INTERNATIONAL MONETARY FUND

IMF Country Report No. 20/175

BENIN

May 2020

SIXTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUEST FOR AUGMENTATION OF ACCESS—PRESS RELEASE; STAFF REPORT; 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 May 15, 2020, following discussions that ended on April 16, 2020, 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 May 8, 2020.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the Internal Development Association.
- A **Statement by the Executive Director** for Benin.

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

Letter of Intent sent to the IMF by the authorities of Benin*
Technical Memorandum of Understanding*
*Also included in Staff Report

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

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PRESS RELEASE

PR20/216

IMF Executive Board Approves a US$ 125.1 million disbursement Under Benin's ECF-supported Arrangement

FOR IMMEDIATE RELEASE

- The Executive Board decision allows an immediate disbursement of US$125.1 million to Benin to address the urgent financing needs stemming spread of COVID-19 and to mitigate its economic and social impacts.
- The authorities are implementing a response plan that will raise significantly health spending and provide support to vulnerable households and impacted businesses.
- This sixth review marks the end of the three-year Fund-supported program. Its implementation has been very satisfactory.

Washington, DC – May 15, 2020

The Executive Board of the International Monetary Fund (IMF) completed the sixth and final review of Benin's economic performance under a program supported by an Extended Credit Facility (ECF) arrangement. [1] The completion of the review enables the disbursement of SDR 91.931 million (about US$125.1 million), bringing total disbursements under the arrangement to SDR 187.43 million (about US$ 255.1 million).

Benin's three-year arrangement of SDR 111.42 million (about US$151.7 million, 90 percent of Benin's quota) was approved on April 7, 2017 (see Press Release No.17/124). In completing the sixth review, the Executive Board also approved the authorities' request for an augmentation of access under the ECF arrangement of 61.4 percent of Benin's quota (SDR 76.013 million or about US$103.5 million) to address the urgent financing needs stemming from the authorities' efforts to control the spread of COVID-19 and mitigate its economic and social impacts.

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

"Benin's strong growth momentum has been halted by the COVID-19 pandemic and border closure with Nigeria. Growth is projected to decelerate, and the outlook is subject to a high degree of uncertainty. The authorities are taking immediate actions to address the human and economic implications of the health and economic crisis, while safeguarding hard-won fiscal achievements. Their response plan aims at raising healthcare spending, granting cash transfers to vulnerable households, and providing support to impacted businesses.

"Sound and transparent public financial management will be paramount with the sizeable reprioritization of spending. Careful monitoring and ex-post audit of the execution of the new measures will strengthen accountability and ensure that the additional funds are spent as intended.

"Once the shocks wear off, the authorities expect to revert to their medium-term fiscal path by maintaining the deficit within the regional ceiling to safeguard fiscal sustainability. On the economic reform front, the authorities' efforts to modernize the Beninese economy should be pursued, in particular by diversifying the economic structure, improving the business environment, and strengthening the banking sector.

"In this difficult context, performance under the ECF-supported arrangement has remained very satisfactory with a strong track record. All quantitative performance criteria at end-December 2019 and structural benchmarks under the review were met. ''

[1] The ECF is a lending arrangement that provides sustained program engagement over the medium to long term in case of protracted balance of payment problems.

More information

IMF Lending Tracker (emergency financing request approved by the IMF Executive Board)
https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker

IMF Executive Board calendar
https://www.imf.org/external/NP/SEC/bc/eng/index.aspx

INTERNATIONAL MONETARY FUND

BENIN

May 8, 2020

SIXTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR AUGMENTATION OF ACCESS

EXECUTIVE SUMMARY

Context. Program implementation continues to be strong, with all end-December 2019 quantitative performance criteria (QPCs) and the structural benchmarks (SB) under review being met. Economic activity is expected to decelerate sharply in 2020 due to the COVID-19 pandemic. The authorities have prepared a response plan of 1.7 percent of GDP to contain health risks and support the economy. As a result of the projected revenue shortfall and the new measures, the 2020 fiscal deficit is revised upward to 3.5 percent of GDP.

Program Objectives. The authorities' policies under the Extended Credit Facility (ECF)-supported program are substantially adapted to cope with the health and economic emergency, with the intention of:

- Taking urgent health measures to ramp up the country's ability to contain and manage the domestic virus outbreak;
- Providing targeted and temporary relief to impacted businesses and households;
- Making reallocations within the budget to create space for the new measures;
- Catalyzing donors' financial support to allow for the fiscal accommodation of the shocks; and
- Promoting sound public financial management practices to maintain transparency and accountability in the execution of the response package and the use of funds.

Staff View. Staff supports the completion of the sixth review under the ECF-supported arrangement. Staff also supports the request for an augmentation of access equivalent to 61.4 percent of quota to address larger financing needs. Completion of this review will release a disbursement equivalent to SDR 91.931 million, of which SDR 76.013 million from the augmentation.

Approved By
Dominique Desruelle (AFR) and Craig Beaumont (SPR)

Discussions on the Sixth Review under the Extended Credit Facility (ECF) Arrangement were held remotely from Washington D.C. during April 9-16, 2020. The mission team comprised Messrs. Luc Eyraud (head), Goran Amidzic, Alexandre Nguyen-Duong and Alex Pouhe and Ms. Vanessa Arellano Banoni (all AFR), Mr. Mouhamadou Sy (FAD), Mr. Karim Barhoumi (Resident Representative), and Mr. Joseph Houessou (Economist at the Res. Rep. Office). Ms. Esso Boukpessi (OED) participated in the mission. The mission met with Mr. Romuald Wadagni, Minister of Economy and Finance; Mr. Alain Komaclo, BCEAO National Director; and senior economic and financial officials. Ms. Nathalie Picarelli (World Bank) participated in some of the meetings. Ms. Christelle Ndome-Yandun provided assistance for the preparation of this report.

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BACKGROUND

1. The sixth review marks the end of the current ECF arrangement. The three-year arrangement was approved in April 2017. Performance under the program has been very satisfactory, with all semi-annual quantitative performance criteria (QPCs) and all but one structural benchmarks (SBs) being met since its beginning.

2. The spread of COVID-19 is still limited in Benin, but the risk of a large outbreak is rising. As of May 6, 96 cases have been reported in Benin. According to the World Health Organization (WHO), Benin has relatively low capacity to manage a potential health emergency. The authorities have already taken a number of mitigation and containment measures (Box 1).

Box 1. Initial Response of the Authorities to the Virus Outbreak

Since March 19, 2020, the authorities have (i) significantly limited the transit of people across land borders; (ii) restricted the issuance of entry visas to the country; (iii) introduced a systematic and compulsory quarantine of all people coming to Benin by air; and (iv) suspended all public gatherings including conferences, funerals, festivals, political rallies, sporting events, and religious activities. Starting from March 31, 2020, the authorities have also decided to establish a partial lockdown around ten cities most exposed to the pandemic in order to isolate the infected population and contain the spread of COVID-19. The authorities have also made wearing face masks in public compulsory until mid-May 2020. Finally, in cooperation with the WHO and the World Bank, the authorities are strengthening their capacity to mitigate the risk of a possibly larger domestic outbreak, in particular by intensifying surveillance, notably at points of entries; building capacity for case confirmation and follow-up; and organizing quarantine and self-isolation protocols.

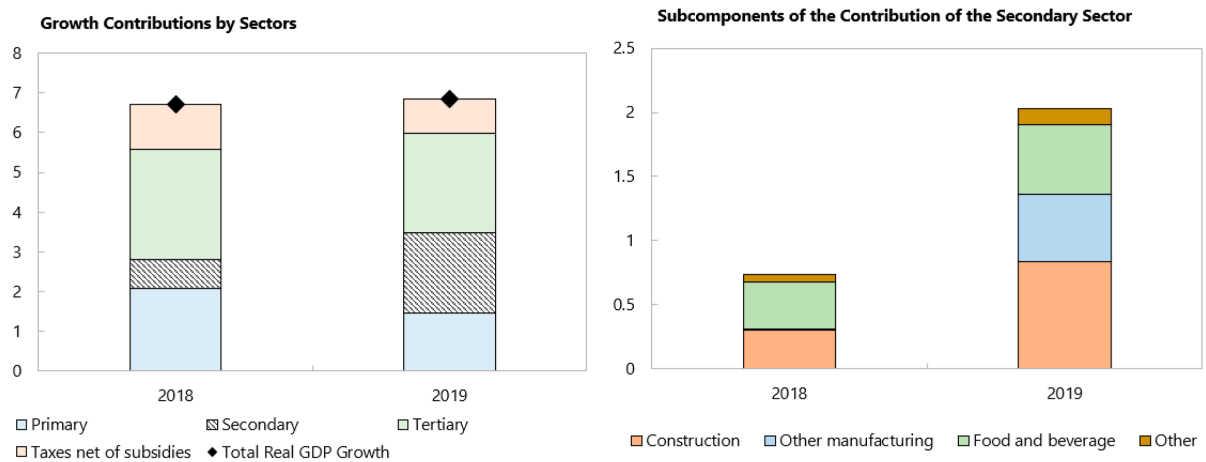
3. On top of the COVID-19 shock, the border with Nigeria continues to be closed. In August 2019, Nigeria decided unilaterally to close the border with some neighboring countries, including Benin. The Nigerian authorities motivated their decision by the need to curb smuggling and spur local agricultural production. Although a permanent solution is yet be found, several measures have been agreed upon with Nigeria, including setting up joint customs checkpoints and police brigades.

4. In this difficult context, the policies under the ECF-supported program are substantially adapted to support measures to cope with the pandemic and border closure shocks. Discussions on the review of the program focused on the response to the crisis in the areas of fiscal policy, debt management, and pro-growth reforms. An augmentation of access is also proposed to address larger financing needs.

RECENT DEVELOPMENTS

5. GDP growth remained strong in 2019 despite the closure of the border with Nigeria. Preliminary estimates from the National Institute of Statistics estimate growth at 6.9 percent last year, mostly driven by the construction and manufacturing sectors (Text Figure 1). Inflation stood at -0.9 percent in 2019, reflecting lower water utility prices and high agriculture production.

Text Figure 1. Contributions to Real GDP Growth 2018-19
(in percentage points)



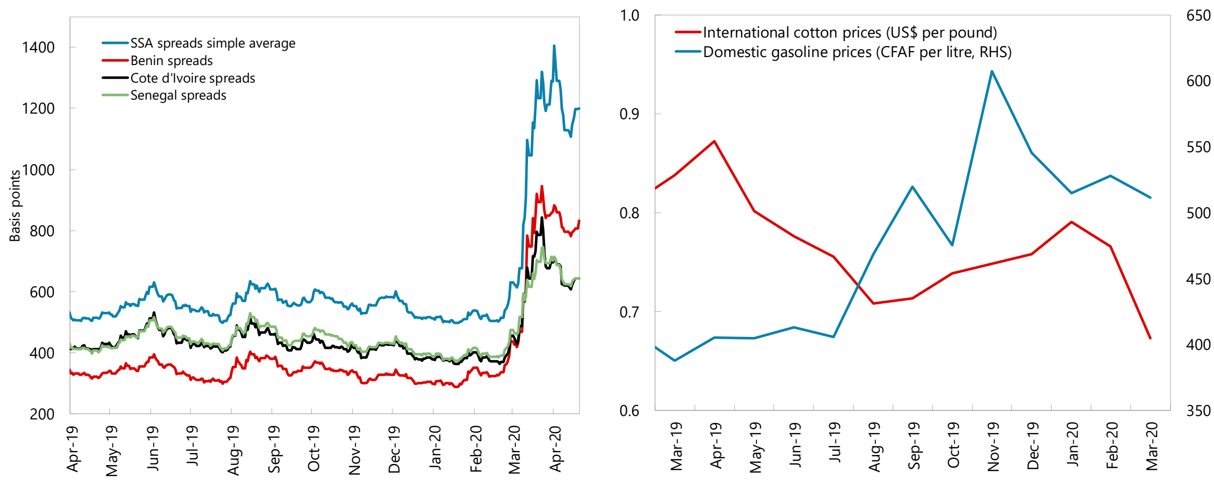
Source: Beninese authorities.

6. The economic impact of the COVID-19 pandemic is beginning to materialize. With the flight to safety and other macroeconomic uncertainties, Benin's Eurobond spreads have soared by about 550 bps since the beginning of the year (Text Figure 2). International cotton prices in U.S. dollar have declined by about 15 percent over the same period. At the same time, Benin is now enjoying lower gasoline prices than at the end of 2019, when domestic oil prices spiked after the border closure with Nigeria.

7. The fiscal deficit narrowed significantly in 2019. The 2019 deficit is estimated at 0.5 percent of GDP, significantly lower than anticipated at the time of the fifth review (2.3 percent of GDP). This is mainly due to continued efforts to rationalize the wage bill and a significant under-execution of externally-financed public investment.[1] Domestic tax and non-tax revenues overperformed in 2019, while customs revenue fell short of target due to the border closure with Nigeria.

[1] Box 1 of IMF Country Report 18/364 presents wage bill rationalization measures. Regarding public investment, the authorities struggle to meet all the requirements imposed by donors to implement projects.

Text Figure 2. Change in International Conditions



Source: Beninese authorities and Bloomberg L.P.
Note: Gasoline prices are a weighted average of kpayo and pump prices.

8. The banking sector continued its gradual recapitalization, though structural weaknesses remain. The aggregate capital adequacy ratio of banks increased from 8.2 percent at end-December 2018 to 9.6 percent at end-June 2019, exceeding the regulatory threshold of 9.5 percent required for end-2019. Portfolio quality improved somewhat, with the ratio of gross NPLs to total loans decreasing from 21.6 percent at end-December 2018 to 20.2 percent at end-June 2019. Credit to the private sector grew fast by 11.9 percent between end-2018 and end-2019. However, the sector continued to show high credit concentration and low liquidity.

OUTLOOK AND RISKS

9. Short-term economic prospects are revised downward to account for the two negative shocks. Based on the assumptions presented in Annex I, 2020 GDP growth is revised down to 3.2 percent, to reflect the contraction of private demand and the longer-than-expected border closure with Nigeria (now assumed to last until mid-2020). The trade deficit is projected to widen in 2020 because of the weaker external demand, although the deterioration is less dramatic than anticipated at the time of the 5th review, since Benin, an oil importer, is enjoying a positive terms-of-trade shock. Both the wider trade deficit and lower capital inflows contribute to the projected deterioration of the overall balance of payments in 2020.

10. The medium-term outlook continues to be favorable. Given that the negative shocks are assumed to be temporary and dissipate later this year, the medium-term outlook is largely unchanged, with the main economic ratios converging towards levels broadly similar to those projected at the time of the 5th review. A gradual recovery in economic activity is expected to take place from 2021, driven by a rebound in the retail and transport sectors. Nonetheless, the nominal GDP level would still remain lower than anticipated in the last staff report by the end of the forecast horizon.

11. There are large downside risks (Annex II). At the global level, the main risks originate from weaker-than-expected global growth and further spillovers from the COVID-19 pandemic, which would adversely affect Benin's outlook through trade, remittances and FDI channels. At the national level, a larger domestic virus outbreak would hit manufacturing, commerce and transport activities, deteriorate tax revenues, and add further pressure to Benin's external position. The April 2021 presidential election elevates policy implementation risks and may generate public spending pressures. A prolonged closure of the border with Nigeria would take a heavy toll on Benin's exports, growth and fiscal revenues. Unresolved banking sector vulnerabilities may also pose fiscal risks if not handled carefully and in timely manner. At the regional level, a contagion of security risks, which have intensified in neighboring countries, could generate budgetary costs related to security spending and revenue losses.

12. A downside scenario with a larger domestic coronavirus outbreak and a more negative external environment could bring down GDP growth below 2 percent. Given the elevated risks, macroeconomic projections are subject to a high degree of uncertainty. Annex III describes an adverse but not unlikely scenario assuming (i) lower international demand for Benin's exports; (ii) a larger domestic COVID-19 outbreak, which affects negatively domestic consumption and investment; (iii) a sharper decline in capital inflows; and (iv) an extension of the border closure with Nigeria until end-2020. In this scenario, 2020 GDP growth would be revised down to 1.7 percent and the fiscal deficit would surge to 4.5 percent of GDP.[2] The trade deficit would reach around 5 percent of GDP in 2020, while the overall balance would record a deficit of 1.4 percent of GDP.

POLICY DISCUSSIONS

The discussions focused on how macroeconomic and structural policies should adapt to the more difficult environment marked by the combined shocks of the COVID-19 pandemic and the prolonged border closure with Nigeria.

A. Adjusting the 2020 Fiscal Response to the Economic Slowdown and Virus Outbreak

13. Continued fiscal discipline under the program has created fiscal space that the authorities will use to respond to the crisis. In December, the authorities passed an ambitious budget targeting a deficit of 1.8 percent of GDP in 2020, well below the regional ceiling of 3 percent of GDP and the lowest among WAEMU countries. At 41.2 percent of GDP, the 2019 debt ratio stood below the average of SSA countries (50.1 percent of GDP) and the WAEMU (44.5 percent of GDP).

14. The authorities have prepared an emergency package of new measures equivalent to 1.7 percent of GDP to address the emerging health crisis, provide relief to households, and

[2] This negative scenario assumes unchanged fiscal policy—the adequate response is discussed below in the policy section.

support the economy. Within the budget envelope, the authorities have already reallocated some funds towards prevention measures (Text Box I). Their new plan, presented in more detail in Annex IV, is based on a three-pronged strategy:

- *Health response*. The budget envelope for public health expenditure will be increased by 0.7 percent of GDP to allow for the purchase of medical equipment and the construction of temporary health facilities and retention areas for quarantined people.

- *Transfers to households*. One third of the plan will consist of transfers to vulnerable households representing above one quarter of the population. A system of cash wires through mobile banking building on ARCH (the new health insurance system) or channeled through the safety nets component of the World Bank ACCESS project is being considered. [3] If technical constraints prevent its use, the authorities will resort to more traditional forms of transfer, such as food distribution programs and utility bill subsidies. Both cash transfers and subsidies are expected to benefit the formal and informal sectors.

- *Support to impacted businesses*. In addition to some flexibility with tax payment deadlines, targeted and temporary tax exemptions will be provided to businesses most affected by the crisis.

15. Along with the expected revenue shortfall, these new measures would bring the fiscal deficit to 3.5 percent of GDP in 2020. On the revenue side, the projected tax and customs shortfall due to the economic slowdown and the border closure with Nigeria is estimated at 1.1 percent of GDP (under the assumption that the border remains closed until mid-year). On the spending side, the authorities plan to reallocate 0.6 percent of GDP from non-essential goods and services and non-health capital expenditure towards the new priorities of the emergency package estimated at 1.7 percent of GDP. As a result, the 2020 fiscal deficit is revised upward by 1.7 percent of GDP relative to the 5th review (Text Table 1). The increase in the deficit is broadly appropriate given the needs and the available fiscal space. In addition, the higher deficit will not entail a breach of the regional fiscal framework, since the application of the 3 percent of GDP ceiling has been temporarily suspended by the WAEMU Head of States on April 27, 2020 in response to the crisis.

[3] The ACCESS project has supported the development of Benin's National Social Registry, based on a two-stage identification of poor populations through consultation of local communities and proxy means testing (PMT). The first stage is already completed, while the second stage is expected to be finalized this year. At the moment, about 550,000 vulnerable households (representing 29 percent of the population) have been identified, but their number could be revised once the PMT is extended to all Benin's "communes."

Text Table 1. Sources and Financing of the 2020 Fiscal Gap
(Relative to the 5th review report)

		CFAF bn	% of GDP
Sources of the fiscal gap	(1) Emergency response package	150.0	1.7
	of which: Spending measures	110.0	1.3
	of which: Tax measures	40.0	0.5
	(2) Revenue losses due to COVID-19 and border closure	93.0	1.1
	→ Fiscal gap = (1) + (2) = (3)	243.0	2.8
Financing of the fiscal gap	(4) Reallocation of spending and savings within budget	50.7	0.6
	of which: Underexecution of low-priority capital projects[1]	31.0	0.4
	of which: Current expenditure savings	19.7	0.2
	(5) Additional domestic financing relative to budget plan	65.4	0.7
	of which: BOAD[2]	26.0	0.3
	of which: New domestic issuances	39.4	0.4
	(6) Additional external grants[3]	41.9	0.5
	(7) Additional external borrowing at concessional terms from donors[4]	16.9	0.2
	(8) Proposed IMF augmentation and CCRT	68.2	0.8
Note: Higher 2020 fiscal deficit[5]	Higher deficit relative to 5th review = (3)-(4)-(6) [above the line] = (5)+(7)+(8) [below the line]	150.5	1.7

[1] If the authorities gather additional external concessional financing relative to (7), the execution of capex will be adjusted upward accordingly.
[2] Concessional loan and debt service relief in CFAF provided by the regional bank BOAD.
[3] Including the European Union and the World Bank.
[4] Including the Islamic Development Bank (ISDB), the African Development Bank (AFDB), and the World Bank.
[5] Cash basis, including grants.

16. Staff also encouraged the authorities to prepare a contingency plan in case the shocks become more persistent and severe than anticipated under the baseline. Under the downside scenario presented in Annex III (with lower economic growth and longer border closure with Nigeria), the 2020 fiscal deficit would increase further to 4.5 percent of GDP. The debt sustainability assessment (DSA) rating for debt distress would remain moderate in this scenario. However, the government may face financing constraints. In this context, the mission recommended a three-step strategy. First, the authorities should seek additional external financing at concessional terms to cover the higher deficit. Second, if donors' support is insufficient, the authorities could contract additional domestic debt on the regional market (where rates, have, so far, remained moderate since the beginning of the year). Third, if domestic financing at reasonable terms is unavailable, further expenditure rationalization measures could be taken to make space for priority spending. This would entail slowing down further the implementation of capital projects, which may occur anyway if the domestic outbreak halts economic activity.

17. Sound public finance management is paramount in times of reprioritization of public policies. Once the size of the COVID-19 spending is fully assessed, the authorities will, most likely, need to prepare a supplementary budget to maintain budget transparency and ensure that all the new priorities are appropriated in 2020. This will mitigate the risks of off-budget spending and pressures on next year's budget. Moreover, quarterly budget execution reports should highlight the state of implementation of the COVID-19 measures, their main outcomes, and the difficulties encountered. The authorities are also committed to conducting an audit of their response plan next year, which will be independently carried out by the Accounting Chamber and made available to the public on its website. The authorities will also publish the procurement contracts of the main projects, indicating their amount and beneficiaries (see paragraph 10 of the Letter of Intent).

B. Preserving Long-Term Debt Sustainability Amidst Fiscal and Economic Shocks

18. For 2020, the financing of the higher fiscal deficit is expected to rely mostly on additional concessional borrowing and grants. Under the baseline scenario, the additional fiscal deficit is mostly covered by resources brought by developing partners. These resources are currently estimated at 1.8 percent of GDP, out of which 0.8 percent of GDP will come from the IMF (proposed program augmentation and CCRT) and 1.0 percent of GDP from donors (in the form of new loans and grants).[4] The authorities are also reaching out to other donors to gather additional financing. If they succeed to secure more financial support than envisaged in Text Table 1, this will reduce the need for the expenditure reallocations currently envisaged in the projections. In this case, the 2020 fiscal deficit could increase to up to 3.9 percent of GDP.[5]

19. Because the higher fiscal deficit is financed mostly from concessional resources, the risk of debt distress remains moderate, even under adverse scenarios. Compared to the 5th review of the program, the overall debt distress risk rating of the DSA is unchanged at moderate. However, the room to absorb shocks deteriorates from "some space" to "limited space" (see attached DSA report).

20. From 2021 onwards, the authorities plan to revert to the medium-term fiscal path. To preserve fiscal sustainability, the increase in the fiscal deficit should be temporary and reversed after the shocks dissipate. The projections presented in the staff report assume that both shocks (pandemic and border closure with Nigeria) will wear off later this year. Under this assumption, the fiscal deficit should revert to the previous path and remain within the regional deficit ceiling of 3 percent of GDP. Staff also reemphasized the importance of making further progress on revenue mobilization in the medium term, given that Benin lags comparator countries in this area.[6]

21. To stick to their medium-term plan, the authorities may need to take measures to offset the permanent losses of customs revenues. Part of the revenue losses from the border closure with Nigeria are expected to be permanent, even after the border reopens, because of the reduction of informal cross-border trade. Staff advised that compensatory measures be taken to offset these

[4] 1.0 percent of GDP corresponds to the sum of rows (5) (excluding domestic issuances), (6), and (7) in Text Table 1.

[5] As indicated in Text Table 1, the capital expenditure cuts required to close to the financing gap are estimated at 0.4 percent of GDP. If additional financing makes these cuts unnecessary and revenue performs as planned under the baseline scenario, the fiscal deficit would increase from 3.5 to 3.9 percent of GDP.

[6] As in previous reports, the projections are made under unchanged tax policy (with a constant tax ratio over 2021-25). Medium-term fiscal consolidation is assumed to rely on expenditure cuts. But a preferable approach would be to enhance domestic revenue mobilization.

permanent losses, preferably through tax increases and revenue administration measures.[7] Given the large economic slowdown in 2020 and the difficulty to disentangle permanent from temporary revenue shortfalls at the moment, these measures should be calibrated and implemented once the COVID-19 shock is over.

22. In addition, preserving debt sustainability will require that risks arising from future infrastructure projects be actively monitored and managed. More than half of the Government Action Plan projects are expected to be financed by the private sector, mainly in the form of PPPs. A PPP law was enacted in 2016. As of April 2020, no PPP has been signed yet. To ensure that future PPPs do not create excessive risks to public finances, they should be properly reflected in fiscal accounts, and the potential contingent liabilities should be carefully assessed.

C. Making Benin's Growth More Resilient to External Shocks

23. The current crisis is testing the resilience of Benin's growth model. Although Benin's growth potential is elevated (estimated at 6.7 percent in the 2019 Article IV report), the activity is projected to decelerate strongly as a result of the COVID-19 pandemic and the border closure with Nigeria. The crisis will expose and aggravate some vulnerabilities of Benin's growth model. Structural transformation remains limited, with a stable share of the agriculture sector and signs of deindustrialization in the past two decades. On the trade side, diversification and sophistication are relatively low, hampered by the economic reliance on Nigeria and the concentration of exports in traditional products like cotton and cashew nuts. Economic resilience is also hindered by the lack of financial development, with the banking sector suffering from a structurally weak profitability, poor credit quality, and elevated credit concentration.

24. In the short term, the authorities could contemplate additional measures to support economic activity if the situation deteriorates relative to the baseline. The authorities' emergency package already comprises key measures to support economic activity (see paragraph 14). Annex III presents a downside scenario where growth could decelerate by another 1½ percentage point in 2020 (from 3.2 to 1.7 percent), because of a longer border closure with Nigeria and more adverse conditions due to the pandemic. In this case, further measures could be contemplated, such as (i) increasing the size or expanding the coverage of transfers to vulnerable households; (ii) improving access to credit for cash-constrained businesses through guarantees or subsidized loans; (iii) broadening the range of inputs or production factors concerned by cost-based tax incentives; (iv) accelerating government payments to private sector suppliers; and (v) reducing the turnover tax for micro and small enterprises.

25. The impact of the border closure with Nigeria highlights the importance of reducing further the role of informal trade in the Beninese economy. Informal re-exports represent almost half of Benin's exports. The authorities are taking measures to reduce informal activity, including by

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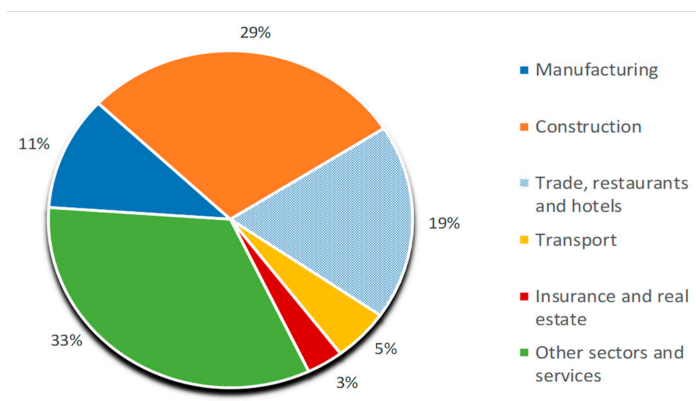
[7] Tables 4 and 5 assume permanent tax losses of 0.2 percent of GDP relative to the 5th review. Compensatory measures could include enhancing the Large Taxpayer Office's audit capacity; collecting more actively tax arrears; enforcing penalties on importers without a tax ID; and curbing VAT tax expenditures.

providing support for businesses entering the formalization process; promoting digitalization of transactions through mobile banking and e-tax services; strengthening risk-based tax compliance; and developing special tax regimes for micro and small enterprises. On the trade side, the mission argued that accelerating the digitalization of trade procedures and simplifying them could reduce trade informality, by enhancing control and making formal transactions less burdensome.

26. Economic resilience will also depend on the banks' ability to weather the crisis and continue providing credit to support domestic demand. While it is difficult to gauge the impact of the crisis on credit growth given the current uncertainty, it should be recognized that the Beninese banking sector has done major efforts to rebuild buffers in the past two years, in the context of the move towards Basel II/III and IFRS9 standards. Most banks have conducted recapitalization plans, with the aggregate capital adequacy exceeding the regulatory minimum at end-June 2019. The cleaning of banks' balance sheets is also advancing, reflected in a significant decline in the share of NPLs.[8] And the formalization of real estate guarantees has been well received by banks, reducing their provisioning needs and generating capital that could be used for credit.[9] To strengthen the financial architecture, the authorities have also made further steps towards the operationalization of the Caisse des Depots et Consignations (CDC), by appointing the board of directors at the end of last year, while providing it with an endowment to start its activities. However, vulnerabilities remain. Banks are significantly exposed to sectors, such as hotels and restaurants, that are likely to be hit hard by containment measures and the slowdown of economic activity (Text Figure 3). In addition, three banks (out of 15), representing 10 percent of the banking system's assets, still fail to meet the capital requirements.[10] The merger of two small public banks is underway, with the plan being sent to the Banking Commission for approval. The third undercapitalized private bank is in the process of raising additional capital from its shareholders. More generally, the mission recommended that all banks

Text Figure 3. Banking Sector Credit Distribution, 2019

(in percent)



Sources: BCEAO

[8] The reduction of NPLs has been supported by a number of measures, including the extension of the credit bureau database in 2019 to the information received from utility companies; and the adoption of the regional accounting plan (operationalized in 2019) mandating banks to write off NPLs older than 5 years.

[9] In April 2019 the authorities adopted a decree facilitating the conversion of occupancy permits into real estate titles that are recognized as collateral by the regulator. This has, so far, led to the formalization of 916 guarantees, corresponding to CFAF 104 billion (1.2 percent of GDP) of underlying collateral. In order to improve the efficiency of public notaries who manage the formalization procedure, the authorities have also launched a digital "e-notary" platform in April 2020, which significantly lowered the cost and length of the conversion process.

[10] These three banks are undercapitalized both in terms of capital adequacy ratio and minimum capital per bank.

continue to apply existing prudential rules, while using the flexibility embedded in the regional framework to support borrowers hit by the pandemic. Banks should report NPLs and potential losses as accurately as possible. And corporate governance could be strengthened in order to mitigate the risk of transmission of localized problems across the banking sector.

27. In the medium term, the growth strategy should remain firmly rooted in the objective of increasing economic diversification. Although the short-term priority is to respond to the cyclical downturn, the authorities are fully aware of the importance of putting in place conditions conducive to the structural transformation of the economy. In staff view, three main strategies—described in further details in the 2019 Article IV report—can support this transformation: (i) further improve the business environment, in particular access to finance, infrastructure quality, and governance; (ii) promote industrial development and move up the quality ladder for agriculture; and (iii) close the large gaps in education and health outcomes.

28. Benin should also continue to enhance governance and the fight against corruption and money laundering. This will bolster medium-growth prospects by improving the country's competitiveness and attractiveness to international investors. More precisely, the authorities should enhance the effectiveness of both the anti-corruption and AML/CFT frameworks:

- *Anti-corruption framework*. In April 2020, the government submitted a draft law to the National Assembly for the creation of the High Commission for the Prevention of Corruption (HCPC). This commission, which will replace the National Anti-Corruption Authority (ANLC), will focus on the aspects of corruption prevention. Further efforts could focus on: (i) updating the 2001 national anti-corruption strategy to enhance the effectiveness of the prevention and enforcement efforts commensurate with the risks; and (ii) ensuring that the declaration of assets for senior officials is in line with international best practices and is effectively implemented. In addition to improving the level of compliance in the submission of declarations[11], the Chamber of Accounts at the Supreme Court should enhance its verification process and the sanctions for non-compliance or false declarations. Access to asset declarations could also be improved.

- *AML/CFT framework*. The mission advised the authorities to keep improving the effective implementation of the AML/CFT standards and address the deficiencies identified in the draft GIABA report (expected to be approved in October 2020).

PROGRAM PERFORMANCE AND MODALITIES

29. Performance through end-December 2019 was satisfactory. All end-December QPCs and the indicative target for priority social spending were met. The authorities have also met all the SBs under review.

[11] Compliance rates range between 60 and 100 percent among senior public officials.

30. Overall performance under the 2017-20 program has been very positive. Annex V reviews the experience over the three years of the ECF arrangement. The authorities have met almost all performance criteria and SBs, and made advances in the areas of fiscal discipline, revenue mobilization and debt management. However, progress has been more uneven for private sector development and public investment management.

31. The authorities have requested a program augmentation. The current ECF arrangement expires in July 2020. Staff proposes an augmentation at the time of this 6th review to meet Benin's fiscal financing needs and related BoP needs. These arise from higher expenditure to contain the virus risk as well as the loss of tax and customs revenues due to the pandemic and the protracted border closure with Nigeria (Text Table 1). Given the tightening of global market conditions, access to external commercial financing is also becoming more difficult. An augmentation of 61.4 percent of quota—corresponding to SDR 76.013 million for the last disbursement—would bring outstanding IMF credit to 173 percent of quota at the end of the program. The proposed augmentation is consistent with applicable normal access limits under an ECF arrangement.

32. Upside risk on financing needs. As shown in Annex III, a further deterioration of the economic environment could increase the tax revenue shortfall. Also, the fiscal deficit is supposed to be partly covered by issuances on the domestic debt market, which may become more difficult in the near future. Therefore, financing needs could prove challenging to fill, especially if downside risks materialize. In this context, staff's view is that the authorities could address this in part by seeking additional Fund support.

33. Catastrophe Containment and Relief Trust (CCRT). On April 13, 2020, Benin, like 24 other countries, was granted relief on its debt service to the IMF over April-October 2020, amounting to SDR 7.4 million (CFAF 6.4 billion), as part of the IMF response to the crisis and the enhancement to its CCRT.

34. Successor arrangement. The authorities have expressed interest in continuing their medium-term collaboration with the IMF after the current program expires (see attached Letter of Intent). The mission discussed available options to signal commitment to reforms and catalyze financing from other sources. The discussions will continue later this year to identify the most appropriate form of engagement with the Fund.

35. Financing assurances. The program is fully financed until the end of the arrangement (July 2020). Expenditure reallocation, domestic financing, and external grants helped reduce the residual gap, which was closed with additional donor support, as shown in Tables 4 and 5.

36. Capacity to repay the Fund. Benin's capacity is assessed to be adequate. The country has a track record of meeting its obligations to the Fund. At end-April 2020, outstanding Fund credit (including the GRA) was around 98.6 percent of quota or SDR 122.03 million. Debt service payments to the Fund will remain manageable, with obligations peaking in 2020 at 1 percent of government revenue.

37. Safeguard assessment. The BCEAO has only one recommendation outstanding from the 2018 safeguards assessment. This recommendation relates to the strengthening of the risk management function, which is in process. The assessment found that overall the central bank has maintained a strong control culture.

STAFF APPRAISAL

38. The strong growth momentum has been halted by the health and economic crisis. Benin's growth reached almost 7 percent in 2019, driven by the construction and manufacturing sectors. In 2020, economic activity is expected to decelerate to 3.2 percent, as result of the pandemic. The macroeconomic projections are subject to a high degree of uncertainty given the rapidly evolving impacts of the COVID-19. If the pandemic persists and spreads further, the 2020 macroeconomic performance may worsen even more.

39. Staff welcomes the authorities' ambitious plan to respond to the COVID-19 pandemic. The plan will raise healthcare spending, grant cash transfers to vulnerable households, and provide support to impacted businesses. The 2020 fiscal deficit is forecast to widen to 3.5 percent of GDP to accommodate the new measures and the revenue shortfall. Although its financing will rely mostly on greater financial support from donors, the authorities also plan to reallocate, within the budget, spending from less urgent projects towards new priorities defined by the response plan.

40. Sound public finance management and transparency are paramount in times of sizeable reprioritization of public policies. Once the size of the COVID-19 spending is fully assessed, the authorities will, most likely, need to prepare a supplementary budget to maintain budget transparency. Careful monitoring and ex-post audit of the execution of the new measures will strengthen accountability and ensure that the additional funds are spent as intended. The mission also welcomes the authorities' commitment to publish next year's audit of the response plan as well as the procurement documents for the main projects.

41. Once the shocks wear off, the authorities should revert to their medium-term fiscal path, by maintaining the fiscal deficit below the regional ceiling. This will ensure that the crisis does not jeopardize fiscal sustainability. On the economic reform front, the authorities' efforts to modernize the Beninese economy should be pursued, with special emphasis on the diversification of the economic structure, the improvement of the business environment, and the strengthening of the banking sector.

42. Staff commends the authorities' very satisfactory performance under the Fund-supported program. All QPCs at end-December 2019 and the SBs under review were met. Data received so far shows that the continuous PCs continue to be observed. More generally, over the three-year program, all semi-annual QPCs and most SBs have been met. The fiscal deficit ratio declined sharply from 4.4 percent of rebased GDP in 2016 (before the program started) to 0.5 percent of GDP in 2019. The sound policies conducted under the program have cemented Benin's credibility with international investors, allowing the country to issue its first Eurobond in March 2019 and bringing it closer to the frontier market status.

43. Staff supports the authorities' request for completion of the sixth review of the ECF-supported program and augmentation of access. The augmentation will help the authorities address the human and economic implications of the COVID-19 pandemic. The capacity to repay the Fund is adequate.

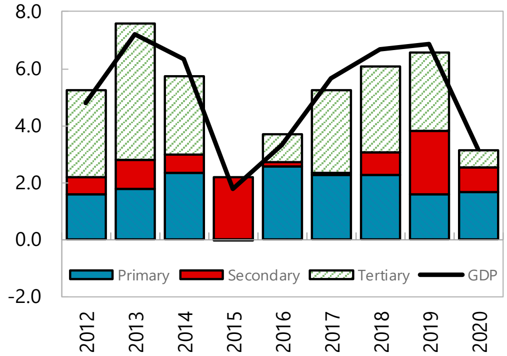
44. Staff also recommends that Benin be placed on the standard 12-month cycle for Article IV Consultations.

Figure 1. Benin: Recent Developments, 2012-20

Growth, primary driven by the tertiary sector over 2016-19, will decelerate in 2020 as COVID-19 shock negatively impacts the secondary and tertiary sectors.

Contribution to GDP Growth

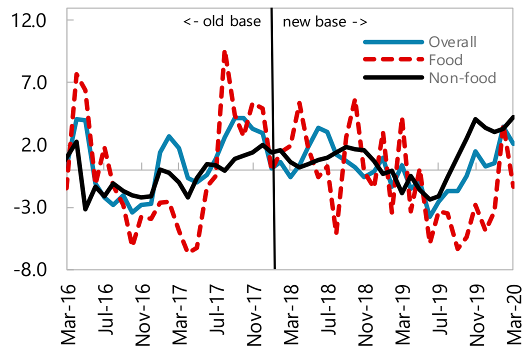
(Percent)



Inflation remained subdued over 2016-19.

Inflation

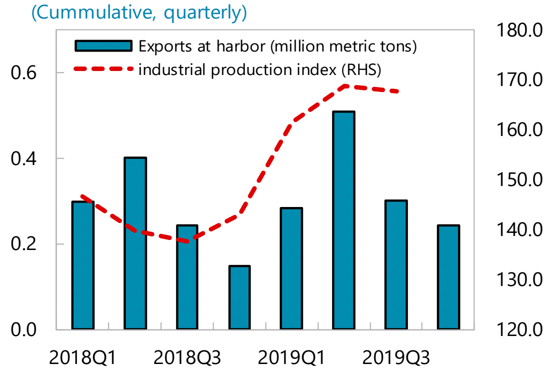
(CPI, annual percentage change)



Port activity has contracted in the second half of 2019.

Economic Activity

(Cummulative, quarterly)

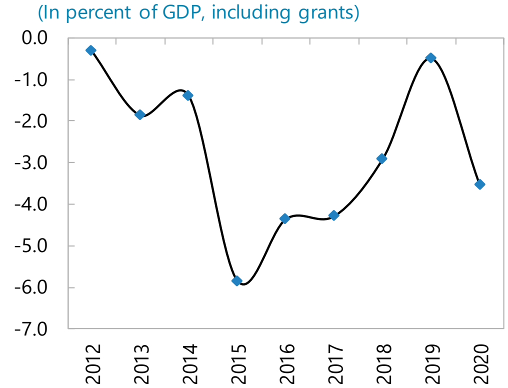


Note: 2019Q4 data is not available for industrial production index.

The fiscal deficit has narrowed significantly under the program, and is expected to widen in 2020 due to the COVID-19 shock.

Overall Fiscal Balance

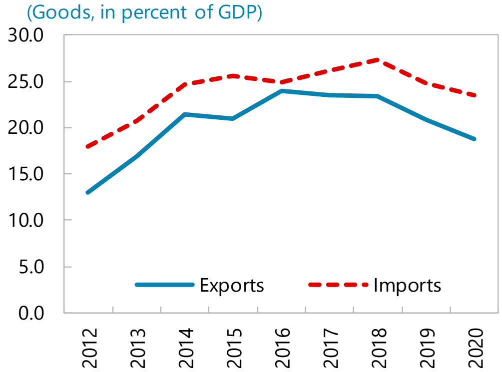
(In percent of GDP, including grants)



Structurally higher imports...

International Trade

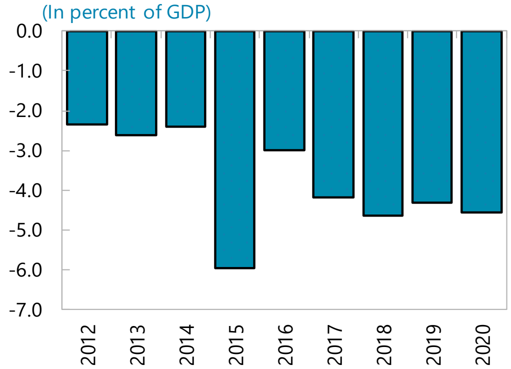
(Goods, in percent of GDP)



...led to a deterioration of the current account deficit.

Current Account Balance

(In percent of GDP)

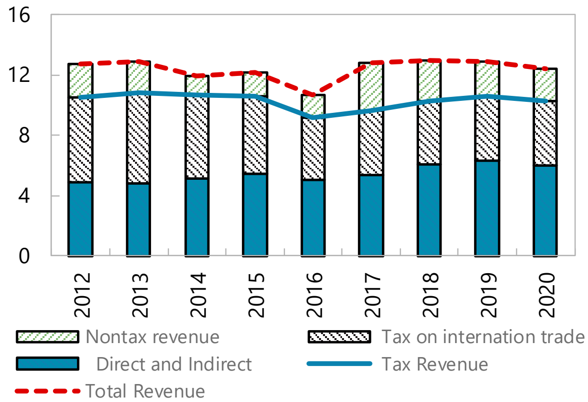


Sources: Beninese authorities and IMF staff calculations.

Figure 2. Benin: Fiscal Developments and Projections, 2012-20

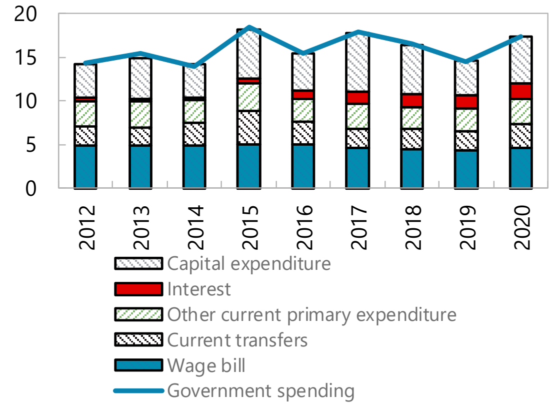
Tax revenues are expected to be negatively impacted by the COVID-19 shock...

Revenue
(percent of GDP)



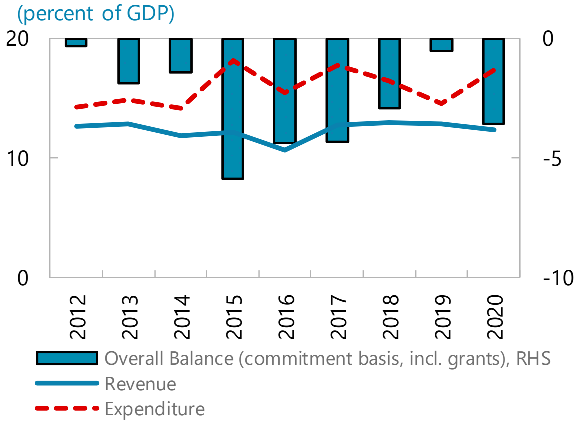
...which, combined with an anticipated increase in expenditure in 2020...

Expenditure
(percent of GDP)



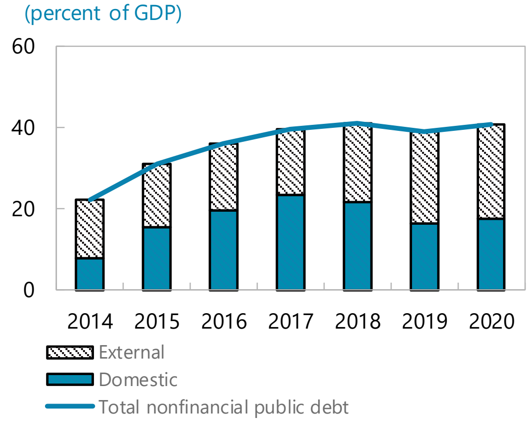
...is expected to worsen the fiscal position in 2020.

Overall fiscal deficit
(percent of GDP)



Government debt is expected to peak in 2020.

Total Government Debt
(percent of GDP)

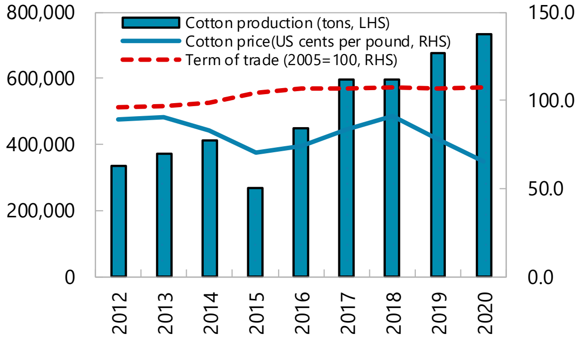


Sources: Beninese authorities and IMF staff calculations.

Figure 3. Benin Real and External Sector Developments, 2012-20

Cotton production rose in recent years...

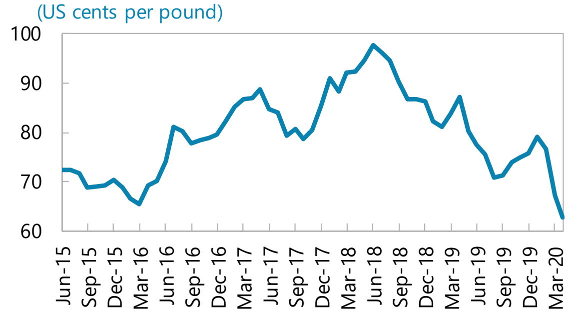
Cotton Production and Price



... but prices have declined since the second half of 2018.

International Cotton Prices

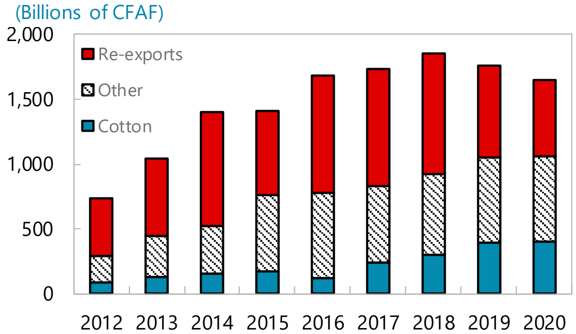
(US cents per pound)



Total exports peaked in 2018.

Composition of Exports

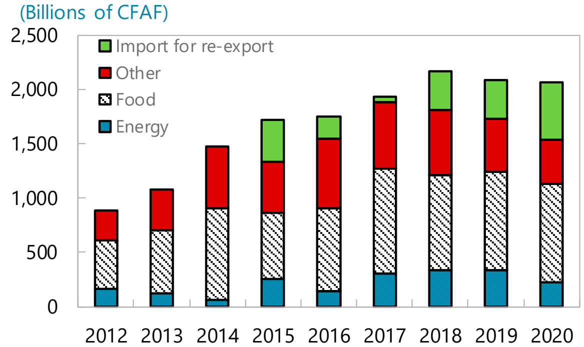
(Billions of CFAF)



... and so did imports.

Composition of Imports

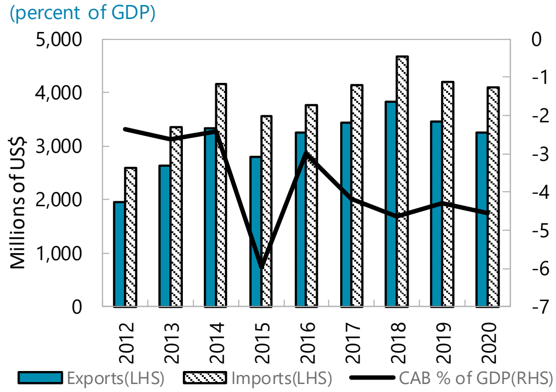
(Billions of CFAF)



The current account has deteriorated since 2017.

Current Account Balance

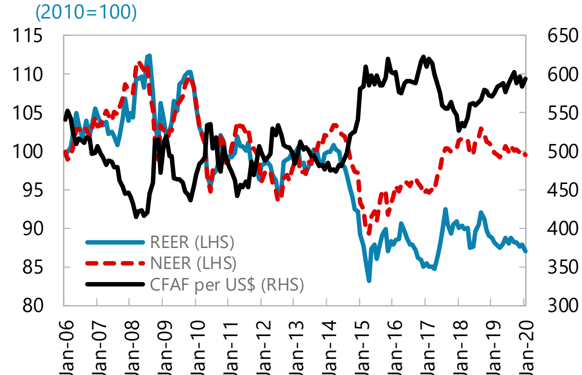
(percent of GDP)



While the CFA franc continued to depreciate against the US dollar since 2018, the real effective exchange rate remained broadly stable.

Exchange Rates

(2010=100)



Sources: Beninese authorities and IMF staff calculations.

Table 1. Benin: Quantitative Performance Criteria and Indicative Targets, 2019 [1]

	March 31, 2019			June 30, 2019			September 30, 2019			December 31, 2019			
	Indicative Targets			Performance Criteria			Indicative Targets			Performance Criteria			
	Prog.	Prel.	Status	Prog.	Prel.	Status	Prog.	Prel.	Status	Prog.	Adjusted[4]	Prel.	Status
A. Quantitative performance criteria[2]													
Net domestic financing of the government (ceiling)[3]	15.0	27.6	Not Met	-38.0	-50.4	Met	-158.5	-68.0	Not Met	-289.0	-282.8	-302.9	Met
Basic primary balance (excluding grants) (floor)	15.6	-0.3	Not Met	44.5	50.7	Met	47.7	15.9	Not Met	101.7	71.7	93.5	Met
Total revenue (floor)	235.1	250.2	Met	505.5	522.8	Met	762.5	779.6	Met	1,112.4	1,082.4	1,088.0	Met
B. Continuous quantitative performance criteria (ceilings)													
Accumulation of external payments arrears	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0	Met
Accumulation of domestic payments arrears	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0	Met
Contracts by the government for the prefinancing of public investments projects	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0	Met
Ceiling on the present value of new external debt contracted or guaranteed by the government	468.9	458.0	Met	797.0	458.0	Met	797.0	797.0	Met	797.0		797.0	Met
C. Memorandum Items[2]													
Priority social expenditure (floor)	37.2	38.2	Met	82.5	84.3	Met	140.7	137.1	Not Met	180.0		192.0	Met
Budgetary assistance	0.0	3.9		3.9	3.9			3.9		45.4		64.2	

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] 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 unless it is used to reduce domestic payment arrears.

[4] Adjustors are applied to the end-December 2019 QPCs on revenue, basic primary balance, and net domestic financing to account for the effect of the border closure with Nigeria (see TMU).

Table 2. Benin: Structural Benchmarks for 2018-20

Measures	Dates	Rationale	Status
Submit a 2019 budget that is consistent with the ECF-supported program to the parliamentary commission for consideration.	**Prior action for Third Review**	Preserve fiscal sustainability.	Met
Government should submit a 2020 budget consistent with the ECF-supported program to the parliamentary commission.	**Prior action for Fifth Review**	Preserve fiscal sustainability.	Met
Revenue mobilization			
Limit the granting of special conventions outside the investment code to exceptional cases after decision by the Council of Ministers.	June 2018 (continuous thereafter)	Boost revenue collection.	Met
Implement a plan to strengthen tax compliance.	June 2018	Boost tax revenues by improving tax compliance-risk management.	Met
The 2019 adopted budget eliminates tax expenditures equivalent to CFAF 60 billion.	December 2018	Boost tax revenues.	Met
The Ministry of Finance implements the system of control and verification of the investments envisaged under the frameworks of the code of investment and the special economic zones.	November 2019	Rationalize exemptions and fight tax fraud.	Met
Strengthen the research and statistics office within the customs administration by staffing it with statistics personnel with a view to improving risk analysis, the monitoring of exemptions, and fraud detection.	December 2019	Improve customs revenues and fight customs fraud.	Met

Table 2. Benin: Structural Benchmarks for 2018-20 (continued)

Measures	Dates	Rationale	Status
Adopt a 2020 budget that includes a tax package with revenue-raising measures equivalent to CFAF 45 billion.	December 2019	Foster revenue mobilization.	Met
Public financial management			
Prepare and adopt in the Council of Ministers a plan for the reorganization and professionalization of the administrative control bodies of the State.	June 2018	Improve economic governance.	Met
Prepare monthly cash flow forecasting plans and comprehensive quarterly budget performance evaluations.	June 2018	Improve budget information.	Met
Adopt a comprehensive and high-level regulatory text for public investment, as agreed under the PIMA evaluation.	September 2018	Improve public investment management and help identify governance weaknesses.	Not met (implemented in November 2018)
Prepare an updated audit of the stock of past debt due by the government to domestic suppliers at end of December 2018.[1]	January 2019	Enhance fiscal transparency.	Met
Perform an impact assessment of the transfer of government deposits from commercial banks to the Treasury Single Account.	March 2020	Reduce fiscal and financial risks.	Met

[1]The unpaid services to suppliers were inherited from the previous governments.

Table 2. Benin: Structural Benchmarks for 2018-20 (concluded)

Measures	Dates	Rationale	Status
Financial Inclusion			
The Ministry of Finance should establish a credit bureau.	December 2018	Improve crisis management.	Met
The Ministry of Finance should adopt a decision to strengthen the implementation of the regulatory framework for the licensing and supervision of microfinance institutions.	December 2018	Promote financial inclusion.	Met
State-owned enterprises reform			
Complete the data collection of SOEs' debt and operationalize the monitoring framework.	September 2018	Better monitor contingent liabilities and improve public debt management.	Met
Set performance contracts with key SOEs.	December 2018	Improve SOEs' contribution to government revenues.	Met
Trade			
Perform a diagnostic assessment of the main trade barriers, based on the framework used for the notification stage of the WTO Trade Facilitation Agreement.	September 2019	Facilitate trade.	Met

Table 3. Benin: Selected Economic and Financial Indicators, 2018-25

	2018	2019		2020		2021	2022	2023	2024	2025
	Est.	EBS/19/103	Est.	EBS/19/103	Proj.	Projections				
National income and prices				(Annual percentage change)						
Real GDP	6.7	6.4	6.9	6.7	3.2	6.0	7.0	7.0	6.7	6.7
Nominal GDP	7.3	5.6	6.5	8.0	4.2	7.9	9.1	9.4	8.8	8.7
GDP deflator	0.6	-0.8	-0.3	1.2	1.0	1.8	2.0	2.2	2.0	1.8
Consumer price inflation (average)	0.8	-0.6	-0.9	1.0	0.6	1.3	2.0	2.0	2.0	2.0
Consumer price inflation (end of period)	-0.1	1.8	0.3	1.9	0.6	1.3	2.0	2.0	2.0	2.0
External sector										
Terms of trade (minus = deterioration)	0.5	0.8	-0.8	0.0	0.9	1.7	-0.4	0.4	-0.3	-0.8
Real effective exchange rate (minus = deterioration)	1.9	...	-1.9	...	...	...	...	...	...	...
Money and credit										
Credit to the government	-39.7	1.6	-269.9	7.6	-30.8	...	...	...	...	...
Credit to the private sector	8.5	9.0	11.9	10.1	2.2	...	...	...	...	...
Broad money (M2)	4.8	5.6	4.8	8.0	4.2	...	...	...	...	...
Central government finance				(Percent of GDP, unless otherwise indicated)						
Total revenue	13.0	13.3	12.9	13.5	12.4	13.3	13.3	13.3	13.3	13.3
of which: Tax revenue	*10.3*	*11.2*	*10.6*	*11.4*	*10.3*	*11.2*	*11.2*	*11.2*	*11.2*	*11.2*
Grants	0.6	1.1	1.2	1.0	1.5	1.0	1.0	1.0	1.0	1.0
Total expenditure and net lending	16.5	16.7	14.6	16.3	17.4	17.2	16.9	16.6	16.3	16.1
Overall balance (commitment basis, including grants)	-2.9	-2.3	-0.5	-1.8	-3.5	-3.0	-2.7	-2.4	-2.0	-1.8
Overall balance (cash basis, including grants)	-3.0	-2.2	-0.6	-2.0	-3.7	-3.1	-2.8	-2.5	-2.1	-1.9
External sector										
Balance of goods and services[1]	-5.9	-7.5	-5.2	-6.8	-5.7	-4.8	-4.9	-4.8	-4.7	-4.7
Exports of goods and services[1]	26.9	14.0	24.0	14.7	21.8	25.2	24.7	24.7	24.7	24.7
Imports of goods and services[1]	-32.8	-19.9	-29.2	-20.0	-27.5	-30.0	-29.7	-29.5	-29.4	-29.3
Current account balance, including official transfers[1]	-4.6	-4.9	-4.3	-4.7	-4.6	-4.5	-4.5	-4.3	-4.0	-3.9
Overall balance of payments[1 2]	2.4	4.2	0.5	3.1	-0.5	0.1	0.1	0.1	-0.6	-0.5
Public debt (end period)[3]										
Total public debt	41.1	41.1	41.2	40.1	43.3	42.2	40.4	38.4	36.6	34.9
External public debt	19.4	24.3	24.0	23.3	25.1	24.3	23.4	22.5	21.2	20.0
Domestic public debt	21.7	16.9	17.3	16.7	18.3	17.9	17.1	15.9	15.3	14.9
Memorandum items										
Nominal GDP (CFAF billions)	7,916	8,368	8,432	9,036	8,784	9,477	10,340	11,313	12,312	13,380
Nominal GDP (US$ billions)	14.3	14.3	14.4	15.4	14.9	...	...	...	...	...
Nominal GDP per capita (US$)	1,240.8	1,213.0	1,218.2	1,271.0	1,228.7	...	...	...	...	...
US$ exchange rate (average)	555.2	584.1	585.9	585.4	588.5	...	...	...	...	...
International price of cotton (Cotlook "A" Index, U.S. cents a lb.)	91.4	76.8	77.9	73.3	69.9	70.6	70.4	70.4	70.4	70.4
International price of oil (U.S. dollars a barrel)	68.3	60.5	61.4	55.5	39.1	40.3	44.1	46.9	48.8	50.1

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

[1] Includes re-exports and imports for re-export, except for EBS/19/398 for which re-export activities are recorded in current transfers.

[2] In 2024 and 2025, the decline in the overall balance of payments reflects the first repayment of the 2019 eurobond.

[3] The GDP rebasing published in 2019 revised down the public debt ratio by about 15 percentage points (see Annex I of IMF Country Report No. 19/398).

Table 4. Benin: Consolidated Central Government Operations, 2018-25
(CFAF billion)

	2018	2019		2020		2021	2022	2023	2024	2025
		EBS/ 19/103	Est.	EBS/ 19/103	Proj.	Projections				
Total revenue and grants	**1,075.8**	**1,205.2**	**1,185.7**	**1,307.8**	**1,216.7**	**1,353.5**	**1,476.8**	**1,615.8**	**1,758.5**	**1,910.9**
Total revenue	1,028.6	1,112.4	1,088.0	1,220.0	1,087.0	1,261.7	1,376.6	1,506.2	1,639.2	1,781.3
Tax revenue	811.4	935.6	893.3	1,030.0	900.6	1,060.7	1,157.3	1,266.2	1,378.0	1,497.5
Tax on international trade	331.9	412.1	358.0	444.0	371.3	446.4	487.1	532.9	580.0	630.3
Direct and indirect taxes	479.4	523.4	535.3	586.0	529.3	614.2	670.2	733.2	798.0	867.2
Nontax revenue	217.2	176.8	194.8	190.0	186.3	201.0	219.4	240.0	261.2	283.8
Grants	47.2	92.8	97.7	87.8	129.7	91.8	100.2	109.6	119.3	129.6
Project grants	31.2	67.5	66.8	74.0	74.0	77.4	84.4	92.4	100.5	109.3
Budgetary grants	16.0	25.3	30.8	13.8	55.7	14.4	15.7	17.2	18.8	20.4
Total expenditure and net lending	**1,305.9**	**1,395.7**	**1,227.3**	**1,469.2**	**1,528.5**	**1,634.1**	**1,750.9**	**1,883.0**	**2,009.6**	**2,153.1**
Current expenditure	857.8	944.2	900.8	969.2	1,059.5	1,116.2	1,196.1	1,287.3	1,373.7	1,448.6
Current primary expenditure	731.8	790.3	766.2	806.9	897.2	905.5	967.3	1,035.7	1,127.2	1,224.9
Wage bill	356.7	397.7	369.7	405.9	405.9	437.9	477.8	522.7	568.9	618.2
Pensions and scholarships	92.2	99.3	90.5	103.0	103.0	111.1	121.3	132.7	144.4	156.9
Current transfers	179.4	173.1	180.9	186.5	236.5	236.2	237.0	236.7	257.6	279.9
Expenditure on goods and services[1]	103.6	120.2	125.1	111.5	151.8	120.3	131.3	143.6	156.3	169.8
Interest	126.0	153.9	134.6	162.3	162.3	210.7	228.8	251.6	246.5	223.7
Domestic debt	108.8	121.9	106.8	123.4	123.4	130.9	146.0	165.3	167.5	141.2
External debt	17.1	32.0	27.8	38.9	38.9	79.8	82.8	86.4	79.1	82.6
Capital expenditure	445.6	451.5	330.4	500.0	469.0	517.9	554.8	595.7	636.0	704.5
Financed by domestic resources	279.1	220.4	228.3	285.8	254.8	293.9	310.3	328.2	344.9	388.2
Financed by external resources	166.5	231.1	102.1	214.2	214.2	224.0	244.4	267.4	291.0	316.3
Net lending	2.5	0.0	-3.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment basis, incl. grants)[1]	**-230.1**	**-190.5**	**-41.6**	**-161.4**	**-311.8**	**-280.6**	**-274.0**	**-267.2**	**-251.2**	**-242.2**
Primary balance [2]	-151.4	-129.4	-4.6	-86.9	-279.2	-161.8	-145.5	-125.2	-124.0	-148.1
Basic primary balance [3]	17.6	101.7	93.5	127.4	-65.0	62.3	99.0	142.2	167.1	168.2
Change in arrears	-0.4	9.1	0.0	-16.4	-16.4	-16.4	-16.4	-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
Domestic debt (net)	-0.4	9.1	0.0	-16.4	-16.4	-16.4	-16.4	-10.0	-10.0	-10.0
of which: net change in arrears stock [1]	…	*19.1*	*19.1*	*-6.4*	*-6.4*	*-6.4*	*-6.4*	*0.0*	*0.0*	*0.0*
Float	-3.7	0.0	-7.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis, incl. grants)	**-234.2**	**-181.4**	**-48.9**	**-177.7**	**-328.2**	**-297.0**	**-290.4**	**-277.2**	**-261.2**	**-252.2**
Financing	**234.2**	**181.4**	**48.9**	**177.7**	**328.2**	**297.0**	**290.4**	**277.2**	**261.2**	**252.2**
Domestic financing	-51.4	-289.0	-302.9	74.5	114.3	196.9	180.2	153.4	233.1	208.9
Bank financing	-57.1	13.8	-14.0	23.7	63.5	141.7	119.9	87.5	161.4	131.0
Net use of IMF resources	14.1	11.9	14.5	1.4	1.8	-9.4	-7.3	-8.6	-11.1	-22.9
Disbursements	*23.0*	*24.4*	*25.7*	*12.5*	*12.9*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Repayments	*-8.8*	*-12.5*	*-11.2*	*-11.1*	*-11.2*	*-9.4*	*-7.3*	*-8.6*	*-11.1*	*-22.9*
Other [4]	-71.2	1.9	-28.5	22.3	61.7	151.2	127.2	96.0	172.5	153.8
Nonbank and regional financing	5.7	-302.8	-288.9	50.8	50.8	55.2	60.3	65.9	71.7	78.0
Privatization	-8.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring	-1.7	-2.0	18.2	-2.0	-2.0	0.0	0.0	0.0	0.0	0.0
Other [5]	15.4	-300.8	-307.1	52.8	52.8	55.2	60.3	65.9	71.7	78.0
External financing	285.5	470.4	351.9	103.2	103.2	100.0	110.2	123.8	28.0	43.2
Project financing	135.3	163.6	35.2	140.2	140.2	146.6	160.0	175.0	190.5	207.0
Budgetary assistance	179.0	20.1	33.3	34.2	34.2	35.8	39.0	42.7	45.2	49.2
Eurobond issuance	0.0	325.0	325.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization due	-28.8	-38.2	-41.7	-71.2	-71.2	-82.4	-88.8	-93.9	-207.7	-212.9
Financing gap				0.0	110.7	0.0	0.0	0.0	0.0	0.0
Of which: ECF-supported arrangement augmentation and CCRT[6]				0.0	67.8	0.0	0.0	0.0	0.0	0.0
Of which: other donors' financing[7]				0.0	42.9	0.0	0.0	0.0	0.0	0.0
Memorandum items: additional financing relative to the 5th review (EBS/19/398)					**192.4**					
Additional domestic issuances on the regional market					39.4					
Additional external grants					41.9					
Additional external borrowing at concessional terms from donors[7]					42.9					
ECF-supported arrangement augmentation and CCRT[8]					68.2					
Nominal GDP	7,916	8,368	8,432	9,036	8,784	9,477	10,340	11,313	12,312	13,380

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

[1] For 2019, arrears to suppliers of CFAF 19.1 billion are included in expenditure and deficit (see IMF Country report 19/203). Arrears were accumulated before 2016 and recognized in 2019.

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

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

[4] Includes financing by Beninese banks.

[5] Includes financing by regional commercial banks.

[6] Includes the ECF-supported arrangement augmentation of CFAF 61.8 billion and the IMF debt service relief of CFAF 6 billion from the Catastrophe Containment and Relief Trust (CCRT) approved on April 13, 2020, corresponding to the period of April 14-October 13, 2020.

[7] Includes financing in CFAF from the West African Development Bank (BOAD).

[8] Of which CFAF 67.8 billion are related to the ECF augmentation and CCRT; and CFAF 0.4 billion is due to the change in the exchange rate assumptions relative to the 5th review for 2020.

Table 5. Benin: Consolidated Central Government Operations, 2018-25

(Percent of GDP)

	2018	2019		2020		2021	2022	2023	2024	2025
		EBS/ 19/103	Est.	EBS/ 19/103	Proj.	Projections				
Total revenue and grants	**13.6**	**14.4**	**14.1**	**14.5**	**13.9**	**14.3**	**14.3**	**14.3**	**14.3**	**14.3**
Total revenue	13.0	13.3	12.9	13.5	12.4	13.3	13.3	13.3	13.3	13.3
Tax revenue	10.3	11.2	10.6	11.4	10.3	11.2	11.2	11.2	11.2	11.2
Tax on international trade	4.2	4.9	4.2	4.9	4.2	4.7	4.7	4.7	4.7	4.7
Direct and indirect taxes	6.1	6.3	6.3	6.5	6.0	6.5	6.5	6.5	6.5	6.5
Nontax revenue	2.7	2.1	2.3	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Grants	0.6	1.1	1.2	1.0	1.5	1.0	1.0	1.0	1.0	1.0
Project grants	0.4	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Budgetary grants	0.2	0.3	0.4	0.2	0.6	0.2	0.2	0.2	0.2	0.2
Total expenditure and net lending	**16.5**	**16.7**	**14.6**	**16.3**	**17.4**	**17.2**	**16.9**	**16.6**	**16.3**	**16.1**
Current expenditure	10.8	11.3	10.7	10.7	12.1	11.8	11.6	11.4	11.2	10.8
Current primary expenditure	9.2	9.4	9.1	8.9	10.2	9.6	9.4	9.2	9.2	9.2
Wage bill	4.5	4.8	4.4	4.5	4.6	4.6	4.6	4.6	4.6	4.6
Pensions and scholarships	1.2	1.2	1.1	1.1	1.2	1.2	1.2	1.2	1.2	1.2
Current transfers	2.3	2.1	2.1	2.1	2.7	2.5	2.3	2.1	2.1	2.1
Expenditure on goods and services[1]	1.3	1.4	1.5	1.2	1.7	1.3	1.3	1.3	1.3	1.3
Interest	1.6	1.8	1.6	1.8	1.8	2.2	2.2	2.2	2.0	1.7
Domestic debt	1.4	1.5	1.3	1.4	1.4	1.4	1.4	1.5	1.4	1.1
External debt	0.2	0.4	0.3	0.4	0.4	0.8	0.8	0.8	0.6	0.6
Capital expenditure	5.6	5.4	3.9	5.5	5.3	5.5	5.4	5.3	5.2	5.3
Financed by domestic resources	3.5	2.6	2.7	3.2	2.9	3.1	3.0	2.9	2.8	2.9
Financed by external resources	2.1	2.8	1.2	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Net lending	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)[1]	**-2.9**	**-2.3**	**-0.5**	**-1.8**	**-3.5**	**-3.0**	**-2.7**	**-2.4**	**-2.0**	**-1.8**
Primary balance [2]	-1.9	-1.5	-0.1	-1.0	-3.2	-1.7	-1.4	-1.1	-1.0	-1.1
Basic primary balance [3]	0.2	1.2	1.1	1.4	-0.7	0.7	1.0	1.3	1.4	1.3
Change in arrears	0.0	0.1	0.0	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	0.0	0.1	0.0	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1
of which: net change in arrears stock [1]	…	*0.2*	*0.2*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*0.0*	*0.0*	*0.0*
Float	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis, incl. grants)	**-3.0**	**-2.2**	**-0.6**	**-2.0**	**-3.7**	**-3.1**	**-2.8**	**-2.5**	**-2.1**	**-1.9**
Financing	**3.0**	**2.2**	**0.6**	**2.0**	**3.7**	**3.1**	**2.8**	**2.5**	**2.1**	**1.9**
Domestic financing	-0.6	-3.5	-3.6	0.8	1.3	2.1	1.7	1.4	1.9	1.6
Bank financing	-0.7	0.2	-0.2	0.3	0.7	1.5	1.2	0.8	1.3	1.0
Net use of IMF resources	0.2	0.1	0.2	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.2
Disbursements	0.3	0.3	0.3	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Repayments	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2
Other [4]	-0.9	0.0	-0.3	0.2	0.7	1.6	1.2	0.8	1.4	1.1
Nonbank and regional financing	0.1	-3.6	-3.4	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Privatization	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other [5]	0.2	-3.6	-3.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
External financing	3.6	5.6	4.2	1.1	1.2	1.1	1.1	1.1	0.2	0.3
Project financing	1.7	2.0	0.4	1.6	1.6	1.5	1.5	1.5	1.5	1.5
Budgetary assistance	2.3	0.2	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Eurobond issuance	0.0	3.9	3.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization due	-0.4	-0.5	-0.5	-0.8	-0.8	-0.9	-0.9	-0.8	-1.7	-1.6
Financing gap				0.0	1.3	0.0	0.0	0.0	0.0	0.0
Of which: ECF-supported arrangement augmentation and CCRT[6]				0.0	0.8	0.0	0.0	0.0	0.0	0.0
Of which: other donors' financing[7]				0.0	0.5	0.0	0.0	0.0	0.0	0.0
Memorandum items: additional financing relative to the 5th review (EBS/19/398)					**2.2**					
Additional domestic issuances on the regional market					0.4					
Additional external grants					0.5					
Additional external borrowing at concessional terms from donors[7]					0.5					
ECF-supported arrangement augmentation and CCRT[8]					0.8					
Nominal GDP	7,916	8,368	8,432	9,036	8,784	9,477	10,340	11,313	12,312	13,380

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

[1] For 2019, arrears to suppliers of CFAF 19.1 billion are included in expenditure and deficit (see IMF Country report 19/203). Arrears were accumulated before 2016 and recognized in 2019.

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

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

[4] Includes financing by Beninese banks.

[5] Includes financing by regional commercial banks.

[6] Includes the ECF-supported arrangement augmentation of CFAF 61.8 billion and the IMF debt service relief of CFAF 6 billion from the Catastrophe Containment and Relief Trust (CCRT) approved on April 13,

[7] Includes financing in CFAF from the West African Development Bank (BOAD).

[8] Of which CFAF 67.8 billion are related to the ECF augmentation and CCRT; and CFAF 0.4 billion is due to the change in the exchange rate assumptions relative to the 5th review for 2020.

Table 6. Benin: Balance of Payments, 2018-25

(CFAF billion)

	2018	2019		2020		2021	2022	2023	2024	2025
		EBS/19/103	Est.	EBS/19/103	Proj.	Projections				
Current account balance	**-367.6**	**-410.5**	**-363.0**	**-424.2**	**-400.1**	**-423.9**	**-462.4**	**-481.8**	**-492.8**	**-520.1**
Current account balance (excl. grants)	-383.6	-435.8	-393.8	-449.5	-455.8	-438.4	-478.2	-499.1	-511.5	-540.5
Trade balance[1]	-315.8	-489.3	-328.2	-477.2	-415.9	-318.7	-365.4	-391.7	-419.8	-454.4
Exports, f.o.b.[1]	1850.4	1175.3	1757.3	1329.3	1647.9	2076.0	2219.9	2432.1	2647.0	2876.5
Cotton and textiles	*300.2*	*424.4*	*391.5*	*578.4*	*406.2*	*446.2*	*487.4*	*534.8*	*587.1*	*632.8*
Re-exports	*928.6*	…	*708.0*	…	*584.0*	*900.0*	*941.4*	*987.3*	*1042.7*	*1110.8*
Other	*621.6*	*750.9*	*657.7*	*750.9*	*657.7*	*729.7*	*791.1*	*910.0*	*1017.1*	*1132.9*
Imports, f.o.b.[1]	-2166.2	-1664.6	-2085.4	-1806.5	-2063.9	-2394.6	-2585.4	-2823.9	-3066.8	-3330.8
Services (net)	-147.4	-142.2	-107.6	-140.9	-85.0	-139.3	-144.8	-150.9	-158.7	-168.5
Income (net)	-30.6	-59.5	-39.2	-68.1	-50.7	-92.5	-96.7	-101.6	-95.6	-100.5
Current transfers (net)[2]	126.3	280.5	111.9	262.0	151.5	126.5	144.5	162.4	181.3	203.3
Private transfers	67.5	55.3	81.1	73.8	95.8	112.1	128.7	145.1	162.6	182.9
Public transfers	58.8	225.3	30.8	188.2	55.7	14.4	15.7	17.2	18.8	20.4
Capital account balance	**109.1**	**67.5**	**147.4**	**74.0**	**155.2**	**161.0**	**170.9**	**181.9**	**193.4**	**205.5**
Financial account balance	**444.7**	**696.2**	**261.2**	**631.5**	**196.6**	**275.3**	**302.5**	**308.7**	**227.6**	**253.9**
Medium- and long-term public capital	285.5	149.4	26.9	139.8	120.1	100.0	110.2	123.8	28.0	43.2
Disbursements	314.3	187.7	68.6	211.0	191.3	182.4	199.0	217.7	235.7	256.2
Project loans	*135.3*	*167.6*	*35.2*	*176.8*	*140.2*	*146.6*	*160.0*	*175.0*	*190.5*	*207.0*
Budgetary assistance loans	*179.0*	*20.1*	*33.3*	*34.2*	*51.1*	*35.8*	*39.0*	*42.7*	*45.2*	*49.2*
Amortization due [3]	-28.8	-38.2	-41.7	-71.2	-71.2	-82.4	-88.8	-93.9	-207.7	-212.9
Foreign direct investment	102.4	116.4	109.1	140.5	85.2	147.3	151.1	141.3	148.6	152.1
Portfolio investment	-54.0	250.9	382.5	162.6	44.9	72.1	78.0	77.1	83.9	91.2
Other medium- and long-term private capital	110.7	179.5	-257.2	188.7	-53.6	-44.1	-36.8	-33.6	-33.0	-32.7
Errors and omissions	4.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance[3]	**190.5**	**353.2**	**45.6**	**281.3**	**-48.3**	**12.4**	**11.0**	**8.8**	**-71.8**	**-60.7**
Change in net foreign assets, BCEAO ("-" = increase)	-191.1	-353.2	-45.6	-281.3	48.3	-12.4	-11.0	-8.8	71.8	60.7
Change in gross foreign assets, BCEAO ("-" = increase)	*-205.2*	*-365.1*	*-60.1*	*-282.6*	*-21.3*	*-3.0*	*-3.7*	*-0.2*	*83.0*	*83.6*
Use of IMF resources, net ("-" = increase) [4]	*-14.1*	*-11.9*	*-14.5*	*-1.4*	*-7.8*	*9.4*	*7.3*	*8.6*	*11.1*	*22.9*
Proposed ECF-supported arrangement augmentation ("-" = increase)	*-0.7*	*0.0*	*0.0*	*0.0*	*-61.8*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
	(Percent of GDP, unless otherwise indicated)									
Current account balance	**-4.6**	**-4.9**	**-4.3**	**-4.7**	**-4.6**	**-4.5**	**-4.5**	**-4.3**	**-4.0**	**-3.9**
Trade balance of goods[1]	-4.0	-5.8	-3.9	-5.3	-4.7	-3.4	-3.5	-3.5	-3.4	-3.4
Exports, f.o.b.[1]	23.4	14.0	20.8	14.7	18.8	21.9	21.5	21.5	21.5	21.5
Imports, f.o.b.[1]	-27.4	-19.9	-24.7	-20.0	-23.5	-25.3	-25.0	-25.0	-24.9	-24.9
Capital account balance	1.4	0.8	1.7	0.8	1.8	1.7	1.7	1.6	1.6	1.5
Financial account balance	5.6	8.3	3.1	7.0	2.2	2.9	2.9	2.7	1.8	1.9
Overall balance[3]	**2.4**	**4.2**	**0.5**	**3.1**	**-0.5**	**0.1**	**0.1**	**0.1**	**-0.6**	**-0.5**
Memorandum items:										
International price of cotton (Cotlook "A" Index, U.S. cents a lb.)	91.4	76.8	77.9	73.3	69.9	70.6	70.4	70.4	70.4	70.4
International price of oil (U.S. dollars a barrel)	68.3	60.5	61.4	55.5	39.1	40.3	44.1	46.9	48.8	50.1
Nominal GDP (CFAF billion)	7,916	8,368	8,432	9,036	8,784	9,477	10,340	11,313	12,312	13,380

Sources: Beninese authorities; IMF staff estimates and projections.

[1] Includes re-exports and imports for re-export, except for EBS/19/398 where re-export activities were captured in current transfers.

[2] Re-export activities were captured in current transfers in EBS/19/398 where re-export activities were captured in current transfers.

[3] In 2024 and 2025, the declines in the financial account and overall balance of payments reflect the first repayments of the 2019 eurobond.

[4] Includes the IMF debt service relief of CFAF 6 billion from the Catastrophe Containment and Relief Trust (CCRT) approved on April 13, 2020, corresponding to the period of April 14-October 13, 2020.

Table 7. Benin: Monetary Survey, 2018–20

	2018	2019		2020	
	Act.	EBS/ 19/103	Est.	EBS/ 19/103	Proj.
			(CFAF Billion)		
Net foreign assets	**1185.0**	**1547.1**	**1232.7**	**1932.7**	**1254.0**
Central Bank of West African States (BCEAO)	423.8	766.4	314.0	1132.2	335.3
Banks	761.1	780.6	918.7	800.6	918.7
Net domestic assets	**1024.0**	**1138.8**	**1082.8**	**1285.0**	**1158.0**
Domestic credit	1550.5	1671.7	1449.9	1826.9	1544.2
Net claims on central government	118.1	120.0	-200.6	129.1	-138.9
Credit to the nongovernment sector[1]	1432.4	1551.8	1650.5	1697.9	1683.1
Of which: Credit to the private sector	1326.7	1446.0	1485.0	1592.1	1517.6
Other items[2]	526.4	532.9	367.1	541.9	386.2
Broad money (M2)	**2209.0**	**2333.4**	**2315.5**	**2519.6**	**2412.0**
Currency	520.2	549.6	543.5	593.4	566.1
Bank deposits	817.1	863.1	878.1	932.0	914.7
Other deposits	871.6	920.7	894.0	994.2	931.3
	(Change, in percent of beginning-of-period broad money)				
Net foreign assets	**9.1**	**16.4**	**2.2**	**16.5**	**0.9**
Central Bank of West African States (BCEAO)	10.3	15.5	-5.0	15.7	0.9
Banks	-1.2	0.9	7.1	0.9	0.0
Net domestic assets	**-4.3**	**5.5**	**2.7**	**6.7**	**3.2**
Domestic credit	1.1	5.5	-4.6	6.7	4.1
Net claims on central government	-3.7	0.1	-14.4	0.4	2.7
Credit to the nongovernment sector	4.8	5.4	9.9	6.3	1.4
Other items	5.4	0.3	-6.7	0.4	-0.7
Broad money (M2)	**4.8**	**5.6**	**4.8**	**8.0**	**4.2**
Currency	-0.6	1.3	1.1	1.9	1.0
Bank deposits	4.2	2.1	2.8	3.0	1.6
Other deposits	1.2	2.2	1.0	3.1	1.6
Memorandum items:					
Velocity of broad money	3.7	3.7	3.7	3.7	3.7
Broad money (percent of GDP)	27.9	27.9	27.5	27.9	27.5
Credit to the private sector (annual percentage change)	8.5	9.0	11.9	9.4	2.2
Nominal GDP (CFAF billion)	7,916	8,368	8,432	9,036	8,784
Nominal GDP growth (annual percentage change)	7.3	5.6	6.5	8.0	4.2

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 8. Benin: Schedule of Disbursements Under the ECF Arrangement

Amount	Availability date	Conditions for disbursement[1]
SDR 15.917 million (12.9 percent of quota)	April 7, 2017	Executive Board approval of the ECF arrangement.
SDR 15.917 million (12.9 percent of quota)	October 31, 2017	Observance of end-June 2017 performance criteria, and completion of the first review under the arrangement.
SDR 15.917 million (12.9 percent of quota)	April 30, 2018	Observance of end-December 2017 performance criteria, and completion of the second review under the arrangement.
SDR 15.917 million (12.9 percent of quota)	October 31, 2018	Observance of end-June 2018 performance criteria, and completion of the third review under the arrangement.
SDR 15.917 million (12.9 percent of quota)	April 30, 2019	Observance of end-December 2018 performance criteria, and completion of the fourth review under the arrangement.
SDR 15.917 million (12.9 percent of quota)	October 31, 2019	Observance of end-June, 2019 performance criteria, and completion of the fifth review under the arrangement.
SDR 91.931 million (15.918 + 76.013)[2] (74.3 percent of quota)	March 23, 2020	Observance of end-December 2019 performance criteria, and completion of the sixth review under the arrangement.
SDR 187.43 million (111.42 + 76.013) (151.4 percent of quota)	Total amount of the arrangement	

Sources: International Monetary Fund

[1] In addition to the generally applicable conditions under the Extended Credit Facility.

[2] Includes ECF arrangement augmentation of 61.4 percent of quota (SDR 76.013 million).

Table 9. Benin: Indicators of Capacity to Repay the Fund, 2020-34[1]

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
IMF obligations based on existing credit (millions of SDRs)															
Principal	2.1	11.7	9.0	10.6	13.8	19.1	19.1	19.1	11.1	6.4	0.0	0.0	0.0	0.0	0.0
Charges and interest[2]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total obligations based on existing and prospective credit															
Millions of SDRs	2.1	11.7	9.0	10.6	13.8	28.3	37.5	37.5	29.5	24.8	9.2	0.0	0.0	0.0	0.0
Billions of CFA francs	1.7	9.4	7.3	8.6	11.1	22.9	30.3	30.3	23.9	20.0	7.4	0.0	0.0	0.0	0.0
Percent of government revenue	0.2	0.7	0.5	0.6	0.7	1.3	1.6	1.4	1.1	0.8	0.3	0.0	0.0	0.0	0.0
Percent of exports of goods and services	0.1	0.4	0.3	0.3	0.4	0.7	0.8	0.8	0.6	0.4	0.2	0.0	0.0	0.0	0.0
Percent of debt service[3]	0.7	3.1	2.2	2.4	2.4	5.0	6.4	8.0	6.2	5.3	2.0	0.0	0.0	0.0	0.0
Percent of GDP	0.0	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Percent of quota	1.7	9.4	7.3	8.6	11.1	22.9	30.3	30.3	23.9	20.0	7.4	0.0	0.0	0.0	0.0
Outstanding IMF credit															
Millions of SDRs	211.8	200.2	191.2	180.5	166.7	138.5	101.0	63.5	34.0	9.2	0.0	0.0	0.0	0.0	0.0
Billions of CFA francs	172.2	161.8	154.3	145.8	134.7	112.0	81.7	51.4	27.5	7.4	0.0	0.0	0.0	0.0	0.0
Percent of government revenue	15.8	12.8	11.2	9.7	8.2	6.3	4.2	2.4	1.2	0.3	0.0	0.0	0.0	0.0	0.0
Percent of exports of goods and services	9.0	6.8	6.0	5.2	4.4	3.4	2.3	1.3	0.7	0.2	0.0	0.0	0.0	0.0	0.0
Percent of debt service[3]	73.2	53.5	47.5	41.2	28.9	24.4	17.2	13.6	7.2	2.0	0.0	0.0	0.0	0.0	0.0
Percent of GDP	2.0	1.7	1.5	1.3	1.1	0.8	0.6	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Percent of quota	171.1	161.7	154.4	145.8	134.7	111.8	81.6	51.3	27.4	7.4	0.0	0.0	0.0	0.0	0.0
Net use of IMF credit (millions of SDRs)	89.8	-11.7	-9.0	-10.6	-13.8	-28.3	-37.5	-37.5	-29.5	-24.8	-9.2	0.0	0.0	0.0	0.0
Disbursements (including prospective ones)	91.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	2.1	11.7	9.0	10.6	13.8	28.3	37.5	37.5	29.5	24.8	9.2	0.0	0.0	0.0	0.0
Memorandum items:															
Nominal GDP (billions of CFA francs)	8,784	9,477	10,340	11,313	12,312	13,380	14,522	15,751	17,085	18,502	20,031	21,691	23,455	25,340	27,386
Exports of goods and services (billions of CFA francs)	1,912	2,389	2,557	2,797	3,040	3,302	3,584	3,887	4,216	4,566	4,943	5,353	5,788	6,253	6,758
Government revenue (billions of CFA francs)	1,087	1,262	1,377	1,506	1,639	1,781	1,933	2,097	2,275	2,463	2,667	2,888	3,123	3,374	3,646
Debt service (billions of CFA francs)[3]	235	303	325	354	465	460	474	378	383	381	378	359	368	351	432
CFAF/SDR (period average)	813	808	807	807	808	809	809	809	809	809	809	809	809	809	809
Quota (millions of SDRs)	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8

Sources: IMF staff estimates and projections.

[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.

[3] Total debt service includes IMF repurchases and repayments.

Table 10. Benin: Financial Soundness Indicators, 2012-19

	2012 Dec.	2013 Dec.	2014 Dec.	2015 Dec.	2016 Dec.	2017 Dec.	2018 [1] June	2018 [1] Dec.	2019 June
Regulatory capital to risk-weighted assets	9.2	9.5	9.0	7.9	9.3	11.9	7.6	8.2	9.6
Core capital to risk-weighted assets	7.9	7.2	7.1	5.2	7.4	10.2	6.7	7.2	8.7
Provisions to risk-weighted assets	8.6	11.4	12.1	15.6	16.0	16.4	12.2	12.6	11.1
Capital to total assets	4.8	4.5	4.0	2.7	3.7	4.7	4.5	5.1	5.6
Composition and quality of assets									
Total loans to total assets	47.4	47.7	46.1	39.0	39.6	43.5	47.3	46.1	47.5
Concentration: Credit to the 5 largest borrowers	61.1	56.3	103.9	175.7	99.6	91.6	103.3	90.4	99.6
Credit by sector [2]									
Agriculture, Forestry, and Fishing	2.1	2.0	1.6	3.2	1.9	1.8	2.4	4.4	2.6
Extractive Industries	0.7	1.7	1.8	2.1	2.6	1.5	1.8	1.2	1.0
Manufacturing	10.1	11.2	11.7	12.5	15.0	15.2	12.1	12.2	11.0
Electricity, Water, and Gas	2.8	3.3	2.5	3.0	5.0	4.4	2.9	4.3	5.2
Buildings and Public Works	7.5	9.4	12.0	14.9	16.3	17.0	13.8	27.9	28.8
Commerce, Restaurants, and Hotels	40.2	36.9	34.4	29.9	28.2	24.1	23.8	18.7	18.7
Transportation and Communication	10.3	9.6	7.5	6.0	6.2	5.9	4.5	3.9	5.0
Financial and Business Services	5.7	5.2	5.6	4.9	7.9	8.0	2.9	3.4	3.3
Other Services	20.6	20.8	22.8	23.5	16.7	22.1	35.8	23.9	24.4
Non-Performing Loans (NPLs)									
Gross NPLs to Total loans	18.6	21.2	21.5	22.1	21.8	19.4	18.9	21.6	20.2
Provisioning rate	46.8	48.0	49.0	55.0	64.0	66.4	70.0	66.5	59.0
Net NPLs to total loans	10.8	12.3	12.3	11.3	9.1	7.5	6.5	8.5	9.4
Net NPLs to capital	106.2	130.9	140.8	161.2	96.9	69.2	68.6	77.2	80.0
Earnings and profitability									
Average cost of borrowed funds	3.3	3.3	3.1	3.1	3.2	3.0	…	3.2	…
Average interest rate on loans	9.5	9.1	8.4	8.3	7.8	7.4	…	7.5	…
Average interest margin[3]	6.2	5.8	5.3	5.2	4.6	4.3	…	4.3	…
After-tax return on average assets (ROA)	0.0	0.4	0.9	0.3	0.0	0.0	…	0.1	…
After-tax return on average equity (ROE)	-0.6	5.6	14.4	4.9	0.5	0.4	…	1.9	…
Noninterest expenses/net banking income	68.9	69.9	60.9	63.7	73.2	76.9	…	74.8	…
Salaries and wages/net banking income	28.4	29.8	26.2	27.5	32.3	33.9	…	32.4	…
Liquidity									
Liquid assets to total assets	22.9	21.9	23.0	18.9	16.2	14.5	14.4	12.5	11.7
Liquid assets to total deposits	35.7	34.7	36.7	30.9	28.0	24.4	21.8	19.3	16.8
Total loans to total deposits	80.7	84.1	82.2	72.6	79.4	84.4	82.3	83.4	77.9
Total deposits to total liabilities	64.3	63.1	62.7	61.1	57.9	59.2	66.3	64.6	69.3
Demand deposits to total liabilities[4]	27.4	26.9	26.6	25.9	24.4	26.3	30.8	29.4	31.3
Term deposits to total liabilities	36.8	36.2	36.1	35.2	33.5	32.9	35.5	35.1	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] Identified sectors represent at least 80 percent of credit

[3] Excluding taxes on banking operations.

[4] Including savings accounts.

Annex I. Assumptions Underlying the 2020 Growth Projections

1. GDP growth projections for 2020 are subject to large uncertainty. The high degree of uncertainty is due to the rapidly evolving COVID-19 outbreak and the difficulty to assess the impact of containment measures in countries with a large informal sector.

2. To account for this uncertainty, staff has projected 2020 growth using two alternative approaches on the demand and supply sides. On the demand side (Text Figure A.1.1.), the projection assumes that (i) public expenditure increases in response to the crisis (consistent with the revised budgetary projections); (ii) private demand (consumption and investment) decelerates as a result of containment measures and lower capital inflows; and (iii) the trade balance deteriorates due to lower reexport activities and lower international demand for Beninese exports. One the supply side (Text Figure A.1.2.), the projection assumes that hotel and restaurants, construction and transport sectors will be most affected by the crisis, partly offset by higher contributions of sectors related to government.

Text Figure A.1.1. Benin: Contributions to Real GDP Growth – Demand Side

	2019	2020	Diff.	Underlying assumptions
Private consumption	4.6	1.1	-3.5	Decline calibrated based on international experience and the 2020 Spring World Economic Outlook (WEO) macroeconomic assumptions
Private investment	2.2	0.3	-1.9	Mimics collapse observed in 2015 and reflects also 50% decline in FDI inflows
Public consumption and investment	1.0	3.0	2.0	Higher public spending in response to the COVID-19 pandemic
Net Exports	-0.8	-1.2	-0.3	Reduction in re-export activities due to a 6-months Nigeria border closure; no growth in volume of non-cotton exports; lower imports for domestic consumption due to contraction in total domestic demand (based on historical observations)
Real GDP	**6.9**	**3.2**	**-3.7**	

Text Figure A.1.2. Benin: Contributions to Real GDP Growth – Supply Side

	2019	2020	Diff.	Underlying assumptions
Primary	**1.5**	**1.5**	**0.0**	Fall harvest not expected to be impacted
Secondary	**2.0**	**0.8**	**-1.2**	
Food and Beverage Industries	0.5	0.3	-0.3	Social distancing measures
Other Manufacturing Industries	0.5	0.2	-0.3	Lower external demand
Construction	0.8	0.3	-0.5	Difficulties to implement projects
Other	0.1	0.0	-0.1	
Tertiary	**3.4**	**0.8**	**-2.5**	
Commerce	0.3	-0.3	-0.6	Lower household income and domestic consumption
Restaurants and hotels	0.3	-0.6	-0.8	Social distancing and containment measures
Transport	0.4	-0.5	-0.9	Lower external demand affecting port activities and impact of social distancing on use of public transportation
Public sector*	1.6	1.8	0.2	Higher public expenditure partly offset by lower taxes
Other	0.8	0.4	-0.4	
Real GDP	**6.9**	**3.2**	**-3.7**	

* Includes public administration and social security, health, education and taxes.

Annex II. Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood/ Time Horizon	Excepted Impact if Realized	Recommended Policy Response
External Risks			
Rising protectionism and retreat from multilateralism	**High** **Short to Medium Term**	**Low** Would reduce exports; although impact likely to be limited given the high share of informal exports	Accelerate reforms to diversify exports; enhance competitiveness; access new markets; pursue efforts to promote regional integration and regional trade
Weaker-than-expected global growth and larger drop in commodity prices	**High** **Short to Medium Term**	**Medium** Negative impact on Benin cotton and other commodity exports, which would transmit to growth and fiscal position	Strengthen the business climate; diversify exports; preserve fiscal space for countercyclical policy; reinforce the resilience of the banking sector by building up capital buffers
Sharp tightening of global financial conditions	**High** **Short Term**	**Medium** A decompression of spreads would be transmitted to financial conditions of the WAEMU region and raise sovereign debt service	Reduce non-priority spending to accommodate higher interest bill and preserve programmed fiscal targets; bolster investors' confidence through domestic revenue mobilization, and prudent investment and debt policy; mobilize concessional financing
More severe Covid-19 pandemic	**High** **Short Term**	**High** Would impair exports, reduce confidence, and lower capital inflows. A widespread domestic outbreak could cause significant disruption to economic activity	Create fiscal space for higher spending on health services, including disease prevention and control, and support for affected sectors and households; reach out to donors for additional grants and concessional financing
Adverse developments coming from Nigeria	**Medium** **Short to Medium Term**	**High** Slower recovery and adverse security situation would reduce trade revenues and growth; fuel subsidy cuts in Nigeria can cause price spikes in Benin; a prolonged border closure would impact trade and customs revenue	Accelerate the structural transformation of the economy to lower its dependence on Nigeria; improve the business environment to support private sector growth and diversification
Intensification of regional security risks	**Medium** **Short Term**	**Medium** Security risks from neighboring countries could impact domestic stability, trade, tourism; tighten financing conditions on regional market; and result in immigration flows	Create fiscal space for security spending; develop further food security strategy; ensure prudent debt management to contain financing needs
Domestic Risks			
Rise in interest rates on regional financial markets	**High** **Short to Medium Term**	**Medium** Higher costs of domestic borrowing for the government	Rely predominantly on concessional financing; optimize debt portfolio; adjust public investment level to reduce borrowing needs
Adverse weather conditions	**Medium** **Short to Medium Term**	**High** Adversely affect agricultural output and exports; increase subsidy needs; and reduce the population's living standards	Develop further food security strategy; strengthen resilience through irrigation and productivity in agriculture; mitigate the impact on the poor through targeted fiscal transfers and other types of public spending
Policy implementation risks, due to social-political disturbances, elections or pressures from interest groups	**Medium** **Short to Medium Term**	**High** Interruption of the reform agenda; lower revenue mobilization and higher current expenditure, resulting in a deterioration of the fiscal position	Build coalition of stakeholders to support the reform program; implement contingency plans, such as offsetting cuts in non-priority spending; reprioritize public investment; strengthen governance
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	Step up the monitoring of financial sector developments. Consult with the regional 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 III. Adverse Macroeconomic Scenario

1. **This annex presents a downside scenario assuming a prolonged border closure with Nigeria combined with a more severe COVID-19 outbreak in Benin**. The scenario accentuates the negative shocks observed in the baseline (Text Box A.3.1). It assumes, for the year 2020: (i) lower international demand for Benin's exports; (ii) a larger domestic outbreak of the COVID-19 in the country; (iii) a more adverse external environment (with less capital inflows to low-income countries); and (iv) a longer border closure with Nigeria (extended until end-2020).

Text Box A.3.1. Downside Scenario Assumptions

The following assumptions are made for 2020 *relative to the baseline scenario*:

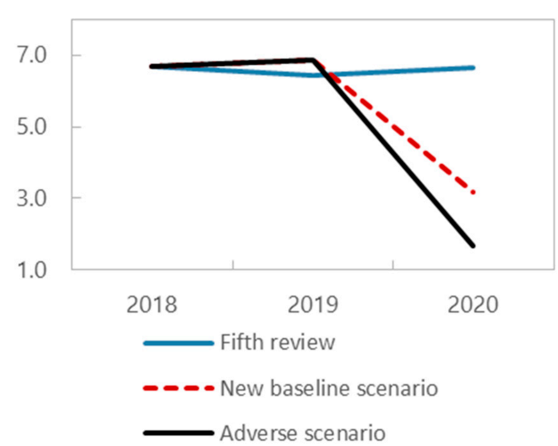
- The domestic outbreak on economic activity is expected to reduce private demand by 1.7 percent (relative to baseline), corresponding to a reduction of private consumption by 1.9 percent and private investment by 1.3 percent (relative to baseline).
- The border closure with Nigeria is extended until end-December 2020 (compared to mid-2020 in the baseline).
- Customs revenue decrease by CFAF 55 billion (0.6 percent of GDP) due to the border closure and the deceleration of activity (relative to baseline).
- Government spending remains unchanged (relative to baseline).
- Exports of domestically produced goods are expected to decrease by 10 percent (relative to baseline).
- Remittances are reduced by 20 percent due to a more adverse external environment (relative to baseline).
- Foreign direct investment and portfolio investment are cut by additional 35 percent relative to the baseline, due to higher business uncertainty and worsening financing conditions (which corresponds to a 50 percent decline relative to the pre-COVID 19 projections).

2. **A more severe COVID-19 outbreak in Benin is a downside risk to the growth outlook and would generate additional budgetary and external pressures**. A larger COVID-19 outbreak would hit manufacturing, commerce and transport activities, owing to the closure of international borders, lower trade activities, social distancing, and the reduction in labor supply. Private investment would decrease as non-priority investment opportunities would be postponed, while private consumption would be affected by income losses and containment measures. Weaker tax revenues would deteriorate Benin's fiscal position even further. Finally, lower foreign direct investment and portfolio investment as well as a deterioration of the trade balance would add pressure to Benin's external position.

3. **In addition, a prolonged border closure with Nigeria would take a heavy toll on Benin's exports, growth, and customs revenue.** The downside scenario assumes that the border will be closed until December 2020, while the baseline scenario assumes closure until end-2020. The extended closure would exacerbate the negative impact on customs revenue and the contraction of re-export activities.

4. The combination of these two shocks would lower 2020 GDP growth to below 2 percent and raise the fiscal deficit to 4.5 percent of GDP (Text Figure A.3.1, Text Table A.3.1). Real GDP growth would weaken from 3.2 percent under the baseline to 1.7 percent in 2020 (compared to 6.7 percent at the time of the 5th review). The overall fiscal deficit would deteriorate further from 3.5 percent of GDP under the baseline to 4.5 percent of GDP—compared to 1.8 percent at the time of the 5th review. The current account deficit would be revised upward to 5.0 percent of GDP due to a stronger contraction of the re-export activity and lower remittances. As a result, the overall balance of payments would record a deficit of 1.4 percent of GDP (compared to a deficit of 0.9 in the baseline).

Text Figure A.3.1. Benin: Real GDP Growth



Source: IMF staff estimates and projections

Text Table A.3.1. Selected Economic Indicators, 2020

	EBS/19/103	Baseline Scenario	Adverse Scenario
National income and prices	(annual percentage change)		
Real GDP growth	6.7	3.2	1.7
Nominal GDP growth	8.0	4.2	2.8
GDP Deflator	1.2	1.0	1.2
Consumer price inflation (average)	1.0	0.6	0.6
External sector	(percent of GDP, unless otherwise indicated)		
Current account balance	-4.7	-4.6	-5.0
Trade balance of goods[1]	-5.3	-4.7	-4.9
Exports (fob)	14.7	18.8	17.1
Imports (fob)	-20.0	-23.5	-22.0
Private current transfers, net	1.4	1.1	0.9
Financial account balance	7.0	2.2	1.8
of which: foreign direct investment	1.6	1.0	0.6
of which: portfolio investment	1.8	0.5	0.3
Overall balance of payments	3.1	-0.5	-1.4
Central government finance			
Total revenue (excl. grants)	13.5	12.4	11.7
of which: tax revenue	*11.4*	*10.3*	*9.5*
Total expenditure and net lending	16.3	17.4	17.6
Overall balance[2]	-1.8	-3.5	-4.5
Overall balance[2] (CFAF billion)	-161.4	-311.8	-386.9
Public debt (end period)	40.1	43.3	44.8
Memorandum items:			
Nominal GDP (CFAF billion)	9,036	8,784	8,672

Sources: Beninese authorities; IMF staff estimates and projections.

[1] Includes re-exports and imports for re-export, except for EBS/19/398 for which re-export activities are recorded in current transfers.

[2] Commitments basis, including grants

Annex IV. Authorities' Response Plan

1. **The authorities' response plan amounts to 1.7 percent of GDP (CFAF 150 billion) in 2020**. It is articulated around three pillars that focus on (i) raising healthcare spending; (ii) providing assistance to vulnerable households; and (iii) supporting businesses in difficulty (Text Table A.4.1.). The plan has been incorporated in the staff report's fiscal Tables 4 and 5 according to the conversion Text Table A.4.2. While the total envelope and the main components are settled, specific measures are still being worked out. The plan may undergo adjustments in the coming months, in particular the modality of the assistance to households, which will depend on the ability to piggyback on and scale up the ARCH/ACCESS systems.

Text Table A.4.1. Benin: Draft Budgetary Cost of the Response to the COVID-19 in 2020

	In billions of CFAF	In Percent of GDP
(1) Healthcare response	**60**	**0.7**
Organization of quarantine operations	10	0.1
Purchase of medical equipment	35	0.4
Construction of temporary health facilities	15	0.2
(2) Assistance to vulnerable households	**50**	**0.6**
Extremely poor households	30	0.4
Other poor households	20	0.2
(3) Support to impacted businesses	**40**	**0.4**
Targeted and temporary corporate tax measures	20	0.2
Temporary flexibility on selected tax payment rules and deadlines	20	0.2
(4) = (1) + (2) + (3) Total budgetary cost in 2020	**150**	**1.7**

Source: Beninese Authorities and IMF staff estimates

2. **Assistance to vulnerable households.** The ARCH insurance system and the ACCESS safety nets program, currently developed by the authorities with support from the World Bank, can help target and provide transfers to vulnerable households. The authorities are investigating whether they could use these two systems to provide cash transfers via mobile banking to, at least, 550,000 households (29 percent of the population) already identified as poor or extremely poor. The authorities could also resort to other social transfers (e.g., utility bill subsidies or food distribution programs) if technological and logistics constraints prevent the use of ARCH/ACCESS for this purpose.

3. **Support to businesses in difficulty.** Two broad types of measures—to be adopted by end-June 2020 at the latest—will provide relief to businesses affected by the crisis. First, the authorities will

grant targeted and temporary tax cuts. Among the measures considered are tax exemptions on sanitary and hygiene products imported by businesses; tax incentives on purchases of inputs and production equipment; and the suspension of penalties for small businesses in case of delay in public procurement contracts execution. Second, tax administration measures could include postponing filing dates, extending payment arrangements for taxpayers experiencing cash flow problems, expediting VAT refunds, relaxing the terms and conditions for paying tax arrears, and temporarily reducing audit actions.

Text Table A.4.2. Benin: Cost of the Response to the COVID-19 by Economic Classification in 2020

	Budgetary cost (CFAF billion)	Budgetary cost (percent of GDP)
(1) Revenue losses	40	0.4
(2) Spending on goods and services	60	0.7
(3) Current transfer	50	0.6
(4) = (1) + (2) + (3) Total budgetary cost in 2020	**150**	**1.7**

Source: Beninese Authorities and IMF staff estimates

Annex V. Preliminary Review of the 2017-20 ECF-Supported Arrangement

1. The newly elected Beninese government decided in 2017 to adopt an ambitious economic reform program supported by the ECF-supported arrangement. The arrangement focused on (i) creating fiscal space by stepping up domestic revenue mobilization and enhancing the efficiency of government spending; (ii) gradually increasing absorptive capacity to scale up investment; (iii) strengthening public debt management and pursuing prudent borrowing policy; and (iv) promoting private sector investment by strengthening institutions and improving the business environment (see IMF Country Report 18/1).

2. Performance has been very satisfactory throughout the program. The authorities have met all semi-annual QPCs and all but one SBs since the beginning of the program.[1] The continuous QPC on non-accumulation of new domestic arrears was not observed over March-June 2018 due to an institutional oversight, which led to a small accumulation of domestic arrears. In addition, the Indicative Target (IT) on priority social expenditure was met consistently, except at end-June 2017.

3. Compared to the initial program objectives, progress achieved over 2017-20 has been commendable in the area of macroeconomic stability. The program, which started from a deteriorated fiscal position, has succeeded to consolidate public finances, while accelerating economic growth. Sound and prudent macroeconomic policies have also contributed to strengthen Benin's credibility with international investors, culminating with its first Eurobond issuance in 2019.

- *Creating fiscal space*. The fiscal deficit decreased from 4.4 percent of GDP in 2016 (prior to the program) to 0.5 percent of GDP in 2019. About one third of this decline can be explained by spending rationalization, while the remainder was due to tax mobilization efforts.

- *Accelerating domestic resource mobilization*. Although from a low level, the tax-to-GDP increased from 9.2 percent of GDP in 2016 to 10.6 percent of GDP in 2019. This increase was mostly driven by domestic taxes— from 5.0 percent of GDP in 2016 to 6.3 percent of GDP in 2019—result of two important tax packages taken in the 2018 and 2019 budgets. At the same time, important reforms of the tax administration were implemented, including the introduction of e-services for medium and large enterprises, a simplification of the tax system for small taxpayers, and improved bancarization of tax payments. Nevertheless, customs revenues have repeatedly fell short of expectation, in particular in the context of the closure of the border with Nigeria.

- *Strengthening public debt management and pursuing prudent borrowing policy*. The sustained fiscal consolidation has put the public debt on a firm downward path. Compared to the beginning of the program, the debt composition has been rebalanced towards external debt;

[1] The SB on adopting a comprehensive and high-level regulatory text for public investment, as agreed under the PIMA evaluation, suffered a two-month delay (in November 2018, as opposed to September 2018).

domestic debt had more than tripled as a share of GDP between 2014 and 2017. This is largely a result of two external debt operations conducted by the authorities, with a debt reprofiling operation and a Eurobond issuance taking place in 2018 and 2019, respectively. The authorities have also prepared a revised medium-term debt strategy covering the period 2020-24.

- *Fostering macroeconomic stability*. The ECF-supported program helped catalyze additional financing from donors to more effectively tackle development needs and foster economic growth. Real GDP growth has been strong at about 6 ½ between 2017-19, driven by agriculture and port activity. Inflation has remained subdued, below the WAEMU convergence criterion of 3 percent. Poverty seems to have declined but stays high.[2]

4. Progress has been less significant in the areas of public investment management and private sector development. Further efforts could focus on these two areas, given that the authorities' Government Action Plan (GAP) envisages that more than half of its overall cost should be covered by the private sector.

- *Improving the efficiency of public investment.* Between 2017-20, Benin received two PIMA assessments. They found that, despite having a high-quality institutional framework, public investment efficiency in Benin remained low, and below comparator countries. Following the PIMA recommendations, the authorities adopted in 2018 a high-level regulatory text on public investment procedures, which encompasses all phases of the investment management cycle. In addition, Benin's National Assembly adopted a legal framework for PPPs in 2016, which was promulgated by the president in 2017. However, important weaknesses persist. Project selection and ex-ante and ex-post assessments are not conducted systematically, and the current procedures require substantial reorganization. In addition, there is room for improving the protection of investments (against quick cuts), the availability of financing, and the implementation management. Finally, the execution of externally-financed public investment has been relatively slow throughout the program.

- *Promoting private sector investment by strengthening institutions and improving the business environment.* Between 2017-20, Benin's ranking by the World Bank's Doing Business Report improved by 6 places. Despite these improvements, access to finance, weak governance and poor infrastructure remain key impediments to doing business in the country. Although private investment in nominal terms increased by 27 percent between 2017 and 2019 according to the national accounts, some evidence suggests that the authorities have struggled to achieve a structural transformation of the economy and boost private sector-led growth. In 2017, Benin became member of the Compact with Africa (CwA), with the aim of bolstering the private sector financing of the GAP. Nevertheless, the CwA participation is yet to produce tangible benefits, with no new foreign financed project initiated under the CwA banner.

[2] In the household survey of 2015, the poverty rate in national definition was estimated at 40 percent of the population.

Appendix I. Letter of Intent

THE MINISTER

Cotonou, May 8, 2020

TO

Madame Kristalina GEORGIEVA
Managing Director
International Monetary Fund
Washington, DC 20431, USA

Dear Madame Georgieva,

1. The government of Benin is continuing its implementation of the 2016-2021 Government Action Program (GAP) and the measures recommended as part of its economic program supported by the arrangement under the International Monetary Fund's Extended Credit Facility (ECF) for the period 2017-2020, which expires in July 2020.

2. The purpose of the ECF arrangement is to promote inclusive growth and reduce poverty by creating fiscal space for investment in infrastructure and priority social spending. It is also aimed at catalyzing official and private funding, and at building resilience in the event of potential economic shocks.

3. The sixth review under the arrangement shows significant progress, both in terms of the implementation of the GAP and in the pursuit of reforms related to the program concluded with the IMF.

4. This sixth review is also marked by the COVID-19 pandemic, which our country is having to cope with, in addition to a complex regional situation marked by the closure of the borders between Benin and Nigeria since August 2019.[1] As in the other African countries, we expect a sharp slowdown in economic activity this year. Without the support of our technical and financial

[1] This measure, which was decided upon unilaterally by Nigeria, affects not only Benin, but also Niger, Chad, and Cameroon.

partners, we are concerned that this pandemic will undermine our hard-won macroeconomic stability and will erase the gains and efforts made in recent years in transforming Benin's economy.

5. In this context, we are asking for extraordinary support from all of our technical and financial partners in the form of supplementary budget support. Assistance from the IMF is essential. The government is requesting for the disbursement of SDR 76.013 million (61.4 percent of Benin's quota) through the increased access process. This increase will make it possible to cover the balance of payments financing needs, in particular those arising from the COVID-19 response plan. In addition, the government is asking for the disbursement of the last tranche under the ECF arrangement in the amount of SDR 15.918 million, bringing the total disbursement related to the sixth review to SDR 91.931 million. We are committed to using the additional IMF financing for the sole purpose of responding to the health and economic crisis. Our response plan, which will be partly financed by the access augmentation, is presented below.

Recent Economic Developments and Performance Under the Program

6. In 2019, economic activity was marked by robust growth estimated at 6.9 percent by the National Institute of Statistics and Economic Analysis (INSAE), in spite of the closing of the border between Benin and Nigeria. The acceleration of growth compared to 2018 can be explained primarily by strong activity in the construction and agrobusiness sectors. Average annual inflation was negative at -0.9 percent, owing to a decline in food prices. The government also continued to exercise sound fiscal discipline. The fiscal deficit (including grants) was equal to 0.5 percent of GDP in 2019, compared to 2.9 percent of GDP in 2018. The current account deficit is projected at around 4.3 percent of GDP for 2019, slightly lower than the figure for 2018 owing to an improvement in the balance of services.

7. The results under the sixth and final review of the program supported by the ECF arrangement were very satisfactory. Namely:

- All of the quantitative performance criteria were met at end-December 2019 (Attachment I);

- All of the structural benchmarks were met (Attachment II). These are benchmarks regarding: (i) the implementation of a mechanism for the monitoring and verification of investments provided for under the Investment Code and special economic zones; (ii) the strengthening of the research and statistics unit within the customs administration by adding statisticians to the staff, with a view to improving risk analysis, the monitoring of exemptions, and fraud detection; (iii) the 2020 Budget Law, which includes a set of fiscal measures generating an amount equal to CFAF 45 billion; and (iv) performance of an assessment of the impact of the transfer of government deposits from commercial banks to the Treasury Single Account.

8. More generally, Benin has made significant progress under the program since 2017. All of the semi-annual quantitative performance criteria have been met, as well as almost all of the structural benchmarks. The fiscal deficit has been reduced considerably over the past three years with a view to ensuring the country's macroeconomic stability. The arrangement has allowed for a strengthening of tax administration and mobilization of revenues, as well as public financial management. It has also made it possible to maintain a sustained rate of growth in economic activity, marked by low inflation and a favorable trend over the medium term in the current account balance. In March 2019, Benin issued its first Eurobond at very competitive market terms, offering evidence of the high degree of credibility of Benin's public policies on the international stage.

Response Plan to Fight the COVID-19 Epidemic

9. In 2020, like many countries around the world, Benin has been hit hard by the COVID-19 pandemic. In addition to the health crisis, there is also an economic slowdown linked to the global recession and the measures taken to contain the transmission of the virus:

- *From a health standpoint*, Benin has 50 confirmed cases, including 27 cases in which the patients recovered and one death, as of April 20, 2020. Unfortunately, some of the persons infected came into contact with many people before being identified as carriers of the virus and being required to remain in quarantine, thus giving rise to fears of multiple outbreaks. In addition, Benin's healthcare system is already highly mobilized, but its capacity to provide care could be exceeded very rapidly if they are not adequately reinforced on an urgent basis.

- *From an economic standpoint*, we expect a sharp slowdown in economic activity in 2020. We have therefore revised the growth rate downward to 3.2 percent (from 6.74 percent before the start of the pandemic). The closing of the borders and the slowdown in trade with importer and exporter countries will slow the momentum seen in practically all sectors. In addition, the measures to fight the spread of the virus within the country are severely constraining economic activity, affecting production, investment, and household consumption.

10. To address the situation, we have developed a response plan consisting of: (i) public health measures to combat the epidemic and to support the healthcare system; (ii) measures to protect the most vulnerable segments of the population; and (iii) economic support and recovery measures. The cost of this plan for 2020 has been set at CFAF 150 billion (1.7 percent of GDP).

- *Measures already taken.* Since February, measures have been taken in collaboration with the World Health Organization (WHO) and with the support of the World Bank, in particular at the borders and at the international airport in Cotonou. At this time, our land borders remain closed to the movement of persons, but the movement of goods is still allowed. Travelers arriving by air are systematically subject to quarantine in hotels requisitioned for this purpose. In addition, cordons sanitaires have been established to limit the spread of the virus and to contain new outbreaks. The use of taxis is strictly controlled, and the operation of other public transport has been temporarily suspended.

Gatherings of more than 10 persons are prohibited. People are required to wear a protective mask in public and to maintain a minimum distance of one meter from one another. We communicate daily and transparently on the evolution of the epidemic and the measures that are being taken. Multiple infographics describing the "barrier measures" have been made available to the public and a dedicated website lists all the official documents, press releases, videos, audio recordings, solidarity initiatives, and useful numbers.

- *New measures*. Our response plan is organized around three core areas: (i) an increase in health spending by CFAF 60 billion to cover the cost of purchasing medical equipment, the construction of temporary centers to care for people who are sick, and quarantine arrangements for at-risk populations; (ii) a total of CFAF 50 billion to help the most vulnerable segments of the population through the strengthening of the ARCH program (*Assurance pour Renforcement du Capital Humain,* or Insurance for Strengthening Human Capital) and the ACCESS program (*Appui aux Communes et Communautés pour l'Expansion des Services Sociaux,* or Community and Local Government Basic Social Services) and various social transfers (covering more than 550,000 households) carried out by means of mobile banking services or, failing that, through the payment of water and electricity bills or the distribution of foodstuffs for these households; and (iii) a CFAF 40 billion package to support struggling businesses through targeted and temporary tax exemptions and a relaxation of certain payment rules. In order to ensure proper implementation of the response plan, we will make sure that new spending is properly budgeted and that its execution is in line with the international rules of fiscal credibility and transparency. In this context, the Accounting Chamber will perform an independent audit next year of the use and effectiveness of the funds committed. This audit will be published by the Accounting Chamber in 2021 in its annual activity report and made available on its internet website. In addition, we will publish the procurement documents and contracts relating to the major projects implemented under the response plan, indicating the amounts and the names of the beneficial owners of the awarded companies.

11. In order to finance this ambitious plan and address the revenue shortfall related to the economic shock, we are planning to raise additional resources in the domestic market as well as from donors. We anticipate an increase in domestic funding in the amount of CFAF 65 billion (0.7 percent of GDP). As of mid-April 2020, we have already received additional support from donors, but we will continue to call on the international community to increase the concessional funding needed to implement the response plan. At the same time, we will also take steps to reallocate CFAF 51 billion in non-priority spending in the budget (equal to 0.6 percent of GDP). As a result, the 2020 fiscal deficit has been revised upward to 3.5 percent of GDP (from the 1.8 percent of GDP originally planned).

Macroeconomic Priorities and Future Structural Reforms

12. Beyond the short-term crisis, we remain determined to pursue our plan to modernize Benin's economy in four core areas: (i) the maintenance of macroeconomic stability by means of a credible and prudent fiscal policy; (ii) a policy of structural investments in infrastructure; (iii) the promotion of inclusive growth and protection of the most vulnerable segments of the population; and (iv) the development of the private sector and improvement of the business climate to enable Benin to be increasingly competitive in the African economic space.

13. *Fiscal discipline*. The increase in the fiscal deficit in 2020 in response to the COVID-19 pandemic is temporary and does not call into question our objective of keeping the fiscal deficit below the convergence criterion of the West African Economic and Monetary Union (WAEMU) of 3 percent of GDP from 2021 onwards. The government is determined to continue its efforts aimed at strengthening tax administration and revenue mobilization, as well as those related to public financial management. This will make it possible to generate fiscal space needed for an infrastructure investment policy and the implementation of priority social protection programs.

14. *Major infrastructure projects*. The government intends to strengthen the infrastructure investment policy, particularly in the areas of transport and energy, in collaboration with the private sector. An analysis of the GAP financing options made it possible to prepare a catalogue of projects that would be good candidates for public-private partnerships (PPPs). In line with international best practices, we will ensure that: (i) investments involving PPPs are integrated into budget documents and government finance statistics; and (ii) liabilities related to PPPs are evaluated and annexed to the budget law. We will analyze the fiscal risks related to these PPP projects. Finally, in 2018 we established a unit for the management of fiscal risks related to PPPs within the Ministry of Economy and Finance. We are in the process of building capacity to make the unit fully operational.

15. *Inclusive growth*. The government intends to continue its efforts to foster inclusive growth and achieve a significant reduction in the poverty rate. In particular, the government is planning to accelerate the implementation of the insurance component of the government social protection project (ARCH), which entered its pilot phase in 2019 for the poorest segments of the population (300,000 people). The program will be extended to the entire population in 2021.

16. *Development of the private sector*. The government is determined to continue its policy of support for development of the private sector. In order to breathe new dynamism into its economy, since 2018 the government of Benin has undertaken a series of reforms that put the private sector at the heart of the structural transformation of the economy. In particular, numerous reforms are under way in the following areas: (i) business creation; (ii) access to electricity and water; (iii) obtaining building permits; (iv) payment of taxes and fees; (v) cross-border trade; (vi) access to public contracts; (vii) transfer of property; and (viii) obtaining loans. The parliament adopted a new Investment Code on January 29, 2020, which establishes the conditions, advantages, and general rules applicable to direct investment, both domestic and foreign, in Benin. In addition, a draft law was recently sent to the National Assembly to improve the legislative environment for the enforcement of contracts and the protection of minority investors. All the reforms thus implemented are aimed primarily at improving the business climate in order to make the business environment of the Beninese market competitive vis-à-vis the sub-regional and African economic space, and thus diversify the Beninese economy and develop new growth sectors.

17. In order to implement these priorities and support its credibility in the international community, Benin intends to maintain its productive relationship with the IMF after the current program expires in the summer of 2020. To this end, we are planning to lay the foundations for future innovative collaboration. In consultation with your staff, we will assess the optimal form of support that will meet Benin's needs and that will be in line with President Talon's desire to implement a policy of structural investments in physical infrastructure, but also in human capital.

Sincerely yours,

/s/
Romuald WADAGNI
Minister of Economy and Finance

Attachments (3):

1. Table of the Quantitative Performance Criteria and Indicative Targets, 2019
2. Table of the Structural Benchmarks for 2019-20
3. Technical Memorandum of Understanding

Attachment I. Table of Quantitative Performance Criteria and Indicative Targets, 2019

Attachment I. Table of the Quantitative Performance Criteria and Indicative Targets , 2019[1]

	March 31, 2019			June 30, 2019			September 30, 2019			December 31, 2019			
	Indicative Targets			Performance Criteria			Indicative Targets			Performance Criteria			
	Prog.	Prel.	Status	Prog.	Prel.	Status	Prog.	Prel.	Status	Prog.	Adjusted[4]	Prel.	Status
A. Quantitative performance criteria[2]													
Net domestic financing of the government (ceiling)[3]	15.0	27.6	Not Met	-38.0	-50.4	Met	-158.5	-68.0	Not Met	-289.0	-282.8	-302.9	Met
Basic primary balance (excluding grants) (floor)	15.6	-0.3	Not Met	44.5	50.7	Met	47.7	15.9	Not Met	101.7	71.7	93.5	Met
Total revenue (floor)	235.1	250.2	Met	505.5	522.8	Met	762.5	779.6	Met	1,112.4	1,082.4	1,088.0	Met
B. Continuous quantitative performance criteria (ceilings)													
Accumulation of external payments arrears	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0	Met
Accumulation of domestic payments arrears	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0	Met
Contracts by the government for the prefinancing of public investments projects	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0	Met
Ceiling on the present value of new external debt contracted or guaranteed by the government	468.9	458.0	Met	797.0	458.0	Met	797.0	797.0	Met	797.0		797.0	Met
C. Memorandum Items[2]													
Priority social expenditure (floor)	37.2	38.2	Met	82.5	84.3	Met	140.7	137.1	Not Met	180.0		192.0	Met
Budgetary assistance	0.0	3.9		3.9	3.9			3.9		45.4		64.2	

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] 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 unless it is used to reduce domestic payment arrears.

[4] Adjustors are applied to the end-December 2019 QPCs on revenue, basic primary balance, and net domestic financing to account for the effect of the border closure with Nigeria (see TMU).

Attachment II. Table of the Structural Benchmarks for 2019-20

Measures	Dates	Rationale	Status
Revenue mobilization			
The Ministry of Finance implements the system of control and verification of the investments envisaged under the frameworks of the code of investment and the special economic zones.	November 2019	Rationalize exemptions and fight tax fraud.	Met
Strengthen the research and statistics office within the customs administration by staffing it with statistics personnel with a view to improving risk analysis, the monitoring of exemptions, and fraud detection.	December 2019	Improve customs revenues and fight customs fraud.	Met
Adopt a 2020 budget that includes a tax package with revenue-raising measures equivalent to CFAF 45 billion.	December 2019	Foster revenue mobilization.	Met
Public financial management			
Prepare an updated audit of the stock of past debt due by the government to domestic suppliers at end of December 2018.[1]	January 2019	Enhance fiscal transparency.	Met
Perform an impact assessment of the transfer of government deposits from commercial banks to the Treasury Single Account.	March 2020	Reduce fiscal and financial risks.	Met
Trade			
Perform a diagnostic assessment of the main trade barriers, based on the framework used for the notification stage of the WTO Trade Facilitation Agreement.	September 2019	Facilitate trade.	Met

[1] The unpaid services to suppliers were inherited from the previous governments.

Attachment III. Technical Memorandum of Understanding

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

PROGRAM ASSUMPTIONS

2. Exchange rates under the program. For the purposes of this Memorandum, the value of transactions denominated in foreign currencies will be converted into the domestic currency of Benin (the CFA franc, or CFAF), based on the exchange rates agreed upon for the program projections. The key exchange rates are presented below.[1]

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

DEFINITIONS

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

4. The definitions of "debt" and borrowing for the purposes of this Memorandum 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 payments will

[1] Exchange rates as of August 19, 2017.

discharge the principal and/or interest liabilities incurred under the contract. Debt can take a number of forms; the primary ones being as follows:

i. loans, that is, advances of money to the obligor by the lender made on the basis ofan 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 Memorandum.

Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from failure to make payment under a contractual obligation that constitutes debt are 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 the loan 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 LIBOR is 2.63 percent and will remain fixed for the duration of the program. The spread of six-month Euro LIBOR over six-month USD LIBOR is -294 basis points. The spread of six-month JPY LIBOR over six-month USD LIBOR is -260 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is -197 basis points. For interest rates on currencies other than Euro, JPY, and GBP, the spread over six month USD LIBOR is -200 basis points.2 Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added; and (d) Domestic debt is defined as debt denominated in CFA francs.

d. "External debt" is defined as debt denominated in any currency other than the CFA franc

QUANTITATIVE PERFORMANCE CRITERIA

A. Ceiling on Net Domestic Financing of the Government

Definitions

5. Net domestic financing (NDF) of the government is defined as the sum of (i) net bank credit to the government, defined below; and (ii) net nonbank financing of the government, including the proceeds of the sale of government assets, which includes proceeds from the divestiture of shares of public enterprises, that is, privatizations, Treasury bills, and other securitized obligations issued by the government and listed in CFA francs on the WAEMU regional financial market, and any BCEAO credit to the government, including any drawings on the CFA franc counterpart of the Special Drawing Rights (SDR) allocation.

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

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

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

9. The ceiling on net domestic financing of the government (cumulative since January 1 of the same year) is set as follows: CFAF 74.7 billion at end-March 2018; CFAF 190.9 billion at end-June 2018; CFAF 103,0 billion at end-September 2018; and CFAF 118.8 billion at end December 2018. These ceilings are performance criteria for end-June and end-December 2018, and an indicative target for end-September 2018.

10. The ceiling on net domestic financing of the government (cumulative since January 1 of the same year) is set as follows: CFAF 15 billion at end-March 2019; CFAF -38.0 billion at end-June 2019; CFAF -158.5 billion at end-September 2019; and CFAF – 289.0 billion at end December 2019. These ceilings are performance criteria for end-June and end-December 2019, and an indicative target for end-September 2019.

Adjustments

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

- If, at the end of a quarter, net external budgetary assistance exceeds the total projected amounts (cumulative since January 1 of the same year) by 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 increased by an amount equivalent to this shortfall, within the following limits: the increase may not exceed CFAF 15 billion at end-June 2018 and CFAF 25 billion at end-December 2018. The same rule applies for 2019.

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

- The amounts of gross external budgetary assistance (cumulative since January 1 of the same year) projected in the program are CFAF 22.6 billion at end-March 2018; CFAF 22.6 billion at end-June 2018; CFAF 39.6 billion at end-September 2018; and CFAF 55.4 billion at end-December 2018.

- The amounts of gross external budgetary assistance (cumulative since January 1 of the same year) projected in the program are CFAF 0 billion at end-March 2019; CFAF 3.9 billion at end-June 2019; CFAF 10.1 billion at end-September 2019; and CFAF 45.4 billion at end-December 2019.

13. The ceiling on the net domestic financing will be increased by an amount equivalent to the shortfall in customs revenue compared to the program's projections (CFAF 412 billion for 2019) in the event of a prolonged Benin/Nigeria border closure. The adjuster will be capped at CFAF 10 billion if the Benin/Nigeria border closure lasts until the end of October 2019, CFAF 20 billion if it lasts until the end of November 2019 and CFAF 30 billion if it lasts until the end of December 2019.

B. Floor of the Basic Primary Fiscal Balance

Definition

14. The basic primary fiscal balance is defined as the difference between total fiscal revenue (tax and nontax) and basic primary fiscal expenditure (on a commitment basis). 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. Grants are excluded from revenue and net government lending is excluded from fiscal expenditure.

Performance Criteria and Indicative Targets

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

16. Similarly, the floor of the basic primary fiscal balance (cumulative since January 1 of the same year) is a balance of not less than CFAF +15.6 billion at end-March 2019; CFAF +44.5 billion at end-June 2019; CFAF 47.7 billion at end-September 2019; and CFAF 101.7 billion at end-December 2019. The floors for end-June 2019 and end-December 2019 are performance criteria and the floor for end-September 2019 is an indicative target.

Adjustments

17. The floor of the primary budget balance will be adjusted downwards by an amount equivalent to the customs revenue deficit compared to the program projections (CFAF 412 billion for 2019) in the event of a prolonged Benin/Nigeria border closure. The adjuster will be capped at CFAF 10 billion if the Benin/Nigeria border closure lasts until the end of October 2019, CFAF 20 billion if it lasts until the end of November 2019 and CFAF 30 billion if it lasts until the end of December 2019.

C. Floor of Total Government Revenue

Definition

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

Performance Criteria and Indicative Targets

19. The floor on total government revenue (cumulative since January 1 of the same year) is set at an amount that is not less than CFAF 204.8 billion at end-March 2018; CFAF 445.5 billion at end-June 2018; CFAF 701.1 billion at end-September 2018; and CFAF 1021.6 billion at end-December 2018. The floors for end-June and end-December 2018 are performance criteria and the floor for end-September 2018 is an indicative target.

20. The floor on total government revenue (cumulative since January 1 of the same year) is set at an amount that is not less than CFAF 235.1 billion at end-March 2019; CFAF 505.5 billion at end-June 2019; CFAF 762.5 billion at end-September 2019; and CFAF 1112.4 billion at end-December 2019. The floors for end-June and end-December 2019 are performance criteria and the floor for end-September 2019 is an indicative target.

Adjustments

21. The government revenue floor will be adjusted downward by an amount equivalent to the shortfall in customs revenue compared to the program projections (CFAF 412 billion for 2019) in the event of a prolonged Benin/Nigeria border closure. The adjuster will be capped at CFAF 10 billion if the Benin/Nigeria border closure lasts until the end of October 2019, CFAF 20 billion if it lasts until the end of November 2019 and CFAF 30 billion if it lasts until the end of December 2019.

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

Definition

22. Domestic payments 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 4a, of domestic debt in paragraph 4d, and of the government in paragraph 3 apply here.

Continuous Performance Criteria

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

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

Definition

24. 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 4e, and of the government in paragraph 3 apply here.

Continuous Performance Criterion

25. The government undertakes not to accumulate any external public payments 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 payments arrears will be continuously monitored throughout the program.

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

Definition

26. 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 4e, external debt excludes Treasury bills and bonds issued in CFA francs on the WAEMU regional market.

27. The term "government" used for this performance criterion and for the performance criterion on the contracting or guaranteeing by the government of new external debt, includes the government, as defined in paragraph 3, 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.

Continuous Performance Criterion

28. The present value of new external borrowing contracted or guaranteed by the government in 2019 will not exceed a cumulative amount of CFAF 797 billion. 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.

G. Ceiling on Pre-Financing Contracts for Public Investments

Definition

29. Pre-financing contracts are defined as contracts pursuant to which the following steps are taken concurrently: (i) the government entrusts a private entity with the responsibility for executing public works, financed by a loan to the entity from a domestic commercial bank or group of commercial banks; (ii) the Minister of Finance guarantees this loan and signs an unconditional and irrevocable agreement to replace the private entity to honor the full amount of principal and interest of the loan, which are automatically paid from the Treasury's account at the BCEAO. The concept of government used for this performance criterion is the one defined in paragraph 3.

Continuous Performance Criterion

30. The government undertakes not to enter into any pre-financing contracts during the program. This performance criterion on pre-financing contracts for public investments will be continuously monitored throughout the program.

INDICATIVE TARGETS

A. Floor for Priority Social Expenditures

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

Definition

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

Table 1. Priority Social Expenditure Categories	
Budget code	**Description**
25	Ministry of Economy and Finance
36	Ministry of Health
37	Ministry of Energy
76	Ministry of Water and Mines
39	Ministry of Agriculture Livestock, and Fisheries
46	Ministry of SMEs and the Promotion of Employment
26	Ministry of Justice
52	Ministry of Labor and Public Affairs
41	Ministry of Social Affairs and Microfinance
44	Ministry of Higher Education and Scientific Research
27	Ministry of Plan and Development
62	Ministry of Nursery School and Primary School Education
63	Ministry of Secondary and Technical Education and Vocational Training
60	Ministry of Domestic and Public Security
51	Ministry of Infrastructure and Transport
38	Ministry of Tourism, Culture and Arts
40	Ministry of Sport

Indicative Target

33. The indicative target for priority social expenditures (cumulative since January 1 of the same year) is set as follows: CFAF 15.0 billion at end-March 2018, CFAF 50.0 billion at end-June 2018; CFAF 101.0 billion at end-September 2018; and CFAF 167.0 billion at end-December 2018.

34. The indicative target for priority social expenditures (cumulative since January 1 of the same year) is set as follows: CFAF 37.2 billion at end-March 2019, CFAF 82.5 billion at end-June 2019; CFAF 140.7 billion at end-September 2019; and CFAF 180.0 billion at end-December 2019.

INFORMATION FOR PROGRAM MONITORING

A. Data on Performance Criteria and Indicative Targets

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

Every month:

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

Every quarter:

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

B. Other Information

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

Every month:

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

Every quarter:

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

On an ad hoc basis:

In the quarter when they become available: a copy of the budget law and its supplementary documents; a copy of the most recent budget review law; as well as any decree or law pertaining to the budget or the implementation.

INTERNATIONAL MONETARY FUND

BENIN

May 8, 2020

SIXTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR AUGMENTATION OF ACCESS —DEBT SUSTAINABILITY ANALYSIS

Approved By
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Prepared by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA).

Benin: Joint Bank-Fund Debt Sustainability Analysis

Risk of external debt distress	Moderate
Overall risk of debt distress	Moderate
Granularity in the risk rating	Limited space to absorb shocks
Application of judgement	No
Macroeconomic projections	2020 real GDP growth is revised down from 6.7 percent to 3.2 percent

Benin remains at moderate risk of ***external debt*** *distress. The rating is unchanged from the previous November 2019 Debt Sustainability Analysis (DSA). All the projected external debt burden indicators are below their thresholds under the baseline, but the debt service-to-revenue ratio exceeds its threshold in the case of an extreme depreciation shock.*[1] *Compared to the previous DSA, the room to absorb shocks has been narrowed from "some space" to "limited space". In addition, Benin's spreads remain volatile and are above the market financing module's benchmark. Policy slippages and vulnerabilities due to the COVID-19 and the Nigeria border closure shocks are downside risks to the baseline.*

With regard to ***public and publicly guaranteed (PPG) debt (external plus domestic)****, the overall risk of debt distress remains also moderate because of the external debt rating. Nonetheless, the PV of public debt-to-GDP ratio remains below its prudent benchmark in both the baseline and shock scenarios.*

[1] Under the revised Debt Sustainability Framework for Low-Income Countries, Benin's Composite Indicator is 2.96 based on the October 2019 WEO and the 2018 CPIA, corresponding to the medium debt-carrying capacity.

PUBLIC DEBT COVERAGE

Text Table 1. Benin: Subsectors of the Public Sector

	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: Magnitude of the Contingent Liability Tailored 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	0.5	
4	PPP	35	percent of PPP stock	2.6	
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)			8.1	

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%.

1. **In the Debt Sustainability Analysis (DSA) of Benin, public debt covers both the debt of the central government as well as the guarantees provided by the central government.**[2] The DSA classifies external and domestic debt based on the currency criterion, given data constraints that prevent the use of the residency criterion. Debt to the IMF owed by the Central Bank is included in external debt.

2. **The authorities completed an audit about the stock of unpaid claims held by the private sector on the government in January 2019.** The authorities found a stock of arrears to suppliers of 0.2 percent GDP incurred before 2016. This amount of arrears was added to the 2019 debt stock. The current fiscal projections also assume a gradual clearance of the arrears over 2020-22 at a pace of 0.1 percent of GDP per year.

3. **The guaranteed debt of state-owned enterprises (SOEs) is included in the baseline analysis.** Because SOEs can entail contingent liabilities for the government and create fiscal risks, it is important to have an exhaustive overview of their financial situation.[3] The authorities have made progress in the area of

[2] Government domestic arrears are also included, see below.

[3] In the context of the Government Action Program, the authorities are contemplating several key projects of infrastructure, including some conducted through SOEs. For instance, the government has started discussions with the Chinese authorities to build a new international airport. At this stage, the amount, financing scheme, and calendar are unknown. When information is available, this project will be reflected in the DSA to the extent that it impacts public debt and, more generally, fiscal sustainability.

monitoring in past years, by collecting financial information on SOEs. In early 2019, they produced an estimate of 0.6 percent of GDP for the non-guaranteed commercial debt of 13 state-owned companies at end-2018.[4] For end-2019, SOE non-guaranteed commercial debt is estimated at 0.5 percent of GDP. Also, to address contingent liability risks, the authorities are in the process of adopting a new law on SOEs that aims at improving their governance and indirectly their economic and financial performance. In the context of the current DSA, the following approach is taken:

- All *guaranteed* SOE debt is included in the debt stock in the baseline.
- *Non-guaranteed* SOE debt is captured as contingent liability shock. This shock is set at 0.5 percent of GDP (to reflect the information collected on SOE debt).
- Further work is needed to properly and fully incorporate SOEs in the DSA baseline, including consolidating the general government fiscal accounts with the financial statements of the SOEs (both on the revenue and expenditure sides). The authorities see this consolidation as a prerequisite before incorporating SOE debt into total debt (in the baseline) and are working with AFRITAC WEST to establish a work program.

BACKGROUND ON DEBT

4. **Benin's public debt has increased rapidly since 2014**. Total public debt (external plus domestic) increased from 22.3 percent in 2014 to 30.9 percent in 2015 and, at a slower pace subsequently, to 41.2 percent in 2019.[5] The increase was primarily due to higher domestic debt, which tripled over three years, growing from 7.8 percent of GDP in 2014 to 23.7 percent of GDP in 2017. Such a rise in the domestic debt was partly driven by the scaling-up of public investment. Over 2015-17, the authorities have increasingly relied on the domestic and regional financial market to finance public investment projects at non-concessional terms. In addition, the debt service burden is relatively high in Benin**.** The ratio of debt service to revenue stood at 43.5 percent in 2019 and is expected to increase to around 52.2 percent on average in the medium term (because of the amortization of the Eurobond), before declining to around 31 percent on average in the long term (2030-40).

5. **Conditions on the regional money and sovereign security markets have remained broadly favorable as the BCEAO took preemptive measures to limit the impact of the COVID-19 pandemic, although subscription rates on sovereign auctions have recently declined in the region**. Broad money growth had remained buoyant in 2019 on the back of a pickup of net foreign assets while credit to the private sector outpaced nominal GDP. The weighted average auction rate on the money market remained at the top of the BCEAO's monetary policy corridor (4.5 percent) in the first quarter of 2019 before hovering around 3 percent during the rest of the year, in part due to a small increase in liquidity supply by the BCEAO. Meanwhile access on the regional sovereign security market remained good with some lowering of yields and lengthening of the average maturity 2019. These broadly favorable liquidity conditions have persisted year-to-date as the BCEAO took preemptive steps to better satisfy banks'

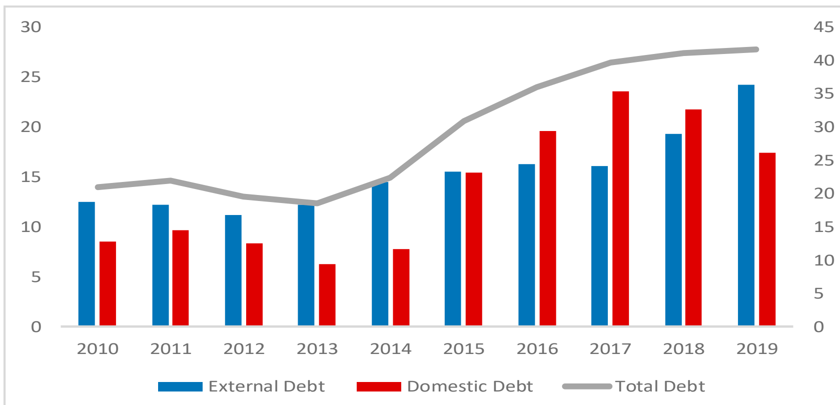
[4] Guarantees on SOE debt provided by the central government are already included in public debt.

[5] In the paper, debt stocks are measured at the end of the year. For instance, 2019 debt refers to the debt at the end of 2019.

demand for liquidity and mitigate the negative impact of the pandemic on economic activity. In late March, the BCEAO further raised the amount of liquidity auctioned to banks before adopting a fixed-rate-full-allotment strategy thereby allowing banks to satisfy their liquidity needs fully at the minimum policy rate of 2.5 percent, that is about 25 basis points lower than hitherto. Despite these favorable liquidity conditions, some (so far limited) tensions have emerged on the domestic sovereign market in the form of lower auction subscriptions rates. For instance, Benin's issuance on the regional market on April 3, 2020 was undersubscribed, particularly on the long- term curve.

Text Figure 1. Benin: Total Public Debt 2010–19

(Percent of GDP)



Sources: Authorities' data and staff calculations.

STRUCTURE OF DEBT

6. The Eurobond, combined with the 2018 debt reprofiling, has titled the composition of the public debt towards external debt. In 2016 and 2017, Benin's domestic debt accounted for more than half of total debt (about 60 percent of total debt at end-2017). The October 2018 debt reprofiling operation, which issued cheap and long-term external debt to buy back more expensive and shorter-maturity domestic debt, started to rebalance the composition of the debt stock. In addition, Benin issued its first Eurobond in March 2019. The Eurobond amounted to EUR 500 million (equivalent to 3.9 percent of 2019 GDP). The issuance was done at favorable terms. As of end-December 2019, external debt represented 58.1 percent of the total debt.

7. Benin's external public debt is essentially owed to multilateral and bilateral creditors. As of end 2019, Benin's external debt owed to multilateral creditors represented around 57 percent of total external debt against 43 percent held by bilateral creditors. However, the share of the multilateral debt decreased after the issuance of the Eurobond (which is commercial debt) in March 2019. The share of concessional loans represented 54 percent of total external debt at end-2019. Total external debt amounted to CFAF 2,020.7 billion (about US$ 3.4 billion) as of end-2019 (Text Table 3).

8. Domestic public debt is dominated by government securities issued on the regional bond market. Benin's domestic public debt has increased significantly between 2014 and 2017, driven mainly by the increasing reliance on the regional bond market to raise funds. About 82 percent of domestic liabilities consisted of government securities issued on the regional financial market at end-2019. Such debt is non-concessional and is associated with roll-over and interest rate risks. Total domestic debt amounted to CFAF 1,455.9 billion as of end-2019 (Text Table 4).

Text Table 3. Benin: Structure of External Debt, at end-2019

(in CFAF billion)

Creditors	2019
Multilateral creditors	**1,150.9**
IDA	574.1
FAD (African Development Fund)	261.8
Others	314.9
Bilateral creditors	**869.8**
Kuwait	25.4
People's Republic of China	171.2
Eurobond	325.0
Others	348.2
Total external debt	**2,020.7**

Source: Beninese authorities; IMF staff calculations

Text Table 4. Benin: Structure of Domestic Debt, at end-2019

(in CFAF billion)

Creditors	2019
Other local banks	243.9
Bonds	1,190.1
T-bills	21.9
Total domestic debt	**1,455.9**

Source: Beninese authorities; IMF staff calculations

BACKGROUND ON MACROECONOMIC FORECASTS

9. Macroeconomic assumptions have been updated compared to the November 2019 DSA (Text Table 5).

- Benin's 2020 GDP growth was revised from 6.7 to 3.2 percent as a result of the slowdown of the economic activity due to the COVID-19, and, to a lesser extent, the prolonger border closure with Nigeria. Medium-term prospects are favorable, driven by the growth in agricultural and cotton exports, improvement in business climate, and development of new sectors such as tourism and digital economy.

- The primary balance[6] was revised down from 0 percent of GDP to -1.6 percent of GDP in 2020 because of effect of the extended border closure and the COVID-19 on revenue collection. However, the fiscal position will resume after the shock, and the fiscal position is expected to improve over the medium term, with the primary surplus estimated at 0.3 percent of GDP in 2024.

- Domestic financing was increased in 2020 by 0.7 percent of GDP to finance part of the higher fiscal deficit due to the joint effect of the extended border closure with Nigeria and the COVID-19 pandemic. This includes the support provided by the BOAD (in the form of concessional loans

[6] Including grants.

and debt relief). Assumptions on domestic borrowing costs reflect the recent measures taken by the BCEAO (paragraph 5).

- The non-interest current account deficit is expected to decline gradually in the medium to long term, thanks to the implementation of fiscal consolidation plan and structural reforms to boost competitiveness. Higher exports would result from larger cotton production. Imports should also remain contained due to the scaling-down of public investment and the increase in agricultural production, which should reduce food imports.

- The grant assistance for debt relief under the Catastrophe Containment and Relief Trust (CCRT) has been reflected in the DSA.[7] The eligible debt service for relief from the CCRT amounts to SDR 7.4 million (about CFAF 6 billion), covering the period between April 14, 2020 and October 13, 2020. The CCRT debt relief is reflected under exceptional financing in Table 1 and under debt relief (HIPC and other) in Table 2.

- World Bank financial support to the COVID-19 crisis has also been reflected in the DSA. On April 27, 2020 the World Bank Board adopted the Benin COVID-19 Preparedness and Response project of US$ 10.4 million under the Fast-Track COVID-19 Facility. The Bank is also preparing a Supplemental Financing DPO.

10. The perimeter of exports has been expanded in the context of this DSA. As a result of statistical improvements carried out by the BCEAO, including a new survey on cross-border trade activities in 2019, the measurement of informal trade has been enhanced. As a result, informal exports are now included in the perimeter of exports in the DSA and the Balance of Payments.[8] This is consistent with the recently published Balance of Payments data.[9]

11. Risks to the baseline are tilted to the downside. On the fiscal position, the main risks include extra spending pressures related to the political cycle as well as failures to implement key reforms, in particular in the area of revenue administration and the adoption of tax measures. A larger diffusion of the COVID-19, an extended closure of the border with Nigeria, unresolved banking sector problems, and a possible contagion of security risks could all worsen Benin's fiscal position. On growth, achieving the expected performance will require that the authorities rigorously implement measures that intent to increase the agricultural production capacity and structural reforms that aim at improving business environment and governance.

[7] See IMF Policy Paper No. 20/022.

[8] If informal exports were excluded, like in previous DSA reports, the risk of debt distress would remain moderate.

[9] « Balance des Paiements et Position Extérieure Globale », December 2019.

Text Table 5. Benin: Macroeconomic Projections

	DSA 2019 - 5th Review					DSA 2020 - 6th Review				
	2019	2020	Average 2021-24	2029	2039	2019	2020	Average 2021-24	2029	2039
	(Percent of GDP, unless otherwise indicated)					*(Percent of GDP, unless otherwise indicated)*				
GDP growth (percent)	6.4	6.7	6.7	5.9	5.0	6.9	3.2	6.7	6.4	5.7
GDP deflator (percent)	-0.7	1.2	2.3	2.5	2.9	-0.3	1.0	2.0	1.8	1.9
Non-interest current account deficit	4.5	4.3	3.6	3.1	2.6	3.9	4.1	3.8	3.6	3.7
Primary balance	0.4	0.0	-0.3	-0.3	-0.3	-1.1	-1.6	0.3	0.0	0.0
Exports	16.8	17.1	18.0	26.1	26.1	24.0	21.8	24.8	24.7	24.7
Revenues and grants	14.4	14.5	14.5	14.9	15.5	14.1	13.9	14.3	14.3	14.3

Source: Beninese authorities and IMF staff calculations

12. The fiscal policy path is assessed to be realistic (Figure 4). The fiscal path is in the middle of the historical distribution. The change with respect to the previous DSA is due to the fact that the fiscal deficit is revised upwards to accommodate the impact of the COVID-19 pandemic.

13. The growth projection for 2020 is below the path predicted by the growth and fiscal adjustment tool (Figure 4). The deviation between baselines projections and the growth path with LIC's typical multiplier of 0.4 is explained by the negative effect of the COVID-19 on the economic activity. However, GDP growth is expected to rebound in 2021.

14. The contribution of public investment to real GDP growth is also realistic. The current projection of the contribution of public investment to growth is in par with the previous DSA's projections. Both projections are slightly higher than the historical contribution of public investment to growth.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

15. Benin's capacity to carry debt remains strong. The values of the components of the Composite Indicator (CI) score, which are based on 10-year averages, have not changed compared to the previous DSA (Text Table 6). Thus, the thresholds to assess debt sustainability have remained unchanged compared to the previous DSA. The main contributors to the score are the CPIA value, which measures the quality of institutions and policies, as well as the import coverage of reserves.

16. Stress tests follow standardized settings, with the addition of a market financing shock. The standardized stress tests apply the default settings. The market financing shock is the only tailored stress test that applies to Benin due to the existence of an outstanding Eurobond. The test assumes a temporary increase in the cost of new commercial external borrowing by 400 basis points combined with a nominal depreciation of 15 percent of the CFAF vis-à-vis the US$ and a shortening of maturities and of grace periods.[10]

Text Table 6. Benin: Debt Carrying Capacity and Thresholds

Country	Benin
Country Code	638
Debt Carrying Capacity	Medium

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Medium	Medium 2.96	Medium 2.98	Medium 3.03

Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.482	1.34	45%
Real growth rate (in percent)	2.719	5.731	0.16	5%
Import coverage of reserves (in percent)	4.052	38.402	1.56	53%
Import coverage of reserves^2 (in percent)	-3.990	14.747	-0.59	-20%
Remittances (in percent)	2.022	1.237	0.03	1%
World economic growth (in percent)	13.520	3.499	0.47	16%
CI Score			2.96	100%
CI rating			Medium	

Applicable Threshold

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	180
GDP	40
Debt service in % of	
Exports	15
Revenue	18

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	55

Cut-off Values of the CI

New framework			
	Cut-off values		
Weak	CI <	2.69	
Medium	2.69	≤ CI ≤	3.05
Strong	CI >	3.05	

[10] The considered shortening of maturities of commercial external borrowing are as follows; (i) if the original maturity is greater than 5 years, the new maturity is set to 5 years; (ii) if the original maturity is less than 5 years, the new maturity is shortened by 0.7 years.

17. The adverse macroeconomic scenario used in this DSA report is the one presented in the 6th review staff report, which accentuates the negative shocks observed in the baseline. The adverse scenario assumes : (i) lower international demand for Benin's exports; (ii) a larger domestic outbreak of the COVID-19 in the country; (iii) a more adverse external environment (with less capital inflows to low-income countries); and (iv) a longer border closure with Nigeria (extended until end-2020).[11]

EXTERNAL DEBT SUSTAINABILITY RESULTS

18. The external debt burden indicators remain below the policy-dependent thresholds in the baseline scenario. Under the baseline, all debt indicators remain below their relevant policy-dependent thresholds. The PV of total PPG external debt is expected to stabilize at about 17.5 percent of GDP on average over 2020–24, reaching 7.5 percent of GDP in 2039. Thus, the ratio would remain below the corresponding threshold of 40 percent of GDP throughout the projection period.

19. However, the ratio of debt service-to-revenue exceeds its threshold in the case of an exchange rate depreciation, implying a moderate risk of external debt distress. The ratio is estimated at 20 percent in 2024, then assumed to decline to 18.5 percent in 2025 and 18.4 percent in 2026, compared to a threshold of 18 percent of GDP. Breaches also occur in 2024 under the real GDP growth and export bound tests, where the ratio reaches 18 percent. The alternative scenario, which corresponds to maintaining key variables at their historical averages in 2020-30, displays a breach in 2024-26 (at 19 percent). The debt service to exports ratio remains at the edge of a breach under the export bound test (14.9 percent compared to a threshold of 15 percent). These results are mainly explained by the repayment of the Eurobond 2024 onwards. Other indicators—the PV of debt-to-GDP ratio and PV of debt to exports ratio indicators— remain below their thresholds under the extreme shock scenarios. Breaches of the debt service-to-revenue ratio are the reasons behind the assessment of moderate risk for external debt.

20. The supplementary module, which allows qualifying the moderate category for the debt distress risk, indicates that Benin has limited space to absorb shocks (Figure 5). To add granularity to the moderate risk rating, Benin is assessed as having "limited space" to absorb shocks in the current DSA because of the duration of the shocks (although the breach is very small). This reflects a slight deterioration compared to the November DSA report, where Benin had ''some space'' to absorb shocks.

21. The risk of external debt distress would remain also moderate in the adverse macroeconomic scenario of the 6th review staff report. The external debt burden indicators remain below the policy-dependent thresholds in this adverse scenario. However, three indicators breach the thresholds under the most extreme shocks in the adverse macroeconomic scenario (as opposed to one indicator, the debt service-to-revenue ratio, in the baseline scenario). They are: (i) the PV of debt-to-exports ratio, (ii) the debt service-to-exports ratio, and (iii) the debt service-to-revenue ratio (Figure 7).

[11] See Annex III of the Staff Report for the Sixth Review under the ECF-supported arrangement for detailed assumptions.

OVERALL RISK OF PUBLIC DEBT DISTRESS

22. Total PPG debt (external plus domestic) remains below its respective benchmark under the baseline and shock scenarios. The overall risk of debt distress remains moderate. Total debt does not show any breach in the baseline and shock scenarios.

23. Despite the absence of breach, the moderate risk rating for PPG external debt motivates the moderate risk rating for total debt. Other factors of vulnerability include: the higher uncertainty surrounding the projections against the background of the COVID-19 pandemic; the fast increase in domestic debt in past years; the relatively high ratio of debt service to revenue; the increase in spreads; the possibility of contingent liabilities related to SOEs; revenue loses induced by the effect of the COVID-19 on the economic activity.

24. The overall risk of debt distress would remain moderate in the adverse macroeconomic scenario of the 6th review staff report. While no breach has been observed, the risk rating remains moderate because of the risk rating of external debt (Figure 8).

MARKET MODULE

25. The market-financing module shows that all external debt burden indicators remain below the policy-dependent thresholds (Figure 6). As the macroeconomic framework presented in the 6th review staff report does not foresee further Eurobond issuances in the short-term, the ratios of PV debt to exports, debt service to exports and debt service to revenue are identical under the baseline and market financing scenarios. The slight deterioration of the PV of debt-to-GDP ratio under the market financing scenario is due to a one-off FX depreciation shock equivalent to 15 percent in 2021. However, Benin's EMBI spread (estimated at around 800 bps. as of April 16, 2020) breaches the benchmark of 570 bps., which means that Benin may face liquidity pressures due to deteriorating market sentiment.

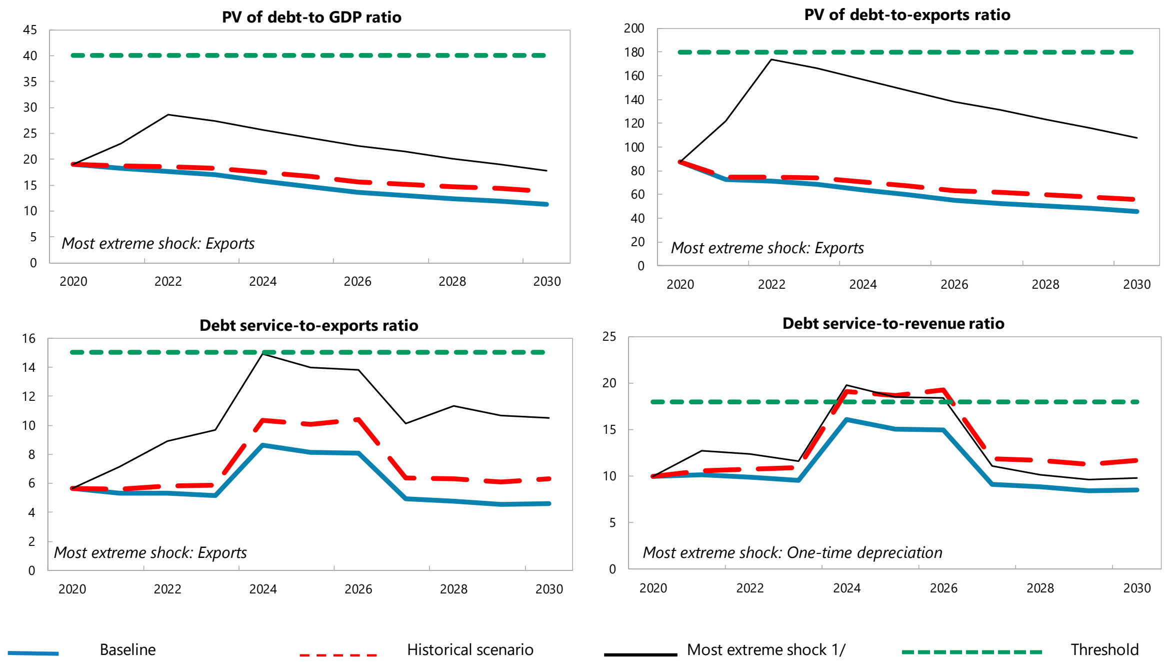
CONCLUSION

26. The updated DSA confirms that Benin stands at moderate risk of external and overall public debt distress. The ratings are unchanged relative to the November 2019 Staff Report. Medium-term fiscal consolidation and improved debt management are needed to maintain debt sustainability.

27. The macroeconomic and fiscal projections are subject to a high degree of uncertainty. The DSA results could change given the rapidly evolving development related to the COVID-19 virus. If the pandemic persists and spreads further, the 2020 macroeconomic and budgetary performance may worsen further.

28. The authorities concur broadly with staff's assessment. The authorities remain committed to strengthening debt sustainability by adhering to medium-term fiscal consolidation, conducting sound public investment management, and enhancing debt management capacity.

Figure 1. Benin: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2020-2030



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

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.

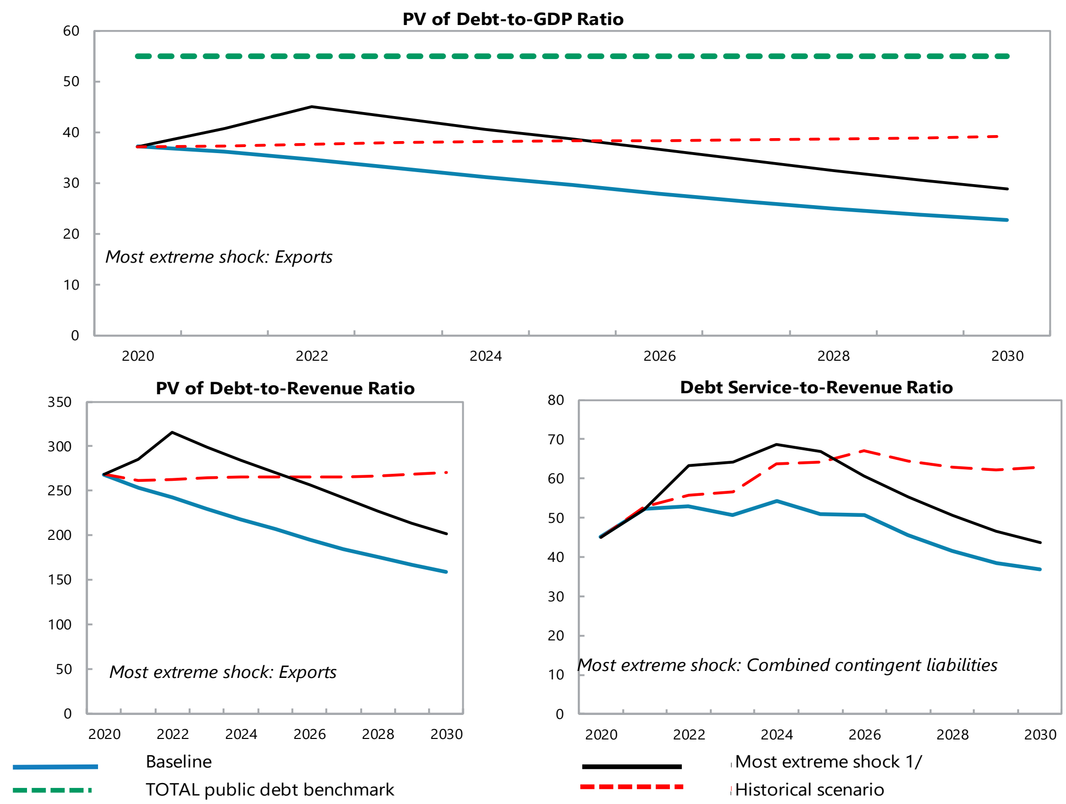
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	2.2%	2.2%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	25	25
Avg. grace period	5	5

* 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 that yields the highest ratio in or before 2030. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are 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-off breach, only that stress test (with one-off breach) would be presented.

Figure 2. Benin: Indicators of Public Debt Under Alternative Scenarios, 2020-30



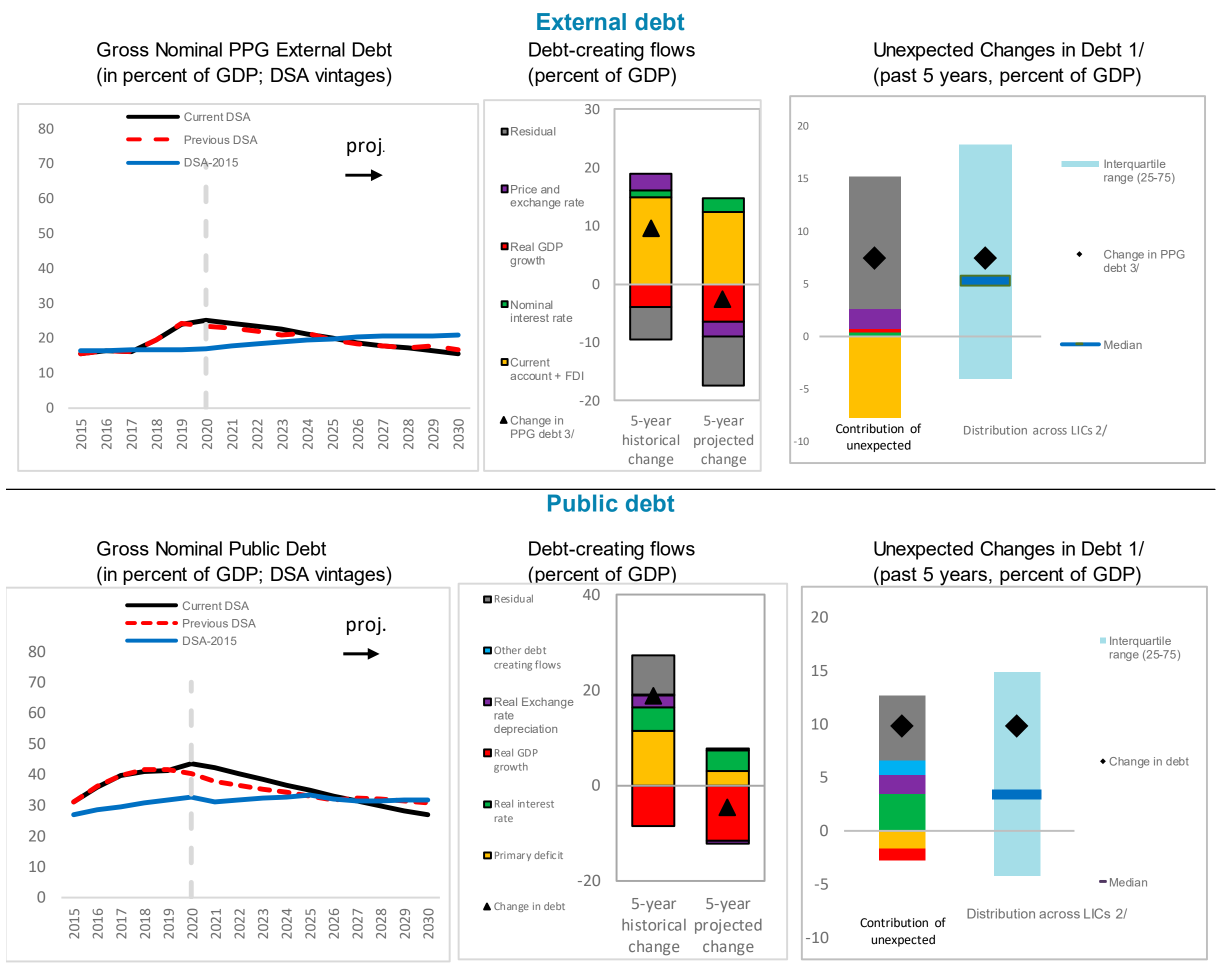
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	28%	28%
Domestic medium and long-term	58%	58%
Domestic short-term	14%	14%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.2%	2.2%
Avg. maturity (incl. grace period)	25	25
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.8%	4.8%
Avg. maturity (incl. grace period)	4	4
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	4.5%	4.5%

* 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 2030. 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.

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



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

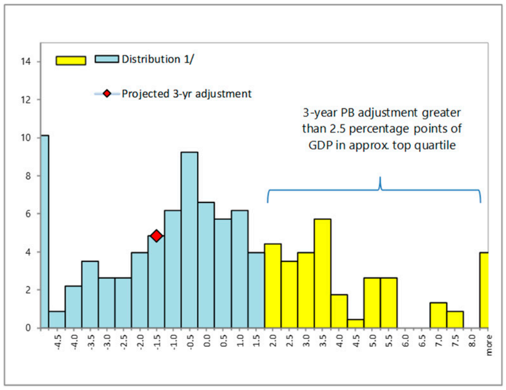
2/ Distribution across LICs for which LIC DSAs were produced.

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.

Sources: Country authorities; and staff estimates and projections

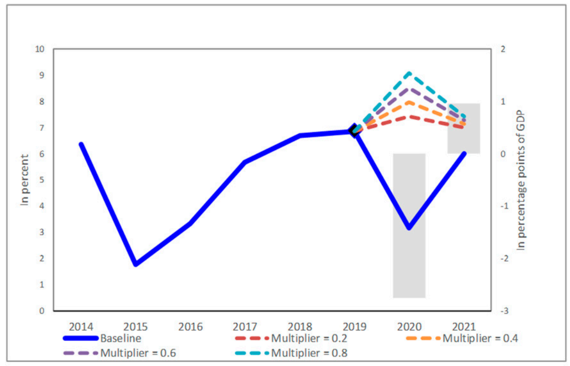
Figure 4. Benin: Realism Tools

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



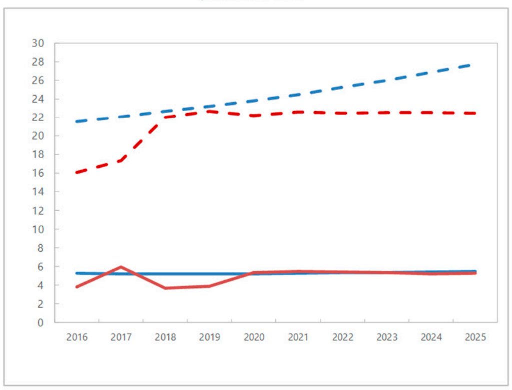
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



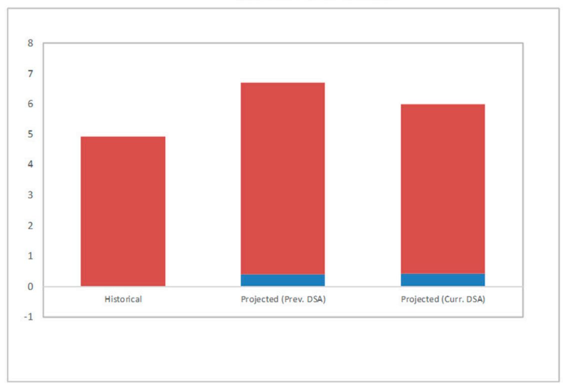
1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



Gov. Invest. - Prev. DSA
Gov. Invest. - Curr. DSA
Priv. Invest. - Prev. DSA
Priv. Invest. - Curr. DSA

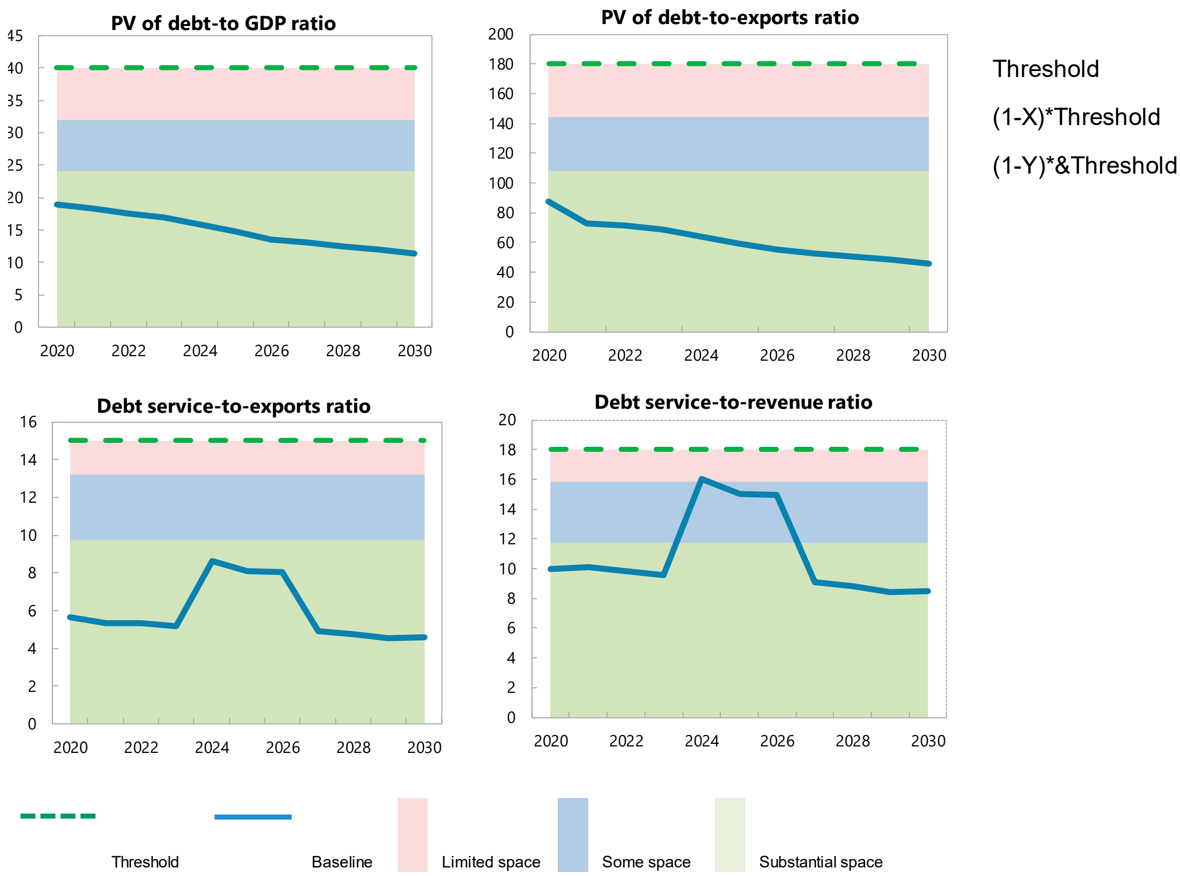
Contribution to Real GDP growth
(percent, 5-year average)



Contribution of other factors
Contribution of government capital

Sources: Country authorities; and staff estimates and projections

Figure 5. Benin: Qualification of the Moderate Category, 2020–30 1/



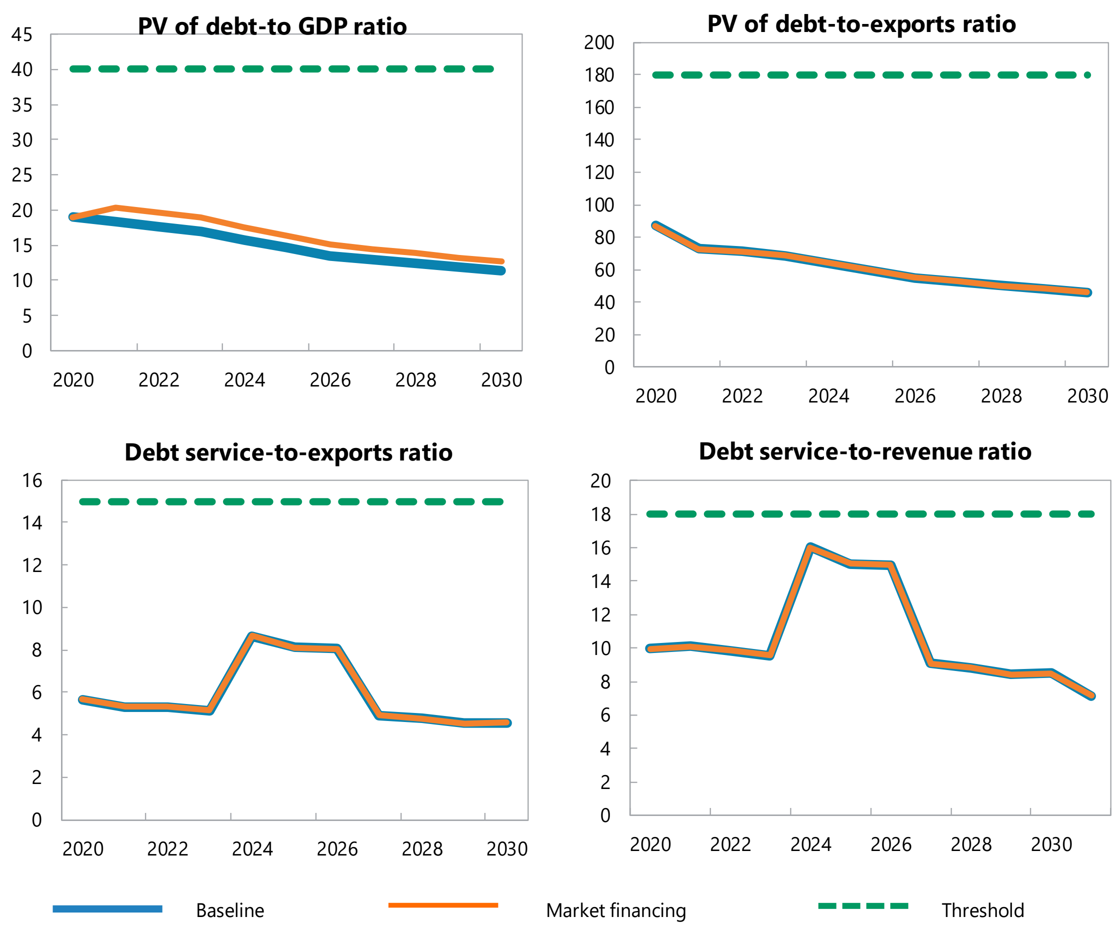
Sources: Country authorities; and staff estimates and projections.

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

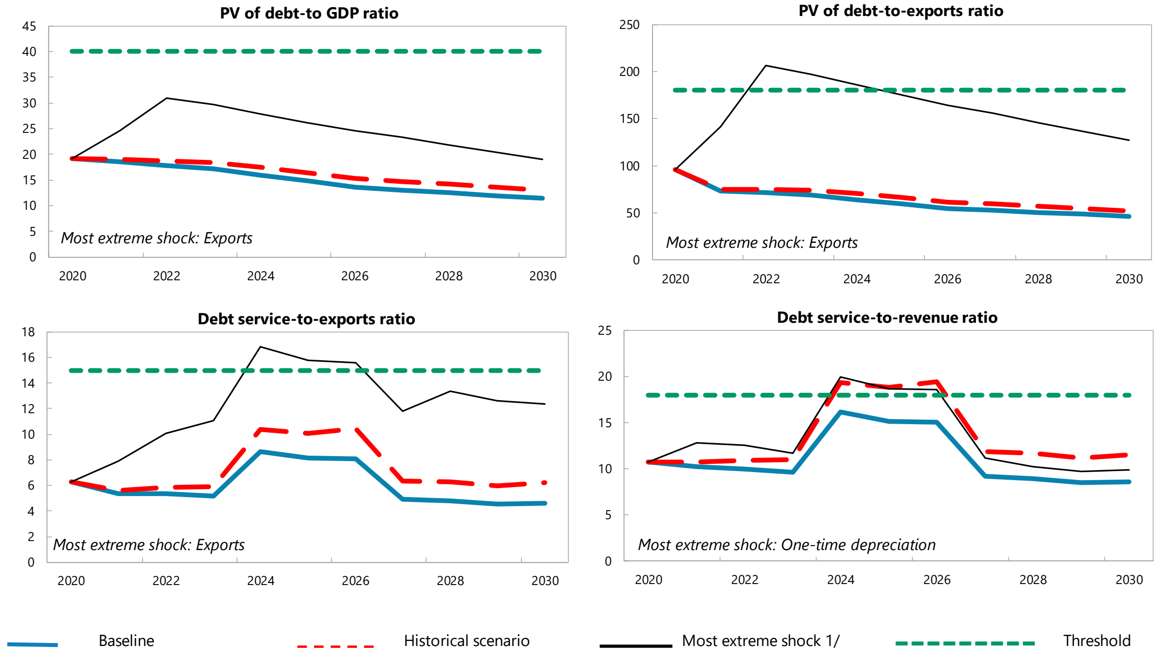
	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	8	800
Breach of benchmark	No	Yes
Potential heightened liquidity needs	Moderate	

1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.
2/ EMBI spreads correspond to the latest available data.



Sources: Country authorities; and staff estimates and projections.

Figure 7. Benin: Indicators of Public and Publicly Guaranteed External Debt under the Adverse Macroeconomic Scenario, 2020-2030



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

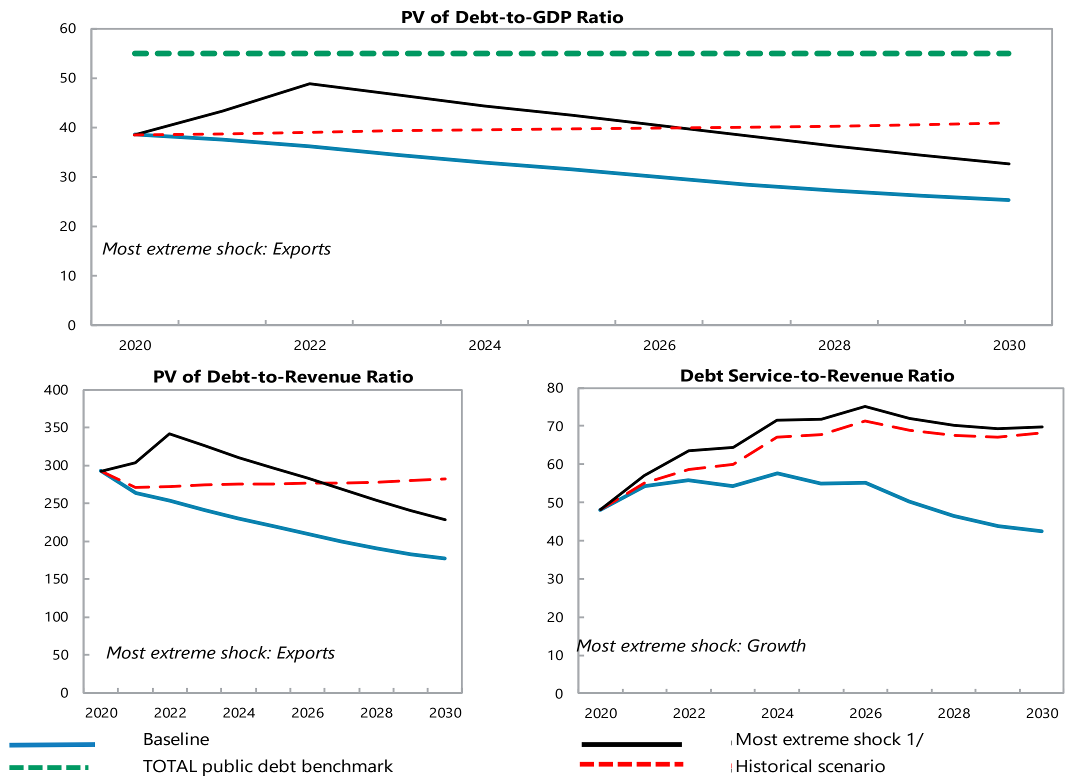
Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

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	2.2%	2.2%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	25	25
Avg. grace period	5	5

* 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 2030. 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.

Figure 8. Benin: Indicators of Public Debt Under the Adverse Macroeconomic Scenarios, 2020-30



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	25%	25%
Domestic medium and long-term	60%	60%
Domestic short-term	15%	15%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.2%	2.2%
Avg. maturity (incl. grace period)	25	25
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.8%	4.8%
Avg. maturity (incl. grace period)	4	4
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	4.5%	4.5%

* 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.

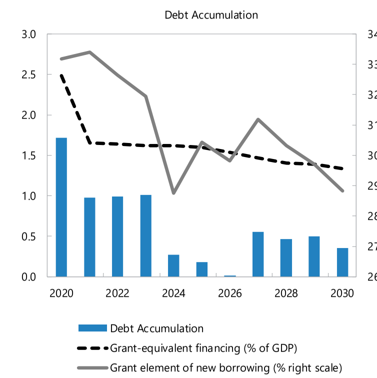
1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

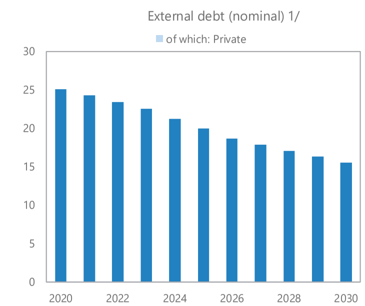
Table 1. Benin: External Debt Sustainability Framework, Baseline Scenario, 2017–40

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
External debt (nominal) 1/	16.1	19.4	24.0	25.1	24.3	23.4	22.5	21.2	20.0	15.5	9.4	15.4	20.2
of which: public and publicly guaranteed (PPG)	16.1	19.4	24.0	25.1	24.3	23.4	22.5	21.2	20.0	15.5	9.4	15.4	20.2
Change in external debt	-0.3	3.3	4.6	1.1	-0.8	-0.9	-0.8	-1.3	-1.3	-0.8	-0.5		
Identified net debt-creating flows	1.7	1.6	2.8	2.9	1.4	1.3	1.3	1.2	1.3	1.6	2.1	1.6	1.5
Non-interest current account deficit	3.9	4.4	3.9	4.1	4.0	4.0	3.8	3.6	3.5	3.6	3.7	3.4	3.7
Deficit in balance of goods and services	-0.8	0.5	0.7	1.7	0.1	0.3	0.2	0.2	0.2	0.2	0.2	0.0	0.3
Exports	27.0	26.9	24.0	21.8	25.2	24.7	24.7	24.7	24.7	24.7	24.7		
Imports	26.2	27.4	24.7	23.5	25.3	25.0	25.0	24.9	24.9	24.9	24.9		
Net current transfers (negative = inflow)	-1.6	-1.6	-1.3	-1.7	-1.3	-1.4	-1.4	-1.5	-1.5	-1.5	-1.5	-2.3	-1.5
of which: official	-0.6	-0.7	-0.4	-0.6	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2		
Other current account flows (negative = net inflow)	6.4	5.6	4.5	4.1	5.3	5.1	5.0	4.8	4.8	4.9	5.0	5.8	4.9
Net FDI (negative = inflow)	-1.3	-1.3	-1.3	-1.0	-1.7	-1.6	-1.4	-1.4	-1.3	-1.3	-1.3	-1.6	-1.3
Endogenous debt dynamics 2/	-0.9	-1.5	0.2	-0.2	-0.9	-1.1	-1.0	-1.0	-0.9	-0.7	-0.3		
Contribution from nominal interest rate	0.2	0.2	0.4	0.5	0.5	0.5	0.4	0.4	0.4	0.3	0.2		
Contribution from real GDP growth	-0.9	-1.0	-1.3	-0.7	-1.4	-1.5	-1.5	-1.4	-1.3	-1.0	-0.5		
Contribution from price and exchange rate changes	-0.3	-0.8	1.1	...	...	...	...	...	...	...	...		
Residual 3/	-2.0	1.7	1.8	-1.8	-2.2	-2.2	-2.2	-2.5	-2.5	-2.5	-2.6	-0.2	-2.3
of which: exceptional financing	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	18.0	19.0	18.3	17.6	17.0	15.8	14.7	11.3	7.1		
PV of PPG external debt-to-exports ratio	...	...	74.8	87.2	72.7	71.2	68.7	64.0	59.5	46.0	28.9		
PPG debt service-to-exports ratio	4.0	2.3	3.7	5.7	5.3	5.3	5.2	8.6	8.1	4.6	2.8		
PPG debt service-to-revenue ratio	8.3	4.7	6.9	10.0	10.1	9.9	9.6	16.0	15.0	8.5	5.1		
Gross external financing need (Billion of U.S. dollars)	0.5	0.5	0.5	0.6	0.6	0.7	0.7	0.9	1.0	1.2	2.3		
Key macroeconomic assumptions													
Real GDP growth (in percent)	5.7	6.7	6.9	3.2	6.0	7.0	7.0	6.7	6.7	6.3	5.6	4.8	6.3
GDP deflator in US dollar terms (change in percent)	1.7	5.2	-5.5	0.5	2.8	2.5	2.5	2.2	2.0	1.8	1.9	-0.5	2.0
Effective interest rate (percent) 4/	1.6	1.5	2.1	2.1	2.1	2.1	2.1	2.1	2.0	1.9	2.0	1.5	2.0
Growth of exports of G&S (US dollar terms, in percent)	5.4	11.9	-9.9	-6.0	26.2	7.6	9.7	8.9	8.8	8.3	7.5	9.5	8.8
Growth of imports of G&S (US dollar terms, in percent)	12.8	17.4	-8.8	-1.5	17.2	8.5	9.5	8.8	8.8	8.3	7.5	8.2	8.5
Grant element of new public sector borrowing (in percent)	...	...	...	33.2	33.4	32.6	31.9	28.8	30.4	28.8	28.1	...	30.9
Government revenues (excluding grants, in percent of GDP)	12.8	13.0	12.9	12.4	13.3	13.3	13.3	13.3	13.3	13.3	13.3	12.4	13.2
Aid flows (in Billion of US dollars) 5/	0.1	0.1	0.2	0.4	0.3	0.3	0.3	0.3	0.4	0.4	0.8		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	2.5	1.7	1.6	1.6	1.6	1.6	1.3	1.2	...	1.6
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	55.1	54.8	54.2	53.8	50.2	52.6	59.5	70.1	...	55.2
Nominal GDP (Billion of US dollars)	13	14	14	15	16	18	20	21	23	35	75		
Nominal dollar GDP growth	7.4	12.3	0.9	3.7	9.0	9.6	9.7	9.0	8.9	8.3	7.5	4.3	8.4
Memorandum items:													
PV of external debt 7/	...	...	18.0	19.0	18.3	17.6	17.0	15.8	14.7	11.3	7.1		
In percent of exports	...	...	74.8	87.2	72.7	71.2	68.7	64.0	59.5	46.0	28.9		
Total external debt service-to-exports ratio	4.0	2.3	3.7	5.7	5.3	5.3	5.2	8.6	8.1	4.6	2.8		
PV of PPG external debt (in Billion of US dollars)			2.6	2.8	3.0	3.1	3.3	3.4	3.4	3.9	5.3		
(PVt-PVt-1)/GDPt-1 (in percent)				1.7	1.0	1.0	1.0	0.3	0.2	0.4	0.2		
Non-interest current account deficit that stabilizes debt ratio	4.2	1.1	-0.7	3.0	4.8	4.9	4.6	4.9	4.8	4.4	4.2		

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).

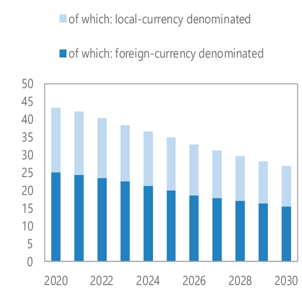
7/ Assumes that PV of private sector debt is equivalent to its face value.

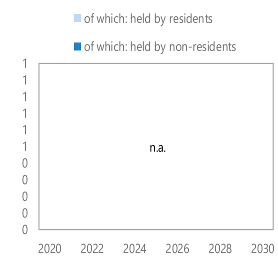
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 2. Benin: Public Sector Debt Sustainability Framework, Baseline Scenario, 2017-40
(in percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
Public sector debt 1/	39.6	41.1	41.2	43.3	42.1	40.4	38.3	36.5	34.8	26.8	17.9	29.2	34.9
of which: external debt	16.1	19.4	24.0	25.1	24.3	23.4	22.5	21.2	20.0	15.5	9.4	15.4	20.2
Change in public sector debt	3.7	1.5	0.1	2.0	-1.2	-1.7	-2.0	-1.8	-1.7	-1.3	-0.6		
Identified debt-creating flows	0.7	0.9	-1.5	1.4	-0.8	-1.5	-1.8	-1.7	-1.5	-2.1	-1.1	1.0	-1.6
Primary deficit	2.8	1.3	-1.1	1.7	0.7	0.4	0.1	0.0	0.1	-0.1	-0.1	1.5	0.3
Revenue and grants	13.6	13.6	14.1	13.9	14.3	14.3	14.3	14.3	14.3	14.3	14.3	13.3	14.2
of which: grants	0.8	0.6	1.2	1.5	1.0	1.0	1.0	1.0	1.0	1.0	1.0		
Primary (noninterest) expenditure	16.3	14.9	13.0	15.6	15.0	14.7	14.4	14.3	14.4	14.2	14.2	14.7	14.5
Automatic debt dynamics	-2.1	-0.5	-0.4	-0.2	-1.6	-1.9	-1.9	-1.7	-1.6	-2.1	-1.1		
Contribution from interest rate/growth differential	-0.6	-1.3	-1.2	-0.2	-1.6	-1.9	-1.9	-1.7	-1.6	-2.1	-1.1		
of which: contribution from average real interest rate	1.3	1.2	1.5	1.0	0.9	0.8	0.7	0.7	0.7	-0.4	-0.1		
of which: contribution from real GDP growth	-1.9	-2.5	-2.6	-1.3	-2.5	-2.7	-2.6	-2.4	-2.3	-1.7	-1.0		
Contribution from real exchange rate depreciation	-1.4	0.8	0.8	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.1	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	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	3.0	0.6	1.6	0.6	-0.3	-0.2	-0.2	-0.2	-0.2	0.8	0.5	1.2	0.3
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	35.4	37.1	36.1	34.6	32.8	31.1	29.5	22.6	15.6		
PV of public debt-to-revenue and grants ratio	...	...	251.5	267.6	252.8	242.2	229.5	217.6	206.9	158.4	109.2		
Debt service-to-revenue and grants ratio 3/	40.2	64.7	43.5	45.1	52.1	52.7	50.5	54.1	50.8	36.7	24.3		
Gross financing need 4/	8.2	10.2	5.1	7.9	8.2	8.0	7.3	7.8	7.4	5.2	3.4		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	5.7	6.7	6.9	3.2	6.0	7.0	7.0	6.7	6.7	6.3	5.6	4.8	6.3
Average nominal interest rate on external debt (in percent)	1.7	1.4	2.2	2.1	2.1	2.1	2.1	2.1	2.0	1.9	2.0	1.6	2.0
Average real interest rate on domestic debt (in percent)	6.8	5.6	6.5	5.0	4.3	4.2	4.0	4.3	4.5	4.6	4.7	2.4	4.5
Real exchange rate depreciation (in percent, + indicates depreciation)	-9.3	5.1	4.3	...	...	...	...	...	...	...	...	2.9	...
Inflation rate (GDP deflator, in percent)	-0.4	0.6	-0.3	1.0	1.8	2.0	2.2	2.0	1.8	1.8	1.9	1.5	1.8
Growth of real primary spending (deflated by GDP deflator, in percent)	18.9	-2.9	-6.6	23.4	2.4	4.9	4.8	6.0	7.5	6.3	5.6	2.8	7.3
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-0.9	-0.2	-1.2	-0.3	1.9	2.2	2.2	1.9	1.8	1.3	0.6	-0.8	1.6
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		

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/ 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.

Table 3. Benin: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2020–30

(Percent)

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of debt-to GDP ratio											
Baseline	19	18	18	17	16	15	14	13	12	12	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	19	19	19	18	18	17	16	15	15	14	14
B. Bound Tests											
B1. Real GDP growth	19	19	20	19	18	17	15	15	14	13	13
B2. Primary balance	19	19	19	19	18	17	16	15	15	14	14
B3. Exports	19	23	29	27	26	24	23	22	20	19	18
B4. Other flows 3/	19	20	20	19	18	17	15	15	14	13	13
B5. Depreciation	19	23	20	19	18	17	15	15	14	14	13
B6. Combination of B1-B5	19	24	24	23	22	20	19	18	17	16	15
C. Tailored Tests											
C1. Combined contingent liabilities	19	20	19	19	18	17	16	16	15	15	14
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	19	21	23	22	21	20	18	18	17	16	15
C4. Market Financing	19	20	20	19	18	16	15	14	14	13	13
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	87	73	71	69	64	60	55	53	50	48	46
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	87	74	75	74	71	68	63	62	60	58	56
B. Bound Tests											
B1. Real GDP growth	87	73	71	69	64	60	55	53	50	48	46
B2. Primary balance	87	75	78	76	72	68	64	62	59	57	55
B3. Exports	87	122	174	167	157	147	138	131	123	116	108
B4. Other flows 3/	87	77	80	77	72	68	63	60	57	54	51
B5. Depreciation	87	73	64	62	58	54	49	47	45	44	42
B6. Combination of B1-B5	87	111	86	109	102	95	88	84	79	75	71
C. Tailored Tests											
C1. Combined contingent liabilities	87	79	78	77	73	70	66	64	62	61	58
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	87	99	106	100	92	84	76	73	69	65	61
C4. Market Financing	87	73	71	69	64	60	55	53	50	48	46
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	6	5	5	5	9	8	8	5	5	5	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	6	6	6	6	10	10	10	6	6	6	6
B. Bound Tests											
B1. Real GDP growth	6	5	5	5	9	8	8	5	5	5	5
B2. Primary balance	6	5	5	6	9	8	8	5	5	5	5
B3. Exports	6	7	9	10	15	14	14	10	11	11	10
B4. Other flows 3/	6	5	5	5	9	8	8	5	5	5	5
B5. Depreciation	6	5	5	5	8	8	8	5	4	4	4
B6. Combination of B1-B5	6	7	8	7	12	11	11	8	7	7	7
C. Tailored Tests											
C1. Combined contingent liabilities	6	5	5	5	9	8	8	5	5	5	5
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	6	6	7	7	10	9	9	6	6	6	6
C4. Market Financing	6	5	5	5	9	8	8	5	5	5	5
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	10	10	10	10	16	15	15	9	9	8	8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	10	11	11	11	**19**	**19**	**19**	12	12	11	12
B. Bound Tests											
B1. Real GDP growth	10	11	11	11	**18**	17	17	10	10	9	10
B2. Primary balance	10	10	10	10	17	16	16	10	10	9	10
B3. Exports	10	10	11	12	**18**	17	17	12	14	13	13
B4. Other flows 3/	10	10	10	10	16	15	15	10	10	9	9
B5. Depreciation	10	13	12	12	**20**	**18**	**18**	11	10	10	10
B6. Combination of B1-B5	10	11	12	12	**19**	18	18	13	12	11	11
C. Tailored Tests											
C1. Combined contingent liabilities	10	10	10	10	16	15	15	10	9	9	9
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	10	11	12	12	**19**	17	17	11	12	11	11
C4. Market Financing	10	10	10	10	16	15	15	9	9	8	8
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, 2020–30

(Percent)

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of Debt-to-GDP Ratio											
Baseline	37	36	35	33	31	30	28	26	25	24	23
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	37	37	38	38	38	38	38	38	39	39	39
B. Bound Tests											
B1. Real GDP growth	37	39	41	40	40	40	39	38	38	38	38
B2. Primary balance	37	38	40	38	36	34	32	31	29	28	26
B3. Exports	37	41	45	43	41	39	37	34	32	30	29
B4. Other flows 3/	37	37	37	35	33	32	30	28	27	25	24
B5. Depreciation	37	40	37	34	31	28	26	23	21	20	18
B6. Combination of B1-B5	37	36	38	36	35	33	32	30	29	28	27
C. Tailored Tests											
C1. Combined contingent liabilities	37	44	42	40	38	36	34	32	30	29	28
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	37	38	39	40	40	41	41	40	40	39	39
C4. Market Financing	37	36	35	33	31	30	28	26	25	24	23
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	268	253	242	229	218	207	195	184	175	166	158
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	268	261	262	264	265	265	265	265	266	268	270
B. Bound Tests											
B1. Real GDP growth	268	270	285	281	277	275	270	266	264	262	261
B2. Primary balance	268	269	281	266	253	240	227	215	204	194	185
B3. Exports	268	285	315	299	284	270	256	241	227	213	201
B4. Other flows 3/	268	261	258	245	232	221	208	197	186	176	168
B5. Depreciation	268	279	258	238	218	200	181	165	151	138	126
B6. Combination of B1-B5	268	256	266	254	243	233	222	212	203	194	187
C. Tailored Tests											
C1. Combined contingent liabilities	268	306	293	278	263	250	237	224	213	203	194
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	268	287	294	301	300	296	289	280	277	275	274
C4. Market Financing	268	253	242	229	218	207	195	184	175	166	158
Debt Service-to-Revenue Ratio											
Baseline	45	52	53	50	54	51	51	45	41	38	37
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	45	53	56	56	64	64	67	64	63	62	63
B. Bound Tests											
B1. Real GDP growth	45	55	60	60	66	66	68	65	62	61	61
B2. Primary balance	45	52	56	59	64	61	60	53	49	45	43
B3. Exports	45	52	54	53	56	53	52	48	46	43	41
B4. Other flows 3/	45	52	53	51	55	51	51	46	42	39	38
B5. Depreciation	45	50	52	49	55	52	51	45	41	37	36
B6. Combination of B1-B5	45	51	55	55	60	57	58	52	48	45	43
C. Tailored Tests											
C1. Combined contingent liabilities	45	52	63	64	69	67	61	55	50	47	44
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	45	57	59	57	64	64	67	65	64	62	63
C4. Market Financing	45	52	53	50	54	51	51	45	41	38	37

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.

Statement by Mr. Raghani, Executive Director for Benin
and Mrs. Boukpessi, Advisor to the Executive Director
May 15, 2020

1. Our Beninese authorities would like to thank the Executive Board, Management and Staff for the support to Benin throughout the implementation of their Extended Credit Facility (ECF)-supported program. They reiterate their appreciation for the high-level meeting between the President of the Republic, H.E. Patrice Talon, and the Managing Director held last January as well as the constructive policy discussions with staff in the context of the Sixth ECF review and augmentation of access.

2. Since 2016, the authorities are decisively embarked on an ambitious reform agenda under the Government Action Program (GAP) with a view to advancing the economy's structural transformation, mobilizing the much-needed financing, reducing poverty and enhancing resilience to shocks. The ECF-arrangement has provided a solid framework during the program period of 2017-20, and as a result, the authorities have made significant progress in strengthening macroeconomic stability, preserving debt sustainability and advancing bold structural reforms. The successful issuance in 2019 of Benin's first Eurobond is also a testimony to the achievements made.

3. The spread of the coronavirus (COVID-19) pandemic is taking a substantial human and health tolls and causing important macroeconomic disruptions in Benin. This is adding to the challenges facing the country including, the closure of the border with Nigeria since August 2019. These negative shocks and the Government's containment measures and policy response have created sizable fiscal and balance of payments financing needs. Against this background, the Beninese authorities are requesting the completion of the sixth and final review under the ECF arrangement and an augmentation of access of 61.4 percent of Benin's quota (SDR 76.013 million) to sustain their efforts in addressing the adverse effects of the COVID-19 pandemic.

4. Going forward, the authorities intend to continue building on the strong program ownership and robust performance under the ECF-supported program to safeguard notable macroeconomic gains, which will be essential for a speedy economic recovery once the effects of the pandemic abate. In this regard, they count on the Fund continued support.

Program Performance

5. During the period under review, program implementation has been very strong with all end-December 2019 quantitative performance criteria (QPCs), continuous QPCs, and structural benchmarks met. In addition, the indicative target on the priority social spending was also met. On the structural front, the authorities have implemented important reforms in revenue mobilization and public financial management including (i) the introduction of a system of control and verification of the investments under the Investment Code and the special economic zones; (ii) the strengthening of capacity of the research and statistics unit within the customs administration; (iii) a tax package with revenue-enhancing measures in the 2020 budget; and (iv) the evaluation of the impact of the transfer of government deposits from commercial banks to the Treasury Single Account.

Recent Developments

6. In 2019, Benin's economic performance continued to be robust despite a challenging environment. Growth accelerated to 6.9 percent on the back of buoyant activity in the constructions and manufacturing sectors. Inflation remained subdued and the current account deficit slightly narrowed thanks to an improved balance of services. The fiscal deficit (including grants) stood at 0.5 percent of GDP in 2019, under the West African Economic and Monetary Union (WAEMU) convergence criterion of 3 percent of GDP, owing to the strong consolidation efforts notably on the wage bill streamlining and also under-execution of externally financed public investment. Benin's debt remains sustainable, with Public debt-to GDP ratio estimated at 41.2 percent in 2019. Regarding the financial sector, the level of non-performing loans has improved and bank credit to the private sector has been buoyant, with almost 12 percent increase in 2019 compared to the previous year.

Impact of the COVID-19 Pandemic

7. The country registered its first case of COVID-19 on March 16, 2020. As of May 12, the total number of confirmed cases was at 327 with 242 currently being treated, 83 cured and 2 fatalities. The authorities have taken a wide range of emergency measures in collaboration with the World Health Organization (WHO) and the World Bank to limit the spread of the virus and contain new outbreaks, namely the limitation of people transit across land borders, the introduction of a systematic and mandatory quarantine of all travelers by air and the temporary ban of religious, cultural and other public gatherings. In addition to this first set of measures, the authorities have instituted a partial lockdown of ten cities– sanitary cordons –and the mandatory use of face masks. On May 11, 2020, the sanitary cordons have been lifted and schools have been reopened. However, all the other barrier measures are still in force.

8. These containment measures added to the global and regional spillovers from the pandemic are disrupting all economic sectors in Benin. As a result, the growth projection for 2020 has been revised downward to 3.2 percent from 6.7 percent at the time of the 5th ECF review, the fiscal deficit is expected to increase to 3.5 percent of GDP, on grounds of

measures to accommodate greater COVID-19 related expenditures and the revenue shortfall stemming from both the pandemic and the prolonged border closure with Nigeria. The projected fiscal financing gap amounts to CFAF billion 243 or 2.8 percent of GDP. In addition, while Benin is benefiting from a positive terms-of-trade shock as an oil importer, the current account deficit is anticipated to expand further in 2020 on the back of lower external demand.

Medium-Term Outlook

9. While cognizant of the uncertainty surrounding the macroeconomic projections given the evolving impact of the COVID-19 pandemic, our authorities remain cautiously optimistic about the outlook. As the effects of the pandemic are deemed temporary and estimated to dissipate later in 2020, they foresee real GDP growth to resume and firm up at 6 percent in 2021 and above over the medium term supported by an upturn in the retail and transport sectors. Nonetheless, they remain attentive of the medium-term risks which are mainly tilted to the downside and include weaker global growth, a protracted period of the pandemic, developments in Nigeria and prolonged border closure as well as regional security threats.

Policy Response to the Pandemic

10. A three-fold response plan has been elaborated and includes *first,* an increase in public health spending, *second*, measures to strengthen social programs to protect the most vulnerable segments of the population and *third,* measures to support the most affected businesses and economic recovery. The fiscal cost of the response plan amounts to CFAF 150 billion or 1.7 percent of GDP which the authorities intend to finance through a combination of the requested augmentation of access and resources freed thanks to the debt service relief under the Catastrophe Containment and Relief Trust (CCRT), concessional financing and grants, issuances on the domestic and regional markets at favorable terms, as well as reallocation of non-priority spending.

11. Specifically, major features of the plan include health-related outlays and tax relief measures or flexibility in tax payment. In addition, social transfers to vulnerable households in both the formal and informal sectors, using mobile banking services and grounded on the new health insurance – *Assurance pour Renforcement du Capital Humain*, (ARCH) – and on the World Bank-supported program of *Appui aux Communes et Communautés pour l'Expansion des Services Sociaux,* (ACCESS) are also being carefully thought about. The authorities are determined to provide social assistance to the most affected and will resort to traditional forms of transfer, such as food aid and utility bill subsidies if needed.

12. While implementing their pandemic response plan, the authorities will put high value in ensuring transparency and accountability in the management of resources allocated to this purpose. In this regard, an independent audit by the Accounting Chamber – *Cour des Comptes*– will be performed in 2021 and the results published. Furthermore, the documentation on public procurement of major projects under the response plan, including the amounts and beneficiaries will be made available. The Government is hopeful that these

measures will help secure adequate funding from other partners to close the financing gap and deliver an effective response to the pandemic.

13. As regards monetary and financial policies, the regional central bank –*Banque Centrale des Etats de l'Afrique de* l'Ouest (BCEAO) – has recently taken important measures to ease its monetary policy stance and limit the negative impact of the pandemic, while safeguarding financial stability. these include the increase in the banking system liquidity and the expansion of its collateral base for bank's access to refinancing. It has also prolonged last week its strategic measures to boost e-payment as the COVID-19 crisis persists.

Post-Pandemic Policy Measures

14. Looking ahead, beyond the immediate priority of addressing the challenges posed by the COVID-19 pandemic, the Beninese authorities will pursue their medium-term objectives which seek to safeguard macroeconomic stability and achieve higher, more inclusive and resilient growth. This will be underpinned by a combination of prudent fiscal policy, and sustained reforms to improve the business environment, raise access to finance, and promote broad-based private sector development and export diversification. The authorities will also endeavor to accelerate the implementation of their ARCH program for the most vulnerable segments of the population and its extension to the entire population in 2021.

15. On the fiscal front, to reinforce public debt sustainability and create fiscal space for critical social and development spending, and resilience building, the authorities will pursue their revenue mobilization efforts by further improving tax administration, revenue collection and public financial management. On the spending side, they intend to implement a strategic structural investments policy with increased infrastructure outlays mainly in the transport and energy sectors including through greater use of public-private partnerships (PPPs) and they are committed to closely monitor, related fiscal risks based on international best practices. The authorities welcome the conclusion of the last debt sustainability analysis (DSA) that Benin's risk of debt distress remains moderate, even under adverse scenarios.

16. Although notable progress has been achieved in reforms to improve the business environment with notably the adoption last January of a new Investment Code, the authorities will press ahead with reforms to further improve governance and curb corruption including procurement reforms, and legislative steps to ensure contracts' enforcement and the protection of minority investors.

Conclusion

17. Our Beninese authorities have made remarkable inroads in the implementation of the ECF- supported program, which has been essential to enhance macroeconomic stability and complete far-reaching structural reforms. Beyond the immediate COVID-19 challenge and required policy response, they are aware that implementing prudent macroeconomic policies and sound structural reforms will be key to preserving fiscal and debt sustainability, addressing vulnerabilities in the financial sector and promoting high, sustainable and inclusive growth over the medium term.

18. Against this backdrop, the authorities would appreciate Executive Directors' support for the completion of the sixth and final review under the ECF arrangement and the request for augmentation of access to help meet the financing needs generated by the COVID-19 crisis. Our authorities also consider Fund support as instrumental to catalyze additional assistance from development partners. In the future, the authorities have expressed their interest in pursuing close engagement of Benin with the IMF, on an innovative way and discussions on the modalities of such engagement will continue.