of GDP in 2021 and international trade taxes were nearly flat (from 4.2 to 4.1 of GDP) despite a challenging external environment, including the closure of Nigeria's border between August 2019-December 2020. • The authorities are committed to developing a Medium-Term Revenue Strategy to expand the tax base, streamline tax expenditures, and improve the overall efficiency of the tax system.
Pursue convergence to WAEMU fiscal deficit criterion	• The authorities tightened fiscal policy significantly in 2019, recording a near-balance budget (deficit of 0.5 percent of GDP). This allowed Benin to enter the COVID-19 with some buffers, helping mitigate the immediate impact of the shock. In response to the COVID-19 pandemic, the WAEMU Macroeconomic Convergence Pact, including the application of the 3 percent of GDP ceiling, was suspended by the WAEMU Heads of States on April 27, 2020.
Strengthen PFM, government finance and national accounts statistics	• The authorities have been working to improve the compilation of government finance data and expand its coverage. • They are also committed to developing quarterly national accounts data by expenditure and strengthening compilation of data for turnover index and producer price index.
Ensure debt sustainability to preserve economic stability and bolster investor confidence	• Although debt levels have increased over the past two years due to the impact of the pandemic, the authorities have remained committed to ensuring debt sustainability—public debt is assessed to continue to be at moderate risk of debt distress • The authorities have successfully carried out several liability management operations, which helped lower refinancing risks and borrowing costs, including by substituting costly and shorter maturity domestic debt with external debt at more favorable terms. They continue to maintain a prudent borrowing strategy that prioritizes concessional financing. • The authorities continue to implement the 2020-24 Medium-Term Debt Strategy, including by improving its consistency with the regional market issuance schedule and the national annual financing plan, and by better integrating cash and debt management practices. They have continued to improve debt transparency, including with the publication of the stock of non-guaranteed state-owned enterprise debt. They also publish lists on PPPs.
Foster economic diversification and transformation, promote private sector investment, and enhance agricultural productivity	• The authorities are committed to achieving the structural transformation and boosting private sector-led growth. Despite numerous reforms aiming to enhance the business environment, market concentration, informality, access to finance, and poor infrastructure remain key impediments to doing business in Benin. While the Government Action Program (PAG; 2016-21) envisaged that more than half of its overall cost would be covered by the private sector, the authorities struggled to foster private sector participation. Economic activity remains concentrated and largely dominated by Nigeria-dependent transit-centered model and cotton production. Growth remains vulnerable to weather-related shocks in agriculture.
Mitigate risks to growth posed by financial sector vulnerabilities	• The authorities have made major efforts to foster the rebuilding of financial sector buffers over the past two years, including with the move towards Basel II/III and IFRS9 standards. To better channel savings towards development projects and lower the cost of term deposits in banks, the authorities have established and operationalized Benin's *Caisse des Depots et Consignations* (CDC) in 2020 (preliminary analysis suggests that the average cost of term deposits in Beninese banks has declined by nearly 100 bps over the period 2020-22, with the more significant decline observed for term deposits with longer maturities). • However, vulnerabilities remain. While the merger of two small public banks has been completed, two banks (representing 5 percent of the banking system's assets) failed to meet the capital requirements as of end-December 2021. In addition, the banking sector lending remains exposed to trade with Nigeria, and contact-intensive sectors impacted by pandemic-related containment measures and the subsequent slowdown in economic activity. While the authorities made some progress in improving the portfolio quality of the microfinance sector, there is room to enhance governance and risk management practices, and advance formalization of nonviable institutions.
Advance governance reform agenda	• In April 2020, the National Authority for the Fight against Corruption (ANLC) was transformed into a High Commission for the Prevention of Corruption (HCPC) to strengthen preventive measures and promote good governance. • The authorities have also enhanced the capacity of the National Financial Information Processing Unit (CENTIF) to collect and analyze financial information.

	• The institutional change at the Court of Auditors, previously Accounting Chamber, aimed at enhancing its independence from the Supreme Court.

Annex III. Risk Assessment Matrix[1]

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

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

Annex IV. External Sector Assessment[1]

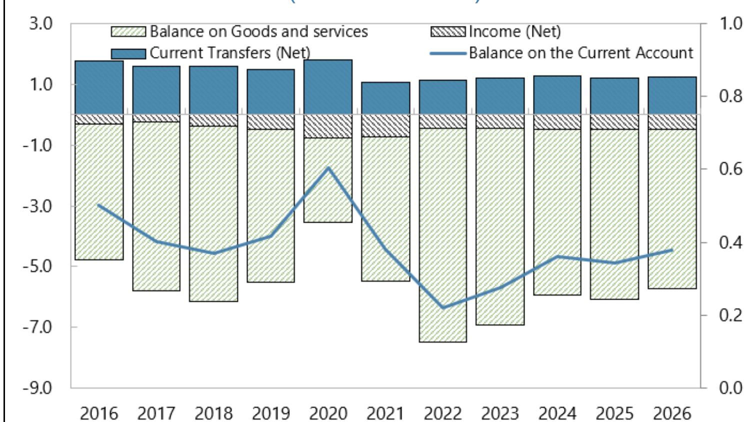
Overall assessment: *The external sector assessment indicates that Benin's external position in 2021 was broadly in line with the level implied by fundamentals and desirable policies, similar to the results obtained in the previous ESA, conducted in 2019.[2] Based on staff's estimates of data[3], the current account deficit widened in 2021 on account of higher food and oil prices and significant increase in imports driven by public investment scaling-up. Over the medium term, the current account is expected to improve gradually driven by fiscal consolidation and expected increase in exports following the completion of several major infrastructure projects. Following a sharp but temporary increase in capital inflows in 2021, reflecting two Eurobond issuances and the IMF's general SDR allocation, the financial account balance is expected to gradually stabilize over the medium term. The financial account is subject to risks, given the uncertain path of global interest rates.*

Potential policy response: *In the near term, policies should continue to support the recovery from the pandemic, while monitoring external financing risks stemming from uncertain developments in global interest rates. A gradual fiscal consolidation towards the regional deficit target, combined with structural reforms to support private sector competitiveness, will help narrow imbalances over the medium term.*

A. Foreign Assets and Liabilities: Position and Trajectory

1. 2020 position. Benin's net international position (NIIP) deteriorated to -33 percent of GDP at end-December 2020 (the most recent data point), from -26.5 percent of GDP at end-December 2019. Financial assets of 36 percent of GDP were split between portfolio investments (16 percent of GDP), other investments (7 percent of GDP), and reserves (9 percent of GDP). More than a half of financial liabilities were comprised of concessional loans to the government (39 percent of GDP).

Text Figure 1. Benin: Current Account
(Percent of GDP)



2. Outlook. A large current account (CA) deficit in 2021 is estimated to have driven the NIIP, while the projected improvement in the CA position from 2023 should contribute to stabilizing the NIIP ratio over the medium term. Nearly a third of Benin's external liabilities in 2020 were comprised of foreign

[1] Prepared by Goran Amidzic (AFR).

[2] See Benin's 2019 Article IV Consultation, Fourth Review under the Extended Credit Facility Arrangement, and Request for Modification of Performance Criteria, [Country Report No. 19/203.]

[3] The latest official BoP data, including for NIIP, are for 2020. Data for 2021 are estimates; final data for 2021 will be available in the first quarter of 2023.

direct investments (FDI), while portfolio investments (which are more volatile than FDI) constituted only 13 percent of external liabilities, containing the risks to external sustainability arising from the negative NIIP. As a result, the current NIIP and its projected path do not imply risk to the country's external sustainability.

B. Current Account

3. Background. The CA deficit is estimated to have increased to 4.4 percent of GDP in 2021 (from 1.7 percent of GDP in 2020) reflecting import recovery and higher international oil and food prices (Text Figure 1). The widening of the CA deficit reflects factors related to the lingering COVID-19 pandemic, scaling-up of public investment, and negative terms-of-trade shocks, which are expected to moderate over the medium term. Under the baseline projection, the CA deficit is expected to gradually improve over the medium term and reach 4.1 percent of GDP in 2027 (level broadly similar to the 2017-19 average) on account of fiscal consolidation and expected increase in exports following the completion of several major projects, including the construction of a new terminal at the Port of Cotonou. Nevertheless, important risks to this outlook remain given the elevated uncertainty associated with the scope and speed of the global economic recovery and persistence of shock stemming from the war in Ukraine, as well as the dependence on transit-centered trade, including with Nigeria (**SIP-III**).

4. Assessment. The EBA-lite CA model, which compares the actual current account balance with the estimated current account norm and infers the real exchange rate adjustment necessary to bridge the gap, suggests that Benin's external position in 2021 was broadly in line with the level implied by fundamentals and desirable policies.[4] Using preliminary estimates for 2021, the CA model indicates an overvaluation of 3.5 percent and a CA gap of -0.7 percent of GDP: a cyclically adjusted CA balance of -4.4 percent of GDP against a norm of -3.7 (Text Table 1). A standard adjustor was added to the actual CA balance account for the temporary impact of COVID-19 on tourism (0.08) percent of GDP) and remittances (0.04 percent of GDP). The current account gap is driven by a policy gap of 1.9 percent of GDP, which mostly

Text Table 1. Benin: Model Estimates for 2021
(Percent of GDP)

	CA model	REER model
CA-Actual	**-4.4**	
Cyclical contributions (from model) (-)	0.2	
COVID-19 adjustor (+) 1/	0.1	
Natural disasters and conflicts (-)	-0.1	
Adjusted CA	**-4.4**	
CA Norm (from model) 2/	**-3.7**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-3.7**	
CA Gap	**-0.7**	**3.9**
o/w Relative policy gap	1.9	
Elasticity	-0.20	
REER Gap (in percent)	**3.5**	**-20.1**

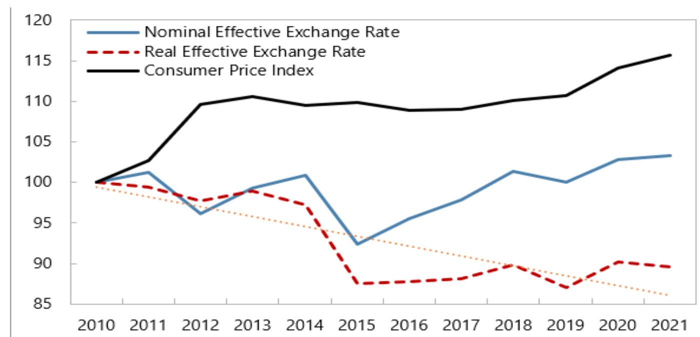
1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism (0.08 percent of GDP) and remittances (0.04 percent of GDP).
2/ Cyclically adjusted, including multilateral consistency adjustments.

[4] Desirable policies are set as follows: i) cyclically adjusted fiscal balance is set at -2.2 percent, in line with debt-stabilizing primary balance consistent with existing fiscal rules in 2026; ii) public health expenditures (as a share of GDP) is set at 1.3 percent, using the benchmark suggested by the EBA-lite CA model; change in reserve is set at 0 as no additional FX accumulation (beyond minimal amounts to sustain such adequate level of FX liquidity) would be deemed necessary over the medium term; iii) private sector credit level (27.9 percent of GDP) and growth (5.5 percent of GDP) are determined using the provided indicative benchmark based on an auxiliary regression that links the credit-to-GDP ratio to measures of financial development and structure, GDP per capita, public debt, inflation, and other variables; and iv) desirable policy level for capital controls is set to 0.47, reflecting contemporaneous cross-country average level of the controls index for 2018.

reflects an increase in Benin's contribution to WAEMU's pooled reserves as a result of large Eurobond issuances in January and July 2021, and the IMF's August 2021 SDR allocation. As a result, the contribution of the foreign exchange (FX) intervention gap is large and positive, reflecting a deviation between change in reserves (1 percent of GDP) from its desirable policy level for the World as a whole compared to Benin's (set at 0 percent of GDP).[5] Assuming an elasticity of the current account balance with respect to the exchange rate of -0.20, the real exchange rate would need to depreciate by 3.5 percent to eliminate the gap between the norm and the actual current account.

C. Real Exchange Rate

Text Figure 2. Benin: Effective Exchange Rates



Source: IMF International Notice System

5. Background: The CFA Franc (CFAF) depreciated by about 13.6 percent in real effective terms over 2009-19, [6] reflecting both the nominal depreciation of the Euro vis-à-vis the US dollar and relatively low inflation in Benin compared with its trading partners. After having appreciated by about 3.8 percent in 2020—largely as a result of relative appreciation of the Euro against the USD—the real effective exchange rate (REER) remained stable in 2021, depreciating by about -0.7 percent (Text Figure 2).

6. Assessment: When applied to 2021 data, the EBA-Lite Index Real Effective Exchange Rate (IREER) model finds an undervaluation of approximately 20.1 percent, implying a CA gap of 3.9 percent of GDP. As in past external sector assessments, staff finds the REER model results tend to be an outlier that needs to be treated with caution in the context of Benin 's CA deficits. Staff judges that the CA model offers a stronger explanatory power for a country like Benin as it takes advantage of cross-country information. Thus, staff rely on the CA model for the bottom-line external sector assessment given its explanatory power.

D. Capital and Financial Account

7. Background: In 2021, net capital inflows are estimated to have increased to 3.2 percent of GDP, from 0.6 percent of GDP in 2020, driven by a sharp but temporary increase in net portfolio flows (5.0 percent of GDP), reflecting Benin's large Eurobond issuances in January and July of 2021 (Text Figure 3), a portion of which was used for debt liability management operations (**Annex VI**). Over the medium term, the financial account is projected to gradually stabilize to -3.0 percent of GDP in 2026, compared to -2.8 percent of GDP, on average, over 2017-19, as stable FDI and official inflows are expected to be offset by a decline in portfolio

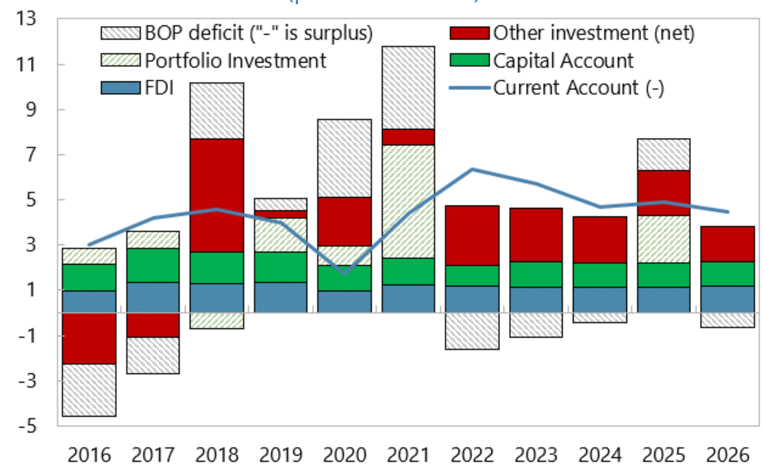
[5] Under the principle that countries are expected to hold, over the medium term, an FX stock position deemed adequate from a precautionary viewpoint, no additional FX accumulation (beyond minimal amounts to sustain such adequate level of FX liquidity) would be deemed necessary over the medium term (i.e., the desirable level of FXI over the medium term should, in most cases, be set to zero).

[6] The CFA Franc has been pegged to the Euro since its launch in 1999 at a fixed rate, and previously to the French Franc. The REER used in the annex is based on CPI prices.

investments—the latter reflecting prudent assumptions on new net Eurobond issuances over the period given uncertain international market borrowing costs.

Text Figure 3. Benin: Financing Sources

(percent of GDP)



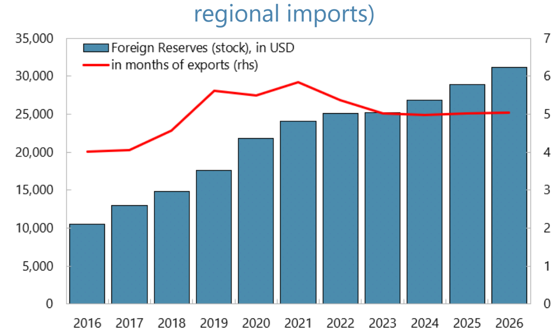
8. Assessment: Staff sees some risks from a financial account perspective:

- Benin was the first SSA country to return to international capital markets since the onset of COVID-19. Proactive debt management operations, the use of concessional financing, and increased donor support to fund the government's response to the lingering COVID-19 pandemic, reduced financing risks.

- However, while spreads are currently low, Benin's capacity to access financing on capital markets at a reasonable cost is subject to the path for global interest rates, which remains highly uncertain. Shifts in global risk appetite resulting from monetary policy normalization in advanced economies could narrow the access to international markets. Similarly, persistence of the war in Ukraine conflict could increase rollover risks. Over the medium term, prioritizing concessional financing while monitoring the cost of Benin's debt service will be important. In this regard, the authorities' aim to strengthen their fiscal position while advancing revenue mobilization to improve the debt service capacity will be important (**Annex V**). Nevertheless, as Benin's access to concessional sources of finance is expected to gradually decline with improvements in the country's income, greater efforts should focus on attracting more private capital inflows and enhancing the business environment.

Text Figure 4. Benin: WAEMU Regional Gross International Reserves

(In million USD and months of next year's extra-regional imports)



Source: BCEAO

E. Reserves[7]

9. Background. The WAEMU pooled reserves continued to expand in 2021, increasing from CFAF 11.7 trillion at end-2020 to about CFAF 13.9 trillion at end-2021—equivalent to 5.8 months of 2022 imports (Text Figure 4). The reserve position was supported by large Eurobond issuances by Benin, Cote d'Ivoire, Senegal, and the BOAD (2.6 percent of 2021 GDP or 1.2 months of 2022 imports), a recovery in export repatriation proceeds, and the IMF's general SDR allocation in August 2021 (about USD 2.3 billion, roughly equivalent to

[7] See Annex IV, WAEMU's Staff Report on Common Policies for Member Countries (Country Report No. 2021/049).

0.6 months of 2022 imports). Over the medium term, reserve coverage is expected to contract gradually to about 5 months of prospective imports by 2026 largely driven by a moderate pickup of imports during the recovery and a subdued outlook for capital inflows (FDI and official flows) at the regional level. The gradual convergence of WAEMU members towards a fiscal deficit of the 3 percent of GDP, the regional norm, will help support the reserve position.

Annex V. The Interest-to-Tax Revenue Ratio as a Guide for Fiscal Policy[1]

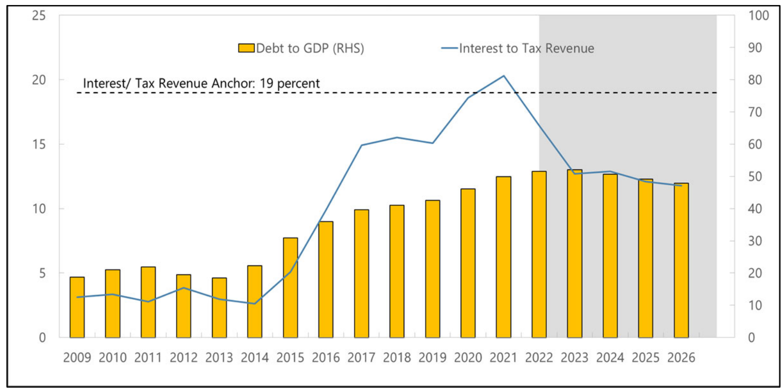
1. **Using the interest-to-tax revenue ratio as a guide for fiscal policy embeds the important trade-off between borrowing to meet spending needs and maintaining debt servicing capacity.** In addition to providing a direct link between domestic revenue mobilization and fiscal space, the interest-to-revenue ratio reflects debt servicing capacity, a strong predictor of fiscal stress episodes.

2. **This ratio is particularly well-suited to Benin where interest costs have risen sharply since 2014, tax revenues remain low, and development needs high.**

3. **Benin has increasingly relied on non-concessional borrowing to meet its financing needs (See DSA),** including due to the declining availability of concessional financing given the country's relatively high per capita income to other LICs. Partly as result of this trend, the interest bill rose above 20 percent of tax revenue by 2021 (from only about 3 percent in 2014). While successful liability management operations, using proceeds from the large Eurobond issuance in 2021, put a dent on interest costs over 2022-24, high borrowing costs going forward, as global financial conditions tighten, could crowd-out priority spending. The focus on interest-to-tax revenue is also relevant given that even though Benin's debt level is manageable, increasing revenues from a relatively low base (**SIP-II**) will be critical to continue servicing it. More fundamentally, durably expanding the tax base would provide more room for accessing market financing to support development needs, including in the context of the limited availability of

Annex V. Figure 1. Benin: Interest to Tax Revenue and Debt to GDP 2009-26

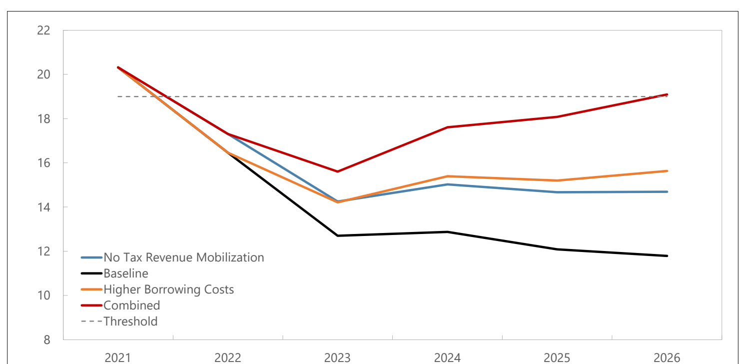
(Percent)



Sources: IMF staff calculations

Annex V. Figure 2. Benin: Interest-to-Revenue Ratio Baseline vs. Alternative Scenarios[1]

(percent)



1/ No Tax Revenue Mobilization is a scenario where no revenue mobilization efforts are made over 2022-26 (i.e. tax-to-GDP level remains constant at its 2021 level). Higher borrowing costs is a scenario where interest rates on new borrowing increase 250 bps. Combined is the high borrowing cost and no tax revenue mobilization scenario.

[1] Prepared by Deirdre Daly (AFR), building on earlier work by Alexandre Nguyen-Duong (now WHD).

concessional financing as Benin's income rises.

4. Staff estimations suggest that an interest-to-tax revenue ratio of 19 percent would provide a buffer against a fiscal stress event materializing, while avoiding the crowding out of primary expenditures. Cross-country analysis of fiscal stress episodes suggest that an interest-to-revenue ratio of 19 percent can robustly predict fiscal stress.[2] Given the low tax base and the lower predictability of non-tax revenue, an interest-to-tax revenue (as opposed to total revenues) anchor is better tailored to Benin's circumstances. We set the interest-to-tax revenue anchor to the 19 percent high risk threshold established in the stress analysis based on total revenue. This *de facto* provides a safety buffer of about 2 percent, considering and is consistent with non-total revenues in Benin remaining at historical levels. The 19 percent threshold for the interest to tax revenue anchor is also consistent with maintaining debt sustainability.

5. Downside scenarios illustrate how both revenue efforts and shocks can quickly lead to a breach of the threshold. A scenario where no new measures were taken to mobilize tax revenues would put the interest-to-revenue ratio on an increasing path, reaching 14 percent by 2026 (nearly 4 ppts above the baseline), while 250 basis point increase in new borrowing costs would bring the ratio to 16 percent (about 4 ppts above the baseline) and a combination of these scenarios would breach the threshold and bring the ratio to 19 percent. Continued prudent borrowing and a sustained revenue mobilization strategy that insulates the tax base from shocks would mitigate the risk of breaching the anchor.

[2] A Simple Approach to Anchor Fiscal Policy in SSA Countries Post COVID-19 (Forthcoming AFR Departmental Note).

Annex VI. Benin's Access to Capital Markets: Opportunities and Risks[1]

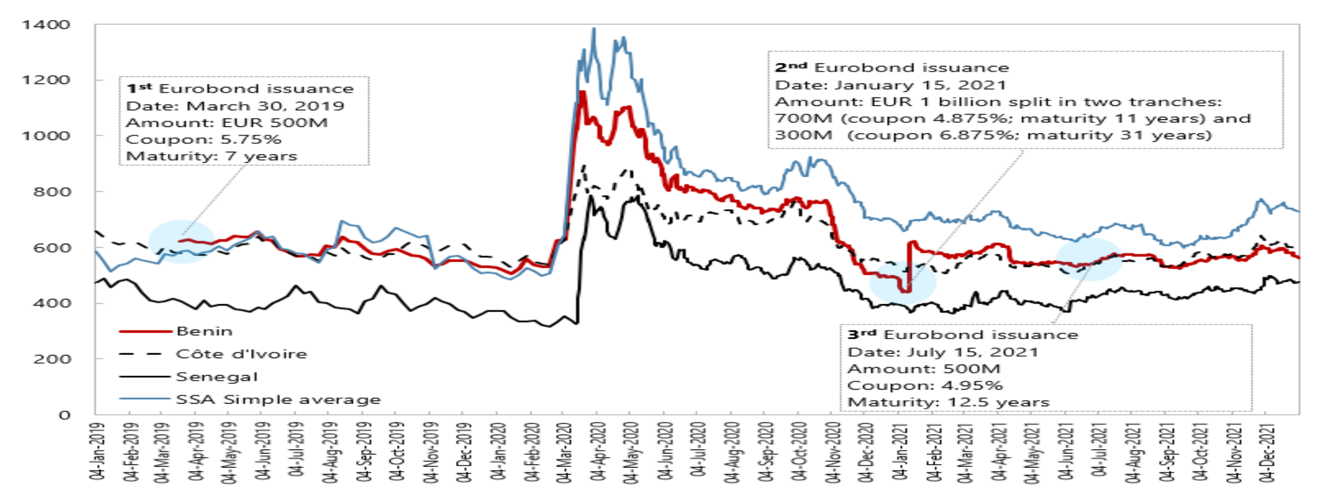
Access to global capital markets provides countries with an alternative source of financing with considerable benefits. Sovereign issuances can also carry significant risks, including sudden change in investors' sentiment and deteriorated external conditions. Safeguarding Benin's market access over the medium term will require prudent fiscal policy and continued proactive debt management practices. Further reliance on concessional financing as Benin diversifies its other financing sources would contain borrowing cost.

Benin's Market Access

1. **Benin issued its first Eurobond in March 2019 and became the 17th country in SSA to tap international capital markets to meet its financing needs.** Unconventional monetary policies in advanced economies produced a prolonged episode of ultra-low global interest rates and extremely low volatility in financial markets, since 2009-10. Taking advantage of the benign global financial environment, Benin issued its first Eurobond for an amount of EUR 500 million, carrying a coupon of 5.75 percent with a maturity of 7 years.

2. **Like for many other sovereigns, Benin's bond spreads soared at the onset of the pandemic (by 550 bps by end-March 2020).** Spreads subsequently returned gradually to pre-pandemic levels by end of 2020. The Beninese authorities carefully timed their return to international capital markets in January 2021, at a moment when the country's sovereign bond spreads fell to the lowest levels since 2019Q1 (Figure 5.1). Split into two tranches, Benin's second Eurobond secured the longest maturity (31 years) ever received by a WAEMU member on global capital markets. The issuance was oversubscribed by threefold, attracting nearly EUR 3 billion in bids from 125 investors.

Annex VI. Figure 1. Benin: EMBI Spreads (Selected countries, 2019-2021)



Source: Bloomberg

3. **Global impact of the COVID-19 pandemic spurred an unprecedented boom in the issuance of non-traditional sovereign bonds**. They grew by 64 percent in 2021 to reach US$992 billion or 11.3 percent

[1] Prepared by Goran Amidzic (AFR).

of total global bond issuance (*Moody's ESG Sustainable Finance Outlook Report 2022*). Benin became the first country in SSA to issue an SDG bond in July 2021, building on the innovative SDG bond framework (Box 1). Despite a relatively low coupon (*on par* with the Cote d'Ivoire's Eurobond issued in December 2020), Benin's third Eurobond realized a "*greenium*"—a reduction in premium against its estimated secondary trading price—of nearly 20 basis points.

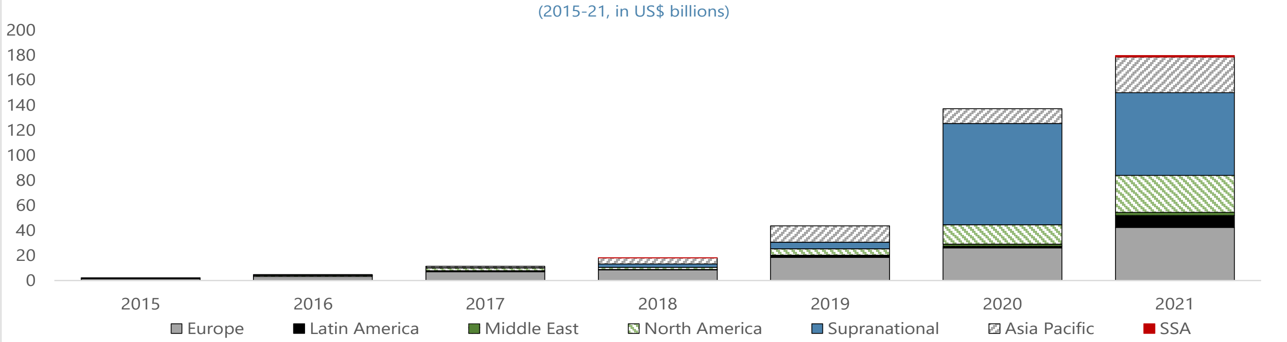
Box 1. Benin's SDG Bond Framework

Benin has anchored its national development plan (PND; 2018–25) on Sustainable Development Goals (SDGs). The PND is the result of a consultative process involving a wide array of domestic stakeholders to foster ownership.

This policy blueprint allowed the authorities to develop an SDG Bond Framework as an integral part of the country's development finance strategy. The framework was preceded by a costing of SDGs with UN technical support and focuses on 12 green and social eligible categories, including education, health, and water. It describes how the bond proceeds will be used, the process for expenditure evaluation and selection, the management of proceeds as well as the reporting on allocation and impacts of the funds used. As the bond proceeds are channeled through the national budget, investors bear no risk tied to projects.

The framework facilitated the issuance of EUR 500 million SDG Eurobond in July 2021. While the first in SSA, the issuance reflects a global trend towards green, social, and sustainability bond financing (Figure 1). Benin's SDG bond presents several advantages. First, it was obtained at relatively attractive terms (12.5-year maturity at 4.95 percent coupon). Second, the underlying framework is transparent and features a strong accountability mechanism. Third, the required annual reporting ensures that the spending priorities are not crowded-out in the budget process, supporting specific development objectives.

Figure 1: Non-traditional bond issuances
(2015-21, in US$ billions)



Sources: Moody's ESG Solutions and Environmental Finance Bond Database

Benin's SDG Bond Framework can serve as a model to other countries in the region seeking to tap international capital markets towards development financing. The framework was deemed aligned with the four core components of Green Bond Principles and Social Bond Principles by Vigeo Eiris (subsidiary of Moody's) in June 2021. As for any other source of financing, borrowing under the framework should remain consistent with debt sustainability (see DSA).

4. Continuous improvements in investors' senitment throughout 2021 (Table 5.1) lowered Benin's average sovereign bond spreads below those of Cote d'Ivoire in the last quarter of 2021. The decline in spreads reflected the resilience of Benin's economy to the dual shock of COVID-19 pandemic and the Nigerian border closure, strong potential growth, as well as sound fiscal management and manageable debt level.

Annex VI. Table1. Benin: Sovereign Rating (as of February 11, 2022)

	Rating/Outlook	Date	Status
Fitch	B+/Stable	10-Feb-22	Upgraded from B
Moody's	B1/Stable	13-Dec-21	Affirmed (upgraded from B2 on 9-Mar-21)
S&P	B+/Stable	21-Nov-21	Affirmed

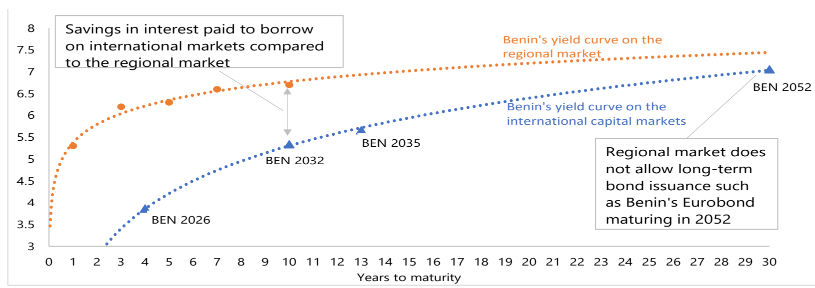
Source: Fitch, Moody's, and Standards&Poors

Benefits of Market Access

5. **Access to global capital markets provides countries with an alternative source of financing with considerable benefits.** Sovereign Eurobonds can be useful as a signal for attracting other capital flows to the private sector as they provide a benchmark of country risk. They are a very transparent form of debt, as all the terms and conditions are published by the exchanges the bonds are listed on. They can represent means to quickly raise a considerable level of financing under market-imposed discipline policy conditions that are usually tied to funding coming from official sources. Finally, they can empower country's debt management agencies by providing them with a choice for lending terms (i.e., currency denomination, tenor, and repayment schedule).

6. **Compared to the WAEMU regional market, international capital market access provides Benin with preferable terms (Figure 5.2).** For instance, the average yield on a 10-year bond issued on the regional market (6.72 percent) was trading nearly 160 bps higher than if issued on international markets (5.34 percent) at end-January 2022. Moreover, international capital markets provide Benin with access to long-term debt needed to finance Benin's developmental goals.

Annex VI. Figure 2. Benin: Yield Curves on Regional and International Capital Markets (As of January 31, 2022)



Source: Bloomberg

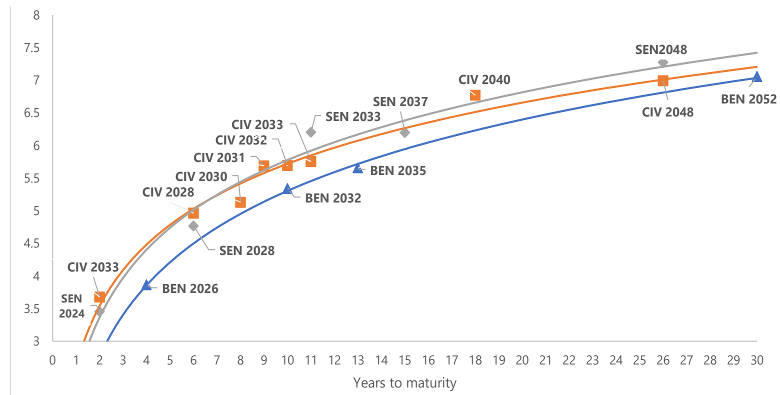
7. **Global capital markets provide Benin with preferrable borrowing terms and longer maturities compared to its regional peers.** Yields on Benin's Eurobonds experienced a notable decline in 2021. For example, spreads on Benin's first Eurobond (BEN 2026) declined from 436 bps on January 4, 2021 to 374 bps on December 31, 2021. As a result, Benin's Eurobond yield curve fell below those of Senegal and Cote d'Ivoire by end-January 2022 (Figure 5.3).

8. **In addition to diversifying sources to finance its developmental agenda, access to international markets enabled Benin to proactively manage its debt portfolio.** Benin used part of the proceeds of the

January 2021 Eurobond towards an early repayment of 65 percent of the more expensive 2019 Eurobond (EUR 324 million or 2.1 percent of GDP), with shorter remaining maturity.

Similarly, more than three quarters of the July 2021 Eurobond were used to retire shorter maturity and more expensive domestic debt (CFAF 218 billion or 2.1 percent of GDP) in November 2021. These debt management operations reduced amortization of Benin's external debt over 2024-26 period, lowered reliance on domestic (regional) liquidity and refinancing risks, decreased the average cost of its debt and extended its maturity.

Annex VI. Figure 3. Benin: Yield Curves on Outstanding Eurobond Issuances (Selected countries, as of January 30, 2022)



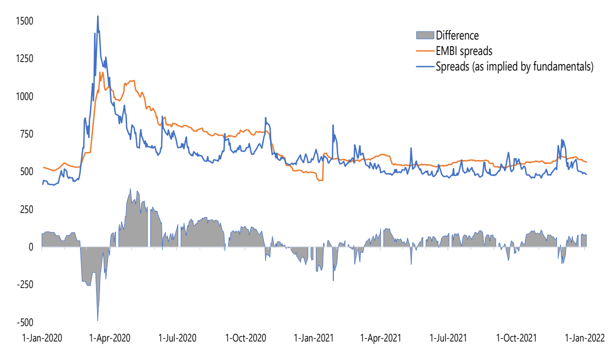
Source: Bloomberg

Risks Of Market Access

9. Sovereign issuances can also carry significant risks. Investor sentiment can shift quickly if a sovereign's policies change, country's economic outlook deteriorates, or global economy or financial markets experience a shock inherently unrelated to the sovereign. This volatility, combined with the foreign currency risk and borrowing cost, can make Eurobond borrowing hazardous.

Annex VI. Figure 4. Benin: Sovereign Bond Spreads

(EMBI vs Fundamentals)



Sources: Staff estimate; Bloomberg

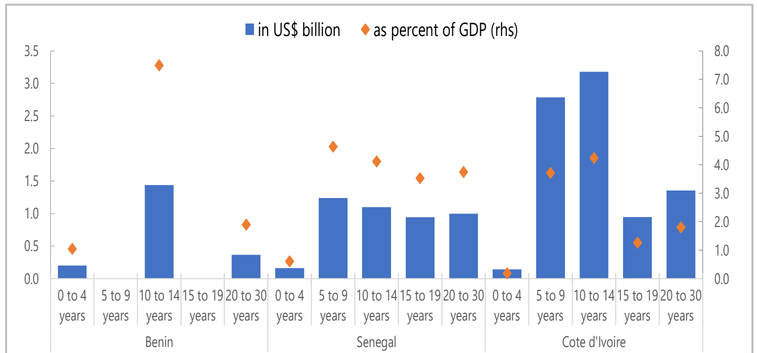
10. To shed light on the main drivers of Benin's sovereign bond spreads, we apply the results of the Local Projections method model (IMF, 2019).[2] The model decomposes changes in EMBI spreads into the contribution of external and domestic factors. The results of the exercise confirm that the current levels of Benin's sovereign bond spreads can be explained by a combination of external conditions (such as investors' risk aversion and oil prices) and macroeconomic fundamentals (such as level of debt, fiscal stance, and institutional quality). The results also show that Benin's spreads were on average 58 basis points higher since the country's first Eurobond issuance in March 2019, compared to spreads implied by the country's fundamentals (Figure 5.4). The model also suggest that the decline in spreads in 2021 was mainly driven by

[2] See IMF Selected Issues Paper, "*EMBI Spreads: External Factors, and the Impact of Fiscal Consolidation,*" IMF Country Report No. 19/80. The dependent variable in the model is the sovereign bond spreads, measured by the EMBI spreads, and the key explanatory domestic variable is fiscal policy, measured by the cyclically adjusted primary balance and the level of public debt as percent of GDP. Other explanatory domestic determinants include the country's default history, the quality of institutions, oil prices, and investor risk appetite.

improved investors' sentiment (proxied by VIX index). Some authors have interpreted this as African countries paying a higher risk premium on their external debt, reflecting real and perceived sovereign risks (Presbitero at al., 2016; Mutize, 2019; Soto, 2020, Fofack, 2021). To limit perception risk from investors, Benin did not participate in the ongoing Debt Service Suspension Initiative (DSSI).

11. While Benin's performance on international sovereign bond markets has been strong, gradual monetary policy tightening in advanced economies, and uncertainty related to the war in Ukraine, disrupted capital flows, increased Benin's risk premia and its borrowing costs. Indeed, as of end-April 2022, Benin's EMBI spreads have increased by 70 bps since the outset of thewar. Nevertheless, deterioration in international market conditions is unlikely to increase the country's refinancing risks in the near term: while about 10 percent of Benin's outstanding Eurobond issuances (0.5 percent of GDP) is maturing within 4 years (Figure 5.5), only around 2 percent of Benin's current debt stock is subject to variable interest rates. In addition, given the maturity profile, the authorities have ample time to proactively pursue liability management operations, as they have successfully done in the recent past.[3] Finally, there is no obvious exchange rate risk as all of Benin's Eurobond issuances are denominated in euros.

Annex VI. Figure 5. Benin: Maturity Profile for Outstanding Issues: Benin, Senegal, and Cote d'Ivoire (as of January 30, 2022)



Source: Bloomberg

12. Persistently high-risk premia paid by WAEMU countries with international capital markets access, including Benin, could lead to their higher reliance on domestic (regional) financing and lower private sector credit growth. This could create conditions in which the WAEMU's biggest economies (such as Senegal and Cote d'Ivoire) borrow regionally at the same time, exerting significant liquidity pressures on WAEMU capital markets, crowding out private sector credit, and leaving limited space to absorb financing needs of WAEMU's smaller members, such as Benin.

Safeguarding Market Access Over the Medium Term

13. Maintaining access to international capital markets will require prudent fiscal policy and debt management. This will require striking a balance in deficit financing between maintaining market access (at non-concessional terms) and preserving fiscal space for development needs. While Benin's debt is assessed to be at the moderate level of debt distress, interest costs are high relative to revenues, leaving little space to absorb shocks. This puts premium on continued reliance on concessional financing over the medium term. In addition, the authorities should continue making further progress in the implementation of Benin's medium-

[3] Benin has set up a weekly market monitoring system to identify and seize the optimal window of opportunity to pursue liability management operations.

term debt strategy (MTDS), including by improving its consistency with the regional market issuance schedule and the national annual financing plan, and by seeking to better integrate cash and debt management practices.

14. Benin's ability to tap international capital markets over the medium term will depend on its ability to continue attracting foreign and domestic private investment. The country's access to concessional borrowing is expected to decrease over the medium term with a gradual improvement in its income level. As such, diversifying financing sources and attracting private financing will be essential to maintain robust and inclusive economic growth.[4] Additional efforts to enhance Benin's business environment and strengthen trade and regional integration could help lower private sector's investment risks.

15. To mitigate adverse effect of monetary policy normalization in world's advanced economies, additional efforts should be devoted to deepening regional public debt markets. In this regard, Benin's issuance of CFAF 150 billion (about $250 million) in two tranches of 15 years and 20 years in February 2022 marked the first 20-year issuance on the regional market, and the longest to date. This demonstrated Benin's ability to "drive the market" and consolidated its position as a major player on the regional market. Sustaining this position will mitigate risks of potential crowding out of private sector credit in cases of higher reliance of WAEMU members on domestic (regional) financing. While monetary policy and capital markets development are under the purview of the regional authorities[5], for Benin additional efforts could focus on facilitating greater role of Benin's institutional investors (e.g., Caisse Nationale de Sécurité Sociale du Bénin and Caisse des Dépôts et Consignations du Bénin) in the regional debt public market, seeking to improve coordination of sovereign issuances among the WAEMU members, and contributing to enhanced operations of the regional market's primary dealers.

[4] Over the recent years, Benin has taken an innovative approach to diversifying its financing sources, including the 2018 debt reprofiling operation that was financed by a private international financial institution with a guarantee provided by the World Bank. The guarantee amounted to EUR 154.8 million (equivalent to USD 180 million, corresponding to an International Development Association (IDA) allocation of USD 45 million), for a commercial loan to the government denominated in euros in the amount of EUR 387 million (equivalent to USD 450 million). Two-thirds of the funds were used to buy back costly domestic debt, including debt owed to a regional development bank. The operation also helped reduce the interest costs of public debt and extend its average maturity.

[5] These comprise the BCEAO (regional central bank), the WAMU Banking Commission, and the CREPMF (capital markets authority).

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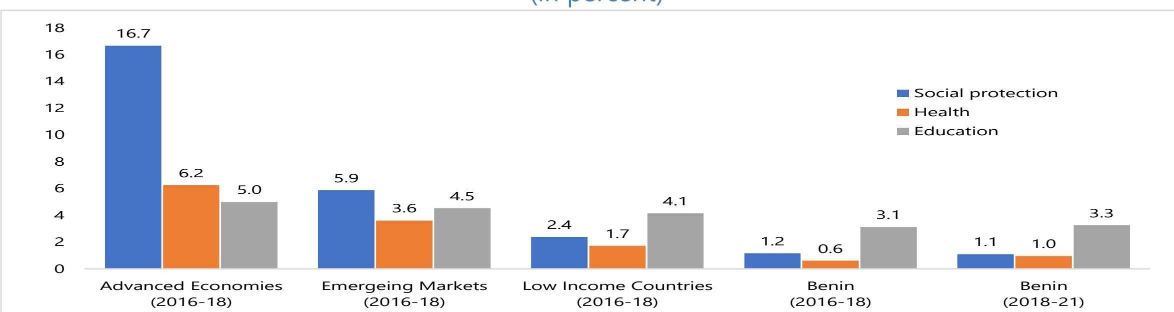
Annex VII. Scaling Up Benin's Social Safety Nets[1]

Access to social safety nets in Benin was limited prior to the pandemic, which further highlighted the need to have strong social safety nets in place to reach the vulnerable in times of hardship. To facilitate efficient targeting of social spending, the authorities are in the process of developing a national social registry, underpinned by a harmonized targeting methodology. In addition, they have successfully piloted various social safety net projects, including their flagship Assurance pour le Renforcement du Capital Humain (ARCH). While implementation of ARCH has been gradual, its coverage is expected to increase significantly in the near term, in particular with the scaling up of the mandatory health insurance coverage since February 2021.

Annex VII. Figure 1. Benin: Social Spending

(in percent)



Source: World Health Organization, Beninese authorities

1. The COVID-19 pandemic highlighted the need to have strong social safety nets in place to reach the vulnerable in times of hardship. Access to social safety nets in Benin was limited leading up to the pandemic, with a substantial share of households living from subsistence farming and nearly 85 percent of the labor force employed in the informal economy (mostly comprised of women) (INSAE, 2019). Total spending on education, health and social protection amounted to about 5.3 percent of GDP in Benin during 2018–21, slightly above the average recorded between 2016-18 (4.9 percent of GDP) which was nearly half the level recorded among LICs (Figure 7.1). Historically low levels of social expenditure reflect the authorities' view that ensuring better access to basic public services is the optimal way to support the poor absent robust social safety nets. Constrained by the limited capacity to efficiently target vulnerable households, the government reach at the onset of the pandemic was limited—cash transfers amounted to only 0.13 percent of GDP out of the 4.5 percent of GDP comprising the overall COVID response plan. Because they do not have access to social protection, informal sector employees were particularly affected by the pandemic (INSAE, 2020).

2. To facilitate efficient targeting of social protection programs, the authorities are in the process of developing a national social registry. This is a social policy tool that collects the socio-economic and demographic profiles and characteristics of a country's poorest segments of populations and facilitates effective targeting of social programs. The number of enrolled households reached 364,673 as of April 2021, moving well on the goal of putting in a unified,

[1] By Goran Amidzic (AFR).

modern social registry of 550,000 households by end-2023, or the equivalent of 3.3 to 4 million individual beneficiaries, nearly a third of Benin's total population. The collected data is linked to the national biometric identification system.

3. National registry's data gathering is underpinned by a harmonized targeting methodology. Conducted in three stages starting in 2017, the methodology combines community level targeting (CMT) with proxy means testing (PMT): poor households are first identified by trained Community Identification Committees, followed by the household and proxy means data collection, whose results are finally validated through consultation with local communities. While the results of the final CMT are expected to be completed by end-2022, the process has already identified nearly 1.6 million people living below the poverty line, including 1.2 million categorized as extremely poor and 0.4 million as poor.

4. In July 2017, Assurance pour le Renforcement du Capital Humain (ARCH), the authorities' flagship social protection program, was launched. The program is comprised of four pillars focusing on (i) enhancing access to health by improving health insurance coverage, specifically targeting the poor; (ii) providing continuous occupational training (to about 1.8 million of informal workers); (iii) facilitating access to micro-credit (to nearly 1.8 million of informal enterprises); and (iv) extending guaranteed retirement pensions (to approximately 2 million people employed in the informal sector). The authorities' estimate the total cost of the overall project at CFAF 183.8 billion (about 1.8 percent of GDP) over 2021-26, of which about a third (CFAF88.6 billion or about 1 percent of GDP) has already been secured through mostly external sources.[2]

5. While implementation of ARCH has been gradual, its coverage is expected to increase significantly in the near term. The health insurance is the main component of ARCH, and its implementation is the most advanced, with health insurance becoming compulsory for all Beninese residents in January 2022 (Box 1). While the remaining components of ARCH remain in pilot phase, their coverage is expanding. For example, as of end-December 2021, the pilot phase of the micro-credit component (Microcredit ALAFIA) provided CFAF 8.7 billion (US$15 million) to 177,848 beneficiaries (of which 86 percent were women). By end-2022, this component is expected to disburse CFAF 15.8 billion (US$27.3 million) to 233,000 beneficiaries. The pilot phase of the vocational training component was launched in December 2020 across eight municipalities and is expected to have created nearly 2,600 jobs by end-December 2021. The completion of the census of approximately 241,000 artisans (expected by end-2022) will facilitate efficient targeting of vocational training to this segment of population. Lastly, the final version of the business model for the retirement component of ARCH has been completed and the pilot phase is planned to start in second half of 2022.[3]

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[2] In 2019, the authorities signed a loan in amount of €127 million (CFAF 83 billion, 0.8 percent of GPD) with Crédit Suisse (at 3.5 percent interest and maturity of 12 years), which was partially guaranteed (up to 40 percent of the principal) by the World Bank. In addition, World Bank, USAID, UNICEF, and small budgetary transfer are contributing to finance ARCH.

[3] Pension coverage in Benin is limited to a small portion of the total population (formal private and public sector workers) and heavily concentrated in the wealthier segments. In 2020 only 1.2% of the working age population

(continued)

6. In addition, the authorities have successfully piloted various donor-funded social safety net projects, whose coverage is yet to be scaled up across the country. These projects focused on cash transfers, health insurance, school feeding, early childhood development, nutritional support for vulnerable children and people with disabilities, and temporary humanitarian relief. Most notably, the National Integrated School Feeding Program (PNASI), piloted by the World Food Programme in 2017 and co-financed by Catholic Relief Services and USAID, constitutes a de facto the largest social safety net program in the country. In 2021, the program benefited nearly 650,000 students, covering 54 percent of all primary schools across the country (WFP, 2021), and is expected to increase its coverage to all primary schools by end-2023. Similarly, since 2018, the World Bank-funded ACCESS project has been providing unconditional cash transfers of CFAF 5,000 per month delivered via mobile money, and additional income through labor intensive community works projects. In 2021, the project provided transfers to over 19,216 households directly benefitting over 100,000 people.

7. The authorities are in the process of finalizing a Ten-Year Productive Social Safety Net Program in Benin for 2022-2031 (PDFPSP 2022-2031), leveraging the being finalized national registry. The PDFPSP aims to contribute to accelerating poverty reduction through targeted interventions that ensure regular and reliable assistance to extreme poor households in the short term and help the poor participate in the economic process. At the same time, the activities supported by the program through conditional cash transfers linked to participation in community-level works will improve the living environment of communities, particularly sanitation, landscaping and maintenance of public places. The program is designed through four differentiated interventions including i) unconditional cash transfer of CFAF 12,000 per month; ii) additional CFAF 2,000 per month for participation in vocational training, including in health and financial inclusion; iii) public works opportunities (with focus on climate change and deforestation) for 12 days over a 3-month period paying CFAF 13,500; and iv) revenue-generating activity (with focus on improving SME access to finance), for which beneficiary firms would receive training on developing a business plan and a grant of CFAF 25,000 towards their business.

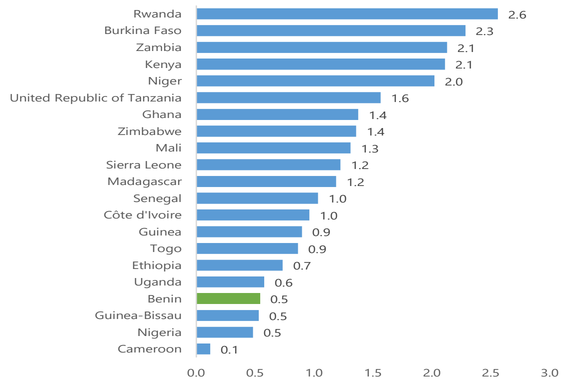
8. Going forward, leveraging digital solutions could enhance the access to and targeting of social protection. The completion of the national social registry that tracks the beneficiaries across all social safety net programs could provide a useful instrument to improve the coordination, effectiveness, and targeting. Similarly, collecting information on the characteristics of informal workers could help design better programs to foster their productivity, such as providing training and financial inclusion. Several countries in SSA have used mobile technologies to scale up social protection programs, with cash transfers distributed via mobile wallets. In Togo, for example, a new mobile cash-transfer program, NOVISSI, was launched in April 2020 to support informal workers, identified through their voter ID. The program used the 2020 voter registration database to identify recipients and relies on mobile transfers.

contributed to the FNRB (National Pension Fund), and 9.1% of the population aged 60 and over (60,677 individuals) received a pension.

Box 1. Pursuing Universal Health Coverage in Benin

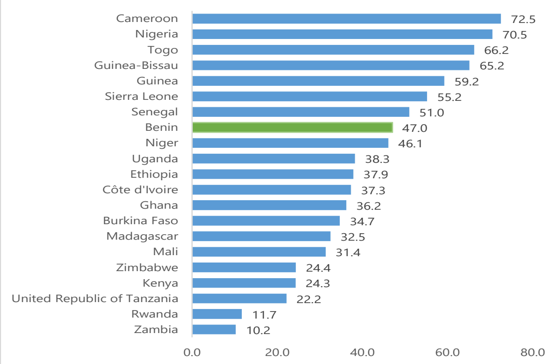
Benin's health insurance system is extremely fragmented with several co-existing schemes, including contributory schemes covering civil servants, retirees and employees of the formal sector, and voluntary community-based health insurance. Compared to other SSA countries, Benin's government health expenditure is very low, at 0.5 percent of GDP in 2019 (Figure 1). As a result, only 8.4 percent of the total population was covered by health insurance in 2019 and out-of-pocket payments constituted 47 percent of healthcare expenditure (Figure 2). These costs can force households into poverty, wipe out their savings, or even keep them from seeking care altogether.

Figure 1: Government Health Expenditure
(% GDP, 2019)



Source: Global Health Expenditure Database

Figure 2: Out-of-pocket as % of Current Health Expenditure (2019)



Source: Global Health Expenditure Database

With objective of boosting access to basic health services, in July 2019 the authorities launched the pilot phase of the health insurance component of ARCH (ARCH-*Assurance Maladie*, ARCH-AM). By end-2021, the project has expanded its coverage from initially 7 to 21 (out of 77) communes in Benin. Finalization of the PMT survey across the remaining 56 communes is expected by end-2022, with the total number of ARCH-AM beneficiaries expected to increase to 5.1 million (40 percent of total population) by end-2023, including 1.3 million of extremely poor and 3.8 million non-extremely poor.

The authorities have also made health insurance compulsory in February 2021. They plan to fully subsidize the cost of health insurance premiums for the extremely poor and 40 percent of the premiums for the population living below the poverty line. Following two actuarial studies, the health insurance annual premium's cost was estimated to be CFAF 6000 (or about US$10) under the assumption that insured people would have two medical contacts per year, multiplied by the average consultation cost at primary health care level.

To achieve the universal health coverage, pre-pandemic estimates suggest that Benin would need to spend about 9.3 percent of its GDP on health (US$119 per capita) by 2030 (IMF, 2019). This compares to 4.2 percent of GDP (US$33 per capita) of total spending on health equivalent in 2019 and corresponds to recruiting 8 times more doctors and four times more support staff than in 2019. The lingering health pandemic is estimated to have increased spending needs even further (IMF, 2021).

The authorities are likely to face several important challenges in their pursuit of universal health coverage. These may include a highly fragmented health insurance system and fiscal risks stemming from inefficient funding of ARCH-AM, which could engender galloping health costs and reduce the cost-effectiveness of the whole system. Addressing these challenges will require improving institutional capacity, bolstering targeting and delivery systems, and securing the necessary funding. Significant spending needs call for strong accountability and transparency mechanisms to ensure a sustainable increase in health coverage in Benin.

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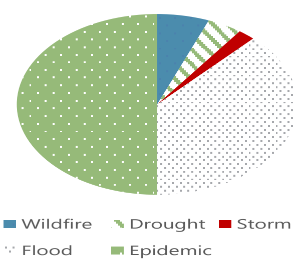
Annex VIII. Vulnerability to Climate Change and National Strategy[1]

Benin is ranked as one of the most vulnerable countries to climate change. The agricultural sector, which makes up nearly a third of the economy, is particularly vulnerable to climate shocks. Climate change would have both socio-economic and health consequences, compounding already weak social outcomes. Benin has developed a national strategy to improve resilience to climate change and is also committed to climate change mitigation, in line with a long-standing commitment to protecting the environment. Nevertheless, any adaptation and mitigation efforts will require mobilizing considerable financing resources.

1. **With already significant exposure to risks from natural disasters, Benin is ranked as one of the most vulnerable countries to climate shocks.** It has experienced a wide range of natural hazards since 1900 with epidemic and floods accounting for nearly 90 percent of them (Text Figure 8.1). In particular, flooding affected 3.2 million people in Benin over the past 40 years (Text Figure 8.2). Benin was also ranked as the 12th most vulnerable country to climate shocks (in a sample of 192 countries) by the Notre Dame Global Adaptation Initiative (ND-GAIN; 2019).[2] The low ranking was particularly driven by Benin's relatively low agricultural technological capacity and the projected impact of climate change on crops.

Text Figure 8.1. Benin: Average Annual Natural Hazard Occurrence, 1900-2018

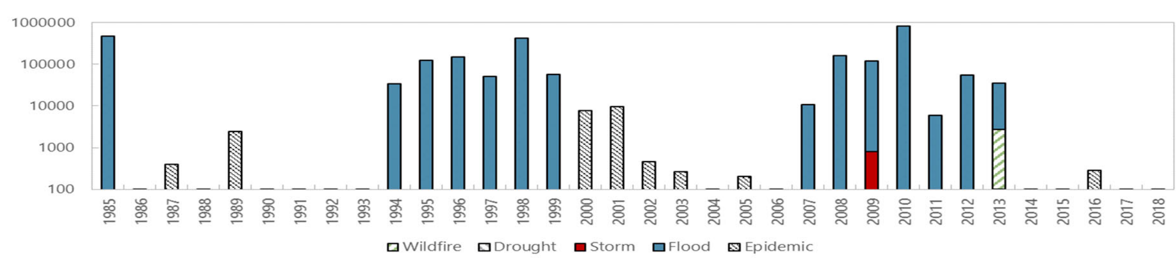
(Percent of total)



Source: World Bank (Climate Change Knowledge Portal)

Text Figure 8.2. Benin: Key Natural Statistics for Natural Hazards, 1985-2018

(Number of people affected)



Source: World Bank (Climate Change Knowledge Portal)

2. **Benin is subject to both acute and chronic risks from climate change, with impacts on both rural and urban areas.** Some of these risks have already started to materialize, including

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[1] Prepared by Deirdre Daly (AFR) and Alexandre Nguyen-Duong (now WHD).

[2] This assessment evaluates a broad range of indicators in the areas of food, water, health, ecosystem, human habitat, and infrastructure.

droughts, more intense and frequent flooding, high winds, disruptions to rainfall cycles, violent winds, excessive heat, and sea level rise. Rainfall has decreased consistently in April-June during 1960-2006, with an average rate of decrease of 3.9 mm per month per decade. According to the European Space Agency's Seas Level Climate Change Initiative, sea level anomaly has steadily increased from less than 15 mm on average in 1993-2000 to above 60 mm on average between 2010-18. Going forward, these vulnerabilities could become more persistent and severe, leading to further coastal erosion, saltwater intrusion into the water supply, and significant declines in crop yields.

3. The primary sector, which made up nearly 30 percent of the economy in 2021, is particularly vulnerable to climate change. Warmer conditions, droughts and disruptions in the agricultural calendar could lead significantly lower declines in crop yields, disruption of fishing activities, and higher livestock mortality. For example, according to a climate change scenario by UNDP, maize yields could decline by 16.7 percent by 2030.[3] However, with increasingly uncertain weather patterns, the precise impact on crops has been difficult to predict, complicating risk management.

4. Climate change in Benin could have both socio-economic and health consequences. Declines in crop yields can affect food security, particularly for vulnerable segments of the population that depend on subsistence agriculture. Weather events could reduce the drinking water supply, and sanitation and waste collection systems. Increasing temperatures and floods may also impact the spread of infectious diseases like malaria, compounding already weak health outcomes in a country where health spending is low and there are important regional disparities in the access to services (see **SIP–I on Public Spending for Inclusive Growth**).

5. While Benin's readiness to address climate shocks is relatively low, the authorities have developed a national policy to manage climate change and improve its resilience. The 2019 ND-GAINS index ranked Benin as the 57th least ready to address the consequence of climate shocks in a sample of 192 countries based on a range of economic, social, and governance indicators. The authorities have established a National Policy for the Management of Climatic Changes (PNGCC 2021-2030) plan for 2021-30,[4] which focuses on the agriculture and energy sectors, and land, forestry, and waste management. The plan centers around three strategic pillars: (i) strengthening the institutional, individual, and physical capacities to effectively cope with climate change; (ii) promotion of low carbon and climate resilient development in all sectors; and (iii) governance of climate change. Each pillar comprises concrete reforms and actions organized around four distinct programs across all sectors to be implemented by 2030, including (a) capacity building on climate change; (b) adaptation to climate change; (c) climate change mitigation; and (d) support for climate

[3] « Le Benin, un pays vulnérable aux changements climatiques » (UNDP, 2020).

[4] Politique Nationale de Gestion des Changements Climatiques (PNGCC 2021-2030).

change management. A dedicated steering committee[5] is expected to be formed as well as a coordination and implementation body.[6]

6. Although its contribution to global greenhouse gas emissions is relatively small, Benin has also committed to combatting global warming. In 2015, Benin share of global emissions was 0.03 percent. However, Benin has a longstanding commitment to protecting the environment, entrenched in the Constitution since 1990, which states "*Everyone has the right to a healthy, satisfactory and sustainable environment and has the duty to defend it. The State ensures the protection of the environment.*" In line with these institutional foundations, Benin is a signatory county of the Paris Climate Agreement and has committed to reducing its emissions by 20 percent over 2021-2030. In this connection, Benin has been working with the World Bank to support its mitigation efforts.

7. Climate change adaptation and mitigation is costly and will require support from the international community. According to the Nationally Determined Contributions Database, estimates for Benin's climate adaptation and mitigation plans total US$10.5 billion (60 percent of GDP), of which US$4.9 billion are conditional on international support. While the authorities have envisaged financing from various climate-related global funds, accessing these funds has proven challenging thus far. Further initiatives, such as the pending IMF Resilience Sustainability Trust, would be welcome and helpful in this regard

[5] The National Change Management Committee (Le Comité National de Gestion des changements).

[6] The department in charge of climate change (La Direction en charge des changements climatiques).

Annex IX. Capacity Building and Technical Assistance Framework

This note presents a summary of the understanding between IMF staff and the Beninese authorities on the capacity development strategy (CD) in support of the authorities' reform priorities for 2022-25, supported by the 42-month blended EFF/ECF.

1. Over the last five years, extensive Fund CD activities have informed policy formulation and implementation. The CD program under the previous 2017–20 ECF arrangement included technical assistance from both IMF headquarters and the West Africa Regional Technical Assistance Center (AFRITAC-West); it focused on enhancing revenue mobilization, improving budgeting and public expenditure efficiency and transparency, digitalizing core procedures, and upgrading the quality and availability of national account statistics and government finance statistics. Following the completion of the ECF, CD pivoted to supporting the authorities in designing their policy response to the COVID-19 pandemic, while continuing to pursue domestic revenue mobilization efforts, critical for meeting Benin's large development needs.

2. This CD strategy focuses on supporting the authorities' reform priorities under the proposed EFF/ECF (2022–2025). CD activities will include improving revenue mobilization, enhancing governance and transparency, wage bill management, PFM, and government finance statistics and real sector statistics (Table 1). The IMF-supported CD program is complemented by technical support by Benin's development partners in key program areas, including the WB in social protection and human capital development; the European Union support in governance and PFM; the African Development Bank in agriculture and inclusive infrastructure; and the UN World Food Programme in expanding the authorities' flagship school feeding program.

Authorities' Views

3. The authorities value the close and continued technical support of the Fund and agree with the focus of the envisaged CD program. They are committed to reinforcing TA coordination and continued appropriation of the main TA recommendations.

Table 1. Benin: Technical Assistance Priorities	
Priorities	**Objectives**
Revenue Mobilization	• Develop a medium-term revenue mobilization strategy (MTRS); rationalize tax expenditures • Address international taxation issues and design a modern tax regime for the extractive sector • Reform property taxation • Simplify the tax system, review progressivity of the tax regime • Strengthen tax compliance; enhance cooperation between tax and customs administrations • Improve customs capacities, management, governance and data gathering and analysis
Governance, rule of law and transparency	• Conduct governance diagnostic to support ongoing efforts to ensure effective legal and public finance governance in line with international best practices • Improve Beneficial Ownership reporting in public procurement to support regular publication
Wage bill management	• Identify structural measures to preserve wage bill sustainability and equity
Public financial management	• Strengthen capacity for identifying, disclosing, quantifying, and managing fiscal risks • Accelerate the implementation of the Treasury Single Account and improve cash management • Improve budget execution and control to support program-based budgeting and buttress accountability, following recent FTE recommendations, including by accelerating the process for strengthening budget forecasts and enhancing the information and analysis of programming documents and budget reporting. • Introduce accrual accounting in line with the implementation of the budget program and the new Integrated Public Financial Management System (SIGFIP) budget IT system • Improve public investment efficiency by updating Public Investment Management Assessment (PIMA) and conduct a Climate-PIMA
Government Finance Statistics and Real Sector Statistics	• Improve data compilation practices; and expand the fiscal data coverage to general government in line with *GFSM 2001/2014* • Develop quarterly national accounts data by expenditure Strengthen compilation of data for turnover index and producer price index.

Appendix I. Letter of Intent

Cotonou June 23, 2022

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

Dear Madam Managing Director,

Since the re-election of President Talon in April 2021, the Government of the Republic of Benin has pursued its *Revealing Benin* vision that marked, in 2016, a new era of governance in public policy to modernize our economy.

The reforms and public investments implemented under the Government's Action Program (PAG; 2016–2021) helped accelerate economic activity, with growth reaching 6.7 percent in 2019 (from 1.8 percent in 2015). This, together with a reduction in fiscal deficits (our overall budget was quasi-balanced in 2019) put public debt on a downward trajectory prior to the COVID-19 pandemic. We also made significant advances in budget transparency and debt management, which supported our access to the international capital markets in 2019. While the Beninese economy has shown resilience at the aggregate level (economic activity expanded by 3.8 percent in 2020, the highest growth rate in the WAEMU region), the COVID-19 pandemic has imposed significant socio-economic hardship on our people. As we pursue our efforts to limit the impact of the pandemic on the population, we now must confront new shocks that could jeopardize the return to pre-pandemic economic growth rates and risk eroding hard-won social gains. These include regional terrorist threats at our northern borders and the war in Ukraine.

Faced with the urgency to act to limit the rapid increase in the cost of living of Beninese households caused by the war in Ukraine, our government introduced a first wave of subsidy measures, but has since been pivoting to more targeted support measures. These include subsidies on fertilizers for farmers to curb the upward trend in food insecurity.

We are adopting a “civilian approach” to tackling security risks, particularly by enhancing state presence and social cohesion in vulnerable communities under elevated risk of extremism. In this context, we are forced to pause the fiscal adjustment that we had planned under the original budget law for 2022, which would inevitably increase our financing needs in a context of tight financing conditions.

The recent shocks strengthened our resolve to create fiscal space at times of peace and to accelerate our development agenda, including by filling large gaps in the social sector and developing inclusive infrastructure. In that regard, the Government’s Action Program for the period 2021–2026 is centered on three pillars: (i) strengthening democracy and the rule of law, while consolidating governance; (ii) continuing the structural transformation of the economy; and (iii) improving the well-being of populations in a sustainable manner.

In this context and considering the urgent fiscal and balance of payments needs, the Government of the Republic of Benin is formally requesting assistance from the International Monetary Fund (IMF) through 42-month arrangements supported by the Extended Fund Facility (EFF) and the Extended Credit Facility (ECF) for an exceptional amount of SDR 484.058 million (equivalent to 391 percent of quota)—SDR 161.349 million (130.33 percent of quota from the ECF (PRGT)) and SDR 322.709 million (260.67 percent of quota from the EFF (GRA)). We seek a first purchase/disbursement equivalent to 87.48 percent of quota. The program will help us meet urgent balance of payments needs, consolidate our public finances starting next year and support our National Development Program (PND; 2018–25). We will continue to seek additional financial support from our other development partners, including in the form of budget support.

We are convinced that our economic reform program will support economic recovery and help us achieve our sustainable development goals. We will implement policies and measures described in the Memorandum of Economic and Financial Policies (MEFP, Attachment I), that aim to:

- Consolidate our public finances by boosting revenue mobilization and improving spending efficiency;
- Strengthening social safety nets and protecting priority social spending; and
- Promoting an enabling business environment and reinforcing governance to foster private sector participation.

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

We will fulfil the commitments set forth in the MEFP and agree to provide the IMF with information pertaining to the implementation of the measures agreed upon and on program execution, as set out in the attached Technical Memorandum of Understanding (TMU; Attachment II). Moreover, we commit to a Fiscal Safeguards Review by the Fund by the first program review.

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

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

Very truly yours,

/s/

Romuald WADAGNI

Senior Minister of State, Minister of the Economy and Finance

Attachments: (2)
I. Memorandum of Economic and Financial Policies
II. Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

Our vision "Revealing Benin" marked a new era of governance in public policy in Benin with the election of President Talon in April 2016. Since then, the Government has undertaken actions on multiple fronts to sustainably improve the living conditions of the population. Our sound management of public finances helped improve our resilience to multiple shocks in recent years. We intend to rebuild our policy buffers in the coming years and to support inclusive private sector-led growth that benefits all of the people of Benin in a safe environment. We are pleased that these efforts will be supported by the IMF's Extended Fund Facility (EFF) and the Extended Credit Facility (ECF) under exceptional access, with frontloaded disbursements in 2022 when we need them most.

I. Recent Economic Developments and Outlook

1. **In general, our economy has shown resilience in the face of multiple negative shocks in recent years,** including the COVID-19 pandemic since March 2020 and the border closure with Nigeria between August 2019 and December 2020. The war in Ukraine came at a time when our economy was recovering from these two shocks. Our economic resilience was supported by the implementation of large public investment projects under the Government Action Program (PAG; 2016-2021) and reform continuity following the re-election of President Talon in April 2021. After accelerating to an average growth rate of 6.4 percent between 2017 and 2019, the economy decelerated in 2020 to a growth rate of 3.8 percent. This rate was nonetheless one of the highest in Sub-Saharan Africa, reflecting our strong macroeconomic fundamentals entering the crisis, an innovative approach to managing the COVID-19 pandemic (including the establishment of a sanitary belt), and a robust response plan. The Beninese economy rebounded to 7.2 percent in 2021, driven by improvements in the global health situation, the reopening of the border with Nigeria, and the continuation of structural reforms under the Government Action Program.

2. **Benin entered 2020 in a sound economic position, despite the closing of border with Nigeria in August 2019.** The implementation of the Fund-supported Extended Credit Facility (2017–2020) was deemed very satisfactory by the Fund, with significant improvements in macroeconomic indicators: GDP growth reached 6.9 percent in 2019, while the budget was near-balanced (with the deficit limited to 0.5 percent of GDP). These two major dynamics reversed the upward trend in public debt, stabilizing it at 43 percent of GDP at end-2019, well below the regional norm of 70 percent.

3. **Strong of these macroeconomic fundamentals, the government adopted a robust COVID-19 response plan, supported by funding from several sources.**

- The response included additional public spending to cushion the impact of the health crisis on households and firms and to revive the economy. Against this backdrop, the budget deficit increased from 0.5 percent of GDP in 2019 to 4.7 percent in 2020, and to 5.7 percent in 2021. By contrast, tax revenue did not fall during this period, indicative of the effectiveness of the tax reforms that we undertook prior to the crisis.

- Our COVID-19 response plan benefited from IMF emergency financing in December 2020 (US$ 177.96 million), the general allocation of special drawing rights (SDR) in August 2021 (approximately US$168 million), and funding from other development partners. These were complemented by our access to the international capital market through a €1 billion Eurobond at favorable terms in January 2021 and a €500 million SDG bond in July 2021.

4. **Although the government's efforts have supported economic resilience at the aggregate level, the health crisis has exacerbated social challenges.** While our economy has shown resilience, the COVID-19 crisis has had a disproportionate impact on some segments of the population, including persons employed in contact-intensive sectors such as tourism, crafts, and catering. In addition, the growth rate of 7.2 percent in 2021 masks important sectoral disparities, with some sectors such as tourism (and services more generally) are still under the negative effects of COVID-19.

5. **In this context, we continue to face substantial socioeconomic challenges:**

- **The current account deficit widened to 4.4 percent of GDP in 2021.** After a significant decline in 2020 in the context of supply chain disruptions related to the COVID-19 pandemic, there was a substantial increase in imports in 2021, driven by higher commodity prices and increased in imports of capital goods. Exports of goods are on the rise, and are still dominated by cotton sales abroad. Service exports (largely related to tourism) continue to be adversely affected by the health crisis.

- **Funding sources, and particularly grants, are on the decline, while financing conditions are tightening.** Already in 2021, there was a decline in grants compared to the exceptional level recorded in 2020, while pressure on spending remained high. The year 2020 was characterized by a substantial mobilization of resources from key donors, including the IMF, particularly in the context of the COVID-19 pandemic. Most development partners have scaled down their support following the decline in the number of cases of COVID-19. As a result, the amount of budget support to Benin declined significantly in 2021 (to CFAF 37.4 billion compared with CFAF 105.3 billion in 2020). Moreover, the ongoing monetary policy tightening in advanced economies has already negatively affected financing conditions on the international financial market.

- **We have substantial gaps to fill in human and physical capital.** Even before COVID-19 struck, progress towards achieving the Sustainable Development Goals (SDG) was insufficient, as evidenced by the persistently high levels of malaria prevalence, particularly among children, the high maternal mortality rate, and the share of the population in a situation of food insecurity. The COVID-19 pandemic highlighted the importance of improving the health system and social safety nets, while the pandemic scars risk eroding hard-won economic gains. Despite some improvement, progress in access to basic public services (such as drinking water, electricity, and sanitation) has fallen short of expectations.

6. **More importantly, Benin has faced additional security and geopolitical challenges in recent months:**

- **As Benin shares borders with countries subject to terrorism, there has been a resurgence of terrorist attacks in the northern part of the country.** Although the first terrorist activities date back to 2019, they have recently intensified. In light of rising terrorism risks, the government has strengthened its border security system and consolidated its counter-terrorism activities and subregional security cooperation. The government is adopting a "civilian approach" to tackle security risks. This strategy put emphasis on improving the living conditions of populations, recognizing that social challenges can fuel sentiments of revolt and facilitate recruitment by terrorists. Against this backdrop, our security plan is centered around three pillars: (i) identifying vulnerable zones; (ii) assessing and meeting the needs of populations in vulnerable zones; and (iii) promoting social cohesion among the communities.

- **The recent commodity price shock, amidst the war in Ukraine, is increasing the cost of living of Beninese households and taking a toll on economic activity.** In the context of global geopolitical tensions, the sharp rise in international commodity prices, and the disruption of the global food system have led to a surge in consumer prices for basic food products to 9.5 percent between September 2021 and March 2022. During the same period, retail energy prices increased from 19 to 28 percent. There is a risk that these developments may exacerbate food insecurity, already affected by COVID-19.

II. Maintain Macroeconomic Stability, Consolidate Public Finances, and Continue Progress Toward the SDGs

In the coming years, the government plans to create fiscal space and undertake ambitious reforms and projects to leverage the country's sound economic fundamentals, mitigate security risks, and accelerate progress toward achieving the SDGs, in line with the National Development Program (PND; 2018–2025) and the Government Action Program (PAG 2; 2021–26). In this regard, domestic revenue mobilization is the cornerstone of our reform program.

7. Our economic and social development plan will be supported by the IMF through an innovative program that will facilitate the achievement of our medium and long-term objectives. Our economic and financial agreement with the IMF is unique in many respects. First, it has a duration of 42 months (unlike traditional programs that are limited to a period of three years), to enable the Fund to support us throughout our National Development Program. Second, it combines two instruments (EFF and ECF). Third, the access level is exceptional, with the bulk of disbursements/purchases occurring in 2022 when we need them most. This combination reflects the strong partnership between Benin and this Bretton Woods institution, the important reforms that we have undertaken in recent years and our resolve to build upon them.

8. Our macroeconomic program will allow us to gradually return to the robust and sustained growth path that prevailed before the COVID-19 crisis.

- The war in Ukraine will affect the strong economic recovery observed in 2021, bringing projected growth for 2022 to 5.7 percent, approximately one percentage point below our forecasts before the war. Growth will be driven, on the one hand, by a significant public investment and the implementation of major public projects, including the deployment of fiber optics at the national level, the completion of the Niger-Benin pipeline, and the expansion of the Port of Cotonou; and, on the other hand, by the gradual dissipation of the effects of COVID-19 that is expected from improvements in the coverage of vaccinated population.

- Over the medium term, the economy is expected to record a growth rate of approximately 6 percent per year, partially as the result of the continuation of major public projects and stronger private sector participation. As envisaged in our Government Action Plan 2 linked to the National Development Plan, the drivers of medium and long-term growth will continue to be (i) accelerated implementation of current measures to promote sectors with high potential, including agriculture, tourism, digital economy and knowledge-based economy, and promotion of technical education and vocational training; (ii) continuation of major projects designed to fill Benin's infrastructure deficit, particularly in transportation, energy, and sanitation infrastructures; and (iii) development of the processing industry.

9. However, this outlook entails substantial risks.

- At the local level, although the vaccination uptake rate has accelerated since November 2021, it is still relatively low, exposing Benin to new variants of COVID-19 that could undermine economic activity. With the support of our development partners, the government will strive to increase the rate of vaccination against COVID-19. Coordination efforts and continued proximity to the populations have already reduced the reluctance of the public vis-à-vis vaccination, leading to higher take up among the population aged 12 and above (from 3 percent in November 2021 to more than 46 percent at the end-April 2022). Our objective is to bring this ratio to 60 percent by the end of this year.

- At the regional level, a resurgence of terrorist attacks from neighbor countries could affect the business climate and exacerbate social tensions.

- At the global level, deterioration in the global economic environment that can result in a significant decline in cotton prices, our country's main export product, might affect the agricultural sector's contribution to income and the balance of payments. Similarly, sustained increases in food and energy prices, should the war in Ukraine continue, could lead to an increase in the cost of living for Beninese households.

- Moreover, Benin remains vulnerable to the effects of climate changes, such as the recurrence of floods and droughts.

A. Prudent Fiscal Policy and Debt Strategy

10. After the fiscal relaxation due to the COVID-19 pandemic, regional security risks, and the war in Ukraine, our medium-term fiscal policy will focus primarily on achieving the convergence targets set at the regional level. This includes the overall fiscal deficit and wage bill targets, with efforts towards the tax-to-GDP target.

- **The fiscal deficit widened in 2020 and 2021**, reflecting the measures undertaken to contain the impact of the health crisis and to scale up public investment that accounted for 8.2 percent of GDP in 2021 (against 6.9 percent of GDP in 2020 and 3.9 percent of GDP in 2019). As a result, public debt rose to 49.9 percent of GDP at end-December 2021, from 46.1 percent at end-December 2020 and 42.5 percent at end-December 2019.

- **The fiscal consolidation strategy targets a deficit of 5.5 percent of GDP in 2022**. The deficit will be subsequently reduced to 4.3 percent of GDP in 2023, to reach 2.9 percent by 2024, slightly below the current regional norm of 3 percent of GDP, as a precautionary measure. In light of the changes in circumstances, the fiscal deficit is expected to increase by one percentage point of GDP in 2022 compared to the original budget law that targeted a deficit of 4.5 percent of GDP. In fact, we intend to adjust public spending upwards in 2022 (compared to the original budget) towards urgent measures to stem regional terrorism risks in northern Benin.

- **We will also ensure that the wage bill does not absorb a disproportionate share of our budget resources over the medium-term.** The ongoing consultations to upgrade civil service wages, combined with urgent recruitment measures in the health and security areas will necessarily put significant pressures on the wage bill and may jeopardize the achievement of the community target (consisting of a wage bill to tax revenue ratio of 35 percent) in the absence of measures. In this regard, we will conduct a detailed assessment of the compensation policy across the public sector, with a view to identifying areas where efficiency gains can be generated. In this connection, we will receive technical support from our development partners, that will help us identify the appropriate strategy to achieve a more equitable and efficient wage bill.

11. Revenue mobilization will be the cornerstone of our fiscal consolidation, in light of the relatively low level of tax revenue in Benin and the need to preserve social and infrastructure spending. While tax revenue performed relatively well during the pandemic as a result of the reforms we undertook before the crisis, it accounted for only approximately 11.0 percent of GDP in 2021, nine percentage points below the target of 20 percent for the WAEMU region, in a context of a substantial share of informal activity. This is indicative of substantial untapped potential and a narrow tax base.

12. The consolidation of our public finances will enable us to sustainably generate the resources required to support our large development needs while preserving public debt sustainability. We plan to achieve a gradual reduction in the fiscal deficit, to bring it just below the threshold of 3 percent of GDP by 2024 as per the current WAEMU norm. The increased use of digitization, the recent revisions to the Tax Code and publication for the first time of the Tax Procedures Book have simplified the payment of taxes and improved revenue collection. We will intensify our efforts to improve tax revenue on an ongoing basis.

- To guide these efforts and ensure optimal synergies between the revenue-collection agencies, we will develop a medium-term revenue mobilisation strategy (***Structural Benchmark for end-September 2023***) with the support of the technical and financial partners, particularly the IMF.
- **We will continue to improve the transparency and cost of tax expenditures** (and quantify tax expenditure in connection with energy subsidies). We will attach to the 2023 Draft Budget Law submitted to the National Assembly a detailed report on tax expenditures

for 2021, and develop a strategy to rationalize tax expenditure during the period 2023–25 (***Structural Benchmark for end-November 2022***).

- **The overall medium-term financing strategy for 2022–2026 will continue to prioritize diversification of funding sources and active debt management.** Benin intends to continue its efforts to mobilize concessional resources, including external budget support, from traditional multilateral donors (the World Bank, the African Development Bank, and the European Union), to supplement the exceptional financing from the IMF. World Bank's recent classification of Benin to lower-middle income country in July 2020, reduced the opportunities to obtain concessional financing. In this context, Benin will continue its strategy to diversify the sources of financing, in line with the debt strategy currently being implemented, within a prudent approach designed to mitigate risks and preserve debt sustainability.
- **Although BOAD loans are considered as external debt for program purposes (TMU ¶4), we are of the view that they should be treated as domestic debt for the following reasons:** (i) BOAD is a regional development bank within the WAEMU; (ii) BOAD financing is denominated in CFAF; and (iii) any changes in BOAD classification has adverse consequences on debt sustainability, and therefore reduce Benin's margins to tap international financial markets, undermining regional integration and development of regional financial markets. In addition, classification of regional development banks' debt should be harmonized across all monetary unions (including WAEMU and CEMAC) and treated as domestic. Finally, vulnerabilities linked to external debt were already exacerbated by the pandemic, and additional statistical changes further deteriorate debt sustainability and seriously compromise the possibilities for countries to mobilize additional resources to support economic recovery post-COVID.

Response plan to address the effects of the war in Ukraine

13. Meanwhile, in the wake of global geopolitical tensions, we have had to take a temporary set of measures to limit the impact of rising international prices on the public and on the economy.

- ***Basic food products.*** In addition to ban on exports of selected agricultural products, we introduced on March 23, 2022 (and effective until end-June 2022) subsidies on selected products (rice, flour and vegetable oil) and a 50 percent rebate on the associated cost of freight.
- ***Fertilizer.*** In light of the surge in international fertilizer prices, we will introduce targeted net subsidies for farmers of CFAF 31.5 billion for the 2022/2023 agricultural year, to stem the increase in food insecurity.
- ***Energy products.*** Following surges in international oil prices amid geopolitical tensions, we increased fuel prices at the pump by approximately 28 percent from the beginning of the year through end-April. This partial adjustment reflects our dual objective to support our people during these challenging times while limiting the impact of non-targeted fuel subsidies on the budget.

- ***Other measures.*** Following discussions with trade unions and the confederation of employers, we have agreed to increase the guaranteed minimum wage (SMIG), that had been set at CFAF 40,000 since 2014, to CFAF 52,000, equivalent to an unprecedented increase of 30 percent. However, the effects of this increase on the government wage bill is expected to be limited.

14. Still, our fuel pricing mechanism must be overhauled in the medium term to enhance public spending efficiency and release resources to finance priority social spending. Mindful of the generally regressive nature of non-targeted subsidies, as well as their inefficiency and high cost, we will develop an integrated medium-term strategy for the gradual alignment of the prices of fuel products and electricity tariffs with supply costs. For that purpose, we will request technical support from the development partners to assess the current pricing system for fuel products that dates back to 2004, and ways to mitigate the effects of international price volatility on local prices. We will also resume the adjustment of electricity tariffs that was suspended in the wake of the COVID-19 pandemic.

- ***2022 Budget Law***

15. A draft supplementary budget law will be submitted to the National Assembly for approval by end-October 2022. The supplementary budget will reflect the additional expenditure that has become necessary, including security outlays, as well as expenditure related to measures to cushion the impact of surges in food and energy prices in connection with the war in Ukraine. We will ensure that these measures are efficient and targeted at the most vulnerable segments of the society in particular. This fiscal relaxation will be financed primarily with disbursements/purchases under our Extended Fund Facility and Extended Credit Facility with the IMF and new budget support to be catalyzed by this new arrangement.

16. To contain the impact of spending pressure on the government budget, we will pursue in 2022 tax measures to generate additional 0.5 percent of GDP of revenues, as planned in the original budget law. To launch the second generation of tax reform, we have adopted a new General Tax Code in the 2022 Budget Law. This Code aims in particular to simplify tax expenditure, strengthen the rules designed to protect the tax assessment base on individuals and corporate profits, broader the tax base, improve the valuation of imported goods, and improve the recovery of arrears. We have also implemented a new tax management information system to replace SIGTAS.

17. We are prepared to relax the 2022 overall fiscal deficit by 0.5 percent of GDP to cope with the difficult situation, albeit under certain conditions. In agreement with IMF staff, the primary deficit target under the EFF/EFF will be relaxed by up to 0.5 percent of GDP to accommodate targeted measures to contain the high cost of living in connection with the war in Ukraine, providing that we secure additional budget (beyond the currently envisaged amount) to close the resulting financing gap (paragraph 7 of the Technical Memorandum of Understanding, TMU). We will ensure that the additional funds are earmarked for their intended purpose. This additional budget support together with the programmed budget support from other donors would supplement the IMF's exceptional financial support in 2022 (more than CFAF 150 billion).

B. Public Financial Management

18. With respect to cash-flow management, we intend to draw upon recent IMF TA to help strengthen the technical and operational framework for the Treasury Single Account (TSA). In particular, we will take steps to enlist the support of depositors for the TSA mechanism by completing the actual interconnection of all of the accounting centers (*postes comptables*) of the financial agencies of the central government and its departments and the modernization of the Treasury's banking services. In addition, we are planning to: (i) connect the Public Treasury to the regional GIM-UEMOA platform for the issuance and acceptance of Public Treasury bank cards by end-September 2022; (ii) roll out the National Electronic Payment Platform by end-June 2022; and (iii) extend the digitization of revenue payments pertaining to diplomatic and consular missions with a view to ensuring the rapid centralization of such revenues by end-2023. Last but not least, several actions aimed at safeguarding and digitalizing payments of miscellaneous taxes and duties will be undertaken with the revenue-collecting agencies in order to minimize the use of cash.

19. With regard to public expenditure, we plan to expedite reforms in order to enhance their effectiveness and will reallocate resources toward priority sectors. The main medium-term reforms focus on the continued restructuring of the public expenditure framework and the improvement of the regulatory framework for public investment projects.

- The migration to program-based budgeting for the 2022 budget constitutes a major step forward, and we intend to build upon these efforts. Planned initiatives include: (i) further coordination between the logical framework for budget programs and for the SDGs, with a focus on ensuring that the government budget is sensitive to such cross-cutting issues such as gender, climate change, and security; and (ii) strengthening the performance of budget programs while enhancing their consistency with the results chain;
- We intend to promote more effective targeting of government expenditure in favor of public investment and social sectors, while pursuing a systematic review of the quality of government expenditure and effective control of cost indicators with a view to improving the quality of budget preparation. In the wake of the November 2021 adoption of the decree establishing the general framework for the management of public investment, we have sought to achieve a successful budgetary transition between phases 1 and 2 of the Government Action Plan by incorporating as a first priority the funding required to complete ongoing projects and as a second priority the resources needed to carry out feasibility studies for new investment projects and innovative reform projects for the five-year period 2021-2026. We agree to ensure the systematic publication, as of end-December 2023, of all the criteria for the appraisal and selection of major investment projects, along with feasibility studies ***(structural benchmark for end-December 2023)*.**

20. Fiscal transparency will be further strengthened, in line with the recommendations in the most recent fiscal transparency evaluation (FTE) performed by Fund staff in 2021. We will take steps to: (i) implement a mechanism for identifying and evaluating local counterparts for financing resources for co-financed projects and other expenditures and bringing forward their inclusion in the government budget; (ii) enhance the predictability of expenditure in the social sectors; and (iii) ensure that civil society has a more important role to play in budget preparation, budget decision-making, and the supervision of budget execution, including through participation in the various phases of the awarding of government contracts in accordance with the provisions of the government procurement code.

21. The management of fiscal risks is also a priority. We have set up a ministerial risk management committee and a ministerial internal audit committee to strengthen accountability. With respect to the management of public enterprises and contingent liabilities, reforms aimed at restructuring the portfolio of securities and improving their yields will be pursued. To this end, we have adopted a new law which modernizes the legal framework of public enterprises. Regular monitoring of the financial status of public enterprises is being conducted in order to prevent the fiscal risks potentially associated therewith. We plan to improve the monitoring of guarantee mechanisms and to further clarify the financial relationships between these mechanisms and the budget. We shall also improve the disclosure of information on the financial performance of public enterprises including the Port of Cotonou, as well as on public-private partnerships (PPP). By end-October 2023 we intend to prepare a statement containing a quantitative analysis of fiscal risks in all key areas as part of the 2024 draft budget law documentation ***(structural benchmark for end-October 2023)***. This exercise will benefit from IMF TA.

C. A "Highly" Social Mandate

22. The current five-year term for the Talon government will be a "highly social" mandate. The COVID-19 crisis has underscored the importance of strengthening the social sectors. We are currently enhancing the strategy for distributing the growth dividends, particularly in favor of the most vulnerable members of our society. We are resolutely committed to implement the Sustainable Development Goals (SDGs), for which the priority targets have already been adopted and a monitoring system has been implemented and is already operational. In this regard, it should be pointed out that Benin was the first country in Sub-Saharan Africa to issue in July 2021 a Eurobond intended exclusively for the financing of projects having a significant impact on attainment of the SDGs (in the amount of €500 million).

23. The attainment of the SDGs will require increasing the resources allocated for social sectors as well as improving execution capacities. We will expedite the implementation of projects having a substantial social impact:

- **On social protection,** we will raise the number of poor people who are recipients under the ARCH program from their current level of 280,000. To facilitate the targeting of social safety nets, we will finalize the social register database by (i) completing the community validations of vulnerable households identified through the first cycle of proxy-mean test surveys (mass registration) in at least 70 of the 77 communes; and (ii) publishing by end-July 2022 the results of the social registry database at the commune level on an easily accessibly government website. In addition, we intend to increase coverage of the national school feeding program from 53 percent at end-2021 to 75 percent by end-2022 and to achieve universal access by end-2023.

- **We will further strengthen health-care expenditure and improve its efficiency by leveraging the move to program budgeting.** In particular, we will increase the financial and human resources allocated for: (i) the national anti-malaria program, in an effort to bring down the rate of prevalence of malaria (from 40 percent at present to 20 percent at end-2024); (ii) the maternal health program to improve access to health-care services and curb increases in maternal mortality; and (iii) the child vaccination program.
- **Inclusive infrastructure projects are essential for reducing geographical inequalities and strengthening social cohesion.** In particular, we intend: (i) to continue the construction and refurbishment of agriculture schools in the sectors of technical education and vocational training; (ii) to expedite the implementation of programs for serving towns and rural areas with drinking water; and (iii) to broaden the road network at the rural level.

24. Strengthening Benin's resiliency in the face of climate change is at the forefront of government policy. We promulgated a law on climate change coupled with a national policy on climate change management and a policy on sustainable land management. We also prepared our national adaptation plan to address eight areas of vulnerability facing Benin. The program for managing the impact of climate change also includes programs for the sustainable management of forests and conservation zones, integrated waste management, and efforts to combat coastal erosion. From the legal and regulatory points of view, beginning in FY 2022 we shall undertake a review of the Framework Law on the Environment and its implementing decrees on wastewater management, the management of solid household wastes, soil pollution, classified installations for environmental protection, air pollution, noise pollution, etc., and the Public Hygiene Code. Our Constitution is already committed to environmental protection. Benin's goals are reflected in our Determined National Contribution (DNC) to reduce greenhouse gas emissions by 20.15 percent as against 16.17 percent in our previous undertaking. Furthermore, with the accreditation of the National Fund for Environment and Climate (FNEC) vis-à-vis the Green Climate Fund (FVC) and the Adaptation Fund (FA), we plan to bolster the financing of environmental and climate-related initiatives. We will evaluate the overall cost of implementing the adaptation and mitigation strategy while exploring opportunities for financing, in particular through the new IMF facility dedicated for this purpose.

D. Strengthening Transparency, Governance, the Rule of Law, and the AML/CFT Framework

25. We are reaffirming our commitment to ensuring transparency in government expenditure.

- **The regulation and supervision of government contracts will be further strengthened.** We have made major strides in enhancing transparency in government expenditure in recent years, including through efforts to strengthen the legal framework applicable to government contracts in September 2020. We are engaged in reforms aimed at regulating government procurement; these reforms are predicated on efforts to update the law governing the legal framework on public-private partnerships and its implementing regulations, in addition to the rollout of e-procurement.

- **Furthermore, we will further strengthen transparency of beneficial ownership information.** We will strongly emphasize the requirement for contracting authorities to forward (for authentication by the National Directorate of Procurement Control and Procurement Control Units) all government contracts which they enter into. To this end, we shall adopt into law by end-June 2022, with IMF TA, a secondary regulation requiring procurement agencies to collect BO information for companies awarded public procurement contracts above CFAF 10 million ***(structural benchmark for end-June 2022)***.
- We will commence the regular publication of this information on a government website as of September 2022 **(*structural benchmark for end-September 2022*)**. With the aim of ensuring compliance with the provisions of Articles 53, 78, and 87 of Law 2020-26 of September 29, 2020 establishing the government procurement code, which provide that the procurement plan, invitations to tender, and notices of contract awards must be published on the government procurement web portal, we intend to impose sanctions and restrictions on contracting authorities in cases involving failure to publish appropriate invitations to tender and contract award notices on the government procurement web portal.
- With respect to COVID-related expenditures, we are now publishing information on the beneficial owners of government contracts. The Audit Court has conducted and published the audit of COVID-related expenditures, meeting the related ***prior action***. Furthermore, continued efforts are being made to ensure the full operational implementation of the Audit Court.

26. The government has reaffirmed the importance of governance and the rule of law as the main pillar of its action program for 2021-26. Accordingly, we intend to conduct and publish with IMF TA a governance diagnostic assessment by end-February 2023 ***(structural benchmark for end-February 2023)***.

27. We intend to continue strengthening the AML/CFT framework in order to comply with international standards and support efforts to combat corruption. Accordingly, taking account of the recommendations made by the report on the mutual evaluation of Benin's AML/CFT framework adopted in May 2021 by the GIABA, and with IMF support, we have prepared an action plan validated by the National Technical Committee (CTN) and approved by the Council of Ministers. Pursuant to this action plan:

- The Council of Ministers will adopt by end-June 2022 two Ministerial decrees to strengthen AML/CFT risk-based supervision and implementation of a targeted financial sanctions regime, in line with relevant UN Security Council Resolutions related to terrorism, terrorism financing, and proliferation financing (***structural benchmark for end-June 2022***):
- A decree establishing the National Committee for the Coordination of Activities (CNCA) in the Area of AML/CFT replacing the National Technical Committee (CTN) in order to improve the coordination of AML/CFT activities and ensure effective cooperation among all relevant domestic stakeholders pursuant to FATF Recommendations 1 and 2. The CNCA will also be the authority in charge of AML/CFT monitoring and supervision of designated nonfinancial professional enterprises (except the real estate sector and gambling and betting sectors) with

powers and responsibilities to undertake risk-based supervision in line with FATF Recommendation 28. Finally, the CNCA will be broadened to include all relevant public sector and private sector stakeholders, as well as equipped with a permanent technical secretariat adequately funded to perform all its assigned functions effectively;

- A decree establishing a framework for the implementation of targeted financial sanctions to comply with the relevant UN Council Resolutions on terrorism, terrorist financing, and proliferation financing in line with FATF Recommendations (6 and 7). This decree will strengthen the powers of the Advisory Committee on the Administrative Freezing and will expedite the implementation of targeted financial sanctions by all relevant individuals or entities in Benin;
- A decree conferring upon the National Agency for Government Property and Land the status of authority exercising oversight and supervision over the real estate sector in the area of AML/CFT, with powers to impose administrative and disciplinary sanctions in the event of failure to fulfill AML/CFT obligations on the part of real estate agents will be adopted by end July 2022; the aim is to facilitate the monitoring of real estate investments and transactions and combatting efforts to use the real estate sector for ML/TF purposes. Staff of the National Agency for Government Property and Land will be provided with proper training in risk-based tools focusing on risks of ML/TF in the real estate sector in order to ensure that active risk-based supervision can commence by end-December 2022.
- During FY 2022 or 2023, the government intends to review laws and regulations governing the creation and registration of legal entities with the twofold aim of : (i) defining and establishing the principles and procedures for collecting accurate information on identifying beneficial owners, and how they can be registered and their records maintained, updated, accessed, and consulted in timely fashion by law enforcement agencies, AML/CFT supervisors, and reporting financial and nonfinancial entities in the context of implementing their preventive or oversight obligations; and (ii) designing and implementing legal and or regulatory measures aimed at combatting the use of legal entities for purposes of tax evasion or money laundering.
- During FY 2022 or 2023, the government intends to review various laws and regulations (not including the Uniform Act on AML/CFT). These revisions will inter alia consist in: (i) incorporating into Law 2018-16 of December 28, 2018 establishing the criminal code, provisions allowing for prosecution on grounds of financing the travel of terrorist combatants, a terrorist organization, or a terrorist individual “for any purposes;” (ii) adopting a decree on the creation of the Beninese Agency for the Recovery and Management of Frozen, Seized, or Confiscated Assets with the aim of guaranteeing the recovery and management of property or assets frozen, seized, or confiscated in the course of criminal proceedings, and of imposing targeted financial sanctions; (iii) adopting a decree on the creation of the Authority for the Regulation of Gambling, Leisure, and Casinos (under the supervision of the MEF) entrusted inter alia with overseeing and monitoring the leisure and casino sector, including the National Lottery of Benin, in regard to AML/CFT with powers to impose administrative and disciplinary penalties in cases of failure to perform AML/CFT.

28. We have introduced a major reform of local governance, in order to strengthen the role of local jurisdictions in development. The reform is designed to bring about an institutional reorganization of municipalities (*communes*) in an effort to separate political responsibilities from technical responsibilities. This reform should help to strengthen responsibility and accountability in local governance. Furthermore, the Fund for Support for Municipality Development (FADeC) is expected to undergo a radical change, becoming an autonomous investment fund. This reform is aimed at empowering local governments to finance local development through a framework for enabling municipalities to gain access to the resources they need to finance their investment projects. We are engaged in negotiations with the various technical and financial stakeholders in the field of decentralization in Benin, in the interest of pursuing these reforms as effectively as possible.

E. Resilient and Inclusive Financial Sector

29. We remain vigilant on the potential fallout on the banking sector resulting from the COVID-19 pandemic. Overall, the banking sector is showing a high degree of resilience reflecting sufficient capitalization as well as measures for loan maturities deferral. The domestic banking sector remains solvent. The capital adequacy ratio (solvency ratio), calculated on the basis of Basel II/III principles, was at 13.4 percent at end-June 2021 against 14.4 percent at end-December 2020 and 10.4 percent at end-2019, thereby meeting the standards of 9.5 percent required in 2019 and 2020 and 10.375 percent in 2021. Two banks failed to meet the regulatory capital minimum. These banks are being monitored by the WEAMU Banking Commission, in the context of efforts to implement their recapitalization plans to bring them back to conformity with prudential rules. It is also worth noting that the domestic banking sector has since 2019 been performing well in restructuring the portfolio of nonperforming loans. The gross rate of impairment of the banking sector's portfolio was at 12.5 percent at end-December 2021, compared to 16.7 percent at end-December 2020 and 18.0 percent in 2019. In addition, several reforms are in progress aimed at improving the regulatory framework for the financial sector and thereby strengthening its stability. These reforms include: (i) adoption of macroprudential surveillance indicators for the banking and financial sectors; (ii) identification of systemically important banks; (iii) supervision of bank groups on a consolidated basis; and (iv) supplementary surveillance of financial conglomerate.

30. Improved access to financing, particularly for SMEs, is a priority, to facilitate the structural transformation of the economy and foster a private sector-led growth. We have accordingly increased the resources for the interest subsidy and guarantee mechanisms, particularly in favor of the agricultural sector and SMEs. Thus, the contribution of these funds is estimated at CFAF 6.5 billion in 2020 and 2021. We intend to evaluate the efficiency of these mechanisms and their associated risks, as well as to set up a monitoring system to reduce distortions.

31. We intend to transpose the WAEMU regional financial inclusion strategy at the national level *(Structural Benchmark for end-March 2023)*. The National Financial Inclusion Strategy (SNIF) is in the process of being finalized. The strategy will provide an appropriate and harmonized framework for financial inclusion initiatives in Benin and will be centered around five (05) pillars; (i) improve the institutional, legal, and regulatory framework for financial products/services, FINTECH, electronic currencies and digital finance for the general public; (ii) provide financial and digital education and literacy for the general public; (iii) improve the range of innovative financial products and services that meet the needs of the general public; (iv) lay further groundwork for the implementation of customized agricultural products/services and agricultural insurance; and (v) strengthen the implementation of mechanisms to support the development of financial, energy-related, and personal identification infrastructures. These pillars are inspired from the WAEMU regional financial inclusion strategy (SRIF) approved in May 2016.

32. Furthermore, the recent authorization for *La Poste* to provide banking services is expected to leverage the large postal network to enhance access to financial services. However, we will reassure that these operations are properly supervised to limit risks to the financial sector. Moreover, we shall strengthen the role of the microcredit sector, particularly in the context of the ARCH Program, while endeavoring to improve its soundness.

F. Toward Private Sector-led Growth

33. The Beninese economy remains vulnerable to shocks originating from Nigeria and is not sufficiently diversified. Exports are dominated by cotton products (accounting for 55 percent of exports), while the share of the industrial sector in GDP remains relatively low. While the effects of the recent bordure closure with Nigeria were clearly limited, the Beninese economy would need to diversify in order to improve its resilience to exogenous shocks.

34. We believe that the private sector could play a more important role in investment and economic activity. This would foster job creation and help achieve sustained growth. With this in mind, we intend to implement a structured, permanent, and well-informed public-private dialogue with the aim of further strengthening the predictability of public policies and more rapidly improving the business climate (including the commercial court system). In order to foster private sector participation to development financing, we will encourage the recourse to public-private partnerships, joint venture operations, and the acquisition of equity holdings within existing or fledgling government corporations. We will also dematerialize the procedure for the issuance of real estate titles and press ahead with the implementation of our industrial zone.

G. Upgrading Our Statistical System

35. Accurate and readily available data, published in a timely fashion, are essential input for policy-making. In this respect, the Parliament approved a new statistics law in early 2022. This statistics law is in line with international standards and will safeguard the quality of official statistics by (i) establishing the obligation to comply with core principles and leading practices in statistical matters; (ii) promoting the systematic and timely performance of major statistical operations; and (iii) ensuring their financing through the creation and timely support for the National Statistical Development Fund. Our medium-term goal is to adopt the Special Data Dissemination Standard (SDDS). In the interim, all stakeholders in the statistical system are redoubling their various efforts to ensure that the data revolution launched in 2016 can meet the requirements of the Enhanced General Data Dissemination System (E-GDDS), to which Benin has already subscribed.

III. Program Monitoring

36. Monitoring. The program will be monitored through six-monthly reviews, with prior action, quantitative performance criteria, indicative targets, and structural benchmarks. The quantitative and continuous performance criteria and indicative targets are set out in Table 1, and further specified in the TMU. The prior action and proposed structural benchmarks are set out in Table 2 and Table 3 respectively.

Table 1. Benin: Quantitative Performance Criteria and Indicative Targets, 2021-2023

	December 31, 2021	June 30, 2022	September 30, 2022	December 31, 2022	March 31, 2023	June 30, 2023
		Performance Criteria	Indicative Target	Performance Criteria	Indicative target	Indicative target
	Est.	Prog.	Prog.	Prog.	Prog.	Prog.
A. Quantitative performance criteria[2]						
Basic primary balance (floor)[3]	-148.5	-77.3	-154.4	-127.6	-11.6	-32.1
Net domestic financing (ceiling)[4]	-380.8	290	431	377	62	164
B. Continuous quantitative performance criteria (ceilings)						
Accumulation of external payments arrears	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of domestic payments arrears	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on the present value of new external debt contracted or guaranteed by the government[5]	1,016.0	620	620	620	620	620
C. Indicative Targets[2]						
Tax revenue (floor)	1,082.3	578.9	876.7	1,232.9	325.2	677.1
Priority social expenditure (floor)[6]	150.0	46.2	92.5	149.1	16.4	50.9

Sources: Beninese authorities; IMF staff estimates and projections.

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

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

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

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

[5]Annual for 2022. The debt limit for 2023 will be revised in line with the authorites' borrowing plan and and updated DSA.

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

Table 2. Benin: Prior Action

Reform area	Structural conditionality	Objective
Transparency	The Audit Court will undertake an independent audit of COVID-19-related spending and publish the results on an easily accessible government website.	Improve expenditure control, including COVID-related, and accountability

Table 3. Benin: Structural Benchmarks (2022–23)

Reform area	Structural benchmark	Due date
Governance and Transparency	Adopt into law a secondary regulation requiring procurement agencies to collect BO information for companies awarded public procurement contracts above CFAF 10 million.	End-June 2022
	Publish on a regular basis the BO information for companies awarded public procurement contracts above CFAF 10 million on an easily accessible government website.	End-September 2022
	Conduct and publish a governance diagnostic.	End-February 2023
AML/CFT	Adoption by the Council of Ministers of (i) a Ministerial Decree designating the National Committee for the Coordination of Activities in the Area of AML/CFT (CNCA) as the AML/CFT supervisor for designated non-financial businesses and professions (DNFBPs) and setting out its powers and responsibilities to undertake risk-based supervision of the sector in line with FATF Recommendation 28; (ii) Ministerial decree to implement a targeted financial sanctions regime to comply with relevant United Nations Security Council resolutions related to terrorism and terrorism financing and proliferation financing in line with the recommendations (6 and 7) of the FATF and empowering the Consultative Committee on Administrative Freezing (CCGA) to effectively implement this regime.	End-June 2022
Revenue Mobilization	Develop a strategy for rationalizing tax expenditures over 2023–25 (a detailed report on 2021 tax expenditures will be annexed to the draft budget law submitted to Parliament).	End-November 2022
	Develop a medium-term revenue mobilization strategy (MTRS).	End-September 2023

Table 3. Benin: Structural Benchmarks (2022-23) (Concluded)

Reform area	Structural benchmark	Due date
Social Safety Nets	Finalize the community validations of vulnerable households identified through the first cycle of proxy-mean test surveys (mass registration) in at least 70 of the 77 communes; and publish social registry results at the commune level on an easily accessibly government website.	End-July 2022
Public Financial Management	Prepare a statement containing a quantitative analysis of fiscal risks in all key areas, including macroeconomic risks, public enterprises, debt management, contingent liabilities, natural disasters, pension and social securities, as part of the 2024 draft budget law documentation.	End-October 2023
	Publish all the criteria for the appraisal and selection of major investment projects, along with feasibility studies.	End-December 2023
Financial Inclusion	Transpose the WAEMU's regional financial inclusion strategy (adopted by the WAEMU Council of Ministers in 2016) at the national level and design a comprehensive financial inclusion strategy for Benin.	End-March 2023

Attachment II. Technical Memorandum of Understanding

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

PROGRAM ASSUMPTIONS

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

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

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

DEFINITIONS

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

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

a. **Debt** is understood to mean a current – as opposed to a contingent – liability, created under a contractual agreement for the provision of value in the form of assets (including currency) or services, which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future point(s) in time, and these

[1] Some elements of the TMU might be updated during program reviews.

payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take several 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 seller 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 TMU.

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

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

c. For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD SOFR is 2.03 percent and will remain fixed for the duration of the program.[2] The spread of six-month Euro LIBOR over six-month USD SOFR is -200 basis points. The spread of six-month GBP SONIA over six-month USD SOFR is -100 basis points. For interest rates on currencies other than Euro and GBP, the spread over six month USD SOFR is -100 basis points. Where the variable rate is linked to a benchmark interest rate other than the six-month USD SOFR, a spread reflecting the difference

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

between the benchmark rate and the six-month USD SOFR (rounded to the nearest 50 bps) will be added.

d. Domestic debt is defined as debt denominated in CFA franc other than the debt contracted from BOAD. External debt is defined as debt denominated in any currency other than the CFA franc. For program purposes, BOAD loans are considered as external debt.[3]

QUANTITATIVE PERFORMANCE CRITERIA

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

Definition

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

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

Adjustor

7. For 2022, the floor on the basic primary fiscal balance (cumulative since January 1 2022) will be adjusted downward by the amount of additional budget support (as defined in Paragraph 9) beyond the programmed 88 CFAF billion, for an amount up to CFAF 54 billion at end-December 2022, under conditions defined in Paragraph 17 of the MEFP.

B. Ceiling on Net Domestic Financing of the Government

Definitions

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

9. Gross external budgetary assistance is defined as grants, loans, and non-earmarked debt relief operations (excluding project-related loans and grants, use of IMF resources, and debt

[3] See MEFP ¶12 for the authorities' views on this classification.

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

Performance Criteria and Indicative Targets

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

Adjustor

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

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

June 30, 2022	-130.2
September 30, 2022	-173.9
December 31, 2022	-134.0
March 31, 2023	-34.9
June 30, 2023	-92.1
September 30, 2023	-131.5
December 31, 2023	-127.0

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

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

Definition

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

Continuous Performance Criteria

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

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

Definition

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

Continuous Performance Criterion

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

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

Definition

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

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

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

Adjustor

19. For 2022, the ceiling on the present value of new External debt contracted or guaranteed by the government (cumulative since January 1, 2022) will be adjusted upward by the present value equivalent of the amount of additional budget support beyond the programmed 88 CFA billion, for an amount up to CFA 54 billion at end-December 2022, under conditions defined in Paragraph 17 of the MEFP.

Continuous Performance Criterion

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

Table 3. Benin: Borowing plan in 2022
(Billions of CFA francs)

PPG external debt	Volume of new debt in 2022		PV of new debt in 2022 (program purposes)	
	CFAF	Percent	CFAF	Percent
By sources of debt financing	**985.7**	**100**	**616.1**	**100**
Concessional debt, of which	**620.3**	**63**	**326.1**	**53**
Multilateral debt	364.6	37	188.3	31
Bilateral debt	255.7	26	137.8	22
Non-concessional debt, of which	**365.4**	**37**	**289.9**	**47**
Semi-concessional	365.4	37	289.9	47
By Creditor Type	**985.7**	100	**616.1**	**100**
Multilateral	618.8	63	377.9	61
Bilateral - Paris Club	238.5	24	126.8	21
Bilateral - Non-Paris Club	128.4	13	111.4	18

INDICATIVE TARGETS

F. Floor on Tax Revenue

Definition

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

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

G. Priority Social Spending

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

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

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

Table 4. Benin: Priority Social Spending Coverage

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

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

Indicative Target

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

INFORMATION FOR PROGRAM MONITORING

I. Data on Performance Criteria and Indicative Targets

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

Monthly:

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

Quarterly:

- The price structure of petroleum products;
- The employment index and the traffic of merchandise at the Port of Cotonou, within 25 days of the end of the month;
- The Industrial production index and the turnover index, within three months of the end of the quarter;
- High priority social spending (Table 4), including health, education, social protection and security, by functional classification of expenditure, within eight weeks after the end of the quarter;

- Data pertaining to the amount of exceptional payment orders or other exceptional measures, within six weeks of the end of the quarter;
- Stock-flow adjustment table;
- National account statistics, within three months of the end of the quarter.
- Total new Eurobond issuances provided on quarterly basis, within two weeks after the end of the quarter.

J. Other Information

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

- Financial soundness indicators, produced semi-annually by the BCEAO, within eight weeks of the end of the semester.
- Data on the implementation of the public investment program, including detailed information on sources of financing within eight weeks of the end of the quarter; and
- Update of the PPP projects catalog and the amounts of contracted projects, within eight weeks of the end of the quarter.
- Execution of the investment budget, within eight weeks of the end of the quarter.
- Data on the stock of external debt, external debt service, the signing of external loan agreements and disbursements of external loans, within twelve weeks of the end of the quarter.
- Data on military and security spending, within eight weeks of the end of the quarter.
- Balance of payments data, produced by the BCEAO, within ten months of the end of the year.
- More generally, the authorities will report to the IMF staff any information needed for effective monitoring of the implementation of economic policies.

INTERNATIONAL MONETARY FUND

BENIN

June 28, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION AND REQUESTS FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

Approved By
Annalisa Fedelino and Geremia Palomba (IMF), and Marcello Estevao and Abebe Adugna (IDA)

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

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

Benin remains at moderate risk of external and overall debt distress, unchanged from the previous DSA (December 2020). All the projected external debt burden indicators are below their thresholds under the baseline scenario. Nevertheless, the space to absorb shocks remains limited, with external debt burden indicators breaching high-risk thresholds in selected stress scenarios, in particular related to exports, which illustrates vulnerabilities related to Benin's transit-dependent economy. The high debt service to revenue ratio leaves debt vulnerable to revenue underperformance or shifts in market sentiment that could increase rollover costs. Moreover, although the baseline present value (PV) of public debt-to-GDP ratio remains below its prudent benchmark, it is vulnerable to natural disasters as illustrated by the shock scenario, which was applied based on Benin's historic and potential climate-related exposure to natural disaster shocks. Sustained revenue mobilization efforts, including in the context of the IMF-supported program, along with continued prudent borrowing and active debt management strategy, will be important for mitigating the risk of debt distress.

[1] Prepared by the IMF and the World Bank. This DSA follows the Guidance Note of the Join Bank-Fund Debt Sustainability Framework for Low Income Countries, February 2018.

PUBLIC DEBT COVERAGE

1. **This Debt Sustainability Analysis (DSA) covers central government and central bank debt, as well as guarantees provided by the central government (Text Table 1).**[2] Central bank debt borrowed on behalf of the government (i.e., debt to the IMF) is included as external debt. External debt is defined on a currency basis owing to data limitations, except for debt from the regional development bank (BOAD), which is included as external debt for the purpose of the DSA. The baseline also includes on-lending from the central bank related to the 2021 IMF general SDR allocation as part of the domestic debt stock: in line with the WAEMU-wide agreement, the BCEAO on-lent Benin its portion of the SDR allocation (1.0 percent of GDP).

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

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	

Text Table 2. Benin: Contingent Liability Stress Test

1	**The country's coverage of public debt**	The central government, central bank, government-guaranteed debt			
		Default		**Used for the analysis**	**Reasons for deviations from the default settings**
2	Other elements of the general government not captured in 1.	0	percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	1.4	Stock of SOE debt not captured in the baslined (based on end-2021 estimate).
4	PPP	35	percent of PPP stock	2.4	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)			8.8	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

BACKGROUND

A. Recent Debt Developments

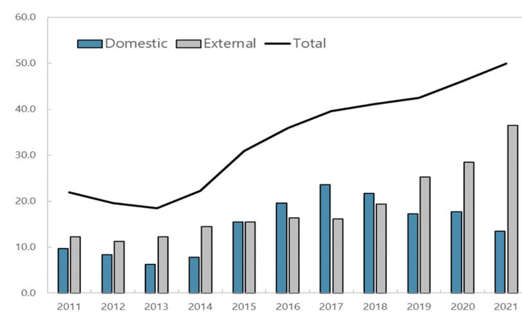
2. **Benin's public debt continued to increase in 2021.** Debt has been on an upward trend since 2014, driven by the scale-up in public investment, the large COVID-19-driven deficits in 2020-

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

2021. Debt rose from 22 percent of GDP in 2014 to 49.9 percent of GDP in 2021.[3] In 2021, Benin also took advantage of favorable market conditions to issue a €1 billion Eurobond (6.8 percent of GDP), which it used for investment and to finance nearly two-thirds of the Eurobond coming due in 2026 to mitigate rollover risk.

3. Proactive liability management has helped smooth out the public debt service profile and reduce costs. The overall public debt service to revenue ratio is expected to average around 34 percent in 2022-26, compared with 64 percent projected in the previous DSA (December 2020). The reimbursement of around 65 percent of the 2019 Eurobond falling due in 2024–26 helped smooth the amortization profile by a cumulative 2 percent of GDP and reduced 2022-26 interest costs by 0.4 percent of GDP. This follows earlier operations such as the issuance of a US$300 million external commercial loan in 2018 backed by a World Bank partial guarantee to reprofile costly short term-domestic debt.

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



Sources: Country authorities; and staff estimates and projections

4. The composition of debt has shifted gradually towards external debt in recent years, where borrowing costs were comparatively lower (Text Table 3). The largest shares of debt at end-2021 were held by multilateral creditors and international bond holders at 37 percent and 22 percent, respectively. Domestic debt made up around 27 percent of the debt stock, mostly government securities on the regional financial market. While maturities have typically been subject to shorter-term rollover periods compared with external debt, the authorities have started to issue domestic debt with longer maturities, and rollover risks are further mitigated by the liquidity and relative stability of the regional market.

5. Data limitations prevent the inclusion of non-guaranteed SOE debt in the baseline, which is captured in the contingent liability stress test. The authorities have made progress on this front in recent years, collecting information to produce an estimate of commercial debt for all 13 non-guaranteed SOEs, which stood at 1.4 at end-2021. The authorities have also agreed to publish annually SOE debt outstanding, including commercial debt, and include details on on-lending to SOEs in quarterly debt bulletins, as part of IDA's Sustainable Development Finance Policy (SDFP) and most recent Development Policy Operation.[4] In 2021, they started including details on on-lending to SOEs in quarterly debt bulletins. Also, under the SDFP, the Debt Management Office and the Directorate in charge of SOEs (DGPED) established a monitoring system following the adoption by ministerial order of a risk-based framework for granting SOE guarantees.

[3] Benin does not currently have any arrears vis-à-vis external creditors. Public domestic debt arrears are commitments to domestic suppliers, hence would not trigger a debt distress event.

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

6. **Nevertheless, more information on the finances of the SOEs (e.g., revenues) and their debt is needed to fully incorporate them into the baseline**. To reflect risks associated with this debt not captured in the baseline, the contingent liabilities shock is calibrated to 8.8 percent of GDP, which includes 1.4 GDP percent for SOE debt, in addition to default settings for PPPs (2.4 percent of GDP) and financial market risk (5.0 percent of GDP) (Text Table 2). Benin's debt management capacity is high as reflected in the 2020 and 2021 CPIA evaluations.

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

	Debt Stock (end of period)			Debt Service					
	2021			2021	2022	2023	2021	2022	2023
	(In US$)	*(Percent total debt)*	*(Percent GDP)*	*(In US$)*			*(Percent GDP)*		
Total	8441.7	100	49.9	2248	855	970	13.3	4.6	4.8
External	6162.3	73.0	36.5	690	325	363	4.084	1.75	1.79
Multilateral creditors[2]	3128	37.1	18.5	124	120	136	0.733	0.65	0.67
IMF	450	5.3	2.7						
World Bank	1318	15.6	7.8						
ADB/AfDB/IADB	472	5.6	2.8						
Other Multilaterals	888	10.5	5.3						
Arab Bank for Economic Development	54	0.6	0.3						
BOAD	376	4.4	2.2						
Nordic Development Fund	15	0.2	0.1						
ECOWAS Bank for Investment and Development	68	0.8	0.4						
European Investment Bank	64	0.8	0.4						
IFAD	63	0.7	0.4						
OPEC	29	0.3	0.2						
Islamic Development Bank	212	2.5	1.3						
Bilateral Creditors	478	5.7	2.8	81	33	36	0.5	0.2	0.2
Paris Club	57	0.7	0.3	0	2	3	0.0	0.0	0.0
France	57	0.7	0.3						
Non-Paris Club	421	5.0	2.5	81	31	34	0.5	0.2	0.2
China	323	3.8	1.9						
India	19	0.2	0.1						
Kuwait	40	0.5	0.2						
Saudi Arabia	37	0.4	0.2						
Bonds	1895	22.4	11.2	485	95	102	2.9	0.5	0.5
Commercial creditors	662	7.8	3.9	0	77	89	0.0	0.4	0.4
MUFG Bank	254	3.0	1.5						
RABOBANK	164	1.9	1.0						
Bank of China	12	0.1	0.1						
Societe General	59	0.7	0.3						
UKEF	46	0.5	0.3						
Banco de Brazil	55	0.6	0.3						
Deutche Bank	36	0.4	0.2						
NTXS	28	0.3	0.2						
BPI France	7	0.1	0.0						
Credit Suisse	3	0.0	0.0						
Domestic	2279	27.0	13.5	1557	529	608	9.2	2.9	3.0
Held by residents, total	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Held by non-residents, total	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
T-Bills	0	0.0	0.0						
Bonds	2001	23.7	11.8						
Loans[3]	278	3.3	1.6						
Memo items:									
Collateralized debt	0		0.0						
Contingent liabilities	233		1.4						
o/w: Public guarantees	0		0.0						
o/w: Other explicit contingent liabilities[4]	233		1.4						
Nominal GDP			16905	16904.6	18556	20247			

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

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

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

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

Sources: Country authorities; and staff estimates and projections

B. Macroeconomic Assumptions

7. Macroeconomic assumptions underlying the DSA projections are consistent with the program baseline (Text Table 4). Compared with the previous DSA (at the time of Fund emergency financing under the RCF/RFI in December 2020), growth in 2021 was more robust given the economy's higher-than-anticipated resilience to the dual COVID-19 and Nigeria border closure shocks.[5] Meanwhile in projection years there is a slight mark down in 2022 growth due to the Russia-Ukraine shock and somewhat lower growth rates in the medium to long-term based on updated potential growth estimates. Primary deficits are higher, reflecting fiscal accommodation for priority spending needs, which are partly offset in part by revenue mobilization measures implemented in the context of the IMF-supported program. Current account deficits are also wider reflecting the impact of the war in Ukraine (terms of trade shock) and higher government expenditure, particularly security-related. The main macroeconomic assumptions are as follows:

- **Real GDP Growth.** Although the negative terms of trade shock to the war in Ukraine will take a toll on growth, economic activity will be supported by public investment and robust port activity in 2022, with growth forecasted at 5.7 percent. This is only slightly below the previous DSA projection (6.0 percent), reflecting the economy's higher-than-anticipated resilience to the to the COVID-19 and Nigeria border closure shocks. Over the medium-term, large-infrastructure investment consistent with the authorities' development objectives[6] and some recovery in private investment bolstered by the authorities' efforts (e.g., acceleration of the Special Economic Zone, promotion of SMEs) will continue to support growth, which is expected to remain around potential at 6 percent.[7] Similarly, longer-term projections remain conservative at 5.7 percent converging to the steady-state.

- **Inflation.** While inflation is projected to reach 5 percent in 2022, driven by higher food and oil prices; it is expected to converge to around 2 percent over the medium-term, consistent with the peg to the euro.

- **Primary fiscal balance.** The primary deficit (including grants) is expected to widen to -3.7 percent of GDP in 2022, compared with -1.0 percent during the previous DSA, reflecting appropriate fiscal loosening in 2020 and 2021 to accommodate priority spending needs, unanticipated spending to mitigate security-related risks, hiring in the health sector, and wage increases to help offset some cumulative purchasing power erosion. Sustained domestic revenue

[5] Significant strides in macroeconomic management, supported by the 2017-20 ECF put the economy on solid footing to sustain the dual shocks (See *Benin : Sixth Review under the Extended Credit Facility Arrangement, and Request for Augmentation of Access* (IMF, 2020)).

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

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

mobilization efforts in the context of the Fund-supported program[8], starting with a package of tax policy and administrative measures in 2022 totaling 0.5 ppt of GDP and further supported by the authorities' planned Medium-Term Revenue Strategy, will help raise Benin's relatively low tax-to-GDP ratio. Higher revenues together with spending prioritization, efficiency gains in public investment, unwinding of temporary COVID-19-related spending (as the pandemic wanes), and interest bill savings thanks to active debt management, will support convergence to WAEMU current fiscal norms (overall balance of 3 percent of GDP by 2024 and a wage-to-tax revenue ratio of 35 percent).

- **Current account deficit.** The current account deficit is expected to widen to about 6 percent of GDP in 2022 driven by higher food and oil prices and increased government spending including security-related outlays (with high import content) and the persistent terms of trade shock amid the war in Ukraine. It is expected to improve over the medium and long term, supported by fiscal consolidation and ongoing reforms to boost competitiveness offsetting projected declines in cotton export receipts as international prices moderate.

8. Consistent with the authorities' borrowing plan, this DSA assumes that the authorities will continue to maintain a prudent borrowing strategy, maximizing concessional resources to the extent possible. The baseline includes financing from a potential IMF-supported program as well as financing from the World Bank in line with IDA allocations. Remaining external needs in the medium-term would be filled on largely semi-concessional terms by other multilateral and bilateral creditors, except for a projected US$500 million Eurobond issuance consistent with the authorities' desire to maintain market access.[9] Grant-equivalent financing is expected to steadily decline as a share of GDP as Benin's relative income increases. Net external official financing flows would average 1.6 percent of GDP over the projection period, following a declining trend. Over time, Benin is also expected to rely more on domestic sources of financing as the domestic debt market continues to develop.[10]

9. Public debt is projected to decline over the medium to long term, as a result of prudent fiscal policy and steady growth. After peaking at 52 percent of GDP at end-2023, reflecting fiscal policy accommodation to contain the socio-economic fallout from the protracted COVID-19 pandemic, the war in Ukraine and mitigation of security risks. Public debt is projected to decline to 44 percent by 2032 as growth converges to its potential. The debt trajectory is predicated on the authorities implementing a revenue-based fiscal consolidation to ensure convergence to WAEMU regional fiscal norms.

[8] In addition to an indicative target on tax revenue, the Fund-supported program will have structural benchmarks related to the Medium-Term Revenue Strategy and tax expenditures to support the authorities' revenue mobilization efforts.

[9] The grant element of new borrowing over the projection period would average 26 percent.

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

10. Macro-fiscal projections are realistic (Figures 3-4). The three-year primary adjustment is consistent with historical cross-country data, falling just below the top quartile for historic adjustments in LICs with IMF-supported programs. The growth path is does not exceed those derived from typical fiscal multipliers for LICs. Public and private investment rates are similar to the previous DSA as is the contribution of public investment to growth, which is modest. While drivers of debt indicate large residual components contributing to unanticipated changes in debt over the past five years, this is consistent with the unanticipated nature of the COVID-19 shock.[11]

11. The macroeconomic outlook is subject to a number of risks, which remain tilted to the downside. Like other countries in the region, Benin remains susceptible to further COVID outbreaks owing to a still low vaccination rate. A contagion of security risks could weigh further on the budget. Further increases in food and oil prices amid ongoing geopolitical tensions related to the war in Ukraine would weigh on the current account and could fuel social discontent. A shift in global risk appetite could complicate medium-term rollover risks. A further increase in international food and oil prices—amidst ongoing war in Ukraine—would exert pressure on external accounts while further eroding the purchasing power of the vulnerable and fueling social tensions. Over the long-term, the relatively small size of the economy could leave the economy more vulnerable to shocks, posing risks to growth.

C. Country Classification and Determination of Stress Test Scenarios

12. Benin's debt carrying capacity continues to be classified as medium. Based on a calculation of a composite indicator reflecting factors such as the 2020 WB CPIA index, and October 2021 WEO (real growth rates, reserve coverage, remittances, and world growth), Benin has a CI score of 3.00. (Text Table 5). As a result, this DSA continues to use the same external debt burden thresholds and total public benchmarks for countries with medium debt carrying capacity (Text Table 6).

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

[11] The domestic debt stock includes debt flows in the form of COVID-19 economic support measures (e.g., credit lines and guarantees) that were not part of the fiscal deficit.

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

	2021	2022	2023	2024	2025	2026	Medium-term 2022-26	Long-term 2027-42
GDP Growth (percent)								
Current DSA	7.2	5.7	6.2	6.0	6.0	6.0	6.0	5.7
Previous DSA[1]	5.0	6.0	6.5	6.5	6.5	6.4	6.4	6.5
GDP Deflator (percent)								
Current DSA	1.6	4.9	1.0	1.5	2.0	2.0	2.3	2.0
Previous DSA	3.7	7.7	1.4	-0.2	0.9	0.7	2.1	1.5
Current account deficit (percent GDP)								
Current DSA	-4.4	-6.2	-5.7	-4.6	-5.0	-4.5	-5.2	-4.1
Previous DSA	-3.9	-4.1	-3.8	-3.9	-3.8	-3.8	-3.9	-3.8
Exports								
Current DSA	24.0	25.3	23.9	23.0	22.8	22.6	23.5	22.4
Previous DSA	21.7	23.3	23.0	22.9	22.8	22.8	22.9	22.8
Primary Deficit (percent GDP)								
Current DSA	-3.5	-3.7	-2.8	-1.3	-1.3	-1.3	-2.1	-1.4
Previous DSA	-2.1	-1.0	-0.5	-0.1	-0.2	0.4	-0.3	0.1
Revenue and grants (percent GDP)								
Current DSA	14.1	14.3	15.0	15.5	15.9	16.2	15.4	19.1
Previous DSA	12.7	13.1	13.7	13.9	13.9	14.1	13.7	15.3

Sources: IMF Staff estimates and projections.

1/ December 2020 RCF/RFI Request

Text Table 5. Benin: Calculation of Debt-Carrying Capacity

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.579	1.38	46%
Real growth rate (in percent)	2.719	5.791	0.16	5%
Import coverage of reserves (in percent)	4.052	45.974	1.86	62%
Import coverage of reserves^2 (in percent)	-3.990	21.136	-0.84	-28%
Remittances (in percent)	2.022	0.808	0.02	1%
World economic growth (in percent)	13.520	3.137	0.42	14%
CI Score			3.00	100%
CI rating			Medium	

DEBT SUSTAINABILITY RESULTS

A. External Debt Sustainability

14. All the external debt burden indicators remain below their policy-dependent thresholds (Table 1, Figure 1). This represents an improvement from the previous DSA where debt-service to revenue ratio exceeded its threshold in 2024-25 (19.1-19.9 percent) owing to the bullet Eurobond repayment. The authorities have since smoothed out this repayment thanks to the 2021 liability management operations. The PV of total PPG external debt to GDP is expected to remain well below the threshold throughout the projection period and follow a steadily declining path, averaging 30 percent of GDP in 2022-26 and 25 percent of GDP in the long-term.

Text Table 6. Benin: Debt Burden Thresholds & Benchmarks

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

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

15. Stress tests highlight Benin's vulnerability to shocks, particularly those related to commodity prices and exports. Three out of the four debt-burden indicators breach their thresholds under certain stress tests: the PV of debt-to-exports and debt service-to-exports ratio where the export related shock[12] is the most extreme shock; and for the debt service-to-revenue ratio, where a one-time nominal currency depreciation against the USD is the most extreme shock[13], and a shock to exports would also cause several breaches. These three debt burden indicators would also be breached under a commodity price shock scenario.[14] While the PV of debt-to-GDP ratio does not breach thresholds under any stress tests, a shock to exports would be the most extreme shock. These shocks illustrate the risks posed by limited economic diversification, with the Beninese economy centered on transit trade and highly dependent on economic developments in Nigeria (See Staff Report Annex VI). Although the historical scenario is relatively more severe than the baseline, the calibration period of 2012–2021 captures particularly severe periods in Benin's economy including the impact of COVID-19, the Nigeria border-closure, and the 2015 downturn. Moreover, compared with the historical period continued efforts to mobilize revenues and active debt management are expected to help stabilize debt levels.

16. The granularity assessment indicates that Benin has limited space to absorb shocks (Figure 5). Under the module, which allows qualifying the moderate risk of debt-distress, Benin is assessed as having limited space because the baseline debt-service-to-revenue indicator is close enough to its respective threshold that a median observed shock would result in a downgrade to high-risk.

[12]Based on the standard stress test settings, this export stress test applies a nominal export shock applies a 14 percent reduction in nominal export growth of 14 percent in 2023–24. Interactions with real GDP growth are also included.

[13] Based on standard stress test settings, this test applies a 30 percent nominal depreciation of the FCFA (which is pegged to the euro) against the USD against the USD in 2023. Interactions with inflation are also included.

[14] Based on the standard stress settings, this commodity price stress test applies a commodity price gap of 21 percent price shock in 2023, which closes over 6 years. Interactions for real GDP, revenue-to-GDP, and the GDP deflator are also included.

17. The market-financing module suggests that market risks are moderate (Figure 6). Although EMBI spreads are above the benchmark and increasing reflecting the recent volatility bout amid the war in Ukraine, gross financing needs remain well below the respective benchmark and potential for heightened liquidity needs is moderate. The debt-service to revenue ratios would exceed their thresholds in a market financing shock scenario in 2026 and 2030, given the repayment profile discussed above (which by design excludes possible liability management operations that would help manage these risks).

B. Total Public Debt Sustainability

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

19. Stress tests indicate that public debt is most vulnerable to commodity price shocks and natural disasters. For the PV of debt-to-GDP ratio, a commodity price shock would be the most extreme shock, resulting in a breach of the benchmark in 2029–2032. Under the natural disaster scenario (which simulates a one-off real GDP shock of around 2 percent in 2023), the PV of debt-to-GDP would breach the benchmark in 2023, with large increases in debt-to-revenue and debt service-to-revenue ratios (the latter exceeding 60 percent in 2027).

RISK RATING AND VULNERABILITIES

20. This DSA finds that Benin continues to remain at moderate risk of external and overall debt distress, unchanged from the previous DSA. All external debt indicators remain below their high-risk thresholds and benchmarks. Although Benin's debt levels appear relatively manageable, these levels remain vulnerable to shocks, particularly those related to exports, currency depreciation, and natural disasters. As evidenced by the high debt service to revenues ratio, large amortization payments and the low revenue base may pose liquidity risks. Lower than expected revenues, including due to policy implementation lags, or a shift in market sentiment leading to higher borrowing and rollover costs could heighten debt risks.

21. Sustained revenue mobilization efforts along with a prudent borrowing and debt management strategy will be important for mitigating the risk of debt distress. As highlighted by the granularity assessment, Benin has limited space to absorb shocks owing to the narrow distance between the debt service to revenue ratio and high-risk threshold in years where large Eurobond bullet repayments are due. Continued proactive liability management to facilitate the rollover of these payments, maximizing concessional borrowing, and measures to bring tax revenues closer to Benin's potential (**SIP–II on domestic revenue mobilization**) will help mitigate risks to debt distress. Fiscal policy guided by an interest to revenue ratio of 19 percent as envisaged under the IMF-supported program, and convergence to the WAEMU fiscal deficit norm of 3 percent of GDP by 2024, can help guide these policies.

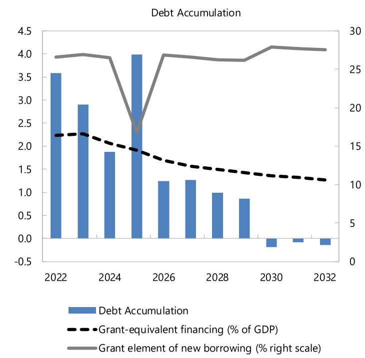
22. The authorities broadly concurred with the moderate risk of external debt distress rating. They are of the view that debt from BOAD should be classified as domestic debt, citing the institution's governance structure and the regional arrangement that makes the CFA currency union a consolidated unit. The authorities also noted that classifying such debt as domestic would further improve the external debt profile. They believe that some of the financing assumptions, particularly the terms of market access, are conservative. The authorities remain committed to preserving debt sustainability, mitigating refinancing risks, and containing borrowing costs through a combination of revenue mobilization, active debt management, and prudent borrowing.

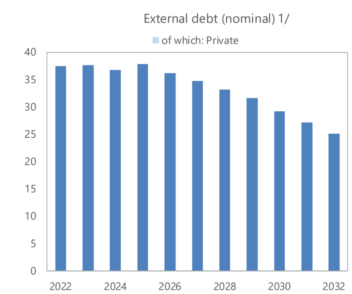
Table 1. Benin: External Debt Sustainability Framework, Baseline Scenario, 2019-2042

(in percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
External debt (nominal) 1/	25.3	28.4	36.5	37.5	37.6	36.8	37.8	36.2	34.7	25.1	13.6	19.5	33.3
of which: public and publicly guaranteed (PPG)	25.3	28.4	36.5	37.5	37.6	36.8	37.8	36.2	34.7	25.1	13.6	19.5	33.3
Change in external debt	5.9	3.2	8.0	1.0	0.1	-0.8	1.0	-1.6	-1.5	-2.0	-0.8		
Identified net debt-creating flows	5.1	0.7	2.4	5.4	4.7	3.7	4.0	3.6	3.2	3.8	4.5	5.2	3.8
Non-interest current account deficit	3.6	1.3	3.7	5.4	4.8	3.8	4.1	3.6	3.2	3.4	3.8	4.2	3.8
Deficit in balance of goods and services	5.0	2.8	4.7	6.9	6.4	5.4	5.7	5.3	5.0	5.0	5.0	5.7	5.4
Exports	24.9	22.4	24.0	25.3	23.9	23.0	22.8	22.6	22.4	22.4	22.4		
Imports	29.9	25.1	28.7	32.2	30.3	28.5	28.5	27.9	27.5	27.5	27.5		
Net current transfers (negative = inflow)	-1.3	-1.8	-1.2	-1.3	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-2.1	-1.4
of which: official	-0.4	-0.7	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1		
Other current account flows (negative = net inflow)	-0.1	0.2	0.1	-0.2	-0.3	-0.3	-0.2	-0.3	-0.4	-0.1	0.2	0.6	-0.3
Net FDI (negative = inflow)	1.3	1.0	1.2	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.6	1.1
Endogenous debt dynamics 2/	0.3	-1.6	-2.5	-1.2	-1.3	-1.2	-1.2	-1.2	-1.1	-0.8	-0.4	-0.6	-1.1
Contribution from nominal interest rate	0.4	0.5	0.7	0.8	0.9	0.9	0.8	0.9	0.9	0.7	0.3	0.3	0.8
Contribution from real GDP growth	-1.3	-0.9	-1.8	-2.0	-2.1	-2.1	-2.0	-2.1	-2.0	-1.5	-0.7	-0.9	-1.9
Contribution from price and exchange rate changes	1.1	-1.2	-1.5	...	...	...	...	...	...	...	...	-0.03	...
Residual 3/	0.8	2.5	5.6	-4.4	-4.5	-4.5	-3.0	-5.2	-4.7	-5.8	-5.3	-2.7	-4.9
of which: exceptional financing	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	28.4	30.7	30.8	30.0	31.2	29.8	28.6	20.4	10.9		
PV of PPG external debt-to-exports ratio	...	...	118.6	121.3	129.2	130.4	136.9	131.9	127.4	90.8	48.6		
PPG debt service-to-exports ratio	4.9	5.5	8.5	7.0	8.0	10.8	10.9	10.4	9.2	10.9	4.8		
PPG debt service-to-revenue ratio	9.4	9.7	15.5	13.2	13.7	17.2	16.7	15.4	13.2	13.9	6.1		
Gross external financing need (Billion of U.S. dollars)	0.9	0.5	1.2	1.5	1.6	1.6	1.8	1.8	1.8	2.9	5.2		
Key macroeconomic assumptions													
Real GDP growth (in percent)	6.9	3.8	7.2	5.7	6.2	6.0	6.0	6.0	6.0	5.9	5.4	5.4	6.0
GDP deflator in US dollar terms (change in percent)	-5.5	4.9	5.4	-1.3	2.5	2.8	2.9	2.7	2.4	2.0	2.0	0.0	2.0
Effective interest rate (percent) 4/	2.3	2.1	3.0	2.3	2.5	2.5	2.5	2.7	2.7	2.7	2.4	1.8	2.6
Growth of exports of G&S (US dollar terms, in percent)	-6.9	-2.3	21.1	10.1	2.7	5.2	7.9	8.0	7.9	8.0	7.5	10.6	7.4
Growth of imports of G&S (US dollar terms, in percent)	-7.8	-8.6	29.1	17.1	2.4	2.3	9.1	6.7	6.8	8.0	7.5	9.3	7.7
Grant element of new public sector borrowing (in percent)	...	...	...	26.5	26.9	26.5	16.8	26.9	26.6	27.5	23.6	...	26.0
Government revenues (excluding grants, in percent of GDP)	12.9	12.7	13.2	13.4	13.9	14.4	14.9	15.3	15.7	17.6	17.8	12.5	15.7
Aid flows (in Billion of US dollars) 5/	0.2	0.3	0.2	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.6		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	2.2	2.3	2.1	1.9	1.7	1.6	1.3	0.9	...	1.7
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	36.8	41.7	42.4	28.6	45.5	45.9	49.9	54.1	...	43.9
Nominal GDP (Billion of US dollars)	14	16	18	18	20	22	24	26	28	42	87		
Nominal dollar GDP growth	0.9	8.9	12.9	4.4	8.9	9.0	9.1	8.9	8.5	8.0	7.5	5.5	8.1
Memorandum items:													
PV of external debt 7/	...	...	28.4	30.7	30.8	30.0	31.2	29.8	28.6	20.4	10.9		
In percent of exports	...	...	118.6	121.3	129.2	130.4	136.9	131.9	127.4	90.8	48.6		
Total external debt service-to-exports ratio	4.9	5.5	8.5	7.0	8.0	10.8	10.9	10.4	9.2	10.9	4.8		
PV of PPG external debt (in Billion of US dollars)			5.0	5.7	6.2	6.6	7.5	7.7	8.1	8.5	9.5		
(PVt-PVt-1)/GDPt-1 (in percent)				3.6	2.9	1.9	4.0	1.2	1.3	-0.1	0.2		
Non-interest current account deficit that stabilizes debt ratio	-2.3	-1.9	-4.4	4.4	4.7	4.6	3.1	5.3	4.7	5.5	4.6		

Definition of external/domestic debt	Currency-based
Is there a material difference between the two criteria?	Yes





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

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

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
Public sector debt 1/	41.2	46.1	49.9	51.6	52.0	50.7	49.2	47.9	46.9	43.6	44.1	34.5	47.4
of which: external debt	25.3	28.4	36.5	37.5	37.6	36.8	37.8	36.2	34.7	25.1	13.6	19.5	33.3
Change in public sector debt	0.1	4.9	3.8	1.6	0.5	-1.4	-1.5	-1.2	-1.1	-0.4	0.3		
Identified debt-creating flows	-1.4	1.4	3.9	0.9	0.3	-0.9	-0.8	-0.7	-0.6	-0.3	0.3	1.5	-0.4
Primary deficit	-1.1	2.7	3.5	3.7	2.8	1.3	1.3	1.3	1.4	1.3	1.3	2.0	1.7
Revenue and grants	14.1	14.4	14.1	14.3	15.0	15.5	15.9	16.2	16.6	18.4	18.4	13.4	16.6
of which: grants	1.2	1.7	0.9	0.8	1.1	1.1	1.0	1.0	0.9	0.8	0.6		
Primary (noninterest) expenditure	13.0	17.1	17.6	17.9	17.8	16.8	17.2	17.5	18.0	19.7	19.7	15.3	18.3
Automatic debt dynamics	-0.4	-3.3	0.5	-3.4	-2.5	-2.2	-2.2	-2.1	-2.0	-1.6	-0.9	-0.7	-2.1
Contribution from interest rate/growth differential	-1.2	-0.8	-1.9	-3.4	-2.5	-2.2	-2.2	-2.1	-2.0	-1.6	-0.9	-1.0	-2.1
of which: contribution from average real interest rate	1.5	0.7	1.1	-0.7	0.5	0.7	0.7	0.7	0.7	0.9	1.3	0.7	0.6
of which: contribution from real GDP growth	-2.6	-1.5	-3.1	-2.7	-3.0	-2.9	-2.9	-2.8	-2.7	-2.4	-2.2	-1.6	-2.7
Contribution from real exchange rate depreciation	0.8	-2.4	2.4	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	1.9	-0.1	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.1
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	2.0	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	1.6	3.5	-0.1	0.7	0.2	-0.5	-0.7	-0.5	-0.4	-0.1	0.0	1.3	-0.2
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	43.2	44.1	44.5	43.3	42.0	41.1	40.4	38.7	41.4		
PV of public debt-to-revenue and grants ratio	...	...	305.7	309.0	296.6	280.1	264.8	253.6	244.1	210.4	225.0		
Debt service-to-revenue and grants ratio 3/	45.8	42.6	76.7	32.5	35.8	33.0	37.9	29.5	35.3	36.0	45.5		
Gross financing need 4/	5.4	10.8	14.2	9.0	8.2	6.4	7.4	6.1	7.2	7.9	9.6		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	6.9	3.8	7.2	5.7	6.2	6.0	6.0	6.0	6.0	5.9	5.4	5.4	6.0
Average nominal interest rate on external debt (in percent)	2.4	2.1	2.8	2.5	2.5	2.5	2.5	2.7	2.7	2.7	2.4	1.9	2.6
Average real interest rate on domestic debt (in percent)	6.5	3.5	7.2	-0.4	3.9	4.0	3.6	3.9	3.6	4.2	4.4	3.5	3.6
Real exchange rate depreciation (in percent, + indicates depreciation)	4.3	-9.9	9.1	...	...	...	...	...	...	...	...	2.0	...
Inflation rate (GDP deflator, in percent)	-0.3	2.9	1.6	4.8	1.0	1.4	2.0	2.0	2.0	2.0	2.0	1.5	2.1
Growth of real primary spending (deflated by GDP deflator, in percent)	-6.6	36.7	10.3	7.6	5.5	-0.2	8.8	8.2	8.4	5.9	5.4	8.5	7.1
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-1.2	-2.2	-0.3	2.0	2.3	2.7	2.8	2.6	2.4	1.7	1.0	-1.2	2.2
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, central bank, government-guaranteed debt . Definition of external debt is Currency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

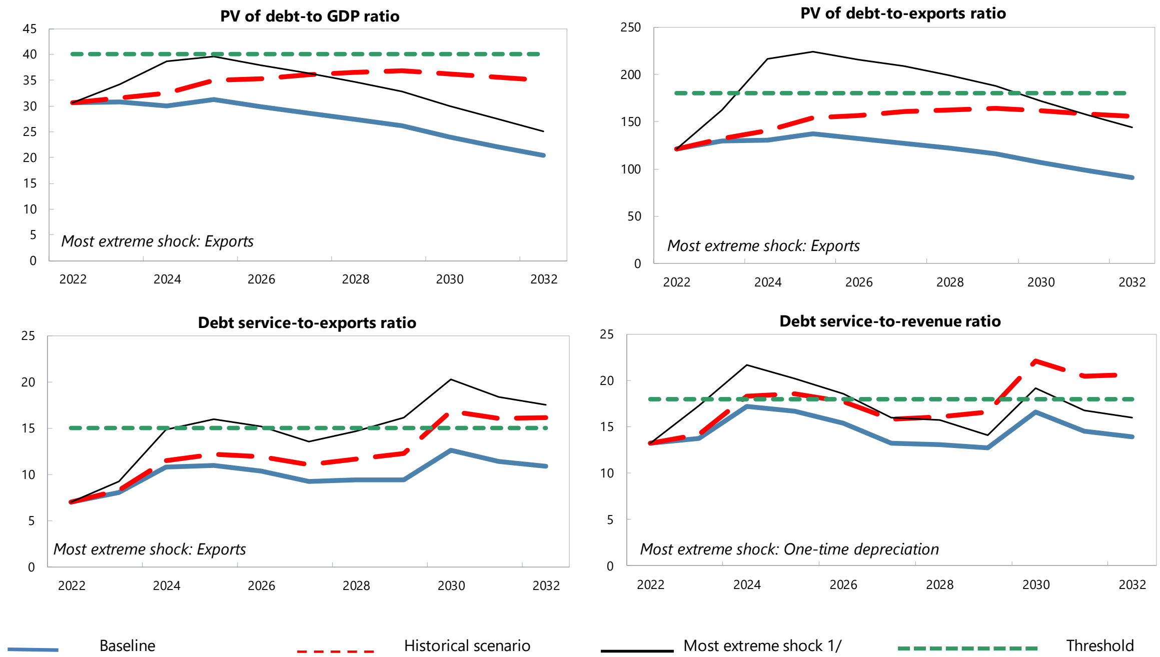
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

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



Customization of Default Settings	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	No	No
Commodity price	No	No
Market financing	Yes	No

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	2.5%	2.9%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	20	18
Avg. grace period	6	4

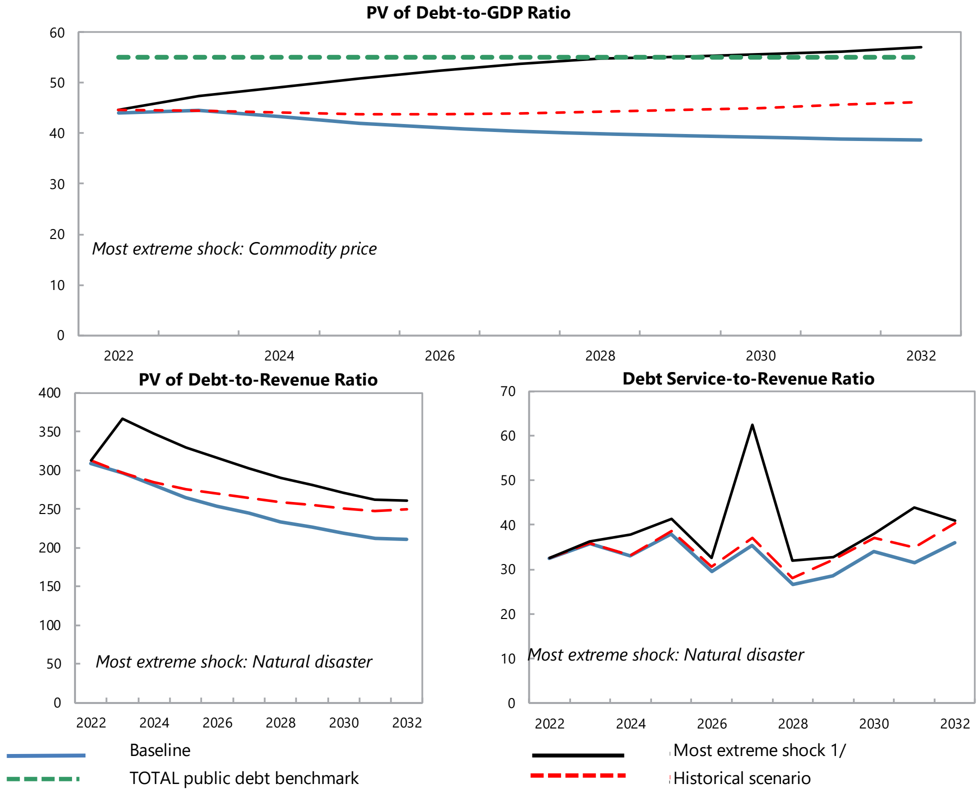
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities and staff estimates and projections.

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

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

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



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	44%	44%
Domestic medium and long-term	53%	53%
Domestic short-term	3%	3%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.5%	2.9%
Avg. maturity (incl. grace period)	20	18
Avg. grace period	6	4
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.2%	4.2%
Avg. maturity (incl. grace period)	4	4
Avg. grace period	3	3
Domestic short-term debt		
Avg. real interest rate	3.4%	3.4%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

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

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

(Percent of GDP)

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of debt-to GDP ratio											
Baseline	31	31	30	31	30	29	27	26	24	22	20
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	31	32	32	35	35	36	37	37	36	36	35
B. Bound Tests											
B1. Real GDP growth	31	32	33	34	32	31	30	28	26	24	22
B2. Primary balance	31	32	32	33	31	31	29	28	26	24	22
B3. Exports	31	34	39	40	38	36	35	33	30	27	25
B4. Other flows 3/	31	33	33	34	33	32	30	29	26	24	22
B5. Depreciation	31	39	34	36	34	33	31	30	28	26	24
B6. Combination of B1-B5	31	36	35	36	34	33	31	30	27	25	23
C. Tailored Tests											
C1. Combined contingent liabilities	31	34	33	34	33	33	32	30	28	27	25
C2. Natural disaster	31	35	34	35	34	34	33	32	30	28	27
C3. Commodity price	31	35	38	40	38	36	35	32	29	27	24
C4. Market Financing	31	34	33	35	33	32	31	29	27	25	23
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	121	129	130	137	132	127	122	116	107	99	91
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	121	133	141	154	156	161	163	164	161	159	155
B. Bound Tests											
B1. Real GDP growth	121	129	130	137	132	127	122	116	107	99	91
B2. Primary balance	121	132	139	145	139	136	131	125	115	107	99
B3. Exports	121	163	**217**	**224**	**216**	**209**	**199**	**188**	172	158	144
B4. Other flows 3/	121	136	145	151	146	141	134	128	117	108	99
B5. Depreciation	121	129	117	124	120	116	111	106	98	91	84
B6. Combination of B1-B5	121	149	136	164	158	152	145	138	127	117	108
C. Tailored Tests											
C1. Combined contingent liabilities	121	143	144	151	145	146	141	135	125	118	110
C2. Natural disaster	121	150	152	159	154	156	150	145	135	129	121
C3. Commodity price	121	**185**	**202**	**202**	**188**	175	160	150	136	123	112
C4. Market Financing	121	129	130	137	132	128	123	117	107	98	90
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	7	8	11	11	10	9	9	9	13	11	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	7	8	11	12	12	11	12	12	**17**	**16**	**16**
B. Bound Tests											
B1. Real GDP growth	7	8	11	11	10	9	9	9	13	11	11
B2. Primary balance	7	8	11	11	11	10	10	10	13	12	12
B3. Exports	7	9	15	**16**	**15**	14	15	**16**	**20**	**18**	**17**
B4. Other flows 3/	7	8	11	11	11	10	10	11	14	12	12
B5. Depreciation	7	8	11	11	10	9	9	8	12	10	10
B6. Combination of B1-B5	7	9	13	13	12	11	12	11	**15**	14	13
C. Tailored Tests											
C1. Combined contingent liabilities	7	8	11	11	11	10	10	10	13	12	11
C2. Natural disaster	7	8	12	12	11	10	10	10	14	13	12
C3. Commodity price	7	10	14	14	13	11	12	13	**16**	15	14
C4. Market Financing	7	8	11	11	11	10	10	13	**16**	11	11
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	13	14	17	17	15	13	13	13	17	15	14
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	13	14	**18**	**19**	18	16	16	17	**22**	**20**	**21**
B. Bound Tests											
B1. Real GDP growth	13	14	**19**	**18**	17	14	14	14	18	16	15
B2. Primary balance	13	14	18	17	16	14	14	14	18	15	15
B3. Exports	13	14	**18**	**19**	17	15	16	17	**21**	**18**	17
B4. Other flows 3/	13	14	18	17	16	14	14	14	**18**	16	15
B5. Depreciation	13	17	**22**	**20**	**19**	16	16	14	**19**	17	16
B6. Combination of B1-B5	13	15	**20**	**19**	17	15	16	15	**19**	17	16
C. Tailored Tests											
C1. Combined contingent liabilities	13	14	18	17	16	14	14	13	17	15	15
C2. Natural disaster	13	14	**18**	18	16	14	14	14	18	15	15
C3. Commodity price	13	16	**21**	**21**	**19**	16	17	17	**21**	**18**	17
C4. Market Financing	13	14	17	17	16	14	13	18	**21**	14	14
Threshold	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Benin: Sensitivity Analysis for Key Indicators of Public Debt, 2022-2032

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
	PV of Debt-to-GDP Ratio										
Baseline	44	45	43	42	41	40	40	40	39	39	39
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	45	45	44	44	44	44	44	45	45	46	46
B. Bound Tests											
B1. Real GDP growth	45	48	49	49	49	49	50	50	51	52	53
B2. Primary balance	45	47	48	46	45	44	44	43	42	42	42
B3. Exports	44	47	51	49	48	47	46	45	44	43	43
B4. Other flows 3/	44	46	47	45	44	43	43	42	41	41	40
B5. Depreciation	45	52	49	46	44	42	40	38	37	35	34
B6. Combination of B1-B5	45	45	45	43	42	42	41	40	40	39	39
C. Tailored Tests											
C1. Combined contingent liabilities	45	53	52	50	49	48	47	46	46	45	45
C2. Natural disaster	45	**55**	54	52	51	50	50	49	49	48	48
C3. Commodity price	45	47	49	51	52	54	55	**55**	**56**	**56**	**57**
C4. Market Financing	44	45	43	42	41	41	40	40	39	39	39
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
	PV of Debt-to-Revenue Ratio										
Baseline	309	297	280	265	254	244	234	226	219	211	210
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	313	297	285	275	269	264	258	255	251	247	250
B. Bound Tests											
B1. Real GDP growth	313	316	316	306	300	295	289	287	283	280	285
B2. Primary balance	313	311	308	291	278	267	255	246	237	229	227
B3. Exports	309	314	327	309	295	283	269	258	246	235	231
B4. Other flows 3/	309	308	302	285	273	262	250	241	231	222	220
B5. Depreciation	313	351	321	293	272	253	235	220	206	192	185
B6. Combination of B1-B5	313	298	291	274	262	251	239	230	221	213	211
C. Tailored Tests											
C1. Combined contingent liabilities	313	354	334	315	302	288	275	265	255	245	243
C2. Natural disaster	313	367	347	329	316	303	290	281	271	262	260
C3. Commodity price	313	352	352	355	348	339	326	315	310	305	309
C4. Market Financing	309	297	280	265	254	245	235	227	218	211	210
	Debt Service-to-Revenue Ratio										
Baseline	32	36	33	38	29	35	27	29	34	32	36
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	32	36	33	39	31	37	28	32	37	35	40
B. Bound Tests											
B1. Real GDP growth	32	37	36	42	33	41	33	36	42	41	47
B2. Primary balance	32	36	34	40	31	41	33	31	36	35	40
B3. Exports	32	36	34	39	31	37	29	32	37	34	39
B4. Other flows 3/	32	36	33	39	30	36	28	30	36	33	37
B5. Depreciation	32	36	37	41	33	37	29	31	37	34	37
B6. Combination of B1-B5	32	35	33	39	30	36	29	29	34	31	37
C. Tailored Tests											
C1. Combined contingent liabilities	32	36	37	40	32	58	30	31	36	41	39
C2. Natural disaster	32	36	38	41	33	62	32	33	38	44	41
C3. Commodity price	32	40	38	45	35	42	33	42	47	44	49
C4. Market Financing	32	36	33	38	30	36	27	33	38	31	36

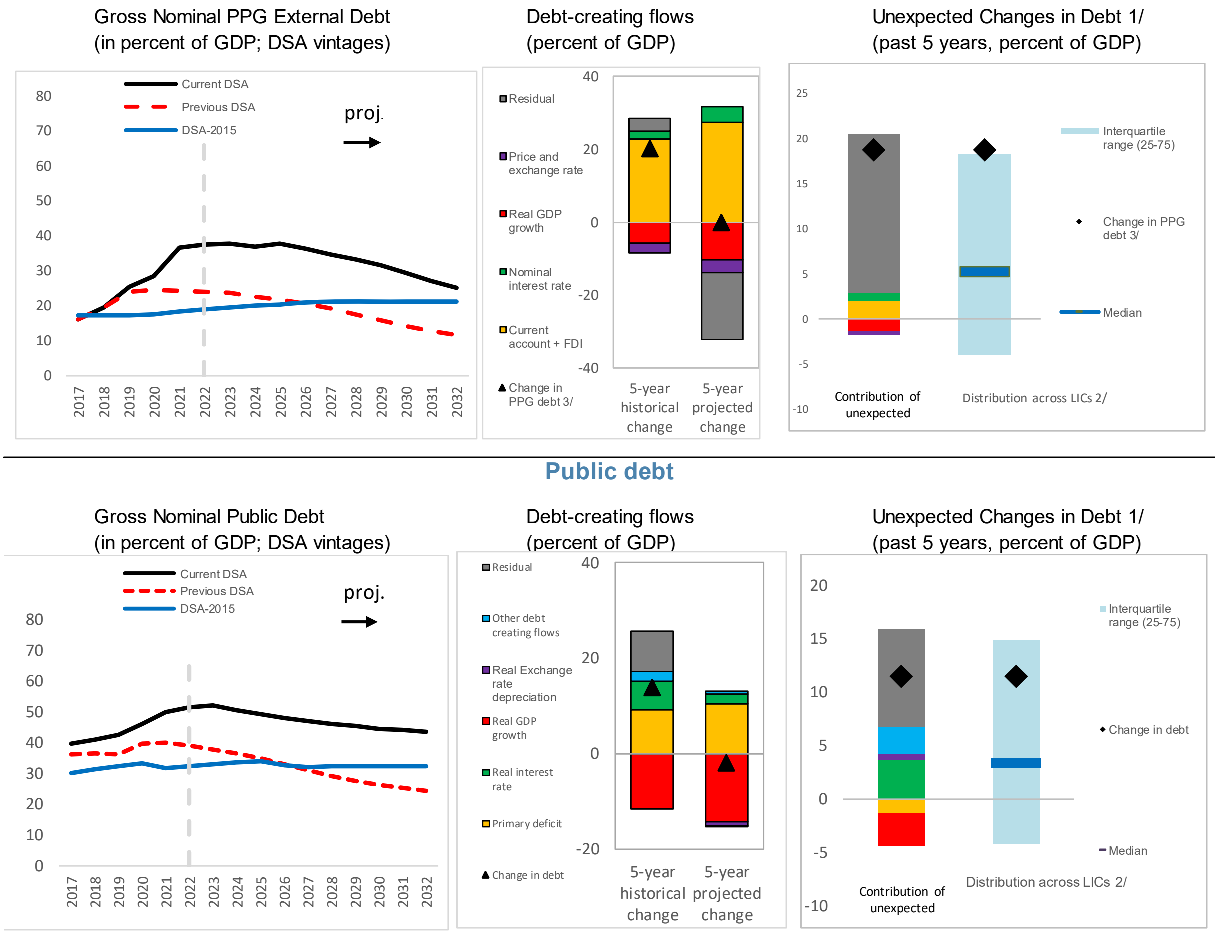
Sources: Country authorities; and staff estimates and projections.

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

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

3/ Includes official and private transfers and FDI.

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



Sources: Country authorities; and staff estimates and projections.

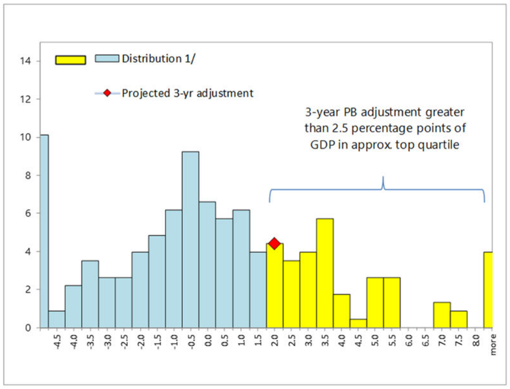
1/ Difference between anticipated and actual contributions on debt rations.

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

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

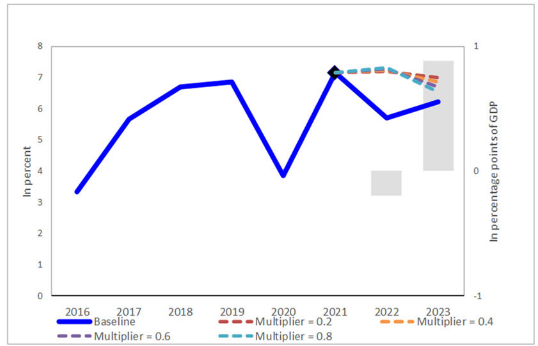
Figure 4. Benin: Realism Tools

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



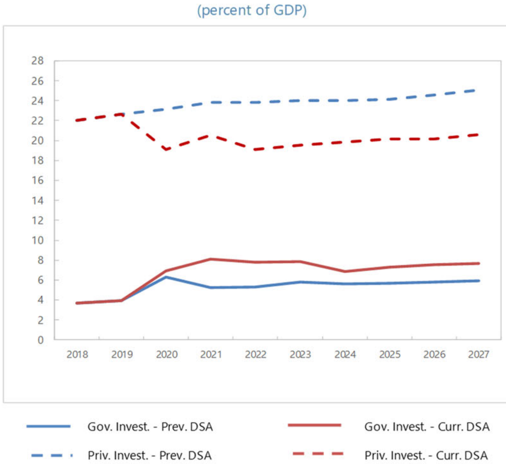
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

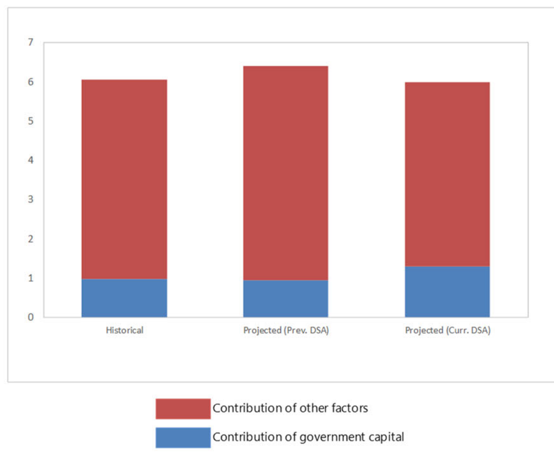


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



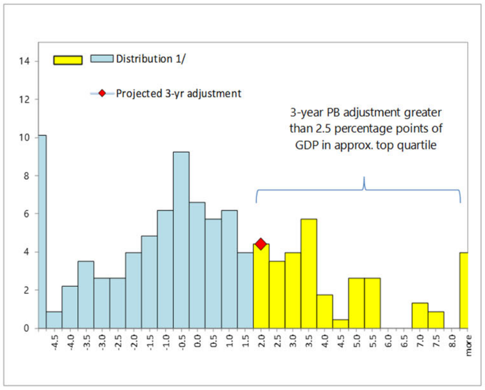
Contribution to Real GDP growth
(percent, 5-year average)



Sources: Country authorities; and staff estimates and projections

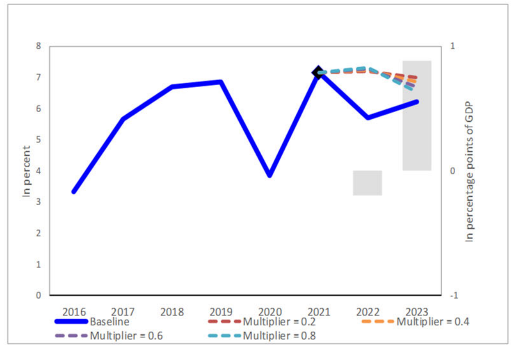
Figure 4. Benin: Realism Tools

3-year Adjustment in Primary Balance
(Percentage Point of GDP)



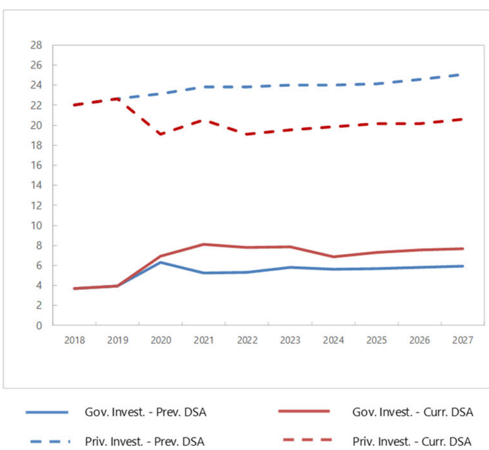
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Path[1/]

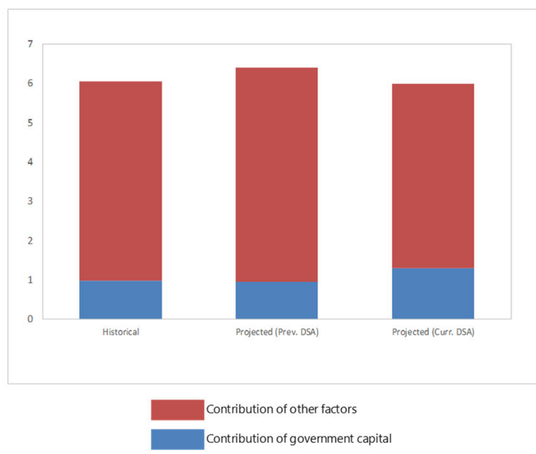


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(Percent of GDP)



Contribution to Real GDP Growth
(Percent 5-year Average)



Sources: Country authorities; and staff estimates and projections

Figure 5. Benin: Qualification of the Moderate Category, 2022-2032 [1/]

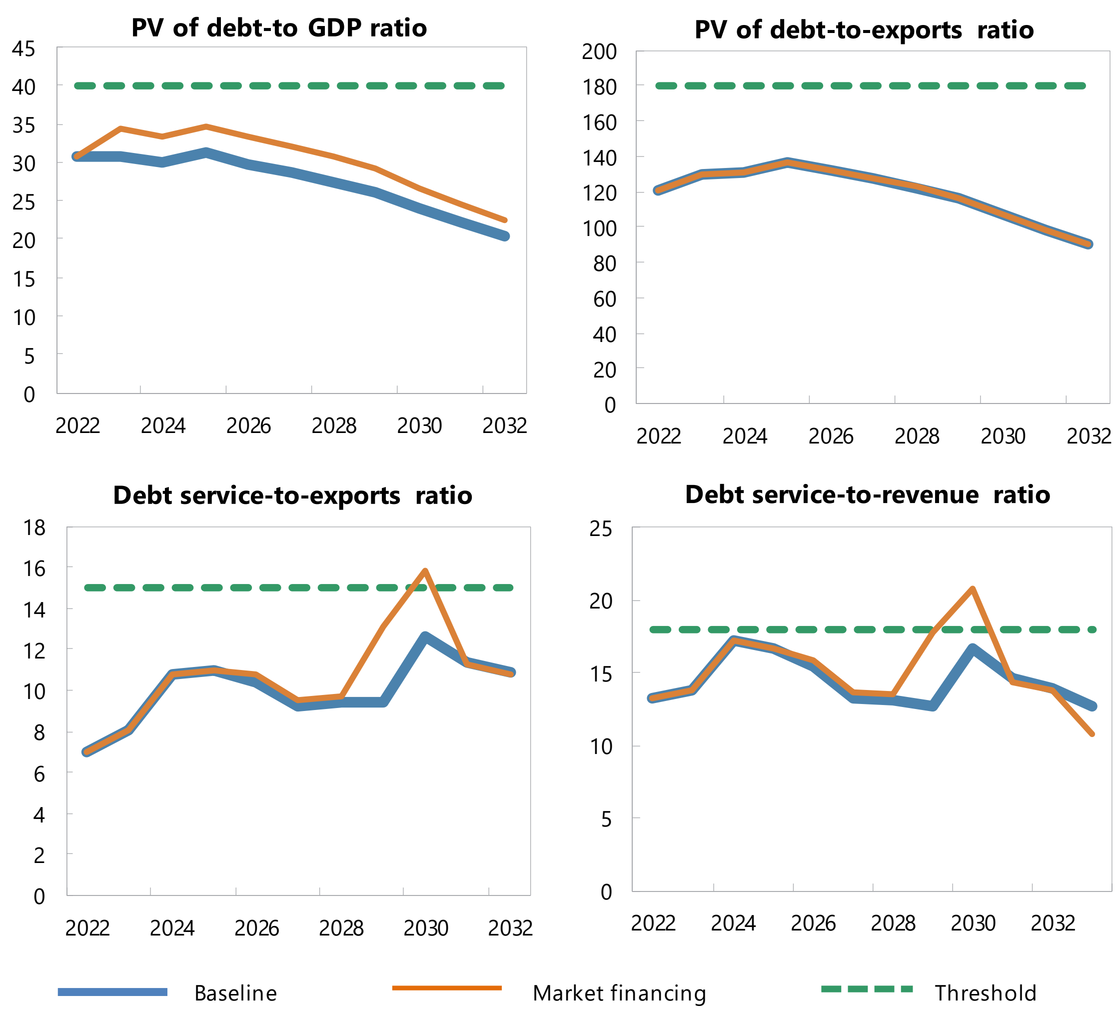
Sources: Country authorities; and staff estimates and projections.

1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

Figure 6. Benin: Market-Financing Risk Indicators

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	9	677
Breach of benchmark	No	Yes
Potential heightened liquidity needs	Moderate	

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



Sources: Country authorities; and staff estimates and projections.

INTERNATIONAL MONETARY FUND

BENIN

June 28, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION AND REQUESTS FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—INFORMATIONAL ANNEX

Prepared By

The African Department
(in consultation with other Departments)

CONTENTS

RELATIONS WITH THE FUND

(As of April 30, 2022)

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

2. General Resources Account:	**SDR Million**	**%Quota**
Quota	123.80	100.00
IMF's Holdings of Currency (Holdings Rate)	188.12	151.96
Reserve Tranche Position	18.31	14.79

3. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	177.82	100.00
Holdings	404.26	227.34

4. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
RCF Loans	41.26	33.33
Emergency Assistance[1]	82.54	66.67
ECF Arrangements	198.04	159.97

5. Latest Financial Commitments:

Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Apr 07, 2017	May 19, 2020	187.43	187.43
ECF	Jun 14, 2010	Jun 03, 2014	74.28	74.28
ECF[2]	Aug 05, 2005	Jun 30, 2009	24.77	24.77

Outright Loans:

Type	Date of Commitment	Date Drawn/Expired	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RFI	Dec 21, 2020	Dec 23, 2020	82.54	82.54
RCF	Dec 21, 2020	Dec 23, 2020	41.26	41.26

6. Overdue Obligations and Projected Payments to Fund[3]
(SDR Million; based on existing use of resources and present holdings of SDRs):

[1] Emergency Assistance may include ENDA, EPCA, and RFI.

[2] Formerly PRGF.

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

	Forthcoming				
	2022	2023	2024	2025	2026
Principal	6.90	10.61	55.06	69.56	45.74
Charges/Interest	0.88	1.24	1.07	0.47	0.02
Total	7.77	11.85	56.13	70.04	45.76

7. Implementation of HIPC Initiative:

	Enhanced Framework
- Commitment of HIPC assistance	
Decision point date	Jul 2000
Assistance committed by all creditors (US$ Million)[4]	265.00
Of which: IMF assistance (US$ million)	24.30
(SDR equivalent in millions)	18.40
Completion point date	Mar 2003
- 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[5]	1.66
Total disbursements	**20.06**

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).

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

I.	MDRI-eligible debt (SDR Million)[6]	36.06
	Financed by: MDRI Trust	34.11

[4] 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.

[5] 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.

[6] 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.

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

9. Implementation of Catastrophe Containment and Relief (CCR):

Date of Catastrophe	Board Decision Date	Amount Committed (SDR million)	Amount Disbursed (SDR million)
N/A	Apr 13, 2020	7.43	7.43
N/A	Oct 02, 2020	6.37	6.37
N/A	Apr 01, 2021	5.31	5.31
N/A	Oct 06, 2021	2.12	2.12
N/A	Dec 15, 2021	2.12	2.12

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

10. Exchange Arrangement:

The exchange rate arrangement of the West African Economic and Monetary Union (WAEMU) is a conventional peg. Benin is a WAEMU member country and has no separate legal tender. The common currency, the CFA franc, is pegged to the Euro at a rate of CFAF 655.957 = EUR 1, consistent with the official conversions rate of the French franc to the Euro and the previous fixed rate of the CFA franc to the French franc of CFAF 100= F 1. The Monetary Cooperation Agreement is based on three pillars: (1) a common issuing institution, (2) fixed parity with the euro, and (3) a guarantee of unlimited convertibility. Since June 1, 1996, Benin accepted the obligations of Articles VIII, section 2, 3, and 4 and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions and multiple currency practices.

11. Article IV Consultations:

The last completed Article IV consultation was completed on June 21, 2019, based on staff discussions with the authorities in Cotonou from April 25-May 8.

12. ROSC Assessment:

A Fiscal Affairs Department (FAD) mission conducted the fiscal module of a Report on Observance of Standards and Codes (ROSC) in May 2001. The mission recommended the adoption of a three-year action plan containing measures to improve expenditure management. The mission also identified a list of actions to be taken quickly to ensure that the authorities could monitor budget execution. The ROSC fiscal transparency module for Benin was circulated to the Board on June 6, 2002 (Country Report No. 02/217). In 2009, the World Bank conducted an Accounting and Auditing ROSC, for which the report was published on April 18, 2009.

13. Technical Assistance for the Last Two Years (2020-21):

Headquarters

Department Counterpart	Subject	Timing
FAD	Budget Execution and Control	August 2021
FAD	Customs Administration	June 2020; July 2020; November 2020, March 2021, April 2021; May 2021; June 2021; November 2021
FAD	Macro-fiscal management	April 2021
FAD	Public Financial Management	January 2021; February 2021
FAD	Revenue Administration	January 2021; February 2021; March 2021; April 2021; May 2021; June 2021; July 2021; August 2021; November 2021
FAD	Tax Administration	June 2020
FAD	Tax and Customs Administration	February 2021: March 2021
FAD	Tax Policy	April 2021; May 2021; September 2021
MCM	Assets and Liability Management	April 2021
MCM	Medium-term Debt Strategy Formulation and Implementation	May 2021; October 2021
STA	Government Finance Statistics	April 2021
STA	National Accounts Statistics	October 2020; March 2021; September 2021

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Department Counterpart	Subject	Timing
FAD	Assets and Liability Management	April 2021
FAD	Budget Execution and Control	November 2021
FAD	Budget Preparation & Public Financial Management	January 2021; February 2021; April 2021
FAD	Macro-fiscal management	April 2021
FAD	Quality and coverage of fiscal reporting	February 2021; December 2021
FAD	Revenue Administration	March 2021: May 2021; June 2021; November 2021
FAD	Fiscal Risks Identification and Management	November 2021
STA	Government Finance Statistics	April 2021; May 2021
STA	National Accounts Statistics	February 2021; September 2021
STA	National Accounts Statistics and Prices	March 2021; October 2021

14. Resident Representative:

Mr. Younes Zouhar assumed his position in Cotonou as Resident Representative in 2020.

RELATIONS WITH THE WORLD BANK GROUP

Benin and the World Bank Group

https://www.worldbank.org/en/country/benin

World Bank Projects

https://projects.worldbank.org/en/projects-operations/projects-summary?os=0&countryshortname_exact=Benin

STATISTICAL ISSUES

(As of April 30, 2022)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings but is broadly adequate for surveillance. Weaknesses exist due to lack of capacity in the areas of national accounts, public finance, financial sector prudential indicators, and balance of payments. The authorities are addressing data weaknesses through technical assistance from the Fund and other development partners.
National Accounts: Limited resources hamper the timely production of national accounts. Efforts to address these shortcomings are ongoing. The National Institute of Statistics and Demographics (INStaD) adopted the 2008 System of National Accounts (SNA) and updated the base year to 2015. Annual national accounts for the period 2015-16 are available and preliminary national accounts for 2017-19 were produced. The detailed back casting will be completed by the end of 2022. The quarterly national accounts (QNA) were released for the first time in 2020 and the demand approach to compiling the QNA will be implemented by end 2023. In addition, new high frequency indicators have been produced. AFRITAC-West is supporting the finalization of the annual and quarterly national accounts, improvements of methodologies and source data, and the development of financial accounts and the adoption of the SDDS data standards over the medium term.
Price Statistics: Consumer price data, calculated using the WAEMU harmonized consumer price index methodology, with 2014 as the weight reference year, are adequate for surveillance. The methodology for the WAEMU harmonized consumer price index has been revised to be consistent with other WAEMU countries with the assistance of AFRISTAT. The current index covers the whole country divided into five major production regions. Benin, like other WAEMU countries, is in process of updating and revising CPI compilation methods and weights.
Government Finance Statistics: The quality of fiscal data is broadly adequate for surveillance, but has some shortcomings in coverage and accessibility. The authorities have been able to make some improvements in recent years, including with the support of IMF TA. Benin publishes annual and in-year reports that provide an overview of central government budget operations for which the timeliness and periodic has been improved. While the institutional coverage of the Table of Government Financial Operations (TOFE) is currently limited to the budgetary central government, work is also being undertaken to develop a TOFE, according to the standards of the Government Finance Statistics Manual (GFSM) 2001/2014 for the general government to broadening coverage of fiscal of financial data and implement accrual accounting. Nevertheless, the institutional coverage of the TOFE is currently limited to the budgetary central government and focus only on operations. In addition, the authorities have not reported GFS data for publication in the Government Finance Statistics Yearbook since the 2013 reference year and do not report quarterly data for publication in the International Financial Statistics.
Monetary and Financial Statistics: Monetary data for Benin are prepared by the national agency of the BCEAO and reported to STA by the BCEAO Headquarters monthly with a timeliness of about two months after the reference period. Benin reports data on some key series and indicators of the Financial

Access Survey (FAS), including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10.1 of the Sustainable Development Goals (SDGs).	
Financial sector surveillance: With technical assistance from the IMF's Statistics Department, the BCEAO has compiled a set of FSIs for deposit takers with quarterly frequency. However, while the BCEAO has used FSIs for its internal purposes, it has not yet granted approval to publish the data on the IMF's FSI website.	
External sector statistics: Benin reports balance of payments and international investment position (IIP) statistics to STA using the methodology of the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)*. BOP and IIP data are reported to STA in *BPM6* format with a timeliness of about one year after the reference period. BCEAO headquarters determines the methodology and calculates international reserves managed for WAEMU countries. In the context of a four-year project funded by the Japan Administered Account, with French speaking countries in West and Central Africa to improve their capacity in producing and disseminating better quality external sector statistics, TA missions have been conducted in Benin and the last mission on external sector statistics was on August 2019 and focused, among other issues, on the compilation of quarterly balance of payments and IIP data. There is an ongoing effort to publish quarterly BOP and IIP data.	
II. Data Standards and Quality	
Following Benin's participation to the General Data Dissemination System (GDDS) in May 2000, in December 2017 the authorities posted the National Summary Data Page (NSDP), thereby participating to the enhanced GDDS. As of June 18, the access to the Central Bank Survey and Deposit Corporation Survey needs authorization by the BCEAO.	No data ROSC is available.

Benin: Table of Common Indicators Required for Surveillance

	Date of latest observation	Date received	Frequency of Data[8]	Frequency of Reporting[8]	Frequency of Publication[8]
Exchange Rates	Current	Current	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	03/2022	05/2022	M	M	M
Reserve/Base Money	03/2022	05/2022	M	M	M
Broad Money	03/2022	05/2022	M	M	M
Central Bank Balance Sheet	03/2022	05/2022	M	M	M
Consolidated Balance Sheet of the Banking System	03/2022	05/2022	M	M	M
Interest Rates[2]	01/2022	03/2022	M	M	M
Consumer Price Index	03/2022	04/2022	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	Not published
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government[5]	03/2022	04/2022	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[6]	12/2021	01/2022	Q	Q	Q
External Current Account Balance	2020	1/2021	A	A	A
Exports and Imports of Goods and Services	2020	1/2021	A	A	A
GDP/GNP	2020	11/2019	A	A	A
Gross External Debt	2020Q1	2021Q1	Q	Q	Q
International Investment Position[7]	2020	1/2021	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 fun and state and local governments.
[5] Central government coverage is limited to central government budgetary operations.
[6] Including currency and maturity composition.
[7] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[8] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

Statement by the IMF Staff Representative on Benin
July 8, 2022

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

1. **Economic activity, inflation, vaccination, and security.**

   - While aggregate inflation has remained subdued (0.5 percent in May, y/y), sustained increases in the prices of some key items in the consumption basket (e.g., vegetable oils, wheat flour, corn, sugar, etc.) continue to exert pressure on food security.
   - High frequency data for 2022:Q1 suggest a decline in Port activity (-5 percent, y/y), partly reflecting a base effect from the acceleration in 2021:Q1 that followed the re-opening of the Nigeria border in December 2020. This was offset by momentum in ICT, agriculture, and agroindustry.
   - 800 thousand additional persons were vaccinated in May and June, taking the total number of vaccinated to 4.1 million persons (about 33 percent of the population) at end-June 2022.
   - Benin's Bond spreads have widened by more than 200 bps (to about 900 bps) since end-April, partly reflecting ongoing monetary policy tightening in advanced economies.
   - There were two additional terrorist attacks at Benin's northern border on May 30 and June 26, with police officers' casualties.

2. **Fiscal outturns at end-April 2022.**

   - Preliminary data suggest strong fiscal performance for the first 4 months of the year, with a modest basic primary balance surplus of CFAF 21.8 billion at end-April 2022.
   - The performance was supported by buoyant taxes (up by about 10 percent, y/y, partly reflecting the new tax measures adopted in the 2022 budget) in a context of near-flat expenditure.

3. **Budget transparency, Rule of law and the AML/CFT framework.**

- Benin ranked second in Africa on budget transparency in the recent Opened Budget Survey.[1]

- The Parliament adopted, in May 2022, two new laws (the "organic law of the Audit Court" and the "Statute of the magistrates of the Audit Court") to further strengthen the supreme audit institution.

- The Council of Ministers adopted in June an action plan to strengthen the AML/CFT framework and to correct the deficiencies identified by the mutual evaluation of Benin's AML/CFT framework.

[1] The open budget survey assesses the transparency of public finances and the participation of citizens and the audit institutions in the budgeting process in 120 countries worldwide.

Statement by Mr. Andrianarivelo, Executive Director for Benin
Mr. N'Sonde, Alternate Executive Director
and Mr. Lopes Varela, Advisor to the Executive Director
July 8, 2022

1. Our Beninese authorities would like to thank staff for the frank discussions during the 2022 Article IV consultation and program discussions. They highly appreciate the advice and ambitious capacity development program the Fund provides to the country and continue to implement several of its policy and reform recommendations.

2. Prior to the pandemic hit, Benin had made considerable inroads in fostering solid economic growth and in social progress under the *Programe d'Action du Gouvernement (PAG)* 2016-2021, sustained under the Fund's 2017-20 Extended Credit Facility (ECF) arrangement. As a result, the country has enjoyed a strong economic performance with average real GDP of around 6.4 percent between 2017 and 2019, supported by scaled-up infrastructure. Benin has been upgraded by the World Bank to a lower-middle income level status in 2020 and has made noticeable progress in terms of fiscal transparency and public debt management. Moreover, while like many LICs, Sustainable Development goals (SDGs) would be hardly attainable by 2030, Benin has made progress towards those goals, notably those related to clean and accessible water, electricity, and sanitation.

3. Despite significant macroeconomic and social gains, Benin continues to endure substantial socio-economic challenges stemming notably from human and capital gaps, climate change, and inequalities. The lingering effects of the pandemic, terrorist attacks, and security threats from the Sahel region into the northern part of Benin and the ongoing conflict in Ukraine have aggravated the country's challenges, threatening the authorities' ambitious development and structural transformation plan. Against this backdrop, our Beninese authorities are seeking Fund support in the form of 42-month arrangements under the Extended Fund Facility (EFF) and the Extended Credit Facility (ECF). These arrangements amount to 391 percent of Benin's quota, with frontloaded disbursements to help meet

immediate significant financing needs while catalyzing other external support. The program strength includes an ambitious fiscal consolidation starting in 2023; debt management measures to preserve debt sustainability while avoiding the accumulation of external and domestic arrears through continuous PCs. The authorities also envisaged additional fiscal adjustment measures in the event of higher-than-expected spending pressures. In addition, the planned comprehensive capacity development program—encompassing notably strengthening governance, transparency, revenue mobilization, public financial management, and statistics—will support the proposed program. Benin will continue to make payments to the Fund during the program, which will reduce the Fund's net exposure vis-à-vis the country by the end of the program.

4. The authorities consider the Fund-supported program—if granted—as key to coping with ongoing shocks and safeguarding the macroeconomic achievements of the past years. The authorities enjoy a very good track record of program implementation; their ownership of the proposed policies and reforms is very strong; and Benin's capacity to repay the Fund is based on expectations of continued successful implementation. They have committed to a fiscal safeguards review (FSR) by the First review under this program and broadly concur with staff's analysis and the main policy recommendations to tackle those challenges and bring the economy back to its pre-crisis path of strong growth and social advances.

RECENT ECONOMIC DEVELOPMENTS, OUTLOOK, AND RISKS

Recent Economic Developments

5. In 2020, the Covid-19 pandemic thwarted Benin's growth momentum causing real GDP growth to decline to 3.8 percent from 6.9 percent in 2019. Nevertheless, it was one of the most robust growth among Sub-Saharan African countries, reflecting the remarkable resilience of the country amid the Covid-19 pandemic. Real GDP is estimated to have rebounded to 7.2 percent in 2021 due to improvement in global health conditions and the reopening of borders with Nigeria, Benin's leading trade partner. Considering the rising food and energy prices, inflation is estimated to have increased to 4.1 percent in 2021 compared to 1.7 percent in 2020. The current account deficit increased to 4.4 percent of GDP in 2021 due to the worsening in terms of trade resulting from higher commodity prices.

6. The well-being of the most vulnerable group has been the top priority of our authorities in dealing with the pandemic. Reflecting the supportive fiscal efforts made to tackle its effects on the economy and people, and to allow more capital spending, the overall fiscal deficit increased to 5.7 percent of GDP in 2021 against 4.7 percent in 2020.

7. Benin's improved presence in international capital markets has allowed the country to generate adequate funding to accommodate additional health and socio-economic pressures. Therefore, the public sector debt rose to 49.9 percent at the end-2021 compared to 46.1 percent in 2020.

Outlook and Risks

8. Albeit very challenging circumstances, Benin’s economic outlook remains positive, with forecasted growth of 5.7 percent in 2022, based on a pick-up in public investment and a much-contained health crisis. The Beninese authorities are more optimistic about the medium-term growth prospects, with real GDP growth projected at 6 percent on the back of continued investments in major public projects and vital private sector involvement. It is the authorities’ belief that the stepped efforts to speed up reforms to enhance the agriculture and industrial sectors, notably with the Special Economic Zone (SEZ) of *Glo-Djigbé*, the *Conseil Agricole*; as well as efforts to consolidate Benin’s position as Africa’s lead cotton producer while developing the non-cotton sector will positively and significantly impact growth prospects. The authorities remain mindful of the challenging external environment and difficult domestic conditions, including regional security in the Sahel, the duration of the impact of the Covid-19 pandemic, and the war in Ukraine. Regarding the pandemic, they remain focused on the rollout of Covid-19 vaccines to support the ongoing economic recovery.

POLICIES AND REFORMS FOR 2022 AND THE MEDIUM-TERM

9. The authorities have embarked on an agenda of accelerated economic reforms through the government's PND for 2018-25. The proposed program would support their efforts in consolidating the fiscal position through broad-ranging reforms to enhance revenue mobilization and improve expenditure management with a view to maintaining fiscal and debt sustainability while creating fiscal space for key social and poverty reduction measures.

Fiscal Policy and Reforms, and Debt Strategy

10. The urgent spending needs caused by the recent shocks, including the war in Ukraine and security concerns, have justified the widening deficit in 2022 to protect the most vulnerable and support the economy. Direct subsidies, temporary tax and customs measures on some basic products are among the additional supportive actions taken to absorb the impact of the shocks on the most vulnerable population. The authorities also plan to support farmers through fertilizer subsidies to help ensure a smooth agriculture campaign and more

broadly, lower risks of food insecurity. The authorities believe that without these supportive measures, the consequences on productivity and people's well-being would have been disastrous.

11. Nevertheless, as seen with the recent diesel pump price increase, the authorities remain committed to closely monitoring the prices of the subsidized products and gradually adjusting them with supply costs, with support from development partners and conditions permit. The authorities agree with staff on the need for more targeted measures to ensure that the most in need are the ones who benefit the most and see these support measures as temporary. To address security risks, efforts are underway to increase the state presence in some parts of the country, notably the northern region, including by strengthening security, meeting the local populations’ basic needs, and promoting social cohesion.

12. Taking all the above factors into account, a 2022 supplementary budget law will be submitted with a budget deficit of 5.5 percent of GDP compared with the initial target of 4.5 percent of GDP. The authorities are fully aware of the challenges to meeting the 2022 target, particularly stemming from pressures on the wage bill. Therefore, they reaffirm their determination to follow through with their planned tax policy and administrative measures to render additional revenue of 0.5 percent of the GDP. They also plan to perform a comprehensive assessment of the public sector compensation policy and seek additional budget support.

13. The authorities remain committed to sound fiscal policy and a consolidation path. In this regard, they intend to reduce the deficit to 4.3 percent of GDP in 2023 to pave the way for the resumption of the West African Economic and Monetary Union (WAEMU)'s fiscal deficit target of 3 percent of GDP by 2024, which was put on hold to accommodate the much-needed health and social spending. To this end, a wide range of fiscal measures are being implemented, and further efforts will be made to improve revenue collection and expenditure efficiency.

14. On the revenue side, the greater use of digitization, the recent amendments to the Tax Code, and the publication of the Tax Procedures Book have an essential role in simplifying tax payments and consequently increasing tax revenue. Still, the authorities concur that there is ample scope to improve the tax-to-GDP ratio, which stood at 11 percent in 2021. Therefore, they have expressed commitment and urgency to improving revenue collection by considering a strategy for rationalizing tax and adopting a comprehensive medium-term revenue mobilization strategy (MTRS). The IMF technical assistance will be helpful in assisting the authorities in broadening the tax base and making the tax and customs administration more efficient.

15. On the expenditure and PFM front, the introduction of program-based budgeting in the 2022 budget is a commendable step taken by our authorities to help improve the accountability of line ministries and attain spending efficiency gains. Further measures to enhance the transparency of government spending and operations, including security spending, will be taken by following up on the recent Fiscal Transparency Evaluation recommendations. The authorities also agree with Fund staff that efforts are needed in public investment management to make project implementation more effective through well-informed cost-benefit analyses. Moreover, they intend to publish the criteria for evaluating and selecting significant investment projects and their feasibility studies.

16. Despite the economic shocks, Benin's debt remains at moderate risk of debt distress. While the authorities note Fund staff's current reclassification of loans (denominated in CFA francs) from the regional development bank BOAD from domestic to external financing, they conceptually and firmly disagree with such approach. Nevertheless, they believe their proposed fiscal consolidation agenda starting in 2023 will help to contain the debt ratio further. The ongoing efforts to restructure the revenue administration and planned tax policy reforms will serve the same objective by bringing in additional revenue over the medium term. Going forward, the authorities will continue to strengthen debt management and seek concessional financing to preserve debt sustainability and the moderate risk of debt distress.

Strengthening Governance, Transparency, and the AML/CFT Framework

17. The authorities will continue their efforts to comply with international standards in governance and transparency. The Audit Court published the audit of pandemic-related spending. Significant efforts have been made to establish and strengthen the capacities of the High Commission for the Prevention of Corruption and the National Financial Information Processing Unit (CENTIF). They also concluded the much-needed institutional change at the Court of Auditors. These measures support the authorities' objectives of promoting good governance, the rule of law, and fighting corruption. The authorities will also continue publishing beneficial ownership and critical information on all pandemic-related contracts. In addition, they intend to follow through with the envisaged governance diagnostic and address the vulnerabilities of the AML/CFT framework.

Enhancing the Financial Sector

18. The regional central bank (BCEAO)'s accommodative stance during the pandemic has benefited the Beninese economy as it has contributed to the banking system remaining liquid, resilient to solvency and liquidity shocks, and well-capitalized, except for two small banks. The authorities are determined to ensure that all banks comply with the regulatory capital minimum, with support from the WAEMU Banking Commission. Going forward, they will implement measures to promote financial inclusion by transposing the WAEMU regional inclusion strategy into the national law and supporting private sector development through improved access to financing, especially for SMEs. At the same time, they will continue to collaborate closely with regional authorities to strengthen bank supervision and stability in the sector.

Pursuing Economic Diversification for a Private Sector-led Growth and Promoting Inclusion

19. Efforts are underway to diversify the economy and make it less dependent on the Nigeria transit-centered model and cotton production. In this regard, they focus on promoting the agriculture and fisheries sectors, improving the competitiveness of the country's principal port, and fostering private sector development and digital activities to increase the economy's resilience to shocks. The authorities are also stepping up efforts to make growth more inclusive by scaling up infrastructure investments, increasing health and education spending, enhancing social protection, and advancing climate change adaption and mitigation measures as laid out in their national development plan to achieve the SDGs and inclusive economic development. Regarding social protection, they plan to conclude a social registry to enhance the social safety net.

20. The authorities value the TA from partners, especially the IMF, and have endeavored to improve data quality and timeliness, notably with the approval of the new statistics law. They intend to adopt the Special Data Dissemination Standard (SDDS) over the medium-term.

CONCLUSION

21. The Beninese authorities are implementing wide-ranging measures to overcome the challenges posed by the rising food and energy prices and the war in Ukraine. They remain committed to pursuing fiscal prudence and advancing reforms. Considering their solid track record of Fund policy implementation and sound macroeconomic management, we would appreciate Executive Directors' support for their request for blended EFF/ECF arrangements with High Combined Credit Exposure to meet significant and urgent financing needs. They continue to value the advice and technical assistance of the Fund and other partners towards achieving their macroeconomic and development objectives.